

Understanding Korean Public Institutions

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Research Center for State-Owned Entities



Understanding Korean Public Institutions

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Significance of Public Institutions

I Section 1. Concept of Public Institutions

Public institutions can be defined in various ways according to their analytical purposes or utility, but the key concepts of public institutions are based on the notions of publicness and institution.¹⁾ As for public institutions, the concept of “institution” is relatively articulate, but the concept of “publicness” is difficult to be explained in plain terms. Publicness implies public ownership or public control; institutions involve the autonomy of the main body, separate from the government. In this regard, the concrete definition of public institutions can vary according to the conceptual combination of public ownership, public control and autonomy.

1) In the same context, state-owned enterprises (SOEs) are divisible into public and corporate characteristics.

1. Theoretical Characteristics of Public Institutions

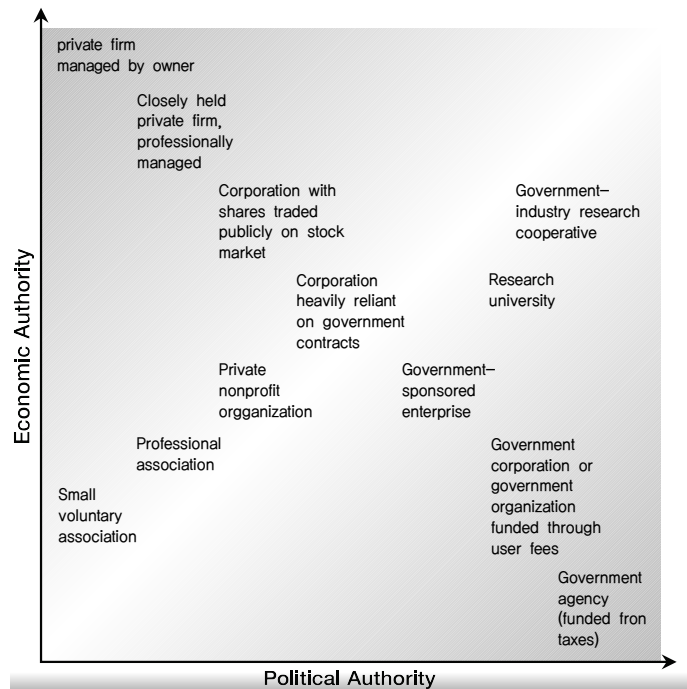
A. Publicness

Unlike private companies, public institutions are fundamentally intended to perform tasks under the authority and accountability delegated by the government with the goal of pursuing public interest, or general interest, national commitment, and life quality of the general public. In this case, defining the notion of public interest could lead to philosophical discussion. It is not easy to provide a clear definition of publicness, but in general, the nature of being common, official and open, and the pursuit of public interest are cited as key factors.²⁾

A more specific standard of publicness can be found in the concept of market failure. Network industries exclusively supplied by the government, such as electricity, gas, and trains, are suitable examples. Compared to competitive supply, under monopoly supply, there exist incentives for smaller scales of production and higher prices. As for services that fail to meet the conditions of exclusivity and rivalry, the government would intervene in solving free rider problems. It would also step in when externalities arising from asymmetric information cause problems. When companies are established with the aim of providing assistance, welfare, and interests of members of the companies, it is regarded that companies are not beneficial to public interest. However, institutions practically controlled by the government are considered to have publicness because they execute business on behalf of the government. Figure 1-1 shows that the degree of publicness is classified according to political and economic authority. Institutions in shade, including government-contributed institutions, are generally viewed as public institutions.

2) The term “publicness” is derived from the word “people.”

Figure 1-1. Publicness Grid



* Source: This figure was extracted from Bozeman (1987) and Rainey (2009:78)³⁾

B. Ownership Structure

Perry and Rainey classified public institutions into six categories based on ownership, funding and mode of social control. When the government is the major shareholder, the company is identified as a state-owned enterprise (SOE); when it is a minority shareholder, the company is categorized as a regulated enterprise. According to sources of funding, companies are divided as quasi-governmental institutions, sponsored enterprise and government enterprise; based on whether they are controlled by the market principles or

3) Hal G. Rainey (2009), *Understanding and Managing Public Organizations* 4thedit.

a political system, they are categorized as SOEs and non-classified public institutions.

Table 1-1. Typology of Institutions by Ownership, Funding, and Mode of Control

		Ownership	Funding	Control	Prominent Research	Example
1	Bureau	Public	Public	Polyarchy	Meier (2002)	Bureau of Statistics
2	Quasi-governmental institutions	Public	Public	Polyarchy	Walsh (1978)	Pension Benefit Guaranty Corporation
3	Government-sponsored enterprise	Private	Public	Polyarchy	Musolf and Seidman (1980)	PBC
4	Regulated enterprise	Private	Private	Polyarchy	Mitnik (1980)	Private utilities
5	Government enterprise	Public	Public	Market	Barzeley (1992)	Bureau of Printing
6	State-owned enterprise	Public	Private	Market	Aharoni (1986)	Airbus
7	Government contractor	Private	Public	Market	Bozeman (1987)	Grumman
8	Private enterprise	Private	Private	Market	Williamson (1975)	IBM

Note: This table was extracted from Perry and Rainey (1988) and Rainey (2009:79).

In order to ensure publicness, the government must be able to effectively impose regulations or distribute tax revenue and grants. While in the interest of efficiency and equity, the government must effectively provide essential goods and services through private sector contracts, state ownership may be a desirable option should such contracts be inadequately fulfilled. In many countries, important institutions are managed as SOEs for a range of reasons and the rationales behind this are as follows.

Firstly, the necessity of public institutions can be explained based on industrial economics. State ownership is deemed reasonable in cases where the government needs to protect employment and continuously pay special attention to secure resources for economic growth; when the government needs to create industries with extremely high initial costs and uncertainty over private property rights in the future; when the government needs to regulate the liquidation of declining industries whose direct assistance is impossible or whose future cannot be guaranteed under private ownership; or where effective responses are needed to reduce risks such as natural disasters inflicted upon the agricultural sector. Secondly, a basis for public institutions is founded upon development economics. SOEs tend to make infrastructure investments, encourage industries and create employment in less-developed regions. Moreover, state ownership allows such companies to take the government's place in maintaining employment levels as a social goal and complementing an insufficient welfare system. For these reasons, in many countries, the government provides wide-ranging services across areas in either direct or indirect ways.

With regards to controllability, there are international standards, such as the IMF's Government Financial Statistics Manual (GFSM), System of National Account (SNA), and European System of Accounts 95 (ESA 95). The IMF's GFSM is based on whether the government retains ability to make decisions on general policies or businesses—more specifically, public control is dependent on whether it has the authority to appoint chief executive officers, directors and auditors, and whether it provides grants that could have significant influence. The SNA defines controllability according to whether the government has a mandate to determine institutions' policies or plans as it intends—which can be assessed on the basis of the rights to resolution and appointment of directors, on whether the government retains a majority of shares, and whether significant parts of funding is provided by the government. ESA 95 specifies that the government has the ability to determine general policies based on

whether it is a majority shareholder, has right to resolution, or participates in management as specified by certain laws.

Figure 1-2. Agencies, Enterprises, and Hybrid Organizations

	Private nonprofit organizations totally reliant on government contracts and grants	Private corporations reliant on government contracts for most revenue	Heavily regulated private firms (heavily regulated privately owned utilities)	Private corporations with significant funding from government contracts but the majority of revenue from private sources	Private corporations subject to general government regulations such as affirmative action, Occupational Safety and Health Administration regulations	Private enterprise
			Government ownership of part of a private corporation			
Government Agency	State-owned enterprise or public corporation	Government-sponsored enterprise		Government program or agency operated largely through purchases from private vendors or producers		

Note: Below the central line are arrangements generally referred to as public, government-owned, or nationalized. Above the line are organizational forms usually referred to as private enterprises. On the line are arrangements considered neither public nor private.

* Source: Hal Q Rainey (2009:75), *Understanding and Managing Public Organizations* 4thed.

C. Autonomy

On this matter, a unit of institution refers to a legal entity with its own accounting business and autonomy to make decisions independently. It also signifies an economic entity that can own assets under its name, takes on liabilities, executes economic activities and make transactions with other economic actors. Therefore, one of the basic elements of public institutions is an autonomous, legal entity with decision-making powers, not a body subordinate to another institution.

2. Legal Definition of Public Institutions

Public institutions are closely related to the government—in other words, the implementation of policies by line ministries—ranging from the purpose of their establishment to the execution of specific businesses. As public institutions that perform functions related to governmental policies are established and managed in a variety of forms, each of them takes on a different structure and characteristics. With the intention of effectively managing the diverse range of public institutions, the government has designed different governance structures; in an attempt to effectively accomplish the purposes of their establishment, it has enacted and operated the Act on the Management of Public Institutions.

The same Act stipulates that institutions that meet certain criteria shall be designated as public institutions and the designated public institutions are classified into categories by their personnel, asset size, and self-generated revenue. The designation and classification of public institutions as stipulated in the Act is of great significance because such action has an enormous impact on a range of aspects, including their governance structures and management methods.

A. Legal Concepts of Public Institutions

As legal entities, organizations or institutions other than the State or local governments, public institutions are established and managed based on investment, contributions, or financial support by the government; and they are designated by the Minister of Strategy and Finance as they fall under any of the subparagraphs of Article 4 (1) of the Act on the Management of Public Institutions. In detail, they include an institution established by direct operation of another Act with an investment by the government; an organization to whom the amount of the government grants (including the revenue from its commissioned affairs or monopoly, if it is an institution to whom some affairs of the government are commissioned or a monopoly is granted by direct operation under Acts and subordinate statutes) exceeds one-half of the amount of its total revenue; and an institution which the government holds at least 50 percent of the outstanding shares in or secures practical control over in making decisions on its policies through the exercise of the power to appoint executives with at least 30 percent of such outstanding shares or otherwise.

In April 2007, the government abrogated the Framework Act on the Management of Government-Invested Institutions and the Framework Act on the Management of Government-Affiliated Institutions and enacted the Act on the Management of Public Institutions which introduced a new concept of “public institutions” and classified them into SOEs with strong adherence to market principles, non-governmental institutions that are commissioned to perform government affairs and non-classified institutions that are not included in the preceding two categories. As of 2011, there are 286 public institutions stipulated by the Act of the Management of Public Institutions.

The Act of the Management of Public Institutions stipulates that the designation and classification of public institutions is aimed at establishing the system for autonomous and accountable management, rationalizing their management, heightening transparency in management, and improving public

institutions' services to the people. In many cases, however, autonomy and accountability (from the perspective of an owner) may practically be two sides of a coin or contradictory concepts. The aims of rationalizing management, enhancing transparency in management, and improving services to the people may have different meaning according to whose interest is involved, but they are basically part of efforts to establish accountable management.

B. Similar Concepts

To fully understand the concept of public institutions, it would be helpful to explore several similar concepts.

1) State-Owned Enterprises (SOE)

In accordance with the Act on the Management of Public Institutions, SOEs refer to institutions whose self-generated revenue accounts for at least 50 percent of total revenue. More fundamentally, SOEs can be defined as projects with more pronounced corporate characteristics, among those operated by the state or local governments (Yu Hun, et al., 2010). First, they are identifiable, decision-making institutions with independent or equivalent budgets. Second, corporate characteristics indicate that these institutions produce and sell goods or services and in such cases, sales return for goods or services compensates for at least 50 percent of current expense. Third, they indicate companies governed through ownership by the State or local governments. In conclusion, the key to SOEs is characterized as decisive and continued public governance.

2) Quasi-Governmental Institutions

Among institutions governed by the Act on the Management of Public Institutions, if SOEs are institutions that operate in accordance with market

principles (whose self-generated revenue accounts for at least 50 percent of total revenue), quasi-governmental institutions are those commissioned to implement fund management or government businesses—therefore, they are reliant on financial support from the government rather than self-generated revenue. As quasi-governmental institutions serve as government-affiliated institutions of line ministries which regulate and commission projects, these characteristics are reflected in the design of their governance structures or evaluation method, including the appointment of executives. In the past, these types of institutions were excessively controlled by the government in the process where they carried out commissioned matters. On the other hand, the government strengthened its supervisory functions as an owner through management evaluation with an attempt to prevent the excessive expansion of business and lax management.

3) Non-Classified Public Institutions

Among institutions designated and announced by the government, institutions that are neither SOEs nor quasi-governmental institutions are non-classified public institutions. This category includes a variety of institutions, such as state-owned banks, national university hospitals, government-invested research institutions, and subsidiaries of state-owned enterprises. Therefore, controlling these institutions entails considerable difficulties: they cannot be regulated by a uniform structure or evaluation method or in terms of organization, personnel, and budget.

4) Public Utilities

Companies which provide services indispensable to the public livelihood—including electricity, water, gas, telecommunications, and railways—or which involve monopoly or near-monopoly businesses, are referred to as public utilities.

The advancement of technology has affected the degree of natural monopoly, those services are provided in the form of SOEs or private firms heavily controlled by government regulations. In the U.S., public utilities providers are generally private companies while in European countries, SOEs deliver such services. In Korea, water supply is provided by local SOEs; electricity, gas and railways by SOEs; and telecommunications service by private companies.

5) Government Enterprises

In accordance with Korea's positive laws, government projects managed in the form of a company—in other words, companies whose structures follow governmental ministries—are stipulated as government enterprises. Postal business, grain management, procurement business which are subject to the Act on Budget of Government Enterprises are included in this category. As SOEs are classified into those with a structure of government ministries, stock corporations, or public corporations, government enterprises can be considered a kind of SOE.

6) Public Corporations

According to forms of ownership, SOEs are classified into stock corporations which allow privately-held shares, public corporations established under special Acts, and above-mentioned government enterprises whose structures are the same as those of government ministries. Public corporations signify statutory corporations established under special Acts, which does not allow privately-held shares according to the OECD standards. This type is considered to be in contrast with SOEs that play a corporate role.

7) Government-Invested Institutions

The concept of “government-invested institutions,” used in the former Budget

and Accounts Act on Government-Invested Institutions or the Framework Act on the Management of Government-Invested Institutions, signifies enterprises whose capital is partly or fully funded by the government. They refer to SOEs including corporations or stock companies. This concept is similar to a SOE stipulated in the Act on the Management of Public Institutions in that companies, 50 percent of whose in-paid capital was invested by the government, were managed under the former Framework Act on the Management of Government-Invested Institutions.

8) Government-Affiliated Institutions

Government-affiliated institutions are institutions managed by government ministries that carry out tasks related to public interest. They are both directly and indirectly funded by the government. The concept and scope of government-affiliated institutions were unclear and there were no criteria or classification for them before the Framework Act on the Management of Government-Affiliated Institution was enacted in 2003. Consequently, the scope of government-affiliated institutions were interpreted and applied differently depending on the analytical perspective and purpose.

In detail, institutions or organizations—whose contributions provided by the government annually exceed 5 billion won or whose paid-in capital is funded by the government, which therefore became the majority shareholder—are classified as government-affiliated institutions. In addition, institutions or organizations whose contributions and subsidies in total funded by the government (As for institutions or organizations which are directly commissioned work by the government or granted monopoly rights in accordance with the relevant Acts, this figure includes revenues generated from commissioned or monopolistic business) account for more than 50 percent of the total revenue, or 5 billion won in a year correspond to government-affiliated institutions.

9) Social Enterprises

These institutions pursue social goals and, to these ends, they engage in operating activities such as generating revenues. In general, companies pursue profits, but social enterprises strive to achieve social objectives, such as provision of jobs or social services for the vulnerable classes. In a narrow sense, these companies pursue social purposes by offering social services or job opportunities to the socially disadvantaged, thereby improving communities' quality of life. At the same time, they carry out operating activities including the production of goods and services. In a wider sense, social enterprises give their priority to social objectives rather than the maximization of profit for shareholders or owners; to this end, they reinvest their profits in their businesses or local communities.

C. Different Legal Definitions Concerning Public Institutions

The definition of public institutions differs according to Acts and subordinate statutes. It is true that the definition of public institutions designated and announced as stipulated in Article 4 of the Act on the Management of Public Institutions is generally used; but many laws and regulations prescribe that among central administrative agencies, local governments, or public organizations, institutions specified by Presidential Decrees are public institutions. Public institutions include not only local public corporation and government-contributed research institutes, but also a variety of schools established by laws including the Elementary and Secondary Education Act and the Higher Education Act. Table 1-2 shows public institutions as defined by each Act. This difference is dependent on whether the meaning of public institution is limited to the Act on the Management of Public Institutions or the scope of the word "public" extends to public sectors including the government.

Table 1-2. Definition of Public Institutions According to Each Act

Acts and subordinate statutes	Definition of public institutions
<p>Act on the Management of Public Institutions</p>	<ul style="list-style-type: none"> • An institution established by direct operation of another Act with investment by the government; • An organization to whom the amount of the government grants (including the revenue from its commissioned affairs or monopoly, if it is an institution to whom some affairs of the government are commissioned or a monopoly is granted by direct operation under Acts and subordinate statutes; hereinafter the same shall apply) exceeds one-half of the amount of its total revenue; • An institution in which the government holds at least fifty percent of the outstanding shares or has secured practical control over the decision-making process on its policies through the exercise of the power to appoint executives with at least thirty percent of such outstanding shares or otherwise; • An institution in which the government, together with an institution falling under any of subparagraphs 1 through 3, holds at least fifty percent of the outstanding shares or has secured practical control over the decision-making process on its policies through the exercise of the power to appoint executive with at least thirty percent of such outstanding shares or otherwise; • An institution in which a single institution or two or more institutions falling under any of subparagraphs 1 through 4 hold at least fifty percent of the outstanding shares or have secured practical control over the decision-making process on its policies through the exercise of the power to appoint executives with at least thirty percent of such outstanding shares or otherwise; • An institution established by an institution falling under any of subparagraph 1 through 4 with an investment by the State or the establishing institution. <p>※ However, the provisions of Paragraph (2) excludes from public institutions an institution established for the reciprocal purpose held between its members of mutual aid, improvement of welfare, enhancement of interests, or maintenance of order in business affairs; an institution that a local government has established and is involved in the management of; as well as the Korea Broadcasting System and the Korea Educational Broadcasting System.</p>

Acts and subordinate statutes	Definition of public institutions
Special Act on Balanced National Development	<ul style="list-style-type: none"> • Central administrative agencies • Public institutions under Article 4 of the Act on the Management of Public Institutions
Special Act on the Construction and Support of Innovative City Acceptance of Public Institutions Relocating to Local Cities	<ul style="list-style-type: none"> • Institutions under subparagraph 10 of Article 2 of the Special Act on Balanced National Development
Act on Public Audit	<ul style="list-style-type: none"> • Public institutions designated under Article 4 of the Act on the Management of Public Institutions (excluding institutions whose total number of personnel is less than 100 persons in accordance with Article 4 of the same Act. • Institutions or organizations prescribed by Presidential Decrees to be subject to the audit in accordance with Articles 22 (1) and 23 of the Board of Audit and Inspection Act
Act on Public Records Management	<ul style="list-style-type: none"> • State agencies, local governments and other institutions prescribed by Presidential Decrees
Official Information Disclosure Act	<ul style="list-style-type: none"> • State agencies, local governments, government–invested institutions prescribed by Article 2 of the Framework Act on the Management of Government–Invested Institutions and other institutions stipulated by Presidential Decrees
National Accounting Act	<ul style="list-style-type: none"> • Public institutions designated and announced by Articles 4–6 of the Act on the Management of Public Institutions
Framework Act on National Informatization	<ul style="list-style-type: none"> • Public institutions under the Act on the Management of Public Institutions • Local government–invested public corporations and local public corporations under the Local Public Enterprises Act

Acts and subordinate statutes	Definition of public institutions
	<ul style="list-style-type: none"> • Special corporations established under specific Acts • Schools established under the Elementary and Secondary Education Act and the Higher Education Act • Legal entities, institutions and organizations prescribed by Presidential Decrees
National Transport System Efficiency Act	<ul style="list-style-type: none"> • Central administrative agencies • Local governments • State-owned enterprises under Article 5 of the Management of Public Institutions • State-owned enterprises or corporations that take charge of the development, operation or management in accordance with the Local Public Enterprises Act or any other Acts as prescribed by Presidential Decrees
Act on the Protection of Personal Information Maintained by Public Institutions	<ul style="list-style-type: none"> • State agencies, local governments, and other public institutions prescribed by Presidential Decrees • Government-invested research institutions established under the Act on the Establishment, Operation and Fosterage of Government-Invested Research Institutions or the Act on the Establishment, Operation and Fosterage of Government-Invested Research Institutions in Science & Technology

Section 2. Roles of Public Institutions

1. Nature of Public Institutions

Public institutions are established by the government and they have both public and corporate characteristics, ranging from institutions that are almost the same as private companies to those closer to governmental agencies in their nature. These characteristics are often determined by the financial structure of such

public institutions, but sometimes by the business they carry out. These two different sets of features can be expressed as “public” and “corporate” and some scholars use terms like “public interest” and “commercialism” to distinguish the characteristics. Here, the words “public” and “corporate” will be used below.

A. Co-existence of Public and Corporate Natures

Generally, public institutions are usually expected to faithfully execute the government’s public policies or supply public goods that have the nature of universal service, rather than to pursue profits as private companies do. With these characteristics, therefore, public institutions are required to focus on providing goods at low prices so that many people can access public services. Under the current Act on the Management of Public Institutions, institutions that have more “public” characteristics are classified as quasi-governmental institutions.

Although these institutions exhibit a public nature, they are allowed to pursue profits to some extent like private companies and often compete against them in the course of providing goods to the domestic or global market. Thus public institutions need to adopt efficient management techniques that private companies use. Publicness, of course, is the prerequisite for this pursuit of corporate nature. In the meantime, these public institutions are always in the middle of a controversy over the government’s excessive intervention in the market because they, more or less, act on behalf of the government in the market. Also some of these “corporate” public institutions are always prioritized for privatization. Under the current Act on the Management of Public Institutions, institutions of this nature are classified as market-based public corporations.

B. Pursuing Balance between Public and Corporate Natures

While public institutions continually maintain both public and corporate natures, their fundamental role is closely connected with the national economy and services for citizens, which justifies the establishment and operation of public institutions. The essential roles of public institutions are expressed in their purpose of establishment.

First, the role of the Korea Electric Power Corporation, one of the market-based public corporations, is manifested in the first Article of the Korea Electric Power Corporation Act.

Article 1 (Purpose)

The purpose of this Act is to establish the Korea Electric Power Corporation in order to facilitate the development of electric sources, to stabilize the supply and demand of electricity by endeavoring for the efficient operation of electric utility, and to contribute to the national economy.

The Act articulates that the role of the Korea Electric Power Corporation is to develop electric sources to provide electricity, or universal service, to secure the stability of supply and demand of electricity, and to contribute to the national economy in the end. The Corporation shares the characteristics of private companies in that it seeks profits by producing and supplying electricity. Its key role, however, bears public nature as it provides universal service to the entire nation, while playing an industrial role by taking charge of the nation's electric utility.

The Korea Tourism Organization also creates profits by developing and operating tourism resources and selling tourism products, but its essential task is to promote the Korean tourism industry, rather than to make corporate profits.

In particular, the Organization serves as an expediter of the domestic tourism industry in that it endeavors to boost the Korean tourism industry by inviting foreign travelers. The Organization's fundamental role is expressed in the Korea National Tourism Organization Act.

Article 1 (Purpose)

The purpose of this Act is to establish the Korea Tourism Organization in order to mandate it to carry out projects concerning the promotion of tourism, the development of tourism resources, the research and development of tourism industry, and the education and training for human resources specialized in tourism, thereby contributing to the development of national economy and the enhancement of national welfare.

Among various types of public institutions, institutions that have a stronger public nature are classified as commissioned-service-based quasi-governmental institutions. The term “commissioned service” means that public institutions of a corporate nature provide goods that may be directly handled by the government, in a more efficient manner. Compared to other types of public institutions (e.g. market-based public corporations), these institutions have a stronger public nature and emphasize efficient budget execution more than making profits. One of the commissioned-service-based quasi-governmental institutions is the Korea Education and Research Information Service (KERIS).

The KERIS accumulates, manages, and provides information related to education and academic research to encourage more education and research activities, while playing a key role in the national education by constructing infrastructure to accommodate Korea's education and research information. As a result, this institution is not expected to make profits, but to execute its projects more efficiently. The fundamental role of the KERIS is expressed in the Korea Education and Research Information Service Act.

Article 1 (Purpose)

The purpose of this Act is to establish the Korea Education and Research Information Service in order to elevate the quality of education and academic research by producing, surveying, and collecting information necessary for education and academic research and by establishing and operating a system to provide education information, thereby contributing to the development of national education.

2. Enhanced Roles of Public Institutions

In general, public institutions are explained to have two roles. Firstly, they exist to overcome the operational limitations of the existing government organizations. Government organizations are considered relatively inflexible compared to their private counterparts, and the more flexible public institutions carry out projects that cannot be done by government organizations, on behalf of the government. Many public institutions complement the roles of government organizations in that they are in active use when, in particular, entrepreneurial mindset is required to promote public policies.

Secondly, public institutions carry out executive businesses for the government. Government organizations tend to focus on formulating policies and achieve a certain degree of efficiency by establishing public institutions to enforce such policies on their behalf. Among quasi-governmental institutions in Korea, this role is mostly played by commission-service-based institutions, which are actively engaged in the market economy for various purposes.

Although public institutions established by the state have long intervened in the market economy both directly and indirectly, it was not until the 20th century that the establishment and intervention of public institutions increased significantly. This new phenomenon is closely connected with economic crises. For instance, many public institutions were created after the World War II

in an effort to reconstruct the devastated domestic industries and national infrastructures. The establishment of public institutions for this specific purpose was conspicuous not only in Korea, but in postwar Europe and Japan. These institutions were intended to play multiple purposes of restoration as well as the establishment of an economic base, and their major fields of activity included energy, logistics, and finance. Public institutions in countries such as Korea, Mexico, and Turkey were established under one particular strategic goal of national development.

The state intervenes in the market economy, directly or indirectly, through the establishment of public institutions on the ground of market failure, citing that public institutions are indispensable for solving problems caused by natural monopoly, public goods, externalities, etc. In other words, the fundamental roles of public institutions are to prevent natural monopoly and its harmful consequences, to provide public goods appropriately, and to create positive externalities of goods while containing negative ones.

The roles of public institutions vary according to the purposes of their establishment, but some scholars offer more organized explanations. Firstly, Friedmann points out that the purposes of establishment or the roles of public institutions include supplementing budget with private capital, fulfilling considerations for national defense and strategic purposes, public control of businesses that may be monopolized, and public management to nationalize major industries. Meanwhile, Petersen explains that public institutions overcome challenges in national defense or economy; realize national objectives by, for example, carrying out multi-purpose development projects; operate enterprises and enhance the industrial competitiveness; contribute to improving productivity; nationalize poor-performing private companies for more efficient management; develop risky business sectors, handle the problems of private companies, such as the mitigation of excessive prices made by private companies that provide public goods; pursue political ideologies; and dissolve insolvent enterprises. These accounts indicate that public institutions play numerous roles

and, although the state is in charge of their establishment and other matters, their roles are closely related to the market economy. These various roles of public institutions can be categorized into several main issues (OECD, 2005).

Firstly, public institutions play a crucial role in terms of industry and economy. When policy responses are required for specific industries in the course of managing the national economy, multiple public institutions are established and operated, mostly in the following circumstances:

- When it is necessary to create or retain profits in specific fields or to maintain employment
- When the state intends to create a new industry that requires a vast amount of initial cost and private companies cannot see clear future profits
- When it is necessary to maintain any declining or fading industry that does not receive enough direct aid and when, if a private company is to take charge of it, its outcome is not guaranteed
- When it is necessary to support a private company that carries out a project despite the presence of risks

Secondly, public institutions have a role in development economics. In particular, this role is played by public institutions in countries that try to upgrade their lagging economy to the regime of developing economy within a short period.

- When underdeveloped nations intend to revive their industry
- When the state wants to achieve equity or social stability by making investments into new infrastructure
- When the state intends to create new production plants or jobs

Thirdly, public institutions serve as a tool for general finance policies,

in particular as a means of boosting national financial revenues.

- When the state intends to intervene in a particular field to secure monopolistic profits and inject the revenues from such field into the national finance
- When, in an opposite situation, the state intends to sell off a particular industry at a low price for redistribution effect
- When it is necessary to maintain a certain level of employment or create more jobs

As such, public institutions play various roles in the economy, but the recent trend has required them to play more active and comprehensive roles, namely for their enhanced social responsibility. In fact, because public institutions are established to serve the purposes of public interest, they essentially promote the idea of corporate social responsibility.

In recent years, however, social responsibility has demanded that institutions play more active roles. For instance, ISO 26000, the international standard recently set for social responsibility, emphasizes the role as a substantial support for a local community. It asks for local companies to engage in more active and voluntary activities in welfare, education, and human resources development of local communities. The standard also underlines that public institutions are substantial contributors in that, in some regions, public institutions are the largest organizations and create as many jobs as private companies do. It is not to say that Korean public institutions have not committed to socially responsible activities, but most activities have not gone beyond voluntary service or dispensation. In this context, the international standard focuses on the role as a more spontaneous corporate citizen.

3. Roles of Korean Public Institutions

Yu Hun suggests that public institutions in Korea have played five different roles. First, public institutions, as the catalyst for economic development, helped to complement private capital and boosted the nation's economic development in fields where private companies rarely enter due to the lack of experience and of confidence in the face of risks. Second, they took control over the management of monopolistic businesses: infrastructure industries such as railways or telecommunications, network industry, industries that require a vast amount of initial investment, fields that provide goods and services of the nature of public goods, and fields that need to provide universal services. Third, public institutions in Korea helped to create social overhead capital (SOC). To efficiently create SOC for economic development, many public institutions were established, such as the Korea Expressway Corporation, Incheon International Airport Corporation, and Busan Port Authority. Fourth, they often satisfied public demand by providing services effectively within a short period. Public institutions were an efficient solution because it takes much time for private companies to enter into the public-service sector and adequate supply is not guaranteed. Moreover, if such services are monopolistic, private companies might end up enjoying excessive monopolistic profits. Fifth, Korean public institutions contributed to meeting the demand of national finance. They made profits in fields where monopolistic profits can be created, and they used such profits to supplement the nation's financial demand. The Korea Monopoly Corporation (predecessor to the KT&G Corporation) is the most notable example.

Like this, public institutions established so far in Korea have been playing a variety of roles. The roles of state-owned enterprises designated as public institutions and of quasi-governmental institutions can be divided into the following categories. As <Table 1-3> shows, public institutions and quasi-governmental institutions play slightly different roles: the former mainly

engages in key infrastructure industries, while the latter works in the fields that directly support the public livelihood.

First, some public institutions construct and operate SOC to complement and maintain infrastructure. They are encouraged to play more active roles due to several characteristics of SOC: SOC serves as the fundamental ground for national development, requires a huge investment in the initial stage, and has the features of network industry and public goods. Public institutions falling under this category are mainly committed to laying the groundwork for national development and constructing the base on which universal services can be provided to the entire public. Included in this category are the Korea Gas Corporation, Korea Airports Corporation, Korea Expressway Corporation, Korea Water Resources Corporation, Korea Electric Power Corporation, Korea Railroad Corporation, Korea Land & Housing Corporation, and Busan Port Authority. These public institutions provide universal services at a very low price, minimizing the economic burden of the people.

Table 1-3. Classification of Roles of Public Institutions under Act on the Management of Public Institutions (as of 2010)

Type of role		Name of institution
State-owned enterprises	SOC	Incheon International Airport Corporation, Korea Gas Corporation, Korea Airports Corporation, Korea Expressway Corporation, Korea National Oil Corporation, Korea Water Resources Corporation, Korea Electric Power Corporation, Korea District Heating Corporation, Korea Railroad Corporation, Korea Land & Housing Corporation, Busan Port Authority, and Incheon Port Authority
	Services promotion, manufacturing	Korea Coal Corporation, Korea Housing Guarantee Co., Ltd., Jeju Free International City Development Center, Korea Appraisal Board, Korea Tourism Organization, Korea Resources Corporation, Korea Racing Authority, Korea Broadcast Advertising Corporation, and Korea Minting, Security Printing & ID Card Operating Corporation

Type of role		Name of institution
Quasi-governmental institutions	Examination, verification	Korea Transportation Safety Authority, Korea Cadastral Survey Corporation, Korea Gas Safety Corporation, Korea Electrical Safety Corporation, Korea Ship Safety Technology Authority, Korea Institute for Animal Products Quality Evaluation, Korea Testing Laboratory, Korea Institute of Petroleum Management, Korea Institute of Fire Industry & Technology, Korea Elevator Safety Institute, and Korea Infrastructure Safety & Technology Corporation
	Cultural and everyday life	National Health Insurance Corporation, Health Insurance Review & Assessment Service, Korea National Park Service, Road Traffic Authority, Korea Employment Agency for the Disabled, Korea Occupational Safety and Health Agency, Korea Veterans Health Service, Human Resources Development Service of Korea, Korea International Broadcasting Foundation, Independence Hall of Korea, Korea Institute of Construction & Transportation Technology Evaluation and Planning, Korea Employment Information Service, Korea Foundation for the Advancement of Science & Creativity, Korea Labor Force Development Institute for the Aged, Korea Institute of Ceramic Engineering and Technology, Korea Consumer Agency, National Research Foundation of Korea, Korea Post Business Value, Information & Express, Korea Institute of Nuclear Safety, Korea Student Aid Foundation, Korea Youth Counseling Institute, Korea Youth Work Agency, Korea Ocean & Fisheries Institute, and Korea Social Service Management
	Industry promotion	Korea Agro-Fisheries Trade Corporation, Korea Trade-Investment Promotion Agency, Korea Exchange, Korea Rural Community Corporation, Korea Rail Network Authority, Korea Environment Corporation, Foundation of Agricultural Technology Commercialization and Transfer, Korea Energy Management Corporation, Postal Savings & Insurance Associate Corporation, National IT Industry Promotion Agency, Korea Technology and Information

Type of role	Name of institution
	Promotion Agency for Small & Medium Enterprises, Mine Reclamation Corporation, Korea Education & Research Information Service, Korea Institute of Design Promotion, Korea Health Industry Development Institute, Korea Institute for Advancement of Technology, Korea Evaluation Institute of Industrial Technology, Korea Industrial Complex Corporation, Korea Institute of Energy Technology Evaluation and Planning, Korea Securities Depository, Korea Postal Logistics, Korea Internet Security Agency, Korea Power Exchange, Korea Communications Agency, National Information Society Agency, Korea Container Terminal Authority, Korea Creative Content Agency, and Korea Environmental Industry & Technology Institute
Pension or funds operation	Korea Technology Finance Corporation, Korea Credit Guarantee Fund, Korea Deposit Insurance Corporation, Korea Trade Insurance Corporation, Korea Asset Management Corporation, Korea Housing Finance Corporation, Government Employees Pension Service, National Pension Service, Korea Sports Promotion Foundation, Korea Workers' Compensation & Welfare Service, Korea Teachers Pension, Korean Film Council, Small & Medium Business Corporation, Arts Council Korea, Korea Radioactive Waste Management Corporation, and Korea Press Foundation

Second, some public institutions work to promote public services or engage in manufacturing. They play various roles to ensure systematic or stable supply of goods that require public consumption or supply of services. For example, it is very important to determine adequate real estate prices to ensure stable real estate transactions. In the interest of public confidence in real estate transactions, public institutions like the Korea Appraisal Board ensure stable supply of public services related to real estate trade. Also, as the improving national living standard leads to the larger demand for tourism, public institutions

like the Korea Tourism Organization systemically develop quality tourism resources and foster the domestic tourism industry and services by inviting foreign travelers. The Korea Tourism Organization does not serve individual travelers, but supports the private sector by engaging in activities to construct infrastructure for the promotion of the domestic tourism industry and services. Other public institutions that serve this particular function include the Korea Housing Guarantee Co., Ltd., Jeju Free International City Development Center, Korea Resources Corporation, Korea Broadcast Advertising Corporation, and Korea Minting, Security Printing & ID Card Operating Corporation.

Third, some public institutions carry out public examination or verification. One of the most important and fundamental roles of the state is to secure the people's safety. Many public institutions work to ensure that the people can live safely in the face of various hazards, and they engage not only in the inspection of safety issues, but in the development of related technologies, education and training for those who work in safety-related fields, and activities to raise the public safety awareness. For instance, since most adults in Korea drive cars, the lives and safety of the people cannot be guaranteed without automobile safety. To that end, public institutions like the Korea Transportation Safety Authority examine the safety of vehicles. This kind of safety examination is a universal service in that it is not only for specific consumers but for all citizens who own automobiles. Other public institutions established to carry out examination or verification to ensure the people's safety include the Korea Gas Safety Corporation, Korea Electrical Safety Corporation, Korea Ship Safety Technology Authority, Korea Institute for Animal Products Quality Evaluation, Korea Testing Laboratory, Korea Institute of Fire Industry & Technology, and Korea Elevator Safety Institute.

Fourth, some public institutions promote the convenience in the people's cultural and daily lives. The state has a fundamental responsibility to create an environment in which a nation can enjoy a healthy and happy life. To that end, the National Health Insurance Corporation provides medical insurance

benefits so that the whole nation can access proper medical services regardless of economic status, and the Korea National Park Service preserves natural resources and manages natural parks for the people's leisure and recreation. Also, the Korea Consumer Agency was established to protect the rights, interests, and safety of the citizens as consumers, and the Korea Social Service Management is in charge of providing a variety of social welfare services at reasonable prices. The government establishes and operates public institutions to equally distribute these universal services that the nation is entitled to at reasonable prices. Other public institutions of this nature include the Health Insurance Review & Assessment Service, Korea National Park Service, Road Traffic Authority, Korea Employment Agency for the Disabled, Korea Occupational Safety and Health Agency, Korea Veterans Health Service, Korea Foundation for the Advancement of Science & Creativity, Korea Labor Force Development Institute for the Aged, National Research Foundation of Korea, Korea Post Business Value, Information & Express, and Korea Student Aid Foundation.

Fifth, some public institutions aim for the strategic promotion of specific industries. When it is easy for private companies to enter into a certain field spontaneously and make profits, the governmental intervention through public institutions is limited in such areas. When universal services or public goods are to be provided to the people, however, public institutions are considered a better option than private companies. On the other hand, if it is difficult for private companies to make an entry into a certain field and create profits in the initial stage, or if private companies are not willing to enter into such field due to the lower profitability compared to other fields despite its importance to the national economy, public institutions are established to perform relevant functions. In this case, instead of pursuing economic profits, such public institutions rather focus on bolstering private companies or creating an environment that would ensure an easier entry for private businesses or citizens. The existence of these public institutions guarantees that private companies

enjoy more efficient business operations and citizens are provided with the relevant services. For example, the Korea Agro-Fisheries Trade Corporation enables more efficient production and distribution by farming families and companies that export agricultural products; the National IT Industry Promotion Agency carries out projects that would bolster the development of various technologies and software related to information and telecommunications and strengthen the footing for related business; and Korea Education & Research Information Service provides a wide array of academic resources to help many scholars with their academic activities. Thanks to the support of these public institutions to the private sector, individual private companies or businesspeople in such fields do not have to pay additional costs. Other public institutions in this category also include the Korea Trade-Investment Promotion Agency, Korea Rural Community Corporation, Foundation of Agricultural Technology Commercialization and Transfer, Korea Technology and Information Promotion Agency for Small & Medium Enterprises, Korea Health Industry Development Institute, Korea Institute for Advancement of Technology, Korea Internet Security Agency, and National Information Society Agency.

Sixth, some public institutions conduct stable business with stable financial resources such as pensions and funds. By holding financial resources above a certain level, these institutions including the Korea Deposit Insurance Corporation can respond to possible crises effectively. If any financial institution faces a problem, they respond effectively to protect the consumers of financial services. For instance, the Korea Sports Promotion Foundation uses financial resources created from the sports and leisure industry, such as bicycle and boat racing, to serve public-interest purposes. Other public institutions of this nature include the Korea Technology Finance Corporation, Korea Credit Guarantee Fund, Korea Deposit Insurance Corporation, Korea Trade Insurance Corporation, Korea Asset Management Corporation, Korea Housing Finance Corporation, Government Employees Pension Service, National Pension Service, Korea Sports Promotion Foundation, Korea Workers' Compensation

& Welfare Service, Korea Teachers Pension, Korean Film Council, Small & Medium Business Corporation, and Arts Council Korea,

4. Status of Public Institutions in National Economy

As discussed so far, public institutions play an important role in the national economy by providing a wide range of public services that are necessary to the people's daily lives. While we may not realize, we use services provided by public institutions on a daily basis and life without them is almost unimaginable. Those services include utility services such as electricity, gas, and water supply, and facilities like roads, railroads, and airports, indispensable to means of transportation like cars, trains, and airplanes. In sum, public institutions provide almost all important services that are closely related, directly or indirectly, to the public livelihood.

As the economy grew and the private sector scaled up, public institutions are forming a decreasing share in the national economy. Their role, however, is still of great importance. The following chapters will examine the position of public institutions in the national economy through their human resources, budget, financial status, added value, etc.

A. Human Resources

As of the end of 2010, the entire workforce of Korean public institutions amounts to some 248,000: with 75,000 in state-owned enterprises, 67,000 in quasi-governmental institutions, and 105,000 in other public institutions. The workforce of public institutions accounts for 1 percent of the economically active population, and for about 40 percent of the entire workforce of governmental officials. And the number is roughly 1.9 times the number of

governmental officials in general service excluding the police and teachers. Compared with the private sector, the number is larger by 13,000 than the sum of all employees in the top five⁴⁾ private employers including Samsung Electronics and Hyundai Motor Company.

Table 1-4. General status of public institutions

(Unit: people, trillion won)

	Workforce (as of the end of 2010)	Budget (as of 2010)	AssetNote1 (as of the end of 2009)	LiabilitiesNote 1 (as of the end of 2009)	Sales (as of 2009)
Public institutions	75,442	181.5	350.9	212.1	83.4
Quasi- governmental institutions	66,940	173.9	182.6	98.5	63.4
Other public institutions	105,411	108.9	77.4	37.0	92.9
Total	247,793	464.3	610.9	347.6	239.7

Note 1. Excludes five financial public institutions including the Korea Development Bank (including the Korea Finance Corporation and KDB Financial Group), Export-Import Bank of Korea, and Industrial Bank of Korea.

B. Budget

The 2010 budget for all public institutions was 464.3 trillion won: 181.5 trillion won for public institutions, 173.9 trillion won for quasi-governmental institutions, and 108.9 trillion won for other public institutions. The budget for their original business was 83.5 percent, or 387.9 trillion won, of the entire budget, and the rest 76.4 trillion won was the budget for fund account. The

4) As of 2009, the top five corporations that have the most regular employees are Samsung Electronics (85,000), Hyundai Motor Company (56,000), Kia Motors Corporation (33,000), KT (31,000), and LG Electronics (30,000).

budget of public institutions was around 43.7 percent of the GDP⁵⁾ of Korea and 2.3 times larger than the budget of the government's general account in 2010.

C. Assets, Liabilities, and Sales

As of the end of 2009, the assets of public institutions stood at 610.9 trillion won and their liabilities at 347.6 trillion won. Among these, state-owned enterprises held 57.4 percent, or 350.9 trillion won, of the whole assets, and 61 percent, or 212.1 trillion won, of the whole liabilities. The assets of public institutions were around 1.9 times larger than the sum of assets (313.5 trillion won) of the top ten⁶⁾ richest private companies, such as Samsung Electronics, POSCO, and Hyundai Motor Company, excluding financial institutions and public institutions.

The sales of public institutions in 2009 was 239.7 trillion won, while the sales figures of state-owned enterprises recorded 83.4 trillion won, smaller by 6.4 trillion won than those of Samsung Electronics (89.8 trillion won), and quasi-governmental institutions and other public institutions recorded 63.4 trillion won and 92.9 trillion won, respectively. Compared to the private sector, the sales of all public institutions were similar to the sum of sales figures of the top six⁷⁾ corporations, excluding financial institutions and public institutions.

5) On the basis of the 2009 nominal GDP of 1,063,1 trillion won.

6) As of 2009, top ten corporations with the most assets, excluding financial institutions and public institutions, were Samsung Electronics (86 trillion won), POSCO (40 trillion won), Hyundai Motor Company (35.4 trillion won), Hyundai Heavy Industries (24.9 trillion won), KT (24.3 trillion won), SK Energy (21 trillion won), LG Electronics (21.6 trillion won), Samsung Heavy Industries (20.2 trillion won), GS Caltex Corporation (20.1 trillion won), and SK Telecom (19.3 trillion won).

7) As of 2009, the top six corporations with the highest sales figures, excluding financial institutions and public institutions, were Samsung Electronics (89.8 trillion won), SK Energy (35.8 trillion won), Hyundai Motor Company (31.9 trillion won), LG Electronics (30.5 trillion won), POSCO (27 trillion won), and GS Caltex Corporation (26.1 trillion won).

D. Added Value

Added value is a tool to accurately understand the level of contribution of public institutions to the national economy. The added value of public institutions in 2008 was 35.6 trillion won, about 3.5 percent of the nation's GDP. The added value had been around 40 trillion won between 2005 and 2007 before plummeting in 2008, when its weight in the GDP accordingly fell from the level of 4 percent. The decrease was partly due to the hike in global oil prices and the impact from the global financial crisis in 2008: the Korea Electric Power Corporation, which produces almost half of the whole added value of public institutions, lost a large share of its added value and suffered a huge operating loss by freezing electricity prices despite the rising oil prices.

Since the mid-2000s, the added value of public institutions began to take up around 3-4 percent, constantly decreasing from the level of 8-9 percent in the 1970s and 1980s. This is largely because large state-owned enterprises, such as Pohang Iron and Steel Company, Korea Telecom, and Korea Tobacco and Ginseng Corporation (predecessors of POSCO, KT, and KT&G, respectively), were privatized while the private sector was growing at breakneck speed. This decreasing weight of public institutions in the nation's GDP is rather a natural phenomenon following economic development and shows that public institutions faithfully played its role of promoting people's welfare in the face of crises from high oil prices and economic recession. As other developed countries have witnessed, the weight of public institutions in Korea is expected to weaken further with the constant growth of the private sector and the privatization of public institutions.

Table 1-5. Change in added value of public institutions

	1970	1975	1980	1986	1990	...	2005	2006	2007	2008
Added value (trillion won)	0.3	0.9	3.6	9.0	18.0	...	39.5	40.8	40.8	35.6
GDP (trillion won)	2.8	10.5	39.1	100.3	191.4	...	865.2	908.7	975.0	1,026.5
Weight (%)	9.2	8.3	9.1	9.0	9.4	...	4.6	4.5	4.2	3.5

Note 1. The data from 1970 to 1990 is from research by Song Dae-hui (1994)

Note 2. The data from 2005 to 2008 is from research by the Korea Institute of Public Finance (2010). When computing added value, the KIPF research assumed maximum, intermediate, and minimum values for intermediate inputs that cannot be determined to fall under the item of intermediate inputs and calculated the resulting added value in the range between maximum and minimum values. For convenience, however, the mean value of such estimated values was used in this table.

Note 3. Public institutions included in the research by Song for the period between 1970 and 1990 cover government enterprises, government-invested institutions, government-funded companies, and subsidiaries of government-invested institutions (excluding local government-owned enterprises). Public institutions included in the KIPF research for the period between 2005 and 2008 cover 225 institutions, among 297 institutions (24 state-owned enterprises and 273 quasi-governmental institutions and other public institutions) under the Act on the Management of Public Institutions (The research excluded 21 subsidiaries incorporated into state-owned enterprises through consolidated financial statements and 27 institutions for which no data was available.)

**I Section1. Periodic Change of the Roles of Public Institutions
and Status**

In-depth analysis of the role and status of state-owned enterprises during the historical development stages that Korean state-owned enterprises (SOEs) underwent. For the sake of analysis, the distinction of three different periods will be made; ‘Stage 1’ from August 1948 to July 1962, ‘Stage 2’ from August 1962 to February 1984, ‘Stage 3’ from March 1984 to January 1999, ‘Stage 4’ from February 1999 to March 2007 and ‘Stage 5’ from then onwards.

1. Historic Development Process of State-owned Enterprises*A. Stage 1 (August 1948 to July 1962)*

Stage 1 is defined as the period from the establishment of the government of the Republic of Korea before the implementation of the First Five-Year

Economic Development Plan.

During this period, state-owned enterprises were mostly enterprises reverted from Japanese ownership before the liberation, or government-invested institutions established based on such confiscated enterprises. For example, the Korean Shipbuilding Corporation was largely established based on the Joseon Heavy Industry Company from the Japanese occupation, while the Korea Coal Corporation was based on vested mines. (Yu Hun, 2005)

One of the main roles of state-owned enterprises during this period was to take responsibility for the establishment of infrastructure vital to economic development, otherwise known as the ‘pioneering function’, as coined by Lewis.⁸⁾ Having endured the Japanese occupation and the Korean War, Korea had almost entirely lost the groundwork for economic development. Under such conditions, it was almost impossible for private enterprises to lead economic development for the lack of experience, technology and capital as well as the inaptitude at risk management. Subsequently, the government established state-owned enterprises to directly carry out capital procurement and facility investment that private enterprises had difficulty in doing. For example, the Industrial Bank of Korea was established as a successor to the Joseon Industrial Bank to support the industrial revival while supporting and supplying vital industrial funds and the Korea Coal Corporation was established in order to nurture and support the coal mining industry. Aside from the above, the Korea Line Corporation, Korea Shipbuilding Corporation, Korea Heavy Industries Corporation, Joseon Machine Works and the three major electricity companies representing Kyung Sung Electrics are operated under government control. Furthermore, the government laid down the foundations for economic development by establishing the Chungju Fertilizer Company, which was a key industry for the national economy. (Yu Hun, 1994)

Another important role fulfilled by state-owned enterprises at the time was

8) W. Arthur Lewis, *The Theory of Economic Growth* (Homewood: Irwin, 1955, p349-350)

satisfying demands for finances. During this period, the Korean national economy was small in scale and limited in tax revenue, which elevated the importance of the fund procurement function of state-owned enterprises more than ever. (Yu Hun, 1994) SOEs' ability to satisfy financial demands can be seen most prominently in monopoly enterprises. As seen below on Table 2-6, monopoly profits were under an increasing trend over the length of this period and out of total tax revenues in general finances, the proportion of monopoly profits peaked at 5 percent during the time length subject to analysis.

B. Stage 2 (August 1962 to February 1984)

Stage 2 was a period when state-owned enterprises were actively used as a means of economic development strategy in the promotion of the government's economic development plan after the May 16 coup d'état and during this period, state-owned enterprises underwent quantitative expansion and quality improvement. (Song Dae-hee, 1989) As demonstrated by the Five-Year Economic Development Plans, Korea was characterized as being management-oriented and centralized, which strategically strengthened the role of the state in economic management. Aiming at rapid growth, the government has favored industrial policies that protect or promote certain industries, based on the logic of 'economies of scale' and 'economies of scope', and state-owned enterprises were established and operated to be used as tools for such economic development strategies or industrial policies. (Jones and Sakong, 1980, originally cited in Kim Jun-gi, 1999, p222)

Moreover, as industrialization and urbanization progressed in this period following economic growth, state-owned enterprises were responsible for satisfying public demands by introducing housing enterprises aimed at low-income families, etc. For example, the Korea National Housing Corporation, which was established when it absorbed the Joseon Housing Administration

in July 1962, after the Korea National Housing Corporation Act was enacted in January of the same year, fulfilled public demands by newly constructing numerous apartment blocks along the side of the Han River from the end of the 1960s to the start of the 1970s. (Yu Hun, 2005) In addition, the Industrial Bank of Korea Act was enacted in 1961, thus establishing the bank of the same name, and in 1962, the Kookmin Bank was established, which served to alleviate public demands in regards to financial policy.

The Korea Water Resources Corporation was established in December 1967, implementing multi-purpose development projects such as multi-purpose dam construction and in turn, serving to enhance regional development.

Secondly, new state-owned enterprises were established under the premise of long-term strategy for the development of the national economy. During this period, many state-owned enterprises were newly established despite the difficult financial situation, the afore-mentioned reason for which was that state-owned enterprises were to be used as a key means of the economic development strategy. It is unavoidable for the government to invest into social overhead capital that requires huge sums, and to use state-owned enterprises in actively participating in many enterprises that cannot be operated with meager sums of private sector capital.

Lastly, many state-owned enterprises were privatized following the growth of the private sector economy. The government simultaneously privatized seven state-owned enterprises including the Korea Machinery Corporation in 1968, when the Second Five-Year Economic Development Plan was under progress. In particular, following the government policy of transferring the economy to a private sector-led model in the 1980s, six state-owned enterprises, including four commercial banks, were further privatized.

Conversely, as many state-owned enterprises were created and operated during this period, the need for their centralized and consistent management arose and in order to effectively fulfill such needs, the Budget and Accounting Act for Government-Invested Institutions (1962) and the Framework Act on

the Management of Government-Invested Institutions (1973) were enacted. Through these statutes, the concept of government-invested institutions, which had been inconclusive, was firmly established as enterprises in which the government held more than a 50percent share. Furthermore, by securing legal grounds for the operation of self-supporting systems for government-invested institutions, ex post control measures through the flexible operation and settlements of budgets and reasonable government management policies, a systemic effort for the rational operation of state-owned enterprises began. (SOE White Paper, 1988)

C. Stage 3 (March 1984 to January 1999)

Stage 3 was a period when, with the enactment of the Framework Act on the Management of Government-Invested Institutions⁹⁾ in 1983, an overhaul of the management structure and a management evaluation system sought to provide the groundwork for the establishment of an autonomous and accountable management system for government-invested institutions. This stage was characterized as the point where efforts were put into reform programs for the inefficiency problem facing state-owned enterprises and improvements on the management system. As touched upon the rationale behind the establishment of state-owned enterprises, regardless of the individual reasons behind the establishment of state-owned enterprises, a common issue from the outset is concerned with their management or the reform policies. To reiterate, state-owned enterprises are difficult to manage accountably due to concepts

9) The background for the enactment of the Framework Act on the Management of Government-Invested Institutions came about as a result of criticisms that the existing system of managing government-invested institutions based on the Act on the Budget and Accounting of Government-Invested Institutions and the Act on the Management of Government-Invested Institutions interfered with their management autonomy as well as making it difficult to improve their management efficiency. (Korean Society of Public Enterprise, 2003)

such as the 'owner-less enterprise' and the 'double principal' problem and incurs inefficiency through lax scrutiny and oversight over the management staff, leading to programs seeking visible changes aimed at the "depoliticization" of government-SOE relations. Such reform policies have spread worldwide since the 1980s due to government financial deficits and the increase in the problem of inefficiency in state-owned enterprises. (World Bank, 1995) Korean state-owned enterprises have not been exceptions from such problems of inefficiency, with the issue being a topic of serious discussion since early 1980s and policies of SOE reform or management have gained traction after 1984. The government has made attempts with various reform policies after recognizing the importance of efficiency in state-owned enterprises, which had been used as direct means of supplying public and private wealth. In addition, such policies of SOE reform are characterized by management evaluation systems on one side, with privatization and liberalization on the other.¹⁰⁾ (Kim Jun-gi, 2001a) In relation to SOE reform policies, the Roh Tae-woo administration (1988 – 93) attempted the partial cash-flow rights privatization of large-scale state-owned enterprises. Further adding to this, the Kim Young-sam administration (1993–98) followed a dualistic approach in formulating SOE-related policies, by planning the privatization of ownership, while also pursuing the reform of the governance structures in SOEs by strengthening the board of directors system. (Kim Jun-gi, 1999)

At the end of 1986, there are 4 government enterprises, 116 regional SOEs, 26 government-invested institutions, 68 companies financed by government institutions and 6 government-financed institutions, 221 in total, with 326,000 employees, 21 trillion won in revenue, 104 trillion in assets¹¹⁾. In terms of

10) SOE reform can be largely classed into the fundamental adjustment of government function through privatization and gradual reform through exposure to more competition, reorganization of the internal command structure of the enterprise and the introduction of a management evaluation system. (Kim Jun-gi, 1999)

11) For the purposes of analysis, the situations facing SOEs will be categorized into government enterprises, government-invested institutions, companies financed by government-invested

the number of enterprises, regional SOEs are most numerous, but in terms of operation scale, government-invested institutions are the largest, constituting approximately 50 percent of all state-owned enterprises. (SOE White Paper, 1988)

Examining the extent of contributions made by state-owned enterprises to the national economy in terms of value added, creation of fixed capital, industry-related effects, employment, etc., the following can be derived. Firstly, the ratio of the GDP to the value added by state-owned enterprises, as seen in Table 2-11 below, has increased from 7.0 percent in 1963 to 9.7 percent in 1984 and had reached 9.4 percent in 1990. This represents the fact that despite the wide range of privatizations following the transition to a private sector-led market economy starting in the 1980s, the weight taken by state-owned enterprises remained high. (Song Dae-hee, 1994)

Table 2-1. Ratio of GDP to Value Added by State-owned Enterprises

(Unit: %)

	1963	1964	1970	1975	1980	1984	1985	1990
Value Added by SOEs/GDP	7.9	6.5	9.2	8.3	9.1	9.7	9.0	9.4

Source: 1963 – 1970; Song Dae-hee, 1989, p38
1975 – 1990; Song Dae-hee, 1994, p13

On the other hand, the contribution made by state-owned enterprises in the creation of fixed capital, as seen in Table 2-12 below, has been under a downward trend, gradually contracting from 27.6 percent in 1980, 20.7 percent in 1984, 15.6 percent in 1986 and 8.9 percent in 1990. The decline of contribution by state-owned enterprises to the national creation of fixed capital is seen to be the result of low SOE involvement in manufacturing industries.

institutions, government-financed institutions and regional state-owned enterprises. However, regional SOEs have been largely excluded except for specific mention (SOE White Paper, 1988, p81).

Table 2-2. Contribution by State-owned Enterprises in Domestic Fixed Capital Creation

(Unit: %)

	1980	1984	1986	1990
SOE Contribution to Domestic Fixed Capital Creation	27.6	20.7	15.7	8.9

Source: Song Dae-hee, 1994, p13

As seen on Table 2-13 below, the involvement rate of state-owned enterprises in downstream and upstream industries is shown to be greater than that across all industries. In particular, involvement rate in upstream industries has risen from 0.6202 in 1980 to 0.6708 in 1984. While limited to government-invested institutions, although it has fallen to 0.6025 in 1990, when compared to all Korean industries, a large proportion of SOE output is used as intermediary goods for private sector production remains considerably large. (Song Dae-hee, 1994) Moreover, involvement rate in upstream industries, which is deeply linked to the enhancement of national economic competitiveness, has risen from 0.6202 in 1980 to 0.6708 in 1984, showing the significant influence that the management level and the product quality of state-owned enterprises have on the quality of goods produced by the private sector. (SOE White Paper, 1988) Finally, when examining factors related to employment, as shown in Table 2-14, the number of employees at state-owned enterprises, which was at 226,000 in 1982, has been under an upward trend, at 280,000 in 1984, 341,000 in 1986, 374,000 in 1991 and 362,000 in 1992. The employment contribution rate of state-owned enterprises has been under an upward trend, rising from 2.3percent in 1982 to 2.7percent in 1984 and 2.9 percent in 1986, but has been decreasing to 2.4percent in 1991 and 2.3percent in 1992.

D. Stage 4 (February 1992 to March 2007)

Stage 4 was the period when the Framework Act on the Management of Government-Invested Institutions was amended to correct its flaws, aiming at strengthening the autonomy and accountable management systems of government-invested institutions. A closer look at the amendments reveal the introduction of a 'CEO recommendation committee' system aimed at guaranteeing the autonomy of government-invested institutions and that, while abolishing the policy of government-appointed directors, a system of co-existence between standing directors and private sector non-standing directors has also been introduced. And in order to establish an accountable management system for government-invested institutions, the 'CEO management contract system' was introduced, while the 'management publication system' and the 'minority shareholder system' were also established to enhance their management transparency and to allow public scrutiny. (Korea Society of Public Enterprise, 2003)

On the other hand, the Kim Dae-jung administration implemented a policy of privatizing state-owned enterprises as part of public sector reform in the aftermath of the so-called IMF Crisis. Based on the results following the completion of a special inspection regarding the status of management structure reform across 153 state-owned enterprises by the Board of Audit and Inspection in June 1998, the Kim Dae-jung administration formulated the First (July 4) and Second (August 5) Plans for Management Reform and Privatization of State-owned Enterprises aimed at "improving the management efficiency of state-owned enterprises by introducing competition principles and establishing accountable management". (Kim Jun-ki, 1999)

Despite the restructuring of state-owned enterprises during the Kim Dae-jung administration, the Roh Moo-hyun administration assessed that they were lacking in the software of the management system, such as the promotion of competition, achievement-centric management and the improvement of public

service. In order to further accelerate the results of the restructuring and the enhancement of management efficiency, the administration placed its efforts into more practical management reforms, such as reform of the management system of state-owned enterprises. In particular, the Ministry of Planning and Budget decreed the '2004 guidelines for promotion of management reform in state-owned enterprises' and the '2005 guidelines for promotion of management reform in state-owned enterprises and affiliated institutions', while carrying out customer satisfaction surveys for state-owned enterprises and management evaluations for institutions under government control. (Presidential Committee on Government Innovation & Decentralization, 2005)

E. Stage 5 (April 2007 onward)

Stage 5 is the period after the government enacted the Act on the Management of Public Institutions (January 19, 2007). The Act on the Management of Public Institutions was enacted on January 19, 2007 to solve problems such as the existence of blind spots in management, the ambiguous classification system of state-owned enterprises and government-affiliated institutions and issues to do with management, oversight and institutional operation that arose from state-owned enterprises being managed under different legislative systems such as the Framework Act on the Management of Government-Invested Institutions, the Act on the Improvement of Managerial Structure and Privatization of Public Enterprises and the Framework Act on the Management of Government-Affiliated Institutions. (Seol Gwang-eon, Park Jae-shin, 2005) The Act on the Management of Public Institutions (1) is a new attempt at reforming the classification system of all public institutions including existing state-owned enterprises and subordinate institutions, (2) aims to reform external and internal governance structures and (3) systemically define items relating to the reform of fairness in the appointment of board members.

2. Timeline of Restructuring of the Operation System for Public Institutions

A. Stage 1 (August 1948 to July 1962)

State 1 represents the period from the foundation of the Korean government to the establishment of the Budget and Accounting Act for Government-Invested Institutions, when government-invested institutions were loosely controlled. During this stage, there were no laws that governed government-invested institutions except for a foundation act for each institution. Therefore, control of the institutions rested solely on the hands of a competent minister and there were no systematic and central control systems by their financial authorities, etc. While in some exceptional cases control by a competent ministry was exerted somewhat strictly and on unessential issues, SOEs were generally controlled in a non-systematic and loose manner. First, as for budgetary control, the budget for a government-invested institution was finalized by the competent minister's approval. Purchasing goods and contracting construction works were entrusted to the institution and there was no centralized purchasing system. External audit was carried out by the competent ministry and the General Accounting Office (present-day Board of Audit and Inspection of Korea). There was no management performance evaluation system for the institutions. All in all, it can be said that control of government-invested institution in Stage 1 was generally non-systematic and loose, although this differed between competent ministries (Yu Hun, 2000).

B. Stage 2 (August 1962 to February 1984)

Stage 2 represents the period when SOEs were actively utilized as a means for economic development strategies with the implementation of economic development plans. During this period, the Budget and Accounting Act for

Government-Invested Institutions and the Government-Invested Institution Management Act were applied since the Framework Act on the Management of Government-Invested Institutions had yet to be established.

In addition, government-invested institutions were controlled not only by each governmental ministry under individual foundation act for government-invested institutions but also governed by the Board of Audit and Inspection Act, the Government Procurement Fund Act and other relevant industrial regulatory acts.

Figure 2-1. Management System before the Establishment of the Framework Act on the Management of Government-Invested Institutions

Governing Acts	Budget and Accounting Act for Government-Invested Institutions	Government-Invested Institution Management Act	Foundation act for each government-invested institution	Board of Audit and Inspection Act	Government Procurement Fund Act	Other Relevant Acts
Means of Control	Project Plan -Competent ministry -Economic Planning Board	Budget Operation -Relevant ministry -Economic Planning Board	Personnel Management -Competent ministry	Purchase of Materials -Competent ministry -Public Procurement Service	Work Supervision -Competent ministry -Ministry of Finance -Related Organizations	Audit -Competent ministry -Ministry of Finance -Board of Audit and Inspection -Related Organizations
Government-Invested Institutions						

Source: SOE White Paper (1988:180)

Figure 2-1 depicts the comprehensive control system that governed each activity carried by a government-invested institution. For example, project plans

and budget operation were jointly controlled by the Economic Planning Board and the competent ministry while personnel management primarily by the competent ministry. Purchasing goods, work supervision and audit were controlled by a variety of relevant bodies such as the competent ministry, the Ministry of Finance, the Board of Audit and Inspection, and the Public Procurement Service (Song Dae-hee, 1989).

1) Summary of Stage 2 Government-Invested Institutions Management System

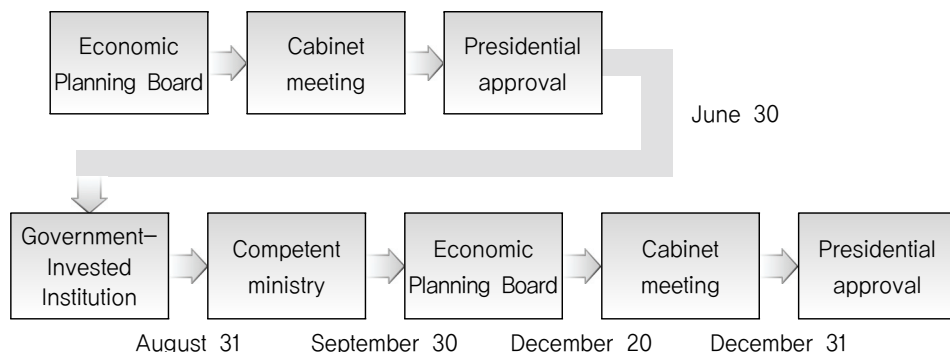
a) Budget

In August 1962, the Budget and Accounting Act for Government-Invested Institutions was established under the awareness that it was time to centralize control over government-invested institutions, which had been sporadically controlled, mainly on their budget, by each governing ministry. The awareness rose from the fact that the operation of government-invested institutions had a significant role in implementing economic development plan and that it was necessary to control and regulate them overall national economy in mind.

Under the Budget and Accounting Act for Government-Invested Institutions, the procedure for deliberation and finalization of budgets was as follows. The guideline for budget compilation, prepared annually by the Economic Planning Board by June 30, was deliberated at the cabinet meeting, approved by the President, and then furnished to each government-invested institution. The head of each government-invested institution compiled its draft budget based on the guideline and submitted it to the competent minister by August 31. Once the adequacy of the draft budget was examined, he/she submitted it with the minister's opinions attached to the Minister of the Economic Planning Board by September 30 for deliberation. The draft budget was assessed by the Economic Planning Board, deliberated by the cabinet meeting and approved by the President to be finalized. The budget of a government-invested institution consisted of the general provisions of the budget, an estimated income

statement, and an estimated balance sheet with accompanying documents attached. The procedure for budget compilation is schematized in Figure 2-7.

Figure 2-2. Procedure for Budget Compilation before the Framework Act on the Management of Government–Invested Institutions



Source: SOE White Paper (1988:181).

Once the budget of a government-invested institution was confirmed, the Minister of the Economic Planning Board notified it to the competent minister, who in turn notified it to the head of each government-invested institution under the Budget and Accounting Act for Government-Invested Institutions. Upon receiving the budget confirmation notice, the head of each government-invested institution had to, without delay, prepare and submit not only a quarterly project plan to the competent minister, the Minister of the Economic Planning Board, and the Minister of Finance, but also a quarterly statement clearly stating the project performance and income and expenditure of the previous quarter to the competent minister, the Minister of the Economic Planning Board, and the Minister of Finance.

In the appropriation and carryover of the budget and use of reserve funds, the head of a government-invested institution could, when deemed necessary for the execution of the budget, appropriate a certain amount of money among the items from the estimated income budget. The usage of costs and reserve

funds specifically prescribed in the general provisions, however, required approval from the competent minister.

Such governmental control made it hard for government-invested institutions to actively respond to changes in their management conditions that arose after their budget had been compiled.

Under the Budget and Accounting Act for Government-Invested Institutions, government-invested institutions had to prepare and submit statements on the settlement of accounts to the Minister of Finance via their competent ministers no later than March 20 of the year following the end of each fiscal year. Accompanying documents included: ① analysis report of performance against original project plan, ② accompanying documents of financial statement, ③ documents indicating the amount of and reasons for the use of reserve funds and budget misappropriation, and ④ other documents needed to clarify the contents of settlement of accounts.

The Minister of Finance had to send the submitted documents to the Minister of the Economic Planning Board and the Chairman of the Board of Audit and Inspection of Korea no later than June 30 of the following year. The Chairman of the Board of Audit and Inspection of Korea had to review and send them no later than August 31 of the following year to the Minister of Finance, who in turn had to present the statements of settlement of accounts along with an evaluative report of the Chairman of the Board of Audit and Inspection of Korea to the cabinet meeting.

b) Personnel Affairs and Organization

In general, the internal governance of SOEs can be categorized into the functional board type and the policy board type depending on whether a member of the board of directors or the management committee concurrently holds a position of the head of a certain department of the executive branch. In function board type, all members of the board of directors and the management committee are standing members who concurrently hold positions as the head

of a particular department as a head manager or a managing director. The functional board type has merit in that it effectively links decision making to its execution. However it has its drawbacks in that directors are immersed into their own work so that they cannot address the overall matters of their enterprises from a broader perspective. In particular, when non-professional external personnel are introduced through political appointments, they are likely to impair the efficiency of corporate management. In the policy board type, all members of the board of directors and the management committee do not concurrently hold positions as the head of a particular department (Economic Planning Board, 1989).

By 1983, it could be said that the highest management bodies of the government-invested institutions in Korea had adopted the functional board type, whose characteristics are as follows (Kim Ik-soo, 1984). Firstly, as the executives responsible for the execution in their own fields constituted the board of directors that made ultimate decisions for the government-invested institution, the executive meeting of the executive branch automatically served as the board of directors. Secondly, although, in principle, the board of directors was supposed to deliberate and resolve critical matters for the government-invested institution, there were many restrictions imposed on its authority. It was not the board of directors but the government who made decisions on the budget of the government-invested institution. In addition, the work supervisory power of the competent ministry was comprehensive in nature. Therefore in most cases it was not the board of directors but the competent department that made critical decisions for the government-invested institution. In addition, government-invested institutions had their own regulations of the board of directors for each social investment institution to list issues subject to resolution by the board of directors. As for matters subject to resolution by the board of directors, not only critical issues for policy making but also other specific issues in the executive area, such as the appointment, removal, and transfer of key personnel, were comprehensively prescribed.

c) Audit and Work Supervision

Audit of government-invested institutions consisted of internal and external audit, which was performed by the Board of Audit and Inspection of Korea, the competent ministry, the Ministry of Finance, and other relevant institutions. The audit by the Board of Audit and Inspection of Korea consisted of accounting audit and job supervision. Although the audit could be commissioned to the competent ministry, in most cases the Board of Audit and Inspection of Korea carried out the task by itself. Although the Framework Act on the Management of Government-Invested Institutions prescribed that the auditor of a competent ministry could carry out a joint review with related departments, he/she generally performed the review alone. In addition, the Ministry of Finance and other related institutions audited government-invested institutions, if necessary.

Competent ministers in Korea exerted a wide range of control over the job of government-invested institutions. In most cases, the authority of the competent minister was stipulated in an individual foundation act. If this was not the case, the competent minister exerted a wide range of control over government-invested institutions in forms of instructive and supervisory authority. The major process of the work supervision carried out by the competent minister on a legal basis was as follows (Economic Planning Board, 1988). Firstly, the head of a government-invested institution was supposed to obtain approval for their project plan from the competent ministry when compiling the annual budget. In addition, the head of a government-invested institution had to prepare a quarterly basic operation plan every year under the Framework Act on the Management of Government-Invested Institutions and submitted it to the competent minister, the Minister of Finance, the Minister of the Economic Planning Board by January 31. Secondly, the head of a government-invested institution sought approval from the competent minister for each project unit before its implementation. Approval was also obtained from the competent ministry or related ministries for investment procurement, determination of charges, and disposition of profits. The revision of office

organization, remuneration, personnel affairs and other critical internal regulations were subject to approval from the competent minister. Furthermore, many minor issues such as the approval of overseas business trips and reports of staff on duty were also often approved or reported. Thirdly, most foundation acts stipulated that the competent minister could oversee the jobs of government-invested institutions and issue necessary orders pertaining to their work. Furthermore, when necessary, he/she could request an affiliated public official to submit a report or to inspect work affairs, documents, facilities, and other goods. In short, the competent minister had a comprehensive authority to supervise work, request reports, and perform audits. As shown above, the work supervision over government-invested institutions in Korea regulated routine work so frequently in contrast to its counterparts in other countries, which placed an emphasis on the regulation of policy issues. Furthermore general laws served as key legal basis leading to the application of uniform supervisory criteria (Song Dae-hee, 1989).

d) Management Evaluation and Incentive System

The first introduction of the management evaluation system to government-invested institutions can be dated back to 1968. In this system, the competent minister allocated a management goal to each affiliated government-invested institution, which, in turn, submitted a management performance report no later than January 31 of the following year to the competent minister. Then he/she evaluated the report and reported it at the cabinet meeting no later than February 28.

However, the system existed as a formality in that it was hard to measure the management improvement effect against previous management performance since the management goal allocated at the time merely represented budgetary figures, and no appropriate incentive was granted based on management performance (Song Dae-hee, 1989).

As the management evaluation system failed to have any tangible effect,

research on the introduction of an incentive system was undertaken centering on the Economic Planning Board from the early 1972.

As a result, an incentive system was implemented from 1973 to 1982 based on the research commissioned to the Institute of Business Research & Education at Korea University. The incentive system, implemented based on the outsourced research, was as follows (Seo Gyu-hyeon, 1982). Firstly, although varying according to the nature of any given government-invested institution, the management evaluation indicators consisted of eight indicators for return rates, production and sales, cost reduction, management cost reduction and loss rate, financial structure, management of personnel resources, contribution to national economy, and management of unused and inventory assets. Secondly, as for reference value of each indicator and evaluation range, the reference value was set as one single value or a fixed range by time-series analysis based on performance values and a method based on planned values. Evaluation sections and grade classifications can be seen in Table 2-16. Thirdly, an advisory body consisting of people from academic communities, the Economic Planning Board and competent ministries served as an evaluation group under the Economic Planning Board. As for the process of evaluation, which was set to be performed at an annual range, the institution subject to evaluation filled in and submitted a prescribed evaluation paper to the competent ministry for primary review. Then, it went through a secondary review by the Economic Planning Board before it was finally evaluated by the advisory body. Fourthly, as for the bonus payment, the monetary bonus and non-statutory fringe benefit, previously paid by each government-invested institution, were no longer paid. Instead, a government institution that earned an A, B, C, or D grade from the evaluation by the advisory group would be paid 600 percent, 500 percent, 400 percent, or 300 percent of annual bonus, respectively.

Table 2-3. Criteria for Payment of Bonus

Classification	Variation Range of Reference Value	Score & Grade per Range	Score Range
Toward a positive direction	Second range First range	115 points Grade A 105 points	Not lower than 105 to 115 points
Reference	Reference value	100 points Grade B	Not lower than 100 to 105 points
Toward a negative direction	First range Second range	95 points Grade C 85 points Grade D	Higher than 95 to 100 points Higher than 85 to 95 points

Source: Hwang Il-cheong et al. (1973)

The incentive system for government-invested institutions underwent minor changes thereafter. However, its framework remained essentially the same except that previously, each competent ministry had served as an evaluation agency but only the Economic Planning Board played such a role starting from 1977. The incentive system can be summarized as follows (Song Dae-hee, 1989). Firstly, management evaluation was carried biannually, in the first and the second half of the year. Secondly, 4 to 13 indicators were established for each institution, reference values were set based on previous performance, and then four score ranges were determined based on the reference value of each indicator. Thirdly, the scores of each indicator were aggregated to be classified into one of the four grades, based on which 50 to 200 percent of an annual bonus could be differentially paid.

C. Stage 3 (March 1984 to January 1999)

A new management system for government-invested institutions under the

Framework Act on the Management of Government-Invested Institutions was introduced in March 1984. It aimed to improve the management efficiency of government-invested institutions, which were of great significance to the national economy, by guaranteeing their management autonomy and thereby enabling them to respond to the ever-changing management environment in a flexible and creative manner (Economic Planning Board, 1984). The government allowed for the autonomy and flexibility of government-invested institutions by presenting them only key goals to be achieved and minimizing its restraint over their execution procedure while performing a post hoc evaluation on their management activities. By doing so, it was expected to ensure an autonomous and responsible management system of government-invested institutions. In order to ensure the autonomous management of government-invested institutions, the Framework Act on the Management of Government-Invested Institutions announced the principles of autonomous management of government-invested institutions (Article 3 of the Act), prescribing institutional tools designed to ensure the autonomous management such as a CEO's right to appoint and remove executive officers and government institutions' right to compile their own budget (Articles 15 and 22 of the Act), a CEO's right to close a contract for material procurement and facility construction (Article 27 of the Act), autonomous management of materials and minimization of external audits (Articles 28 and 29 of the Act).

1) Main Contents of the Framework Act on the Management of Government-Invested Institutions

a) Ensuring the Autonomous Management of Government-Invested Institutions

i) Autonomous Management of Budget

The types of budget compilation and confirmation process of SOEs can be classified into three: legislative branch deliberation, executive branch

deliberation and autonomous decision. In Korea, the type of budget compilation and confirmation for government-invested institutions was changed from executive branch deliberation to autonomous decision March 1984 (Yu Hun, 1987). It had been repeatedly criticized that under the previous executive branch deliberation type, the budget compilation for a government-invested institution had to undergo more than six months of long and complex deliberation process, undermining an effective response to the ever-changing management environment. The new Framework Act on the Management of Government-Invested Institutions, however, considerably expanded the autonomy of the executives of a government-invested institution over the compilation and execution of its budget. The draft budget, prepared by each government-invested institution based on both the management goals given through the decision of the management evaluation committee for government-invested institution and the general budget guideline, was subject to the final decision at the board of directors of each government-invested institution. Management goals specified key goals that had to be achieved by each government-invested institution and included, among other things, the volume of production and sales, progress of major projects, and work improvements in major sectors. They were proposed first by a government-invested institution, reviewed by the competent ministry and the Economic Planning Board, and then confirmed by the management evaluation committee for government-invested institutions before being allocated to each institution. The general budget guideline prescribed a minimal set of common standards to present the basic direction of budget compilation for government-invested institutions and maintain balance among them. It was furnished together with management goals to each institution by the end of October every year through the resolution of the management evaluation committee for government-invested institutions. The management goals made it possible for each government-invested institution to determine its own budget by its board of directors under the general budget guideline by the end of the year before a new fiscal year started. Consequently, a variety

of information including economic trends by the end of the fourth quarter of the year could be reflected in the budget compilation.

As shown above, as the authority of budget compilation itself was commissioned to each government-invested institution, the governmental control over budget execution was inevitably abolished. Consequently, when the appropriation and carryover of budget was needed due to changes in conditions after budget confirmation, the decision could be made by the board of directors in a government-invested institution without obtaining approval from the competent ministry as before, resulting in an improved flexibility in budget management (Song Dae-hee, 1987).

ii) Autonomy in the Management of Personnel and Organization

The new Framework Act on the Management of Government-Invested Institutions dramatically reduced the political and administrative intervention of the government in the appointment and removal of top executives of SOEs, which had been criticized to be partly responsible for the ineffective management of SOEs. Under the new law, the government could appoint and remove only the head of a government-invested institution while the appointment and removal of executive officers was left as the unique authority of the institution head. When the head of a government-invested institution appointed executive officers including a deputy CEO, he/she had to select them from internal staff, systemically eliminating the possibility of parachute appointments. Under the previous system, once promoted up to the head of a department, executives of a government-invested institution had only two options: either retiring at the retirement age or changing their jobs. Under the new system, however, they could be promoted to an executive officer or the CEO. The reason underlying the introduction of the closed personnel management system that made it legally mandatory to select executive officers from internal staff without exception was that, although it had a setback of making it impossible to invite capable external personnel, an issue of broader criticism was that the previous

open personnel management system had been misused to appoint executive officers out of political nepotism (Song Dae-hee, 1987). Executive officers were newly created as a top management structure under the Framework Act on the Management of Government-Invested Institutions, having a similar status to that of a director responsible for each sector in the past. The Enforcement Degree of the Framework Act on the Management of Government-Invested Institutions prescribed that "executive officers refer to the next immediate lower position from that of CEO (or chairman or president of a bank)." The head of each institution was entrusted with the decision on the number, title, and function of executive officers considering the condition of execution. However, he/she had to make sure that the authorities and responsibilities were clearly distinguished among executive officers for evaluation of internal management performance and that they assumed responsibility for the management performance of their own sector while the CEO did so for the overall management of the institution.

iii) Centralization of Audit and Alleviation of Work Supervision

The Framework Act on the Management of Government-Invested Institutions limited external audits, previously performed by the competent ministry, Ministry of Finance, the Economic Planning Board, and the Board of Audit and Inspection of Korea, to that by the Board of Audit and Inspection of Korea. The Board of Audit and Inspection of Korea performed its auditory work for government-invested institutions by dividing it two parts: audit on account settlements and on policies, which focused on capacity for improving management efficiency. In cases where it was deemed necessary for the competent ministry to examine the implementation of policies commissioned to a government-invested institution, there were institutional tools in place by which the competent minister might perform an audit after consultation with the Chairman of the Board of Audit and Inspection of Korea; however, such measures were hardly used in practice (Song Dae-hee, 1987). In addition, when

deemed necessary by the Chairman of the Board of Audit and Inspection of Korea, the audit on material management of a government-management institution might be commissioned to the administrator of the Public Procurement Service and that on financial institutions to the governor of the Bank Supervisory Agency at the Bank of Korea.

Meanwhile, as the Framework Act on the Management of Government-Invested Institutions aimed at the autonomous management of government-invested institutions, audacious actions were taken for autonomy in budget, personnel affairs, procurement and management, and audit of government-invested institutions.

However, issues concerning the reduction of a comprehensive work supervisory authority of the competent minister were most controversial in the process of coordination on the bill among related ministries. In the original bill, the work supervision authority of the competent ministry was limited to that as specified by the law while the work supervisory authority comprehensively prescribed by the foundation act was to be excluded. Considering the opinion of competent ministries that the general work supervisory authority exerted by competent ministries to reflect governmental policies should not be abolished simultaneously, the Act only announced that autonomous management had to be ensured for the establishment of a responsible management system of government-invested institutions.

When the new framework act announced the guarantee of autonomous management of government-invested institutions, its intention was to emphasize the principle of autonomy in the management system for government-invested institutions while presenting a direction for their management (Economic Planning Board, 1988).

b) Management Evaluation System of Government-Invested Institutions

With the introduction of the Framework Act on the Management of Government-Invested Institutions in Stage 3, the management evaluation system

of government-invested institutions was initiated in March 1984.

The management evaluation system in this period can be categorized into three stages in terms of changes in its system, changes in government policies on SOEs, and the degree of improvement in management performance of government-invested institutions (Korean Society of Public Enterprise, 2003).

Stage 3 can be further classified into two phases: Phase 1 from 1984 to 1991 and Phase 2 from 1992 to 1998.

Changes in the characteristics of the management evaluation system and the basic management direction of government-invested institutions related to government policies on SOEs by each phase can be summarized as follows (Korean Society of Public Enterprise, 2003):

i) Phase 1 (1984 to 1991)

Heads of government-invested institutions prepared and submitted management performance reports of the pertinent year to the Minister of the Economic Planning Board and the competent minister no later than March 20 of the following year. The Minister of the Economic Planning Board evaluated the management performance of institutions based on the submitted reports.

Management performance evaluation was completed no later than June 20 and reported to the President. If necessary, corrections could be requested to the competent minister and removal of executives concerned could be suggested.

The “Management Evaluation Committee for Government-Invested Institutions” was established for final deliberation and resolution on the evaluation, while the “management evaluation team for government-invested institutions” was organized for advice and research services for evaluation.

Indicators when the management evaluation indicator system was introduced were categorized into general indicators, original objective completion indicators, and business administration indicators according to evaluation category or purpose. General indicators aimed at evaluating

comprehensive results of management; original objective completion indicators were utilized for effectively achieving establishment purpose as required for the implementation of government policies; and business administration indicators were prepared to promote the long-term management improvement of government-invested institutions.

Evaluation indicators can be classified into quantitative and non-quantitative indicators according to the type of indicators. Quantitative indicators refer to indicators with evaluation criteria based on objective numerical values. Non-quantitative indicators based on the five-grade evaluation criteria were utilized for evaluating subjects, of which performance cannot be quantified or objectified, and evaluating qualitative aspects of evaluation subjects.

Final deliberation and resolution on evaluation were performed by the management evaluation committee, and the management evaluation team composed of experts was operated for advice on technical and special matters related to management evaluation. The management evaluation team prepared each year a “management evaluation manual,” the evaluation criteria for management performance of institutions, prior to the commencement of the pertinent year and conducted an ex post evaluation of achievements of institutions.

Around the introduction of the management evaluation system of government-invested institutions, the institutions initiated their own management evaluation system that was different from the management performance evaluation conducted by the management evaluation team. Later, efforts were made to integrate evaluation systems in order to solve problems caused by the two-tier evaluation system.

ii) Phase 2 (1992 to 1998)

After the inauguration of the civil government in 1993, the privatization of SOEs was intensively implemented. In August 1997, the Act on the Improvement of Managerial Structure and Privatization of Public Enterprises was enacted.

As a result, the number of government-invested institutions subject to the Framework Act on the Management of Government-Invested Institutions decreased. In the evaluation of performance in 1997, the number of institutions subject to management evaluation was reduced to 13 from 23 in the evaluation of performance in 1992. In summary, the most important characteristics of the management evaluation system between 1992 and 1997 was that the privatization of SOEs strongly implemented by the government led to a continuous decrease in the number of government-invested institutions subject to management evaluation.

In Phase 2, the overarching organization for the management evaluation system changed twice: The “Review and Assessment Office of the Economic Planning Board” was replaced by the “Budget Office of the Ministry of Finance and Economy” in December 1994, which in turn, was substituted by the “Budget Coordination Bureau of the National Budget Administration” in February 1998.

The number of categories of institutions subject to the management evaluation indicators was reduced to three: “financial and large-scale manufacturing institutions,” “construction and other manufacturing institutions,” and “institutions related to development and services.”

Subject area categories of management evaluation indicators can be classified into four groups: “general management,” “key business,” “administrative efficiency,” and “business administration areas.”

As for the proportion of quantitative and non-quantitative indicators, a total score of 100 to 110 points had been equally weighted to all institutions regardless of characteristics of institutions. Since the evaluation of performance in 1995, the sum of weight was distributed based on characteristics of institutions.

The five-grade system was subdivided into the nine-grade system since the evaluation of performance in 1996. Scores of evaluation indicators were expanded from the 75 to 100 scale (in case of setting indicators) to the zero to 100 scale (in case of evaluation) since the evaluation of performance in 1998.

Phase 2 was a period of maturity of the management evaluation system of government-invested institutions. In this phase, the system was operated only for evaluation of institutions, and management performance evaluation indicators and evaluation methods became more sophisticated, organized, and objectified.

c) The Board of Directors System of Government-Invested Institutions

The board of directors had been the top management level of SOEs before the enactment of the Framework Act on the Management of Government-Invested Institutions. Generally, the CEO concurrently served as the chairperson of the board and took responsibility of management with the assistance of a deputy CEO or directors.

Consequently, decision-making and execution in SOEs were exclusively retained by one person, the CEO. It seemed as though the process in which one person had the authority of decision-making and execution would ensure management efficiency. In reality, however, it constituted an overlap of functions, leading to the consolidation of regulation and supervision by competent agencies. The regulatory expansion of the competent agencies' role served to excessively bureaucratize SOEs, resulting in a decrease in autonomy and efficiency, while responsibility also became unclear (Park Yeong-gi, 1985).

In an effort to ensure the autonomous and accountable management of SOEs, the Framework Act on the Management of Government-Invested Institutions stipulated a two-tier system composed of separate organizations for resolution and execution where the board of directors was established as the decision-making organization. With the introduction of the new board of directors system, the following changes occurred.

i) Regulation of Employment of Outside Personnel in the Top Management Level of Government-Invested Institutions

The traditional management system for government-invested institutions hindered the improvement of management because frequent employment of

outside personnel in the top management level led to inefficient management. In most cases, outside personnel, who had lacked the knowledge and experience of management or special matters, were appointed as executive staff and participated in management of government-invested institutions. As a result, management efficiency decreased, and internal employees were demoralized due to decreased promotion opportunities (Economic Planning Board, 1984).

There are two ways to regulate participation by outside personnel in management: One is to select all executive directors among internal employees, and the other is to exclude externally-hired directors in management. It seems that the Framework Act on the Management of Government-Invested Institutions has selected the latter (Song Dae-hee, 1987).

All executive staff was renamed executive officers, and outside personnel could not be employed as executive officers, regardless of how capable they were and strong their political background was. The new board of directors, by which outside personnel could be employed, could not intervene in the management of government-invested institutions at all. It seems that the government planned to keep the chairperson or members of the new board of directors from intervening in internal executive work such as personnel adjustments, budget execution, and contract of construction works (Economic Planning Board, 1984).

It is considered that the rationale behind the government's establishment of the new board of directors system was for it to serve as a passive contingency plan to stem the employment of outside personnel as executive directors at the time, rather than the case being that there was an active necessity for a new system. This was indicated by the fact that the Framework Act on the Management of Government-Invested Institutions clearly prescribed that the CEO shall represent institutions; manage their business; assume the responsibility of management performance; and be able to appoint the management level including a deputy CEO of the institutions. In this context, it seems that the new board of directors system was designed not to increase

but to limit the power of the chairperson or directors of the board (Song Dae-hee, 1987).

ii) Guarantee of Autonomous Management for the CEO of Government-Invested Institutions

Under the previous system, the CEO of government-invested institutions, was appointed and dismissed by the President at the request of the competent minister while in the case of the deputy CEO, those powers resided with the competent minister at the request of the CEO. That is, the top management class including the CEO, the deputy CEO and directors were designated by outside personnel responsible for appointment. In some cases, the CEO's influence on management was limited because the deputy CEO and directors, who were subject to instruction and supervision by the CEO, were appointed and dismissed by the competent minister.

However, under the new board of directors system, directors who were appointed and dismissed by the competent minister were not allowed to intervene in executive work internal to government-invested institutions, such as personnel adjustments, budget, and purchase of goods, while executive officers who had been executive directors were appointed and dismissed exclusively by the CEO. This considerably reinforced autonomous management by the CEO.

Enactment of the Framework Act on the Management of Government-Invested Institutions enormously improved autonomous management by the CEO by granting him/her the authority to appoint and dismiss the deputy CEO and executive officers, decreasing the power and role of the board of directors, abolishing the right to prior review of the competent agency and Economic Planning Board, and giving the authority of purchasing and construction contracts to the CEO (Song Dae-hee, 1987).

iii) Ex Officio Government Directors System

Under the traditional system, the competent agencies and the Economic Planning Board annually reviewed the budget of government-invested institutions, which

imposed a heavy burden on the institutions. Due to the lengthy budget review process often spanning as much as six months, institutions had difficulties in adapting themselves to changes in management conditions such as fluctuations in exchange rates, interest rates, and oil prices. It was pointed out that the situation hindered institutions from enhancing their adaptability (Song Dae-hee et al., 1984). This budget review process was part of the authority that the competent agency or the Economic Planning Board had.

However, the government gave up the authority with the introduction of the new board of directors system. Final decision-making on budgets for government-invested institutions came to be conducted by the board of directors. The only governmental participation in the final decision-making process was in the inclusion of the heads of the relevant governmental agencies as ex officio directors (Sa Gong-il et al., 1982).

iv) Utilization of Outside Experts

It was difficult for relevant experts to assist the management of government-invested institutions because directors under the previous board system usually consisted of management specialists. Business planning, budget preparation, and management strategies were generally determined without review by outside experts under the previous system.

However, with the introduction of the new board of directors system, government-invested institutions became able to get support from relevant experts by employing them as non-standing directors (Song Dae-hee, 1987).

D. Stage 4 (February 1999 to March 2007)

1) Background to Revision of the Framework Act on the Management of Government-Invested Institutions in 1999

Having been enacted in December 1983, the Framework Act on the Management

of Government-Invested Institutions was revised several times. In February 1999, the corporate governance structure section of the Act was wholly revised. The total revision of the Act aimed at organizing the conventional system on the management of government-invested institutions such as enhancing the autonomy of the institutions by limiting participation of the competent minister in the institutions; ensuring an accountable management system by introducing the CEO recommendation program and reinforcing executives' responsibility to compensate losses; and increasing transparency in management by adopting the management publication system. In 1999, the "Committee for the Management of Government-Invested Institutions" was established under the revised Framework Act and took charge of deliberation and resolution on recommendation for auditors and non-standing directors of institutions. Management was performed by the board of directors composed of non-standing directors appointed and dismissed by the Minister of Planning and Budget, and standing directors appointed and dismissed by the competent minister. Table 2-21 summarizes changes in the governance of government-invested institutions after the revision of the Framework Act.

Table 2-4. Changes in the Governance of Government-invested Institutions before and after the Revision of the Framework Act in 1999

Classification	Before Revision	After Revision
Government director system	2 ex officio government directors	Abolished
Board of directors system	Composed of non-standing directors	Composed of standing and non-standing directors (majority)
Number of directors	Within 10	Within 15
CEO recommendation committee	N/A	Composed of non-standing directors (majority) and private sector members recommended by the board of directors and then recommended for appointment as CEOs

Classification	Before Revision	After Revision
Procedure of appointment of CEOs	Request of the competent minister → appointment by the President	Recommendation from the CEO recommendation committee → request of the competent minister → appointment by the President
Management agreement system	N/A	Introduction of management agreements with CEOs: specification of a management plan and performance-based remuneration in the contract
Procedure of appointment and removal of directors	Recommendation of the CEO → appointment and removal by the competent minister	<ul style="list-style-type: none"> – Standing directors: request of the CEO → appointment and removal by the competent minister – Non-standing directors: request of the CEO → resolution by the management committee → appointment and removal by the Minister of Planning and Budget
Employment of personnel system	Employment of executive officers among internal personnel	Outside personnel can be employed as standing directors
Management publication system	N/A	Introduced
Minority stockholders' rights system	N/A	Introduced
Liability of directors and auditors for compensating losses	Not prescribed	Under the Commercial Act, joint and several liability shall be applied for any loss to institutions or a third party resulting from the violation of statutes or articles of association and breach of trust by directors and auditors

Source: Seonwoo Seok-ho (2000:119)

2) Details of Revision of the Framework Act and Change in Governance

Although the revised Framework Act accepted the basis of governance structure prescribed in the Act on the Improvement of Managerial Structure and Privatization of Public Enterprises established in 1997, it stipulated more powerful rights to supervise by the competent minister. Governance-related systems under the Framework Act included the corporate disclosure and supervisory system on the Committee for the Management of Government-Invested Institutions, the board of directors, auditors, the CEO, and the management level.

a) Creation of the Committee for the Management of Government-Invested Institutions

The Committee for the Management of Government-Invested Institutions was established for deliberation and resolution on matters related to the management of government-invested institutions. The committee was composed of four Vice Ministers of competent agencies of the institutions and five private sector members, and its chairperson and vice chairperson positions were held by the Minister of Planning and Budget and the Vice Minister of Finance and Economy, respectively. Private sector members of the committee were commissioned by the President on the recommendation of the Minister of Planning and Budget among people with extensive knowledge and experience. The committee conducted deliberation and resolution on: ① management performance evaluation and evaluation methods; ② recommendation of removal of CEOs and standing directors; ③ request for appointment of non-standing directors and appointment and removal of auditors; ④ matters related to management publication such as statements on the settlement of accounts and financial statements; ⑤ the guidelines for the budget compilation of government-invested institutions; and ⑥ other important matters related to management of government-invested institutions.

The committee can be seen as an entity entrusted with deliberation and

resolution regarding the government's usage of stockholder rights.

The stockholder rights were shared by the competent minister and the Minister of Planning and Budget who were related to the committee as the competent minister also had a partial claim to stockholder rights.

Non-standing directors were appointed or dismissed by the Minister of Planning and Budget on the recommendation of the CEO and through the resolution by the committee. The CEO was appointed and dismissed by the President on the recommendation of the CEO recommendation committee led by non-standing directors, and at the request of the competent minister. Standing directors were appointed and dismissed by the competent minister at the request of the CEO.

The committee was composed of six public officials including the chairperson, the vice chairperson, and the Vice Minister of the competent agency and five private sector members, meaning that the majority of the committee was constituted of public officials.

b) Overall Reorganization of the Board of Directors

The board of directors was a top deliberation and decision-making organization for the management of government-invested institutions, making important decisions such as the establishment and revision of provisions related to budget and settlement of accounts; deliberation and finalization of a management plan; and personnel, remuneration, and the organization of an office. The board of directors was comprised of no more than 15 directors including the CEO. The board of directors consisted of standing directors and non-standing directors. It was controlled by non-standing directors under the stipulation that the number of standing directors including the CEO shall be less than 50 percent of the total number of directors. Non-standing directors were selected at the request of the CEO among experts from the private sector who had an extensive academic background and experience on management, through resolution by the committee, and appointment by the Minister of Planning and Budget.

Non-standing directors participated in the deliberation and voting on an agenda submitted to the board of directors. Non-standing directors could request data necessary for their work, and the CEO must respond to the request unless there is specific reason. The CEO was appointed and dismissed by the President on the recommendation of the CEO recommendation committee and at the request of the competent minister. The CEO recommendation committee was composed of members who were appointed by non-standing directors and the board of directors. The number of members who were non-standing directors shall be the majority of the total number of members. Standing directors other than the CEO were appointed and dismissed by the competent minister at the request of the CEO. Duties prescribed in Articles 399 or 401 of the Commercial Act were applied to directors. Therefore, directors bore joint and several liability for any loss to institutions or a third party resulting from their violation of statutes or articles of association and breach of trust. A board of directors attended by only non-standing directors was operated in order to check the authorities of the CEO through various ways such as recommendation of appointment and removal of the CEO, management agreements with the CEO, and evaluation of management performance of the CEO.

c) Change of the Auditor Appointment System

Previously, auditors who conducted internal audits of government-invested institutions were appointed and dismissed by the President at the request of the competent minister. The revised Framework Act stipulated that auditors shall be appointed and dismissed by the President through resolution by the Committee for the Management of Government-Invested Institutions and at the request of the Minister of Planning and Budget in order to strengthen the independence of audits.

d) Alteration of the CEO Appointment System

Previously, the CEO was appointed and dismissed by the President at the request of the competent minister. Under the revised Framework Act, however, the

CEO was appointed and dismissed by the President on the recommendation of the CEO recommendation committee composed of non-standing directors and private sector members and at the request of the competent minister. The rationale behind the recommendation committee's composition of non-standing directors and private sector members is in order to enhance transparency and fairness in the appointment of the CEO.

e) Introduction of the CEO Management Agreement System and the Incentive Bonus Payment System

The revised Framework Act adopted the CEO management agreement system and the incentive bonus payment system as part of the internal governance structure. The CEO recommendation committee drew up draft contracts defining management goals, performance-based compensation, etc. before the selection of CEO candidates. After the appointment of a CEO, government-invested institutions finalized management agreements with the CEO according to the draft contract that was approved by the competent minister. After the annual CEO contract completion performance review based on the agreement, performance-based compensation was differentially paid in the following year.

f) Introduction of the Management Publication System and the Open SOE Commission System

The revised Framework Act adopted the management publication system in order to ensure transparency in the management of SOEs and increase opportunities for public participation by publishing important information on their management. SOEs subject to the management publication system was obliged to publish important matters related to management such as the general status, business performance, statements on the settlement of accounts, and financial statements of SOEs.

In addition to the improvement of the management publication system, each SOE established and operated the "Open SOE Commission." The

commission functioned as an advisory body to the operation of the management publication system since it was participated by representatives of consumer organizations and civic groups, was composed of representatives within the institutions, and accommodated demands from customers.

3) Management Evaluation System

The management evaluation system in Stage 4 was modified in a way that ensured objectivity and fairness. The details are as follows¹²⁾. One of the important characteristics in Stage 4 was the change of institutions that supervised management evaluation. With revision of the Framework Act on the Management of Government-Invested Institutions in February 1999, the overarching organization for the management evaluation system was changed from the “National Budget Administration” to the “Planning and Budget Committee,” and then was replaced by the “Ministry of Planning and Budget” after revision of the Act in May 1999. The deliberation and decision-making organization for the management evaluation system was changed from the “Management Evaluation Committee for Government-Invested Institutions” to the “Committee for the Management of Government-Invested Institutions.” The management evaluation of the institutions was divided into the “CEO contract completion performance review system” and the “institution evaluation system.” The CEO contract completion performance review and institution evaluation assessed the comprehensive business administrative capability of CEOs and the quality of target indicators based on management goals prescribed in the CEO management agreement that was made between the representative of non-standing directors or the chairperson of the CEO recommendation committee and the CEO of government-invested institutions.

12) *Evaluation of Management Systems of Korean Public Institutions – Twenty-Year History of Management Evaluation Systems of Government-invested Institutions*, the Korean Society of Public Enterprise, 2003:53-55.

The number of categories for institutions subject to management evaluation indicators was reduced from three to two groups: “construction and manufacturing institutions” and “institutions related to development and services” since the evaluation of performance in 1998.

Since the evaluation of performance in 2001, the number of subject area categories of management evaluation indicators was also reduced from four to three groups: “general management,” “key business,” and “business administration” through the integration of “administrative efficiency” and “business administration.”

Weight distribution had been different between quantitative and non-quantitative indicators based solely on the characteristics of institutions between 1995 and 2003. Since the evaluation of performance in 2003, the assignment system has been more refined by differentially allocating weight to quantitative and non-quantitative indicators, based on characteristics of evaluation sectors as well as the characteristics of institutions.

The same categories for institutions subject to management evaluation indicators and weight distribution as those for institution evaluation were applied to the CEO contract completion performance review, which was introduced into the evaluation of performance in 1999. Unlike institution evaluation, differential subject area categories of management evaluation indicators were applied for each institution in the evaluation of management performance in 1999, when it was first adopted. In the evaluation of performance in 2000, “general management,” “profitability,” “public benefit,” and “management innovation areas” were commonly applied to all of the institutions. As for performance in 2001, the number of subject area categories was reduced by one to three groups: “general management,” “management goal,” and “management innovation areas.”

In an effort to reinforce responsibility of management performance evaluation, the range of performance-based bonuses for executives and employees of government-invested institutions was expanded from 125 to 425

percent to zero to 500 percent of the monthly basic salary. The Minister of Planning and Budget who previously could recommend the removal of only the CEO, most responsible for management performance results, to the person responsible for appointment were enabled to exercise the same right for the CEO and standing directors of government-invested institutions with poor management performance.

3. Amendment of Management Systems of Public Institutions

A. Background of Enactment of the Act on the Management of Public Institutions

As public institutions have been founded out of convenience for each competent agency, with no systemic principles and standards for their establishment, there was an unclear definition of the scope of public institutions, and managerial blind spots existed. Prior to the enactment of the Act on the Management of Public Institutions, the broad range of affiliated institutions were classified into government-invested, government-financed, government-affiliated, and government-contributed institutions in accordance with relevant statutes. The management of the public institutions classified as such had the following problems.(Seol Gwang-eon et al., 2005)

SOEs were classified into government-invested and government-financed institutions, and among government-invested institutions, financial and media institutions were exempt from the application of the Framework Act on the Management of Government-Invested Institutions. There was a difference in the investment rate of the government; the government holds more than 50 percent of the outstanding shares in government-invested institutions and not exceeding 50 percent in government-financed institutions. However, given the government had an exclusive control of the institutions as a controlling majority shareholder, there was no significant difference. Separate management systems

for government-invested and government-financed institutions were established, and there was no systematic management system for government-financed institutions not subject to application of the Act on the Improvement of Managerial Structure and Privatization of Public Enterprises. During the enactment process of the Framework Act on the Management of Government-Affiliated Institutions, such institutions were eventually classified as government-affiliated institutions subject to application of the abovementioned Framework Act. An opinion was raised that even the government-financed institutions subject to application of the privatization Act, except for Korea Gas Corporation, were not SOEs eligible for privatization, and that notwithstanding the government's ownership of 100 percent of the outstanding shares in these institutions, it was unreasonable that they established an independent governance structure and separate management system, separately from government-invested institutions. (Korean Society of Public Enterprise, 2004)

Although SOEs had a similarity in their ownership structure and characteristics, they were bound by three Acts including the Framework Act on the Management of Government-Invested Institutions, resulting in their overly complicated operation and oversight by different competent agencies. Korea Electric Power Corporation, Korea District Heating Corporation and Korea Gas Corporation had similar characteristics and functions as energy-supplying SOEs whose largest shareholder was the government. They, however, were subject to application of different Acts such as the Framework Act on the Management of Government-Invested Institutions and the Framework Act on the Management of Government-Affiliated Institutions, and managed according to different systems. Along with Korea Electric Power Corporation, Korea Trade-Investment Promotion Agency (KOTRA) was subject to application of the Framework Act on the Management of Government-Invested Institutions.

Under the Framework Act on the Management of Government-Affiliated Institutions, affiliated institutions were classified into SOEs managed as

government-financed institutions including Korea District Heating Corporation and Korea Appraisal Board, and newly established SOEs, e.g. Busan Port Authority, which made the classification system of SOEs and government-affiliated institutions ambiguous.

This had a negative impact on establishing a corporate governance and management system suitable to the characteristics of each institution (e.g. level of commerciality or feasibility, the need for corporate operation and the need for public-interest-centered operation) to enhance the efficiency and autonomy of public institutions.

Combined with problems with the classification system, issues were brought up concerning the supervision and operation of institutions. (Seol Gwang-eon et al., 2005) The criticism was raised that as the external supervision and regulation system of the government revolved around competent agencies, in the aim of the prevention of lax management, the government's prior restriction on and involvement in internal management of an institution was so excessive as to blur where the responsibility for insolvent management lay. An appointment by order from a competent agency to its affiliated institution led to a corrupt relationship between ministries and institutions under their umbrella. Internal check systems such as the board of directors and audit were operated as a mere formality. Institution heads, directors and auditors lacked the sense of accountable management, driving public institutions to prioritize labor unions and institutional benefit instead of public service. In some cases, standing auditors, who were supposed to be responsible for audit activities relating to enterprises and accounting under the Framework Act on the Management of Government-Invested Institutions, acted as a window for external relations, and some of key management issues such as collective agreement with labor union, employment regulation and personnel policy were excluded from the deliberation of the board of directors.

To solve the problems found in the existing management systems of SOEs, the Act on the Management of Public Institutions provides the scope and

classification of types of public institutions, improvement in internal and external governance, and fairness of appointment and removal of executives in a systematic way by integrating the Framework Act on the Management of Government-Invested Institutions and the Framework Act on the Management of Government-Affiliated Institutions.

B. Main Contents of the Act on the Management of Public Institutions

1) Designation and Classification of Types of Public Institutions

a) Designation of Public Institutions

As the concept and scope of public institutions under the management of the government were unclear, the number thereof varied in every establishment of relevant regulations and application of policies, and managerial blind spots existed. The public institutions not applicable to the Framework Act on the Management of Government-Invested Institutions and the Framework Act on the Management of Government-Affiliated Institutions virtually fell in the managerial blind spots despite the public nature of their businesses.

The Act on the Management of Public Institutions determines the scope of public institutions in consideration of the possibility of actual control by the government, publicness and whether to be offered financial aid. Due to the operation of public institutions for a policy objective or academic purpose, the scope and nature thereof varied depending on policies or academic needs concerned.

Article 4 of the Act on the Management of Public Institutions suggested the legal concept of public institutions, which was the first of its kind to do so. A public institution refers to an institution which may be designated by the government as a public institution if it falls under specific legal requirements. The Act provides that a public institution shall suggest relevant requirements, and that an institution falling under the requirements shall be designated as

a public institution after deliberation of the Committee for Management of Public Institutions.

b) Classification of Public Institutions

According to the classification of public institutions as prescribed in Articles 5 and 6, public institutions shall be designated and announced among institutions which are subject to application of the aforementioned Framework Acts and the Act on the Improvement Managerial Structure and Privatization of Public Enterprises in accordance with Addenda Article 3 in 2007 and whose prescribed number of personnel is not less than 50 employees.

Public institutions shall be classified into "SOEs" which engage in more commercial enterprises and "quasi-governmental institutions" which engage in more public interest-centric businesses.¹³⁾ The criteria for classification includes the following questions: "Are goods or services produced by the public institution concerned classed as market outputs?" "Does the public institution concerned put more value on commerciality than on publicness in supplying goods and services?" "Is it acceptable to trade the property rights of the public institution concerned as a public, institutional unit, and are the residual claims guaranteed?" "Are a large amount of transaction costs incurred in the relationship between government units and non-governmental public units? In principle, institutions which have more "yes" than "no" on the abovementioned questions shall be classified into SOEs, and those which have more "no" than "yes" into quasi-governmental institutions as a public nonprofit institution.¹⁴⁾ The

13) In principle, the classification systems of the public sector such as UN's SNA and IMF's GFSM were cited to design the governance structure in the public sector. (Seol Gwang-eon and Park Jae-shin, *Research on the Management Policy of Government-affiliated Institutions*, the Korea Development Institute, 2005:157)

14) The classification of public institutions can be approached in several ways according to such various criteria as legal foundation, nature and characteristics of a legal entity, means of government control including ownership and authorities over the appointment and removal of executives, relationship between the primary and secondary customers, etc. Therefore, the abovementioned classification cannot be deemed to be categorical, and, if considered necessary,

proportion of self-generated revenue is used as a proxy variable, which is indirectly applied in the actual classification of institutions. Institutions whose self-generated revenue¹⁵⁾ accounts for at least 50 percent of total revenue shall be classified into SOEs and those whose self-generated revenue accounts for below 50 percent into quasi-governmental institutions. The revenue from compulsory consumption specified in statutes by the government or enterprises to which the government grants priority is not regarded as self-generated revenue and accordingly, only half of such revenue is recognized. The total amount of the revenue generated from natural monopoly and consumption which is not mandatory is reflected as self-generated revenue. Direct grants from the government such as investments, contributions, subsidies, etc. and quasi-tax revenue as administrative fees are exempt from the calculation of self-generated revenue.

Table 2-5. Classification of Types of Public Institutions

Type	Classification Criteria
SOE (Commerciality)Publicness)	Self-generated revenue/Total revenue \geq 50%
• Market-based SOE	Self-generated revenue/Total revenue \geq 85% & A minimum asset size of two trillion won
• Quasi-market-based SOE	SOEs excluding market-based SOEs
Quasi-governmental institution (Commerciality< Publicness)	Self-generated revenue/Total revenue $<$ 50%
• Fund-management-based quasi-governmental institution	Institutions that manage state government funds

additional review will be performed by the management committee, depending on the purpose and nature of an institution concerned. (Seol Gwang-eon and Park Jae-shin, *Research on the Management Policy of Government-affiliated Institutions*, the Korea Development Institute, 2005:157-158)

15) Self-generated revenue is defined as the income that comes from voluntary consumption.

Type	Classification Criteria
• Commissioned-service-based quasi-governmental institution	Quasi-governmental institutions excluding fund-managed-based quasi-governmental institutions
Non-classified public institution	Public institutions excluding SOEs and quasi-governmental institutions

Source: "Keys details regarding the Act on the Management of Public Institutions," Ministry of Planning and Budget, 2007

SOEs whose self-generated revenue accounts for at least 85 percent of total revenue and whose asset size reaches or exceeds two trillion won shall be designated as market-based SOEs, and the other SOEs as quasi-market-based SOEs. The reason for the subdivision of SOEs into market-based SOEs is to ensure that the same autonomy seen in large private companies is granted to the market-based SOEs to nurture them into a company with global competitiveness, and that they need to be considered a priority upon review of the privatization thereof in the future.¹⁶⁾

Quasi-governmental institutions shall be subdivided into fund-management-based quasi-governmental institutions which manage governmental funds and into commissioned-service-based quasi-governmental institutions which execute services commissioned by the government. A strong sense of publicness is required for the fund-management-based quasi-governmental institutions because they manage the funds raised by the public.

The public institutions not classified as either SOEs or quasi-governmental institutions shall be designated as non-classified public institutions.

16) The definition of the corporate governance of large private companies whose asset size reaches or exceeds two trillion won is different from that of other companies. For example, the Securities and Exchange Act makes the establishment of an audit committee mandatory. (Seol Gwang-eon and Park Jae-shin, *Research on the Management Policy of Government-affiliated Institutions*, the Korea Development Institute, 2005:159)

2) Innovation of External Governance Structure

a) Increased Concentration of External Evaluation and Supervision on Public Institutions

The management of public institutions had previously been delegated to respective relevant ministries. The Act on the Management of Public Institutions streamlines the management system into the Committee for Management of Public Institutions by expanding and reorganizing the Committee for Management of Government-Invested Institutions of the Ministry of Planning and Budget.

In line with the concentration of ownership function, the prescribed committee aims to serve as the general meeting of shareholders as found in private enterprises and to supervise and manage public institutions in a comprehensive and systematic way on the part of the public as shareholders. The management committee shall be comprised of government members and private sector members. Government members shall consist of around 35 persons including six persons explicitly designated by statutes such as the Minister of Planning and Budget as the chairperson, the Vice Minister of Finance and Economy as the vice chairperson, Deputy Administrator of the Office for Government Coordination, the Vice Minister of Planning and Budget, and Deputy Secretaries of the Civil Service Commission and the Korea Independent Commission Against Corruption, and around 27 persons including Vice Ministers or Deputy Administrators of competent agencies of public institutions. The committee shall be comprised of around 11 private sector members commissioned by the President upon the recommendation of the Minister of Planning and Budget among candidates from various fields such as law, economics, press, academia and labor who are politically neutral and have extensive knowledge and experience in the area of the management and business administration of public institutions. The term of office of private sector members shall be three years, but may be appointed consecutively. However,

the term of office of the first members shall be set differently ranging from one to three years to assure continuity in the operation of the committee.

The committee shall be convened with 20 or less members including the chairperson and vice chairperson in attendance, and the number of private sector members shall constitute the majority of the members of the meeting. The government members, except for the chairperson, vice chairperson and Deputy Administrator of the Office for Government Policy Coordination, shall be designated by the chairperson upon the nature of the matters on the agenda. Committee meetings shall be duly formed to open with a majority of the members in attendance, and adopt a resolution with the affirmative vote of a majority of the members present at the meeting.

The management committee may establish and run an advisory team composed of related specialists to give advice on specialized or technical matters relating to the management of public institutions. The management committee may have a subcommittee composed of some committee members on the deliberation of personnel matters and functions. To carry out its businesses in an efficient manner, the subcommittee can review matters decided by a resolution of the management committee and report the results thereof to the management committee.

b) Control of Establishment and Readjustment of Types of Public Institutions

As the establishment of new institutions leads to a financial burden on the public, the Committee for Management of Public Institutions must adopt explicit guidelines for the establishment of new public institutions and review the matter on a consistent basis. The existing management system concerning the establishment of new institutions was not adequate to the extent that relevant ministries including the Ministry of Planning and Budget occasionally made their views known during the consultation stage on statutes. Article 7 requires a prior assessment by the deliberation of the management committee in the event that the government establishes a public institution pursuant to Acts.

Article 14 requires the assessment of the appropriateness of functions performed by public institutions and the implementation of restructuring after the examination of the need for their functions to be adjusted according to economic and social changes. The purpose is to redevelop major functions of public institutions and achieve the efficiency of human resources through the abolition, consolidation, merger or transfer of overlapping and unnecessary functions, and to improve national competitiveness by eliminating the waste and inefficiency in the public sector caused by lax management and moral hazard.

c) Goal Setting

Under Article 49 of the Act, medium- and long-term management goals shall be established, the government and the public institution concerned, or the institution head, shall enter into the agreement on performance and announce the aforementioned goals and agreement of each institution to the public.

The management committee shall prepare and publish an annual report concerning SOEs and quasi-governmental institutions every year in a consolidated form pursuant to Article 12 of the Act.

d) Publication on Management

Article 11 requires all public institutions to publish management information and all listed matters subject to disclosure.

Article 12 requires the preparation of a standardized form for consolidating matters subject to disclosure by each public institution and the publication of such matters in the consolidated form, enabling the general public to gain easy access to information on public institutions.

Under paragraph (5) of Article 13, penalty shall be imposed on false disclosure and nonconformance with disclosure to secure the effectiveness of publication. In the event that a public institution fails to perform the duty of publication despite a series of requests for correction, active measures such as an order for correction, announcement of offenses and personnel measures

shall be taken.

e) Adjustment of Prior Regulation

Paragraph (13) of Article 8 limits prior regulation by the government, which may impede the autonomous management of public institutions, to the least extent possible, and requires the management committee to monitor whether the government's regulation is properly executed on a periodic basis.

Under the Act, comprehensive provisions on the supervision of competent agencies are modified in an enumerated and restrictive way, and the preservation of the guidelines already directed by the government are subject to reassessment or simplification.

f) Adjustment of Accounting Criteria

The accounting of public institutions are based on accruals to raise transparency and predictability. In principle, accrual based accounting is not applicable to non-classified public institutions.

The detailed accounting criteria shall be legislated and directed in accordance with a Ministry of Strategy and Finance Decree, and shall be applied beginning with the settlement of budgets for the following year when a SOE or a quasi-governmental institution is designated and accounts for the year of designation.

g) Increase in Responsibility of Executives

The institutional framework was strengthened to improve the transparency and fairness in respect to the appointment of executives. Non-standing directors and auditors whose role is to check the management shall be subject to evaluation of the performance of duties, and the evaluation results shall be directly linked to reappointment and removal to make executives feel more responsible and normalize internal check systems.

The results of management evaluation are reflected on the reappointment and removal of the management including the institution head and standing

directors, leading them to be subject to stricter evaluation of the performance of their duties.

The management committee evaluates the performance of activities of each non-standing director and auditor. Corresponding to the evaluation results, they may be removed from their office or offered incentives.

h) Management Evaluation

The removal of the heads (CEOs) or standing directors of institutions rated poor in the performance evaluation shall be requested or recommended to the official responsible for their appointment. Different incentive rates for each institution shall be applied, and personnel and budgetary measures can be taken according to the results of the management evaluation.

The procedures and schedule of management evaluation are as follows:

Appointment of the head of the management evaluation team in January, composition of the management evaluation team in February, execution of workshops at the end of February, submission of a management performance report on March 20, execution of onsite investigations in March and April, resolution of the evaluation results by the committee and report to the National Assembly and the President on June 20, and execution of a presentation to explain the management evaluation results in July

The management performance evaluations for 2007 and 2008 were conducted in the following ways. As for the management performance evaluation for 2007, improvements were made in the items subject to unavoidable modification due to the legislation. Types of institutions subject to evaluation were changed from government-invested and government-affiliated institutions to SOEs and quasi-governmental institutions, management evaluation teams were integrated, and the evaluation indicator system was partially modified and improved. Fundamental modifications were made in the management performance evaluation for 2008. Improvements in evaluation indicators and methods were made in a bid to review the appropriateness of the existing

system in relation to comprehensive management, key businesses and business administration, streamline evaluation indicators with a focus on key indicators, remove the overlaps with other evaluation standards such as Acts on fund and innovation and the Framework Act on Science and Technology, improve the objectivity, credibility and professionalism in the composition of the evaluation team and team members, prevent excessive competition among public institutions and inhibit public institutions from being hierarchical.

Taking a look at the difference between the newly enacted Act and the Framework Act on the Management of Government-Invested Institutions and the Framework Act on the Management of Government-Affiliated Institutions indicates that the person responsible for the management evaluation for government-affiliated institutions were changed from Ministers of competent agencies to the Minister of Planning and Budget, though no changes were made with respect to government-invested institutions. The deadline for submitting the resulting management performance report was changed from the end of March to March 20 specifically.

The evaluation results shall be finalized by no later than June 20 instead of the end of June. A provision on reporting the evaluation results to the President was added.

3) Innovation of Internal Governance Structure

a) Strengthening of Accountable Management System of Institution Heads

CEOs of SOEs are granted the rights for autonomous management of organization, personnel matters and budgets, etc.

The supervision of the management committee over management focuses on goal setting and ex post evaluation. The committee suggests minimum guidelines for budgets, personnel size, remuneration and financial management related to management. The supervision of the management committee over market-based SOEs is limited to personnel size, remuneration and financial

management, and they are granted as much autonomy as in large private companies.

b) Reinforcement of Check and Monitoring Functions of Board of Directors

The board of directors are given great independence to exercise stronger powers to check and monitor the management. In the case of market-based SOEs, an institution head shall be appointed, independent of the chairperson of the board of directors, and a non-standing senior director shall serve as the chairperson of the board of directors to guarantee autonomous management to the maximum extent. Non-classified public institutions shall allow the concurrent holding of the office of the head of an institution concerned and the office of the chairperson of the board of directors. The number of non-standing directors shall constitute the majority of the members of the board of directors. The fixed number of directors shall reach or be less than 15 persons including the institution head in an aim to improve the efficiency of the operation of the board of directors. Given the peculiarities of institutions, however, the fixed number of directors thereof may exceed 15 persons.

In line with a measure to increase a sense of responsibility of the board of directors, it is granted the actual power required to monitor the management of the institution concerned. The board of directors shall have the power to recommend the removal of an institution head. The Act grants non-standing directors powers to request audit and demand materials, in order to boost the monitoring functions of the board of directors.

c) Reinforcement of Internal Audit

Market-based SOEs shall establish an audit committee within the board of directors to strengthen their internal audit function. The internal audit function includes the implementation of audits for the businesses and accounting of an institution concerned in accordance with the audit criteria provided by the Minister of Planning and Budget. The internal audit is classified into "general

audits" in which the relevant opinions are submitted to the board of directors, and "specific audits" which are carried out for specific issues upon written request of two or more non-standing directors. The internal audit serves to verify the publication on management and manage the risks related to the management of institutions.

d) Improvement in Fairness of Appointment and Removal of Executives

Authorities over the personnel affairs concerning executives were transferred from competent agencies. The power to appoint and remove standing directors of SOEs was transferred from the Minister of the competent agency to the institution head concerned. The management committee shall appoint and remove non-standing directors and recommend auditors. Executives of quasi-governmental institutions shall be appointed and removed by the Minister of the competent agency and the management committee. In other words, the Minister of the competent agency exercises the authority to appoint and remove institution heads and standing directors. Non-standing directors whose role is to check the management shall be appointed and removed by the Minister of the competent agency after the deliberation of the management committee, and the recommendation of auditors shall be made by the management committee.

Those responsible for the appointment of institution heads and auditors shall vary depending on the size of institutions concerned. In the case of SOEs, in principle, the appointment shall be made by the President. In the case of a small institution, the institution head shall be appointed by the Minister of the competent agency, and auditors by the Minister of Planning and Budget. In the case of a quasi-governmental institution, in principle, the institution head shall be appointed by the Minister of the competent agency, and auditors by the Minister of Planning and Budget. In the case of a large-scale institution, the appointment shall be made by the President. In the event that institutions have a general meeting of members including the general meeting of

shareholders and that of investors, Article 27 of the Act provides special exceptions for the appointment of executives to allow the general meeting of members to function without hindrance.

The executive recommendation committee shall be established to nominate all executives including the institution head, directors and auditors. The committee shall recommend candidates for executives of SOEs and quasi-governmental institutions and negotiate matters and conditions concerning the draft management agreement with candidates for the position of institution head. The recommendation committee shall be composed of non-standing directors who shall account for the majority of the committee, and outside members appointed by the board of directors. The chairperson of the recommendation committee shall be elected by and among non-standing directors. In principle, outside members shall be appointed as private sector members. In the case of quasi-governmental institutions, however, employees of competent agencies may become members of the recommendation committee. If there is no non-standing director in a public institution at the time when the executive recommendation committee is established, the committee shall be comprised of outside members appointed by the board of directors, and the chairperson of the committee shall be elected by and among the outside members.

Table 2-6. Scope of Application of the Act on the Management of Public Institutions by Institution

Classification		Scope of application		
		SOE (24)	Quasi- governmental institution (77)	Non- classified public institution (204)
Administration supervision	Management guidelines	○	○	×
	Management evaluation	○	○	△
	Evaluation of performance of duties of non-standing directors and auditors	○	○	×
	Removal and request for removal of executives (proposal)	○	○	×
	Newly established examinations	○	○	○
	Guidelines for adjustment of functions and innovation	○	○	○
Internal governance structure	Executives and board of directors	○	○	×
	Procedure of executive appointment	○	○	×
Public scrutiny	Management publication	○	○	○
	Customer satisfaction survey	○	○	○

Note: "Actual Performance Evaluation of Management Plan Executed by Institution Head" has been applied to institution heads of 17 non-classified public institutions designated by the Minister of Strategy and Finance since June 2008.

I Section 2. Overview of the Current Public Institution Management System

1. Designation of Public Institutions

A. Overview of the Designation Procedure for Public Institutions

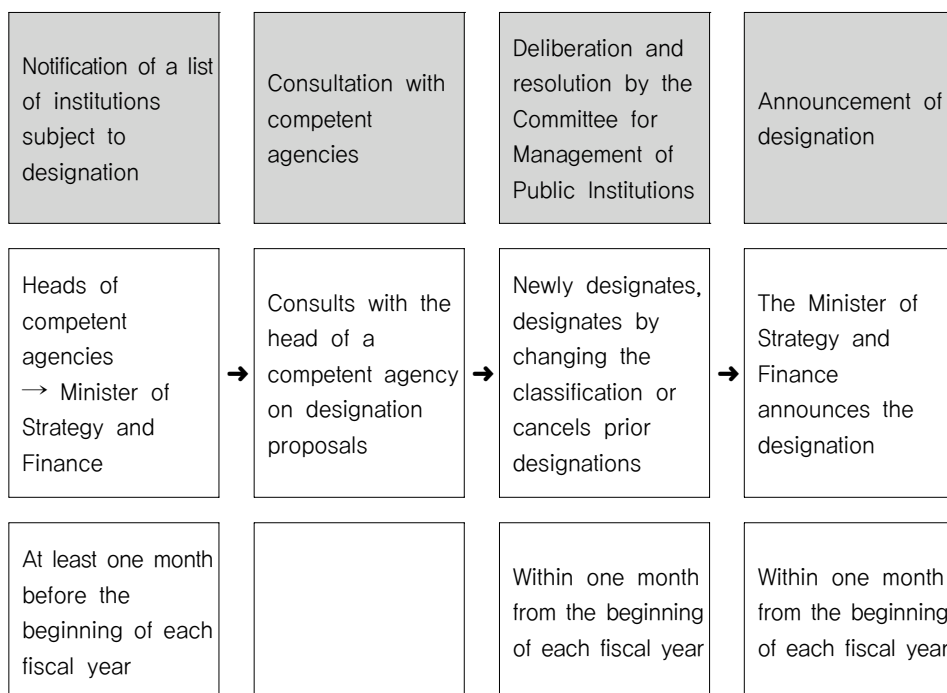
The Ministry of Strategy and Finance has regularly designated and classified public institutions in January every year in accordance with the Act on the Management of Public Institutions enacted in 2007.

In cases where an institution meeting the designation requirements is newly established, the Ministry shall designate it as a public institution under the Act (new designation). When it becomes necessary to change the classification of a public institution due to its privatization, consolidation, discontinuation or division, it should be re-designated by changing the classification status according to provisions stipulated in the Act (designation by changing the classification). When it is no longer necessary for a public institution to be subject to the Act, the prior designation shall be canceled (cancellation of designation).

To appropriately designate public institutions, each competent agency shall notify the Ministry of Strategy and Finance of a list of the proposed institutions subject to designation as public institutions in the following year no later than one month before a new fiscal year starts. The Ministry of Strategy and Finance examines whether the proposed institutions satisfy the designation requirements. The Ministry of Strategy and Finance discusses the outcome of the review with the competent agencies in charge of supervising over the prospective public institutions, and a scheme for the designation and classification of public institutions is developed based on the consultation results. This scheme is confirmed through deliberation and resolution by the Committee for

Management of Public Institutions. The Minister of Strategy and Finance shall announce and publish the confirmed designation and classification results in the official gazette.

Figure 2-3. Procedure for the Designation of Public Institutions



Following this procedure, the Ministry of Strategy and Finance has designated public institutions since 2007. The numbers of institutions designated as public institutions in 2007, 2008, and January 2010 are 298, 305 and 286, respectively.

The designation of public institutions shall be regularly carried out within January every year in principle. However, as the Act on the Management of Public Institutions was amended at the end of 2009, the government became able to make additional designations at any point throughout a year. Prior to that, sometimes confusions arose in the management of public institutions

because changes occurring from such factors as the privatization and consolidation of those institutions were not immediately reflected during the corresponding year. Due to the amendment providing solid grounds for arbitrary designation, however, such changes can be applied in the middle of a year. The amendment of additional designations in 2010 resulted in a new designation (corporatization of the National Medical Center on April 2), two reclassified designations (consolidation of the Korea Workers' Compensation & Welfare Service on April 28 and of the Korea Youth Work Agency on August 18) and one cancellation of designation (privatization of the Korea Asset in Trust on March 11).

For fiscal year 2011, public institutions were designated and notified through deliberation and resolution by the Committee for Management of Public Institutions on January 24, 2011. A total of 286 institutions were designated as public institutions as a result of new designation (eight institutions including the Korea Fisheries Resources Agency), cancellation of designation (six institutions including subsidiaries of the Industrial Bank of Korea) and reclassified designation (ten institutions including the Korea Hydro & Nuclear Power).

Table 2-7. History of Public Institution Designation

Jan. 19, 2007	<ul style="list-style-type: none"> ■ The Act on the Management of Public Institutions was enacted and promulgated. 	→	<ul style="list-style-type: none"> ■ A legal basis for the designation of public institutions was established.
Apr. 2, 2007	<ul style="list-style-type: none"> ■ State-owned enterprises and quasi-governmental institutions designated for FY 2007 were announced. 	→	<ul style="list-style-type: none"> ■ 102 state-owned enterprises and quasi-governmental institutions were designated. <ul style="list-style-type: none"> - Six market-based state-owned enterprises including the Korea Gas Corporation - 18 quasi-market-based state-owned enterprises including the Korea

			<p>Minting & Security Printing Corporation</p> <ul style="list-style-type: none"> - 13 fund-management-based quasi-governmental institutions including the Korea Deposit Insurance Corporation - 65 commissioned-service-based quasi-governmental institutions including the Korea Rural Community Corporation
Apr. 11, 2007	<ul style="list-style-type: none"> ■ Non-classified public institutions designated for FY 2007 were announced. 	→	<ul style="list-style-type: none"> ■ 196 non-classified public institutions were designated. - 196 non-classified public institutions including the Korea Development Bank
Apr. 26, 2007	<ul style="list-style-type: none"> ■ Reclassified designations for FY 2007 were announced. 	→	<ul style="list-style-type: none"> ■ The Korean Olympic Committee was reclassified. (Commissioned-service-based quasi-governmental institution → non-classified public institution)
Jan. 30, 2008	<ul style="list-style-type: none"> ■ Public institutions designated for FY 2008 were announced. 	→	<ul style="list-style-type: none"> ■ 305 public institutions were designated. - (New designation) Seven institutions including the Korea Institute of Energy Technology Evaluation and Planning - (Designation by reclassification) The Korean Film Council was reclassified.
Jan. 29, 2009	<ul style="list-style-type: none"> ■ Public institutions designated for FY 2009 were announced. 	→	<ul style="list-style-type: none"> ■ 297 public institutions were designated. - (New designation) Nine institutions including the Korea Exchange - (Cancellation of designation) 17 institutions including the Financial Supervisory Service

<p>Jan. 29, 2010</p>	<p>■ Public institutions designated for FY 2010 were announced.</p>	<p>→ ■ 286 public institutions were designated. – (New designation) 18 institutions including the Korea Student Aid Foundation – (Cancellation of designation) Nine institutions including subsidiaries of the Korea Development Bank</p>
<p>During 2010</p>	<p>■ Public institutions additionally designated during FY 2010 were announced.</p>	<p>→ ■ The designation of the Korea Asset in Trust was removed (May 2010), ■ The National Medical Center was newly designated (Jul. 2010), ■ The Korea Workers' Compensation & Welfare Service was reclassified (Jul. 2010), ■ The Korea Youth Work Agency was reclassified (Oct. 2010)</p>
<p>Jan. 24, 2011</p>	<p>■ Public institutions designated for FY 2011 were announced.</p>	<p>■ 286 public institutions were designated. – (New designation) Eight institutions including the North Korean Refugees Foundation – (Cancellation of designation) Six institutions including subsidiaries of the Industrial Bank of Korea</p>

B. Eligibility for Public Institution Designation

Legal entities, organizations or institutions other than the State or local governments may be designated as public institutions by the Minister of Strategy and Finance if they fall under any of the subparagraphs of Article 4 (1) of the Act on the Management of Public Institutions.

The requirements specified in subparagraphs of Article 4 (1) of the Act include: ① an institution established by direct operation of another Act with

an investment by the government; ② an organization to which the amount of the government grants (including the revenue from its commissioned affairs or monopoly, if it is an institution to which some affairs of the government are commissioned or a monopoly is granted by direct operation under Acts and subordinate statutes) exceeds one half of its total revenue; and ③ an institution in which the government holds at least 50 percent of the outstanding shares or has practical control in making decisions on its policies through the exercise of the power to appoint executives or others with at least 30 percent of such outstanding shares. This is summarized in the table below.

Table 2-8. Requirements for Public Institution Designation

Category	Conditions	Examples
Subpara. 1	Institutions established by laws with an investment by the government	Korea Credit Guarantee Fund, Korea Transportation Safety Authority, etc.
Subpara. 2	The amount of direct or indirect subsidies from the government exceeds one half of total revenue.	Korea Gas Corporation, Korea Racing Authority, etc.
Subpara. 3	The government owns at least 50% shareholding or has practical control with at least 30% and less than 50% shareholding.	Incheon Port Authority, Korea Tourism Organization, etc.
Subpara. 4	The government, together with institutions falling under any of subpara. 1–3, owns at least 50% shareholding or has practical control with at least 30% and less than 50% shareholding.	Korea Electric Power Corporation, Korea District Heating Corporation, etc.
Subpara. 5	Institutions falling under any of subpara. 1–4 own at least 50% shareholding or have practical control with at least 30% and less than 50% shareholding.	Korail Retail, Korea Southern Power, etc.
Subpara. 6	Institutions established by an institution falling under any of subpara. 1–4 with an investment by the government or the establishing institution	Korea Electrical Engineering & Science Research Institute, etc.

However, even when an institution meets one of these requirements, it cannot be designated as a public institution if it is: an institution established for the purpose of mutual aid, improvement of welfare, enhancement of interests, or maintenance of business ethics among its members (e.g.: Korean Teachers' Credit Union, Korea Veterans Association, Korean Institute of Certified Public Accountants, etc.); or an institution established by a local government and run by the management in which the local government is involved (e.g.: corporations under direct local government control, local state-owned enterprises, local authorities, etc.). Neither the Korean Broadcasting System nor the Korean Educational Broadcasting System can be designated as public institutions under the Broadcasting Act and the Korean Educational Broadcasting System Act respectively.

C. Classification of Public Institutions

Public institutions are classified into the three main categories of state-owned enterprise (SOE), quasi-governmental institution and non-classified public institution for designation purposes. SOEs are again divided into market-based SOEs and quasi-market-based SOEs while quasi-governmental institutions are classified into fund-management-based quasi-governmental institutions and commissioned-service-based quasi-governmental institutions. Public institutions are differently regulated in terms of governance, evaluation, and appointment and removal of executives based on their designation types.

1) State-owned Enterprise (SOE)

SOEs are designated among institutions whose prescribed number of personnel is not less than 50 employees and whose self-generating revenue reaches or exceeds 50 percent of their total revenue. The term self-generating revenue refers to the revenue earned by an institution itself, excluding the amount of

revenue transferred from the government including contributions and subsidies, and it is calculated by applying weight to each type of revenue, taking into account factors such as monopoly supply and compulsory usage. As of now in 2011, 27 institutions, including the Korea Racing Authority, the Korea Land & Housing Corporation and the Korea Water Resources Corporation, have been designated as SOEs. SOEs whose asset size reaches or exceeds two trillion won and whose self-generating revenue is at least 85 percent of total revenue are designated as market-based SOEs. The Korea Electric Power Corporation, the Korea Gas Corporation, and the Incheon International Airport Corporation and 11 other institutions fall under this category.

2) Quasi-governmental Institution

Quasi-governmental institutions are designated among institutions that are not classified as SOEs and whose prescribed number of employees is at least 50. Quasi-governmental institutions can be divided into fund-management-based quasi-governmental institutions and commissioned-service-based quasi-governmental institutions. Fund-management-based quasi-governmental institutions, to which the management of a fund is assigned or commissioned under the National Finance Act, are currently composed of 17 institutions including the National Pension Service, the Korea Workers' Compensation & Welfare Service and the Korea Trade Insurance Corporation. There are 66 commissioned-service-based quasi-governmental institutions, including the Korea Gas Safety Corporation and the Korea Consumer Agency.

3) Non-classified Public Institution

The Minister of Strategy and Finance shall designate the institutions not classified into either SOEs or quasi-governmental institutions as non-classified public institutions. As of now in 2011, there are 176 institutions designated as non-classified public institutions, including subsidiaries of SOEs (subsidiaries

of Korea Railroad, etc.), national university hospitals (Seoul National University Hospital, etc.) and government-financed research institutes (National Research Council for Economics, Humanities and Social Sciences, etc.).

Table 2-9. Classification of Public Institutions

Classification	Classification Criteria
① SOE <ul style="list-style-type: none"> ▪ Market-based SOE ▪ Quasi-market-based SOE 	Institutions whose self-generating revenue accounts for at least 50% of total revenue and whose prescribed number of employees is 50 or higher <ul style="list-style-type: none"> ▪ Institutions whose self-generating revenue accounts for at least 85% of total revenue (with a minimum asset size of two trillion won) ▪ SOEs excluding market-based SOEs
② Quasi-governmental institution <ul style="list-style-type: none"> ▪ Fund-management-based quasi-governmental institution ▪ Commissioned-service-based quasi-governmental institution 	Public institutions other than SOEs whose prescribed number of employees is 50 or higher <ul style="list-style-type: none"> ▪ Institutions that manage state government funds ▪ Quasi-governmental institutions other than fund-managed-based quasi-governmental institutions
③ Non-classified public institution	Public institutions excluding SOEs and quasi-governmental institutions

D. Designation Status of Public Institutions

The results of the designation and classification of public institutions may depend on the current status of each institution every year. As of 2011, a total of 286 institutions are designated as public institutions. They include 27 SOEs,

83 quasi-governmental institutions and 176 non-classified public institutions.

Table 2-10. Designation Status of Public Institutions

Classification	Names of Institutions (286)
Market-based SOEs (14)	<p>(Ministry of Knowledge Economy) Korea Gas Corporation, Korea National Oil Corporation, Korea Electric Power Corporation, Korea District Heating Corporation, Korea Midland Power Co., Ltd., Korea Hydro & Nuclear Power Co., Ltd., Korea Western Power Co., Ltd., Korea East-West Power Co., Ltd., Korea Southern Power Co., Ltd., Korea South-East Power Co., Ltd.</p> <p>(Ministry of Land, Transport and Maritime Affairs) Incheon International Airport Corporation, Korea Airports Corporation, Busan Port Authority, Incheon Port Authority</p>
Quasi-market-based SOEs (13)	<p>(Ministry of Strategy and Finance) Korea Minting & Security Printing Corporation</p> <p>(Ministry of Culture, Sports and Tourism) Korea Tourism Organization, Korea Broadcast Advertising Corporation</p> <p>(Ministry of Food, Agriculture, Forestry and Fisheries) Korea Racing Authority</p> <p>(Ministry of Knowledge Economy) Korea Resources Corporation, Korea Coal Corporation</p> <p>(Ministry of Land, Transport and Maritime Affairs) Korea Housing Guarantee Co., Ltd., Jeju Free International City Development Center, Korea Appraisal Board, Korea Expressway Corporation, Korea Water Resources Corporation, Korea Land & Housing Corporation, Korea Railroad Corporation</p>
Fund-management-based quasi-governmental institution (17)	<p>(Ministry of Education, Science and Technology) Korea Teachers Pension</p> <p>(Ministry of Public Administration and Security) Government Employees Pension Service</p> <p>(Ministry of Culture, Sports and Tourism) Korean Film Council, Korea Sports Promotion Foundation, Arts Council Korea, Korea Press Foundation</p> <p>(Ministry of Knowledge Economy) Korea Trade Insurance Corporation, Korea Radioactive Waste Management Corporation</p>

Classification	Names of Institutions (286)
	<p>(Ministry of Health, Welfare and Family Affairs) National Pension Service (Ministry of Employment and Labor) Korea Workers' Compensation & Welfare Service (Financial Services Commission) Korea Asset Management Corporation, Korea Technology Finance Corporation, Korea Credit Guarantee Fund, Korea Deposit Insurance Corporation, Korea Housing Finance Corporation (Small & Medium Business Administration) Small & Medium Business Corporation (Korea Communications Commission) Korea Communications Agency</p>
<p>Commissioned–service–based quasi–governmental institution (66)</p>	<p>(Ministry of Education, Science and Technology) Korea Education & Research Information Service, Korea Foundation for the Advancement of Science & Creativity, National Research Foundation of Korea, Korea Institute of Nuclear Safety, Korea Student Aid Foundation (Ministry of Public Administration and Security) Korea Elevator Safety Institute, National information Society Agency (Ministry of Culture, Sports and Tourism) Korea International Broadcasting Foundation, Korea Creative Content Agency (Ministry of Food, Agriculture, Forestry and Fisheries) Korea Agro–Fisheries Trade Corporation, Korea Institute for Animal Products Quality Evaluation, Korea Rural Community Corporation, Korea Fisheries Resources Agency, Korea Livestock Products HACCP Accreditation Service, Korea Institute of Planning and Evaluation for Technology of Food, Agriculture, Forestry and Fisheries (Rural Development Administration) Foundation of Agri, Tech, Commercialization & Transfer (Ministry of Knowledge Economy) Korea Institute of Petroleum Management, Korea Trade–Investment Promotion Agency, Korea Energy Management Corporation, Korea Institute of Ceramic Engineering and Technology, Korea Postal Logistics, Postal Savings & Insurance Associate Corporation, Korea Gas Safety Corporation, Mine Reclamation Corporation, Korea Institute of Design Promotion, Korea Testing Laboratory, Korea Institute for Advancement of Technology, Korea Evaluation Institute of Industrial Technology, Korea Industrial Complex Corporation, Korea Institute of Energy Technology Evaluation and Planning, Korea Post Value Information Express, Korea Electrical Safety Corporation, Korea Power Exchange, National IT</p>

Classification	Names of Institutions (286)
	<p>Industry Promotion Agency (Korea Communications Commission) Korea Internet Security Agency (Ministry of Health, Welfare and Family Affairs) Health Insurance Review & Assessment Service, National Health Insurance Corporation, Korea Health Industry Development Institute, Korea Labor Force Development Institute for the Aged, Korea Social Service Institute, Korea Health and Welfare Information Service (Ministry of Gender Equality and Family) Korea Youth Counseling Institute, Korea Youth Work Agency (Ministry of Environment) Korea National Park Service, Korea Environment Corporation, Korea Environmental Industry & Technology Institute (Ministry of Employment and Labor) Korea Employment Information Service, Korea Occupational Safety & Health Agency, Human Resources Development Service of Korea, Korea Employment Agency for the Disabled (Ministry of Land, Transport and Maritime Affairs) Korea Transportation Safety Authority, Korea Institute of Construction & Transportation Technology Evaluation and Planning, Korea Infrastructure Safety & Technology Corporation, Korea Rail Network Authority, Korea Cadastral Survey Corporation, Korea Ship Safety Technology Authority, Korea Container Terminal Authority, Korea Institute of Maritime and Fisheries Technology (Korean National Police Agency) Road Traffic Authority (National Emergency Management Agency) Korea Institute of Fire Industry & Technology (Ministry of Patriots and Veterans Affairs) Independence Hall of Korea, Korea Veterans Health Service (Fair Trade Commission) Korea Consumer Agency (Financial Services Commission) Korea Securities Depository, Korea Exchange (Small & Medium Business Administration) Korea Technology and Information Promotion Agency for Small & Medium Enterprises</p>
Non-classified public institutions (176)	<p>(Ministry of Strategy and Finance) Korea Exim Bank, Korea Investment Corporation (Ministry of Education, Science and Technology) Gangneung-Wonju National University Dental Hospital, Kangwon National University</p>

Classification	Names of Institutions (286)
	<p>Hospital, Kyungpook National University Hospital, Gyeongsang National University Hospital, Northeast Asian History Foundation, Institute for the Translation of Korea Classics, Pusan National University Hospital, Seoul National University Hospital, Seoul National University Dental Hospital, Chonnam National University Hospital, Chonbuk National University Hospital, Jeju National University Hospital, Chungnam National University Hospital, Chungbuk National University Hospital, Korea Foundation for the Promotion of Private School, Academy of Korean Studies, Gwangju Institute of Science and Technology, Korea Research Council of Fundamental Science & Technology, Daegu Gyeongbuk Institute of Science & Technology, Korea Advanced Institute of Science and Technology, Korea Institute of Science and Technology Information, Korea Basic Science Institute, Korea Research Institute of Bioscience & Biotechnology, Korea Institute of Nuclear Nonproliferation and Control, Korea Astronomy and Space Science Institute, Korea Research Institute of Standards and Science, Korea Institute of Oriental Medicine, Korea Aerospace Research Institute, Korea Ocean Research & Development Institute, Korea Institute of Science and Technology, Korea Institute of Science & Technology Evaluation and Planning, Korea Atomic Energy Research Institute, Korea Institute of Radiological & Medical Sciences, National Institute for Lifelong Education (Ministry of Foreign Affairs and Trade) Korea International Cooperation Agency, Korea Foundation, Overseas Koreans Foundation (Ministry of Justice) Korea Legal Aid Corporation, Korean Government Legal Service, Korea Rehabilitation Agency (Ministry of National Defense) War Memorial of Korea, Korea Institute for Defense Analyses, National Defense Scholarship Foundation (Ministry of Public Administration and Security) Korea Democracy Foundation (Ministry of Culture, Sports and Tourism) Korean Cultural & Arts Centers Association, Kyongbuk Tourism Development Corporation, Cultural Foundation of National Museum of Korea, Korea Council of Sport for All, Grand Korea Leisure, Korean Paralympic Committee, Korea Media Rating Board, Seoul Arts Center, Myeongdong–Chongdong Theater, Korea Publication Ethics Commission, Korea Literature Translation Institute, Korean Olympic Committee, Korea Culture & Tourism Institute, Korea Arts & Culture Education Service, Korea Culture Promotion,</p>

Classification	Names of Institutions (286)
	<p>Korean Film Archive, Korea Sports Industry, Korea Foundation for the Next Generation Sports Talent, Game Rating Board, Korean Traditional Music FM Broadcasting System, Taekwondo Promotion Foundation, Korea Copyright Commission, Korea Craft & Design Foundation, Korea Performing Arts Center, Korea Arts Management Service</p> <p>(Ministry of Food, Agriculture, Forestry and Fisheries) Livestock Health Control Association, Agriculture Forestry Fisheries Information Service, Korea Fisheries Infrastructure Promotion Association</p> <p>(Ministry of Knowledge Economy) Korea Electrical Engineering & Science Research Institute, Incheon Total Energy Company, Kangwon Land, Korea Gas Technology Corporation, Korea Productivity Center, KEPCO Engineering & Construction Company, Korea Standards Association, Korea–Japan Cooperation Foundation for Industry and Technology, KEPCO Knowledge, Data & Network, KEPCO Plant Service & Engineering, KEPCO Nuclear Fuel Company, Korea Nuclear Energy Promotion Agency, Special Post Office Pension Service, Daedeok Innopolis, Korea Research Council for Industrial Science & Technology, Korea Institute of Construction Technology, Korea Institute of Machinery & Materials, Korea Institute of Industrial Technology, Korea Food Research Institute, Korea Institute of Energy Research, Korea Electrotechnology Research Institute, Electronics and Telecommunications Research Institute, Korea Institute of Geoscience and Mineral Resources, Korea Railroad Research Institute, Korea Research Institute of Chemical Technology, Korea Strategic Trade Institute, Postal Building Management Association, Korea Institute for Robot Industry Advancement</p> <p>(Ministry of Health, Welfare and Family Affairs) National Cancer Center, Korean Red Cross, Korea Human Resource Development Institute for Health & Welfare, National Health Personnel Licensing Examination Board, Korea Disabled People’s Development Institute, Korea Foundation for International Healthcare, Korea National Council on Social Welfare, National Medical Center</p> <p>(Ministry of Environment) Metropolitan Area Landfill Site Management Corporation</p> <p>(Ministry of Employment and Labor) Korea Polytechnics, Korea Labor Foundation, Korea University of Technology and Education, Korea Elevator Safety Technology Institute, Labor and Management Joint</p>

Classification	Names of Institutions (286)
	<p>Reemployment Assistance Center, Korea Social Enterprise Promotion Agency</p> <p>(Ministry of Land, Transport and Maritime Affairs) Korail Networks, Korail Logis, Korail Retail, Korail Tech, Korail Tourism Development, Korea Construction Management Corporation, Korea Housing Management, Ulsan Port Authority, Incheon Port Security, Busan Port Security Corporation, Korea Institute of Marine Science & Technology Promotion, Korea Association of Aids to Navigation</p> <p>(Prime Minister' s Office) National Research Council for Economics, Humanities and Social Sciences, Science and Technology Policy Institute, Korea Research Institute for Human Settlements, Korea Institute for International Economic Policy, Korea Institute for Industrial Economics & Trade, Korea Energy Economics Institute, Korea Information Society Development Institute, Korea Institute for National Unification, Korea Development Institute, Korean Educational Development Institute, Korea Institute for Curriculum and Evaluation, Korea Transport Institute, Korea Labor Institute, Korea Rural Economic Institute, Korea Legislation Research Institute, Korea Institute for Health and Social Affairs, Korean Women' s Development Institute, Korea Institute of Public Finance, Korea Research Institute for Vocational Education & Training, National Youth Policy Institute, Korea Maritime Institute, Korea Institute of Public Administration, Korean Institute of Criminology, Korea Environment Institute</p> <p>(Ministry of Patriots and Veterans Affairs) 88 Country Club</p> <p>(Cultural Heritage Administration of Korea) Korea Cultural Heritage Foundation</p> <p>(Korea Forest Service) Korea Green Promotion Agency</p> <p>(Small & Medium Business Administration) Agency for Traditional Market Administration, Korean Federation of Credit Guarantee Foundations, Small Business Distribution Center, Korea Venture Investment Corporation, Small Enterprise Development Agency, Institute of Korea Entrepreneurship Development</p> <p>(Korean Intellectual Property Office) Korea Invention Promotion Association, Korea Institute of Patent Information, Korea Institute of Intellectual Property, Korea Intellectual Property Protection Association</p> <p>(Korea Food & Drug Administration) Korea Orphan Drug Center</p> <p>(Financial Services Commission) KDB Financial Group, Industrial Bank</p>

Classification	Names of Institutions (286)
	of Korea, Korea Securities Computing Corporation, Korea Enterprise Data, Korea Development Bank, Korea Finance Corporation (Defense Acquisition Program Administration) Agency for Defense Development, Defense Agency for Technology and Quality (Ministry of Unification) North Korean Refugees Foundation

2. Committee for Management of Public Institutions

A. Formation of the Committee

In accordance with the Act on the Management of Public Institutions, enacted on January 19, 2007, the Committee for Management of Public Institutions (hereinafter in this chapter referred to as the “committee”) was established on April 1, 2007. It is stipulated in the Act that the committee is constituted under the control of the Ministry of Strategy and Finance for deliberation and resolution on managerial agendas of public institutions. The committee shall be comprised of government members and up to 11 private sector members. Government members, who are ex officio members, include the Minister of Strategy and Finance, a Vice Minister-level official from the Prime Minister’s Office, a Vice Minister of Public Administration and Security, a Vice Minister-level official from the Anti-Corruption & Civil Rights Commission, and Vice Minister-level officials from competent agencies. The Minister of Strategy and Finance shall be the chairperson.

Private sector members are commissioned by the President on the recommendation of the Minister of Strategy and Finance, who selects them among people from various fields such as law, economy, press, academia and labor with extensive knowledge and experience in the area of the management and business administration of public institutions as well as good reputation

for impartiality.

Table 2-11. Status of Private Sector Members of the Committee for Management of Public Institutions (As of the end of 2010)

Term		
Je-seon Kim (Apr. 1, 2007– Mar. 31, 2008)	Tae-hyeon Kim (Apr. 8, 2008– Aug. 13, 2008)	Hye-su Shin (Sep. 18, 2008–)
Sang-gyeong Lee (Apr. 1, 2007– Mar. 31, 2008)	Yeon-cheon Oh (Apr. 8, 2008–Jul. 5, 2010)	Jong-won Choi (Aug. 17, 2010–)
Do-yeong Jeon (Apr. 1, 2007–	Dong-su Shin (Apr. 8, 2008–)	
Gwang-seo Park (Apr. 1, 2007– Jul. 9, 2008)	Hoon Kang (Jul. 9, 2008–)	
Si-ryong Park (Apr. 1, 2007– Jul. 9, 2008)	Eui-pyo Shim (Jul. 9, 2008–)	
Yeong-jin Yun (Apr. 1, 2007–Mar. 31, 2009)	Ae-sil Kim (Apr. 8, 2009–)	
Yu-jeong Lee (Apr. 1, 2007–Mar. 31, 2009)	Se-gyeong Oh (Apr. 8, 2009–)	
Oh-seok Hyeon (Apr. 1, 2007–Mar. 24, 2009)	Hae-bang Jeong (Jun. 23, 2009–)	
In-hye Park (Apr. 1, 2007–Mar. 31, 2010)	Jeong-seong Yeo (Apr. 1, 2010–)	

There are currently nine private sector members in the committee. The term in office of the committee members is three years, but that of the first members was set differently ranging from one to three years in order to make sure they are not all relieved at the same time. Meanwhile, when a private

sector member takes an appointment as the head of a public institution, resignation from the committee is recommended. This is to prevent the compromise of impartiality that may arise when persons with direct interests in a public institution is in a position to deliberate on major issues regarding the management of such institutions. Committee members may be dismissed by the President upon recommendation of the committee chairperson if they are unable to perform their duties due to physical or mental disability, indicted in a criminal case in connection with their duties, or found incompetent for their office on the ground of negligence of duties, indecent behavior or otherwise.

B. Management of the Committee

Under the Act on the Management of Public Institutions, a committee meeting shall be convened with 20 or less members including the chairperson in attendance and the number of private sector members shall constitute a majority of the members of the meeting. As there are currently nine private sector members in the committee, the total number of members is limited to 17. Committee meetings shall be duly formed to open with the presence of a majority of the members, and shall adopt a resolution with the affirmative vote of a majority of the members present at the meeting. The chairperson shall convene a meeting of the committee and take the chair in the meeting. If the chairperson is unable to perform his/her duties, the member designated by the chairperson shall act on behalf of the chairperson.

In order to decide on details regarding the management of the committee, the Operational Regulations of the Committee for Management of Public Institutions has been formulated and implemented under the authority delegated by the Act on the Management of Public Institutions and its Enforcement Decree. To run the committee, the Public Policy Bureau at the Ministry of Strategy and Finance shall function as an executive office of the committee and the head of the bureau shall serve as its executive secretary.

C. Roles and Responsibilities of the Committee

The committee shall deliberate and resolve matters regarding the designation of public institutions, policies for the advancement of public institutions, day-to-day management of public institutions, appointment and removal of executives of public institutions and supervision over public institutions in accordance with the Act on the Management of Public Institutions and its Enforcement Decree.

Established in April 2007, the committee had held a total of 35 meetings up until January 2011 and, as a result, a total of 178 agenda items had been deliberated and resolved. Meanwhile, when a detailed explanation on agenda items is required apart from regular meetings, preliminary presentations are held for private sector members.

Table 2-12. Status of the Committee for Management of Public Institutions Meetings by Year (As of the end of 2010)

Year	2007	2008	2009	2010
Number of Meetings Held	14	11	11	13

Box Items Subject to Deliberation and Resolution by the Committee

1 Items subject to deliberation under the Act (Article 8 of the Act on the Management of Public Institutions)

1. Designation of SOEs, quasi-governmental institutions and non-classified public institutions, and cancellation and change of such designation
2. Examination of the establishment of new institutions
3. Decisions on additional matters for publication concerning the management of public institutions in addition to those prescribed in the Act
4. Personnel action, etc. based on a violation of the duty of publication, etc.
5. Developing plans for the adjustment of the functions of public institutions

6. Establishing guidelines on the assistance in innovation of public institutions, examining innovation standards, etc.
7. Appointment of non-standing senior directors of market-based SOEs and quasi-market-based SOEs
8. Appointment, etc. of executives of SOEs and quasi-governmental institutions
9. Establishing guidelines concerning the remuneration of executives
10. Removal, recommendation of removal, etc. of non-standing directors and auditors in the case of nonperformance of duties specified in the Commercial Act
11. Evaluation criteria for the performance of duties of non-standing directors and auditors, and removal, recommendation of removal, etc. of those with poor performance records
12. Evaluation criteria for the business performance of SOEs and quasi-governmental institutions, and removal, recommendation of removal, etc. of the executives of institutions with poor performance records
13. Guidelines for the management of SOEs and quasi-governmental institutions
14. Monitoring of the adequacy of supervision conducted by the Ministry of Strategy and Finance and competent agencies over the observance of management guidelines by SOEs and quasi-governmental institutions and their business, and improvement of such supervision

2 Items subject to deliberation under the Enforcement Decree (Article 10 of the Enforcement Decree of the Act on the Management of Public Institutions)

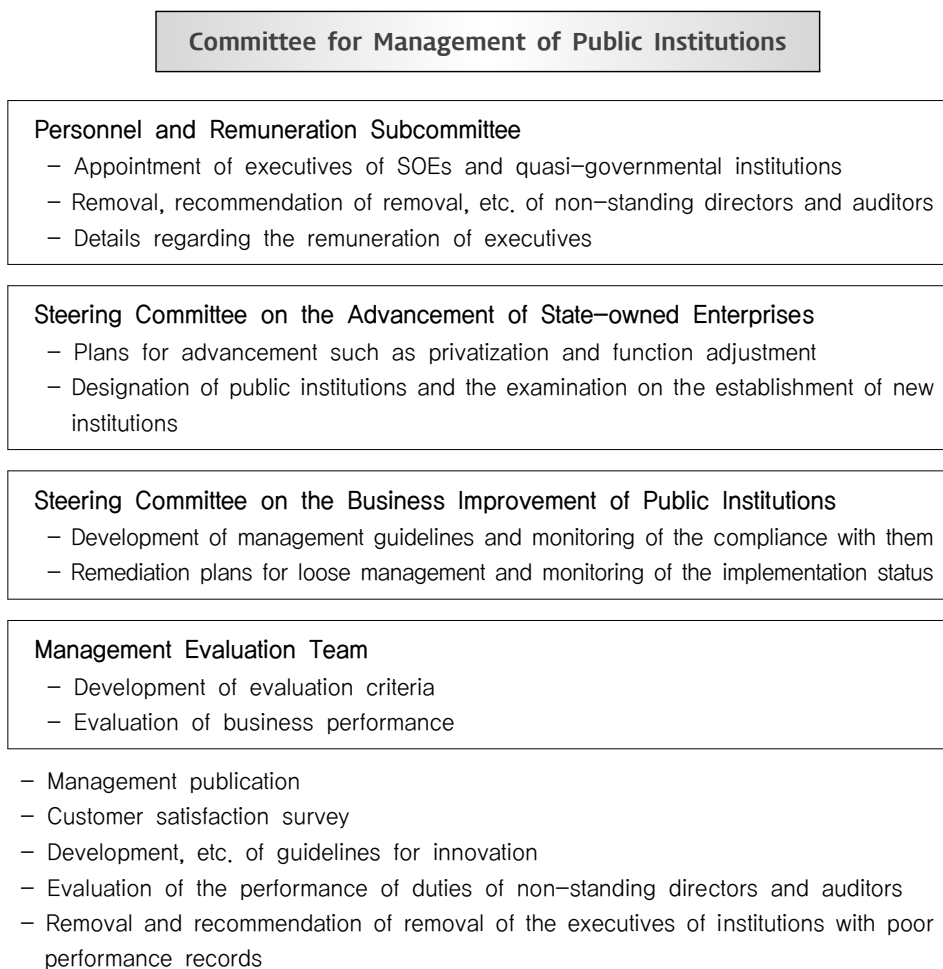
1. Items, guidelines, procedure, etc. for the consolidated publication
2. The scope of public institutions that provide direct services to the public (those subject to customer satisfaction surveys)
3. Designation of the institutions that are exempt from function adjustment
4. Request for evaluation of business performance
5. Operation of the management evaluation team for SOEs and quasi-governmental institutions
6. Determination of whether to consider the actual revenue of an institution when assessing its total revenue

D. Subcommittees

In accordance with the Act on the Management of Public Institutions and its Enforcement Decree, subcommittees have been organized and operated under

the committee. Subcommittees assist the decision-making process of the committee by conducting in-depth discussions on relevant agenda items and reporting the discussion results to the committee. There are currently three subcommittees: the Personnel and Remuneration Subcommittee, the Steering Committee on the Advancement of State-owned Enterprises, and the Steering Committee on the Business Improvement of Public Institutions.

Figure 2-4. Matters Subject to Deliberation by the Committee and Issues Relevant to Each Subcommittee



The Personnel and Remuneration Subcommittee deliberates on matters related to the appointment and dismissal of the executives of SOEs and quasi-governmental institutions and the remuneration of executives of public institutions while the Steering Committee on the Advancement of State-owned Enterprises deliberates on matters related to planning for the advancement of public institutions, examination on the establishment of new institutions, and monitoring and evaluation of the progress in the advancement plan. The Steering Committee on the Business Improvement of Public Institutions was newly established at the end of 2010 to monitor and enhance the management of public institutions and prevent lax management. Starting from 2011, this committee is deliberating on matters concerning the management guidelines for SOEs and quasi-governmental institutions, and the monitoring and improvement of supervision over their compliance with the guidelines.

3. Management Publication System

A. Overview of Management Publication System

The management publication system is designed to publicly disclose information regarding the management of public institutions including the type of business, the number of personnel, and the financial conditions. Just as a private enterprise discloses its management status to its shareholders, management information of public institutions is disclosed to their shareholders—the people—with a view to establishing a public monitoring system and, ultimately, to improving their management efficiency.

Public institutions are founded in accordance with laws and financially supported by the government in forms of investment or contribution. In the past, their management information was not disclosed at all or very restrictively disclosed, and publication data was not standardized, making it hard to compare

management information among such institutions. Management information of public institutions began to be disclosed when the related grounds for disclosure were laid with the establishment and implementation of the Act on the Management of Public Institutions in 2007. Since then, the Act has contributed to the public disclosure of management information and public policy-making through continuous improvement in items and methods of disclosure.

1) Management Publication and Consolidated Publication

a) Management Publication (Publication per Institution)

Any public institution shall disclose its management information on its Internet website (management publication) in accordance with the Act on the Management of Public Institutions and a separate set of information on the public management information system, ALIO, as designated by the Minister of Strategy and Finance (consolidated publication). Article 11 of the Act prescribes that every public institution shall publish such information as business goals and statements on settlement of accounts on its Internet website, and shall keep necessary documents at its offices. Accordingly, management publication of each public institution is made by incorporating the items and standard of the consolidated publication but using different menu and locations on the website.

b) Consolidated Publication

In order to find management information of public institutions, the public have to search through individual websites of each institution and then conduct internal searches to check the information on it. This makes it hard to analyze and compare management information of public institutions. To address these inconveniences, the Act on the Management of Public Institutions requires the Minister of Strategy and Finance to prepare a separate standardized form that will be disclosed on the ALIO website in a system called consolidated

publication. Article 12 of the Act prescribes that the Minister of Strategy and Finance may prepare a separate standardized form for consolidating main items among the matters that shall be published by each public institution. To this end, the Act also requires the Guideline for the Consolidated Publication on Public Institutions to be prepared and published on the ALIO system. The guideline prescribes the items, standard and procedure of consolidated publication and the ex post measures for unfaithful disclosure through deliberation and resolution by the Committee for Management of Public Institutions.

B. Guideline for the Consolidated Publication of Public Institutions

1) Publication Items

a) History of Publication Standard

Firstly, in June 2007, the Guideline for the Consolidated Publication of Public Institutions was established, which specified 27 items to be published.

Secondly, in March 2009, the number of items to be published was expanded and a system against unfaithful disclosure was newly established. Upon request by the National Assembly, six items were added so that a total of 33 items were to be published while three details were added to the existing publication items (see tables below). Penalty points were to be imposed on the basis of the severity of unfaithfulness of disclosure and the delayed period of publication, etc. Ex post measures were prescribed for any public institution whose total penalty exceeded a certain level. Additional items and details are as follows:

Table 2-13. Additional Items

Classification	Additional Items
Request by the National Assembly	8. Expansion of fringe benefits

Classification	Additional Items
	9. information regarding executive business trips
Revised Act on the Management of Public Institutions	28. Results of auditors' actual performance evaluation (subparagraph 7 of Article 11 (1))
Request by public opinion, etc.	16. Status of investments and execution 26. feedback in management evaluation 10. status of labor unions

Table 2-14. Additional Details

Classification	Additional Details
Revised Act on the Management of Public Institutions	19. Status of investments and contributions: information on subsidiaries were added
Internal decision	4. New employment: status of intern employment 6. Average monthly salary of employees: starting salary of newcomers

Thirdly, period of publication was shortened and items were categorized in January 2010. Although the publication frequency was lowered, the scope for voluntary publication was expanded; rules of employment were added as an item subject to voluntary publications in order to enhance the transparency of public institutions' management; redundant items were deleted for large-scale public institutions; similar items were systemically categorized into five types (general status, operation of institution, management performance and key projects, internal and external evaluation, and announcements).

Fourthly, information on the tax payment status of public institutions was added as a publication item and information on local talents as a detail of new employment in February 2011.

Table 2-15. Period of Publication

Classification	Period of Publication
Periodic → Voluntary	Information regarding labor union convention
Annual → Quarterly	Number of employees, new employment, and number workers registered with labor unions
Annual → Semi-annual	Feedback in management evaluation and result of remedies

b) Composition of Publication Items

A total of 33 publication items are classified into five categories, allowing for comparison between publication items of a similar nature.

Table 2-16. Composition of Publication Items

Categories	Items
I. General status	1. General status
II. Operation of Institution	2. Number of employees 3. Status of executives 4. New employment 5. Annual salary of executives 6. Average monthly salary of employees 7. Business expenses spent by institution head 8. Welfare expenses 9. Details of executive business trips overseas 10. Status regarding labor unions 11. Rule of employment
III. Management performance and core projects	12. Condensed balance sheet 13. Condensed income statement 14. Revenue and expenditure 15. Core projects 16. Details of investment execution 17. Capital and shareholders

Categories	Items
	18. Short and long term borrowings 19. Investment and contribution 20. Annual endowments and grants 21. Management overhead costs
IV. Internal and external evaluation	22. Feedback from the National Assembly 23. Feedback from the Board of Audit and Inspection/competent ministries 24. Results of management performance evaluation 25. Feedback in management performance evaluation 26. Results of customer satisfaction surveys 27. Results of auditor' s job performance evaluation 28. Minutes of directors' meeting, results of internal audit
V. Announcement	29. Examples of management innovation 30. Employment information 31. Bidding information 32. Research report 33. Other information

c) Periodic Publication and Voluntary Publication

Publication items are classified into those for periodic publication and voluntary publication. Items for periodic publication are used to publish related materials at a certain time—the end of a year or quarter. Items for voluntary publication refer to items whose related materials are generated on an irregular basis and need to be disclosed to the public, and shall be posted within 14 days from their occurrence.

Information on the structure and personnel of an institution, finance, annual salary of employees falls under the category of periodic publication. All institutions publish the information at the prescribed time of disclosure. Feedback from independent institutions, minutes of directors' meetings, information on employment or bidding are classified into items for voluntary publication in order to disclose them to the people in a timely manner.

2) Ex post Measures for Unfaithful Disclosure

a) Examination and Confirmation of Disclosure

In order to ensure the credibility and accuracy of the publication materials, the Act on the Management of Public Institutions prescribes that if a public institution fails to perform the duty to make the publication on management in good faith, or if it publishes false information, the Minister of Strategy and Finance may order the institution to correct the false information and to make the necessary personnel disposition, etc. against the person concerned after deliberation and resolution by the Committee for Management of Public Institutions. Furthermore, the Guideline for the Consolidated Publication of Public Institutions prescribes that the Minister of Strategy and Finance shall receive the publication materials from the relevant public institution for examination and confirmation to manage their quality.

In order to maintain the accountability of publication materials, every public institution shall appoint a person to take charge of its publication; frequently check and confirm the accuracy and fidelity of publication materials, and revise and complement errors.

To this end, the Ministry of Strategy and Finance checks publication information in a regular basis and carries out ex post measures based on the results after deliberation and resolution by the Committee for Management of Public Institutions.

b) Ex post Measure for Unfaithful Disclosure

Unfaithful disclosure by a public institution is classified into three categories: nonconformance with disclosure occurs when an institution fails to disclose materials that is supposed to be disclosed or discloses information past the prescribed time of publication false publication occurs when an institution discloses false information and the violation is discovered by an external agency (national assembly and government department, etc.) and disclosure correction is the case where an institution identifies and corrects the information it has

wrongly disclosed. Penalty is imposed depending on the type of unfaithful disclosure.

Table 2-17. Criteria for Penalty

Type of Unfaithful Disclosure	Content of Violation	Penalty
1. Nonconformance with disclosure	<ul style="list-style-type: none"> ■ Penalty is imposed on each item that has not been disclosed 	5 points
	<ul style="list-style-type: none"> ■ Penalty is imposed on each item that has been disclosed more than six months after the publication deadline 	4 points
	<ul style="list-style-type: none"> ■ Penalty is imposed on each item that has been disclosed more than one month after the publication deadline 	3 points
	<ul style="list-style-type: none"> ■ Penalty is imposed on each item that has been disclosed after one week from the deadline of publication 	2 points
	<ul style="list-style-type: none"> ■ Penalty is imposed on each item that has been disclosed within one week after the publication deadline 	1 point
2. False disclosure	<ul style="list-style-type: none"> ■ When an institution discloses false information and the violation is discovered by an external agency (the National Assembly, governmental ministries, etc.), penalty is imposed on each item. 	5 points
3. Disclosure correction	<ul style="list-style-type: none"> ■ When an institution discloses management information that is incongruent from the truth, due to inadvertent errors, etc., and subsequently rectifies the error, penalty is imposed on each instance of correction. 	1 to 5 points

Table 2-18. Criteria and Details of Ex Post Measures

Criteria	Details
– More than 10 points	Institutional caution
– More than 20 points – No less than 10 points equivalent to "institutional caution" for two consecutive years	Designating the institution as an unfaithful institution and imposing appropriate measures against the personnel concerned

C. Operation of the Publication System

1) Revision of the Standard and Manual for Consolidated Publication

When revision is deemed necessary as the result of inspection of the publication system and disclosure of the previous year or by the request from the National Assembly, the Ministry of Strategy and Finance establishes a new standard for publication at the beginning of each year, after deliberation and resolution by the Committee for Management of Public Institutions. It serves as a basis upon which the Manual for Consolidated Publication and the ALIO system are revised to reflect the changes in the publication system.

2) Input of Information Regarding Public Institutions and Periodic Publication

Consolidated publication is classified into a quarterly periodic publication and voluntary publication announced wherever a reason for publication arises. At the end of April when the first periodic publication after the designation of public institutions is supposed to be made, the Ministry of Strategy and Finance holds a presentation to explain the consolidated publication for public institutions newly designated in that year so that they can make consolidated publication.

An institution designated as a public institution shall disclose its management information with each periodic publication. To this end, it shall enter key publication information such as the financial status of the previous five years into the ALIO system. The entered information is disclosed via the ALIO system at the end of April, and later key management information is disclosed in the periodic publication at each quarter.

3) Examination and Confirmation of Publication Materials

In order to ensure the accountability and accuracy of materials disclosed every year, the Ministry of Strategy and Finance checks and confirms them. It imposes

penalties for any unfaithful disclosure in accordance with the criteria set forth in the Guideline for Consolidated Publication and carries out ex post measures for the institutions subject to them after deliberation and resolution by the Committee for Management of Public Institutions in the following year.

When a SOE or a quasi-governmental institution is subject to ex post measures, the management evaluation team shall be informed about this to reflect it in its management evaluation.

4) Utilization of Publication System

The number of access to the ALIO system, operated by the Ministry of Strategy and Finance, has dramatically increased every year since its establishment in 2006. Public monitoring system with the ALIO system is fully utilized as demonstrated by the fact that approximately 450 media articles have used the ALIO system to report on public institutions since 2007.

4. Customer Satisfaction-Oriented Management

A. Background of Conducting a Customer Satisfaction Survey

The customer satisfaction survey was a response to the paradigm shift that services provided by public institutions to the general public should be customer- rather than supplier-oriented. Focusing on the economics and efficiency of the services provided, the existing management performance evaluation is relatively inappropriate for investigating those qualitative aspects of public services that are highly regarded by the public, who are in fact its customers. In contrast, the customer satisfaction survey is essential in that the evaluations and perceptions of the public, the customers of public services, can be reflected.

B. History of the Customer Satisfaction Survey

Performed first in 1999 with government-invested institutions as part of efforts toward innovation in management, the customer satisfaction survey was extended to government-affiliated institutions in 2004, and to government-invested research institutions and ministry-affiliated institutions in 2005. Previously, the legislative frameworks of the survey were found both in the Guideline for the Management Innovation of Government-Invested Institutions and the Framework Act on Management of Government-Affiliated Institutions. In 2007, as the Act on the Management of Public Institutions was established, unified legal grounds for the survey were formed.

Box Article 13 (2) of the Act on the Management of Public Institutions

Every public institution that provides services directly to the people shall conduct a customer satisfaction survey at least once a year with those who have experienced the service provided by the institution. In this case, the Minister of Strategy and Finance may instruct public institutions to conduct a consolidated survey on customer satisfaction level and integrate the results of such surveys for publication.

Table 2-19. Public Institutions Subject to Customer Satisfaction Surveys
(Unit: number of institutions)

Classification		2007	2008	2009	2010
		159	98	148	169
Supervised by the Ministry of Strategy and Finance	SOEs	24	24	24	22
	Quasi-governmental institutions	74	74	80	79
Supervised by line ministries		105	176	124	95
Institutions excluded from the survey		34	29	25	22
Total		298	299	297	286

Note: The numbers of public institutions subject to the survey are based on the basic plan for the annual survey on customer satisfaction with public institutions.

C. Key Changes in the Customer Satisfaction Survey System

1) Expansion of the scope of utilization of the survey results

In the early stages of the implementation of the survey in 1999, the results were used only for public announcement. From 2007, however, its utilization was gradually expanded to be included as part of the evaluation of the management of SOEs and quasi-governmental institutions and as data for management publication. The style of publishing the results has changed over time from announcing relative distribution to scores and finally to ratings based on absolute scores beginning in 2008. In addition, the formula for measuring improvements in performance against the previous year was revised in 2009, giving the survey substantive descriptive power based on changes in the score.

Table 2-20. Key Changes in Utilization of the Customer Satisfaction Survey Results

Classification	Key Contents
Points reflected in evaluation	-SOEs: 0 (1999) → 3 (2007) → 5 (2008) -Quasi-governmental institutions: 3 (2004) → 5 (2007) → 7 (2009)
Manner of publication	-SOEs: points (1999) → grades (2008) -Quasi-governmental institutions: relative distribution (2004) → points (2005) → grades (2008) -Other public institutions: Grades resulting from the integrated survey have been published by the Ministry of Strategy and Finance since 2009.
Formula for evaluation	-Ratio of the pertinent year's score to improvement against the previous year's, as reflected in the overall score: 60:40 (2004) → 40:60 (2006) -Formula for determining improvement against the previous year's performance: The revision in 2009 allowed for substantive descriptive power based on changes in scores.

2) Reinforcing objectivity and fairness in the survey

In order to prevent the arbitrary omission of customer lists, public institutions have been required to attach an auditor's statement to their submissions since 2009. Other measures such as nondisclosure of the survey schedule, random field inspections, and re-verification have also been included to heighten the objectivity and fairness of the survey. In addition, the previous uniform weighting method has been revised to improve the accuracy of the survey results: A method has been applied since 2009 in which different weights are given to each project taking into account the population, volume of sales and labor involved.

Table 2-21. Key Measures to Improve the Objectivity and Fairness of the Customer Satisfaction Survey

Classification	Key Measures
Procedure for submission of a customer list	<ul style="list-style-type: none"> -Prior to 2008: Public institutions submitted the list directly to the surveying agency. -2008: Following confirmation by its head, a public institution submitted a customer list to the Ministry of Strategy and Finance, which in turn delivered it to the surveying institution. -2009: It was made obligatory for the audit department to first examine and the head of a public institution to confirm the list.
The number of customers on the list to be submitted	<ul style="list-style-type: none"> -2004: 30 times the number of people in the survey sample (up to 30,000) -2007: 100 times the number of people in the survey sample (up to 100,000) -2009: 600 times the number of people in the survey sample (up to 600,000)
Method of calculating the institution score	<ul style="list-style-type: none"> -Initial: Scores were calculated from the number of responses in the survey sample. -Prior to 2008: Scores were calculated by applying a uniform weight to each project. -2009: Scores were calculated by applying different weights by project.

Classification	Key Measures
Method of conducting the survey	<ul style="list-style-type: none"> -Since 2008, survey has been performed with its schedule undisclosed. -Since 2009, random field inspections and re-verifications performed with top-performing institutions and those that had shown marked increases in scores.

3) Improvement of method for selecting institutions for surveys

To enhance the objectivity and fairness of the selection of institutions as the subjects of surveys, the companies conducting the survey have been divided into basic designers and lead managers, and the budget for basic design has been directly borne by the Ministry of Strategy and Finance to eliminate any possibility of intervention by the public institutions in question. Other measures also have been taken to improve the fairness of the survey. In one such effort, a Technical Evaluation Committee organized by the Ministry of Strategy and Finance participated in the examination process to select institutions for surveys.

Table 2-22. Improvements in the Method to Select Surveying Institutions

Classification	Major Improvements
Classification of surveying institutions	<ul style="list-style-type: none"> -Prior to 2009: Surveying institutions were classified into lead managers and surveyors. -2009: Surveying institutions were classified into basic designers, lead managers, and surveyors.
Selection of surveyors	<ul style="list-style-type: none"> -Prior to 2007: The Ministry of Strategy and Finance designated a surveyor. -2007: Surveyors were selected based on an open competition (this had been applied to quasi-governmental institutions since 2004) -2009: A basic designer was selected by the Technical Evaluation

Classification	Major Improvements
	Committee in an open competition while a lead manager was jointly selected by the committee and the public institution concerned.
Survey costs borne by:	<p>–Prior to 2009: Public institutions bore the entire cost.</p> <p>–2009: Basic design costs were borne by the Ministry of Strategy and Finance and other costs for survey and analysis were borne by the public institution concerned, as before.</p>

D. Customer Satisfaction Survey Model

The National Customer Satisfaction Index (NCSI), developed by Korea Productivity Center and based on the American Customer Satisfaction Index (ACSI), had been used as the survey model for public service customer satisfaction since 1999. Since that time, however, the need to develop a unique survey model better suited to the characteristics of public institutions had been continually voiced. In response, the Ministry of Planning and Budget in 2004 commissioned the Korea Management Association Consultants and Seoul National University to develop the Public Service Customer Satisfaction Index (PCSI) model for surveying customer satisfaction with quasi-governmental institutions. The model has been applied to all customer satisfaction surveys for public institutions since 2007. PCSI was designed to include three steps of causal relationships: analysis of factors affecting customer satisfaction (precursor model); analysis of customer satisfaction (satisfaction model); and analysis of performance in customer satisfaction (performance model). PCSI includes several key features: ① systematic measuring that can be translated into actions for improvement, ② reflection of the characteristics of Korean public institutions, ③ universality allowing for comparison and evaluation between public institutions, ④ reflection of the particular characteristics of each public institution, and ⑤ measuring performance based on customer-

satisfaction activities.

E. Major Achievements of the Customer Satisfaction Survey System

1) Quantitative achievements

The index of public service customer satisfaction has been on the rise since the implementation of customer satisfaction surveys, due mainly to efforts to expand and improve the customer satisfaction management system. In comparison with the points awarded in the early stages of the index, SOEs and quasi-governmental institutions have shown remarkable quantitative improvement in increasing by 34.8 points over 11 years and 15.6 points over six years, respectively.

Table 2-23. Trend of Public Service Customer Satisfaction Index

(Unit: points)

Classification	1999	2004	2007	2008	2009	2010
SOEs	58.1	79.4	89.2	89.3	92.0	92.9
Quasi-governmental institutions	–	72.5	82.2	84.1	86.7	88.1
Other public institutions	–	–	79.1	81.1	82.7	84.6

In the initial phase of surveying, the customer satisfaction level for most public institutions stood at "insufficient." As of 2010, however, 95.2 percent (20 institutions) of public institutions were rated "good" or higher, indicating that customer satisfaction management has risen to an advanced level. Meanwhile, 71.8 percent (56 institutions) of quasi-governmental institutions were assigned "good" or higher, indicating that customer satisfaction management has taken root in those institutions. Taken together, these represent the visible progress achieved since the implementation of the customer

satisfaction survey. However, 58.4 percent (38 institutions) of other public institutions recorded "fair" or below, indicating a need for efforts to improve customer-driven management.

Table 2-24. Grade Distribution of Customer Satisfaction for Public Institutions in 2010

Classification	Insufficient (<80 points)	Fair (80 to <85 points)	Good (85 to <90 points)	Excellent (90 points or above)	Total
SOEs	–	1 institution (4.8%)	3 institutions (14.2%)	17 institutions (81.0%)	21 institutions
Quasi-governmental institutions	7 institutions (9.0%)	15 institutions (19.2%)	30 institutions (38.5%)	26 institutions (33.3%)	78 institutions
Other public institutions	14 institutions (21.5%)	24 institutions (36.9%)	12 institutions (18.5%)	15 institutions (23.1%)	65 institutions

2) Qualitative achievement

By directly evaluating the satisfaction with public service perceived by the general public, or by its practical beneficiaries or customers, the customer satisfaction survey has been a successful stimulus to help reinforce the sense of social responsibility at public institutions and win public trust and support. Most importantly, in combination with existing management and supervision of public service led by the Board of Audit and Inspection of Korea or other government agencies, it has encouraged public institutions to strengthen buyer-and customer-driven management systems through direct and indirect public monitoring of the process of public service delivery and employee behavior.

5. Examination System for the Feasibility of Establishing New Public Institutions

A. Overview

The examination system for the feasibility of establishing new public institutions has been introduced to check the indiscriminate expansion of the public sector by making the feasibility of establishing a new public institution, the adequacy of its size, its financial support requirements, and its effectiveness subject to obligatory deliberation by the Committee for Management of Public Institutions. Article 7 of the Act on the Management of Public Institutions prescribes that the head of the line agency who desires to establish a new institution falling under any of the subparagraphs provided, pursuant to Acts, shall request the Minister of Strategy and Finance to examine the feasibility of establishing such a new establishment before making a prior announcement of such a legislative bill. Consequently, when an agency plans to establish a new institution, it is subject to a feasibility examination through the deliberation of the Committee for Management of Public Institutions.

B. Requirements for Examination

When the head of an agency intends to establish a new institution, its feasibility must first be examined. This requirement is observed in all cases where the grounds for a new institution are provided by law, matters on the establishment of a new institution are commissioned by the enforcement decree of a piece of legislation, or an institution established by civil law is converted into a legal entity. In addition, an institution that is funded, subsidized or contributed by the line agencies is also subject to a feasibility examination. This provision is applicable in cases where the grounds for governmental contribution are prescribed by law, "governmental financial support" is estimated to exceed

half of the "total revenue," and the government alone or in combination with a public institution provides more than 30 percent of the capital. In such cases, total revenue is calculated as the average "annual revenue over the next five years" in "annual revenue expected and budget of the Government grants required in the next five years" as provided in Article 9 of the Enforcement Decree of the Act on the Management of Public Institutions. Government grants are calculated as the expected average amount of grants (contributions, subsidies, and revenues earned from a commissioned business or monopoly) as prescribed in Article 3 of the Enforcement Decree over the coming five years.

C. Key Criteria for Examination

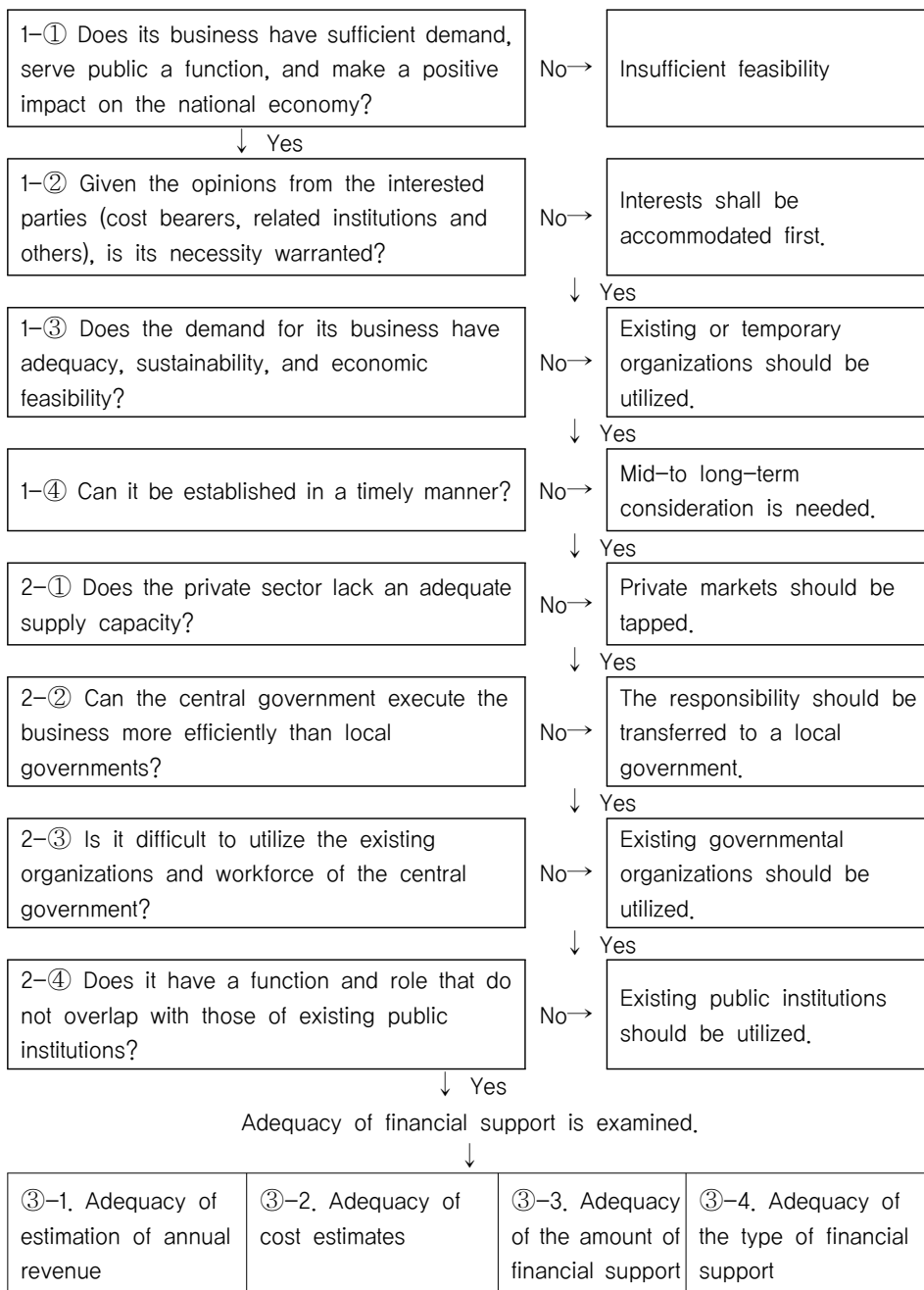
Key areas for the examination of the feasibility of establishing a new institution can be broadly divided into three criteria: whether the projects to be carried out by the newly established institution are needed or effective, whether an appropriate entity is conducting the project, and whether the funding plan is feasible. First, the necessity and effectiveness of the projects to be carried out by the newly-established institution are determined based on whether the business of the new institution fulfills a universal demand and serves a public function whether the opinions of the interested parties on the performance of the related business have been taken into account whether the demand for goods and services is adequate, sustainable, and economically feasible and whether the timing of the establishment of the new institution is appropriate. Several considerations are taken into account in determining the appropriateness of an entity to perform a particular business: whether the private sector is also capable of providing the services and if it is desirable for it to do so; whether the business would be better performed as a local governmental project; and whether an existing organization and workforce or other public institutions can be utilized in cases where it is inevitable that the service be offered by

the central government. The adequacy of the funding plan is determined based on whether the estimation of annual revenue, including independent revenue sources, for the next five years has been properly performed whether the cost estimations for such expenditures as labor and operations costs over the next five years have been performed appropriately; and whether the volume and channel of financial support is suitable.

D. Examination Procedure

The head of the line agency requests the Minister of Strategy and Finance to examine the feasibility of the establishment of a new institution before making a prior announcement of the related legislation. In doing so, a "plan to establish a new institution" must be submitted detailing the scope of the business for the institution, the services and goods that the new institution will provide, the annual revenue expected and the budget for the government grants required over the next five years, a five-year plan for the management of the organization and its human resources, and the current status of related institutions previously established, along with any other materials requested by the Minister of Strategy and Finance. The Ministry examines the submitted plan through the deliberation and resolution of the Committee for Management of Public Institutions, and notifies the results to the head of the competent agency.

Table 2-25. Flowchart of the Examination for the Feasibility of Establishing a New Public Institution



6. System to Review the Adequacy of the Functions of Public Institutions

Although each public institution may properly perform any given function, there always exists the need to for adjustment in response to fluctuating economic and social conditions. A system to review the adequacy of the functions of public institutions is in place, aimed at examining those functions performed by each public institution and thereby improving their social relevance. By abolishing, consolidating, and transferring redundant and unnecessary functions, public institutions can be refocused on their core functions and essential workforce. Consequently, the waste and inefficiency resulting from lax management and moral hazard within the public sector are eliminated, contributing to a honing of organizations' competitive edges.

Applicable laws require that the functions carried out by public institutions be reviewed and adjustments be pursued accordingly. However, select public institutions are exempted from this requirement in consideration of necessity, the feasibility of its application, and the characteristics of their work. Those institutions include: ① an institution for which a relevant legislation states that it is necessary to guarantee the independence of the government and neutrality in executing the functions of the institution; ② an institution for which less than three years have passed since its establishment; and ③ an institution for which the management committee determines it is not proper to be subjected to adjustment of functions, etc., considering the peculiarities in its business affairs, etc.

The review is directed to reconstruct those core functions and businesses that serve the original purpose of the establishment of the institution concerned by identifying functions to be abolished or minimized and those to be expanded and reinforced. In doing so, it ultimately aims to alleviate the public burden and improve the overall quality of public service by redeploying the in-house administrative workforce to the field of service.

A. Items for Review

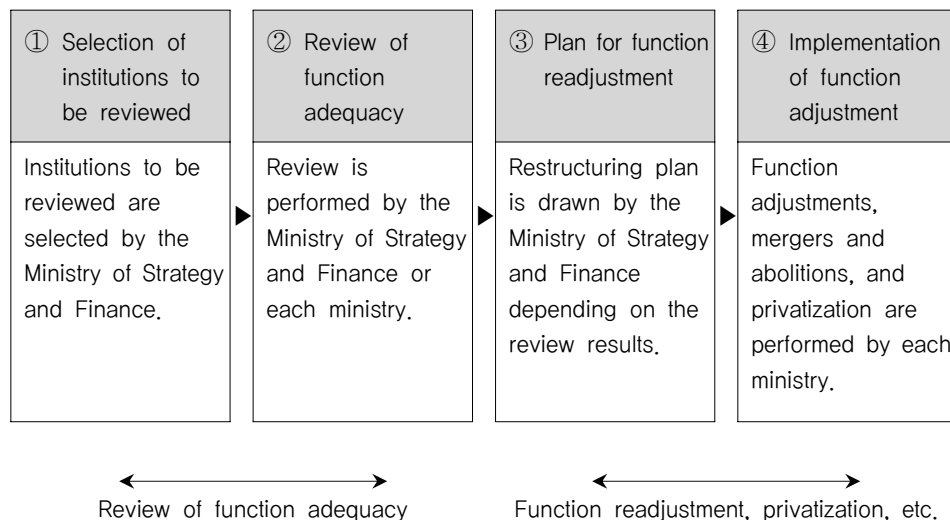
Firstly, the necessity for retaining the existing functions and businesses of an institution is examined to determine if they are no longer required or if their competitiveness has been eroded by changes in social or economic conditions and/or the demand structure for public institutions. Then, those functions deemed unnecessary are abolished or minimized. Secondly, the possibility of transforming a public institution into a local public enterprise or transferring its functions to a local government is examined to determine if the functions in question could be better performed by a local government than a central public institution. If this is the case, the functions are decentralized. Thirdly, the necessity for the introduction of competition is examined to uncover whether it is deemed essential for the public sector to assume responsibility for the current functions and businesses, or if they should be subject to privatization and commissioned to the private sector after being tested for marketability. Fourthly, the need for functional readjustment—reduction, expansion, or transfer—is examined to reveal if the institution’s scope of functions is too small or too large to perform its target business. The desirability to transfer certain functions of an institution to other institutions is also examined. Based upon the results of the examination, readjustments of functions are made.

B. Review Procedure

The Ministry of Strategy and Finance identifies institutions subject to review of the adequacy of their functions in consultation with the head of the competent agency. He/she also drafts a plan to perform reviews through the deliberation and resolution of the Public Institutions Management Committee on institutions subject to restructuring and on the criteria and procedures involved. Functional readjustment, privatization, and mergers and abolitions are performed according

to the function adjustment plan drawn by the competent ministry. A results report is submitted to the Ministry of Strategy and Finance, which then checks and confirms the manner of execution by analyzing the report. In cases where execution faces obstacles such as delays or social resistance, the Minister of Strategy and Finance may urge the head of the line agency to execute its work in a timely manner, or may take other necessary steps such as offering advice or requesting an additional plan.

Figure 2-5. Process to Review the Adequacy of the Functions of Public Institutions



a supreme decision-making body with the authority to examine key management strategies and goals of a public institution and supervise its overall management. The board of directors is increasingly being considered important for its role in enhancing the transparency and efficiency of public institutions, establishing an autonomous and responsible management system, and preventing lax management.

2) Authority and Roles of the Board of Directors

The board of directors has the authority to make decisions to deliberate key management policies of a public institution, supervise the flow of the management process, and consult and support where the overall management is concerned. The board of directors plays a key role in achieving the effective and successful performance of the institution by enhancing the efficiency of resource distribution for existing projects and new investments, providing an early warning before the deteriorating management performance reaches a critical level, and leading the overall activities of the institution in a way that fulfills its social responsibility while in observance of laws and regulations.

The board of directors of SOEs and quasi-governmental institutions shall deliberate and resolve the following matters:

- 1 Business goals, budget, and management plan;
- 2 Use of reserve fund and carry-over of budget;
- 3 Settlement of accounts;
- 4 Acquisition and disposition of fundamental assets;
- 5 Borrowing of long-term loans, issuance of corporate bonds, and repayment plan for such loans or bonds;
- 6 Selling prices for products and services;
- 7 Appropriation of retained earnings;
- 8 Investment in and contribution to other corporation, etc.;
- 9 Guarantees for obligations of other corporation. *Provided*, That it shall

exclude guarantees for obligations provided by a SOE and quasi-governmental institution that engage in a guarantee business under the relevant Act in the course of executing its business;

- 10 Amendment of the articles of association;
- 11 Establishment and amendment of bylaws;
- 12 Remuneration for executives;
- 13 Matters that the head of the SOE or quasi-governmental institution considers it necessary to refer to the board of directors for deliberation and resolution;
- 14 Other matters considered necessary by the board of directors.

B. Operation of the Board of Directors

1) Composition of the Board of Directors

The board of directors shall be comprised of not more than 15 directors including the institution head. There are exceptional provisions, however, that prescribe special cases where the board of directors may have more than 15 directors considering the inherent characteristics of the institution or on a temporary basis.

a) Chairperson of the Board of Directors

(1) Market-based SOE

A non-standing senior director shall become the chairperson of the board of directors. *Provided*, That one of the non-standing directors shall act as chairperson on behalf of the chairperson, as provided for in the articles of association, if the chairperson is unable to perform his/her duties due to unavoidable reasons.

(2) Quasi-market-based SOEs and Quasi-governmental Institutions

The non-standing senior director shall become the chairperson of the board of directors of a quasi-market-based SOE with an asset size of more than two trillion won. The institution head shall become the chairperson of the board of directors of a quasi-market-based SOE with an asset size of less than two trillion won, or a quasi-governmental institution: *Provided*, That the concurrent holding of the office of the institution head and the office of the chairperson of the board of directors shall be prohibited, if there are provisions in any other Act that prohibit such concurrent holding of official positions.

Institutions where concurrent holding of the office of the institution head and the office of the chairperson of the board of directors is prohibited under any other Act include the Korea Health Industry Development Institute, the Korea Education & Research Information Service and the Korea Institute of Nuclear Safety.

2) The Meeting of the Board of Directors

a) Convening and Presiding over a Meeting

The meeting of the board of directors shall be convened by the chairperson or at the request of at least 1/3 of incumbent directors, and the chairperson shall preside over the meeting. In principle, the meeting shall be a face-to-face meeting (including video conference) attended by members of the board while correspondence meeting is restrictively allowed in inevitable cases.

The chairperson of the board of directors shall inform the attendees of the meeting on its overall plan, including the goals and key contents, no later than seven days before the meeting of the board of directors is held. In principle, the meeting agenda shall be sent to the meeting attendees no later than seven days—or 15 days if the agenda is the budget draft for the following year—before the meeting is held. The period of such notification is exceptionally allowed to be changed under emergency situations or in the presence of unavoidable

reasons.

b) Resolution

In the deliberation of an agenda, a resolution shall be adopted by the affirmative vote of a majority of incumbent directors. The institution head or a director who has a specific interest in a matter put on the agenda of the directors' meeting shall not participate in resolution on the matter. In this case, an institutional head or a director who is barred from participating in resolution shall not be included in the number of incumbent directors.

The auditor may attend the directors' meeting to present his/her opinion. In accordance with Article 391 (2) of the Commercial Act, all directors may take part in the adoption of a resolution by means of a communication system of transmitting and receiving visual images and sounds simultaneously, without the personal attendance of all or part of them at the meeting. In this case, the relevant directors shall be deemed to have attended the meeting.

c) Support for Deliberation by the Board of Directors

The head of a SOE or a quasi-governmental institution shall regularly report the management status of the relevant institution to the members of the meeting and provide adequate data required for examination of the agenda of the meeting in order for the board of directors to be operated more effectively.

A SOE or a quasi-governmental institution shall provide data upon request by the members of the board of directors for the purpose of examining the agenda of the meeting or understanding their task. If, however, it is not able to provide such data due to unavoidable reasons, it shall report the reasons to the director who requested the data.

The head of a SOE or a quasi-governmental institution shall provide non-standing senior directors with necessary support for examination of the agenda including facilities, personnel, access to the internal information network. The Minister of Strategy and Finance may supply policy reference, management

information of institution, review data for key policy issues and decision-making process if they are deemed necessary for the deliberation of agenda by the non-standing senior directors of a SOE or a quasi-governmental institution.

d) Preparation and Disclosure of Minutes of Meetings

The chairperson of the board of directors shall prepare minutes of meetings that include the venue and time, the names of attendees, the remarks of attendees, and the results of the meeting. He/she also shall keep the prepared minutes of meetings after reporting and confirming them at the following meeting of the board of directors. The minutes of meetings, excluding some special items such as the matters concerning business secrets, shall be disclosed both on the webpage of the institution and on the consolidated publication system as designated by the Minister of Strategy and Finance. If the minutes of meetings have not been disclosed, the reasons shall be specified and disclosed.

With regard to the proceedings of a meeting of the board of directors, Article 391 (3) of the Commercial Act prescribes that the agenda, progress summary, results thereof, dissenters and reasons for their dissensions shall be entered in the minutes, and the directors and auditors present at the meeting shall write their names and affix seals, or sign thereon.

C. Committees

1) Establishment of Committees

Pursuant to Article 393 (2) of the Commercial Act, the board of directors of a SOE may, under the conditions as prescribed in the articles of incorporation, establish committees within the board. By doing so, the board of directors could easily ensure the expertise and objectivity of its decision making so that it can be effectively operated.

Many SOEs and quasi-governmental institutions have established and

operate subcommittees for the deliberation of critical matters including the agenda of the board and budget, as well as the in-depth deliberation of agenda including management consulting. For example, subcommittees such as a management advisory committee and a deliberative committee for project plan and budget are organized and operated to support an effective operation of the board.

2) Establishment of an Audit Committee

Any market-based SOE and quasi-market-based SOE, the asset size of which is not less than two trillion won, is obligated to establish an audit committee under the board of directors. A quasi-market-based SOE, the asset size of which is less than two trillion won, and quasi-governmental institutions may voluntarily establish an audit committee. The audit committee shall conduct inspections of business affairs and accounting and report the results thereof to the board of directors.

The institutions that are obliged to establish an audit committee include the Korea Electric Power Corporation, the Korea Gas Corporation, Incheon International Airport Corporation, the Korea Airports Corporation, Busan Port Authority, Incheon Port Authority, the Korea National Oil Corporation, the Korea District Heating Corporation, the Korea Expressway Corporation, the Korea Railroad Corporation, the Korea Racing Authority, the Korea Water Resources Corporation, the Korea Land & Housing Corporation, and the Korea Housing Guarantee Co., Ltd. The Korea Appraisal Board and the Korea Exchange have each established an audit committee in accordance with specific laws.

D. Non-standing Senior Director

1) Background

Due to an inadequate mechanism to support the practical role fulfillment of the non-standing directors within the board of directors, the non-standing director system had been operated in a superficial manner. As a result, the board of directors was driven by standing directors, evoking the criticism that management is poorly checked. To address this, the non-standing senior director system has been introduced to strengthen the role and functions of the non-standing directors.

2) Description

a) Qualification

Under Article 21, every SOE and quasi-governmental institution shall have one non-standing senior director. *Provided*, That non-standing senior directors of a market-based SOE and quasi-market-based SOE, the asset size of which is not less than two trillion won, shall be appointed by the Minister of Strategy and Finance among non-standing directors after deliberation and resolution by the Committee for Management of Public Institutions, while in other public institutions the non-standing senior director shall be elected by and among non-standing directors. In addition, in market-based SOEs and quasi-market-based SOEs, the asset size of which is not less than two trillion won, the non-standing senior director shall become the chairperson of the board of directors. This is intended to strengthen the independence of the board of directors of public institutions in accordance with the OECD Guideline on Corporate Governance of SOEs.

The non-standing senior director shall be appointed from among persons with outstanding knowledge and experience in the operation and business administration of public institutions, good reputation of impartiality and meet

the qualifications required to be a private sector member of the Committee for Management of Public Institutions.

Box Requirements for private sector members of the Committee for Management of Public Institutions as set forth in the Act on the Management of Public Institutions

- Person with outstanding knowledge and experience in operation and business administration of public institutions and good reputation of impartiality and fall under any subparagraph of Article 11 (2) of the Enforcement Decree
- Qualification required of private sector members of the Committee for Management of Public Institutions (Article 11 (2) of the Enforcement Decree)
 - Persons who have had a career of working for a university, a college, or an officially recognized research institute as an adjunct professor or in an equivalent position for at least five years;
 - Persons who have had a career as a judge, a public prosecutor, or a lawyer for at least ten years;
 - Persons who have had a career of working for at least twenty years and have served as an executive for at least three years for a stock-listed corporation, etc.;
 - Persons who have had a career of engaging in the area of audit or accounting with a license of certified public accountant for at least ten years;
 - Persons who have worked as a public official in the Senior Civil Service or a public official in political service;
 - Other persons whose careers, etc. relating to the management of a public institution is recognized as equivalent to the criteria set forth above.

b) Election

The non-standing senior director shall be elected by and among non-standing directors: *Provided*, That the non-standing senior director of a market-based SOE and quasi-market-based SOE, the asset size of which is not less than two trillion won, shall be appointed by the Minister of Strategy and Finance among non-standing directors after deliberation and resolution by the Committee for Management of Public Institutions.

Under the provisions of Article 6 (Procedure for Designation of Public Institutions, etc.), a SOE that has no non-standing director at the time of designation shall appoint at least two non-standing directors within three months after designation and then appoint a non-standing senior director from the two.

c) Powers

(1) Power to Convene and Preside over the Non-standing Board of Directors

The non-standing senior director has the power to convene and preside over the non-standing board of directors consisting only of non-standing directors to discuss and collect the members' opinions on the agenda of the board of directors and other matters concerning the management of the institution.

(2) Power to Request Support for the Operation of the Non-standing Directors' Meeting

The institution head shall provide the non-standing senior director with the necessary support for discussing the agenda of the board of directors and other matters concerning the management of the institution.

(3) Power of the Chairperson of the Board of Directors

The chairperson of the board of directors of a market-based SOE and quasi-market-based SOE, the asset size of which is not less than two trillion won, shall become a non-standing senior director. *Provided*, That one of the non-standing directors shall act as chairperson on behalf of the chairperson, as provided for in the articles of association, if the chairperson is unable to perform his/her duties due to unavoidable reasons. This is intended to enhance the transparency and efficiency of the management of the institution by separating its head from the chairperson of the directors' meeting.

(4) Other Powers

The non-standing senior director has general powers and responsibilities of

a non-standing director.

E. Request for Removal of an Institution Head, etc.

1) Power to Request for Removal of an Institution Head

In the past, the board of directors was thought to lack the power to check and monitor the management. Therefore, it was given the power to recommend the removal of the institution head as a practical mechanism to monitor the management in order to ensure the responsibility of the management. If it is found that the institution head has committed an act in violation of a statute or the articles of association, neglects his/her duties, or he/she has serious difficulties in performing his/her duties as the institution head, the board of directors may request the head of the competent agency to remove or recommend to remove the institution head, after resolution to the effect by the board of directors.

2) Power to Request an Audit

A non-standing director may, if considered necessary, request the auditor or the audit committee to inspect a specific case in connection with the management of the SOE or quasi-governmental institution by a written request jointly signed by two or more non-standing directors. In this case, the auditor or audit committee shall take action in accordance with such a request, unless there is a particular reason otherwise.

3) Power to Demand Materials

Non-standing directors may demand the institution head to provide them with materials necessary for performing their duties. In this case, the institution head shall comply with such a demand, unless there is a particular reason

otherwise.

F. Fund Management Deliberation Council of a Fund-management-based Quasi-governmental Institution

The public interest shall be more strictly monitored in a fund-management-based quasi-governmental institution, which manages financial resources appropriated from taxpayer contributions. To this end, it has been made obligatory to establish a fund management deliberation council independent of the board of directors to deliberate fund policies. Notwithstanding the proviso to Article 74 (Fund Management Deliberation Council) (1) of the National Finance Act, every fund-management-based quasi-governmental institution shall have a deliberative organization for fund management, the fund management deliberation council, independent of the board of directors of the quasi-governmental institution: *Provided*, That a fund-management-based quasi-governmental institution shall not have the fund management deliberation council, if there is another statute that requires an organization to be established in the competent agency for the purpose of deliberation on important policies for the fund managed by the fund-management-based quasi-governmental institution. The matters concerning the functions, composition, and management of the fund management deliberation council shall be governed by the National Finance Act.

8. Audit of SOEs and Quasi-Governmental Institutions

A. Overview of the Audit System

An audit is the act by an independent third-party authority of examining the various activities performed by institutions subject to audit and their employees

and then requesting that appropriate measures be taken. Auditors of SOEs and quasi-governmental institutions (or commissioners of an audit committee) are granted their status by the Act on the Management of Public Institutions and are classified as executives, along with heads and directors of institutions. SOEs and quasi-governmental institutions must retain auditors or establish an audit committee in accordance with the Act on the Management of Public Institutions.

Auditors are classified into two categories: standing auditors who remain in attendance at the place of business during regular working hours and non-standing auditors who are present only when audits are conducted. Excluding pattern of attendance, they hold similar authorities, duties and responsibilities. The Commercial Act stipulates that a listed company with an asset size of 100 billion won or more as of the end of the most recent business year must retain standing auditors, while the Act on the Management of Public Institutions does not stipulate special provisions for hiring standing auditors and prescribes that public institutions should comply with related laws or articles of association.

In an effort to enhance the expertise of auditors and their authority over executives, market-based SOEs have been obliged to establish audit committees since April 2007. In December 2009, quasi-market-based SOEs with assets over two trillion won also became subject to this obligation. Not less than two thirds of audit commissioners must be non-standing directors; one of the commissioners must be selected from among qualified accountants or financial experts as prescribed in Article 16 (2) of the Enforcement Decree of the Commercial Act; the chair of the committee must be selected from among the commissioners who are non-standing directors. An audit committee is a committee under the board of directors that audits the directors' performance of their duties in lieu of auditors. Because audit commissioners are appointed from among directors, they are granted dual status as both auditors and directors. Therefore, by exercising audit commissioners' voting rights on the board of directors, illegal and other undesirable acts can be prevented. In addition, the

committee serves as a collegial body where multiple members of a committee perform audits on a discussion basis so the shared expertise can be increased. However, it has been pointed out that independence of standing audit commissioners (standing directors) of SOEs and quasi-governmental institutions as executives responsible for oversight of other executives might be undermined if they are appointed by heads of institutions. In order to maximize their independence, the Act on the Management of Public Institutions was revised in December 2009 to replace heads of institutions with the President or the Minister of Strategy and Finance as actors responsible for appointing standing audit commissioners (standing directors).

Table 2-26. Comparison between Auditors and Audit Committees

Classification	Sole Auditor	Audit Committee
Status	<ul style="list-style-type: none"> ■ Sole status as auditor (two-year term) 	<ul style="list-style-type: none"> ■ Dual status as director and audit commissioner (two-year term)
Appointment procedure	<ul style="list-style-type: none"> ■ Recommendation by the executive recommendation committee → deliberation by the steering committee → appointment by the President (or the Minister of Strategy and Finance) 	<ul style="list-style-type: none"> ■ Appointed by the board of directors from among directors *Appointment procedure and individual responsible for appointment of standing audit commissioners are the same as of sole auditors
Right to audit	<ul style="list-style-type: none"> ■ Audit of work and accounting according to auditing standards established by the Minister of Strategy and Finance 	<ul style="list-style-type: none"> ■ Same scope of work and authority as sole auditors
Authority on the board of directors	<ul style="list-style-type: none"> ■ Rights of statement are retained 	<ul style="list-style-type: none"> ■ Voting rights are retained
Relations with the	<ul style="list-style-type: none"> ■ Separated from the board → 	<ul style="list-style-type: none"> ■ Subordinate body under the

Classification	Sole Auditor	Audit Committee
board of directors	neutrality can be maintained in critiquing the board	board → active participation in decision making by the board
Characteristics of execution of work	<ul style="list-style-type: none"> ■ Full-time efforts by standing auditors → Stable internal control is possible 	<ul style="list-style-type: none"> ■ Standing auditors and non-standing auditors with expertise perform duties → Expertise is guaranteed
Type of decision making	<ul style="list-style-type: none"> ■ Conducted by a sole auditor → Clear work responsibilities 	<ul style="list-style-type: none"> ■ Based on collegiate system → Rational decision-making by majority is possible

B. Authorities and Duties

1) Authorities of Auditors

Auditors or audit commissioners audit the work and accounting of institutions according to auditing standards established by the Minister of Strategy and Finance. Audits are categorized into general, special, ordinary, financial, performance and disciplinary audits. Because auditors are not members of the board of directors, they are not authorized to participate in voting, but they may attend board meetings and offer opinions. Auditors and the audit committee represent institutions in accordance with Article 32 (2) of the Act on the Management of Public Institutions where a conflict of interest may arise between institutions and heads of institutions, including in the case of lawsuits between institutions and heads of institutions. Placement and transfer of employees of auditing departments are conducted by heads of institutions upon the request of auditors or audit committees. However, when they are unable to accept a request due to unavoidable circumstances, they must provide written notification specifying the reason.

2) Duties and Responsibilities of Auditors

a) Duties of Auditors

Auditors or audit commissioners must fulfill their fiduciary duties; must not disclose or make use of confidential information officially obtained without reasonable cause; and must respond to requests signed by at least two non-standing directors for auditing on specific matters to auditors or the audit committee unless there is a particular reason to do otherwise. They must prepare an annual audit plan, notify heads of institutions of the results of both general and special audits, and report those results to the board of directors. In addition, they must prepare annual audit reports within two months of the completion of each fiscal year and report them to the board of directors, the head of the competent authority and the Minister of Strategy and Finance. In December 2009, as one facet of efforts to strengthen internal control of auditing, the Auditing Standards for SOEs and Quasi-Governmental Institutions were revised. Under the revised standards, a specific audit report must be provided to the institutions requesting auditing, board of directors, head of the competent authorities and Minister of Strategy and Finance. If illegal acts or unreasonable performance are uncovered as a result of the audit, the acts in question and plans for ex post measures must be reported to the head of the competent authority and the Minister of Strategy and Finance within one month of completion of the audit. If a breach of management guidelines is revealed, the acts in question and plans for ex post measures are immediately reported to the head of the competent authority and the Minister of Strategy and Finance.

b) Responsibilities of Auditors

If auditors or audit commissioners fail in or neglect to perform their duties, they are jointly and severally liable for damages to an institution. If they neglect to perform their duties intentionally or due to malice or gross negligence, they bear joint and several liability for damages to third parties. The Minister of

Strategy and Finance may, through deliberation and resolution by the Committee for Management of Public Institutions, remove auditors or audit commissioners or recommend their removal to the person responsible for appointment under the following conditions: if they fail in or neglect to fulfill their duties, responsibilities and tasks prescribed by law; the evaluation results of their performance are poor; and/or they fail in or neglect to perform their duties related to a case where management plan implementation reports and management performance reports on heads of institutions are not submitted or are submitted with false data.

9. Personnel System for Executives of SOEs and Quasi-Governmental Institutions

A. Overview of Personnel System for Executives

1) Executive Composition

The executives of SOEs and quasi-governmental institutions are composed of directors, including heads of institutions, and auditors. Directors are classified into standing and non-standing directors. The number of standing directors must remain below half of the total number of directors including heads of institutions. However, the number of standing directors of smaller-sized quasi-governmental institutions capable of management consulting and executing work entrusted by the government may be less than one third of the number of directors, taking into consideration the burden of appointment. In exceptional cases, institutions whose number of standing directors at the time when they were designated as SOEs or quasi-governmental institutions was over half the total number of directors were permitted to maintain that number as long as the terms of office of existing executives were guaranteed, in order to bridge the legislative gap.

2) Executive Recommendation Committee

Every SOE and quasi-governmental institution must form an executive recommendation committee for proposing candidates for executives of SOEs or quasi-governmental institutions and for negotiating matters concerning draft agreements with candidates for heads of institutions. The executive recommendation committee of SOEs is composed exclusively of outside members from the private sector appointed by the board of directors and a majority of non-standing directors. Its chair is elected by and from the non-standing directors. The executive recommendation committee of quasi-governmental institutions is composed of outside members appointed by the board of directors and a majority of non-standing directors. Because public officials from the competent authority can be appointed as outside members, as well as can members from the private sector, public officials from the competent authority are officially allowed to participate in the recommendation of executives. The committee must include one person to represent the opinion of members of institutions.

Whenever a need arises to appoint a new executive, due to the expiration of an executive's term or for any other reason, the board of directors of SOEs or quasi-governmental institutions must immediately organize an executive recommendation committee. The number of members of the executive recommendation committee is determined by resolution of the board of directors in the range of five to 15 persons. However, there may be as few as two or three members if the number of non-standing directors at the time of the organization of the recommendation committee was two or fewer. Members appointed by the board of directors are chosen from among candidates with expert knowledge and experience in assorted areas of law, economics, the press, academia, labor, etc.

The executive recommendation committee is operated through resolution by a vote of the majority of its incumbents. It may request a portion of its

work, including searching out and invitation of candidates for executives, to a specialized institution. Other requirements concerning the management of a recommendation committee and the appointment of executives, such as the organization of the recommendation committee, the system for exclusion, challenge, or abstention of a member, etc., are provided in articles of association or the particular bylaws of the SOEs or quasi-governmental institutions. The details of its operation are prescribed in the Guidelines for Personnel Management of SOEs and Quasi-Governmental Institutions, including the principle of fair appointment of executives, the composition of the executive recommendation committee, decisions on method of invitation of executive candidates, examination of the recommendation committee, recommendation of candidates, the operational guidelines for the recommendation committee and executive-performance management.

When it publicly invites executive candidates, the opening must be published online on the homepage of the SOEs or the quasi-governmental institutions, as well as in one or more daily newspapers. The opening period must be one week at a minimum. However, the period may be shortened upon approval of the head of the competent authority when a prompt appointment is needed. When publicly announcing matters concerning an open invitation for executive candidates, SOEs or quasi-governmental institutions must request the competent authority, the Ministry of Strategy and Finance, and the Ministry of Public Administration and Security to post the invitation on their homepages. An appointing authority or the recommending authority for the appointment of executives at SOEs or quasi-governmental institutions may request the recommendation committee to re-recommend executive candidates if the candidates first proposed by the committee are subject to disqualification under the grounds provided in Article 34 (1) of the Act on the Management of Public Institutions or are perceptibly inappropriate for the management of SOEs or quasi-governmental institutions. The guidelines for personnel management of SOEs and quasi-governmental institutions stipulate that heads of institutions

must be selected through an open-invitation process and other positions must be filled by the executive recommendation committee after selecting a method from among open invitation, recommendation, or some combination of the two. The executive recommendation committee proposes candidates for heads of institutions with appropriate knowledge and experience relating to corporate management and the business affairs of the SOE or quasi-governmental institution in question, as well as the competence to be Chief Executive Officer. The recommendation committee suggests candidates for directors and auditors with the knowledge, experience, and competence necessary for performing their duties.

Table 2-27. Expansion of Scope of Executive Recommendation

Classification	Prior to April 2007	At Present
Scope of recommendation	Recommendation of candidates only for heads of institution through heads of institution recommendation committee	The executive recommendation committee puts forward executive candidates for positions such as heads of institutions, non-standing directors, auditors, etc.
Composition of the executive recommendation committee	Outside members appointed by the board of directors and non-standing directors	<ul style="list-style-type: none"> ■ SOEs: a majority of non-standing directors and outside members appointed by the board of directors (public officials do not participate) ■ Quasi-governmental institutions: a majority of non-standing directors and outside members appointed by the board of directors (public officials may participate) <p>* Including one member who represents the opinion of members of institutions</p>

It is stipulated that if other regulations diverge from those in the Act on

the Management of Public Institutions and are related to the recommendation of candidates for executives of SOEs and quasi-governmental institutions that hold a general meeting of members, including a general meeting of shareholders and general meeting of investors, the institutions involved may comply with those regulations. By permitting an exceptional case for the recommendation process of executives of institutions that hold a general meeting of members, including a general meeting of shareholders and a general meeting of investors, the existing authority of those institutions as the supreme decision-making body concerning the recommendation of executives is respected. As of the end of 2010, institutions where executives were appointed by the general meeting of shareholders included SOEs such as the Korea Electric Power Corporation, the Korea Gas Corporation, the Incheon International Airport Corporation, the Korea Airports Corporation, the Korea Expressway Corporation, the Korea District Heating Corporation, the Korea Appraisal Board and the Korea Housing Guarantee Co., Ltd., as well as quasi-governmental institutions such as the Korea Asset Management Corporation, the Korea Securities Depository and the Korea Exchange.

B. Appointment and Removal of Executives

1) Characteristics of the Personnel System for Executives

The most prominent characteristic of the current personnel system for executives is that the systematic executive appointment system has been established through the determination of an objective and transparent appointment procedure to ensure fairness in the appointment of executives. SOEs and quasi-governmental institutions must appoint executives in accordance with provisions of the Act on the Management of Public Institutions. Other public institutions appoint executives according to the provisions found in the applicable law for the foundation of that institution, the articles of association and, if necessary, the

Act on the Management of Public Institutions. The authority to appoint the managerial level (heads of institutions), standing directors, executives responsible for auditing, and non-standing directors is retained by the competent minister (or the President), heads of institutions, the Minister of Strategy and Finance (or the President), and the Minister of Strategy and Finance (or the competent minister), respectively. Appointment methods include an open invitation, recommendation, or a combination of the two. The procedure for appointing heads of institutions must include an open invitation.

A personnel system to ensure a transparent and fair appointment procedure has been formulated by stipulating that executives be appointed through deliberation and resolution by the Committee for Management of Public Institutions from among candidates endorsed by the executive recommendation committee. The Committee for Management of Public Institutions recommends two to three executive candidates per position to the appointing authority after selecting from among three to five candidates per position suggested by the executive recommendation committee. Through the appointment process, a range of matters are taken into consideration, such as invitation methods including an open invitation; the legality of prior procedures including the composition, management and assessments of the executive recommendation committee; whether candidates are legally qualified for each position; whether candidates demonstrate the expertise required for an executive career; and whether the public interest has been protected. The Personnel and Remuneration Subcommittee under the Committee for Management of Public Institutions, chaired by the Vice Minister of Strategy and Finance, conducts prior deliberation on personnel-related matters and submits it to the Committee for Management of Public Institutions. Positions subject to deliberation and resolution by the Committee for Management of Public Institutions include heads of institutions, auditors (standing audit commissioners), non-standing directors of SOEs and auditors (standing audit commissioners) of quasi-governmental institutions.

2) Heads of Institutions

Heads of SOEs are appointed by the President upon the request of the competent minister after deliberation and resolution by the Committee for Management of Public Institutions on candidates for heads of institutions recommended by the executive recommendation committee. However, the head of an SOE below size criteria prescribed by Presidential Decree is appointed by the head of the competent authority from among a pool first put forward by the executive recommendation committee and then further narrowed by deliberation and resolution of the management committee. The heads of quasi-governmental institutions are appointed by the head of the competent authority from among a pool recommended by the executive recommendation committee. However, the head of a quasi-governmental institution the size of which meets or exceeds the criteria prescribed by Presidential Decree or which is specified by Presidential Decree in consideration of the peculiarities of its business affairs, is appointed by the President upon recommendation by the head of the competent authority from among a pool recommended by the executive recommendation committee. In addition, the tenure security for the head of an SOE is specified in the stipulation that he/she may not be removed before the expiry of his/her term, unless that removal is performed by the person with the power of appointment or there are grounds for removal as specified in the articles of association. This also applies to the heads of quasi-governmental institutions.

Table 2-28. Appointment Procedure for Heads of SOEs and Quasi-Governmental Institutions

Classification	Prior to April 2007	At Present*
SOEs	Recommendation by the heads of institutions recommendation committee → request by the competent minister → appointment by	Recommendation by the executive recommendation committee → deliberation and resolution by the Committee for Management of Public Institutions → request by the competent

Classification	Prior to April 2007	At Present*
	the President	minister → appointment by the President
Quasi-governmental institutions	Recommendation by the heads of institutions recommendation committee → appointment by the competent minister	Recommendation by the executive recommendation committee → request by the competent minister → appointment by the President

* Applies to large-scale public institutions whose total revenue is at or above 100 billion won and whose prescribed number of personnel is or surpasses 500.

Heads of SOEs with total revenues of or above 100 billion won and whose prescribed number of personnel is or surpasses 500 are appointed by the head of the competent authority from among a pool recommended by the executive recommendation committee and then selected through the deliberation and resolution of the Committee for Management of Public Institutions.

3) Auditors (Standing Audit Commissioners)

An auditor for an SOE is appointed by the President upon the request of the Minister of Strategy and Finance from among a pool recommended by the executive recommendation committee and then selected through the deliberation and resolution of the Committee for Management of Public Institutions.

An auditor for a quasi-governmental institution is appointed by the Minister of Strategy and Finance from among a pool recommended by the executive recommendation committee and then selected through the deliberation and resolution of the Committee for Management of Public Institutions. However, an auditor for quasi-governmental institutions exceeding the size criteria prescribed by Presidential Decree, or those specified in consideration of the peculiarities of their business affairs by Presidential Decree, are appointed by the President upon the request of the Minister of Strategy and Finance from among a pool recommended by the executive recommendation committee.

Requests by the Minister of Strategy and Finance and deliberation and resolution by the Committee for Management of Public Institutions are included in the appointment procedures for auditors of SOEs and quasi-governmental institutions in order to promote both the autonomy and supervision of auditors. However, the auditors of SOEs and quasi-governmental institutions that fall below the criteria prescribed by Presidential Decree are appointed by the Minister of Strategy and Finance from among a pool recommended by the executive recommendation committee and then selected through the deliberation and resolution of the Committee for Management of Public Institutions.

Appointment procedures for standing directors who serve as audit commissioners (standing audit commissioners) are differentiated from other appointment procedures in order to ensure the strict neutrality of audit commissioners from heads of institutions in executing the functions of the institution. Standing audit commissioners of SOEs and quasi-governmental institutions are appointed by the President upon the request of the Minister of Strategy and Finance from among a pool recommended by the executive recommendation committee and then selected through the deliberation and resolution of the Committee for Management of Public Institutions. However, standing audit commissioners of SOEs and quasi-governmental institutions which fall below the size criteria prescribed by Presidential Decree are appointed by the Minister of Strategy and Finance from among a pool recommended by the executive recommendation committee and then selected through the deliberation and resolution of the Committee for Management of Public Institutions.

4) Standing Directors and Non-standing Directors

Standing directors of SOEs are appointed by the head of the SOE. Standing directors of quasi-governmental institutions are appointed by the heads of institutions except when other statutes demand a separate recommendation

committee for standing directors.

Table 2-29. Distribution of the Authority to Appoint Standing Directors

Classification	Prior to April 2007	At Present
SOEs	Request by the heads of institutions → appointment by the competent minister	Appointment by the competent minister
Quasi-governmental institutions	Request by the heads of institutions → appointment by the competent minister	Appointment by the competent minister (Amended December 2009)

Non-standing directors of SOEs and quasi-governmental institutions may not be appointed by the heads of institutions in order to hold the head of institutions and the management level in check. They are instead appointed by the Minister of Strategy and Finance upon the suggestion of the executive recommendation committee for non-standing directors at SOEs through the deliberation and resolution of the Committee for Management of Public Institutions. Non-standing directors of quasi-governmental institutions are appointed by the head of the competent authority. However, those of quasi-governmental institutions that meet or exceed the size criteria prescribed by the Presidential Decree or which are prescribed by Presidential Decree in consideration of the particularity of its business matters are appointed by the head of the competent authority from among a pool recommended by the executive recommendation committee. Those of other institutions are appointed by the head of the competent authority without recommendation by the executive recommendation committee.

Table 2-30. Distribution of the Authority to Appoint Non-standing Directors

Classification	Prior to April 2007	At Present
SOEs	Request by the head of institutions → deliberation by the Committee for Management of Government-Invested Institutions → appointment by the Minister of Planning and Budget	Recommendation by the executive recommendation committee → deliberation by the Committee for Management of Public Institutions → appointment by the Minister of Strategy and Finance
Quasi-governmental institutions	Appointment by the competent minister	Large-scale institutions: Recommendation by the executive recommendation committee → appointment by the competent minister Small-scale institutions: Appointment by the competent minister

C. Executive Terms of Office

Previously, a three-year term of office was uniformly guaranteed to all executives at most institutions, including heads of institutions, standing directors, non-standing directors and auditors. However, it was pointed out that human resources-related ex post measures based on management performance, such as removal or reappointment based on management performance, were insufficient. In an effort to promote the operational accountability of executives, revision was made to the Act on the Management of Public Institutions under which the term of office for heads of institutions remained three years, while that of standing and non-standing directors and auditors became two. However, in an effort to ensure organizational stability, the tenure of those executives in office at the time of this designation remained in conformity with those

Acts and subordinate statutes that were in place when the institution was designated as a public institution.

Executives of SOEs and quasi-governmental institutions may be reappointed in one year increments and no limitation is placed on the number of consecutive reappointments. In order to determine the reappointment of an executive, the appointing authority examines the results of the management performance evaluation for heads of institutions; the results of the evaluation of compliance with the performance agreement and performance of other duties for standing directors; and the evaluation results for the execution of duties and the performance of other duties for non-standing directors and auditors. Reappointment of executives of SOEs or quasi-governmental institutions does not require a recommendation process involving the executive recommendation committee. Whenever a head of an institution is appointed for a consecutive term, an agreement is reestablished and consultation with the executive recommendation committee is not required.

Table 2-31. Consecutive Appointment System for Executives

Classification	Prior to April 2007	At Present
Heads of institutions	Three-year term of offices guaranteed.	Three-year term of office + reappointment in one-year increments (results of management performance considered in reappointment)
Directors and auditors	Consecutive appointment was restricted in practice.	Two-year term of office + reappointment in one-year increments (evaluation results of performance of duties considered in reappointment)

Until their successors can be appointed, executives must perform their duties even after the expiration of their terms. Reflecting the purpose of relevant provisions of the Commercial Act in the management of public institutions,

this procedure was adopted to prevent interruption in the continuity of work and to clarify executive responsibilities.

D. Grounds for Disqualification and Prohibition of Executives and Employees from Holding Concurrent Offices

Grounds for disqualification as executives of SOEs and quasi-governmental institutions are clearly delineated in order to ensure uniformity in the management of public institutions and in executive responsibilities. When a person¹⁷⁾ who falls under Article 33 of the State Public Officials Act or a person¹⁸⁾ who was removed from office within three years falls under grounds for disqualification, or if it is discovered that he/she was subject to such provisions at the time of his/her appointment, he/she shall be automatically discharged. However, in order to ensure legal continuity, it is stipulated that any act in which such an automatically discharged executive had been involved prior to discharge remains valid and effective.

In order to ensure that they devote themselves to their duties, it is prescribed, as in the former Framework Act on the Management of Government-Affiliated

17) An incompetent or a quasi-incompetent person; a person who has declared bankruptcy and has not yet been reinstated; a person for whom five years have not passed since his/her imprisonment without prison labor or a heavier punishment declared by a court has been completely executed or exempted; a person who has been sentenced by the suspension of the execution of imprisonment without prison labor or a heavier punishment and for whom two years have not passed since the expiration of the period of suspension; a person who is under a suspended sentence of imprisonment without prison labor or a heavier punishment as declared by a court; a person who has been disqualified or whose qualification is suspended; and a person who was removed from office or dismissed as a result of disciplinary action and for whom five years have not passed since that action.

18) Institutions heads who were removed at the request of the board of directors; standing directors who were removed by an institution head due to poor job performance; non-standing directors, auditors, heads of institutions, and standing directors who were removed due to non-performance or negligence of their duties; and non-standing directors and auditors who were removed due to poor job performance.

Institutions, that neither executives nor employees may engage in businesses outside their duties for the purpose of making a profit. However, if a standing executive of an SOE or a quasi-governmental institution obtains permission from the person with the power to appoint or recommend for hiring, or if an employee of an SOE or a quasi-governmental institution obtains permission from the head of an institution, he/she may concurrently assume a not-for-profit office. The scope of businesses for profit is prescribed by Presidential Decree, and the provisions of Article 25 of the State Public Officials Service Regulation apply, with corresponding adjustments, to the detailed scope of businesses for profit. This is aimed at applying an identical code of conduct to executives and employees as that applied to public officials involved in the matter.

10. Budget and Accounting System of Public Corporations and Quasi-governmental Institutions

The public has a vested interest in the services provided by public institutions, as well as their organization and budget management, since they are established, supported and operated with public tax revenue. Compared to the government, public institutions are in a more flexible position to execute their missions, whereas, on the other hand, they are likely to be inefficiently operated. Although public officials are integrated into a single national structure of remuneration and benefits, public institutions vary in type, making it hard to control them under one standard.

The government distributes the "guidelines for budget compilation of public corporations and quasi-governmental institutions" and the "guidelines for budget execution of public corporations and quasi-governmental institutions" each year to suggest the guidelines regarding the budgets, fund management and execution of public institutions. The purpose of the budget guidelines is to establish an accountable management system in public institutions and to enhance the

efficiency in their management by suggesting principles which must be followed upon preparation and execution of key items of a budget such as personnel expenditure, expenses, operating expenses and reserve fund.

The guidelines for budget compilation and execution of public corporations and quasi-governmental institutions shall be finalized by deliberation and resolution of the Committee for Management of Public Institutions under Article 50 of the Act on the Management of Public Institutions, and shall apply *mutatis mutandis* to public corporations and quasi-government institutions. The guidelines for the budget compilation of public corporations and quasi-government institutions shall apply *mutatis mutandis* to non-classified public institutions.

A. Accounting Principles

Under the accrual based accounting, the accounting of public corporations and quasi-governmental institutions shall be based on accruals to clearly show business performance (revenue/expenditure) and changes in assets and liabilities (increases/decreases). The detailed accounting criteria shall conform to the "Rules for Accounting Affairs of Public Corporations and Quasi-governmental Institutions," a Ministry of Strategy and Finance Decree, and shall be applied beginning with the settlement of budgets for the following year when a public corporation or a quasi-governmental institution is designated, and accounts for the year of designation.

B. Compilation and Evaluation of Budget

A draft budget of each public institution for the following fiscal year shall separately compile its general provisions, the estimated income statement, the estimated balance sheet, and the financial plan in accordance with the guidelines

for budget compilation of public corporations and quasi-governmental institutions, and shall be finalized by resolution of the board of directors no later than the beginning of the following fiscal year before being reported to the Ministry of Strategy and Finance, the competent agency and the Board of Audit and Inspection. When the budget is finalized or revised, a management plan shall be finalized or revised without delay after resolution of the board of directors, and the public corporation or quasi-governmental institution shall submit the plan established to the Minister of Strategy and Finance (only for public corporations) and the head of the competent agency within two months after the budget is finalized.

The budget details of each public institution are made public on the website of the "Public Institution ALIO (all public information in one) System" operated by the Ministry of Strategy and Finance, and compliance with the guidelines for budget compilation is strictly examined and reflected when the government evaluates the management performance of public institutions. A public corporation or quasi-government institution which is found by a management performance evaluation to be suffering from poor management due to the excessive appropriation of personnel expenditure and the violation of the aforementioned guidelines may be requested to take personnel or budgetary measures to ensure responsible and improved management in the future through the deliberation and resolution of the management committee.

C. Settlement of Accounts

At the end of each fiscal year, every public corporation or quasi-governmental institution shall prepare statements on the settlement of accounts for the corresponding fiscal year without delay and select an accounting firm as prescribed by the Rules of the Board of Audit and Inspection to conduct an external audit. Each public corporation and quasi-governmental institution shall,

to the Minister of Strategy and Finance and the head of the competent agency respectively, submit each financial statement including the opinion of an external accounting auditor and accompanying documents no later than the last day of February of the following year, and shall finalize the settlement of accounts by obtaining approval no later than the last day of March. The Minister of Strategy and Finance and the head of the competent agency shall submit to the Board of Audit and Inspection the finalized statements, etc. on the settlement of accounts no later than May 10 every year. The Board of Audit and Inspection shall inspect the statements, etc. on the settlement of accounts submitted, and shall submit the results thereof to the Minister of Strategy and Finance by no later than July 31. The Minister of Strategy and Finance shall report to the State Council the statements, etc. on the settlement of accounts along with the results of the audit conducted by the Board of Audit and Inspection, and shall also submit them to the National Assembly by no later than August 20.

Table 2-32. Financial State of Public Institutions

(As of the end of 2009, Unit: billion won)

Category	Balance Sheet			Income Statement		
	Asset	Liability	Equity	Revenue	Expenditure	Net Income
Total	610,882	347,578	263,304	267,368	259,912	7,429
Market-based public corporation	130,304	62,728	67,576	62,467	61,382	1,085
Quasi-market-based public corporation	220,560	149,359	71,201	42,530	41,285	1,218
Fund-management-based quasi-governmental institutions	99,143	60,161	38,982	16,690	16,077	613
Commissioned-service-based quasi-governmental institutions	83,418	38,347	45,071	48,693	47,868	825
Non-classified public institutions ¹⁾	77,457 ¹⁾	36,983 ¹⁾	40,474 ¹⁾	96,988	93,300	3,688

1) Five public financial corporations such as Korea Export-Import Bank, Industrial Bank of Korea and Korea Development Bank including Korea Finance Corporation and KDB Financial Group Inc. are excluded.

D. Main Details of the 2011 Guidelines for Budget Compilation

Total personnel expenditure of public corporations and quasi-governmental institutions has been frozen for two years between 2009 and 2010 as with public officials in an aim to share the burden of overcoming the economic crisis. Given that the remuneration level of public institutions is higher than that of the private sector or public officials whose wage increase rate stood at 5.1 percent, the government's draft budget for 2011 keeps the rate of total personnel expenditure of public institutions within 4.1 percent of the total personnel expenditure earmarked in 2010.

Table 2-33. Remuneration of Public Officials

(Unit: %)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Ratio of public officials' wage to private sector wage	88.4	93.1	94.8	95.5	95.9	93.1	91.8	89.7	89.0	89.2
Wage increase rate	9.7	7.9	7.8	6.5	3.9	1.3	2.0	2.5	2.5	0.0

* Source: Results of a survey on public and private sector wages conducted by the Ministry of Public Administration and Security

In comparison with the wage of office managerial staff working in a company with more than 100 regular employees

Current expenses are recurrent expenditures incurred each year in the operation or maintenance of an institution. In principle, current expenses are earmarked as required, and non-essential expenses are cut down as much as possible. In the 2011 guidelines for budget compilation, current expenses are frozen in principle, and an increase or reduction in current expenses is determined depending on the result of six-grade management evaluation (S, A, B, C, D, and E) of each institute.

Much criticism about lax management from the National Assembly and

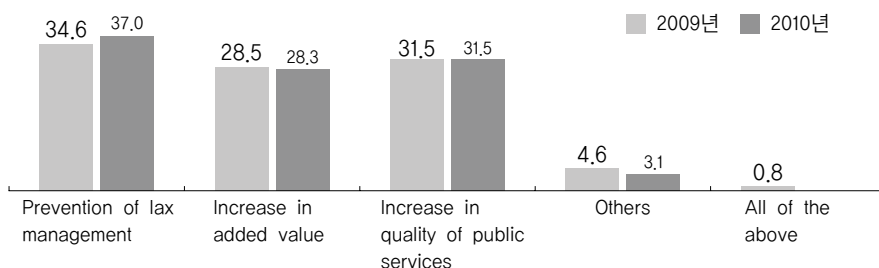
the press has been aroused in the Inspection of State Administration for this year. Lax management is never tolerated in the private sector. As it fundamentally arises out of the relationship among the principal (the people), the agent (the government) and the subagent (public institutions), the government has sought a variety of ways to solve the problem.

In a related move, the following provisions were newly inserted in the 2010 guidelines: abolition of free scholarship assistance, adjustment of the house loan interest rate to the market rate of interest, prohibition of budget preparation and assistance for loan programs concerning expenses for congratulation and condolences and the stabilization of employees' living, and application of differential criteria for the corporate welfare fund depending on earnings before taxes. In the 2011 guidelines for budget compilation, it was decided that pure gold, gift certificate and other excessive gifts for prospective retirees and

Box Examples of Press Report on Lax Management

- Lax management at public corporations has not changed at all. (Yonhap News, October 18, 2010)
- Is lax management at public institutions an "incurable disease"? (Hankyoreh Newspaper, October 18, 2010)
- No energy left to rage against lax management at public institutions (Seoul Newspaper, October 20, 2010)

A Survey of Perception on Policy for the Advancement of Public Institutions (Korea Management Association, August 2010)



long-term employed workers are not earmarked, and in the case where earnings before taxes are incurred unrelated to the efforts of the institution concerned, for example, by government financial assistance, selling of an institution-funded company, and selling of unused properties, the earnings are prevented from being appropriated for the corporate welfare fund.

Lately, excessive liabilities incurred by public institutions have emerged as a major issue. To reflect this, the 2011 guidelines for budget compilation seek for ways to provide policy support for public institutions in improving their financial soundness. According to the previous guidelines, a pre-feasibility study is required to be conducted for large-scale businesses worth more than 50 billion won. However, public institutions apply the extended criteria for exemption from the analysis and are solely entrusted to select an independent external consultation firm, triggering much criticism that the pre-feasibility study has been conducted as a formality only. Subsequently, the 2011 guidelines provide for a reliable, independent external consultation firm as selected by the Minister of Strategy and Finance to conduct the pre-feasibility study, and narrow the exemption criteria down to enterprises subject to pre-feasibility study in accordance with the National Finance Act, enterprises requiring urgent execution such as disaster prevention, restoration support or securing the stability of facilities, and enterprises explicitly agreed upon by consultation between the Minister of a competent agency and the Minister of Strategy and Finance, whereas previously, enterprises had been able to enjoy exemption on ambiguous grounds such as budgetary waste and unnecessary delay in the execution of the enterprise concerned. In addition, relevant provisions, which require public institutions to step up efforts to improve financial soundness through an increase in self-generating revenue, the curtailment of expenses, business restructuring and the operation of an organization specializing in financial management, were newly inserted and stipulated in a bid to reflect the critical opinion that unlike in the private sector, public institutions lack expertise in financial risk management.

Table 2-34. Liabilities of Public Institutions

(Trillion won, %)

	'05 (A)	'06	'07	'08	'09 (B)	Increase- Decrease (B-A)
Total*	219.4	226.6	249.7	298.1	347.6	128.2
Public Corporations	98.0	117.8	137.3	175.9	212.1	114.1
Quasi-Governmental Institutions	98.5	83.9	83.2	88.1	98.5	0.0
Non-Classified Public Institutions*	22.9	24.9	29.2	34.1	37.0	14.1

* Five public financial corporations such as Korea Export-Import Bank, Industrial Bank of Korea and Korea Development Bank including Korea Finance Corporation and KDB Financial Group Inc. are excluded.

11. Management Evaluation System of State-owned Enterprises (SOEs) and Quasi-governmental Institutions

A. Overview

1) Management Evaluation System¹⁹⁾

a) Definition

An evaluation system of public institution management, which is a means of supervising the management of public institutions as prescribed in the Act on the Management of Public Institutions, was first introduced in 1984 when a management system for government-invested institutions was put in place and since 1999, it has been composed of an “institution evaluation” and a “CEO

19) Cited from a paper titled “Policies for advancement of public institutions,” published by the Korea Institute of Public Finance.

contract completion performance review.”

The management evaluation of public institutions is characterized with a cyclical process where an objective assessment is made on annual performance achieved by each public institution on the basis of evaluation indicators as prescribed in the relevant statutes. Corresponding to the subsequent results, incentives are offered including performance-based payment and evaluation results are reflected on the successive business plans.

This management evaluation system is an institutional mechanism that provides a specific level of autonomy to each public institution with the aim of establishing an accountable management system, while holding it responsible for its business performance through evaluation. It is also a managerial process that will lead to an improvement in management as the evaluation offers feedback to the management of public institutions.

b) Objectives

Making a prior agreement on business achievements in anticipation for “performance evaluation,” such as a management evaluation manual for an institution and a management plan for its head, enables the reestablishment of the relationship between the government and public institutions. The clear definition and stipulation of their roles helps resolve problems arising from reckless intervention by governmental ministries in the management of public institutions and also depoliticize or decouple their relationship.

This management evaluation system also fosters an institutional environment which enables executives in public institutions to develop their creativity and entrepreneurship. One of the crucial internal factors that determine the performance of public institutions is to establish a managerial system and environment that effectively promote creativity and entrepreneur spirit. This evaluation system ensures autonomy in management, resulting in the exhibition of these characteristics, and the ex post evaluation, part of the evaluation cycle, can contribute to responsible management.

c) Anticipated Effects

First, the performance evaluation for public institutions can motivate their executives to strive to improve management efficiency and also make their organization members more motivated and responsible for achieving the goals of each institution. The introduction of a system that guarantees the autonomous management of public institutions with the aim of encouraging them to improve their management while holding them accountable for business results is to lead public institutions to a similar system that private companies face in being assessed by the market.

Second, this management evaluation system helps chief executive officers of public institutions to set clear targets and at the same time, effectively controls typical agent behavior occurring in public institutions by keeping the balance between their public and commercial objectives. In order to overcome agency problems caused by moral hazard factors, including pursuit of self-interest, risk avoidance, or loss of motivating factors, it is needed to assign relevant business goals to each public institution and provide incentives commensurate with the ex post assessment. The setting of specific business goals and their alignment with the information system will establish a system that enables to focus resources on core competent areas of public institutions. In this process, a change from a vague concept of maximizing public welfare to clear, calculable goals represented through evaluation indicators is made and partially contributes to the solution of principal-agent problems.

Third, one of the reasons for inefficiency in public institutions can be found in the lack of internal and external competitive pressure; the management evaluation system can bring in competition to innovate the *modus operandi* of public institutions. The payment of different incentives plays a role in artificially creating a competitive environment within public institutions between internal organizations and individuals, as well as against other public institutions.

Fourth, this evaluation system features a management cycle in which the evaluation results provide feedback to the public institutions, which leads to

improvement in management. In this process, the institutions can give a diagnosis of pending problems and come up with countermeasures; or facilitate efforts to benchmark exemplary institutions or management systems. Performance evaluation can also provide public institutions with a guideline for improving management capacity, and its results enable them to analyze and correct problems arising in pursuit of organizational goals.

Finally, this system can contribute to improving management transparency of public institutions. It enables public institutions to analyze their management status, report the results to the National Assembly and the President, and release them to the public through publication of management performance or the mass media, consequently enhancing openness and transparency of business activities and performance of public institutions.

2) Types of Management Evaluation

a) Management Performance Evaluation for SOEs and Quasi-governmental Institutions

The evaluations for management performance of SOEs and quasi-governmental institutions, which are aimed at ensuring their accountable management through external assessment on their achievements, and at utilizing them for management improvement, are conducted pursuant to Article 48 (1) of the Act on the Management of Public Institutions.

Designated by the same Act, the annual overall performance of SOEs and quasi-governmental institutions is placed under assessment. As for the 2010 performance evaluation, a total of 100 institutions, including 21 SOEs and 79 quasi-governmental institutions, will be rated based on their performance during the period of January 1, 2010 to December 31, 2010.

b) Actual Performance Evaluation of Management Plan Executed by Institution Head

A systematic evaluation of each institution head's efforts to carry out its management plan and performance based on their management plan is intended to provide a reasonable management foundation for an institution head through an overall inspection on the role, efforts, and relevancy of the institution head. To this end, SOEs and quasi-governmental institutions are evaluated under Article 48 (1) of the Act on Management of Public Institutions and non-classified public organizations are rated under Article 15 (2) of the same Act and Article 21-2 of the Guideline on Innovation of Non-classified Public Institutions.

The evaluation subject is a management plan formulated by the head of each institution across 100 SOEs and quasi-governmental institutions and 13 non-classified public institutions designated by the Minister of Strategy and Finance, all of which are institutions required to formulate management agreements. As for 2010, 109 institution heads are subject to evaluation, excluding four heads who are supposed to devise an autonomous management plan and based on this, be rated against their performance. Given that this evaluation targets individual heads, however, institution heads, who have been in office for less than six months, or who are vacant, as of the evaluation date (end of each year), are excluded from the corresponding year's evaluation.

An evaluation period is generally one year, same as the management performance evaluation period. Depending on the head's term in office, however, the period differs: if the head was appointed in the second half of the previous period, the evaluation period covers the serving time of the previous year; if the head was newly appointed in the corresponding year, it covers the time since the beginning of his/her term.

c) Performance Evaluation of Autonomous Management Plan

With the aim of accelerating the expansion of autonomous and accountable management—the intent of the Act on the Management of Public Institutions,

the government decided to institutionalize a tailored management system which grants institution heads autonomy and holds them responsible in close alignment with business performance, and then drafted a pilot program designed to expand autonomous management rights in public institutions. Since 2010, the government has been conducting the pilot program for expanding public institutions' management autonomy in some selected institutions; and the performance evaluation of autonomous management plans is a separate evaluation system specifically targeting institution heads, which is designed to overhaul the effects of the increased management autonomy among pilot program participants, provide feedback, and eventually contribute to the expansion of autonomous and responsible management of public institutions.

As a replacement for the actual performance evaluation of management plans executed by institution heads, the performance evaluation of autonomous management plans is implemented on the same legal ground as the said management plans. In 2010, the Incheon International Airport Corporation, the Industrial Bank of Korea, the Korea Gas Corporation, and the Korea District Heating Corporation were selected for the pilot project and regardless of each head's term in office, the performance of management autonomy achieved during the period of January 1, 2010 through December 31, 2010 will be under evaluation.

d) As for evaluating the actual performance of the duties of standing auditors and standing audit commissioners, standing auditors or standing audit commissioners of SOEs and quasi-governmental institutions are placed under assessment pursuant to Article 36 of the Act on the Management of Public Institutions. Periodic evaluation is in principle conducted on an annual basis; but if they fail or neglect to perform their obligations, responsibilities, or duties under the Act on the Management of Public Institutions, standing auditors' actual performance may be evaluated at an arbitrarily-decided time.

B. Evaluation System

1) Management Performance Evaluation for State-owned Enterprises and Quasi-governmental Institutions

a) Evaluation Indicator System

The evaluation for management performance among State-owned Enterprises (SOE) and quasi-governmental institutions is composed of 18 indicators in three categories: leadership & strategy, management system, business performance.

Table 2-35. Categories and Indicators of the Evaluation System

Category	Main Contents	Main Indicators
Leadership & Strategies	Whether business drivers, including vision, goals, strategies, and leadership, are properly set up and implemented.	<ul style="list-style-type: none"> ■ Executive leadership ■ Internal supervisory system including board of directors and auditors ■ Vision & development of strategies, plans in pursuit of major business activities
Management System	Whether the institution has a system that improves efficiency of business activities and utilizes organizational resources effectively.	<ul style="list-style-type: none"> ■ Major business activities ■ Organization, personnel, remuneration, financial management, rational labor-management relations, performance management system, etc.
Management Performance	Whether management performance, including major business performance, productivity, customer satisfaction, is properly produced.	<ul style="list-style-type: none"> ■ Major business performance ■ Customer satisfaction, labor & capital productivity, management of personnel and overhead expenses, result of financial budget, etc.

b) Utilization of Evaluation Results

Calculated by combining evaluation points in each grade, comprehensive performance evaluation is categorized as six grades: excellent, outstanding, good, average, poor, and very poor. Grade ranges are determined through deliberation and resolution by the Committee for Management of Public Institutions based on average scores and standard deviation obtained from actual performance evaluation of institutions.

The results of management evaluation are utilized mainly in four areas related to personnel measures, payment of incentives, budget feedback, and management improvement. First, as personnel measures based on performance, the Minister of Strategy and Finance is allowed to recommend the removal of the heads concerned or standing directors of institutions rated “poor” in the performance evaluation, to the person responsible for their appointment. Second, the evaluation results have been utilized as a standard of determining the levels of incentives offered to executives and employees. Different incentive rates are applied according to the performance-based decision of the Committee for Management of Public Institutions. Third, as a result of the management evaluation, institutions rated “excellent” may increase their expenses budget for the following year within one percent while those rated “poor” are required to decrease the budget within one percent. Fourth, institutions evaluated “poor” are provided a variety of support, including management consultation, assistance for improving management activities through oversight on their achievements while they will face demands for management improvement plans.

2) Actual Performance Evaluation of Management Plan Executed by Institution Heads

a) Evaluation Indicator System

The performance evaluation based on management plans formulated by institution heads is composed of 11 indicators in three categories, such as

leadership, advancement of public institutions, and their original tasks; and in terms of weight allotted to each category, 20 percent goes to leadership, 40 percent to advancement of public institutions, and 40 percent to their own tasks.

Figure 2-6. Categories and Indicators of Evaluation System

Category	Leadership	Advancement of public institutions	Institutions' original tasks
Weight (%)	20	40	40
Evaluation indicators	<ul style="list-style-type: none"> ■ Selection of major impending tasks and reasonable establishment of management plans (10) ■ Guarantee of sustainability and communicative efforts (10) 	<ul style="list-style-type: none"> ■ Reasonable alignment between remuneration and performance management (10/13) ■ Personnel and functional coordination and efficiency in other areas (10/13) ■ Improvement in the labor-management relations (10/14) ■ Rationalization in the content of collective agreements and efforts to improve them (10/-) 	<ul style="list-style-type: none"> ■ Selection of a couple of tasks by institution (allotment of weight by sector) ■ 5 evaluation indicators by sector <ul style="list-style-type: none"> - Validity in setting of performance indicators - Efficiency in implementing business goals - Accomplishment of performance targets

*13-14 means weight applied to institutions without labor unions

b) Utilization of Evaluation Results

Total points, calculated by combining evaluation points in each category, are classified into six categories: excellent, outstanding, good, average, poor, and

very poor. If the evaluation is classified as “very poor,” removal of the head is recommended; if it is “poor,” a “warning” is issued to the corresponding head, but should he/she receive a “warning” for two consecutive years, removal of the head is recommended. In addition, after combining evaluations of institution heads’ management plans and management evaluation of institutions, differential incentives are offered, while there are no incentives for public institution heads rated as “very poor.”

3) Performance Evaluation of Autonomous Management Plan

a) Evaluation Indicator System

The performance evaluation of autonomous management plans consists of four indicators in two categories, the institution’s original tasks and common tasks shared with other institutions. Without assigning weighted value to certain categories, a total score assigned to its own performance task can be 100 points, and points given to the common tasks range from a 3-point addition to a 15-point deduction in total.

Figure 2-7. Categories and Indicator of the Evaluation System

Category	Original tasks	Common tasks	
Weight value	100	Addition and deduction (+1,5-△6points each/maximum+3-△12points)	Deduction (0-△3 points)
Evaluation Indicators	<ul style="list-style-type: none"> ■ A few performance targets selected beforehand according to each institution (Weight given based on performance targets) 	<ul style="list-style-type: none"> ■ Advancement of public institutions ■ Advancement of labor and management relationship 	<ul style="list-style-type: none"> ■ Propriety of autonomous management

b) Utilization of Evaluation Results

The total score, derived from the combined evaluation points from each category, is classified into three grades—Excellent, Average, and Insufficient—and based on this evaluation result, the government takes different follow-up measures. As for institutions graded “Excellent,” the government allows them to continue to expand autonomous management rights; recommends their heads to be consecutively appointed; and their employee achievement grade is raised within the range of the one grade. Institutions graded “Average” will be allowed to extend their autonomous management rights for another year but their autonomous management plans need to be re-examined. Institutions graded “Insufficient” will have their rights rescinded; their heads shall resign voluntarily; their employees’ incentives will be curtailed within the range of one grade.

C. System and Procedures of Evaluation

With the aim of ensuring expertise and fairness in the course of making the assessments, a management evaluation team, which is comprised of experts from the private sector, including professors and accountants, shall be formed pursuant to Article 48 (6) of the Act.

A management evaluation manual for SOEs and quasi-governmental institutions shall be prepared by the end of the preceding year of the year of assessment; an institution head’s management plan and autonomous management plan shall be formulated for performance evaluation early in the year when management evaluation is supposed to be conducted. As planned in these manual and plans, public institutions are managed in yearly cycles and regarding this, performance evaluation is carried out at the beginning of the following year.

Article 47 of the Act on the Management of Public Institutions prescribes

that a management performance report and a management implementation report shall be submitted to the Minister of Strategy and Finance and the head of the competent agency by no later than March 20 each year; Article 48 (7) of the same Act stipulates that based on these reports prepared by public institutions, the evaluation shall be finished by no later than June 20 each year and the results therefrom shall be reported to the National Assembly and the President: *Provided*, That for quicker feedback, a performance evaluation on the autonomous management plan is scheduled to be completed by late April.

In addition to procedures stipulated in regulations, for the purpose of enhancing the fairness and expertise of evaluations, the management evaluation team is formed during the period of February or March in the succeeding year, earlier than prescribed in the Act and educational training including workshops is offered to team members; and as part of efforts to improve the rationality and validity of evaluations, on-site investigations into public institutions subject to performance assessment and interviews with institution heads are conducted during the period between April to May.

In addition to procedures stipulated in regulations, for the purpose of enhancing the fairness and expertise of evaluations, the management evaluation team is formed during the period of February or March in the succeeding year, earlier than prescribed in the Act and educational training including workshops is offered to team members; and as part of efforts to improve the rationality and validity of evaluations, on-site investigations into public institutions subject to performance assessment and interviews with institution heads are conducted during the period between April to May.

D. Directions in System Improvement

1) Background

First, change in the system is aimed at ensuring that management evaluations prevent careless management in public institutions and that financial soundness is improved. Stricter evaluations on management would preclude lax management and derive objective evaluation results that could garner wide public consensus. It is also part of efforts to bring improvements into the evaluation system, such as the strengthening of measurable evaluations, assessment of sound finances, and overhaul of the incentive payment system.

Second, systemic improvement is intended to lift the burden arising from evaluations of public institutions while making their results more acceptable. In addition, organizations subject to assessment necessitate the uniformity of evaluation systems with the focus on institutions and their heads, simplification of evaluation indicators, and the necessity of designing tailored indicators and evaluation methods according to the characteristics of each institution.

Third, it is aimed at establishing an evaluative foundation that would induce sustainable and voluntary innovation. The evaluation system of management needs to be built as a system that would improve public services offered by public institutions and bring about reforms corresponding to the needs and expectations of the general public. In particular, there has been growing consensus for the need that public institutions need to play a more active role for creating a “fair society.”

Fourth, the objective of reform is to enhance the efficiency of the management evaluation system. It is intended to establish a system that helps complete the policy of improving public institutions up to the level of advanced countries as planned while taking the lead in implementing policies recommended by the government. Furthermore, it is aimed at consolidating the linkage between the transparency of management evaluation, the audit of

the Board of Audit and Inspection of the Inspection of State Administration, and the evaluation results of management performance.

2) Directions in System Improvement

This reorganization of the management evaluation system is designed to achieve the goals of enhancing efficiency of the evaluation, which can be utilized to prevent lax management, accelerate the advancement of public institutions, strengthen social responsibility, unify evaluation systems and simplify evaluation indicators, while easing the burden on public organizations arising from evaluation. To this end, draft reform plans are formulated in the following six directions.

First, this reform plan consolidates the management performance evaluation of SOEs and quasi-governmental institutions and the actual performance evaluation of management plans executed by an institution head, which have caused the problems of redundant evaluations and excessive burden placed on public entities to implement the said evaluations. Despite the merge of the two evaluations, the unified version evaluates the institution heads by extracting indicators to which the role of the head is deemed vital from the overall institution evaluation as principle, thus securing validity of the evaluation system (accountable management and connection between performance and personnel). In addition, the evaluation teams for public institutions and their heads are integrated into a management evaluation team, which would result in the enhancement of efficiency.

Second, the evaluating indicators are drastically streamlined and systematically arranged. Complicated indicators are classified and grouped according to their focus; and some indicators with potential overlaps are combined to become simpler and less complex.

Third, the systems are reconstructed to be tailored evaluation systems. As for SOEs, the evaluation is focused on enhancing their productivity and financial

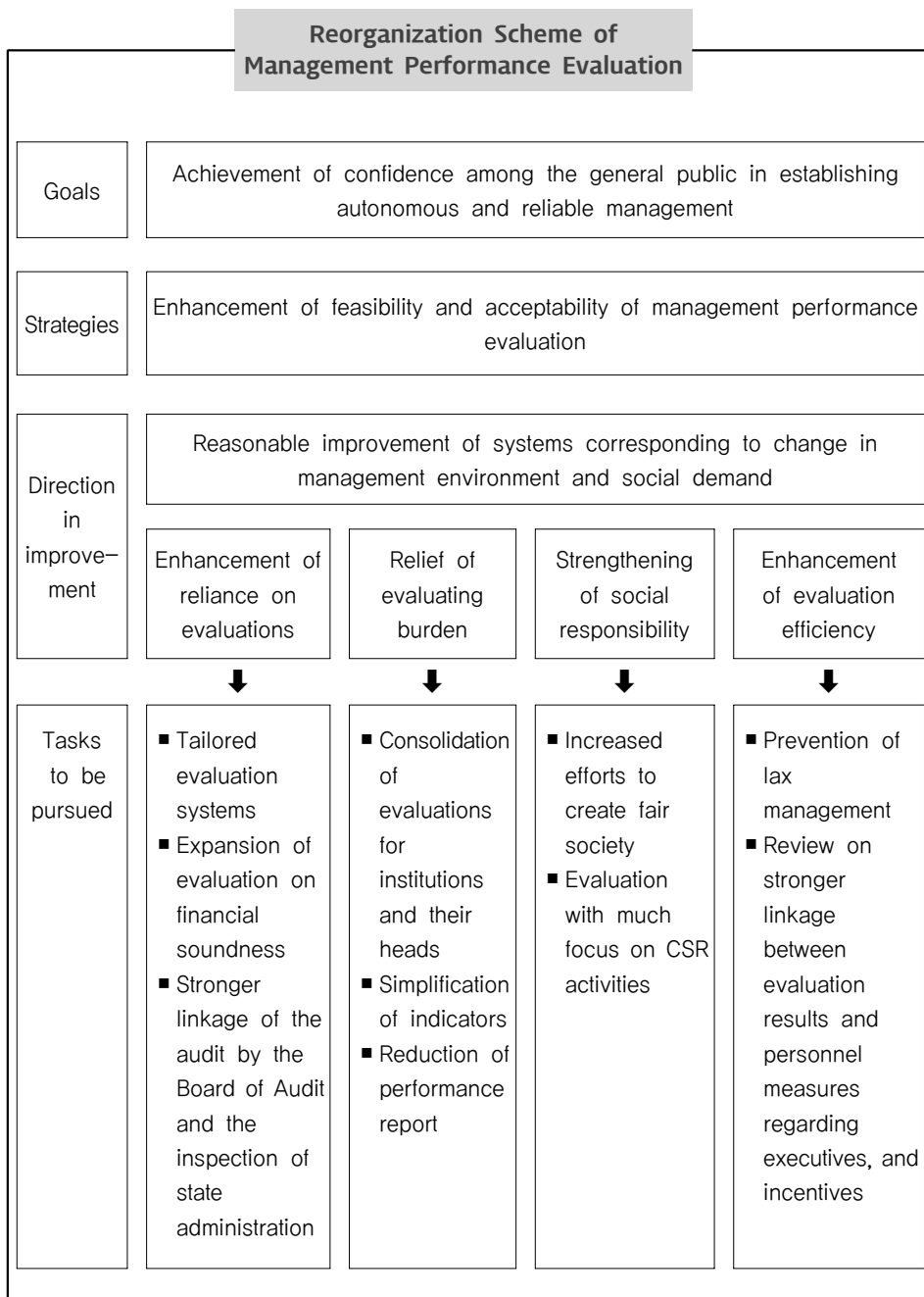
soundness; as for quasi-governmental institutions, it is intended to improve services and appropriateness of finance implementation; and actual evaluations are designed to be tailored after taking characteristics of each agency into consideration.

Fourth, the reform draft seeks to prevent poor management and stress social responsibility. It is designed to strictly control moral hazard and lax management easily occurring in public institutions and underline their contribution to society, such as creation of a fair society.

Fifth, the reform plan curtails the size of the management evaluation team to enhance ethics and evaluation quality. In detail, the team is reduced to an appropriate size and ethical regulations are tightened, including rules preventing relatives from working in the same public institution or closely linked agencies. After the completion of the management evaluation, the survey of public institutions is conducted with regard to members who have evaluated them and based on the results, the members, who are deemed to lack expertise and sincerity, will be restricted from becoming evaluators in successive assignments. This is an effort to strengthen the feedback to evaluation members.

Lastly, the reform is focused on enhancing the effectiveness of the evaluations. In order to resolve problems arising from the disparity between evaluation results and incentives, the new system has been changed to link the rate of the performance-based pay with assessment scores, while the standard for recommending the removal of institution heads will be improved as a result of this reform.

Figure 2-8. Reorganization Scheme of Management Performance Evaluation



12. Program for Expanding Autonomous Management Rights

The Ministry of Strategy and Finance initiated the Program for Expanding Autonomous Management Rights in 2010, granting managerial autonomy to selected heads of public institutions and imposing upon them responsibility for their management performance, in order to pave the way for the expansion of autonomous and accountable management at public institutions.

A. Eligible Institutions

The program was first introduced in 2010. As a preliminary effort, an open invitation was conducted in December 2009 to those institutions showing outstanding performance and to those competing with private-sector firms. After autonomous management plans submitted by each institution were examined by external experts, four institutions—the Incheon International Airport Corporation, the Industrial Bank of Korea, the Korea Gas Corporation, and the Korea District Heating Corporation—were selected in 2010.

Institutions were selected through the examination of the appropriateness of their autonomous management plans. Detailed criteria for designation and distribution of scores were finalized in meetings of a taskforce comprised of external experts. The principle criteria for examination included the suitability of the granting of autonomous rights, the appropriateness and reasonableness of performance targets, plans for ex post measures based on evaluation results for performance of autonomous management rights, and labor-management relations.

Table 2-36. Examination Criteria for Institutions Eligible for Expanded Autonomous Management Rights (Draft)

	Evaluation Indicators
Suitability of granting autonomous rights	① Can tangible effects such as productivity improvement (cost reductions) be expected through an expansion of autonomy?
Appropriateness and reasonableness of performance targets	② Are suggested performance targets appropriate to the mission of the institutions? ③ Are suggested performance targets reasonable and challenging?
Plans for ex post measures	④ Are ex post measures suggested, such as an appropriate level of reward or disadvantage based on evaluation results and proprietary self-help efforts?
Labor-management relations	⑤ The degree of stability and advancement of labor-management relations

In 2011, additional institutions were selected through an open invitation and examination by experts as in 2010. The Korea Airports Corporation and the Korea Development Bank were the two institutions that were selected for the program.

B. Details of Expanded Rights of Autonomous Management

Institutions selected for the program are granted a degree of autonomy in managing human resources, organization, and budgets. Each public institution applies for autonomous rights appropriate to its circumstances, and the scope of expansion of autonomy is determined through consultation with a taskforce.

Table 2-37. Examples of Details of Autonomous Management Rights

	Details of Autonomous Management Rights (examples)
Human resource management	<ul style="list-style-type: none"> ■ Increasing staff for conducting overseas and/or a new business
Organization management	<ul style="list-style-type: none"> ■ Creating an organization, autonomous management of employees' positions and status
Budget management	<ul style="list-style-type: none"> ■ Utilizing a portion of excess earnings and saved costs as resources for incentives ■ Applying a separate wage system for specialized personnel for overseas business

C. Conclusion of Autonomous Management Agreements

Heads of those institutions designated as institutions for expanded autonomous management rights finalize the autonomous management agreement in the form of Memorandum of Understanding (MOU) with the competent minister, defining the details of the expansion of autonomous management rights and detailing the corresponding performance targets, etc. In order to ensure that performance targets remain consistent with the expansion of autonomous management rights, challenging management goals are established through consultation with a taskforce of experts from the private sector. Management goals of institutions are comprised of common goals and individual performance targets. The advancement of labor-management relations and public institutions is a common goal applied to all institutions. Individual performance targets are focused on core competency indicators.

Table 2-38. Individual Performance Targets of Institutions Expanding Managerial Autonomy

Classification	Name of Institution	Performance Targets
New institutions	Korea Airports Corporation	<ul style="list-style-type: none"> ■ Expanding demand for aviation, enhancing corporate value, increasing sales in new growth businesses, promoting efficiency in the management and operation of airports
	Korea Development Bank	<ul style="list-style-type: none"> ■ Expanding revenue base, stable financing, expanding supply of industrial funds, improving asset quality
Existing institutions	Incheon International Airport Corporation	<ul style="list-style-type: none"> ■ Pushing forward becoming a hub airport for Northeast Asia, increasing corporate value, expanding the foundation for launching overseas businesses
	Industrial Bank of Korea	<ul style="list-style-type: none"> ■ Laying the foundation for sustainable growth, improving operating capability, increasing the supply of funds for SMEs
	Korea Gas Corporation	<ul style="list-style-type: none"> ■ Expanding overseas business, extracting more oil and gas out of existing fields, maintaining stability in natural gas import prices, constructing pipelines in areas where gas is not currently supplied, enhancing worker productivity
	Korea District Heating Corporation	<ul style="list-style-type: none"> ■ Improving profitability through cost reduction, promoting “low carbon, green growth,” keeping the price of district heating services reasonable and stable

D. Evaluation and Ex Post Measures

Performance evaluation of autonomous management plans is conducted by the

Minster of Strategy and Finance on a yearly basis, taking the place of the existing institution-head evaluation. Evaluation results are classified into three grades—Excellent, Average, and Insufficient—based on the level of implementation. Distinct ex post measures are taken based on the evaluation results.

Table 2-39. Ex Post Measures Based on Evaluation Results

Classification Grade		Excellent	Average	Insufficient
Autonomous management rights		Expanded		Rescinded
Heads of institutions	Personnel measures	Consecutive appointment is recommended	–	Voluntary resignation
	Performance-based compensation	Paid accordingly		Not paid
Performance-based compensation for executives and employees		Elevated within the range of one grade	–	Curtailed within the range of one grade

The Advancement of Public Institutions

I Section 1. Overview of Public Institution Advancement Policy

1. Background

Despite contributions to the national economy, public institutions have been continually criticized for issues such as low productivity, excessive salaries and employee benefits. Principal-agent issues arise from hierarchical chain of command from the public to the government to public institutions. Guaranteed monopoly or business permits as an inherent result of the business structure.

In order to resolve the principal-agent problem, the measures of reforming the internal and external governance structures and intensifying management evaluation have been taken. To further promote the advancement of public institutions by enhancing management efficiency, etc., institutions with overlapping mandates will be merged or disintegrated and absorbed into another, or have their functions adjusted.

The policy of public institution advancement highlights the government's

declared intention to place public institutions on the most efficient direction in relation to the national economy.

Table 3-1. Principles of Public Institution Advancement

Principle	Key Content
Small Government, Big market	<ul style="list-style-type: none"> ▪ Continual downsizing of the scale of the public sector. ▪ Adjustment of the public sector role in areas where it is in competition with the private sector.
Enhancement of Public Benefits	<ul style="list-style-type: none"> ▪ Provision of high-quality service ▪ Reduction of taxpayer burden through downsizing of government support
Minimization of Social Cost	<ul style="list-style-type: none"> ▪ Electricity, gas, water and health insurance to be exempt from privatization. ▪ Best possible guarantee of stable employment ▪ Continuation of innovation city projects.
Developing and Promoting the Tailored Plans of Individual Public Institutions	<ul style="list-style-type: none"> ▪ Collection of opinions from all sections of society through open forums, etc. ▪ The establishment of the most equitable plans after taking into consideration the public nature and the competitiveness of each public institution.

The Committee for the Advancement shall inspect the provision and progress status of advancement plans, effectively supporting the Committee on Management of Public Institutions.

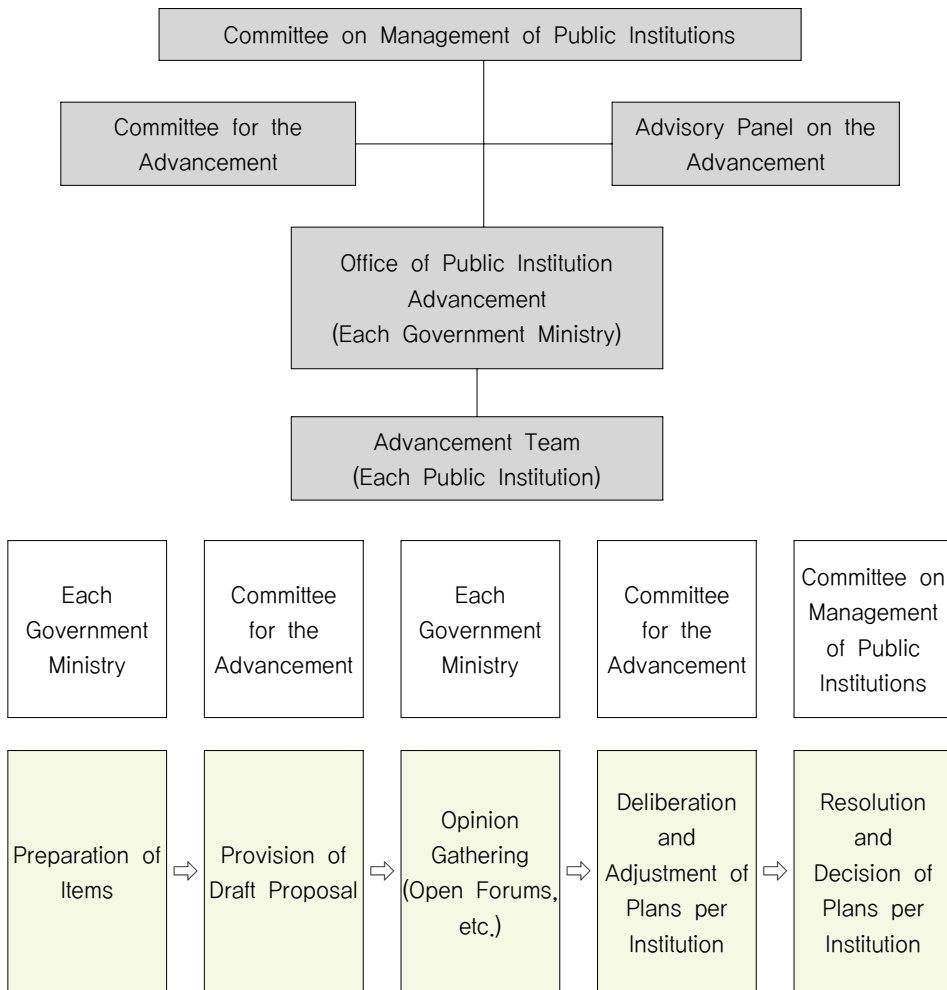
The Advisory Panel on the Advancement (mainly comprised of non-governmental experts from the fields of academics, media, etc.) shall aim to collect opinions regarding advancement from experts of fields such as energy, SOC, industry and culture.

An Office of Public Institution Advancement shall be established as a separate body to each government ministry and shall comprehensively and efficiently support the promotion of advancement plans as set by competent

ministers by providing promotion plans for the institution under its jurisdiction.

An Advancement Promotion Team shall promote the advancement plans as established by each institution

Figure 3-1. Advancement System



2. The policy of public institution advancement

The policy of public institution advancement consists of two main bodies. One is Structural (Hardware) Transformation of the Advancement and the other is Managerial Innovation (Software) of the Advancement.

Structural (Hardware) Transformation of the Advancement

- Privatization (24)
- Settlement of Government Investments (131)
- Mergers and Abolition (41)
- Personnel Downsizing (129)
- Function Adjustment (20)

Managerial Innovation (Software) of the Advancement

- Reorganization of Remuneration System
- Employee Benefits System Reform
- Advancement of Labor-Management Relations
- Evaluation Publication System Reform

Table 3-2. Outcomes of Structural (Hardware) Transformation of the Advancement

Privatization	24	2009 targets (9): 3 sold, 3 listed, 5 sales announced. 2010 targets (8): satisfactory progress, including 7 sales announced Postponement of privatization until 2015 (Korea Housing Guarantee)
Settlement of Government Investments	131	Of 131 total target institutions, 58 completely settled (shares sold: 51, settlement cancelled: 5, merged: 2), remaining 73 announced to be sold, etc.

Mergers	41	Mergers: Korea Land & Housing Corporation and all 36 target institutions complete. Liquidation: five target institutions complete.
Personnel Downsizing	129	22,000 reduced (17,500 → 15,300 , Δ12.7%) Remaining excess personnel to be adjusted gradually by 2012.
Function Adjustment	20	Of 20 target institutions, the function adjustment of 12 institutions complete. (R&D function transfer: 4, mid-term overseas marketing support centralization: 3, centralized collection for the Four Social Insurances: 3, core function enhancement and non-core function downsizing: 2) Remaining 8 institutions scheduled for completion in 2011/2012

Table 3-3. Outcomes of Managerial Innovation (Software) of the Advancement

Remuneration System Reorganization

- Downward adjustment of base salaries for institution heads and auditors
- Reduction in starting salaries for university graduates across 252 public institutions (average 28.71 million won → average 24.31 million won, Δ15.3%)
- Salaries for existing employees at financial public institutions (of which there are 10) such as the NFFC, KDB, IBK to face cuts of over Δ5%
- Promotion of a performance-based salary system (Proposal, June 2010)
 - The recommended ratio of performance-based salary to total annual salary is 20% to 30%.

Employee Benefits Program Reform

- Abolition of budget support for expenses used for family occasions of employees.
- Downward adjustment of contributions to internal welfare funds (contribution rate classified into ranks according to accumulated sum per person)
 - Over 20 million won: 0%, 5–20 million won: 2%, below 5 million won: 5%

- Limits on contributions as governmental financial support as opposed to self-help efforts, and contributions based on revenue from selling idle properties.
- Non-repayable grants for children's tuition fees to be switched to a loan, housing loan rates to be raised to market levels.

Labor-management Relations Advancement

- Reform of unreasonable solidarity clauses
 - Deletion of clauses allowing violation of personnel and management rights, reform of support for excessive labor union activities, alleviation of excessive employee benefits
- Disclosure of items relating to labor-management relations (contents of collective agreements, etc.) made compulsory in the management publication.
- Introduction of timeoffinlieupolicy
- Institution head evaluations to include a section pertaining to labor-management relations advancement.

Reform of Management Evaluation and Publication System

- Simplification of management evaluation to alleviate the pressure on institutions.
 - Simplification of evaluative indicators to emphasize core indicators (evaluative indicators decreased from 30 in 2008 to 27 in 2009)
- Shortening of management evaluation period and expansion of items for disclosure.
 - Items for disclosure (27 in 2008 to 33 in 2009)

Number of applicable institutions is indicated in bracket.

I Section 2. Efforts to Expand the Advancement of Public Institutions

The advancement of public institutions requires not only a commitment by the government, but also the active participation of the public institutions themselves. To this end, public institutions must recognize the necessity for their advancement, the policy direction has to be greeted with empathy, and

efforts must be exerted to benchmark the best practices of other institutions when challenges are faced in the course of the implementation of advancement policies. In order to present the results of these efforts and the future direction of advancement policies, as well as disseminate and expand the advancement efforts of public institutions through presentation and discussion on best practices among superior institutions, the Korean government launched the Workshop for Advancement of Public Institutions, attended by the heads, auditors, and non-standing directors of public institutions. In March 2010, it published *Common Ground*, a book that contains best practices of exemplary institutions, such as innovative human resources practices, overhauled remuneration systems, and improved labor-management relations. It has been distributed to every public institution, the National Assembly, and libraries. Furthermore, it has actively publicized its policies for the advancement of public institutions in booklets such as *The National Economy* (published by the Korea Development Institute) and *Weekly Common Ground*, delineating governmental policies and designed to raise public awareness of the outcomes and effects of such policies. It has also put forward a range of efforts seeking out media attention on the improvements resulting from the advancement of public institutions, such as a draft system for human resources that breaks the current framework for classification of positions, the introduction of performance-based annual salary, the revision of irrational collective bargaining agreements, and the improvement of management performance.

1. Workshop for the Advancement of Public Institutions

A. The First Workshop for the Advancement of Public Institutions (April 18, 2009)

The Ministry of Strategy and Finance hosted the First Workshop for the Advancement of Public Institutions on April 18, 2009. With the participation

of the heads of 70 major public institutions and related ministers, it aimed not only to examine the results of efforts toward the advancement of public institutions, best practices, and challenges identified to that point, but also to discuss the direction for future innovation of public institutions. The attendants discussed pressing issues such as "re-engineering and downsizing," and defined "bold, consistent, and voluntary changes for the future and for the people" as the key theme for the advancement of public institutions. Institution heads pledged that they would continue pursuing this vision and tasks, while the Board of Audit and Inspection of Korea and the Ministry of Strategy and Finance announced that they would monitor those efforts through audit and evaluation for public institutions.

Box **Best Practices of the Advancement of Public Institutions (April 18, 2009)**

- Even before the plan for the advancement of public institutions had been announced, the Korea Institute of Environmental Science and Technology and the Korea Eco Products Institute pursued consolidation, launching a merged institution, the Korea Environmental Industry and Technology Institute, on April 8, 2009.
- The Korea Land & Housing Corporation (LH) voluntarily cut 3.6 billion won from its labor welfare funds and, with the resulting resources, hired 1,000 homemakers residing in national rental housing.
- The Korea Trade Insurance Corporation set an example for pain-sharing: Its employees and executives returned their performance-based compensation through labor-management consultation and it reduced the starting salary offered to new members by 25 percent, from 39 to 29 million won.
- The Korea Trade-Investment Promotion Agency announced a plan to select 100 young interns and, from among them, hire as full-time workers 25 who demonstrated excellent performance.

B. The Second Workshop for the Advancement of Public Institutions (May 19, 2009)

On May 19, 2009, the Ministry of Strategy and Finance held the Second Workshop for the Advancement of Public Institutions for those who had been unable to attend the first workshop in April 2009. It took place at the Central Officials Training Institute with 70 institutions represented. With participation from 177 institution heads and vice ministers of related ministries, the second workshop was aimed to share the direction of governmental policies and the government's commitment to push forward with them. After presenting the results of efforts toward the advancement of public institution and exemplary cases, the direction of the policies, future agenda, and pending challenges were discussed. The attendants then agreed that advancement should be achieved to enhance national competitiveness and that the burdens imposed directly or indirectly on the public should be ameliorated by enhancing the efficiency of public institutions through privatization, mergers and abolitions, function adjustment, and workforce reduction.

C. The Third Workshop for the Advancement of Public Institutions (November 28 to 29, 2009)

The Ministry of Strategy and Finance held the 2009 Second-Half Workshop for the Advancement of Public Institutions over two days and one night from November 28 to 29, 2009. The workshop was attended by the heads of 77 major public institutions and related ministers. Heads of public institutions presented the current results of efforts for the advancement of public institutions and the direction of the future agenda for advancement. They discussed subjects including "the advancement of labor-management relations and the future agenda" and "CEO leadership." Participants in the discussion were of the opinion that public institutions should break ground for the private sector in establishing

a sound labor-management culture. They also discussed the role of institution heads in reversing any negative perception of public institutions, agreeing on the importance of leadership that serves the public.

D. The Fourth Workshop for the Advancement of Public Institutions (March 9, 2010)

On March 9, 2010, the Ministry of Strategy and Finance and the Research Center for State-Owned Entities²⁰⁾ held the Fourth Workshop on Best Practices for the Advancement of Public Institutions in order to share and disseminate best practices for the advancement of public institutions by presenting and discussing such exemplary cases as innovative human resources practices, overhauled remuneration systems, and improved labor-management relations. In the workshop, attended by the heads of 74 major public institutions and the chief officers of planning and coordination at related ministries, participants shared the view that they were tasked with voluntarily and actively institutionalizing the advancement of public institutions and redoubling their efforts at advancement through the active discovery of best examples. They also enjoyed an opportunity to share exemplary cases. To accomplish this, a variety of cases of advancement of public institutions were presented at the workshop and published on Common Ground, a collection of best practices.

Box Best Practices of the Advancement of Public Institutions (March 9, 2010)

⟨Innovation in personnel affairs⟩

- The Korea Land & Housing Corporation (LH) weeded out those identified as incompetent, corrupt, and/or with a history of requesting special favors from

20) A research body installed under the Korea Institute of Public Finance to exclusively research policies related to public institutions

outside personnel through double or triple screening procedures and promoted 26 new department heads and 139 team leaders from among capable employees in the lower ranks, thereby breaking the seniority system.

- The Korea Tourism Organization introduced a draft system for personnel affairs, through which superiors choose subordinates whose rank corresponds to team leader or higher and placed four executives in a second rank who fell behind in the competition to be a member of a team.
 - It introduced a "three strikes and you're out" system in which people who were eliminated from the competition or poorly rated were given three opportunities for training and reinstatement, and then terminated if they failed to pass the final review.
- The Korea Exchange carried out a drastic innovation of its personnel affairs system: 50 percent of executives and 40 percent of department heads and team leaders were changed. Along with this, it introduced a system allowing superiors to select their subordinates for field-oriented personnel management.

〈Restructuring of remuneration schemes〉

- The Korea Water Resources Corporation introduced job- and performance-based annual salaries by abolishing its salary table and adopting job-based salary (20%) through a labor-management agreement on December 29, 2010.
- The Korea Rail Network Authority established a performance-linked remuneration system by expanding the range of employees subject to performance-based annual salary from employees in the second rank and higher to all employees and widening the gaps between performance-based salaries from 10 percent to 20 percent or more. This was agreed upon in the labor-management bargaining for the first half of 2010 and implemented on July 1, 2010.

〈Advancement of labor-management relations〉

- Korea Railroad Corporation upheld their zero-tolerance principle in response to the illegal strike called by its labor union from November 26 to December 3, 2009, thereby establishing rational labor-management relations by law and principle.
- The Korea National Oil Corporation improved the collective agreement by making it possible for union members to opt out of their labor union at will and deleting the provision for required prior consent whenever an executive of the labor union was transferred to another position (February 4, 2010).

E. The Fifth Workshop for the Advancement of Public Institutions (January 28, 2011)

On January 28, 2011, the Ministry of Strategy and Finance held the Fifth Workshop for the Advancement of Public Institutions, with the heads of 80 major public institutions, the Prime Minister, related ministers, and private sector experts all in attendance. At the workshop, the participants renewed their commitment to advancement by comprehensively examining the existing results of efforts at the advancement of public institutions and discussing the direction of future advancement efforts and the challenges faced. There was also a discussion on the new roles to be assumed by public institutions to meet social demands such as the realization of a fair society and job creation for young people. It is worth noting that more than ten private experts from a variety of backgrounds, such as CEOs of private enterprises and professors, joined the workshop to present best examples from the private sector and offer fresh

Table 3-4. Specifics of the Workshops for the Advancement of Public Institutions

Date	Theme	No. of participant institutions	Presided by:
April 18, 2009	The advancement of public institutions: Change for the future and the people	70	President
May 19, 2009	The advancement of public institutions: Change for the future and the people	117	Minister of Strategy and Finance
November 28–29, 2009	The advancement of public institutions: Going out with a new look	77	President
March 9, 2010	The advancement of public institutions: It' s time to spread the change	74	Minister of Strategy and Finance
January 28, 2011	The advancement of public institutions: It' s time to spread the change	80	President

perspectives by comparing them with public institutions. The workshop was comprised of four sessions, each of which included a case presentation and discussion on "the leading role played by public institutions in the realization of a fair society" in the first session, "customer satisfaction management and autonomous management of public institutions" in the second session, "the achievements and challenges of the advancement of labor-management relations in public institutions" in the third session, and "the creation of jobs for youth and overseas expansion" in the fourth session.

2. Workshop for Auditors of Public Institutions (March 26, 2010)

On March 26, 2010, the Workshop for Auditors was held at the aT Center with the participation of 101 auditors of SOEs and quasi-governmental institutions. It aimed to seek out strategies to strengthen and share the function of internal audits in public institutions and then broadcast best audit practices for public institutions by presenting on and discussing such practices. At the workshop, superior examples from four institutions were presented and discussed (see Table 3-55). Efforts were undertaken to reinforce internal audit functions. First, the number of institutions required to maintain an audit committee has been expanded from eight market-based SOEs to 14 market-based and quasi-market-based SOEs with assets over two billion won. In addition, the qualifications for audit department staff were specified to allow only certified public accountants (CPA), lawyers, certified internal auditors, and others of similar qualifications to join the department. It has been newly prescribed that audit activities to monitor compliance with the management guidelines set forth by the government are to be performed and an audit report submitted to the government. The results of those activities are reflected in the evaluation of the actual performance of the duties of the auditor in order to enhance the effectiveness of internal controls. Furthermore, the weights assigned to the two

evaluation indicators were adjusted upward: "efforts of an auditor and an audit department to increase their expertise and their results" was expanded from 10 to 15 percent and "an internal audit system and its performance" was adjusted from 35 to 50 percent.

Table 3-5. Summary of Best Practices of Excellent Institutions Presented in the Workshop for Auditors

Institution	Summary
Korea Land and Housing Corporation	Strengthened preventive auditing activities by establishing the Real-Time Audit System (RAS)
Korea Water Resources Corporation	Set up and implemented a master plan for the advancement of auditing
Korea Airports Corporation	Reinforced expertise-based functions for checking and supporting management activities
Korea Railroad Corporation	Spread a culture of integrity through operating a cluster of integrity safeguards

3. Workshop for Non-Standing Directors of Public Institutions (November 17, 2010)

On November 17, 2010, the Workshop for Non-Standing Directors was held at the KOTRA discussion room for internal affairs for the first time ever with a purpose of reinforcing the role of the non-standing directors who make up the core of executives tasked with overseeing the performance of managers. Attended by 177 non-standing directors of SOEs and quasi-governmental institutions, the workshop was aimed to better define the authority and responsibilities of non-standing directors in response to media critiques of lax management of public institutions in the second half of 2010 and to enhance

the effectiveness of the operation of audit committees by sharing best practices. At the workshop, best practices from eight institutions were presented and discussed (see Table 3-56).

Table 3-6. Summary of Best Practices of Superior Institutions Presented at the Workshop for Non-standing Directors

Type of institution	Name of institution	Summary
SOEs	Korea Racing Authority	Eliminated 60 billion won of nonessential and non-urgent welfare funds
	Korea Water Resources Corporation	Adjusted the unit price of industrial water provided by a commissioned project to generate total revenues of 26 billion won over the coming 25 years of operation
	Korea Minting and Security Printing Corporation	Laid groundwork for an independent business structure by avoiding heavy dependency on existing minting business
	Korea Broadcast Advertising Corporation	Cut 56 billion of nonessential and non-urgent budget by prioritizing investment led to a 5 percent reduction in ordinary expenses
Quasi-governmental Institutions	Korea Deposit Insurance Corporation	Prepared grounds for sounder savings accounts by establishing a plan for compensating them for losses
	Korea Trade-Investment Promotion Agency	Revised provisions on retirement pay for employees by reflecting individual performance in the amount of retirement pay
	Korea National Park Service	Linked the restoration project in national parks with the overall project for protecting the mountain ridge forming the spine of the Korean Peninsula undertaken by the Ministry of Public Administration and Security
	Korea Consumer Agency	Prevented international consumer conflicts by incorporating index related to international consumer conflicts

Meanwhile, a "manual for job performance of non-standing directors of SOEs and quasi-governmental institutions" was published at the end of 2010 to support the activities of non-standing directors on the board of directors by clearly defining their powers and responsibilities. It detailed the authority of non-standing directors, such as the power to deliberate and resolve matters presented to the board of directors, request the removal of an institution head, and call for an audit, as well as listing their responsibilities for damages resulting from illegal behaviors and liability to the company. It also provides a checklist that non-standing directors should keep in mind when performing their duties, thus helping improve expertise.

Direction for Promoting the Advancement of Public Institutions

I Section 1. Evaluation of Public Institution Advancement Policy Promotion

1. Overview

As previously observed, over the past three years the Lee Myung-bak administration has impelled the advancement of public institutions more firmly than any former administration. The results of this policy are gradually coming to the fore. Above all, the administration has completed management efficiency plans on schedule by means of downsizing the staff and mergers and abolitions of institutions: the number of positions was reduced by 22,000 across 129 public institutions, while 36 institutions with overlapping duties were merged into 16 (with five being eliminated outright). Additionally, under the assumption that private sector management is more desirable, the privatization and settlement of the government-financed companies has been aggressively promoted wherever competitiveness has been established or the chance of competitiveness was high; seven out of the 24 target institutions have been sold or listed, while

74 government-financed firms out of 131 target companies were settled.

From an organizational perspective, restructuring the remuneration system and the advancement of labor-management relations have been actively promoted. Along with the downward adjustment of excessive remuneration, the introduction of a performance-based salary system for executives has been pursued as part of the effort to reorganize compensation into a more rational performance-based salary system. The annual base salary for heads of institutions has been slashed by 19.8 percent to the level of a vice minister. In addition, starting salaries for university graduates were reduced by 15.3 percent in the 252 public institutions, and the wages of employees at ten public financial institutions have been cut by five percent based on a labor-management concord. In pursuit of modernized labor relations, the administration first sought to build a systematic foundation, thereby inducing institutions to reform excessive solidarity practices based on autonomous labor-management agreements. One of the efforts was to strengthen management evaluation and appropriate disclosure in regard to the improvement of labor-management relations.

In particular, it is worthy of notice that tasks left unaccomplished by former administrations despite long-term efforts have now been successfully brought to conclusion. Examples include the merger of the Korea National Housing Corporation with the Korea Land Corporation, a reduction in remuneration based on labor-management agreements, and the export of nuclear power technology. The efforts toward the merger of the Korea National Housing Corporation and Korea Land Corporation had gone uncompleted over the last 15 years. The case for consolidation was first put forth in 1993, but attempts at reform were stymied by the alignment of the Korea National Housing Corporation's functions. The merger was put forward once again in 1998, but came to naught. This daunting task was finally accomplished one year and eight months after President Lee took office, leading to the October 2009 launch of the Korea Land and Housing Corporation. In addition, the matter of the rationalization of remuneration at public financial institutions was concluded

between October and December of 2009 through labor-management agreements. This is considered a profoundly meaningful case of a rare phenomenon even during the efforts at overcoming the 1997 Asian financial crisis. Meanwhile, at the end of 2010, the management evaluation system was overhauled with an aim to, among other tasks, support the promotion of the advancement of public institutions in a systematic fashion and reinforce the foundation upon which public institutions can play a revitalized role in the creation of jobs for youth and realize a fairer society. Crucial changes include assessing public institutions alongside their global counterparts in order to hone their competitiveness and, in a bid to promote social responsibility at the institutions, evaluating institutions in terms of their efforts to create jobs and to build a fairer society.

In spite of such achievements, there still remain tasks to be resolved. In the case of efforts at the privatization and settlement of government-financed corporations, preparation and promotion have to date been satisfactory, given the unfavorable economic climate brought on by the global financial crisis. However, the sale of some institutions was hindered by issues such as unfavorable market conditions and minority interest share structures lacking management rights, as shown in the abortive attempts to sell the shares in the Incheon International Airport Corporation and to sell golf courses such as the 88 Country Club, New Seoul Country Club, as well as selected government-financed companies. In addition, the amendment of pertinent laws such as the Urban Gas Business Act and the Broadcasting Act was proposed to introduce competition to both the gas and the broadcasting and advertising markets, but the plans met with opposition from interested parties. Related bills are currently pending in the National Assembly. Lastly, inattentive management of public institutions has repeatedly been an issue of concern despite the intense efforts made to introduce innovation into their management. This is a further task that remains to be addressed.

However, the promotion of the advancement of public institutions has

reaped benefits from encouraging institutions to voluntarily transform themselves in innovative ways while directly or indirectly positively influencing the overall economy and people's livelihoods. Downsizing the footprint of the public sector in the national economy by means of privatization and function adjustment has enlarged the space in which the private sector can exhibit creativity while stimulating the market. Additionally, it is perceived to have benefited the public by helping elevate the quality of public services. The public burden also has been lightened, thanks to the reduction in the government subsidy for public institutions. Since public institution advancement policy is still progressing, quantifying its results after such a short period is not simple. However, along with increased public benefits a number of examples of positive outcomes can be identified, such as reduced labor costs, increased management efficiency at public institutions resulting from the consolidation of institutions, reductions in workforces, and the restructuring of remuneration.

The privatization and settlement of government-financed companies resulted in sales profits of around two trillion won, which has been used to finance the reinvestment of public institutions and improve their financial structures. Cutbacks in the public workforce have addressed the issue of overstaffing to a certain degree, leading to a reduction in labor costs and overall expenditures. After 2012, when overstaffing is expected to have been eliminated, the effects of lowered expenditures will become more pronounced. The downward adjustment of remuneration has also resulted in a reduction in labor costs. At the same time, this approach is viewed as having been instrumental in narrowing the salary gap between private enterprise and public institutions, thereby leading qualified candidates to apply to the private sector and easing the heated salary competition among private companies previously required to attract better-qualified applicants. Meanwhile, the transformation in the manner of collection for the four major social insurances into an integrated system through the adjustment of function exemplifies the improvements. The issuing of a single integrated bill for the four major social insurance payments

has provided one-stop service to the public while curtailing costs: the number of collectors has been reduced by 521, or 17 percent; those mailing insurance bills have been reduced by 526, or 32 percent; and collection expenses have been slashed by 12.3 billion won, or 13 percent.

The advancement of labor-management relations, on which the Lee Myung-bak administration has placed special emphasis, is similarly exhibiting notable results. As management evaluation and publication have been enhanced, public institutions have been motivated to adopt voluntary measures to improve labor-management relations. The idea that “failure to comply with principles incurs losses” has been spread among institutions. As a result, labor-management relations, which formerly took a hard line, began to consolidate into a more modest and practical approach. The pursuit of coexistence between labor and management is developing as a trend. The incidence of labor disputes has plummeted, from 13 in 2009 to just three in 2010. The loss of working days has been cut in more than half, from 87,000 days in 2009 to 38,000 days in 2010. The number of public institutions publishing a declaration of labor-management cooperation for coexistence has increased from 36 in 2009 to 56 in 2010. In particular, the Korea Railroad Corporation, which reached a wage agreement without a dispute for the first time since becoming a public corporation in 2005, served as a representative of the improvement in labor-management relations.

Public institutions also played a significant role in the economic recovery and creation of jobs for youth in the period when efforts were being made to overcome the global financial crisis. To accelerate the economic recovery, these institutions pressed forward with programs of policy lending, investment expansion, and early budget execution. In particular, public financial institutions provided 46.9 trillion won of policy lending in 2009 through the expansion of the liquidity supply. Public institutions also took the lead in overcoming the economic crisis by expanding scale of investment: 28 primary institutions made investments totaling 72.5 trillion won in 2009 and 77.4 trillion won in

2010. In addition, in the face of sharp increases in global commodities prices and unfavorable exchange rates, the rise in public utility charges including electricity and gas was successfully minimized. Consumer prices increased by 3.5 percent on average between 2008 and 2010, whereas the rise in public utility charges remained on the level of 1.8 percent over that same period of time, contributing to reining in price hikes. Public institutions are also believed to have played a pivotal role in creating jobs for youth. Having played a role in the creation of such jobs for youth, public institutions also strove to expand public services by curtailing inefficient and nonessential functions and personnel while supplementing human resources at appropriate times to fields in need, such as advancement of exports and public services and the enlargement of essential national facilities. For example, 28,000 young people were brought on by the Public Institution Youth Internship Program between 2008 and 2010. In December 2010, 84 major public institutions offered comprehensive and systematic employment information to over 17,000 young job-seekers at the first-ever public institution job fair.

As the results of the promotion of the advancement of public institutions have grown apparent, the popular view of public institutions has improved. The perception of the advancement policy has become positive and the common ground for the need of such policy has expanded. According to a national survey conducted by broadcaster KBS in February 2010, the reform of public institutions was considered to be the most important accomplishment of the current administration, behind the deal to export nuclear power technology to the UAE, economic restoration, and the hosting of the G20 Summit. Public opinion surveys on the benefits from the public institution advancement policy were conducted by the Korea Management Association in November 2009 and January 2011. Analysis of the results shows that the percentage of respondents indicating “more than average” to the question of its effects, including “effective” and “average,” has increased from 63.2 in November 2009 to 73.1 in January 2011. Those respondents who perceived the policy to be necessary

accounted for 83.5 percent in 2011, up from 80.3 percent in November 2009.

Up to now, discussion has been centered on the performance of the promotion of the advancement policy for public institutions and its results over the last three years. From this point, the benefits of that promotion will be detailed by sector.

2. Privatization and Settlement of Government-Financed Companies

As of the end of December 2010, nearly one-third of the privatization plan (including the sale of partial stakes) had been fulfilled with the sale or listing of seven out of the 24 target institutions. Among the target institutions for privatization, the Farmland Improvement Association, Korea Asset in Trust, and Ansan Urban Development had been sold. Grand Korea Leisure was sold through its listing. Out of those institutions subject to the sale of partial stakes, shares in the Korea District Heating Corp, Korea Power Engineering Company, and Korea Plant Service and Engineering were sold through listing. More than half of the plan for the settlement of government-financed companies has been completed, as 74 out of 131 target enterprises have been settled. Out of those 74 institutions, 67 were settled through selling shares, five through abolition, and two through mergers and abolition. Taking into consideration the challenging economic circumstances resulting from the global economic crisis, the promotion of privatization and settlement of government-financed companies is considered satisfactory to date in terms of both preparation and progress. Public institutions, as sellers, have acquired roughly two trillion won through the privatization and settlement of government-financed companies and the funds have been used for re-investment and improvement of financial structures. However, as certain institutions encountered obstacles stemming from market conditions, minority interest structures and other sources, some sales are expected to drag out over the coming period. Other institutions have experienced

a delay in their sale due to an absence of related legislation and/or substantial privatization plans.

By individual institution, the original plan for the Incheon International Airport Corporation was to list 15 percent or less of government-held shares on the domestic stock market sometime in 2010 and release the remaining shares at the earliest possible opportunity. However, the plan has fallen behind schedule due to the amendment of the Incheon International Airport Corporation Act, which currently sets a limit of listed shares at five percent by air carrier operators and 30 percent by foreigners along with the government-held stake of over 51 percent, being held up in the National Assembly since 2009. The Korea Development Bank will have sold a portion of shareholders' shares by May 2014, in accordance with the revision of the Korea Development Act of April 2009, but the detailed plans required for moving forward with the sale, including methods of privatization and the timeframe, have yet to be determined. In the case of the Industrial Bank of Korea, neither the basic plans for a privatization method for its controlling shares nor a timeframe have been determined. The sale of the 88 Country Club and New Seoul Country Club have missed the planned target of late 2009, as the bids repeatedly failed due to a sluggish real estate market and slump in the related industry. In contrast, the settlement of government-financed companies has exhibited satisfactory results as a whole, based on efforts by related departments and agencies. Certain institutions, however, have yet to be sold off, as bids were repeatedly passed over as a result of issues of minority interest without management rights and suppressed market prices. Eight government-financed companies experienced more than three failed bids, including the Korean Railroad Industry Development with investment equity of five percent, Yangsan Inland Container Depot with 10.9 percent, and KR Industry Company with 8.28 percent. Six companies, including the Gyeonggi Community Energy System with 56.3 percent and YTN DMB with 13.6 percent are essentially impossible to release, due to accumulated losses and impaired capital. Going forward, efforts need to be concentrated

on breaking the bottleneck in promoting the privatization and settlement of government-financed companies based on the outcome of the promotion of the policy to date.

3. Mergers and Abolitions (M&A)

Mergers and abolitions stands as one of the most definitive accomplishments of the policy for the advancement of public institutions. Plans have been completed on schedule as of 2010: 36 institutions have been merged and five have been abolished. The press and the Board of Audit and Inspection of Korea have viewed these mergers and abolitions as a positive accomplishment among the related plans of the last three years. “The Survey on Public Awareness of Public Institution Advancement Promotion Policy” conducted in January 2011 showed that the mergers and abolitions was identified as the most successful task by both experts and general public.

In particular, upon the launch of the Korea Land and Housing Corporation in October 2009, the merger between the Korea National Housing Corporation and the Korea Land Corporation, which had gone unresolved for 15 years, was finalized through the impetus of the current government. The promotion of mergers and abolitions has dissolved issues of redundancy and the duplication of duties among institutions while enabling the systematic linking of functions formerly dispersed across institutions. As an example, the National Research Foundation of Korea and the Korea Creative Content Agency have forged economies of scale by sharing their core functions and personnel while expanding target projects. In the case of the Korea Evaluation Institute of Industrial Technology, the planning, evaluation, and supervision of research and development projects formerly handled by the Korea Industrial Technology Foundation, Korea Institute of Industrial Technology Evaluation and Planning, and Korea Materials and Components Industry Agency, respectively, were

consolidated into the new institute. The entire process from planning to evaluation to supervision of execution is now being carried out by a single organization. Thanks to this consolidation, optimal decision-making over the entire course of projects and the stable operation of their full procedure has become possible. The promotion of mergers and abolitions over three years is expected to heighten the management efficiency of public institutions and hone their competitiveness through synergy effects. In the future, the monitoring and superintendence of the operational efficiency of the integrated institutions need to be continued to ensure that the effects instigated by consolidation can be maintained in the medium- and long-term.

4. Introduction of Competition

Advancement policy for the gas industry has fallen slightly behind schedule. According to the third advancement plan, the passage of related legislature and the amendment of sub-legislation should have been completed prior to the end of 2010 so that new operators could enter the market. However, the passage of an amended bill has been delayed due to insufficient discussion among politicians and to opposition from the labor union at the Korea Gas Corporation and a handful of related experts. Until now, the government has made efforts to persuade the National Assembly, especially competent authorities, to put forward amended bills. This persuasion has been carried out in order to ease concerns raised by the labor union and the opposition party over potential price hikes and the possibility of an oligopoly led by big businesses, as well as to stress the necessity of the introduction of competition to the gas industry arena. Although the advancement plan has been placed on hold due to the delay in the passage of the bill—the first gateway to its advancement—the government will continue its promotion by means of explanation through various channels and convincing efforts.

The advancement program for the broadcasting and advertising industry has drifted slightly behind schedule as well. The amendment of laws designed to introduce competition to the broadcasting and advertising market was intended to have been completed by 2009 in accordance with the third advancement plan and the determination by the Constitutional Court of Korea that the monopolistic practices in the broadcast and advertising sector are in discord with the constitution. However, due to difficulties in reaching consensus on the diverse collection of alternatives, the passage of an amended bill has been delayed. At present, a range of differing opinions are being held among lawmakers, regardless of their belonging to the ruling or opposition parties, concerning the principle issues such as the number of private companies selling advertisements (single or multiple) and the permission of obligatory commission of advertisement by comprehensive programming or news broadcasters. The government has presented its opinion on the bill, but forging it into law is expected to require additional time since further issues remain to be examined in a comprehensive manner, including raising license fees for KBS TV and the selection of comprehensive programming broadcasters. If the controversy over the introduction of competition to the media industry is prolonged even in the face of the highest court ruling against monopolistic practices, the industry may become unstable and give rise to a crisis. Therefore, redoubled efforts must be made to pass a bill by the earliest possible date.

5. Function Adjustment

The adjustment of functions has been progressing smoothly and without notable setbacks. The adjustment of the functions of twelve out of 20 target institutions has been completed, including the consolidation of functions to support overseas marketing by small- and medium-sized enterprises, the transfer of research and development functions, strengthening the overseas resource-development

capability of the Korea National Oil Corporation and the Korea Resources Corporation, and the integration of collection of the four major social insurances. The realignment of the remaining eight institutions including the Korea Tourism Organization will be completed on schedule between 2011 and 2012.

Table 4-1. Comparison of Collection of the Four Major Social Insurances, Pre- and Post-Integration

Classification	Prior to the integrated collection	After integrated collection
Mailing of insurance bills	<ul style="list-style-type: none"> Mailed individually 	<ul style="list-style-type: none"> Mailed collectively (sent in a single envelope or notification of total amount) Payment with a single bill
Diversification of payment methods	<ul style="list-style-type: none"> OCR, deposit without a bank account, payment at branch office window, cash dispenser machine, virtual account, electronic automated withdrawal, electronic billing system via the Internet, Internet banking system (eight in total) 	<ul style="list-style-type: none"> Five methods added, including payment without paper billing, payment at convenience stores, mobile banking, electronic automated transfer via credit card, payment at portal site of public affairs (13 in total)
Administrative expense	<ul style="list-style-type: none"> Collection staff: 3,062 Number of annual mailings: 15.99 million 	<ul style="list-style-type: none"> Collection staff: 2,541 Number of annual mailings: 10.95 million
Eliminating blind spots	<ul style="list-style-type: none"> Subscribers at workplaces – Employees working 80 hours or more per month (health insurance, pension) 	<ul style="list-style-type: none"> Expanded coverage to employees working 60 hours or more per month

Of note, one representative example of this initiative is the integration of the collection of insurance fees by the National Health Insurance Corporation, National Pension Service, and Korea Workers' Compensation and Welfare

Service. By consolidating multiple bills into one, public convenience has been advanced and annual operating costs have shrunk by 12.3 billion won as the collection staff has been reduced by 521 people and the number of mailings by 5.26 million. In addition, the number of individuals subject to subscription of health insurance and the national pension has increased, significantly contributing to the care of those falling into a blind spot in the system, including temporary workers.

6. Promotion of Efficiency in Management

The fourth and sixth advancement plans brought about a reduction in the number of total staff by 22,000 across 129 public institutions. By including the cases of the incorporation of institutions (from 36 down to 16) and the three institutions that carried out additional streamlining, the resulting number of eliminated positions reached 26,000 from 148 institutions.

Table 4-2. Current State of Personnel Adjustments According to the Advancement Plans

(Unit: person)

	No. of institutions	No. of personnel			No. of personnel at the time of setting plans (C)	Excess no. of personnel ⁽²¹⁾ (C-B)
		Prior to reduction (A)	After reduction (B)	Change (B-A)		
Fourth · sixth advancement plans	129	175,349	153,024	△22,325	167,507	14,483
Integration (36 down to 16)	16	18,991	15, 839	△3,152	17,676	1,837

	No. of institutions	No. of personnel			No. of personnel at the time of setting plans (C)	Excess no. of personnel ²¹⁾ (C-B)
		Prior to reduction (A)	After reduction (B)	Change (B-A)		
Additional efficiency measures*	3	16,394	15, 575	△819	16,095	520
Total	148	210,734	184,438	△26,296	201,278	16,840

* National Health Insurance Corporation, National Pension Service, Korea Exchange

Meanwhile, simultaneous efforts have been undertaken to create jobs for young people, to expand flexible work programs, and to promote the social responsiveness of public institutions. Since the end of 2008, the Public Institution Youth Internship Program has been providing jobs and opportunities to strengthen the employment qualifications of youths who have difficulty in securing jobs due to the temporary constriction of the labor market triggered by the global financial crisis. The program is considered to have contributed somewhat to the support of youth employment; more than 10,000 young people were hired under the internship program in both 2009 and 2010. The youth unemployment rate, which had hovered around eight percent through 2009, has dropped into the range around the low seven percents as of the fourth quarter of 2010.

23) The surplus in personnel resulting from the reduction of the fixed number of positions has been absorbed by means of retirement, honorary retirement and voluntary retirement. The surplus among target institutions amounted to around 6,000 as of the end of 2010—60.6 percent resolved.

Table 4-3. Number of People Employed under Public Institution Youth Internship Program

(Unit: person)

2008	2009	2010
2,854	10,716	14,570

To create additional positions, a flexible labor market is essential and public institutions should take the lead in bringing flexibility to the market. In 2010, public institutions promoted flexible work programs, including part-time work, as a trial. Eleven institutions including the Korea Land and Housing Corporation and Korea Electric Power Corporation hired over 3,000 part-time workers; 24 institutions, including the Korea Water Resources Corporation and Government Employee Pension Corporation implemented flexible work programs such as flextime and selective working hour arrangements, hiring more than 6,000 jobseekers. When the flexible work programs are expanded, the employment rate—relatively lower than in other advanced countries such as OECD member nations—can be raised and jobs for those disadvantaged by the labor market, such as women and the elderly, can be produced.

Table 4-4. Types of Flexible Work Program

Type	Concept	Example
Home-based work	<ul style="list-style-type: none"> • Work at home rather than at an office 	<ul style="list-style-type: none"> • Duties that can be fulfilled by individuals, such as the development of computer programs • The disabled, parents, long-distance commuters
Telecommuting	<ul style="list-style-type: none"> • Work outside of the office, using mobile devices 	<ul style="list-style-type: none"> • Inspection, examination tasks, etc.

Type	Concept	Example
Flextime (Staggered office hours system)	<ul style="list-style-type: none"> Choose start times between 7 am and 10 am within a 40-hour work week, eight hours per day 	<ul style="list-style-type: none"> All areas of work Parents, trainees attending lectures after work, etc.
Selective working hours	<ul style="list-style-type: none"> Independently select working hours per day within a 40-hour work week (arrange start/finish times freely) 	<ul style="list-style-type: none"> Researchers Parents, trainees attending lectures after work, etc.
Compressed work week	<ul style="list-style-type: none"> A 40-hour work week, but work five or fewer days a week by working for longer periods of time per day. Work 10 hours per day, four days a week 	<ul style="list-style-type: none"> Researchers Long-distance commuters
Focused working hours	<ul style="list-style-type: none"> Set core working hours (e.g.:10:00–12:00) to concentrate on only tasks, avoiding meetings, business trips, phone calls etc. 	<ul style="list-style-type: none"> Agencies for planning projects

7. Advancement of Labor-Management Relations

As part of the process of promoting labor-management relations advancement policy, heads of institutions were advised to respond to labor-management issues in good faith and reflect the demands of the public while striving to not fall into moral hazard; labor-unions were requested to pursue orderly labor-management relations based on laws and principles. The ultimate purpose of the promotion of this policy was to elevate the efficiency and productivity of public institutions, which are required to operate in the public interest, while improving labor-management relations throughout society by expanding the

improved labor-management relations practices from public institutions to the private sector. Specifically, the policy was promoted in such a way that public disclosure of management and management evaluation systems were continuously enhanced, while ensuring that labor-management autonomy was respected, in order to promulgate conditions under which a system could be established and public institutions are induced to note public demands and voluntarily improve labor-management relations. As a result of these efforts, labor-management practices that had previously tended to result in intractable disputes have been shifting to a more balanced tone. As the perception that “failure to comply with principles incurs losses” has diffused through public institutions, disputes and loss of work days have decreased and the practice of negotiation has clearly established a firm foothold. For instance, the Korea Railroad Corporation reached a wage agreement in November 2010 without breakdowns or disputes for the first time since the corporation was transformed to a public corporation in 2005. Such evolution of labor-management relations among public institutions has led to the advancement of labor-management practices across the entire society and given rise to a new trend for a reasonable and pragmatic labor movement.

Table 4-5. Changes in Labor–Management Relations

Classification	Labor–management disputes (no. of occurrences)		Illegal disputes (no. of occurrences)		Losses of work days (days)		Declaration of labor–management cooperation for coexistence (no. of enterprises)	
	2009	2010	2009	2010	2009	2010	2009	2010
Public institutions	13	3	2	0	87,366	38,295	36	56
Total workplaces	121	86	11	14	626,921	511,307	2,672	4,012

The advancement of labor-management relations garnered a positive response from both the press and the public. The media showed their positive opinions by presenting key examples of improved collective bargaining agreements to inspire further similar adoptions. Survey results showed public approval as well. According to the “Survey on Public Awareness of Public Institution Advancement Promotion Policy” conducted by the professional consulting firm KMAC in January 2011, 54.0 percent of respondents who work for public institutions and 66.2 percent of respondents from the general public expressed a positive view of the policies. The advancement of labor-management relations is not a single task to be carried out for a limited period and goal, but rather a long-term effort that labor and management must continue to promote in a reasonable, autonomous, and steady fashion in order to live up to the expectations of the public. Therefore, it is essential for the government to lay the foundation of a system through which labor-management relations at public institutions can be maintained in a fair and reasonable manner, and for labor and management to go hand in hand in a common direction toward becoming “public institutions for the public,” and thus fulfill their duties and responsibilities. Until now, the government has endeavored to pave the way for the system by establishing drivers such as the transparency in labor-management relations and reflecting the state of labor relations in management evaluation. It is currently time for labor and management to reach agreements on pressing issues in an autonomous manner, such as the accomplishment of collective bargaining agreements amenable to the public, as well as for the establishment of new labor-management systems such as time-off and multiple trade unions based on social consent. Through these efforts, they will contribute to increased efficiency and national competitiveness.

8. Restructuring of Remuneration System

The initiative to reorganize the remuneration system of public institutions has borne fruit to date by adjusting undeserved salary levels to a reasonable degree and by determining compensation based on performance and productivity. This has assisted in overcoming the economic crisis, strengthening the productivity and competitiveness of public institutions, and easing the public burden. For example, in the midst of the harsh economic conditions brought on by the global financial crisis, lowering starting salaries for university graduates brought about job-sharing effects, thereby contributing considerably to weathering the economic crisis. Public institutions used funds generated from reductions in starting salaries for university graduates to hire additional regular employees and youth internship staff. In addition, such job-sharing initiatives spread to private enterprise, including large businesses.

In 2009, 93 institutions hired 337 members for the Youth Internship Program using funds liberated by reducing starting salaries for university graduates. This measure became the impetus behind 30 major businesses and the Federation of Korean Industries proclaiming job-sharing programs that included slashing starting salaries for university graduates differentially by up to 28 percent and utilizing the ensuing funds to bring in new employees and interns (Feb. 25, 2009). The restructuring of the remuneration system impacted operating costs as well, and led to an increase in management efficiency while helping to lessen the public burden in a direct and indirect fashion. In addition, the reshuffling of the remuneration system in public institutions is expected to alleviate the discrepancy between supply and demand for human resources in the labor market and to stimulate the private sector economy; the measure will have the effect of narrowing the salary gap between public institutions and private enterprises. This will in turn lead to a greater number of qualified workers applying at private enterprises and assuage the competition in compensation used to attract qualified applicants and activating other factors

in employment. In addition, the introduction of a performance-based salary system is expected to hasten the shift in the salary structure of public institutions to one operated based on employees' capabilities and production. This will bring about long-term effects such as the establishment of a dynamic, performance-oriented organizational culture and empowerment of employees with self-motivation, as well as strengthen the capabilities of employees through self-development. These effects will ultimately lead to an increase in productivity and competitiveness at public institutions. Moreover, if a system where low performance means a low salary takes root, those employees displaying poor productivity will be weeded out. This will help to raise the overall level of compensation and flexibility in employment. However, since this is an early stage of the introduction of a performance-based salary system, ongoing efforts are required to develop a stable system. For example, a performance evaluation system should be established to conduct fair and objective appraisals and a tradition of reasonable assessment should be established within the culture of an organization.

9. Analysis of Public Awareness of Public Institution Advancement Policy

A survey on public awareness of the policies for advancing public institutions has been conducted twice by the current government, once in November 2009 and again in January 2011, to examine the promotion of the policy and seek out future directions.

A. Basic Survey Design

A basic model standardized from the survey of January 2011 is shown in Table 4-6.

Table 4-6. Basic Model for Survey on Public Awareness of Public Institution Advancement Promotion Policy

Classification	Content
Population	<ul style="list-style-type: none"> • General public: 19–years–and–older men and women nationwide • Public institution employees: staff members of public institutions • Experts: members of public administrations, management, state–owned enterprise societies
Sample size	<ul style="list-style-type: none"> • General public: 2009 (over 2,000), 2011 (over 1,000) • Public institution employees: over 200 • Experts: over 130
Sampling methods	<ul style="list-style-type: none"> • General public: proportional allocation and proportional quota and systematic sampling • Public institution employees: differential allocation according to the size of institutions
Sampling errors	<ul style="list-style-type: none"> • General public: +2.19–+3.10 percentage points (95% confidence level) • Public institutions employees: +4.38–+6.92 percentage points (95% confidence level)
Survey methods	<ul style="list-style-type: none"> • General public and public institution employees: telephone interview using CATI (computer–aided telephone interview) system • Experts: survey on a website using web operating system
Survey tools	<ul style="list-style-type: none"> • Structured questionnaire
Survey period	<ul style="list-style-type: none"> • November 2009, January 2011
Surveying agency	<ul style="list-style-type: none"> • KMAC (Korea Management Association Consulting)

B. Main Contents of Survey

The principle purpose of the survey was to determine “the awareness level of policy and evaluation on policy promotion” and to collect opinions on “future directions for promotion of policy.” The detailed questionnaire items are as shown in Table 4-7.

Table 4-7. Content of Survey on Public Awareness of Public Institution Advancement Promotion Policy and Detailed Items

Content	Detailed Items
I . Awareness of policy and policy evaluation	1. Awareness level of advancement policy
	2. Necessity of advancement policy promotion <ul style="list-style-type: none"> • (when seen as unnecessary) Reason for considering it unnecessary • First priority of policy
	3. Appraisal of the promotion of individual policies <ul style="list-style-type: none"> • Privatization of public institutions • Mergers and abolitions, adjustment of functions • Improvement of remuneration system • Adjustment of staffing • Reinforcing performance management system • Advancement of labor-management relations
	4. Opinions on the promotion of advancement policy <ul style="list-style-type: none"> • Areas being promoted most effectively • Areas found to be most insufficient • Areas of slowest progress
	5. Pace of promotion of advancement policy
	6. Effects of advancement policy promotion
	7. Contribution of advancement policy to raising competitiveness of public institutions
	8. Agreement with advancement policy and reasons for disagreement
II . Collection of opinions on future directions of the policy	1. Future areas for focus in advancement policy
	2. Crucial factors in promotion of policy
	3. Greatest hindrance to promotion of policy

C. Analysis of Awareness Survey Outcome

1) Awareness of policy and its necessity

The outcome of the survey conducted in January 2011 showed that the level of awareness of policy has increased compared to 2009 and the consensus on its necessity has expanded. Awareness was found to be elevated: the level among the general public stood at 92.0 percent, with public employees and expert groups recording 100 percent. The awareness level among the general public leapt from 70.5 percent in 2009, while the level of accord with the need for the policy increased from 80.3 percent in 2009 to 83.5 percent in 2011.

Table 4-8. Awareness of Advancement Policy and its Necessity (January 2011)

	General public	Public institution employees
• Awareness (%)	92.0% (70.5%)	100.0 % (100.0%)
• Necessity (%)	83.5% (80.3%)	86.0% (80.0%)

Note) Figures in parenthesis point to the results of the survey from November 2009

2) Appraisal by Policy Task

The results of appraisal by policy task, including privatization, mergers and abolitions, adjustment of staffing, and restructuring of the remuneration system, indicated that the general public maintains primarily positive views across all tasks, whereas employees of public institutions expressed negative views on tasks in which they hold a vested interest. The public appraisal by policy tasks in 2011 showed that the adjustment of the remuneration system was praised for having excelled (70.7 percent), followed by the strengthening of the performance management system (68.1 percent), advancement of labor-

management relations (66.2 percent), mergers and abolitions, and function adjustment (58.0 percent), adjustment of manpower (55.3 percent) and privatization (41.3 percent), in that order.

Appraisal by employees of public institutions in 2011 indicated that positive views predominated on tasks such as mergers and abolitions, function adjustment, advancement of labor-management relations, and privatization, but those tasks in which employees hold stakes, such as restructuring of the remuneration system, adjustment of staffing, and strengthening of the performance management system, earned mixed appraisals. This can be interpreted as employee antipathy toward measures, in which they hold a vested interest, has been on the rise over time.

Table 4-9. Approval Rates for Advancement Policy by Task (January 2011)

	General public	Public institution employee
• Privatization	41,3%	46,5%
• Mergers and abolitions, plus function adjustment	58,0%	59,0%
• Improvement of remuneration system	70,7%	34,5%
• Adjustment of staffing	55,3%	30,5%
• Strengthening of performance management system	68,1%	37,5%
• Advancement of labor-management relations	66,2%	54,0%

3) Pace and Effects of Advancement Policy Promotion

In the 2011 survey on the pace and effects of advancement policy promotion, the response of it being slightly slow was found to prevail among the general public with “rapid” showing 22.0 percent, “reasonable” at 39.4 percent, and

“slow” at 38.5 percent. As for its effects, the response of “effective” stood at 25.5 percent, with “average” at 47.6 percent, and “ineffective” at 26.9 percent. This suggests that the general public expressed reservations as to the actual effects of the policy. Considering this result, additional efforts should be undertaken in driving forward with the policy based on the collection of diverse opinions to the point where the effects are felt by a greater number of people.

In contrast, for the pace of promotion, 60.0 percent of public institution employees replied “rapid.” As for the effects of the policy, 31.0 percent said “effective,” 46.5 percent responded “average,” and 22.5 percent reported “ineffective,” suggesting the positive views are predominant. Related experts noted that the pace of promotion is slow, but that the effects are demonstrable, adding their hope that the policy would make a significant contribution to heightening the competitiveness of public institutions.

4) Tasks for Future Promotion Focus

Lastly, on the question of future tasks for particular focus, the general public identified the creation of private sector jobs (33.0 percent), advancement of labor-management relations (32.3 percent), strengthening of performance management (30.6 percent), reinforcing supervision (27.8 percent), and the adjustment of excessive employee benefits (21.5 percent), in that order. This result signifies that many members of the general public regard a heightened role for public institutions in creating jobs in the private sector and the ongoing promotion of labor-management relations to be critical. On the other hand, public institution employees identified critical tasks in the order of reinforcing autonomous and accountable management (60.5 percent), stimulation of the private sector (30.5 percent), development of new growth engines (29.5 percent), advancement of labor-management relations (23.0 percent), and management of debts of public institutions (17.0 percent). The expert group also picked reinforcing autonomous and accountable management (54.3 percent) as the

crucial task and stressed the necessity of strengthening performance management, management of debts of public institutions, and adjustment of excessive employee benefits.

Section 2. Future Tasks

1. Analysis of the Policy Environment

The policy for the advancement of public institutions has now been in place for four years, and it has been faced with numerous environmental changes both at home and abroad. In order to achieve a successful implementation of the policy, future policy direction and initiatives need to be planned with short- and long-term changes in internal and external environments taken fully into account. In this section, the short-term environment for the advancement policy and medium- and long-term economic and social environmental changes will be discussed prior to planning future direction and tasks.

The year of 2011 is a turning point for the policy in which opportunities and threats coexist before entering a maturity stage. One of the opportunities is that the successful results of the advancement policy for the last three years have secured a driving force for further advancement efforts. In addition, there are increasing social needs for new roles of public institutions, such as the expansion of jobs for young people and the realization of a fair society. The fact that the signing of the Free Trade Agreement and the successful hosting of the G-20 summit have created favorable conditions for domestic public institutions to expand into overseas markets is another opportunity.

On the other hand, there are threats as well: the terms of office of 145 institution heads, more than half of the total 286 public institutions, are due

to expire in 2011, which could probably undermine the accountable management of public institutions; four years in office of the incumbents and improved economic conditions are likely to lead to increased demands from the interest groups including labor unions. Past examples show that institution heads at the end of their term of office might be less motivated to promote reforms and advancement. As a result, enthusiasm for reforms created in the early days of a government weakens, and office holders tend more likely to compromise with demands of unions that become relatively stronger in the latter period of the government. In order to successfully carry out the public institution advancement policy, it is required to maintain the momentum for opportunities and make use of strengths. To sustain public support for the need of continuous reforms in public institutions, efforts to overcome weaknesses and threats also need to be made through the enhanced promotion of previous achievements and further expected outcomes.

In order to improve the effectiveness of the public institution advancement policy and avoid losing the momentum for its future implementation in the medium and long term, the policy should be promoted in ways that reflect long-term changes in policy environment. Above all, the more the economy develops and the economic structure becomes complex, the more inefficiency is expected to be caused by uniform regulations. Therefore, to increase efficiency in the management of public institutions in response to such long-term changes, not just a wide range of external regulations related to public institutions but also their internal management systems need to be changed. Under general environmental changes, inflexible regulations or standardized management approaches could act as barriers to public institutions' efforts to innovate and to make the best use of individual creativity within those institutions. In short, an effective response to environmental changes requires that policies be promoted in ways to ensure accountability of public institutions and enhance their autonomy at the same time.

One of the important changes that occur in medium- and long-term

economic conditions is a slowdown in potential growth, which leads to significant changes in several aspects. A sluggish economic growth means that there are limits to managing public institutions, especially the more commercial ones, using a solely growth- and expansion-oriented paradigm. In particular, public institutions of a commercial nature are forecasted to suffer a slowdown in sales growth due to growth slowdown and increased income levels. Therefore, public institutions need to take a more cautious approach to prevent overinvestment or bad investments, while the government should also try to pre-empt them by establishing an institutional framework. In addition, as the local market has already reached saturation, opening up an opportunity for public institutions to secure a new growth engine through overseas expansion is increasingly required to help them effectively use their acquired knowledge and knowhow.

Financial conditions are likely to be worsened by low birth rates and population aging in the years to come. In order to maintain financial health, the efficiency of various activities of directly or indirectly financed public institutions needs to be improved. As debts of public institutions have recently multiplied, the possibility that they would lead to a financial burden has been discussed. It is therefore especially important to manage these debts at a reasonable level so that the burden should not be shifted on to the general public.

2. Future Direction for the Advancement Policy Promotion

With these changes in policy environment taken into account, the government plans to actively support the public institution advancement process in entering into a maturity stage through structural adjustments and capacity building based on the results of its promotion for the last three years. First of all, it will continue to promote the tasks that have been previously planned and

implemented, including privatization, the liquidation of government-financed enterprises, function adjustment, the introduction of competition and labor-management relations advancement, as well as expanding the outcomes of the advancement efforts through various activities including the organization of workshops. The government will continuously diffuse the outcomes by hosting workshops for auditors (April 2011) and non-standing directors (May 2011), the 6th meeting of the OECD-Asia Network on Corporate Governance of State-owned Enterprises (May 2011) and the Public Job Information Fair (December 2011), following the Workshop on the Advancement of Public Institutions held in January 2011.

Secondly, the government plans to establish an autonomous and responsible management system to enable external structural reforms that have been previously made in public institutions to be expanded to their internal structural reforms and capacity building. It will promote the successful enforcement and continuous expansion of the performance-based annual salary system, which was recommended in June 2010 to senior-level management of state-owned enterprises (SOEs) and quasi-governmental institutions, and will seek to stabilize the autonomous management system by widely implementing the system and creating success models. The government plans to provide more management information to auditors and non-standing directors of public institutions to make sure that they properly fulfill their role of monitoring the management, while strengthening financial soundness by conducting a preliminary feasibility study for large-scale projects and further reinforcing the process of project feasibility assessment and the management of financial risks by preparing medium- and long-term financial management plans. Furthermore, as remediation plans for lax management of public institutions, penalties heavier than the unfair profits gained from lax management will be imposed on those responsible and monitoring and evaluation of management activities will be carried out as standard procedure.

Thirdly, public institutions will take on new roles in response to social

demands for the realization of a fair society, creation of more jobs and expansion into overseas markets. In order to increase job opportunities, the government will increase the number of new hires at public institutions, expand flexible work programs, including part-time work, and increase the availability of recruitment information by holding public job information fairs. Simultaneously, efforts to encourage public institutions to advance into overseas markets will be enhanced, such as the timely supply of skilled global manpower in the fields of nuclear power and official development assistance (ODA) and the expansion of financial support through public financial institutions including the Korea Exim Bank. To ensure that public institutions play a leading role in establishing a fair society, the government also plans to address unfair trade practices between public institutions and their subcontractors and to actively spread the culture of sharing through corporate social responsibility (CSR) activities.

Figure 4-2. Future Direction for Promoting the Advancement of Public Institutions

Improving public services	Contributing to the national economy	Supporting the implementation of government initiatives
Entering a maturity stage of public institution advancement		
<p style="text-align: center;">Initiative 1</p> <p>Continuous advancement promotion</p>	<p style="text-align: center;">Initiative 2</p> <p>Establishment of the autonomous and responsible management system</p>	<p style="text-align: center;">Initiative 3</p> <p>Creation of new roles for public institutions</p>
<ul style="list-style-type: none"> ■ Promote privatization and selling of shares ■ Adjust functions and introduce competition ■ Advance labor-management relations 	<ul style="list-style-type: none"> ■ Increase management autonomy ■ Strengthen the internal check system ■ Bolster financial soundness ■ Remedy lax management 	<ul style="list-style-type: none"> ■ Create more jobs ■ Promote the entry into overseas markets ■ Realize a fair society

3. Future Tasks

A. Continuous Promotion of the Advancement Policy and Diffusion of Its Outcomes

1) Promotion of Privatization and Share Sales

Considering the global financial crisis and other tough economic conditions over recent years, overall performance of public institutions in terms of advance preparations and the liquidation of government-invested enterprises is regarded to be satisfactory. However, some institutions are having trouble with disposal as they repeatedly fail to sell due to low market prices and minority shares without management rights. Some of the factors that are believed to delay the liquidation process include downturn in related industries, selling stockholders' lack of market responsiveness, and selling approaches of each seller, such as passive sales out of fear of ex-post disputes. Therefore, complementary measures, such as the establishment of solid foundation for sales and the use of specialized sales agencies, are required.

In case of continuous delay of sales, fundamental improvements including the change of sales approach need to be made. For the institutions whose tenders continuously fail to be accepted and which lack the capacity for prompt liquidation, the government plans to consider entrusting the task to the Korea Asset Management Corporation which has considerable experience and expertise in the field. It will come up with measures to facilitate the sales, regularly monitor the sales process in cooperation with relevant agencies, while selecting and consistently managing major target institutions in each phase of the process. The government will, together with competent agencies, particularly focus on managing institutions with a great symbolic effect in relation to the public institution advancement policy, such as the Incheon International Airport Corporation, the Korea Development Bank, the Industrial Bank of Korea, the

New Seoul Country Club and the 88 Country Club.

2) Function Adjustment and Introduction of Competition

The government will push forward the function adjustment of eight institutions and the introduction of competition to two institutions from 2011 to 2012 as was planned.

As for the Korea Appraisal Board, the reduction of its private appraisal function as well as the strengthening of public functions, including expanded participation in management publication and entrustment of ex post monitoring work, are carried out at the same time, thereby taking long periods of time in the consultation among concerned parties including relevant agencies and private sector associations. When the amendment of relevant laws is carried out in earnest, additional evaluation will be required for the structure, workforce, and budget size of new public organizations. To make sure that the function adjustment measure is implemented as planned, the government will continue to examine its implementation status and strengthen its management. When it comes to the introduction of competition to the gas industry, the government, especially the Ministry of Knowledge Economy, plans to gradually persuade critics by providing specific grounds for the estimated decline in the contract price of gas and improving the stability of the gas supply management system. As soon as the bill is passed in the first half of 2011, the government will immediately work on the amendment of the Enforcement Decree and the Enforcement Rule and the issuance of business license to new gas suppliers for power generation to establish the competition system in the gas industry. As for the introduction of competition to the broadcasting and advertising industry, the government, centering on the Korea Communications Commission, will continue to try to draw a single solution in the amendment of the law and persuade the National Assembly. In addition, efforts will be made to ensure the introduction of a competition system by launching the new public corporation

by the end of 2011 and give permission for the foundation of private media representatives through the organization of a steering committee for the establishment of a public corporation and other appropriate follow-up measures in line with the passage of the bill.

3) Advancement of Labor–Management Relations

The advancement of labor-management relations in public institutions is an important task that needs to be continuously promoted not just for the improvement of operational efficiency of public institutions but also in terms of its impact on the national economy. That is because the employment and labor-management ties of public institutions greatly influence the private sector. Therefore, it is always required to establish reasonable labor-management relations based on laws and principles. Above all, continuous efforts should be made to conclude collective agreements in a more productive way. Although the establishment of an institutional base has helped in generally improving collective agreements in public institutions, there still remain areas for improvement. The general public's continued attention and monitoring are also needed to prevent the unreasonable conclusion of collective agreements in annual negotiations. The government plans to continually reflect the labor-management relations of public institutions in their management publication and performance evaluation, and actively support the development of healthy labor-management relations through professional consulting and monitoring by the Ministry of Employment and Labor.

In addition, taking the enforcement of the revised Trade Union and Labor Relations Adjustment Act (July 2010) as a turning point, existing unreasonable practices regarding full-time union officials should be fundamentally changed by prohibiting their benefit payments and reasonably operating the time-off program within legal limits, and these improved practices should be actively applied to the private sector as well. To this end, the government will have

the status of the time-off program implementation published transparently, and give it institutional support by reflecting institutions' appropriate implementation of the program and continuous efforts for improvement in their management evaluation. Meanwhile, as multi-unionism will be recognized starting from July 2011, public institutions will also have to play a leading role in making sure the principle of exclusive negotiation window is followed and negotiation procedures are carried out in compliance with the purpose of relevant laws. In the advancement of labor-management relations of public institutions, not just the enhancement of their own efficiency and productivity but leading the private sector by spreading the influence through public awareness campaigns is also important. In this sense, it would be also necessary to conduct research and analysis for the development of indexes, which can be used to feel the outcome of the advancement in labor-management relationship, and publicize the indexes to raise public awareness and increase the effectiveness in leading the private sector.

B. Establishment and Institutionalization of the Autonomous and Responsible Management System

1) Expansion of the Performance-based Remuneration System

The performance-based remuneration system aimed for senior officials of public institutions is scheduled to be put in force in 2011, and successful establishment of this system will require a lot of efforts. First of all, fair assessment through a reasonable evaluation system is definitely important. Under the performance-based remuneration system, individual competence and achievements are evaluated and the wages of the following year are determined differently based on the results. Therefore, the successful implementation of the system ultimately depends on reasonable and transparent performance assessment. If individual achievements are not measured and reflected in a consistent manner, employees

will refuse to understand and accept the system. For reasonable and transparent evaluations, a fair and objective performance evaluation system needs to be established. Efforts should be made to set a reasonable evaluation indicator considering the objectives of each institution and to set up a system to properly evaluate individuals and organizations. What is also important is to create an organizational culture that helps the successful settlement of a rational establishment system.

For its part, the government will come up with standardized criteria for a systematic performance evaluation system and present them to public institutions to build an institutional foundation for the fair and objective evaluation of public institutions and to encourage the improvement of the evaluation system. In addition, the performance-based remuneration system should be expanded based upon the establishment of a systematic evaluation system and an organizational culture accustomed to such evaluation and, the acceptance of the system by employees of public institutions. The government plans to give positive consideration to the gradual expansion of target groups of employees based on the implementation results of the current format of the system.

2) Expansion of Management Autonomy

Public institutions have transformed themselves into a “slimmer” appearance through the intensive implementation of the advancement plan, including privatization, mergers and abolitions of institutions, advancement of labor-management relations and rationalization of pay scales. It is thus time for them to further develop into “smart” public institutions by turning the results of the quantitative reforms into qualitative internal growth.

What is necessary to fulfill the goal is the establishment of an autonomous and responsible management system. It is a system in which public institutions are given autonomous management rights, but also charged to take full responsibility for its results.

The program for expanding management autonomy, which has been implemented from 2010, can be seen as a change from the traditional regulation-oriented management to performance-oriented management that gives institutions autonomy but have them take responsibility for their results. The government is currently conducting a pilot program for management autonomy expansion by selecting six SOEs and public financial institutions suited for the program, and the results so far are regarded as positive. The program has improved the profitability of each participating institution, and has enabled quicker decision making, resulting in a more effective and speedy management. It is also said to have contributed to the creation of an organizational culture in which not just the management but the entire staff are highly motivated to work together and accomplish performance objectives. The official evaluation results regarding how the performance of the target institutions improved during 2010 will be reported around April 2011. Based on the results, the government will carefully examine potential effectiveness of this program to consolidate the expansion of public institutions' autonomous management rights and subsequently stabilize it institutionally. As more Korean public institutions have advanced into overseas markets and their operational boundaries have been expanded including the development of new growth engines, it is becoming increasingly important for public institutions to strengthen their capabilities and acquire global competitiveness. The establishment of autonomous and responsible management of public institutions through expanded management autonomy will serve as a solid basis for securing competitiveness and enhancing capabilities.

3) Consolidation of the Internal Check System

Despite previous efforts to strengthen internal check functions, problems related to the loose management of public institutions have been repeatedly raised. That is, auditors and non-standing directors, who are responsible for monitoring

the management within public institutions, are criticized for failing to properly perform such functions. Therefore, the government will consolidate the internal check system to prevent lax management of auditors in public institutions. To be specific, the indicator of efforts and outcome in preventing lax management (10%) will be newly included in the 2011 indicators for the evaluation of standing auditors of SOEs and quasi-governmental institutions and will be applied to the evaluation of standing auditors from 2012. Furthermore, in April 2011, the SOEs and quasi-governmental institutions audit manual will be revised in order to enhance the understanding of the roles and overall work of auditors. In particular, the checklist in the manual will be defined more specifically to ensure that auditors can appropriately perform their activities to prevent loose management and unfair transactions and to identify any violations of management guidelines. To motivate staff in the audit department, audit assessment results will be linked to their incentive rewards. Expertise and roles of auditors and non-standing directors will be strengthened and expanded by regularly holding workshops for auditors and non-standing directors, which were held in 2010 for the first time, and thus establishing information sharing mechanism and networks. Instead of the existing post-audit system focused on exposure, the e-audit system will be newly introduced and widely used to monitor the job performance of front and middle offices in real time.

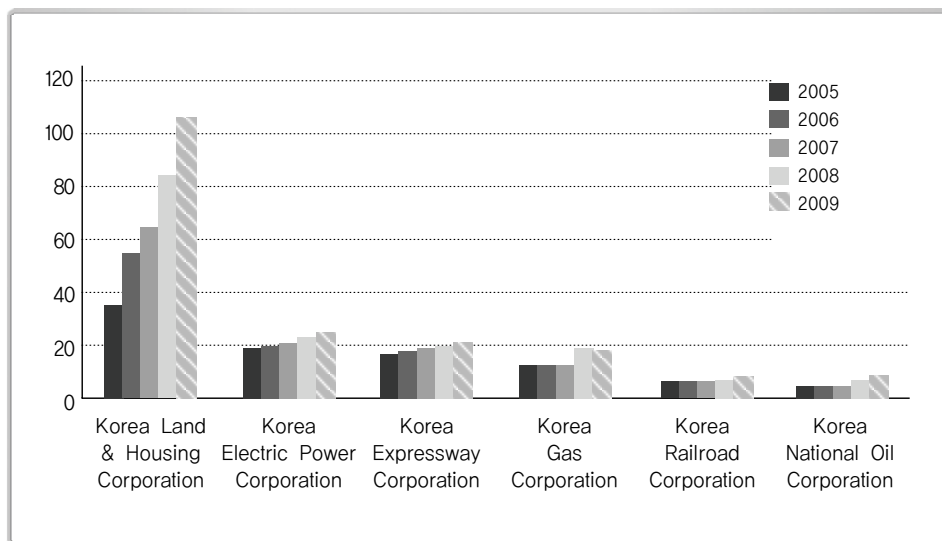
4) Bolstering of Financial Soundness

As of the end of 2009, the assets and debts of public institutions stand at 610.9 trillion and 347.6 trillion won, respectively. From 2005 to 2009, their assets increased by 211 trillion won or 53 percent while their debts increased by 128.2 trillion won or 58 percent. Across all public institutions, the assets and debts of SOEs account for the biggest share, showing the fastest increase. SOEs' assets amount to 350.9 trillion won, making up 57.4 percent of the

total assets of public institutions, and their debts are 212.1 trillion won, equivalent to 61 percent of the total debts. Since 2005, their assets increased by 128.2 trillion won or 58 percent and their debts increased by 114.1 trillion won or 116 percent. What is noteworthy is that some enterprises constitute most of the total debt: eight large-sized SOEs account for 95.2 percent of the entire gross debt. In particular, the amount of debts held by the Korea Land & Housing Corporation accounts for 51.5 percent of the total amount. The proportion of debts of the Korea Electric Power Corporation, the Korea Expressway Corporation and the Korea Gas Corporation is 13.6 percent, 10.3 percent and 8.4 percent, respectively, while that of the Korea Railroad Corporation and the Korea National Oil Corporation is 4.1 percent each. Meanwhile, the proportion of debts of the Incheon International Airport Corporation and the Korea Water Resources Corporation is 1.7 percent and 1.4 percent, respectively.

Figure 4-3. Six SOEs with the Largest Debts

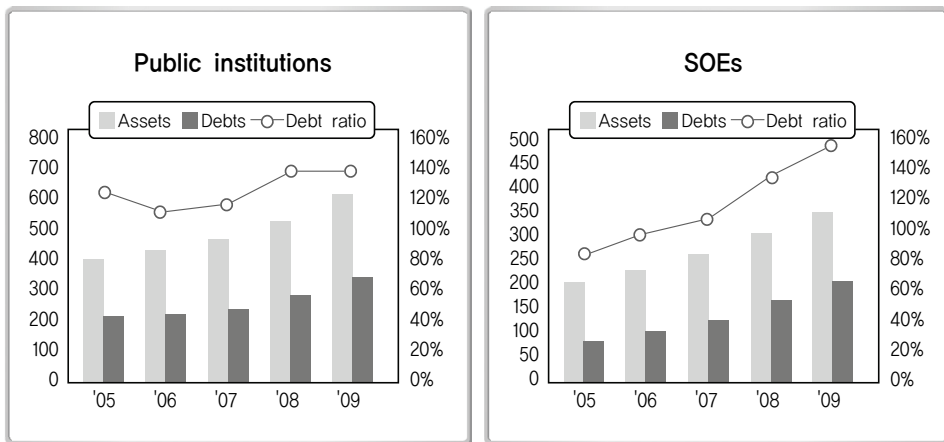
(Unit: Trillion won)



As to the stability of financial structure, the debt ratio of public institutions at the end of 2009 amounted to 132 percent, an increase of 9 percentage points since 2005. In particular, the debt ratio of SOEs reached 153 percent, increasing by 68 percentage points since 2005, playing the biggest role in increasing the total debt ratio of public institutions. The fact that the debt ratio of listed enterprises at the end of 2009 stood at slightly under 100 percent, increasing by 9 percentage points since 2005, clearly shows that public institutions' debt ratio is relatively high. In terms of profitability, the ratio of net profit to sales of public institutions in 2009 was 3 percent, a figure lower than that of an average listed private enterprise, which is in the mid-5 percent range.

Figure 4-4. Financial Status of Public Institutions

(Unit: Trillion won)



The reason for such poor financial structure of public institutions is probably their business expansion and inherent inefficiency. For a start, public institutions have continuously expanded investments in the SOC field, including national rental housing, Sejong City and the innovative cities, and Gyeongbu/Honam High-speed Railways, and energy and resources field for years in order to enhance public services. As for the SOC field, projects of this area have in

nature a long gestation period between the period of investments and returns, and debts increased due to the implementation of large-scale projects such as national rental housing, Sejong City and the innovative cities, and the Gyeongin Ara Canal Way project. As for the energy field, the increase in the international commodity prices after 2008 has negatively impacted the profitability of public institutions, leading to accumulation of debts. Meanwhile, public institutions have inherent inefficiency factors, such as excessive compensation and benefits compared to the private sector, lack of a proper performance evaluation system, and insufficient risk management. From 2002 to 2007, their added value per employee increased 1.8 percent on average each year, but personnel expenses per employee increased as much as 6.6 percent. Furthermore, the unique characteristic of public institutions that pursue both profitability and publicness at the same time makes it difficult to establish a performance evaluation system, leading to a low possibility of maintaining the soundness of financial structures through performance evaluation. The fact that they issue bonds based on the same credit rating as the state and, unlike private companies, cannot be in danger of bankruptcy makes them less interested in debt accumulation and other financial issues.

However, public institutions are thought to have the sufficient capability to redeem their debts because their assets are much bigger than their liabilities, and net income continues to be generated. As of the end of 2009, their assets are greater than liabilities by 263.3 trillion won, and their net income amounted to 7.4 trillion won. Public institutions have steadily generated net income since 2005.

Table 4-11. Changes in the Debts of Public Institutions

(Unit: Trillion won)

	2005 (A)	2006	2007	2008	2009 (B)	Changes (B-A)
Total	219.4	226.6	249.7	298.1	347.6	128.2
SOEs	98.0	117.8	137.3	175.9	212.1	114.1
Quasi-governmental institutions	98.5	83.9	83.2	88.1	98.5	0.0
Non-classified public institutions*	22.9	24.9	29.2	34.1	37.0	14.1

*Note: Five financial SOEs including the Korea Development Bank (The Korea Finance Corporation and the KDB Financial Group are included), the Korea Exim Bank and the Industrial Bank of Korea are excluded.

Table 4-12. Changes in the Assets of Public Institutions

(Unit: Trillion won)

	2005 (A)	2006	2007	2008	2009 (B)	Changes (B-A)
Total	399.9	435.5	473.4	524.5	610.9	211.0
SOEs	213.8	239.5	266.2	308.6	350.9	137.1
Quasi-governmental institutions	129.6	136.0	140.9	144.7	182.6	53.0
Non-classified public institutions*	56.5	60.0	66.3	71.2	77.4	20.9

*Note: Five financial SOEs including the Korea Development Bank (The Korea Finance Corporation and the KDB Financial Group are included), the Korea Exim Bank and the Industrial Bank of Korea are excluded.

The government has managed the debts of public institutions indirectly using means such as management evaluation while guaranteeing the autonomous and responsible management system as much as possible. However, as their

debts have seen a more rapid increase recently, the need for a more rigorous debt management has been raised. Above all, the government plans to successfully complete the tasks driven by the public institution advancement policy, which is currently promoted to prevent lax management and improve profitability. To ensure that the privatization of 24 institutions and the liquidation of 131 government-financed enterprises are carried out as planned, the performance of the plan will be examined on a regular basis. As each public institution has different financial conditions, specific management schemes tailored to the needs of each institution rather than a standardized single management scheme are more desirable. Therefore, the financial soundness of major institutions will be specifically evaluated. For those found to have a problem regarding their financial health, in addition to the currently promoted advancement plan, self-rescue efforts such as asset sales, personnel adjustment and cost reduction, will be made, and even structural adjustment schemes will be considered. The government also plans to improve the feasibility of projects selected and the efficiency of their implementation by conducting more thorough preliminary feasibility studies when selecting new projects of public institutions. It is expected that the promotion of projects that are neither essential nor urgent will be prevented by clearly defining target institutions for pre-feasibility verification and its procedure and adding government consultation. In April 2010, the National Finance Act and the Act on the Management of Public Institutions were revised to require SOEs and quasi-governmental institutions with at least two trillion won of assets to annually prepare a five-year plan for medium- and long-term financial management and submit it to the government and the National Assembly. Consequently, the government plans to make advance arrangements including a trial operation from 2011. It will also enhance the financial soundness of SOEs and quasi-governmental institutions through the implementation of the five-year plan for medium- and long-term financial management from 2012.

5) Remediation of Lax Management

Despite efforts for management innovation through the advancement policy, the problem of lax management of public institutions has been repeatedly identified. In particular, as the Board of Audit and Inspection presented cases of lax management in violation of laws and government guidelines through the audit results on the implementation of public institution advancement policy in August 2010, the National Assembly and the media concentrated their attention on the problem.

Box Major Examples of Lax Management

- Instead of disuse of the budget for personnel expenses equivalent to the difference between the maximum quota and the number of actual workers, the budget was utilized in raising wages or extraordinarily higher severance pay, bonuses and benefits than originally planned.
- The budget or corporate welfare fund was appropriated for uniform and free college scholarship assistance and inappropriate assistance for prospective retirees and long-term employees, and non-statutory leaves and holidays were provided.
- Entertainment expenses were paid out practically in the form of wages, or communication expenses, gift certificates, etc. were expediently offered without the grounds for the payment or the resolution of the boards of directors.

A need for fundamental solutions to lax management has been suggested in that the persistent problems with loose management could overshadow the advancement that public institutions have achieved so far and significantly undermine the public trust in them. According to a survey on the awareness of the advancement of public institutions conducted by (KMAC) Korea Management Association Consulting in August 2010, even experts regarded the eradication of reckless management as the most important goal that should be reached through the advancement of public institutions, which supports the

need for solutions to poor management. Accordingly, comprehensive measures will be taken to prevent the problems with careless management from recurring. First, stricter restrictions on the violation of guidelines will be imposed. A stringent management evaluation of public institutions will be performed to ensure that losses outweigh benefits generated by the infringement of guidelines, so that more bonuses for executives and staff members of poorly managed institutions will be cut than the excessive profits incurred. In other words, what the Board of Audit and Inspection and the National Assembly pointed out in relation to indifferent management will be sure to be reflected in the management evaluation, and lowest scores may be given to relevant evaluation indicators. The proportion of the relevant evaluation indicators will be increased from 19 scores to 26 scores.

Box Measures to Improve Tax Management during 2008-2010

Downward adjustment of excessive remuneration and rationalization of pay system

- Downward adjustment of base annual salaries of heads of institutions and auditors to be aligned with those of administrative officials (June 2008)
- Differential cutbacks in starting salaries for college graduates of 252 public institutions whose initial pay is 20 million won or higher (February 2009)
- Reduction in wages of employees of 10 public financial institutions by five percent (2009)

Improvement of unreasonable benefit package (reflected in the 2010 guidelines for budget compilation)

- Prohibition of budgetary assistance for free scholarship for college students who are children of employees of public institutions and expenses for congratulation and condolences
- Prohibition of overlapping house loan assistance, and adjustment of the house loan interest rate to the market rate of interest
- Prohibition of paying bonuses to employees whose actual working period is less than two months including those in long-term training

Second, a standing examination and management system will be established to preclude the abuse arising from a lax managerial style. The Promotion Committee for Management Improvement of Public Institutions formed within the Committee for Management of Public Institutions in November 2010 will examine the state of lax management of public institutions on a constant basis and consider a measure to perform an intensive audit for severely poor management in cooperation with the Board of Audit and Inspection. Third, internal check systems will be reinforced to prevent the management of public institutions from becoming complacent. The audit evaluation system will be improved to include the evaluation of effects of the audit on prevention of bad management when the evaluation of performance of duties is performed for internal audit, and a workshop for auditors and non-standing directors will be held on a regular basis to give them more access to management information. Fourth, given that the corporate welfare fund operated by public institutions is highly likely to be poorly managed, in the cases where earnings before taxes are incurred unrelated to the efforts of the institutions concerned, for example, by government financial assistance, the earnings will be prevented from being appropriated for the corporate welfare fund. Lastly, indifferent management of public institutions will come under more rigorous public scrutiny, and successful cases of tackling the managerial problems will be collected and actively disseminated. To this end, the report center for management improvement in the public management information system, ALIO, will be enhanced, and a casebook on successful examples of addressing lax management will be issued and distributed in a way to encourage public institutions to voluntarily benchmark them.

C. Establishment of New Roles of Public Institutions

1) Expansion of Youth Employment

Considering the purpose of the advancement of public institutions, the government plans to maintain its position to downsize by managing human resources of public institutions in a conservative manner, while actively considering a manpower increase in highly value-added areas to explore overseas markets, seek out new growth engines and enhance R&D capability. Some critics say that the reduction of workforce resulting from the advancement of public institutions is in conflict with the agenda of job creation by an increase in new employment opportunities. The downsizing has to be constantly pursued, however, in that it is intended to remove the inefficiency of public institutions and relieve the burden imposed on the public by improving the management efficiency with a focus on the functions and workforce which are non-essential or overlapping with those of the private sector. On the other hand, new employment is created when required to execute new functions in accordance with the amendment of therelevant Act, expand necessary public services, develop resources and create added values. In addition, the government is set to give its full support to solve the problem of youth unemployment through public job creation by requiring public institutions to hire new recruits to supplement their workforce and reflecting the performance of new employment in the management performance evaluation. When comprehensively considered, the improvement of management efficiency is not contradictory to the increase of personnel, and it is expected that constant efforts to achieve the management efficiency will lead to a rise in the productivity of public institutions, which can in turn make them more capable to create jobs in the long term.

Meanwhile, the government has a plan to strengthen its youth internship program to intensify its link to actual employment by allowing talented interns working in public institutions to be fully hired by the public institutions

concerned. The government will encourage public institutions to hire more than 20 percent of new permanent positions from interns with excellent work performance in order to turn an internship into a permanent role. Job assistance services for interns will be reinforced, for example, by issuing a reference letter to a certain percentage of outstanding interns and requesting an employment agency for public jobs to help interns who fail to be employed until the contract period expires find a job. The government also plans to monitor the state and performance of the youth internship program on a periodic basis to ensure that it is efficiently operated based on the active participation of public institutions. In addition, the Ministry of Strategy and Finance held the 2010 Public Job Information Fair between December 22 and 23 in 2010 designed to provide comprehensive employment information of public institutions in order to secure the transparency in public recruitment as part of the realization of a fair society. Starting in 2011, the ministry plans to hold the job fair on a regular basis, allowing for the positive response from young job seekers.

The flexible work program carried out on a trial basis in 2010 will be extended to all the state-owned enterprises and quasi-governmental institutions from 2011. The part-time work program, designed to make the most use of the female workforce who find it difficult to work full time due to housework and child care and to create new jobs, contributed to job creation, with a high level of satisfaction with the program. In a survey of 558 part-time workers in October 2010, 85.3 percent of total respondents said they would like to continue to participate in the program, 93.3 percent responded above "average" in terms of satisfaction, and a majority of respondents wanted to extend the period of employment. Based on the results of the pilot program, suggestions from part-time workers and public institutions will be reflected to improve a system to boost the part-time work program. At first, in order to increase the number of part-time employees on permanent contracts, the employment quota system will be managed on a work-hour basis as well as the existing headcount basis. For example, a public institution, which is allowed to hire

100 workers, can hire 90 full-time employees and 20 part-time employees working four hours a day. In addition, to reduce the reluctance to employ part-time workers due to the possible disadvantages in management evaluation resulting from an increase in personnel expenses, additional expenses incurred by the employment of part-time workers will be appropriated as reserve fund, and standards for part-time workers including personnel disposition and remuneration will be specified to eliminate the discrimination against them. In an aim to raise the effectiveness of the part-time work program, the government plans to recommend that more than 10 percent of newly hired personnel are employed as or changed to part-time workers, and to reflect the employment of and change to a part-time job in the evaluation of management performance.

Box 2010 Public Job Information Fair

■ Background

- The job fair aims to help job seekers with an interest in public institutions gear up for public employment by collecting recruitment information at one place in a systematic and comprehensive way, and contribute to easing the imbalance of job information and creating a fair society by providing employment information of public institutions in a transparent and comprehensive manner.

■ Overview

- Period and venue: December 22 and 23, 2010, SETEC (Seoul Trade Exhibition & Convention Center)
- Host: The Ministry of Strategy and Finance (Organizers: Korea Institute of Public Finance and Human Resources Development Service of Korea, Sponsors: The Ministry of Employment and Labor and KBS)
- Participating institutions: 84 public institutions

■ Main Events and Operation

- Opening ceremony (Special stage): Opening speech by the Minister of Strategy and Finance, congratulatory addresses by the Minister of Employment and Labor, Vice Chairman of the Policy Committee of Grand National Party Lee Jong-koo, tape-cutting ceremony by distinguished guests, and booth tour

- Booth by institution (1st exhibition hall): A promotion center which introduces policies on job creation for youth, and booths of 84 public institutions where human resources officers engage in a face-to-face consultation with job seekers
 - Accompanying events (2nd exhibition hall): Employment information sessions offered by 25 public institutions, face-to-face mentoring programs, a special lecture by Professor Ahn Chul-su, a presentation contest in which six best performers are awarded, and a wide range of consultation programs including trial interviews
- ※ For participation, register at www.public-jobexpos.com in advance, and employment information sessions are available for playback online.

■ **Achievement**

- Number of visitors: The job fair attracted a total of 17,000 visitors for two days despite the low public awareness of the fair, the first of its kind in Korea, which marked a record high number of visitors drawn by SETEC during the past five years.
- Response from media: Televisions and newspapers covered the efforts of the fair to resolve employment problems through transparent recruitment information in a positive light.
*Eighteen TV reports on the evening news of SBS and MBC, 36 newspaper reports, 69 online news reports, etc.
- Satisfaction survey: 90percent of participants answered they would like to take part in the fair again in the future.

■ **Future Plans**

- In view of the outside demand, the fair will be held on a regular basis, and information on recruitment of public institutions will be made available online.

2) Promotion of Overseas Expansion of Public Institutions

As public institutions play an increasingly bigger role in the competition to secure resources amid an uncertain global economic environment caused by a rapid rise in oil and grain prices, a greater number of public institutions are expanding into a variety of foreign markets such as resources development, construction, transportation, environment and agriculture. In the aftermath of

the recent financial crisis in 2008, investments in the private sector have been reduced by 26 percent between 2007 and 2009, but due to the government's willingness to secure overseas resources, overseas investments of public institutions have increased 250 percent during the same period.

Table 4-13. Trend of Direct Overseas Investment of Public Institutions
(Remittance basis, Unit: 100 million dollars)

	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	Total
National Total	52.2	52.9	39.7	46.9	64.7	70.7	116.2	214.2	229.0	194.4	1,081.0
Public Institutions (Proportion)	0.9 (1.6%)	0.07 (0.1%)	1.2 (3.0%)	1.8 (3.9%)	2.0 (3.1%)	3.0 (4.3%)	8.7 (7.5%)	12.6 (5.9%)	19.7 (8.6%)	45.0 (23.1%)	94.8 (8.8%)

Note: Direct overseas investments include domestic residents' acquisition of shares in foreign corporations, and funding for the establishment and operation of overseas units and/or offices.

Although Korean public institutions are actively making inroads into the global markets and exploring a wide range of fields, they are not competent enough so far to receive large-scale orders mainly because of the lack of expertise regarding human resources and technological prowess. In addition, as there is no central point of control, cooperation among public institutions or ministries has been minimal, leading to the loss of an opportunity and overlapping investments. Moreover, in cases of overseas expansion, public institutions face difficulties in attracting large investment funds due to the high interest rates.

Since 2010, public institutions have increased the workforce with an aim to expand their overseas businesses, and domestic experts have been recruited for overseas expansion. A pool of professionals should be established to ensure an active employment of the personnel necessary for overseas expansion. In addition, public institutions need to share the pool of highly qualified personnel

and increase an opportunity to hire talented workers best suited for their needs. In the past, there were the Council for Overseas Expansion of the Energy Industry under the Ministry of Knowledge and Economy, the Deliberation Committee for Overseas Construction under the Ministry of Land, Transport and Maritime Affairs, and the Council for Overseas Expansion of Public Institutions of KOTRA. However, they operated separate lines of communication, making it hard for public institutions and ministries to exchange information. Consequently, there is a need for the establishment of a consultative body in order to help public institutions share information on overseas expansion and seek ways for them to join hands with each other to advance abroad when huge risks are at stake. This will serve as an opportunity for public institutions to join forces to analyze the success and failure cases of previous attempts and to lay the foundation for the overseas expansion of other institutions. Furthermore, they can look to expand into foreign markets in cooperation with private companies through information sharing in a bid to improve competitiveness. With respect to resources development businesses, which entail a somewhat long period of time to realize the benefits, along with the participation of long-term investors including the Korea Investment Corporation and pension funds, project financing by public financial institutions and private banks needs to be considered. To this end, domestic financial infrastructure including the establishment of financially sound investment banks needs to be firmly built. The fulfillment of relevant conditions would enable public institutions to step up their efforts to enter overseas markets, paving the way for private companies to explore international markets and further enhancing national competitiveness in the future.

3) Realization of a Fair Society

As the condensed growth and the process of overcoming economic crisis resulted in a wider gap among social classes and industries, a question has been raised

recently as to that causes of conflict are on the rise and results-oriented and winner-takes-all cultures serve as an obstacle to sustainable development. Accordingly, the "realization of a fair society" has emerged as a new governmental philosophy in a bid to integrate society and stimulate the market economy. The government and, in particular, the prime minister's office formulated a plan to establish a fair society including five directions and 80 tasks in February 2011, and a fair society practice task force and fair society promotion task forces were formed under the umbrella of the prime minister's office and in each ministry, respectively.

Box **The Concept of a Fair Society (Address by President Lee Myung-bak on the Anniversary of Liberation on August 15, 2010)**

In a fair society, equal opportunities are given to everyone, both from the very beginning and through the process of pursuing goals. However, each individual has to take responsibility for the outcome of his or her undertakings. A fair society encourages the values of individual freedom and uniqueness, diligence and creativity.

In a fair society, other opportunities are given to those who are left behind. Those who fall down can stand up again. They can still achieve a triumphant rise. No one remains behind or in the lead forever.

A fair society, more than anything else, constitutes the ethical and practical infrastructure for the advancement of the Republic.

For public institutions to actively carry out the pan-government plan for a fair society, the Ministry of Strategy and Finance drew up a plan of action for the realization of a fair society for public institutions in February 2011 and reported it to the Committee for Management of Public Institutions, and on March 11, it was finalized and announced in a national policy coordination meeting presided by the Prime Minister. The plan was formulated for public

institutions to carry out five tasks to take the lead in the realization of a fair society.

Box **Governmental Plan for a Fair Society (Prime Minister's Office, February 2011)**

- ① **(A society where laws and systems are operated in a fair manner, and corruption is not allowed)** Obtaining of confidence and authority as a clean government 14 tasks including the establishment of fair and transparent standards for the examination of an offense and imprisonment, and the guarantee of transparency and fairness in a procedure of investigation
- ② **(A society where equal opportunities are provided)** No discrimination in educational and employment opportunities, and efforts rewarded accordingly 17 tasks including an increase in employment opportunities for local talents, and the alleviation of discriminations by educational attainment and background
- ③ **(A society where rights are guaranteed and special privileges are prohibited)** Establishment of a culture where unfair arrangements, requests and expedients are not allowed 12 tasks including the eradication of practices of giving former officials privileges, and a raise in the transparency of sources of taxation for higher income bracket
- ④ **(A lively society based on the healthy market economy)** Establishment of an economic order where the abuse of one's position and unfair practices are eliminated, and win-win competition exists 20 tasks including the improvement of irrational subcontracting practices in the construction industry, an increase in the supply of small-loan finance, and the prevention of problems with private loans
- ⑤ **(A society where the underprivileged are protected)** Taking care of the disadvantaged, and allowing a second chance for those left behind 17 tasks including granting opportunities of recovery for those left behind including defaulters

The main objective of the five action plans is to continue the innovation of internal systems of public institutions within the platform of a fair society, which has been carried forward in accordance with the existing advancement plan to make sure that they can make great accomplishments in their key

enterprises, by establishing a fair reward system and forging a healthy relationship between labor and management. Along with this, public institutions will fulfill new tasks of improving unfair trades, offering equal opportunities and spreading a culture of sharing to take on their social responsibilities as corporate citizens in the public sector. The first task of improving unfair trades is to help small and medium-sized companies and subcontractors boost their competitiveness and improve unfair trades between public institutions and subcontractors. The second task of granting equal opportunities is to give more chances of employment to those considered socially disadvantaged such as physically challenged people and women, and to support social enterprises. The third task of spreading a culture of sharing is to disseminate a culture of taking care of the underprivileged by playing a leading role in noblesse oblige.

A performance evaluation of the tasks for a fair society will be made for each public institution on a periodic basis, and continued efforts will be made in each meeting to discover and disseminate specific action plans which public institutions can make the actual use of, examples of the private sector and best practices of public institutions.

With respect to the efforts of public institutions to realize a fair society, however, the proactive and voluntary willingness of public institutions to implement the plan is all the more important. Public institutions are expected to transform themselves into a main agent in the forefront of the establishment of a fair society and an institution trusted by the public by taking a voluntary and active approach to discovering and carrying out the tasks crucial in realizing a fair society.

Box A Basic Direction and Major Areas for the Realization of a Fair Society

An advanced, leading country, a greater Republic of Korea

Public institutions taking the lead in the realization of a fair society

■ Strategies

① Specialization	Discovery and implementation of institution-specific tasks
② Education and Institutionalization	Sharing and dissemination of best examples, and reflection thereof in management evaluation
③ Networking	Development of partnership with subcontractors and communities

■ Five Tasks

① Fair reward	<ul style="list-style-type: none"> - Diffusion of performance-based annual salary system - Improvement of evaluation system, and innovation of personnel system
② Healthy labor-management relations	<ul style="list-style-type: none"> - Improvement in unfair collective agreements - Settlement of time-off system
③ Improvement in unfair trades	<ul style="list-style-type: none"> - Enhancement of the competitiveness of small and medium-sized enterprises and subcontractors - Improvement in unfair subcontracting practices
④ Equal opportunities	<ul style="list-style-type: none"> - Expansion of socially fair job opportunities - More active support for social enterprises
⑤ Dissemination of a culture of sharing	<ul style="list-style-type: none"> - Promotion of CSR activities in a systematic way - Establishment of the donation and volunteer culture

