



The Management System of SOEs and QGOs in Korea

PREFACE



In advanced countries where industrialization was achieved at an early stages, the public sector has been reduced substantially under the influence of the fiscal crisis and the maturation of the private market. In a similar vein, South Korea also has carried out several massive public sector reforms such as privatization of State-Owned Enterprises(SOEs) and institutional merger and abolition. However, the basic principle of operating public institution is that institutions who engage in the fields such as water and electricity, which directly relates to the everyday life of the people, should remain public while maximizing its efficiency. In other words, South Korea has put a lot of effort to achieve both the public interest and economic efficiency while avoiding the moral hazard of SOEs and QGOs.

It is difficult not to mention the importance of SOEs and QGOs role in the history of South Korea's rapid economic development. Korea promoted SOEs(or public institution) as a key driving force for its economic development, and they took the leading role in building infrastructure, training human resource, and mobilizing resources at home and abroad. The first systematic management of these public institutions began in 1984, when the 'Framework Act on Government Investment Agency Management' was enacted. The management system was refined and enhanced when the 'Act on the Management of Public Institutions' was enacted in 2007. In particular, the management performance evaluation system, with more than 30 years of history, has firmly established itself as a core means of strengthening the autonomous and accountable management system of SOEs and QGOs.

Other countries' interest, especially the developing countries, on Korea's SOEs and QGOs management systems has been around for quite some time. Developing countries are also setting up and operating a number of SOEs to enhance economic



development, and they need specific informations on systems and case studies to efficiently manage and operate its SOEs. From the perspective of developing countries, even though they know what system are out there, information on how to operate a certain system in detail is insufficient, which leads to frequent complaints about the absence of information that can be directly used and referred by policy makers or public officials. This book is intended to help solve these difficulties and is written in english. A number of faculty members with expertise in SOEs and QGOs participated to ensure rich contents of this publication. The experiences and detailed information on South Korea's SOEs and QGOs management system contained in the book are expected to give good policy implication to developing countries that are now spurring economic development.

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Korea Institution of Public Finance

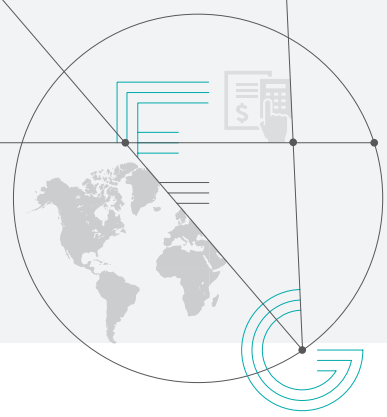
President, **Kim, Yoo-Chan**

FOREWORD



South Korea is the only country that has transformed from a recipient country to an aid donor country. It is no exaggeration to say that SOEs and QGOs were at the forefront of Korea's rapid economic development and improved the people's quality of life. The SOEs and QGOs that formed Korea's social and economic infrastructure play an important role as an essential suppliers of public services to this day. Also, they play an important role as a means of policy implementation and as a leader in national affairs. As of end of December 2017, a total of 338 central SOEs and QGOs employ 312,320 workers, which accounts for 1.2 percent of the economically active population. In addition, all SOEs and QGOs account for 811 trillion won in assets and 495.6 trillion won in debt. The total budget of SOEs and QGOs in 2017 was 641.5 trillion won, accounting for 37.5 percent of the nominal GDP of South Korea, which is about 1.5 times the size of the government budget (about 400 trillion won). As the various services provided by SOEs and QGOs such as water, electricity, gas, and roads affect the overall lives of the people, managing these institutions to perform at its full capacity is one of the most important duties of the government. This includes a series of process of providing accurate information to the public about SOEs and QGOs which is run by taxpayers' money, consistently checking on customer satisfaction of these institutions, consistently monitoring that there is no corruption involved, and consistently assessing their management performance.

Developing countries are paying keen attention to South Korea's experience of achieving economic development under similar circumstances and conditions, unlike other advanced countries that achieved industrialization at an earlier stages. Many advanced countries operated State-Owned Enterprises (SOEs) at length during the economic developmental stages, but many SOEs were privatized or restructured in



the 1980s when they carried out a large privatization program. On the other hand, South Korea, which has operated a large public sector for a long time, did not dissolve SOEs and QGOs but has tried to develop a management system tailored to the needs of times and environments. In particular, the enactment of ‘the Act on the Management of SOEs and QGOs’ in 2007, has made the management system of SOEs and QGOs become more sophisticated over time. Developing countries that are preparing and pushing for an economic take off have established and operated many SOEs to expand infrastructure and provide public services just as South Korea has done in the past. Developing countries that are building or in need of an efficient management system of SOEs and QGOs could be interested in Korea's SOEs and QGOs management system for this reason.

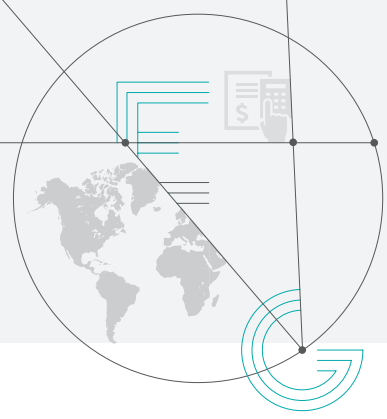
This book provides a comprehensive and detailed information on South Korea's SOEs and QGOs management system as part of response to such concerns in developing countries. In particular, the book tries to contain information that could immediately be applied by policy practitioners in these countries, such as actual questionnaire used in customer satisfaction survey that's applied to major SOEs and QGOs, performance evaluation items and indicators, and management information disclosure items. To facilitate the understanding in developing countries where language and environment are different, the content of the book was described using general terms, accurate information and objective representation of the system and policy descriptions.

The book consists of seven chapters in total. Chapter 1 describes the definition and significance of SOEs and QGOs in South Korea. It details the basic characteristics and structure of SOEs and QGOs, the classification system of SOEs and QGOs

FOREWORD



under ‘the Act on the Management of SOEs and QGOs’, and the role and structure of SOEs and QGOs. Chapter 2 outlines the historical evolution of the management system of SOEs and QGOs in Korea. It divides 5 periods of history, first the regulatory commission period(1948–1962), the period of the establishment of the management system(1962–1984), the establishment of the public-private service management system period(1984-1999) under the ‘Framework Act on the Management of Government-Invested Institutions’, the period of system of SOEs governance(1999–2007), and the current integrated SOEs and QGOs management system period(April 2007–current) under the ‘Act on the Management of public institutions’. Korea's SOEs and QGOs management system has evolved over time, taking into account different demands of times and complementing the institutional errors. Although there have been many institutional changes, there is consistency in the changes to ensure the autonomy of SOEs and QGOs while ensuring its responsibilities. Chapter 3 deals with the internal and external governance structure of SOEs and QGOs and their operations. The external governance structure of SOEs and QGOs refers to the Ownership Steering Committee of SOEs and QGOs, the management information disclosure system, the Ministry of Economy and Finance(MOEF) and the related ministries' supervision authority, and the control function of the Korean National Assembly and the Board of Audit and Inspection. The internal governance structure refers to the executive management, board of directors and the audit systems of SOEs and QGOs. Chapter 4 describes the management system of Korean SOEs and QGOs, such as the validation scheme for establishing SOEs and QGOs, functional adequacy screening system, organizational and capacity management system, budget and accounting system, financial



management system, management innovation, customer satisfaction survey, integrity and policy assessment for the prevention of corruption. Chapter 5 explains the history and the current state of the performance management evaluation system, which is the core of Korea's SOEs and QGOs management system. In particular, the overall structure of the management evaluation system, evaluation method, its operation system and evaluation procedure are described in detail. Chapter 6 summarizes Korea's experiences with privatization. It provides suggestions by showing the background, case studies and achievements of privatization practices by the Korean government. Chapter 7, the last chapter of this book, describes the key success factors of Korea's SOEs and QGOs policies and management system and the caveats of benchmarking.

South Korea's SOEs and QGOs management system is still changing. The current Moon Jae-in administration has tried to make SOEs and QGOs more trustworthy to the people by stressing social value creation as a core of SOEs and QGOs. As such, Korea's SOEs and QGOs management system is not a fixed and complete system, but a system that is constantly changing and advancing to find the optimal conditions that can suit any situations or circumstances. Although the government led the management of SOEs and QGOs in the first place, social consensus and public cooperation were essential for the settlement and operation of these systems. The systems and examples presented here are the results of such efforts. As mentioned in chapter 7, it is important to keep in mind that each country's political and economic situations and atmosphere must be considered when adopting Korea's systems and examples in developing countries. Nevertheless, we expect this data in English to go beyond the language barrier and give many implications to developing countries as well as providing practical information.



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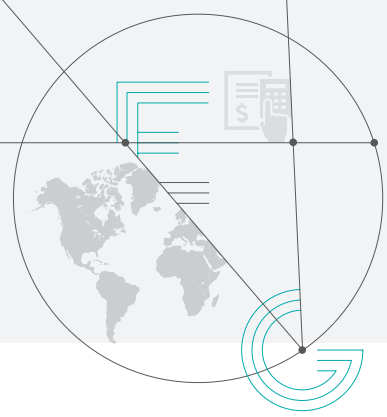
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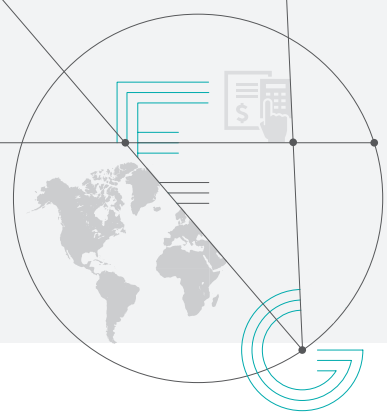
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ACRONYMS



Classification	Korean	English	Initials
Laws	공공기관의 운영에 관한 법률	Act on the Management of Public Institutions	AMPI
	공공기관의 운영에 관한 법률 시행령	Enforcement Decree of the Act on the Management of Public Institutions	Enforcement Decree of the AMPI
	시행령	Enforcement Decree	
	정부투자기관관리기본법	Framework Act on the Management of Government-Invested Institutions	FAMGII
	정부투자기관관리법	Act on the Management of Government-Invested Institutions	AMGII
	정부투자기관예산회계법	Act on the Budget and Accounts of Government-Invested Institutions	
	정부산하기관관리기본법	Framework Act on the Management of Government-Affiliated Institutions	FAMGAI
	공기업을 경영구조 개선 및 민영화에 관한 법률	Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises	
	정부출연연구기관등의 설립운영 및 육성에 관한 법률	Framework Act on the Management of Government-Affiliated Institutions	
	과학기술분야 정부출연연구기관등의 설립, 운영 및 육성에 관한 법률	Act on the Establishment, Operation, and Fostering of Government-Funded Science and Technology Research Institutes	
	공기업지배구조 가이드라인	Guidelines on Corporate Governance of SOEs	
	공기업·준정부기관 감사기준	Audit Criteria on the SOEs and QGOs	
	공기업·준정부기관 경영에 관한 지침	Guidelines on the Management of SOEs and QGOs	
	공공기관 경영혁신 가이드라인	Guidelines on Management Innovation in SOEs and QGOs	
	부패방지 및 국민권익위원회 설치와 운영에 관한 법률	Act on the Prevention of Corruption and the Establishment and Management of the Anti-Corruption and Civil Rights Commission	
	정부투자관리법	Act on the Management of Government Investment	
	과학기술기본법	Framework Act on Science and Technology	
	중소기업기본법	Framework Act on Small and Medium Enterprises	



Classification	Korean	English	Initials
Organizations	공공기관	state-owned enterprises and quasi-governmental organizations	SOEs and QGOs
	공기업	state-owned enterprises	SOEs
	준정부기관	quasi-governmental organizations	QGOs
	기타공공기관	non-classified public organizations	
	시장형 공기업	market-type SOEs	
	준시장형 공기업	quasi-market-type SOEs	
	정부기업	government enterprises	
	정부출연연구원	government-funded research institutes	
	위탁집행형기관	commissioned-service-type institutions	
	위탁집행형 준정부기관	commissioned-service-type QGOs	
	기금관리형 준정부기관	fund-management-type QGOs	
	강소형기관	small and medium QGOs	
	책임운영기관	executive agencies	
	행정형 책임운영기관	administration-type agencies	
	기업형 책임운영기관	corporate-type agencies	
	정부투자기관	government-invested institutions	
	정부출자기관	government-funded institutions	
	재투자기관	government-reinvested institutions	
	정부산하기관	government-affiliated institutions	
	기획재정부	Ministry of Economy and Finance	MOEF
	기획재정부장관	Minister of the Ministry of Economy and Finance	Minister of the MOEF
	경제기획원장관	Minister of the Economic Planning Board	
	국회	National Assembly	
	한국조세재정연구원	Korea Institute of Public Finance	KIPF
	국민권익위원회	Anti-Corruption and Civil Rights Commission	ACRC
	한국교육방송공사	Educational Broadcasting System	
	산업은행	Korea Development Bank	
	중소기업은행	Industrial Bank of Korea	
	한국장학재단	Korea Student Aid Foundation	



Classification	Korean	English	Initials
	공공기관운영위원회	Ownership Steering Committee	
	경영평가위원회	Performance Evaluation Committee	
	공기업민영화추진위원회	Promotion Committee for the Privatization of State-Owned Enterprises	
	정부투자기관 운영위원회	Steering Committee for Government-Invested Institutions	
	(임원)추천위원회	Committee for Recommendation of Executive Officers	
	(선임)비상임이사	non-standing directors	
	공기업·준정부기관 경영평가단	Performance Evaluation Team	

I

Introduction to SOEs and QGOs in Korea



I

Introduction to SOEs and QGOs in Korea

1. Basic features of SOEs and QGOs

1) Relationship between the government, SOEs, and QGOs

State-owned enterprises and quasi-governmental organizations (SOEs and QGOs) are institutions that are established and operated by the government through the public ownership system in order to provide public goods or services. They also carry out tasks entrusted to them by the government or are funded by the government to perform noncommercial public services.

Generally, in a capitalist state, there are three ways for the government to intervene in production: it can establish SOEs, QGOs (public nonprofit organizations), or quasi-corporate units within the government organization to conduct business activities (UN et al., 2009: 79). Therefore, SOEs and QGOs exist as systematic alternatives for providing public services or carrying out the business and commercial activities of the government. However, according to the neutrality theorem, private organizations regulated by the government through law, as well as SOEs and QGOs, are recognized as mutually neutral policy tools for the government that can accomplish the same goals (Park Jhung-soo et al., 2010: 36). From this perspective, SOEs and QGOs are established and operated as alternative means for the government to intervene in production instead of doing so through the establishment of regulations.

In this regard, the most fundamental role of SOEs and QGOs within the national economy is to produce public services and provide them to the private sector, which consists of households and firms. SOEs, in particular, relieve market failures, including natural monopolies, and other problems by providing public services, such

as railways, roads, airports, harbors, and the supply of electricity, gas, or water. In addition, SOEs produce public services to achieve universal policy goals. Moreover, QGOs are responsible for providing public services in the areas of consumer safety and protection, natural resource preservation, facilities management, national healthcare and welfare service, policy finance services, and support services for technology, human resources, and information for the promotion of industries.

While carrying out their basic roles of producing and providing public services within the public sector, SOEs and QGOs have been used as tools and a means for the government to resolve social problems and intervene in the market. At a fundamental level, SOEs and QGOs exist in a capitalist state as a means for the government to resolve market and government failures. SOEs, in particular, have been used as industrial policy instruments to provide policy finance for the development of the national economy by relieving market failures, mainly in public service businesses or national strategic industries. On the other hand, QGOs are used to enforce government policies and social regulations with a view to mitigating government failures. Moreover, QGOs have created government funds to provide social insurance (national pension, health insurance, etc.) and policy finance services.

2) Basic characteristics of SOEs and QGOs

Basically, SOEs and QGOs are social institutions that are established and operated on the basis of the public nature of ownership, the public nature of the subject, the public nature of purpose, the public nature of goods and services, and the public nature of regulation. SOEs are owned by the government, which prohibits them from pursuing profits and instead promotes the enhancement of public economic benefits. To this end, SOEs exist as a corporate system that is subject to strong political and administrative control instead of market regulations. The basic characteristics of such SOEs and QGOs can be largely classified into two types, as outlined below.

(1) Mixture of public and private nature

In the case of SOEs and QGOs, thorough enforcement of the government's public policies or the supply of public goods with strong universal service is emphasized instead of the creation of profits, as is the case with private corporations. Therefore, SOEs and QGOs are required to supply goods at low cost in order to allow more people to use those goods without difficulty rather than to create profits. The current Act on the Management of Public Institutions (AMPI) classifies organizations with such characteristics as QGOs.

Although SOEs and QGOs operate for public interests, they are permitted to seek profits to a certain extent like private firms. Organizations with such characteristics sometimes compete with private firms to provide goods to the domestic and overseas markets and therefore must employ efficient management techniques like private firms. Of course, such a pursuit of commercial gains is premised on the public nature of their activities. Because SOEs and QGOs intervene in the market on behalf of the government, they also find themselves at the center of controversy regarding excessive market intervention. In this respect, the privatization of a considerable number of SOEs and QGOs with such characteristics has been controversial. The current AMPI classifies SOEs and QGOs with such characteristics as market-type SOEs.

(2) Balanced pursuit of public and corporate interests

SOEs and QGOs simultaneously pursue both public and corporate interests. However, their basic role involves supporting the development of the national economy and the provision of services for the people. These are the factors that justify the establishment and maintenance of SOEs and QGOs. The fundamental role of SOEs and QGOs can be confirmed by looking at the purposes for founding such organizations.

First, the role of the Korea Electric Power Corporation (KEPCO) is provided for in the Korea Electric Power Corporation Act, which is the basis for establishing the KEPCO, a market-type SOEs. Article 1 of the Korea Electric Power Corporation Act states the following:

Article 1 purpose

The purpose of this act is to incorporate the Korea Electric Power Corporation in order to contribute to the development of the national economy and promote the stability of the electricity supply by accelerating the development of energy sources and concentrating on reasonable management in the energy industry.

The act states that the role of the KEPCO is to contribute to the development of the national economy by developing energy sources with the aim of providing universal services in terms of electricity and ensuring the stability of the electricity supply. Although the KEPCO has some characteristics of a private enterprise in that it generates profit through the production and supply of electricity, the KEPCO's main function is to provide electricity to all people in the service of the public interest, while also fulfilling an industrial role through its responsibility for Korea's energy industry.

The Korea Tourism Organization (KTO) also creates profit through the development and operation of tourism resources and product sales, for example. However, rather than simply seeking profits, the fundamental role of the KTO is promoting Korea's tourism industry. In particular, the KTO aims to promote Korea's tourism industry by actively attracting foreign tourists to the country. This function of the KTO is announced in Article 1 of the Korea Tourism Organization Act, in accordance with which the KTO was established.

Article 1 purpose

The purpose of this act is to incorporate the Korea Tourism Organization in order to contribute to the development of the national economy and the promotion of the welfare of the people by enabling the Korea Tourism Organization to conduct activities related to tourism promotion, tourism resource development, research and development, and the fostering and training of tourism professionals.

Among the various SOEs and QGOs, organizations that have relatively stronger public characteristics are classified as commissioned-service-type QGOs. "Commissioned services" are services that the government could provide directly but

instead commissions SOEs and QGOs with corporate characteristics to provide in order to ensure that such services are provided as efficiently as possible. Therefore, compared to market-type SOEs and other types of SOEs and QGOs, commissioned-service-type QGOs have relatively stronger public characteristics. These types of QGOs emphasize efficient budget execution over profit generation.

An example of this type of QGO is the Korea Education and Research Information Service (KERIS). The KERIS plays an important role in Korea's national education system, as it systematically develops and manages educational and academic activities and is responsible for Korea's educational and academic information infrastructure. Rather than seeking profits, this organization emphasizes the efficient promotion of its businesses. The key role of the KERIS is stated in the Korea Education and Research Information Service Act.

Article 1 purpose

The purpose of this act is to incorporate the Korea Education and Research Information Service in order to contribute to the development of national education by enhancing the quality of educational and academic research through the creation, research, and collection of information necessary for conducting educational and academic research and the establishment and operation of a system for providing educational information.

As shown above, the specific purposes of establishing SOEs and QGOs vary by organization, but one thing that all of these organizations have in common is that they pursue both public and corporate interests. However, depending on the nature and type of organization, there may be differences in the levels of public and corporate interests that the organizations aim to realize through the tasks they were established to pursue.

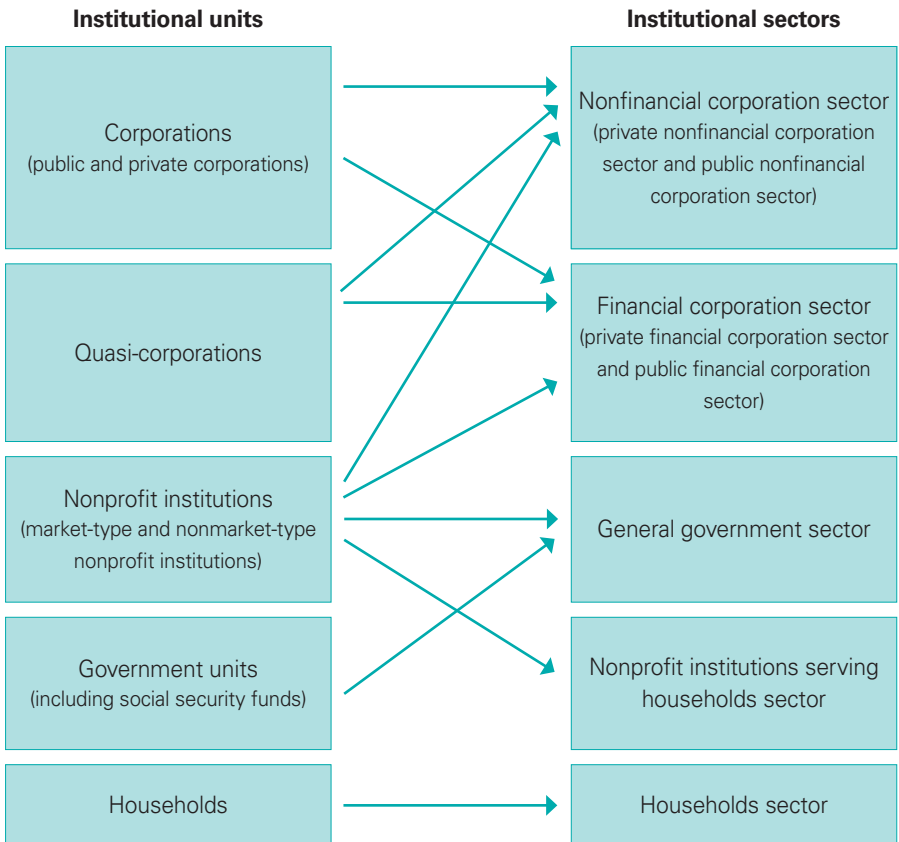
3) Structure of the public sector in Korea

According to the classification system for economic agents in the UN's System of National Accounts (SNA), the public sector is divided into the general government sector and SOE sector (nonfinancial and financial corporations). The general government and

SOE sectors, which are subsectors of the public sector, consist of institutional units that are the basic units of economic agents, i.e., corporations (including quasi-corporations), nonprofit institutions, and government units.

According to this public sector classification system, QGOs are organizations that have the characteristics of the institutional unit of nonprofit institutions but belong to the general government. These are agents that conduct the government’s business activities or deliver public services. In addition, based on the institutional unit of quasi-corporations, SOEs carry out the economic activities of both the nonfinancial corporation and financial

Figure I-1. Classification system for economic agents according to the System of National Accounts 2008: relationship between institutional units and institutional sectors



Source: see UN et al. (2009: 61-85).

corporation sectors within the national economy and are owned and controlled by the government. In summary, the public sector of a country consists of all government units as well as institutional units that are owned and controlled by the government, such as SOEs and QGOs (see Figure I-1).

The classification system for the institutional components of the public and private sectors within the national economy are defined differently depending on the country. The institutional components of the public and private sectors in the Korean central government can be classified as in Figure I-2.

Which particular institutional unit belongs to the public or private sector depends on whether the institutional unit is owned or controlled by the government or the private sector. In addition, the types and characteristics of the individual institutional units that make up the public and private sectors can be classified depending on the relative degree to which the given institutional unit serves the public interest or private interest (or profitability). Another criterion for classifying the types and characteristics of the institutional units that make up the public sector is the degree of separation from the government or, in other words, the degree of autonomy of the given institutional unit. The institutional units that make up the public sector tend to be more public in nature and have less autonomy, as they have a closer relationship with the government. On the other hand, as their relationship with the government grows more distant, they are required to have a less public nature and more autonomy.

As seen in Figure I-2, SOEs, QGOs, government-funded research institutes, and corporate-type agencies are the key agents comprising the public sector. At the same time, they are located on the boundary between the public and private sectors.

SOEs and QGOs are the basic institutional units that make up the public sector. According to Korea's current AMPI, SOEs (market-type and quasi-market-type SOEs) and QGOs (commissioned-service-type and fund-management-type QGOs) are defined as the institutional units that make up public sector. From a systematic perspective, accurately defining SOEs and QGOs is thus a crucial policy task.

Figure I-2. Institutional units comprising the central government’s public sector and the private sector

Agent of ownership and control: government							Private			
← Public nature _____ Corporate → nature							← Public nature _____ Corporate → nature			
Public sector							Private sector			
Government sector			SOEs and QGOs				Nonprofit sector		Profit sector	
Government ministries	Executive agencies		Government-funded research institutes	QGOs		SOEs		Nongovernmental organizations (NGO)	Nonprofit organizations (NPO)	Private corporations
	(government enterprises)	Administration-type agencies		Corporate-type institutions (government enterprises)	Commissioned-service-type QGOs	Fund-management-type QGOs	Quasi-market-type SOEs			
MOEF	National Museum of Modern and Contemporary Art	National Police Hospital	KDI	KOTRA	National Pension Service	Korea Minting and Security Printing Corporation (KOMSCO)	Korea Gas Corporation (KOGAS)	People's Solidarity for Participatory Democracy	Korea Chamber of Commerce and Industry	
Korea Postal Service										

Source: edited and compiled in reference to Kwack Chae-gi, (2009: 60).

2. Classification of SOEs and QGOs

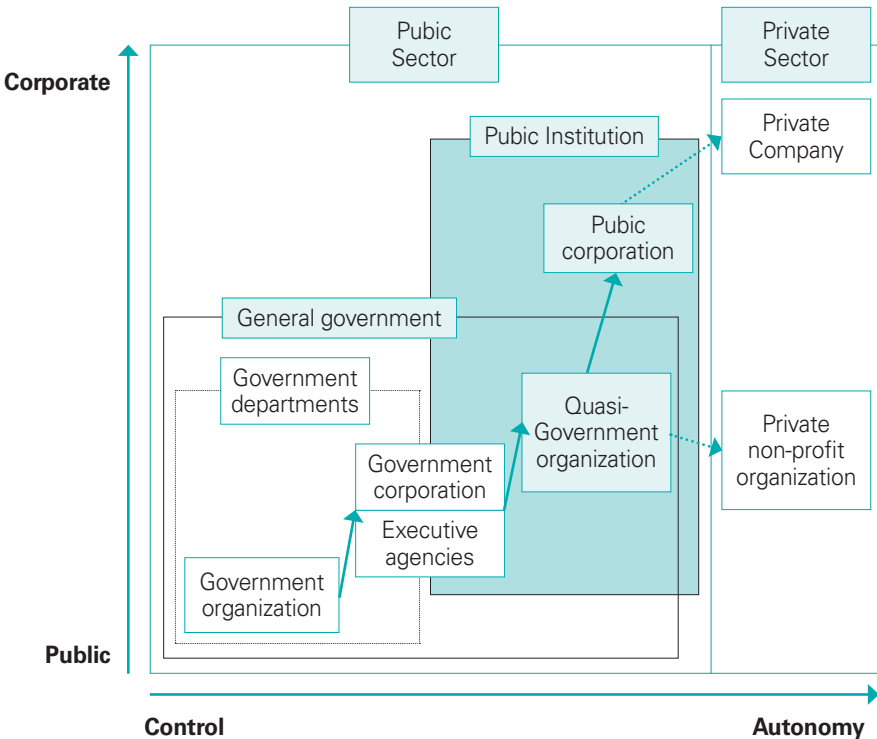
1) Theoretical classification

As illustrated in Figure I-3, the types of institutions in the Korean central government’s public sector are government sector institutions (government organization, executive agencies, etc.), general government institutions (government sector and QGOs), and SOEs and QGOs (QGOs, corporate-type agencies, government enterprises, and SOEs). Among these, the scope and type of SOEs and QGOs, under the AMPI, can be divided into QGOs (commissioned-service-type and fund-management-type QGOs), corporate-type agencies (special accounts

organizations of executive agencies), government enterprises, and market-type and quasi-market-type SOEs. Among SOEs, those that belong within the scope of national SOEs include corporate-type agencies (special accounts organizations of executive agencies), government enterprises, and market-type and quasi-market-type SOEs, as defined by the AMPI.

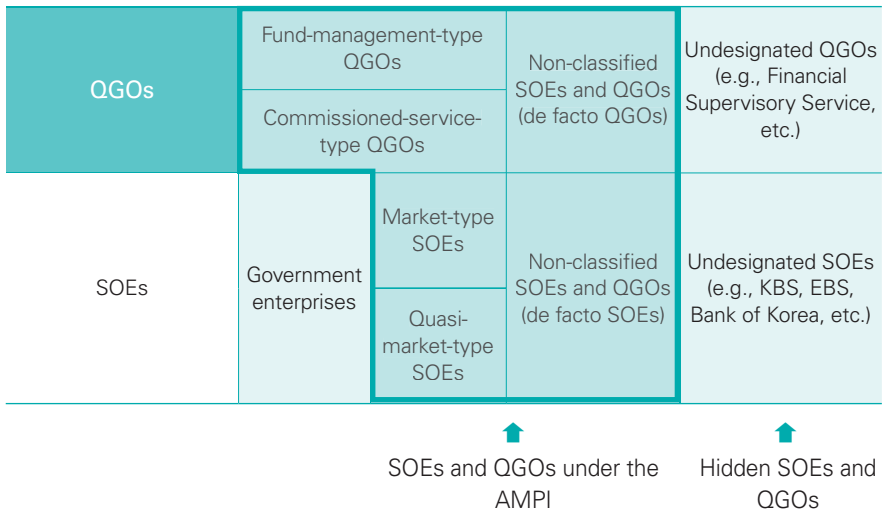
According to this classification system for the types of SOEs and QGOs under the statute, Korea's national SOEs are classified, broadly speaking, as government enterprises (corporate special accounts), corporate-type agencies (special accounts organizations of executive agencies and government enterprises), SOEs (market-type and quasi-market-type SOEs), non-classified public organization whose nature as SOEs is secure, and SOEs that are regulated by individual laws (Broadcasting

Figure I-3. Relationship between the general government and SOEs and QGOs in the public sector



Act and Bank of Korea Act). Among these, market-type SOEs, quasi-market-type SOEs, and non-classified SOEs and QGOs whose nature as SOEs is secure are classified according to the types of SOEs provided for in the AMPI. Meanwhile, from a narrower perspective, only the market-type SOEs and quasi-market-type SOEs are included in the scope of national SOEs.

Figure I-4. Scope and structure of the central government’s QGOs and SOEs



Notes

- 1) Government enterprises: government organizations that are subject to the Government Enterprise Budget Act and Act on the Establishment and Operation of Executive Agencies.
- 2) SOEs and QGOs: organizations that are subject to the AMPI, Act on the Establishment, Operation, and Fostering of Government-Funded Research Institutes, etc.
- 3) Hidden SOEs and QGOs: organizations that are subject to individual laws that provide the basis for their establishment.

2) Legal classification

(1) Classification system prior to the Act on the Management of Public Institutions

Prior to the enactment of the AMPI on 1 April 2007, the classification and management systems for the types of SOEs and QGOs were determined by the basic

legal system. At the time, the types of SOEs and QGOs were divided into government-invested institutions, government-funded institutions, government-reinvested institutions, government-affiliated institutions, and government-funded research institutes. Among these, the government-invested institutions, government-funded institutions, and government-reinvested institutions made up the SOEs, but legal regulations for government-funded institutions and reinvestment institutions did not exist.¹ However, related government institutions that were in charge of managing SOEs defined the concept of SOEs. The following table presents the definition and types of organizations classified as SOEs.

Table I-1. Legal basis for the classification and definition of SOEs and QGOs prior to the enactment of the AMPI

Types of institutions	Legal basis	Definition
Government-invested institutions	Article 2 of the Framework Act on the Management of Government-Invested Institutions	Corporations for which the government has funded 50 percent of the paid-in capital and are subject to this law
Government-funded institutions	Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises	No explicit legal definition
Government-affiliated institutions	Article 2 of the Framework Act on the Management of Government-Affiliated Institutions	Institutions and groups that receive investments or subsidies from the government and institutions or groups that are directly commissioned by the government under the law or are given exclusive license by the government and are subject to this law
Government-funded research institutes	Article 2 of the Act on the Establishment, Operation, and Fostering of Government-Funded Research Institutes	Institutions invested in by the government whose primary purpose is research and study

Note: The Act on the Establishment, Operation, and Fostering of Government-Funded Science and Technology Research Institutes also defines “government-funded science and technology research institutes” the same as “government-funded research institutes.”

¹ Subsidiaries for which government-invested and government-funded institutions provided an investment of 50 percent or less but were the largest shareholders were considered state-reinvested institutions. Prior to the enactment of the AMPI, government-invested, government-contributed, and government-reinvested institutions were often called SOEs.

First, government-invested institutions were corporations for which 50 percent of the paid-in capital was funded by the government and were subject to the Framework Act on the Management of Government-Invested Institutions (FAMGII). Organizations exempted from this law, as stipulated in Article 2, Subparagraph 2 of the FAMGII—including the Korean Broadcasting System, Educational Broadcasting System, Korea Development Bank, Industrial Bank of Korea, Export–Import Bank of Korea, and the financial institutions defined in Articles 2 and 5 of the Banking Act—could in principle also be classified as government-invested institutions.²

Table I-2. Government-invested and government-funded institutions prior to the enactment of the AMPI

Type of institutions	Detailed criteria for the classification of institutions	Institutions
Government-invested institutions	Institutions subject to the framework act	Korea Minting and Security Printing Corporation, Korea Electric Power Corporation, Korea Coal Corporation, Korea Mining Promotion Corporation, Korea National Oil Corporation, Korea Trade-Investment Promotion Agency, Korea Expressway Corporation, Korea National Housing Corporation, Korea Water Resources Corporation, Korea Land Corporation, Korea Agricultural and Rural Infrastructure Corporation, Korea Agro-Fisheries Trade Corporation, Korea Tourism Organization
	Institutions not subject to the framework act	Korean Broadcasting System, Educational Broadcasting System, Korea Development Bank, Industrial Bank of Korea, Export–Import Bank of Korea
Government-funded institutions	Institutions subject to the Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises	Korea Gas Corporation, Incheon International Airport Corporation, Korea Airports Corporation
	Institutions for which the government owns less than 50 percent of total shares	KB Kookmin Bank, Standard Chartered Korea, Daehan Investment Trust, Korea Investment Trust, Daehan Maeil Sinbo

Note: as of 31 December 2003.

² The government classified and managed these organizations as government-contributed organizations. In other words, among corporations for which 50 percent of paid-in capital was funded by the government, those that were not subject to the Framework Act on the Management of Government-Invested Institutions (FAMGII) were classified as government-funded institutions.

Second, government-funded institutions were defined as institutions for which the government directly invested less than 50 percent of paid-in capital and was the largest shareholder.³ In addition, among the corporations for which the government invested more than 50 percent of paid-in capital, the SOEs subject to the Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises were also classified as government-funded institutions.⁴

Third, government-reinvested institutions refer to subsidiaries in which government-invested or government-contributed institutions reinvested.

(2) Classification system according to the AMPI

According to the AMPI enacted on 1 April 2007, Article 4 allows the Minister of the Economy and Finance to designate any corporations, groups, or institutions that are not national or local governments as SOEs or QGOs if they meet any of the requirements in Table I-3.

Table I-3. Requirements for the designation of SOEs and QGOs

① An institution directly established pursuant to another act with an investment by the government
② An institution for which the amount of government grants exceeds one-half of the amount of its total revenue * Government grants include direct grants, such as investments and subsidies, as well as indirect grants through the granting of exclusive legal rights or commissioned tasks on legal grounds. * The amount of government grants is calculated based on the financial statements of the most recent three years.
③ An institution for which the government holds at least 50 percent of outstanding shares or secures de facto control over decision-making on policies through the exercise, among others, of the power to appoint executive officers with at least 30 percent of such outstanding shares
④ An institution for which the government, together with an institution falling under any of Subparagraphs 1 through 3, holds at least 50 percent of outstanding shares or secures de facto control over decision-making on policies through the exercise, among others, of the power to appoint executive officers with at least 30 percent of such outstanding shares

³ The authorities had been managing these institutions based on the individual establishment laws without creating an integrated management system. In the process of enacting the Framework Act on the Management of Government-Affiliated Institutions (FAMGAI), many of these institutions became government-affiliated institutions.

⁴ Article 3, Subparagraph 2 of the Act on the Improvement of the Managerial Structure and Privatization of Public Enterprise stipulates that the Korea Gas Corporation, Incheon International Airport Corporation, and Korea Airports Corporations subject to this act are not considered government-funded institutions under the Framework Act on the Management of Government-Invested Institutions.

- ⑤ An institution for which a single institution, or two or more institutions, falling under any of Subparagraphs 1 through 4 holds at least 50 percent of outstanding shares or secures de facto control over decision-making on policies through the exercise, among others, of the power to appoint executive officers with at least 30 percent of such outstanding shares
- ⑥ An institution established by an institution falling under any of Subparagraphs 1 through 4 with an investment by the government or the establishing institution

Source: based on Article 4 of the AMPI.

In accordance with Article 5 of the AMPI, the Minister of the Economy and Finance can designate SOEs and QGOs by classifying it as SOEs, QGOs, or non-classified SOEs and QGOs, whereby SOEs or QGOs may be designated from among SOEs and QGOs with a prescribed number of personnel of at least 50 people. Among such SOEs and QGOs with more than 50 staff members, SOEs should be designated from among those whose self-generating revenue reaches or exceeds half of total revenue, and QGOs should be designated from among SOEs and QGOs that are not classified as SOEs.

SOEs are then divided into market-type SOEs (SOEs with asset sizes reaching or exceeding KRW 2 trillion and self-generating revenue, out of total revenue, that reaches or exceeds the criterion prescribed by presidential decree) and quasi-market-type SOEs (SOEs other than market-type SOEs). QGOs are classified as fund-management-type (for which the management of a fund is assigned or commissioned pursuant to the National Finance Act) and commissioned-service-type (QGOs other than fund-management-type QGOs).

Table I-4. Criteria for the classification of types of SOEs and QGOs

Type	Criteria (principle)
SOEs	○ Self-generating revenue ≥ 50%
▪ Market-type	▪ Institutions whose self-generating revenue ≥ 85% (and asset size > KRW 2 trillion)
▪ Quasi-market-type	▪ Self-generating revenue of 50 to 85%
QGOs	○ Self-generating revenue < 50%
▪ Fund-management-type	▪ Institutions that manage a fund of the central government
▪ Commissioned-service-type	▪ QGOs that are not fund-management-type institutions
Non-classified public organization	○ Publicly funded organizations that are not SOEs or QGOs

Note: the ratio of self-generating revenue to total revenue should be based on the financial statements of the most recent three years.

In summary, the scope, types, and criteria for designating SOEs and QGOs, as stipulated by the AMPI, classify SOEs that have been designated through this act as market-type SOEs, quasi-market-type SOEs, fund-management-type QGOs, commissioned-service-type QGOs, and others. Note that there are a number of institutions among non-classified SOEs and QGOs that are de facto SOEs but are not classified as SOEs.

Table I-5. Designated SOEs and QGOs as of 2018

Type of institution		Number of designated institutions
SOEs		35
	▪ Market-type	15
	▪ Quasi-market-type	20
QGOs		93
	▪ Fund-management-type	16
	▪ Commissioned-service-type	77
Non-classified public organization		210
Total		338

Source: press release of the MOEF (31 January 2018).

As of 2018, SOEs that have been designated in accordance with the AMPI and through the deliberation and resolution of the Ownership Steering Committee include a total of 35 SOEs: 15 market-type and 20 quasi-market-type SOEs (five institutions newly designated in 2017). Table I-6 below lists the SOEs that have been designated as market-type and quasi-market-type.

Table I-6. SOEs designated by the central government as of 2018

Category	(Ministry) Institution
Market-type SOEs (15)	(Ministry of Trade, Industry, and Energy) Korea Gas Corporation, Korea Resources Corporation, Korea South-East Power Co., Korea Southern Power Co., Korea East-West Power Corporation, Korea Western Power Co., Korea National Oil Corporation, Korea Hydro & Nuclear Power, Korea Electric Power Corporation, Korea Midland Power Co., Korea District Heating Corporation, and Kangwon Land, Inc.
	(Ministry of Land, Infrastructure and Transport) Incheon International Airport Corporation and Korea Airports Corporation
	(Ministry of Oceans and Fisheries) Busan Port Authority

Category	(Ministry) Institution
Quasi-market-type SOEs (20)	(Ministry of Economy and Finance) Korea Minting and Security Printing Corporation (Ministry of Culture, Sports and Tourism) Grand Korea Leisure Co. (Ministry of Agriculture, Food and Rural Affairs) Korea Racing Authority (Ministry of Trade, Industry, and Energy) Korea Gas Technology Corporation, Korea Coal Corporation, KEPCO Engineering & Construction Company, KEPCO KDN, and Korea Plant Service & Engineering (Ministry of Land, Infrastructure and Transport) Jeju Free International City Development Center, Korea Housing & Urban Guarantee Corporation, Korea Appraisal Board, Korea Expressway Corporation, Korea Water Resources Corporation, Korea Railroad Corporation, and Korea Land and Housing Corporation (Ministry of Oceans and Fisheries) Yeosu Gwangyang Port Authority, Ulsan Port Authority, Incheon Port Authority, and Korea Marine Environment Management Corporation (Korea Communications Commission) Korea Broadcast Advertising Corporation
Fund-management-type QGOs (16)	(Ministry of Education) Teachers' Pension (Ministry of Culture, Sports and Tourism) Korea Sports Promotion Foundation, Korean Film Council, Arts Council Korea, and Korea Press Foundation (Ministry of Trade, Industry and Energy) Korea Trade Insurance Corporation and Korea Radioactive Waste Agency (Ministry of Health and Welfare) National Pension Service (Ministry of Employment and Labor) Korea Workers' Compensation & Welfare Service (Ministry of SMEs and Startups) Korea Technology Finance Corporation and Small & Medium Business Corporation (Financial Services Commission) Korea Credit Guarantee Fund, Korea Deposit Insurance Corporation, Korea Asset Management Corporation, and Korea Housing Finance Corporation (Ministry of Personnel Management) Government Employees Pension Corporation
Commissioned-service-type QGOs (77)	(Ministry of Economy and Finance) Korea Public Finance Information Service (Ministry of Education) Korea Education and Research Information Service and Korea Student Aid Foundation (Ministry of Science and ICT) Postal Savings & Insurance Development Institute, Korea Postal Service Agency, Korea Postal Logistics Agency, National IT Industry Promotion Agency, Korea Foundation for the Advancement of Science & Creativity, Korea Communications Agency, National Research Foundation of Korea, Korea Internet & Security Agency, National Information Society Agency, and INNOPOLIS Foundation (Ministry of Foreign Affairs) Korea International Cooperation Agency (Ministry of Culture, Sports and Tourism) Korea International Broadcasting Foundation, Korea Creative Content Agency, Asia Culture Institute, and Korea Tourism Organization (Ministry of Agriculture, Food and Rural Affairs) Korea Agency of Education, Promotion and Information Service in Food, Agriculture, Forestry and Fisheries; Korea Institute

Category	(Ministry) Institution
Commissioned- service-type QGOs (77)	<p>of Design Promotion; Korea Institute for Advancement of Technology; Korea Evaluation Institute of Industrial Technology; Korea Industrial Complex Corporation; Korea Petroleum Quality & Distribution Authority; Korea Institute of Ceramic Engineering & Technology; Korea Energy Agency;</p> <p>Korea Institute of Energy Technology, Evaluation, and Planning; Korea Electrical Safety Corporation; and Korea Power Exchange</p> <p>(Ministry of Health and Welfare) Health Insurance Review & Assessment Service, National Health Insurance Service, Social Security Information Service, Korea Labor Force Development Institute for the Aged, Korea Human Resource Development Institute for Health & Welfare, and Korea Health Industry Development Institute</p> <p>(Ministry of Environment) Korea National Park Service, National Institute of Ecology, Korea Environment Corporation, and Korea Environmental Industry & Technology Institute</p> <p>(Ministry of Employment and Labor) Korea Employment Information Service, Korea Occupational Safety and Health Agency, Human Resources Development Service of Korea, and Korea Employment Agency for the Disabled</p> <p>(Ministry of Gender Equality and Family) Korea Youth Counseling and Welfare Institute, and Korea Youth Work Agency</p> <p>(Ministry of Land, Infrastructure and Transport) Korea Transportation Safety Authority, Korea Agency for Infrastructure Technology Advancement, Korea Land and Geospatial Informatix Corporation, Korea Infrastructure Safety Corporation, and Korea Rail Network Authority</p> <p>(Ministry of Oceans and Fisheries) Korea Ship Safety Technology Authority, Korea Fisheries Resources Agency, Korea Institute of Marine Science and Technology Promotion, and Korea Institute of Maritime and Fisheries Technology</p> <p>(Ministry of the Interior and Safety) Korea Elevator Safety Agency</p> <p>(Ministry of SMEs and Startups) Korea Technology and Information Promotion Agency for SMEs, and Small Enterprise and Market Service</p> <p>(Federal Trade Commission) Korea Consumer Agency</p> <p>(Korea Communications Commission) Community Media Foundation</p> <p>(Nuclear Safety and Security Commission) Korea Institute of Nuclear Safety</p> <p>(Ministry of Patriots and Veterans Affairs) Independence Hall of Korea and Korea Veterans Health Service</p> <p>(Ministry of Food and Drug Safety) Korea Agency of HACCP Accreditation and Services</p> <p>(Korean National Police Agency) Korea Road Traffic Authority</p> <p>(National Fire Agency) Korea Fire Industry Technology Institute</p> <p>(Korea Forest Service) Korea Forestry Promotion Institute, Korea Forest Welfare Institute</p> <p>(Rural Development Administration) Foundation of Agricultural Technology Commercialization & Transfer</p> <p>(Korean Intellectual Property Office) Korea Intellectual Property Strategy Agency</p> <p>(Korea Meteorological Administration) Korea Meteorological Institute</p>

Category	(Ministry) Institution
<p>Non-classified public organization (210)</p>	<p>(Office for Government Policy Coordination) National Research Council for Economics, Humanities, and Social Studies, Science and Technology Policy Institute, Korea Research Institute for Human Settlements, Korea Institute for International Economic Policy, Korea Institute for Industrial Economics and 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 and Training, National Youth Policy Institute, Korea Maritime Institute, Korea Institute of Public Administration, Korea Institute of Criminology, Korea Environment Institute</p> <p>(Ministry of Economy and Finance) Export-Import Bank of Korea, Korea Investment Corporation</p> <p>(Ministry of Education) Gangneung-Wonju National University Dental Hospital, Kangwon National University Hospital, Kyungpook National University Hospital, Kyungpook National University Dental Hospital, Gyeongsang National University Hospital, National Lifelong Learning Agency, Northeast Asian History Foundation, Pusan National University Hospital, Pusan National University Dental 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, Institute for the Translation of Korean Classics, Korea Foundation for the Promotion of Private School, Academy of Korean Studies</p> <p>(Ministry of Science and ICT) Korea Institute of Human Resources Development in Science and Technology, Postal Facility Management Agency, Gwangju Institute of Science and Technology, National Research Council of Science and Technology, Gwangju National Science Museum, Daegu National Science Museum, Busan National Science Museum, Institute for Basic Science, Daegu Gyeongbuk Institute of Science & Technology, Specific Post Office Pension Service Agency, Ulsan National Institute of Science and Technology, Center for Women in Science, Engineering, and Technology, Korea Institute of Construction Technology, Korea Institute of Science & Technology Evaluation and Planning, Korea Institute of Science and Technology, Korea Advanced Institute of Science and Technology, Korea Institute of Science and Technology Information, Korea Institute of Machinery and Materials, Korea Basic Science Institute, Korea Nano Technology, Korea Data Agency, Korea Research Institute of Bioscience and Biotechnology, Korea Institute of Industrial Technology, Korea Food Research Institute, Korea Institute of Energy Research, Korea Atomic Energy Research Institute, Korea Institute of Radiological and Medical Sciences, Korea Electrotechnology Research Institute, Electronics and Telecommunications Research Institute, Korea Institute of Geoscience and Mineral Resources, Korea</p>

Category	(Ministry) Institution
<p>Non-classified public organization (210)</p>	<p>Astronomy & Space Science Institute, Korea Railroad Research Institute, Korea Research Institute of Standards and Science, Korea Institute of Oriental Medicine, Korea Aerospace Research Institute, and Korea Research Institute of Chemical Technology</p> <p>(Ministry of Foreign Affairs) Korea Foundation and Overseas Koreans Foundation</p> <p>(Ministry of Unification) North Korea Refugees Foundation and South-North Korea Exchanges and Cooperation Support Association</p> <p>(Ministry of Justice) Korea Legal Aid Corporation, Korea Government Legal Service, Korea Rehabilitation Agency, and IOM Migration Research & Training Centre</p> <p>(Ministry of National Defense) Military Outplacement Training Institute, War Memorial of Korea, and Korea Institute for Defense Analyses</p> <p>(Ministry of the Interior and Safety) Korea Democracy Foundation and Korean Foundation for Victims of Forced Mobilization Under Japanese Colonialism</p> <p>(Ministry of Culture, Sports and Tourism) The Gugak Broadcasting Foundation, Korea Arts Management Service, Seoul Arts Center, Jeongdong Theater, Korea Culture Information Service Agency, Game Rating and Administration Committee, Cultural Foundation of National Museum of Korea, Korean Paralympic Committee, Korean Sport & Olympic Committee, King Sejong Institute, Korea Media Rating Board, Taekwondo Promotion Foundation, Korea Craft & Design Foundation, Korea Center on Gambling Problems, Literature Translation Institute of Korea, Korea Culture & Tourism Institute, Korea Arts & Culture Education Service, Korea Culture Promotion Inc., Korean Film Archive, Korean Artists Welfare Foundation, Korea Copyright Protection Agency, Korea Copyright Commission, KSPO&CO, and Publication Industry Promotion Agency of Korea</p> <p>(Ministry of Agriculture, Food and Rural Affairs) Korean Food Promotion Institute, Livestock Health Control Association, International Plant-quarantine Accreditation Board, Agricultural Policy Insurance & Finance Service</p> <p>(Ministry of Trade, Industry and Energy) Korea Smart Grid Institute, Korea Strategic Trade Institute, Korea Institute for Robot Industry Advancement, Korea Testing Laboratory, Korea Energy Information Culture Agency, Korea Nuclear Fuel, Hanil General Hospital, KEPCO International Nuclear Graduate School, and Korea Energy Foundation</p> <p>(Ministry of Health and Welfare) Korea Childcare Promotion Institute, Korea Disabled People's Development Institute, National Cancer Center, National Medical Center, Daegu Gyeongbuk Medical Innovation Foundation, Korea Red Cross, Osong Medical Innovation Foundation, Korea Health Promotion Institute, Korea Foundation for International Healthcare, National Evidence-Based Healthcare Collaborating Agency, Korea Health Personnel Licensing Examination Institute, Korea National Council on Social Welfare, Korea Medical Dispute Mediation and Arbitration Agency, Korea Organ Donation Agency, National Development Institute of Korean Medicine, and Korea Institute for Healthcare Accreditation</p>

Category	(Ministry) Institution
Non-classified public organization (210)	<p>(Ministry of Employment and Labor) Construction Workers Mutual Aid Association, Korea Labor Foundation, Korea Testing Institute of Technical Qualification, Korea Polytechnics, Korea University of Technology and Education, Korea Social Enterprise Promotion Agency, and Korea Job World</p> <p>(Ministry of Gender Equality and Family) Korean Institute for Healthy Family, Korean Institute for Gender Equality Promotion and Education, and Women’s Human Rights Institute of Korea</p> <p>(Ministry of Land, Infrastructure and Transport) Waterway+, Korea Construction Management Corporation, Korea Housing Management, KORAIL Tourism Development Co., KORAIL Networks Co., KORAIL Logis, KORAIL Retail, KORAIL Tech Co., Korea Institute of Aviation Safety Technology, SR Co., and Korea Construction Equipment Safety Institute</p> <p>(Ministry of Oceans and Fisheries) Korea National Maritime Museum, National Marine Biodiversity Institute of Korea, Busan Port Security Corporation, Incheon Port Security, Korea Fisheries Infrastructure Promotion Association, Korea Institute of Ocean Science and Technology, Korea Hydrography and Research Association, and Korea Institute of Aids to Navigation</p> <p>(Small and Medium Business Administration) Korea Small Business Institute, Small & Medium Business Distribution Center, Korea Federation of Credit Guarantee Foundations, Korea Institute of Startup & Entrepreneurship Development, Korea Venture Investment Corp., Public Home Shopping, Disabled Enterprise Business Center, Korea Association of University, and Research Institute and Industry</p> <p>(Financial Services Commission) Industrial Bank of Korea, Korea Development Bank, Korea Securities Depository, and Korea Inclusive Finance Agency</p> <p>(Federal Trade Commission) Korea Fair Trade Mediation Agency</p> <p>(Nuclear Safety and Security Commission) Korea Foundation of Nuclear Safety and Korea Institute of Nuclear Nonproliferation and Control</p> <p>(Ministry of Patriots and Veterans Affairs) 88 Country Club</p> <p>(Ministry of Food and Drug Safety) Medical Device Information and Technology Assistance Center, Korea Institute of Drug Safety and Risk Management, and National Food Safety Information Service</p> <p>(Korea Customs Service) Korea Institute of Origin Information</p> <p>(Defense Acquisition Program Administration) Agency for Defense Development and Defense Agency for Technology and Quality</p> <p>(Cultural Heritage Administration) Korea Cultural Heritage Foundation</p> <p>(Korea Meteorological Administration) APEC Climate Center and Korea Institute of Atmospheric Prediction Systems</p> <p>(Korea Forest Service) Korea Institute of Arboretum Management</p> <p>(Korean Intellectual Property Office) Korea Invention Promotion Association, Korea Intellectual Property Protection Agency, Korea Institute of Intellectual Property, and Korea Institute of Patent Information</p>

Source: press release from the MOEF (30 January 2018).

3. The role of SOEs and QGOs

1) In theory

The essential role that SOEs and QGOs play in the national economy or public sector of any country is to provide public services to the private sector, which is composed of households and businesses. In particular, the essence of the role of SOEs and QGOs in the public sector is the provision of services to the public.

From this perspective, there are two basic roles of SOEs and QGOs.⁵ First, SOEs and QGOs serve to overcome the operational limitations of existing government organizations. Government organizations are considered relatively rigid compared to private organizations, and SOEs and QGOs, which are somewhat flexible in nature, are designed to carry out the government's role. Particularly when a corporate mindset is crucial for promoting certain public policies, the government actively utilizes SOEs and QGOs, showing that many SOEs and QGOs serve to supplement government organizations.

Second, SOEs and QGOs carry out executive tasks for which the government is responsible. Rather than focusing on policy decision-making tasks, government organizations establish SOEs and QGOs that are capable of performing the tasks more efficiently. Among Korea's QGOs, commissioned-service-type QGOs tend to take on this role. These organizations are active mainly in the market economy, where they serve various purposes.

For centuries, SOEs and QGOs have been making direct and indirect interventions in the market economy. In the 20th century, however, the establishment and intervention of SOEs and QGOs increased significantly. This phenomenon is closely related to financial crises. For instance, in the post-World War II era, many SOEs and QGOs were established for the purpose of rebuilding national industries and infrastructure that were destroyed during the war. SOEs and QGOs dedicated to

⁵ The following information has been derived from the MOEF (2011: 20-23).

such purposes were established not only in Korea but also in Europe and Japan in the postwar period, suggesting that such SOEs and QGOs were founded to pursue postwar restoration and the establishment of an economic foundation. Such SOEs and QGOs were established mainly in the energy, logistics, and financial sectors. SOEs and QGOs in Korea, Mexico, and Turkey, in particular, were founded to achieve the strategic goal of national development.

The state establishes SOEs and QGOs that directly or indirectly intervene in the market economy in response to market failures. In other words, SOEs and QGOs are founded to resolve market failures that occur as a result of natural monopolies, public goods, or external effects. In this respect, the basic role of SOEs and QGOs is to prevent natural monopolies and their harmful effects, supply public goods in an efficient manner, prevent the negative external effects of goods, and promote the creation of positive external effects.

Since the roles of SOEs and QGOs vary according to the purposes of their establishment, such roles cannot be summarized uniformly. However, the roles of SOEs and QGOs addressed in previous studies can be summarized as follows.

On the one hand, Friedman argued that SOEs and QGOs were established as a means of supplementing insufficient private capital for the purposes of national defense or strategy, public control over monopolistic businesses, and the public management of major industries for nationalization. On the other hand, Petersen explained that SOEs and QGOs contribute to the achievement of national goals such as strengthening national defense, overcoming economic crises, carrying out multipurpose development projects, enhancing the operation of businesses, increasing industrial competitiveness and productivity, resolving problems and increasing the efficiency of the management of private corporations by nationalizing insolvent private companies, developing high-risk projects, mitigating the excessive costs of private companies supplying goods that have the nature of public goods, pursuing political ideology, and liquidating insolvent companies. In this way, SOEs and QGOs play such a wide variety of roles that there are virtually no roles that they do not carry

out. Although they are established by the government, SOEs and QGOs play roles that are very closely related to the market economy.

The diverse roles of SOEs and QGOs can be summarized as follows (OECD, 2005). First, SOEs and QGOs play roles related to industry and the economy. When a policy response is necessary for certain industries in the process of developing the national economy, a number of SOEs and QGOs are established and operated for the following reasons:

- to create or preserve profits or maintain employment in certain areas;
- to create a new industry that requires enormous initial costs and for which the future benefits for private companies are uncertain;
- to manage aging or declining industries with insufficient direct subsidies whose future would not be guaranteed if private companies were left in charge; and
- to allow private companies to carry out projects despite the risks involved and for which the government deems the provision of support necessary.

Second, SOEs and QGOs also play a role in economic development, particularly in states that wish to transform their aging economies into developed economic systems in a short span of time. This involves the following:

- enabling developing countries to revive their industries;
- achieving social stability or equity by investing in new infrastructure; and
- creating employment or building new plants.

Third, SOEs and QGOs can be utilized in relation to general fiscal policy. In particular, their role in expanding national fiscal income is emphasized:

- for the government to intervene in certain sectors to acquire exclusive benefits and absorb the resulting income into the national finance;
- for the government to sell certain projects at low cost in anticipation of a redistribution effect; and
- to maintain or create a certain level of employment.

In this way, SOEs and QGOs play various economic roles. However, there is a recent trend that demands they take a more active and broader role, which means that

there is a demand for greater social responsibility on the part of SOEs and QGOs. Since SOEs and QGOs are established to achieve public goals, they are essentially oriented to pursue social responsibility.

However, the social responsibility required of SOEs and QGOs in recent years is of a more active variety. For instance, ISO 26000, a recently established international standard for social responsibility, emphasizes the role of SOEs and GQOs as practical supporters of local communities, focusing on the active and leading roles of corporations with respect to welfare, education, and human resource development within the communities in which they are based. Since there are diverse SOEs and QGOs across regions and, in certain regions, they are the largest organizations creating as many jobs as private corporations, their role as practical contributors to local communities has been emphasized. For example, Korean SOEs and QGOs have also performed various activities in the name of social contribution. However, these activities have been passive and performed voluntarily or from the perspective of beneficiaries. Therefore, it is necessary for these organizations to play a more active role as corporate citizens in the future.

2) In practice

According to an examination of SOEs and QGOs in the context of their basic roles, the Korean central government's SOEs and QGOs have played the following roles (MOEF, 2011).

First, SOEs and QGOs are responsible for promoting economic development by supplementing private capital and advancing into areas that private corporations find it difficult to enter due to their lack of experience and the high risk involved.

Second, they are responsible for carrying out monopolistic business. SOEs and QGOs are required to perform public roles in sectors with a strong public nature and high necessity as forms of universal service to the public and be active in basic industries, such as railroads and communications, network industries, and industries

that require enormous initial costs.

Third, SOEs and QGOs are responsible for forming social overhead capital (SOC). To promote the efficient formation of SOC, SOEs and QGOs, such as the Korea Expressway Corporation, Incheon International Airport Corporation, and Busan Port Authority, were established.

Fourth, SOEs and QGOs are also responsible for actively meeting public demands. The government established SOEs and QGOs to effectively and promptly meet the various demands of the public and provide services. In such cases, SOEs and QGOs are necessary because it takes time for them to enter the relevant sectors, and even when they do, they may be unable to provide sufficient supplies of the given services. In addition, to avoid the monopolistic nature of certain industries leading to excessive monopolistic profits for private corporations, the government responds to such demands by establishing SOEs and QGOs.

Fifth, SOEs and QGOs play a role in meeting the demand for national finance. In other words, the public sector enters areas in which monopolistic profits can be created and used to meet the government's fiscal demands. The Korea Monopoly Corporation played this role in the past.

In this way, SOEs and QGOs established in Korea have been playing various roles in different industries. The roles of SOEs and QGOs can be roughly classified as follows: SOEs mainly play a role in developing infrastructural industries, while QGOs play a role in directly supporting people's daily lives (Yoon Tae-beom, 2012).

First, there are SOEs and QGOs that are responsible for the establishment and operation of the basis for SOC formation. They provide sufficient SOCs as well as maintaining and managing SOC. A more active role of SOEs and QGOs is emphasized in this respect due to several characteristics of SOC, such as the fact that it forms the basic foundation for national development, involves enormous initial investment costs and network industries, and has a strong public nature. SOEs and QGOs of this type focus mainly on establishing the foundations for national development and the provision of universal services for the general public. The

major SOEs and QGOs that carry out such roles include the Korea Gas Corporation, Korea Airports Corporation, Korea Expressway Corporation, Korea Water Resources Corporation, Korea Electric Power Corporation, Korea Railroad Corporation, Korea Land and Housing Corporation, and Busan Port Authority. The services that these SOEs and QGOs provide are universal services, which are made available at a very low cost to minimize the economic burden on the people.

Second, SOEs and QGOs are responsible for promoting and creating public services. These SOEs and QGOs play various roles in establishing the basis for the systematic and stable supply of goods and services that are required for public consumption. For instance, the calculation of appropriate real estate prices is extremely important for the stability of real estate transactions. Since this enables the public to engage in secure real estate transactions, real-estate-related public services can be provided in a stable manner through QGOs such as the Korea Appraisal Board. In addition, the demand for tourism increases significantly when the standard of living improves. Therefore, SOEs such as the Korea Tourism Organization (KTO) promote tourism services and the domestic tourism industry by attracting foreign visitors and systematically developing quality tourism resources. Rather than directly dealing with tourists, the KTO performs activities related to the establishment of infrastructure for the promotion of the domestic tourism industry and supports the private sector. Similar activities are performed by the Korea Housing & Urban Guarantee Corporation, Jeju Free International City Development Center, Korea Resources Corporation, Korea Broadcast Advertising Corporation, Korea Minting and Security Printing Corporation, and others.

Third, there are SOEs and QGOs that conduct public inspections and verifications. One of the most important and basic roles of the state is to ensure the safety of the people, thus allowing people vulnerable to various risks to live in a safe environment. Many SOEs and QGOs are responsible for fulfilling this role. The role that SOEs and QGOs play in ensuring people's safety goes beyond conducting simple inspections to include the development of related technologies, education

and training of people working in the field, and the provision of guidance to citizens through various activities. For instance, as most adults in Korea drive cars, ensuring car safety means securing the safety of people as well. To this end, for example, the Korea Transportation Safety Authority has been established to conduct car inspections. This kind of safety inspection is a universal service that is provided not only to certain consumers, but to all citizens who own cars. SOEs and QGOs that have been established to ensure the safety of the people by conducting inspections and verifications include the Korea Transportation Safety Authority, Korea Gas Safety Corporation, Korea Electrical Safety Corporation, Korea Ship Safety Technology Authority, Korea Institute for Animal Products Quality Evaluation, Korea Testing Laboratory, Korea Fire Industry Technology Institute, and Korea Elevator Safety Institute.

Fourth, there are also SOEs and QGOs that promote the benefits of culture and a happy and healthy life. The state has a fundamental responsibility to create the conditions necessary for people to lead healthy and happy lives. To this end, the government established the National Health Insurance Service to support medical insurance so that people are able to receive the medical services they need to maintain their health regardless of their economic status. In addition, through SOEs and QGOs, the government preserves natural resources that give people more opportunities to go on vacations and take much-needed breaks from their daily lives; it also creates natural parks and provides related services. For example, the Korean government has established the Korea Consumer Agency to protect the rights and safety of people as consumers and founded the Korea Social Service Administration to provide various social welfare services at low costs. These services are universal services that all people have the right to enjoy. To provide such services equally to all people at low cost, the government has established and operated related SOEs and QGOs.

Aside from those mentioned in this paragraph, similar SOEs and QGOs include the Health Insurance Review & Assessment Service, Korea National Park Service,

Korea 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 Postal Service Agency, and Korea Student Aid Foundation.

Fifth, SOEs and QGOs play a role in the strategic promotion of specific sectors and industries. For areas that are easy for private corporations to voluntarily enter and profit from, government intervention through SOEs and QGOs is minimal. Of course, even in such cases, when it is necessary to provide universal services for the people or when the goods provided have a strong public nature, there is a greater need for SOEs and QGOs than for private corporations. However, for areas that are difficult for private corporations to enter and profit from or for areas that are crucial to the national economy yet lack the participation of private corporations due to their relatively low profitability, SOEs and QGOs are eventually created to perform related functions.

In such cases, related SOEs and QGOs are in charge of promoting private corporations or establishing the foundation for private corporations or the public to enter such areas more easily rather than focusing on creating profits. Thanks to such SOEs and QGOs, private corporations are able to conduct corporate activities more effectively, and the people are able to receive related services. For instance, the Korea Agro-Fisheries Trade Corporation has made production and distribution for farms and other agricultural import companies easier. The National IT Industry Promotion Agency has made it possible to develop various information technologies and software to strengthen the basis of related industries, and the Korea Education and Research Information Service provides a range of academic information that allows scholars to easily pursue their academic activities.

Thanks to these SOEs and QGOs, individual companies and workers do not need to pay additional fees to gain access to these services. In this way, SOEs and QGOs support the private sector. SOEs and QGOs that perform similar functions

include the Korea Trade-Investment Promotion Agency, Korea Rural Community Corporation, Foundation of Agricultural Technology Commercialization & Transfer, Korea Technology and Information Promotion Agency for SMEs, Korea Health Industry Development Institute, Korea Institute for Advancement of Technology, Korea Internet & Security Agency, and National Information Society Agency.

Lastly, there are SOEs and QGOs that utilize funds secured in advance, such as pension funds, to promote the stability of projects and businesses. Having secured certain levels of financial resources, these SOEs and QGOs are able to effectively respond to crises. The Korea Deposit Insurance Corporation is a major example of such SOEs and QGOs, as it effectively responds to problems that arise in financial institutions and protects financial consumers.

Another example is the Korea Sports Promotion Foundation, which uses funds collected from the sports and entertainment industries, such as cycling and rowing events, for public purposes. Other QGOs that conduct similar roles 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 Corporation, National Pension Service, Korea Sports Promotion Foundation, Korea Workers' Compensation & Welfare Service, Teachers' Pension, Korean Film Council, Small & Medium Business Corporation, and Arts Council Korea.

II

Evolution of the management system



II

Evolution of the management system

1. Historical overview

Since the late 1960s, Korea has used SOEs and QGOs as key policy instruments for the implementation of government-led economic development strategies. However, despite the positive role of SOEs and QGOs during the development era, the government has continued to reform the governance and management system of SOEs and QGOs in order to resolve structural issues in the public sector, such as inefficient management.

The management system for oversight of SOEs and QGOs has evolved from a direct, ex ante control and management system into a more indirect and ex post management system maintaining a focus on securing the public interest. Through this process, the autonomy of SOEs and QGOs has continued to expand. The developmental process of the SOE and QGO management system can be largely divided into five periods according to the changes in related laws and institutions.

Korea's SOE and QGO management system was focused mainly on SOEs until the Kim Dae-Jung administration conducted the first investigation of "government-affiliated institutions" as part of its public sector reform efforts. A survey of SOEs and QGOs revealed the disorganized and chaotic management behaviors of SOEs and QGOs, which were operated autonomously by the line ministries. Having confirmed the disorderly state of government-affiliated institutions, the Kim administration attempted to enact the Framework Act on the Management of Government-Affiliated Institutions (FAMGAI) to realize the systematic management of such institutions but failed to do so due to the passive attitude of the National Assembly toward the issue. The National Assembly finally passed

this act during the Roh Moo-Hyun administration. After the enactment of the framework act in 2003, a systematic management system for government-affiliated institutions was finally established. Therefore, in Korea, a systematic management framework that includes SOEs and QGOs was established in the fourth period of the development of the management system. Prior to this period, the Korean government's management policies were created and promoted with a focus on SOEs.

2. Laissez fair Period: 1948–1962

The first period, which began with the founding of the Korean government and ended with the enactment of the Act on the Budget and Accounts of Government-Invested Institutions, was a period in which the government had only loosen control over government-invested institutions. During this time, there were no laws related to the control of government-invested institutions other than the establishment laws for each organization. Therefore, control over government-invested institutions was left to the relevant ministries, and there was no systemic central control by the financial authorities. Sometimes, depending on the ministry, strict control and detailed interventions were imposed on SOEs. However, in general, control over SOEs was unorganized and loose.

An examination of government control over the budgets of government-invested institutions showed that such budgets were confirmed only with the approval of the ministers of the related ministries, and the purchase of goods and signing of construction contracts were left to the institutions themselves. Moreover, there was no centralized purchasing system. External audits were conducted by the relevant ministries and the Board of Audit and Inspection, and there was no performance evaluation system for government-invested institutions.

In summary, control over government-invested institutions during this first period can be viewed as having been non-systematic and loose, although there were some differences depending on the ministries in charge (Yoo Hoon, 2000).

3. Burgeoning Period: 1962–1984

1) Historical background and legal basis

The second period was a period in which SOEs were actively used as a means of economic development pursuant to the implementation of the Economic Development Plan. This period, which ended with the establishment of the FAMGII, is the period during which the Act on the Budget and Accounts of Government-Invested Institutions and the Act on the Management of Government-Invested Institutions (AMGII) were in effect. After the 1960s, the role of the public sector increased under the Economic Development Plan and the general industrial promotion policy, which prompted the establishment of many new SOEs. As a result, a more consistent and uniform management system was required.

The legal concept of a government-invested institution first appeared in the Act on the Budget and Accounts of Government-Invested Institutions (1962). This act was legislated to promote the rational operation of government-invested institutions by stipulating items related to the budgets and accounts of such institutions and the establishment of an independent taxation system. At the time, national financial management was conducted through government-invested institutions. Under this act, a total of 21 government-invested institutions were managed based on government ownership, including government-invested institutions for which government investment comprised at least 50 percent of their total investment and corporations for which 50 percent of their government-vested properties belonged to the state, in accordance with Article 2 of the Act on the Treatment of Devolving Properties and the Bank of Korea.

After this time, the AMGII (1973) was enacted to systematize the management and operational aspects of institutions, in addition to the budget. This act established management standards for each government-invested institution to promote the sound growth of such institutions and the reasonable management of government investments. Therefore, this act provided for matters beyond budgets and accounts,

such as matters related to articles of incorporation, the establishment and operation of the Committee for the Management of Government Investments, and the qualifications, terms of office, and appointment procedures of executives. In addition, the legal basis for auditing government-invested institutions was established, and the institutions were required to draw up basic operational plans and conduct evaluations and analyses. In this way, the legal basis for the government's reasonable management system was established, with this period signaling the beginning of systematic efforts toward the management of government-invested institutions. This period is also characterized by a focus on the management of large-scale SOEs and QGOs and the share owned by the government.

2) Autonomous and accountable management

The Act on the Budget and Accounts of Government-Invested Institutions unified the budgetary control function that each department had previously performed independently. The government then began making a systematic effort to operate the independent taxation system and SOEs and QGOs in a reasonable manner through the flexible operation and settlement of the budget. However, there were overlapping deliberations between the ministries and the Economic Planning Board.

The Act on the Budget and Accounts of Government-Invested Institutions stipulated the use of the general provisions on budgets, estimated profit and loss statements, and estimated balance sheets as the basis for budgeting. Also, when deemed necessary for the efficient implementation of projects, the act allowed the CEOs of government-invested institutions to transfer budget amounts between the items of the estimated profits and losses in the budget. However, the role of government-invested institutions was limited, as they needed approval from the ministers of the relevant ministries in order to use the expenses and reserve funds that were specially designated in the general provisions on budgets. In addition, the budgets that were confirmed by government-invested institutions were required to be

deliberated on and adjusted by the related ministries and the head of the Economic Planning Board.

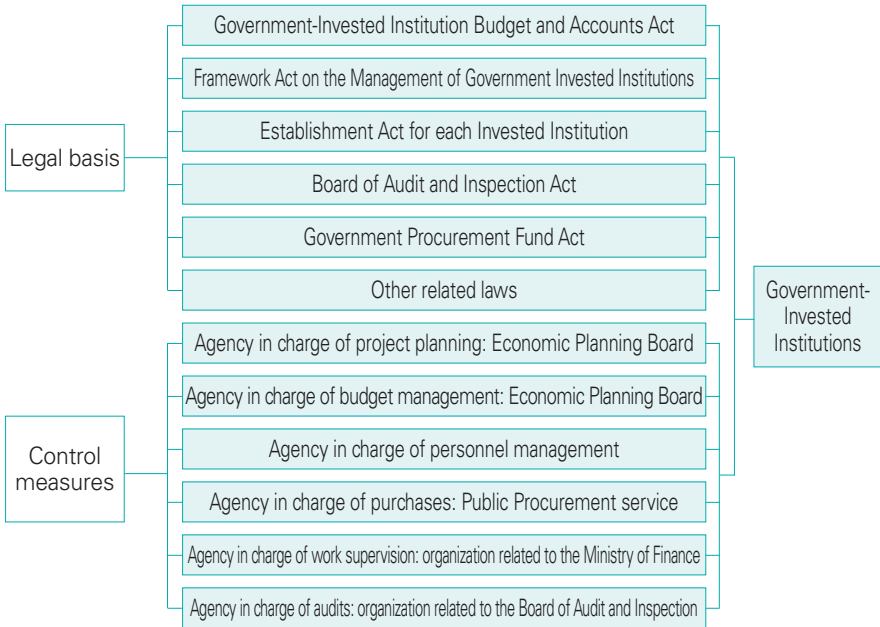
Afterward, to ensure the sound fostering of government-invested institutions and the reasonable management of government investments, the AMGII was enacted to establish management standards for each government-invested institution. However, despite the attempt to systematically manage government-invested institutions through the Act on the Budget and Accounts of Government-Invested Institutions and the AMGII, related government ministries also exercised control over such institutions as stipulated by the individual establishment laws, which created conflict between the two parties.

In this way, during the second period, government-invested institutions were put under central control, in accordance with the Act on the Budget and Accounts of Government-Invested Institutions and the AMGII. They were also controlled by government ministries according to the individual establishment laws for each government-invested institution and were subject to various restrictions imposed by the Board of Audit and Inspection Act, the Procurement Fund Act, and other regulations in related industries. The broad control system imposed on government-invested institutions across different sectors is presented in Figure II -1. For instance, the project plans and budgetary operations of government-invested institutions were controlled by the Economic Planning Board and the relevant ministries, while the institutions' human resource management was controlled by the relevant ministries. Purchasing materials, job oversight, audits, and other activities were regulated by various institutions, including the relevant ministries, the Ministry of Finance, the Board of Audit and Inspection, and the Public Procurement Service (Song Dae-hee, 1989).

3) Governance and internal and external audits

Under the governance structure of government-invested institutions during this period, the power of the relevant ministries exceeded that of the board of directors. The board of

Figure II-1. Management system prior to the enactment of the AMGII



Source: Economic Planning Board (1988: 180).

directors consisted of executives responsible for conducting affairs within the institutions. According to the regulations of each board of directors, the board was in charge of deliberating and deciding on important matters related to government-invested institutions. However, since the relevant ministries had the authority to make decisions on budgets and job oversight, important decisions were often made by the government.

Even in terms of audits and job oversight, the relevant ministries exercised comprehensive and broad control over government-invested institutions, as the individual establishment laws stipulated that the ministers of the relevant ministries have the authority to supervise the activities of government-invested institutions, give necessary orders, and even inspect the submission of reports and the progress or status of tasks, documents, facilities, and other goods. Government-invested institutions needed the approval of the relevant ministries not only with respect to their project plans, but also for the implementation of unit projects, the procurement of investment, the determination

of fees, and the access to and use of profits. The tasks of job oversight and auditing were carried out separately by the Ministry of Finance and other competent organizations and were therefore not performed in a systematic manner.

4) Performance evaluation

The first performance evaluation of government-invested institutions was conducted through the performance evaluation system introduced in 1968. During this period, the performance of the institutions was evaluated by the ministers of the relevant ministries, but only with respect to budget-related figures, and there was no particular compensation system. It was not until 1972 that the Economic Planning Board, with the aim of improving the effectiveness of the performance evaluation, introduced a new system with a focus on incentives.

When the performance evaluation system was introduced, an advisory body comprised of academics, the Economic Planning Board, and officials from the relevant ministries was responsible for conducting the evaluations rather than a permanently established organization. In 1977, however, the Economic Planning Board was given the responsibility of evaluating government-invested institutions. Evaluations were conducted twice a year—once in the first half of the year and again in the second half. Four to 13 indicators were used to evaluate the institutions, which were classified into four levels based on standard values determined for each indicator. Based on these results, bonuses of 50 to 200 percent were granted to government-invested institutions, which in reality received nominally differential payments.

5) Achievements of the management system

One of the characteristic features of the management system for government-invested institutions in the second period was a diversified control mechanism through which the central budget agency and ministries in charge of each function participated in the management of government-invested institutions, although control over the

operation of government-invested institutions was still vested in the ministers of the various relevant ministries. In terms of the method of control, government-invested institutions were managed with a focus on preliminary control.

However, this management system was unable to guarantee the management autonomy of government-invested institutions due to excessive control, excessive regulation, and direct and specific control. Management autonomy was restricted or excluded for government-invested institutions, as their general management activities, including budgeting, personnel, goods, and audits, were controlled by specific government regulations. Such excessive government control over the regular activities of government-invested institutions created a vicious cycle by lowering the morale of executives and staff, which then hindered the fostering of professional executives and required stronger government regulation.

For instance, it was impossible to establish a basic management plan due to excessive government control. Also, the entire budgeting process, from allocation to execution and accounting audits, was placed under government control.⁶ The government also exercised direct control over material procurement and construction contracts. In particular, direct intervention in personnel management made it commonplace for outsiders to be appointed to executive positions, leading the rate of outsiders appointed to executive positions to reach 53 percent as of 1983.

4. FAMGII period: 1984–1999

1) Historical background and legal basis

The third period spans the period from March 1984, when the FAMGII was implemented, to January 1999, when the corporate governance structure was fully

⁶ For the budgeting process, budget guidelines were established through the deliberation of the cabinet meeting and official approval by the president. The budgets of government-invested institutions were confirmed through the following process. Government-invested institutions allocated budgets and submitted them to the minister of the relevant ministry. The budgets were then submitted to the head of the Economic Planning Board along with a review statement written by the minister of the relevant ministry. After an adjustment process, the budgets were deliberated on in cabinet meetings and approved by the president, with the institutions being notified accordingly.

revised. The FAMGII replaced the Act on the Budget and Accounts of Government-Invested Institutions and the Act on the Management of Government-Invested Institutions. Introduced in response to the growing proportion of government-invested institutions in the national economy, the framework act sought to guarantee the autonomous management of government-invested institutions and improve their management efficiency. The act improved the previous non-systematic management of the institutions and was accompanied by other reform programs based on government policies, such as privatization and the elimination of the fiscal deficit.

In the second period, the management of government-invested institutions was strictly controlled by the relevant ministries, mainly through preliminary restrictions and interventions in organizational reform and other detailed matters. Moreover, the institutions were subject to overlapping management by the Economic Planning Board, various relevant ministries, the Ministry of Finance, and the Board of Audit and Inspection. Therefore, the FAMGII aimed to simplify the existing complex and multifaceted control procedures and ensure accountable management by providing broad autonomy and flexibility in terms of organization, personnel, and personnel management. As a result, unlike in the past when government-invested institutions were under the direct control of and subject to bureaucratic intervention by the relevant ministries, the framework act aimed to provide autonomy and flexibility in project management by allowing government-invested institutions to pursue their original goals and make decisions on budgeting, personnel, and material procurement autonomously. Moreover, the act employed an indirect management method by evaluating performance afterward in order to guarantee accountable management. As outlined in the following paragraphs, the characteristics of the FAMGII can be summarized in three points.

First, the purpose of the FAMGII was to alleviate excessive control over government-invested institutions and adopt an accountable management system. An accountable management system is a system in which government-invested institutions are guaranteed management autonomy and evaluated based on their

performance, encouraging them to take responsibility for their results.

Second, another characteristic of the FAMGII is that it weakened the control of the ministers of the relevant ministries over the organizations and their personnel and tasks. Minister control over finances was significantly reduced as well, with their control over the budget allocation and execution process of government-invested institutions being abolished.

Third, however, the introduction of the accountable management system and the relaxing of the relevant ministries' control over government-invested institutions did not mean that the conditions had returned to the time prior to the implementation of the Act on the Budget and Accounts of Government-Invested Institutions (August 1962). At the time, the Performance Evaluation Committee, which was led by the head of the Economic Planning Board and consisted of the ministers of the relevant ministries, was tasked with drawing up budget allocation guidelines, evaluating performance, and holding government-invested institutions responsible for the results of evaluations.

Meanwhile, privatization was actively promoted in order to build a more efficient operation system for SOEs in response to economic and social liberalization and the demand for de-politicization. The privatization of government-invested institutions was carried out in a more systematic manner. In 1987, SOEs were fully or partially sold by the Committee for promoting Privatization of SOEs, followed by the implementation of measures for privatizing SOEs and adjusting their functions in 1993. In 1997, with the implementation of the Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises, efforts to sell the shares of SOEs and create the conditions necessary for their privatization through management reform continued.

Similar to the previous system, the FAMGII was applied to institutions in which the government held stakes of 50 percent or more. However, for cases in which institutions needed guarantees of the maximum independence possible or required improved competitiveness or the capability to make prompt and flexible responses,

they were excluded from the list of government-invested institutions. As a result, the Korean Broadcasting System was excluded in 1987, and the financial institutions mentioned in the Banking Act were excluded in 1997. In addition to these changes, the effects of reduced government investment and privatization caused the number of government-invested institutions to decrease from 25 in 1984 to 13 in 1999. Only 14 government-invested institutions remained in 2007, which is when the FAMGII was abolished.

2) Autonomous and accountable management through the FAMGII

The management system for the government-invested institutions that were newly established with the implementation of the FAMGII in March 1984 was designed to ensure management autonomy for government-invested institutions, which are highly important to the national economy, allowing them to respond flexibly and creatively to the changing management environment and thereby improve their management efficiency (Economic Planning Board, 1988: 22). In other words, the government provided the major goals for government-invested institutions and relaxed its control over the process of achieving those goals, thereby providing autonomy and flexibility. On the other hand, it demanded that evaluations of the institutions' activities be conducted afterward, forcing the institutions to establish an autonomous and accountable management system. To guarantee the management autonomy of government-invested institutions, the FAMGII introduced the principle of management autonomy for government-invested institutions (Article 3), gave the CEOs of institutions the authority to appoint executives, allowed institutions to allocate their own budgets (Articles 15 and 22), enabled chief executive officers (CEOs) to sign contracts for material procurement and facility construction (Article 27), and promoted the liberalization of inventory management and the reduction of external audits (Articles 28 and 29).

As a result, the implementation of the FAMGII expanded the autonomy of

government-invested institutions in terms of budgeting. Previously, their budgets had to be approved by the relevant ministries, creating a delay of six months or longer between budget allocation and confirmation, which prevented the active management of institutions and placed them under the influence of the ministries. However, after the enactment of the framework act, government-invested institutions were granted budgeting autonomy, as budget allocation and execution were left up to the board of directors of the institutions, in accordance with the management goals and budgeting criteria that had been decided by the relevant ministries and the Economic Planning Board.

In addition, the management team, consisting of the board of directors, the CEO, and executive officers, was given the authority to decide management details in addition to the budget, guaranteeing the autonomous and accountable management of the institutions. This gave government-invested institutions the freedom to independently decide their own management directions. However, the relevant ministries still had the authority to supervise the tasks performed by the institutions. As a result, the systemic mechanism for establishing an autonomous and accountable management system for government-invested institutions, in accordance with the framework act, and the comprehensive supervisory authority of the relevant ministries stipulated in the individual establishment laws came to coexist.

3) Governance and internal and external audits

Another major feature of the FAMGII is that it aimed to minimize intervention and establish the accountable management of government-invested institutions by separating the board of directors, which is in charge of deliberation, and the executive management, which is in charge of execution. The government appointed the CEOs of the institutions, but left them free to appoint other executives, such as the vice president. This resolved the problem of employing outsiders, such as retired generals or politicians, and expanded the autonomy and responsibility of the CEO.

In the formation of the board of directors, the chairman of the board, who

is a non-standing director, was appointed by the president, while the rest of the non-standing directors were appointed by the ministers of relevant ministries. In addition, outside experts could be appointed as non-standing directors. However, in order to ensure alignment between the work of the government and government-invested institutions, an ex officio board member system was put in place. To resolve the issue of overlaps and inconsistencies in external audits conducted by the Economic Planning Board, the relevant ministries, and other government agencies, the Economic Planning Board was appointed to conduct external audits. Preliminary business inspections were also significantly reduced, and other business inspections were replaced by ex-post evaluation. Despite these changes, however, the relevant ministries still maintained comprehensive supervisory authority, resulting in overlaps and conflicts with the new system instituted by the FAMGII.

4) Performance evaluation

A practical performance evaluation system maintained by a professional Performance Evaluation Committee was introduced with the enactment of the FAMGII in 1984. This performance evaluation targeted government-invested institutions, but some of the institutions that were subject to the Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises were excluded. As the number of government-invested institutions decreased due to the effects of privatization, the number of target institutions also decreased after the adoption of the evaluation system.

To establish a systematic evaluation system, the Performance Evaluation Committee for Government-Invested Institutions, which deliberates on and reviews performance evaluations, was established, and a permanent institution for consultation and research on the evaluations began to be formed. In particular, the Performance Evaluation Committee, which consisted of experts with technical and professional knowledge concerning such evaluations, was tasked with drawing up a management evaluation

manual to outline the standard criteria for evaluations on an annual basis, in addition to actually conducting evaluations. Moreover, the performance evaluation conducted by the Performance Evaluation Committee and the separate performance evaluation system within each government-invested institution were maintained simultaneously. Therefore, after the adoption of the evaluation system, the two evaluation systems were integrated into one. The institution in charge of the management evaluation system changed along with the changes in government organization, from the Screening and Evaluation Bureau of the Economic Planning Board to the Budgeting Office of the Ministry of Finance and Economy in December 1998 and once again to the General Budget Bureau of the National Budget Administration in December 1998.

The framework act also increased the gap between the levels of incentive bonuses that were given depending on the results of the performance evaluations. Initially, the same bonuses were paid for each level, but from 1985, different payouts were given to institutions at the same level depending on their evaluation scores, and the gaps between the levels and grades were gradually widened.

5. Reform period: 1999–2007

1) Historical period and legal basis

The fourth period spans from February 1994, when the governance-structure-related regulations of the FAMGII were fully revised, to March 2007, when the AMPI was enacted.

After its implementation in December 1983, the FAMGII was revised numerous times, and in February 1999 its corporate governance structure section was fully revised. The reason for this revision was that the law contained regulations about government control that hindered the autonomy of government-invested institutions. In the existing FAMGII, the relevant ministries and the Economic Planning Board

are allowed to intervene in and regulate the allocation and execution of budgets as well as the organization of institutions and their personnel management. In addition, the act contained elements of excessive supervision by the relevant ministries, audits conducted by the Board of Audit and Inspection, and non-independence of the board of directors. As a result, the FAMGII was revised, reducing the authority of the ministers of the relevant ministries to intervene in the operation of government-invested institutions, thus improving institutional autonomy, adopting the CEO recommendation system, strengthening board member liability for damages (to secure an accountable management system), and introducing the management public notice system to improve management transparency. This shows that the purpose of the revision of the framework act was to completely reorganize the management system for government-invested institutions at the time.

2) Autonomous and accountable management through the AMGAI

The most significant change brought about by the revision of the FAMGII was the drastic overhaul of the board of directors system and executive officer appointment procedure.

The original system, in which the government appointed the board members, was abolished, and the non-standing director system was changed to a system of executive and non-standing directors. Standing directors were appointed and dismissed by the ministers of the relevant ministries at the recommendation of the CEOs of the institutions, while non-standing directors were appointed and dismissed by the head of the Planning and Budget Committee (later changed to the Minister of Planning and Budget) at the recommendation of the CEOs of the institutions and in accordance with the subsequent deliberation of the operating committee. The CEOs of government-invested institutions had previously been appointed and dismissed by the president at the recommendation of the ministers of the relevant ministries; however, after the revision of the law, CEOs were appointed and dismissed by the

president at the recommendation of the ministers of the relevant ministries and following the Committee for Recommendation of Executive Officers' selection of a suitable candidate. When the Committee for Recommendation of Executive Officers selected a candidate for the CEO of a given government-invested institution, the committee was asked to draw up a contract that included management goals and a bonus scheme, which the CEO would then sign upon his or her appointment. This was done in an effort to emphasize accountable management. In addition, when board members or auditors violated the articles of incorporation or neglected their duties, they were held liable for any damages they inflicted on third parties or investors, as are board members and auditors in corporations. The purpose of this was to strengthen the accountable management system.

3) Governance and internal and external audits

The greatest change in the fourth period, in terms of internal and external audits and governance structure, was the reorganization of the board system and the appointment of auditors. The board of directors is the highest deliberation and decision-making body in relation to the management of government-invested institutions. It is responsible for making all important decisions, such as the deliberation and confirmation of budgets, settlements, and operation plans and the enactment and revision of regulations related to personnel, wages, and the organization of institutions. Moreover, since only non-standing members participate in board meetings, the board of directors was operated with the purpose of keeping the CEO of the institution in check, discussing the appointment or dismissal of the CEO, and handling management contracts and performance evaluations. Auditors, who are in charge of conducting internal audits of government-invested institutions, were previously appointed and dismissed by the president at the recommendation of the ministers of the relevant ministries. However, to strengthen the independence of the auditors, the appointment procedure was reformed, empowering the president to

appoint and dismiss them at the recommendation of the Minister of Planning and Budget and based on the deliberation of the Steering Committee for Government-Invested Institutions.

The changes that were made to the corporate governance structure before and after the revision of the FAMGII are listed in Table II-1.

Table II-1. Changes made to the governance structure before and after the revision of the FAMGII in 1999

Category	Previous	Revised
Government board of director system	Two ex officio government board of directors	Abolished
Board of director system	Non-standing director system	Standing and non-standing director (majority) system
Number of board members	10 or fewer	15 or fewer
CEO recommendation committee	None	Recommendation of non-standing directors (majority) and board of directors Consists of civilian committee members and recommends the appointment or dismissal of the CEO
CEO appointment procedure	Recommended by minister of competent ministry → appointed by president	CEO recommendation committee makes suggestions → recommended by minister of line ministry → appointed by president
Management contract system	None	Introduced the management contract system for the presidents of institutions: states the management plan and bonus in the contract
Board member appointment and dismissal procedure	Recommended by CEO → appointed or dismissed by minister of relevant ministry	Standing director: recommended by CEO → appointed or dismissed by minister of relevant ministry Non-standing director: recommended by CEO → voted on by steering committee → appointed or dismissed by Minister of Planning and Budget
Employment system	Executive officer appointed from within institution	Possible to appoint outsiders as standing directors

Category	Previous	Revised
Management public notice system	None	Introduced
Minority shareholder system	None	Introduced
Liability system for board members and auditors	Not regulated	Subject to joint liability in the case of damage caused to the institution or third parties as a result of a violation of laws or articles of incorporation or other breach of duties

Source: Sunwoo Suk-ho (2000: 119).

4) Performance evaluation

The most significant difference between the fourth period and the preceding period is the division of the performance evaluation of government-invested institutions into two separate evaluations of institution's performance & CEO's performance. Evaluations of the CEOs of government-invested institutions involve the assessment of the overall management capabilities of the CEOs and the quality of the goal indicators based on the management goals stated in the CEO management contracts, which are signed by the representatives of non-standing directors or the chairmen of the Committee for Recommendation of Executive Officers and the CEOs themselves. The same evaluation subjects and the evaluation index system are applied to both the CEO and the institutional evaluations. Based on the evaluation results, the bonuses for the following year were paid differentially.

In addition, performance bonuses for the executives and staff members of government-invested institutions have been expanded from 125 to 145 percent to 0 to 500 percent. Moreover, in the past, only the dismissal of CEOs could be proposed in response to negative performance evaluation results, but the Minister of Planning and Budget was allowed to suggest the dismissal of standing directors and CEOs with poor performance. Other changes include the change in the overall management institution for the performance evaluation system from the National Budget Administration to the

Planning and Budget Committee and again to the Ministry of Planning and Budget. In addition, the institution responsible for deliberation and decision-making concerning performance evaluation system was changed from the Performance Evaluation Committee for Government-Invested Institutions to the Steering Committee for Government-Invested Institutions and then to the Planning and Budget Committee.

5) Establishment of the management system for government-affiliated institutions

The integrated and systematic management of government-affiliated institutions began during the public reform activities of the Kim Dae-Jung administration. Prior to that, the relevant ministries individually and de-centrally managed government-affiliated institutions based on the individual establishment laws, which gave rise to problems related to the reckless establishment of institutions, the establishment of institutions with overlapping functions, and careless management resulting from collusion between the relevant ministries and affiliated institutions. Despite these issues, there were no proper statistics on government-affiliated institutions at the pan-governmental level. The Kim Dae-Jung administration thus began identifying problematic government-affiliated institutions as important targets for public sector reform.

The Kim Dae-Jung administration attempted to enact the FAMGAI, which was a key reform project for the establishment of a new management system for government-affiliated institutions, but failed to do so due to a lack of support in the National Assembly. It was not until 2003 during the Roh Moo-Hyun administration that the act was finally passed and a systematic management system for government-affiliated institutions was established.

With the enactment of the FAMGAI, the activities of government-affiliated institutions, which were managed autonomously and de-centrally by various relevant ministries, came to be placed under an integrated management system that applied the external governance system of the framework act. However, opposition from the ministries and the diversity of institutions have led the governance structure of

government-affiliated institutions, which was established through the enactment of the framework act, to standardize only the external governance structure and recognize the various internal governance structures that were established according to the individual establishment laws of government-affiliated institutions. Ultimately, the management system of government-affiliated institutions, which was systematized for the first time with the enactment of the framework act, was built on the external governance structure. Moreover, the enactment of the framework act divided the management of SOEs and QGOs in Korea into government-invested institutions and government-affiliated institutions. These incomplete achievements toward the systemization of the management system for government-affiliated institutions and the division of the SOE and QGO management system were followed by a new transition with the AMPI in December 2016.

6. Integration period: 2007~Present

1) Historical background and legal basis

Korea's public SOE management system and governance structure underwent significant change with the implementation of the AMPI on 1 April 2007. The key point of the reform plan for the governance structure of SOEs and QGOs established by the AMPI is the “eradication of careless management and moral laxity through the fundamental reform of the SOE and QGO management system” and “practical support for the autonomous and accountable management system”.

Since overcoming the Asian financial crisis in 1997, Korea has continuously promoted the management reform of SOEs and QGOs. Reforms with a focus on the privatization and restructuring of SOEs were prioritized, and the improvement of the operation system was promoted simultaneously, leading to the introduction of the retirement allowance system, welfare system, annual salary system, and team system. In addition, following the enactment of the FAMGAI in December 2003, performance evaluations, innovation evaluations, and customer satisfaction surveys

were conducted for government-affiliated institutions and SOEs. Starting in 2005, in particular, performance evaluations were conducted for both government-affiliated and government-invested institutions, and the level of management innovation was measured in an effort to vitalize innovation-related activities and ideas.

Despite these persistent efforts, however, the careless management and moral hazards of SOEs and QGOs have repeatedly emerged as social issues. These problems have often been accompanied by the criticism that, because it was so difficult to identify exactly who was accountable for SOEs and QGOs, efforts to prevent recurrences of such issues were limited. This seemed to be the result of the difficulty in establishing an accountable management system for SOEs and QGOs due to the multilayered and complex nature of representative issues involving the public, government, and executives.

Therefore, in relation to securing the accountability of SOEs and QGOs, the innovation of the governance structure was considered crucial because management autonomy can only be ensured when the accountability of management is secured.

The OECD and major developed countries have promoted governance innovation based on the improvement of the SOE and QGO management system. In April 2005, the OECD published the Guidelines on Corporate Governance of SOEs and provided the standard model for the governance structure of member states. In consideration of the trend of international discourse and the realities of Korea, which is struggling with the careless management and moral laxity of its SOEs and QGOs, the reform of the governance structure of SOEs and QGOs was deemed an important task that needed to be accomplished. The government thus enacted the AMPI in an effort to reform the operation system for SOEs and QGOs by securing an autonomous and accountable management system for SOEs and QGOs and improving the autonomy and transparency of the institutions (Ministry of Planning and Budget, 2007: 349–357).

The circumstances leading up to the enactment of the AMPI can be viewed in three ways. First, the scope of SOEs and QGOs was uncertain, and there were

management blind spots prior to the implementation of the AMPI. SOEs and QGOs were classified as government-invested institutions, government-funded institutions, government-affiliated institutions, and government-funded institutions. However, there were a number of unreasonable aspects. Government-invested and government-funded institutions were managed separately, despite the fact that the government held exclusive management authority over both types of institutions as the controlling shareholder, and government-funded institutions, which were not subject to the Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises, were subject to the FAMGAI. Second, the government's external monitoring and control systems were operated mainly by the relevant ministries, which interfered excessively in the management of SOEs and QGOs and enforced preliminary regulations under the pretext of deterring careless management. This made it unclear who was actually responsible for the mismanagement of the institutions. Lastly, the internal checking system, consisting of the board of directors and auditors, was operated only as a formality. To resolve the above issues, the government systematically stipulated the scope and types of SOEs and QGOs, improved the internal and external governance structure, and regulated issues concerning fairness in the appointment and dismissal of executives.

In essence, the AMPI integrated the existing FAMGII and the FAMGAI into a single legal system and created a single management system for SOEs and government-affiliated institutions. In addition, in its Guidelines on Corporate Governance of SOEs, the OECD emphasized restructuring the corporate governance of SOEs by separating the organization that exercises ownership or control over SOEs from the relevant ministries that exercise regulatory power over them. However, even after the enactment of the AMPI, other laws that still held sway over SOEs and QGOs, such as the Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises, the Broadcasting Act, the Act on the Establishment, Operation, and Fostering of Government-Funded Research Institutes, and the Act on the Establishment, Operation, and Fostering of Government-Funded Science and Technology Research

Institutes, continued to exist.⁷ In addition, financial SOEs regulated by the Banking Act were virtually excluded from the scope of the AMPI.

Therefore, even after the enactment of the AMPI, Korea's SOEs and QGOs were classified as SOEs and QGOs subject to the AMPI; public broadcasting systems were subject to the Broadcasting Act, and government-funded research institutes were subject to the Act on the Establishment, Operation, and Fostering of Government-Funded Research Institutes and the Act on the Establishment, Operation, and Fostering of Government-Funded Science and Technology Research Institutes.

According to the addendum (Article 3) made in 2007, the AMPI stipulated that SOEs and QGOs are to be designated from among publicly announced institutions whose prescribed number of personnel is no fewer than 50 people and that are subject to the FAMGII, the FAMGAI, and the Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises. Among these institutions, those with self-generating revenue that reached or exceeded 50 percent of the total revenue were classified as SOEs, which have a strong corporate nature, while those with self-generating revenue less than 50 percent of the total revenue were classified as QGOs, which have a strong public nature. SOEs with high self-generating revenue (more than 85 percent) and assets of KRW 2 million were then classified as market-type SOEs, while those not included among market-type SOEs were classified as quasi-market-type SOEs. QGOs were also divided into fund-management-type QGOs responsible for managing government funds and commissioned-service-type QGOs tasked with carrying out government activities.

2) Autonomous and accountable management through the AMPI

During this period, the CEOs of SOEs and QGOs were granted autonomy over the management of personnel and budgets in order to strengthen the accountable

⁷The Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises remained in effect even after the enactment of the AMPI. However, the government-funded institutions that were previously subject to the act were reclassified as SOEs subject to the AMPI. As a result, the former act effectively became nullified.

management system. In addition, the management oversight of the Steering Committee for SOEs and QGOs was centered on goal-setting and follow-up evaluation. Only the minimum guidelines were provided for management, which involved budgeting, personnel, wages, and financial management. For market-type SOEs, in particular, the supervisory function of the Steering Committee for SOEs and QGOs was limited to employment capacity, wages, and financial management, and the SOEs were guaranteed the same level of autonomy granted to large private corporations.

The strengthening of systemic measures to improve transparency and fairness in the appointment of executive officers during this period can also be seen as a measure that encouraged autonomous and accountable management. Previously, executives were appointed by the relevant ministries, but authority over personnel affairs was redistributed during this period, allowing the CEOs of the institutions to appoint the standing directors of SOEs and the Steering Committee for SOEs and QGOs to recommend auditors and also appoint and dismiss non-standing directors. In QGOs, the authority to appoint and dismiss executives was granted to the ministers of the line ministries and the Steering Committee for SOEs and QGOs. The line ministers were granted the authority to appoint and dismiss the heads of QGOs and standing directors; the line ministers also appointed and dismissed non-standing directors based on the deliberation of the Steering Committee for SOEs and QGOs, and the Steering Committee for SOEs and QGOs was responsible for recommending auditors. In addition, Committee for Recommendation of Executive Officers were established to recommend candidates for all executive positions (CEOs of institutions, board directors, and auditors). Consisting of non-standing directors and board-appointed external members, the Committee for Recommendation of Executive Officers was responsible for recommending executives for SOEs and QGOs and negotiating the content and conditions of the management contracts with candidates for the CEOs of SOEs and QGOs.

According to the Reform Plan for the Management System of SOEs and QGOs, confirmed in December 2008, the autonomy of the relevant ministries and organizations was expanded, and the authority to appoint and dismiss the standing

auditors of QGOs was transferred from the Minister of the MOEF to the ministers of the line ministries; the authority to appoint standing directors was transferred from the line ministers to the presidents of QGOs. Moreover, performance evaluation was strengthened by linking the results of performance evaluation to the terms of office of the executives (CEOs of institutions and standing directors), while the Steering Committee for SOEs and QGOs evaluated the performance of non-standing directors and auditors and dismissed or provided incentives accordingly.

3) Governance structure and internal and external audits

The characteristics of internal and external audits and the governance structure of SOEs and QGOs, including SOEs established in accordance with the AMPI, are as follows.

First, institutions that had been in management blind spots were included in the scope of SOEs and QGOs, which drastically increased the number of SOEs and QGOs that needed to be managed. In addition, all institutions subject to management were obligated to disclose their management information and were managed in an integrated manner, thereby strengthening the public monitoring function for the management of SOEs and QGOs.

Second, the independence of the board of directors was enhanced, and the function of the board was greatly improved in order to monitor and keep the executive management in check. To guarantee the autonomy of market-type SOEs, the chairpersons of the boards and CEOs of the corporations were separated, and the appointed non-standing directors were to serve as the chairperson of the board. In addition, the proportion of non-standing directors on the board was set to ensure that they were the majority, and the number of board directors was limited to 15 or fewer in an attempt to increase the efficiency of the board's operation. In line with the strengthening of the responsibility of the board, the board was also granted the practical authority necessary to monitor the management of the institutions. Moreover, the board was given the right to suggest the dismissal or removal of the

CEOs on presidents of the institutions, and the right to request audits and sources was granted to the non-standing directors in order to support the board’s function of keeping the CEOs on presidents of the institutions in check.

Third, another important characteristic is the strengthened internal audit function. In market-type SOEs, the establishment of an audit committee within the board became obligatory, and internal audits were conducted to verify the management information that the institutions disclosed and manage the risks related to the management of the institutions.

Fourth, the act eradicated the practice of non-standing directors and auditors conducting business as a formality, thus strengthening the responsibility of the executives and enabling them to continue serving their function of keeping the CEOs on presidents of SOEs and QGOs in check. To this end, a new performance evaluation system was established to assess the work of non-standing directors, auditors, and other individual executives.

Fifth, according to the Reform Plan for the Management System of CEOs on presidents and QGOs, the responsibility of auditors and outside auditors was strengthened. Auditors are evaluated, and those who are ranked at the bottom of each type or those showing a significant decline in year-on-year performance are transferred or dismissed, and the lower limit of their total bonus is lowered. In the case of outside auditors, when their audits are found to have been carried out poorly, they are held liable for the damages incurred by the relevant institutions or third parties.

Table II-2. Characteristics of governance structures by type of SOEs and QGOs

	Market-type	Quasi-market-type	Commissioned-service-type	Fund-management-type
Nature of tasks	Commercial	Quasi-commercial	Carrying out of activities to achieve policy goals	Direct operation of government fund
Design direction of governance structure	Strong corporate principles	Corporate principles and partial control	Public management	Public management

	Market-type	Quasi-market-type	Commissioned-service-type	Fund-management-type
Board of directors model	Board-of-directors-centered model	Strengthened board of directors model	Advisory board of directors model	Steering committee/ board of directors dual board model
Management and supervisory function	Ownership Steering Committee	Ownership Steering Committee	Relevant ministries and Ownership Steering Committee	Relevant ministries and Ownership Steering Committee

4) Performance evaluation

The AMPI was implemented in April 2007. Since institutions were being operated in accordance with the performance evaluation manual drawn up in the previous year, only the parts of the performance evaluation that needed to be changed due to the legislation of the act were changed in 2007. These changes included the adjustment of the types of institutions subject to evaluation (government-invested and government-affiliated institutions SOEs and QGOs), the integration of the evaluation group, and the partial supplementation and improvement of the index system. Following the Reform Plan for the Management System of SOEs and QGOs released in December 2008, the reform of the performance evaluation system, which aimed to induce the improvement of SOEs and QGOs, was comprised of four main components.

First, the number of institutions subject to performance evaluations was decreased, and the evaluation indices of each institution were differentiated. Commissioned-service-type QGOs with fewer than 500 employees needed to conduct evaluations based only on measurable indices. To differentiate the evaluation indices based on the type of institution, the act increased the proportion of the customer satisfaction survey and decreased the weight of the productivity index for QGOs that needed to be evaluated based on their public nature and the public interest and whose evaluation by the market (consumers) would be difficult.

Second, as part of the effort to improve the objectivity of performance evaluations, the weight of unmeasurable indices was decreased, while the proportion of

measurable indices was increased, allowing SOEs and QGOs to be evaluated based on their output rather than processes.

Third, to expand the performance evaluation infrastructure, the government founded the Research Center for State-Owned Entities and established a performance evaluation information system. The Research Center for State-Owned Entities is responsible for researching and supporting overall performance evaluation with a view to improving the performance evaluation system, developing evaluation indices, managing informatization in the evaluation process, and studying policies related to SOEs and QGOs. In addition, the research center is computerizing the performance evaluation process and building a database for the collection and management of evaluation information.

Lastly, the feedback function of the evaluation results was improved. To bring about performance improvements based on the results of performance evaluation, the consulting function was strengthened to provide management consultation for analyzing the major causes of underperforming institutions and deriving improvement measures.



III

Internal and external governance structure and its current operation





Internal and external governance structure and its current operation

1. Importance of the governance structure

SOEs and QGOs are not clearly defined in terms of their property rights and ownership. Due to these proprietary constraints of SOEs and QGOs, supervisors or managers of SOEs and QGOs lack the motivation and norms to increase property values and maintain and manage them appropriately. As a result, in the process of managing SOEs and QGOs, there are more inefficiencies such as moral hazards and agent problems, including adverse selection and X-inefficiency, compared to private companies. Therefore, it is necessary to design and manage a good governance structure to overcome the inefficiency problems of SOEs and QGOs. The governance structure of SOEs and QGOs is recognized as a key task for the management innovation of SOEs and QGOs in that it has more influence than any other variables in determining the performance of SOEs and QGOs.

Basically, the governance structure of SOEs and QGOs plays a role as an institutional device for controlling the agency costs of SOEs and QGOs. In the process of managing the governance structure of SOEs and QGOs, however, another type of transaction cost is incurred, which is the agency cost of the governing body.

Therefore, in the process of designing the governance structure for SOEs and QGOs, the running costs of the government body, which may be regarded as an another type of transaction cost, are caused by the ownership structure of SOEs and QGOs and the market structural characteristics. The governance structure of SOEs and QGOs should be designed rationally to minimize the sum of the costs.

In the meantime, the issue of the ownership structure of SOEs and QGOs has been mainly dealt with in terms of the relationship between the government and SOEs and

QGOs (Lee Dalgon, 1997). However, issues related to the ownership and governance of SOEs and QGOs are not significantly different from those of private companies. The relationship between the government and SOEs and QGOs is in fact based on the premise of ownership governance. However, private companies have different definitions of property rights and property entities than SOEs and QGOs, while property rights are clearly defined in private companies. Due to this, there are various policy issues regarding the governance structure of SOEs and QGOs.

On the other hand, the governance structure of SOEs and QGOs is approximately at the level of governance regarding management decision-making and the control of SOEs and QGOs, and it is distinguished from daily management or management activities based on the management structure within SOEs and QGOs.

2. Reform of the governance structure of SOEs and QGOs based on the AMPI

1) Significance of the AMPI and reform of the governance structure

The innovation of the SOE and QGO governance structure through the enactment of the AMPI is a product of the Roh Moo-Hyun administration's reform policy. From 2004, the Roh Moo-Hyun administration began fundamentally restructuring its SOE and QGO management system to eradicate problems such as reckless or lax management and moral hazards in order to substantively support the implementation of a self-management system for SOEs and QGOs, which has been continuously practiced from the enactment of the FAMGII in 1984. The Roh Moo-Hyun administration's reform policy on the governance structure of SOEs and QGOs began in such a historical context.

The Kim Dae-Jung administration, which was in power during the financial crisis of 1997, promoted the reform of SOEs such as privatization and restructuring in order to make the public sector play a leading role in overcoming the economic crisis.

At the same time, the government also promoted activities to innovate management systems such as governance structure reform, retirement allowance system redesign, and welfare system and annual salary system reorganization. In December 2003, the Roh Moo-Hyun administration enacted the FAMGAI. According to the law, not only SOEs but also government-affiliated institutions are forced to carry out performance evaluations, innovation evaluations, and customer satisfaction surveys. Since 2005, performance evaluations for government-affiliated institutions and government-invested institutions have been conducted.

Despite these reforms, however, the problems of reckless management and moral hazards in SOEs and QGOs have repeatedly created social issues. Even though the government tried to reduce the recurrence of these problems, it is very difficult to clarify who is responsible. The complex and multilayered agent problems between the public government executives of SOEs and QGOs are an important structural factor. Therefore, in order to solve these chronic problems of SOEs and QGOs, there is a need to provide a more efficient governance structure and management supervision system. From this perspective, in response to the policy planning committee's report in May 2004, a reform of the SOE and QGO governance structure began on the instructions of President Roh Moo-Hyun: "the best SOE and QGO governance structure model should be developed".

At the same time that Korea started to work on SOE and QGO governance structure reform, the OECD and major industrialized nations were carrying out corporate governance innovation activities based on the improvement of the SOE system. In this process, the OECD prepared the Guidelines on Corporate Governance of SOEs in April 2005 and presented a standard model of SOE governance to member countries. The SOE governance model and the main recommendations presented in this guideline were used as core criteria in designing the reform measures for the SOE and QGO governance structure in Korea. Of particular importance were the recommendations to centralize the ownership functions of SOEs on the basis of the separation of the national ownership, regulation, and industrial policy functions of SOEs.

In view of the international trends in reforms of SOE corporate governance structure and the reality of Korea with frequent reckless management problems and moral hazards, it has been recognized that the reform of the governance structure of SOEs and QGOs must be accomplished. Therefore, the Roh Moo-Hyun administration set up a self-management system for SOEs and QGOs and has been working on reforming the governance structure of SOEs and QGOs to improve autonomy and transparency.

It was a critical factor for the Roh Moo-Hyun administration to enforce the reform of the SOE and QGO governance structure through the enactment of the AMPI despite the many difficulties caused by the historical background and contemporary context of Korean SOEs. First, in the process of public sector reform under the Kim Dae-Jung administration, the reality of government-affiliated institutions was widely known and the FAMGAI was enacted in order to manage them systematically. However, the scope of SOEs and QGOs was not clearly defined. At that time, the government managed SOEs and QGOs as government-invested institutions, government-funded institutions, government-affiliated institutions, and government-funded institutions, but the standardized governance structure was not developed and in place. Second, the government supervision and control system for SOEs and QGOs was managed under the supervision of the competent authorities or ministries, which led to excessive obligation, regulation, and intervention in the internal management of SOEs and QGOs. This creates unclear accountability problems, making the perfunctory running of the checks and balances mechanism for SOEs and QGOs, such as the board of directors and the audit system, very difficult.

In order to solve the problems of the governance structure, the Roh Moo-Hyun administration enacted the AMPI after two years of preparation. As a result, the law, enacted on 1 April 2007, brought a paradigm shift in the governance structure and management system of SOEs and QGOs in Korea. Through the enactment of the law, the diversified governance structure of SOEs was standardized by institution type, and a centralized governance structure/management system for SOEs and QGOs was implemented.

Basically, the AMPI establishes a unified management system for SOEs and government-affiliated institutions by integrating the existing FAMGII and FAMGAI into one single legal framework. In addition, much effort was devoted to restructuring the governance structure of SOEs by separating the ownership or controlling authority of the public enterprise, which was emphasized in the OECD governance guidelines. In addition, the systematic re-categorization of the organizational type classification, which was carried out without consistent principles, was completed. In particular, SOEs and QGOs were classified into SOEs and semi-governmental institutions according to the degree of commerciality by adopting international standards such as the 1993 System of National Accounts (SNA). Based on this, the previously complicated corporate governance structure was standardized according to the characteristics of each type of business.

2) SOE and QGO governance structure before the AMPI

Before the enactment of the AMPI, the classification and management system for SOEs and QGOs in Korea was basically determined by the existing legal system. Until 2007, SOEs and QGOs were classified as government-invested institutions, government-funded institutions, government-affiliated institutions, and government-funded research institutes. However, there is no explicit legal definition of a government-funded institution, and this term has been used in practice by the relevant government agencies responsible for public enterprise management.

Table III-1. Legal basis before the enactment of the AMPI

Classification	Legal basis	Definition
Government-invested institution	Framework Act on the Management of Government-Invested Institutions, Article 2	Institutions subject to this act, for which the government has contributed more than 50% of the paid-in capital
Government-funded institution	Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises	No explicit legal definition exists

Classification	Legal basis	Definition
Government-affiliated institution	Framework Act on the Management of Government-Affiliated Institutions, Article 2	Institution or organization receiving contributions or subsidies from the government, or and institutions or organization entrusted with work by the government directly or granted an exclusive business subject to the act
Government-contributed research institutions	Act on the Establishment, Operation, and Fostering of Government-Funded Research Institutes, Article 2	Government-financed institutions specifically established to deliver research

Some classifications of SOEs and QGOs in the relevant laws, acts, and codes are summarized in the table below according to exercising control and decision-making authority, internal governance structure, management evaluation system, management information disclosure system, and external audit system.

First, in the case of government-invested institutions that are subject to the FAMGII, although the level of separation between the Ministry of Investment and the investment authority is incomplete, there is an institutional mechanism for the Ministry of Planning and Budget, and the Evaluation Commission of SOEs and QGOs composed of external experts has been institutionalized to evaluate the performance of the institutions and the CEOs. In other words, the FAMGII includes not only the governance structure of government-invested institutions subject to this act, but also the regulations on operating systems such as budget management, disclosure, and purchase and construction contracts. However, in the case of institutions excluded from the scope of application of the FAMGII, a governance structure centered on the board of directors of the line ministries or agencies concerned was applied in accordance with the individual business law and the establishment law.

Second, the Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises prescribes the governance structure of government-funded institutions under this act. This law was enacted in order to prescribe procedures and methods for corporate governance and the privatization of SOEs in the form of

mixed corporations, which are basically privatized. The Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises does not specify the operating system of the government-invested institutions subject to this act, except for the FAMGII. Therefore, in Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises, a corporate governance structure centered on the shareholder meeting is defined, and the governor is appointed as the Minister of State.

Third, although the Ministry of Planning and Budget defines the Ministry of Planning and Budget as the supervisory authority, it was designed such that the line ministries can exercise the authority of governance and performance evaluation. However, the FAMGAI does not provide a standardized model for the internal governance structure of the institutions that are subject to this law, and the internal governance structure has been institutionalized in various forms through establishment laws or articles of incorporation. As a result, the FAMGAI governs the management system of government-affiliated institutions in place of the internal governance structure.

Fourth, the Act on the Establishment, Operation, and Fostering of Government-Funded Research Institutes prescribes the governance structure and supervisory system of government-funded research institutes under the authority of the Prime Minister. At the same time, it is designed to establish a research society in the form of a corporation or a corporate body to supervise government-funded research institutes and separate government-funded research institutes from the line ministries. As a result, the governance structure of government-funded research institutes is designed as a dual structure. A research society is established under the Office of the Prime Minister's Coordination Office, and the research society has a structure that appoints the director of the research institute from the ministry under which the research institute is affiliated. However, in the case of government-funded research institutes in the field of science and technology, the Act on the Establishment, Operation, and Fostering of Government-Funded Science and Technology Research was enacted in 2004. According to the law, instead of the Prime Minister, the Minister of the

Ministry of Science and Technology is endowed with managing authority for the three research institutions related to science and technology.

On the other hand, media corporations (Korea Broadcasting Corporation, Educational Broadcasting System) and financial public companies (Korea Development Bank, Industrial Bank of Korea), which have built and managed their own governance structure and management systems, are shown in the table below. The governance structure of these media corporations and financial SOEs was maintained even after the enactment of the AMPI.

Table III-2. Governance structure and management system of media and financial SOEs and QGOs (2006)

	Korea Broadcasting System	Educational Broadcasting System	Korea Development Bank	Industrial Bank of Korea
Supervisor	Korean Broadcasting Commission	Korean Broadcasting Commission	Financial Supervisory Commission, Ministry of Finance and Economy	Financial Supervisory Commission, Ministry of Finance and Economy
Separation between competent ministry and public enterprise	The broadcasting committee participates in the exercise of dominance so that the separation of the line ministry and SOEs is incomplete, but the governance structure is centered on the board of directors.	Separation between the line ministry and the public enterprise is incomplete because the Korean Broadcasting Commission exercises dominant control.	While the Ministry of Finance and Economy exercises overall supervision and control, the Financial Supervisory Commission is in charge of ensuring soundness. Separation between the line ministry and the public enterprise is severely incomplete.	While the Ministry of Finance and Economy exercises overall supervision and control, the Financial Supervisory Commission is in charge of ensuring soundness. Separation between the line ministry and the public enterprise is severely incomplete.
Policy decision-making rights, governing structure	- President, Korean Broadcasting Commission - Broadcasting committee exercises board member recommendation rights and audit appointment rights. - The board of directors exercises CEO appointment rights and audit authority	- Korean Broadcasting Commission - Korean Broadcast Committee exercises CEO, auditor, and board member appointment rights	- President, Minister of Finance and Economy exercising control	- President, Minister of Finance and Economy exercising control

III. Internal and external governance structure and its current operation

	Korea Broadcasting System	Educational Broadcasting System	Korea Development Bank	Industrial Bank of Korea
Internal governance structure	- Organization-level governance structure - Internal governance structure: CEO, auditor, board of directors	- Organization-level governance structure - Internal governance structure: CEO, auditor, board of directors	- Organization-level governance structure - Internal governance structure: president, vice president, board of directors, management council, auditors	- Organization-level governance structure - Internal governance structure: president of bank, board of directors, auditors
Performance system	- Board of directors conducts performance evaluation and declaration	- Board of directors conducts performance evaluation and declaration - Board of directors operates performance Evaluation Commission of SOEs and QGOs	- Performance evaluation systems are not prepared.	- Performance evaluation systems are not prepared.
Management disclosure information system	- Management information disclosure system is not prepared	- Management information disclosure system is not prepared	- Mandatory management information disclosure system by the Financial Supervisory Commission	- Mandatory management information disclosure system by the Financial Supervisory Commission
Other	- Budget composition confirmed by board of director resolution - Broadcasting law stipulates governance structure	- Compliance with the provisions of the Civil Act	- Annual report to the National Assembly	- Annual report to the National Assembly and minister of the supervising ministry

3) Results of the governance restructuring

(1) Scope of SOEs and QGOs, designation criteria, and classification system

① Designation requirements and scope of SOEs and QGOs

In Article 4 of the AMPI, the designation requirements and scope of SOEs and QGOs are explicitly set. As a result, SOEs and QGOs are not set up as national or local governments, but as corporations, organizations, or institutions. SOEs and QGOs are designated by the Minister of the MOEF from among institutions under the requirements of Article 4, Paragraph 1: (1) an institution established directly under other laws and funded by the government; (2) an institution whose support amount

exceeds one-half of the total income; (3) an institution for which the government has a stake of more than 50/100 or an institution that has virtual control over the policy decisions of the relevant organizations through the appointment of executives holding a stake of more than 53/100.

In addition, Article 4 of the Enforcement Decree of the AMPI provides some criteria: (1) controlling power of the corporation in accordance with the exercise of shareholding rights by holding the largest stake; (2) engage in the appointment (including approvals) of a director or a majority of the members of the board of directors in accordance with statutes or bylaws; (3) approve the budget or business plan of the institution in accordance with laws or the articles of incorporation.

However, even if it satisfies the requirements for designating SOEs and QGOs, institutions established for the purpose of mutual assistance, mutual benefit, and/or the improvement of rights or the maintenance of business order (for example, a faculty reorganization society, a veterans' association, or the Association for Certified Public Accountants) or institutions established and managed by local government, which includes institutions such as the Korea Broadcasting System and the Educational Broadcasting System, may not be designated as a public enterprise.

② Classification of SOEs and QGOs

The classification of SOEs and QGOs under the current system is a key element for establishing an effective SOE and QGO management system by designing a governance structure appropriate to the characteristics of each institution. According to Article 5 of the act, SOEs and QGOs are classified into three types: SOEs, QGOs, and non-classified SOEs and QGOs. SOEs are classified as market-type SOEs and quasi-market-type SOEs. QGOs are classified into fund-management-type QGOs and commissioned-service-type QGOs. Article 5 of the AMPI stipulates the following.

First, it shall be categorized as a public enterprise when its staff capacity is 50 or more and self-income is at least one-half of the total imports. In addition, among SOEs, institutions with assets totaling more than KRW 2 trillion and self-income

totaling 85% or more of the total imports are designated as market-type SOEs. Second, it shall be designated as a QGO when the organization does not have fewer than 50 employees and is not designated as a public enterprise. QGOs are classified as fund-management-type QGOs and commissioned-service-type QGOs, taking into consideration the nature of the jurisdiction. Third, institutions other than SOEs and QGOs are designated as other SOEs and QGOs.

(2) Composition and operation of the Ownership Steering Committee

On 1 April 2007, the government set up a management committee for SOEs and QGOs. The organization of this committee is a key institutional system related to the organization of the ownership function of the government. This organization works as a supervising or controlling power distribution mechanism through the separation of the ownership function and industrial policy functions in the newly established SOE and QGO governance structure.

Currently, the Ownership Steering Committee is assigned and managed under the MOEF and deliberates and resolves matters concerning the operation of SOEs and QGOs. The committee consists of government officials and up to 11 members from civil society. The government officials are members of the MOEF, deputy public servants from the Prime Minister's Office, deputy ministers of public administration and safety, and deputy public servants from the Anti-Corruption and Civil Rights Commission (ACRC); there is also a chairperson from the MOEF. In addition, the civilian commissioner is a person rich in knowledge and experience in the operation and management of SOEs and QGOs. The committee members are recommended by the MOEF in various fields such as legal, business, media, academics, and the labor world. The Public Policy Bureau of the MOEF plays the role of a secretariat to handle the affairs of the committee. The meetings of the Ownership Steering Committee consist of no more than 20 members, including the chairperson, with civilian members making up the majority. A committee meeting is held in the presence of a majority of the members and issues are decided by the majority vote of the

members present.

Deliberation and resolution matters by the Ownership Steering Committee

Legal considerations (AMPI, Article 8)

1. Designation of SOEs, QGOs, and other SOEs and QGOs
2. An evaluation on new institution building
3. Determination of additional disclosure items other than management information disclosure of SOEs and QGOs
4. Personnel actions against violations of disclosure obligations, etc.
5. Establishment of an organizational reform plan for SOEs and QGOs
6. Establishment of innovation support guidelines for SOEs and QGOs, diagnosis of innovation level, etc.
7. Appointment of senior nonexecutive directors of market-type and quasi-market-type SOEs
8. Appointment of executives of SOEs and QGOs
9. Establishing remuneration guidelines for officers
10. Dismissal or suggestion of dismissal of non-standing director and/or auditor for nonfulfillment of duties as outlined in commercial law
11. Evaluation criteria for job performance of non-standing director and auditor, dismissal or suggestion of dismissal if the performance of the non-standing director and/or auditor is low
12. Criteria for evaluating the performance of SOEs and QGOs, dismissal or suggestion of dismissal if performance is low
13. Management guidelines for SOEs and QGOs
14. Checking and improving the director's suitability by the MOEF or the supervising ministry on management guideline implementation and business management

(3) Internal and external governance structure of SOEs and QGOs

The AMPI provides for various institutional arrangements that constitute the internal and external governance structures of SOEs and QGOs. As the law is continually revised, institutional arrangements for SOE and QGO governance have continued to expand (preliminary feasibility studies, preliminary consultations such as the establishment of SOEs and QGOs, etc.) or have been modified. Among the various institutional devices, only four institutional devices (management information disclosure, establishment of customer charter, investigation of proclamation, customer satisfaction, and examination of the functional adequacy of SOEs and QGOs) are applied to all SOEs and QGOs. For other SOEs and QGOs, only the four institutional devices corresponding to the external governance structure are applied, and other remaining rights are recognized under the ownership function and the line ministry. The standardized governance model for each type of SOE and QGO is applied only to SOEs and QGOs.

The table below shows the application of the major institutional arrangements that constitute internal and external governance structures for each type of SOE and QGO.

Table III-3. Internal and external governance structure by type of SOEs and QGOs

	Market-type SOEs	Quasi-market-type SOEs	QGOs
Chairperson of the board	Senior non-standing director	President of the organization	President of the organization
Subcommittee installation of board	Possible	Possible	
Audit committee	Installation required	- Installation required if the assets of the institution are KRW 2 trillion or more - Other institutions can install it according to individual law	Install by individual law

	Market-type SOEs	Quasi-market-type SOEs	QGOs
Senior non-standing director	The non-standing director shall be appointed by the Minister of the MOEF after deliberation or resolution by the steering committee.	Elected by mutual vote among non-standing directors	Elected by mutual vote among non-standing directors
Non-standing director authority	Audit request available to the auditor or audit committee Requesting data from the director-general is possible		
Committee for Recommendation of Executive Officers for executive members	<ul style="list-style-type: none"> - SOE: a majority of nonpermanent directors + external committee member appointed by the board (public officer participation prohibited) - QGO: a majority of nonpermanent directors + external committee member appointed by the board (public officer participation allowed) - The chairman of the Committee for Recommendation of Executive Officers is elected by mutual vote among non-standing directors 		
Evaluation of job performance of non-standing directors and audits	<p>The Minister of the MOEF evaluates the job performance of non-standing directors, auditors, and audit committee members</p> <p>The Minister of the MOEF can recommend the dismissal of non-standing directors, auditors, and audit committee members with authority through deliberation and the resolution of the Ownership Steering Committee</p>		
Performance evaluation	The Minister of the MOEF evaluates the performance of SOEs and QGOs		
Operating Evaluation Commission of SOEs and QGOs	The MOEF has set up the Evaluation Commission of SOEs and QGOs for professional and technical research and consultation on efficient performance (performance evaluation)		
Management guidelines	<p>The Minister of the MOEF determines the management guidelines through deliberation and the resolution of the Ownership Steering Committee; notifies SOEs and QGOs</p> <ul style="list-style-type: none"> - Organization management, personnel management, budget and fund management, etc. - The competent minister can submit opinions on management guidelines 		
Business supervision	The Minister of the MOEF and the competent minister shall supervise the operation of SOEs and QGOs only if the contents and scope are specified so as not to infringe on the autonomous operation of SOEs and QGOs		
	<ul style="list-style-type: none"> -The Minister of the MOEF shall supervise matters concerning the implementation of management guidelines -The competent minister shall supervise the business entrusted to the public enterprise 		The competent minister shall supervise the business entrusted to the quasi-government and supervise the implementation of management guidelines

	Market-type SOEs	Quasi-market-type SOEs	QGOs
Audit by the Board of Audit and Inspection	The Board of Audit and Inspection conducts audits on the affairs and accounting of SOEs and QGOs in accordance with the Law on Audit and Inspection.		

The main features of the internal governance structure by type of SOE and QGO institutionalized through law are summarized as follows.

First, the function of the board, which checks and monitors management rights, has been greatly enhanced. In the case of a market-type SOEs, the chairman of the board of directors and the chief of the SOE or QGO are separated from each other in order to ensure autonomy, so the senior nonexecutive directors perform the functions of the chairman of the board. The proportion of non-standing directors on the board is more than half (majority), and the number of directors should be limited to 15 persons including the CEO of the SOE on the president of the QGO. In keeping with the move to strengthen the accountability of the board of directors, it has also been given substantial powers to monitor the management of the organization.

Second, the enhancement of the internal audit function is also an important feature. In the case of market-type SOEs, it is obligatory to establish an audit committee within the board of directors, and an internal auditor has some authority to verify the contents of management information disclosure and perform risk management functions related to institutional management.

Third, should the non-standing directors and auditors stop performing their duties perfunctorily, responsibilities can be strengthened to enable substantive checks by the chief engineer if necessary.

Fourth, the responsibilities of auditors (standing auditors) and external auditors (accounting firms) have been strengthened. For an audit (standing committee members), the penalty system according to the results of a job performance evaluation was strengthened, and in the case of poor auditing by the external auditor, the auditor is liable for damages to the relevant organization and third parties.

3. Operation of the external governance

1) Designation of SOEs and QGOs and the classification

(1) Brief summary of SOE and QGO designation and procedures

The MOEF designates SOEs and QGOs every January in accordance with the AMPI and classifies the types of institutions. Each line ministry should notify the MOEF of the institutions to be designated SOEs and QGOs in the following year at least one month before the beginning of the fiscal year. The MOEF surveys the status of the notified institutions and reviews whether they meet the requirements for designating SOEs and QGOs. The MOEF discusses the results of the review with the line ministry that manages the work of the institution. According to the result of the consultation, a designation for the type of institution is prepared. The designation and type classification of SOEs and QGOs are finalized through deliberation and a resolution by the Ownership Steering Committee. The Minister of Economy and Finance should notify the designated SOEs and QGOs regarding the results of the designation and type classification. The appointment of SOEs and QGOs is finished every January. However, from 2010, it has become possible all year round through a partial amendment of the law at the end of 2009.

(2) Candidate institutions of designation

SOEs and QGOs are corporations, organizations, or institutions that are not national or municipal government organizations and are designated by the Minister of the MOEF according to Article 4, Paragraph 1 of the AMPI. Article 4 of the AMPI defines the organizations as follows: (1) institutions established directly by other laws and funded by the government; (2) institutions for which the amount of government support funding (in the case of an agency entrusted directly to the government by law or granted an exclusive business license,

including the amount of the entrusted business or the amount due from the monopoly business) exceeds one-half of the total amount of imports; and (3) institutions for which the government has more than a 50/100 stake or has substantial control over the policy decisions of the organization through a 30% or more shareholder appointment. Even if it meets the requirements for designation, the following cannot be designated: an organization established for mutual assistance, the mutual benefit of the members, the improvement of benefits, and/or the improvement of rights and interests; institutions established and operated by local governments; the Korean Broadcasting System; and the Educational Broadcasting System.

(3) Type classification of SOEs and QGOs

SOEs and QGOs are largely classified into three types: SOEs, QGOs, and others. SOEs are classified as market-type SOEs and quasi-market-type SOEs. QGOs are classified as fund-management-type QGOs and commissioned-service-type QGOs.

① SOEs

A public enterprise is an organization with 50 or more staff members and whose self-import amount is at least one-half of the total imports. The amount of self-import refers to the amount of the agency's own income excluding the amount of government subsidies. It is calculated by applying a weighting rate according to the characteristics of supply monopoly in the market and whether compulsory use exists or not. As of 2018, 35 organizations, including the Korea Electric Power Corporation, Korea Gas Corporation, Korea Land and Housing Corporation, and Korea Water Resources Corporation, were designated as SOEs. Among SOEs, institutions whose assets are over KRW 2 trillion and whose self-imports are 85% or more of the total imports shall be designated as market-type SOEs. A total of 15 institutions, including the Korea Electric Power Corporation, Korea Gas Corporation, and Incheon International Airport Corporation, are in this category.

② QGOs

A QGO shall be appointed as an organization with no fewer than 50 employees and that is not designated as a public enterprise. QGOs can be categorized into fund-management-type QGOs and commissioned-service-type QGOs. As of 2018, there are 16 fund-management-type QGOs, including the National Pension Service, the Korea Labor Welfare Corporation, and the Korea Credit Guarantee Fund. Commissioned-executive-type QGOs include 77 agencies, including the Korea Rural Community Corporation, Korea Gas Safety Corporation, and Korea Consumer Agency.

③ Other

The Minister of the MOEF designates institutions that are not SOEs or QGOs as other public agencies. As of 2018, 210 institutions, including subsidiaries of SOEs (e.g., KORAIL subsidiaries), the national university hospitals (Seoul National University Hospital, etc.), and government-funded research institutes (e.g., Korea Development Institute), have been designated as non-classified SOEs and QGOs.

2) Setup and operation of the Ownership Steering Committee

(1) Setup

The committee is established under the MOEF. It deliberates and resolves matters concerning the operation of SOEs and QGOs. The committee consists of government members and up to 11 civilian members. The government committee members include the Minister of the MOEF and vice-minister-level public servants from the Prime Minister's Office. In addition, there are the deputy ministers of the Ministry of Public Administration and Security, deputy public servants from the ACRC, and deputy public servants from the line ministry. The Minister of the MOEF becomes the chairman. The civilian commissioner is a person rich in knowledge and experience in the operation and management of SOEs and QGOs. He or she is appointed by the president through the recommendation of the Minister of the MOEF in various fields such as legal, business, media, academics, and labor.

(2) Operation

Committee meetings consist of no more than 20 members including the chairperson, with the majority being civilian members. Since the number of civilian members is nine, the total number of members is limited to no more than 17 members. A committee meeting is held in the presence of a majority of the members and issues are decided by a majority vote of the members present. The chairperson convenes the meeting. When the chairperson fails to perform his or her duties for unavoidable reasons, the committee members appointed by the chairperson shall perform the necessary duties.

(3) Deliberation and resolution

The Ownership Steering Committee deliberates and resolves matters concerning SOE and QGO designation, SOE and QGO advancement policy, the appointment of SOE and QGO executives, and the supervision of SOEs and QGOs. If a detailed explanation of the agenda is needed separately from the regular meeting, a briefing session for the civilian committee is held.

(4) Operation of subcommittees

The subcommittee supports the committee's decision-making by conducting in-depth discussions on related issues and reporting the results of the review to the committee. Under the current committee are the following: ① the Human Resources and Remuneration Subcommittee, ② the Public Enterprise Advancement Committee, and ③ the Public Enterprise Management Improvement Committee. The Human Resources and Remuneration Subcommittee handles matters related to the appointment of executives and remuneration of executives. The Public Enterprise Advancement Committee handles matters related to the establishment and monitoring of the SOE and QGO advancement plan and the inspection and evaluation of newly establishing institutions. The Public Enterprise Management Improvement Committee

handles matters related to management guidelines and the supervision of the improvement plan implementation.

3) Management information disclosure system

(1) Summary of the management information disclosure system

The management information disclosure system is one of the key components of external governance as a system for disclosing information on the management of SOEs and QGOs to the public. As a private company discloses its management status to its shareholders, it aims to disseminate management information to the public, which includes the shareholders of SOEs and QGOs, to establish a monitoring system and to improve the management efficiency of SOEs and QGOs.

① Management information disclosure (management information disclosure by individual organizations)

SOEs and QGOs have to disclose their management goals and financial statements through their website and provide or display necessary materials in their offices or facilities.

② Integrated disclosure

The MOEF has standardized major disclosures separately via a public information management system (ALIO). This is called an integrated disclosure system. It is designed to be convenient for citizens and eliminate the need to search for management information on each institution and the difficulty of a comparative analysis of management information from SOEs and QGOs.

(2) Criteria for integrated disclosure

① Disclosure items

As of 2011, the management information disclosure of public institutions includes 34 items.

Table III-4. Disclosure items

	Items
I . General information	1. General information
II . Organization operation	2. Number of employees, 3. Executives, 4. New recruitment, 5. Executive salaries, 6. Employee average remuneration, 7. Business promotion expenses of the chief, 8. Employee benefits, 9. Executive travel details, 10. Labor union status, 11. Employment regulations
III . Performance and major business	12. Summarized balance sheet, 13. Summarized income statement, 14. Import expenditure status, 15. Major business, 16. Investment execution history, 17. Capital and shareholder status, 18. Long- and short-term borrowings, 19. Borrowing investment and investment status, 20. Annual funding and giving, 21. Estimation of management burden cost, 22. Tax information status
IV . Internal and external evaluation	23. National Assembly point-outs, 24. Board of Audit and Inspection/line ministry point-outs, 25. Results of performance evaluation, 26. Performance evaluation point-outs, 27. Customer satisfaction survey results, 28. Audit job performance evaluation result, 29. Board minutes and internal audit results
V . Notice	30. Management innovation case, 31. Recruitment information, 32. Bid information, 33. Research report, 34. Other information disclosure

② Regular and occasional disclosure

Regular disclosure items are items that are disclosed at a certain point in time (year end, end of quarter, etc.), and occasional disclosure items are items that need to be disclosed to the public promptly. Occasional disclosure is made within 14 days of the occurrence of the relevant incident.

(3) Management of the disclosure system

① Revision of integrated disclosure standard and manual

The MOEF prepares new disclosure standards at the beginning of each year after reviewing and voting by the Ownership Steering Committee; this is in the case that the revision of the standard integrated disclosure is necessary according to the operation results of the previous year's disclosure system. Accordingly, the integrated disclosure manual is revised, the ALIO system is reorganized, and follow-up measures are taken to ensure that the disclosure items are revised.

② Data input, update, and regular disclosure

The MOEF organizes a public disclosure meeting for SOEs and QGOs before the first periodical announcement, at the end of April, and after the appointment of the SOEs and QGOs.

③ Checking and confirming disclosure data

To ensure the reliability and correctness of the published data every year, the MOEF checks and confirms the disclosure data. If SOE and QGO disclosure is poor, the Ownership Steering Committee deliberates and resolves the penalties in accordance with the consolidated disclosure standard.

4) Supervising authority of the MOEF and the line ministries

(1) Significance of business supervision authority

The macro-governance and control activities of the government in terms of SOEs and QGOs are carried out through the Ownership Steering Committee and the performance evaluation system. Regarding micromanagement activities (establishment of the goal-related business of the organization and internal management of the organization), the MOEF and the line ministry conduct regulation, management, and supervision activities through an administrative process. The entity that exercises actual control over SOEs and QGOs is determined by who exercises the authority to supervise the work and how the authority is distributed between the MOEF and the line ministry. The scope and level of the work supervisory authority exercised by the government has the most direct impact on the level of managerial autonomy of SOEs and QGOs. According to the AMPI and the relevant provisions of the enforcement decree of the act, the government should establish the management objectives of SOEs and QGOs, establish a mid- and long-term financial management plan, organize and execute the budget, purchase goods, and draw up construction contracts. The government also performs supervision activities relating to accounting audits,

organization management, and personnel management. The MOEF plays a leading role, and the line ministry plays a complementary and supporting role in matters that fall within the scope of the supervisory authority exercised by the MOEF.

(2) Government supervision by field

① Control over personnel management

SOEs and QGOs should follow the regulations on human resource management operations (general personnel management, such as pre-employment recruitment and promotion reports of their employees) as stipulated in the AMPI, the articles of the institution, and the guidelines for personnel management in SOEs.

② Control over the organization

Even if the expansion of the organization is necessary, the same procedure for an increase in human resources should be followed. To expand the organization, the institution needs to consult with the Minister of the MOEF in advance through the line minister and can expand the organization upon approval by the board of directors. QGOs may be consulted in advance through the headquarters of the competent authorities, but if the government-funded institutions expand in a way not reflected in the budget of the year, it should consult with the MOEF. The expansion of the organization is also reflected in the budget for the next year first, and then it is brought into the budget range. In principle, it is prohibited to establish a new position for the purpose of improving treatment or increasing the capacity of similar positions.

③ Business control

The AMPI replaced the former comprehensive regulation with an enforcement-limited supervisory framework. In addition, the supervision of the line ministry has been weakened by restricting the scope of work supervision that can be performed by the CEOs or presidents of the institutions.

④ Budgetary control

A. Control of the budgeting process and decision process

(a) Setting management goals

According to the AMPI, management objectives are decided autonomously by SOEs and QGOs. The CEO should set a mid-term and long-term management goal for the five fiscal years including the following year, confirm them according to the decision of the board of directors, and submit them to the director of the MOEF and the line minister by 31 October each year.

(b) Guidelines for budgeting

Each year, the government prepares guidelines for budgeting SOEs and QGOs and guidelines for the budget execution of SOEs and QGOs. The budget guideline aims to establish the accountable and efficient of management of SOEs and QGOs by suggesting the principles to be followed when organizing and executing the main items such as personnel expenses, business expenses, and reserve expenses. However, if compliance with budget guidelines is mandated by law, the budgeting guidelines and the budget execution guidelines act as a representative control device that weakens the management autonomy of SOEs and QGOs.

(c) Establishing and reporting the budget

SOEs and QGOs organize the budget for the next fiscal year in the general budget, the estimated profit and loss statement, the estimated balance sheet, and the fund plan according to the confirmed management goals and guidelines and submit them to the board by the next fiscal year. The budget of SOEs and QGOs is determined by the resolution of the board of directors, and it is reported to the MOEF, the line ministry, and the Board of Audit and Inspection after confirmation. The budget details of each SOE and QGO are disclosed via the management information system (ALIO).

B. Control over the budget execution process

(a) Budget enforcement control

Since the enactment of the AMPI, the use of reserve funds and budget transfers has been left to SOEs. SOEs and QGOs should apply the guidelines for budget execution by SOE and QGOs in the budget implementation process.

(b) Control of purchase and construction contracts

In the AMPI, it is entrusted to the public procurement service to purchase products in small and medium enterprises, or it is required to purchase them in accordance with Article 5 of the Law on Procurement.

C. Other financial controls

(a) Control over rate determination

Charges for goods and services provided by SOEs are determined by consultation with government departments rather than autonomous decision-making by market forces. At present, according to the Law on the Stabilization of the Price of Goods, public utilities are required to obtain the approval of the president after deliberation by the commodity price stabilization committee and the cabinet. Typically, utility charges such as electricity, railway, and expressway tolls must go through the process of decision and approval under the Law on the Stabilization of the Price of Goods in accordance with other laws designated by the line ministry.

(b) Control of profit disposal

The self-disposal of profits is an important component of an independent cost accounting system. Recently, the dividends of government investment institutions have been legislated under Article 65 of the State-Owned Property Act, with the provision of dividends on investment property. In most cases, the method for the disposal of profits is directly regulated by the applicable laws. In the case of two agencies (KOGAS and KAC), the Commercial Act is applied.

D. SOE and QGO control by the National Assembly

The National Assembly is expected to be responsible for the implementation of legislative powers (amendment of the establishment law, amendment of the law on

the operation of SOEs and QGOs, preparation and revision of legal grounds for management innovation such as the privatization of SOEs and QGOs). These are controlled through the investigation of state affairs and the public inspection of SOEs and QGOs, thereby providing the National Assembly with a control system through which reports are submitted, such as the results of the management of SOEs and QGOs, performance evaluations, and audit results.

E. Supervision of duties and audit by the Board of Audit and Inspection

The AMPI stipulates that the Board of Audit and Inspection can conduct audits on the affairs and accounting of SOEs and QGOs.

4. Operation of the internal governance

1) Personnel management system

(1) Composition of executives

The executives of SOEs and QGOs are divided into directors and auditors, and the directors are divided into standing directors (including the CEOs) and nonexecutive directors; the number of standing directors was set to be less than half of the fixed number of directors including the director-general (CEOs). In the case of QGOs with a small institutional size and the ability to perform government business duties and management consulting, this number can be reduced to less than one-third, taking into account the burden of the appointment of officers.

(2) Committee for Recommendation of Executive Officers

It recommends executive candidates for SOEs and QGOs and has the Committee for Recommendation of Executive Officers to conduct discussions on matters concerning contracts with candidates. The Committee for Recommendation of Executive Officers in a public enterprise consists of a majority of nonexecutive

directors and a civilian external committee elected by the board of directors. The Committee for Recommendation of Executive Officers for executive officers of QGOs shall consist of a majority of nonexecutive directors and external members elected by the board of directors. In addition, civil servants can be appointed to the external committee, as can government officials from the line ministries. In effect, officers in the line ministries can officially participate in the nomination of officers. The Committee for Recommendation of Executive Officers must include one person who represents the opinions of the members of the organization.

The board of directors of SOEs and QGOs appoints an executive recommended by the Committee for Recommendation of Executive Officers without delay when it is necessary to newly appoint an executive due to expiration of the term of the current officer or other reasons. The number of members of the Committee for Recommendation of Executive Officers shall be determined by the resolution of the board of directors within the range of 5 to 15 members. In the case of two or fewer non-standing directors at the time of the composition of the Committee for Recommendation of Executive Officers, the number of members may be two or three. The members elected by the board of directors are appointed from among those who have abundant knowledge and experience in various fields such as legal, business, media, academia, and labor.

The management of the Committee for Recommendation of Executive Officers can be decided by the approval of a majority of the committee members. Recruiting and investigating the candidates for executive can be contracted out to a professional recruiting agency. The additional composition of the Committee for Recommendation of Executive Officers, the avoidance system for member deliberation, and other matters necessary for the operation of the committee are determined by the articles of association or the bylaws of each SOE and QGO. SOEs and QGOs that have a general meeting of shareholders or a general meeting of investors shall be subject to the provisions of that act if there is any provision other than the AMPI concerning the recommendation of candidates for office by other laws. As of the end of

2010, the Korea Electric Power Corporation, Korea Gas Corporation, Incheon International Airport Corporation, Korea Airport Corporation, Korea Highway Corporation, Korea District Heating Corporation, Korea Appraisal Corporation, and Korea Housing Guarantee Co., Ltd. are SOEs that appoint executives through a general meeting of shareholders. The Korea Asset Management Corporation, Korea Securities Depository, and Korea Exchange are QGOs that appoint executives through a general meeting of shareholders.

(3) The appointment and dismissal of an executive

① Characteristics of the executive personnel system

The most important characteristic of the current executive personnel system is that it has established an objective and transparent appointment procedure in order to ensure the fairness of the appointment of executives. The authority of appointment for executives (e.g., the chief engineer) was distributed by the secretary (or the president) and the nonexecutive director to the Minister of the MOEF (or the line ministry). The public recruitment or recommendation method and the public offering recommendation were selected and carried out as election procedures, and the CEO recruitment procedure is obliged to include open recruitment methods. The candidates nominated by the Committee for Recommendation of Executive Officers were appointed through the deliberation of the Ownership Steering Committee so that the procedure for appointing officers was transparent and fair. The Ownership Steering Committee is responsible for recommending two to three times the number of candidates recommended by the Committee for Recommendation of Executive Officers.

② CEO

In the case of a public enterprise, after the deliberation of the Ownership Steering Committee, the line minister proposes a candidate as CEO who is appointed by the president. The CEO of the SOE (with a size smaller than the criterion prescribed

by presidential decree) shall be appointed by the line minister in charge among the nominees recommended by the Committee for Recommendation of Executive Officers. In the case of a director of a QGO the line minister appoints one of the persons recommended by the Committee for Recommendation of Executive Officers. The president of the QGO designated by presidential decree in consideration of the specificity of the contents of the work or the institutional size, which is more than the standard prescribed by presidential decree, shall be appointed by the president based on the recommendation of the line minister. The CEO of the public enterprise stipulates the term of office and the guarantee not to be dismissed during his or her term of office unless the appointment authority votes for dismissal or there is a reason prescribed by the articles of incorporation.

③ Audit (standing auditor)

The audit of a public enterprise is recommended by the Committee for Recommendation of Executive Officers, and after the deliberation of the Ownership Steering Committee, it is proposed by the Minister of Economy and Finance and approved by the president. Audits of QGOs are selected by the Minister of the MOEF from among those recommended by the Committee for Recommendation of Executive Officers and who have passed the deliberation of the Ownership Steering Committee. The audit of QGOs is designated by presidential decree in consideration of the specificity of the contents of the work or the institutional size, which is more than the standard prescribed by presidential decree. Audits of SOEs and QGOs whose size is less than the standard prescribed by presidential decree shall be decided by the Minister of the MOEF from among those recommended by the executive Committee for Recommendation of Executive Officers and who have been reviewed and voted for by the Ownership Steering Committee.

Standing directors (standing auditors) who become auditors on the audit committee shall follow a separate appointment process from the CEO of the institution in order to ensure strict neutrality. The standing auditors of SOEs and QGOs are appointed

by the president on the recommendation of the Minister of the MOEF from among those recommended by the Committee for Recommendation of Executive Officers. Recommended candidates for auditor have passed the deliberation of the Ownership Steering Committee. Standing audit committee members of SOEs and QGOs, whose size is less than the standard prescribed by presidential decree, shall be appointed by the Minister of the MOEF from among those recommended by the Committee for Recommendation of Executive Officers and who have been reviewed and voted for by the Ownership Steering Committee.

④ Standing directors and non-standing directors

Standing directors of SOEs are appointed by the CEO of the public enterprise. In the case of QGOs, standing directors are appointed by the CEOs except when there are laws or codes postulating a different process by the Committee for Recommendation of Executive Officers. Non-standing directors of SOEs or QGOs are not appointed by the CEO in order to secure checks and balances functions for the CEOs and management.

(4) Term of executives

In order to encourage the accountable management of executives and promote or dismiss according to performance, the term of the CEO is three years; it is two years for the nonexecutive directors and standing directors. The executives of SOEs and QGOs are reappointed on a yearly basis and there is no restriction on the number of terms. The renewal appointment of executives is based on the following: results of the performance evaluation for the CEO; the evaluation results of the performance contract implementation and the performance of other duties for the standing directors; and the performance of other duties for the non-standing directors and auditors. An officer whose term of office has expired shall be allowed to perform his or her duties until the appointment of a successor so that no vacancies arise due to the expiration of a term.

(5) Reasons for disqualification of executives and restrictions on concurrent position

The reason for disqualification such that a certain person cannot be appointed as an executive of a SOE or QGO must be clarified, thereby enhancing the unity of SOE and QGO management and the responsibility of executives. Regarding the service of the employees, there are restrictions related to concurrent employment so that it is prohibited to engage in the job for profit, and the employee is devoted to the job performance. Exceptionally, if a standing executive has been granted permission by a designee or appointee, and if the employee has the authorization of the CEO of the institution, he or she can serve at a nonprofit entity.

2) Board of directors

(1) Significance of the board system

The board is a permanent body composed of directors for decision-making on the work of SOEs and QGOs. The board of directors is the highest decision-making body that has authority to review major management strategies and objectives of SOEs and QGOs and to supervise overall management.

(2) Authority and the role of the board

The board of directors has the authority to review and make decisions on major management issues for SOEs and QGOs, to supervise management processes, and to advise and support management in general. This will improve the efficiency of resource allocation for existing projects and new investments and act as an early warning function before a crisis creates a deteriorated performance. It also plays a pivotal role in promoting the efficient and successful performance of the organization by directing the activities of the organization not to carry out social responsibility and abide by the law. Specifically, the board shall deliberate on the

following matters.

- ① Management objectives, budget, and operational plan
- ② Use of reserve funds and carryover of budget
- ③ Settlement
- ④ Acquisition and disposal of basic property
- ⑤ Long-term borrowings and issuance of bonds and repayment plans
- ⑥ Prices of products and services
- ⑦ Disposal of surplus
- ⑧ Capital contributions or investment in other companies
- ⑨ Debt guarantees for other companies (in the case of a public enterprise or quasi-governmental organization that performs warranty work under other laws, debt guarantees to deliver are excluded)
- ⑩ Change in the articles of incorporation
- ⑪ Establishment and amendment of internal regulations
- ⑫ Remuneration of executives
- ⑬ Requests for the deliberation of the board of directors to be approved by the CEO of the public enterprise
- ⑭ Other matters accepted as particularly necessary by the board

(3) Composition of the board of directors

The board of directors is composed of no more than 15 members. In the case of a market-type public enterprise, the senior nonexecutive director becomes the chairman of the board of directors. If a senior non-standing director is unable to perform his or her duties for unavoidable reasons, one of the non-standing directors shall perform the duties as prescribed by the articles of incorporation. A senior nonexecutive director becomes the chairman of the board of directors if the institution assets are more than KRW 2 trillion, and the CEO becomes the chairman of the board of directors if the institution assets are less than KRW 2 trillion.

(4) Senior non-standing director

In order to enhance the roles and functions of non-standing directors in response to the criticism that the system of checks and balances on management by non-standing directors is malfunctioning, a senior non-standing director system is introduced.

① Qualification

The non-executive directors of market-type SOEs and quasi-market-type SOEs with assets over KRW 2 trillion are appointed by the Minister of the MOEF from among the non-standing directors after deliberation and resolution of the Ownership Steering Committee. The senior non-standing directors of the remaining SOEs and QGOs are elected mutually among the non-standing directors. Senior non-standing directors shall be elected as persons rich in knowledge and experience in the operation and management of SOEs and QGOs, who are neutral, and who meet the criteria for qualification of civilian committee members.

② Authority of senior non-standing directors

A. Authority to call and hold non-standing board of directors meeting

Senior non-standing directors are authorized to convene a non-standing board of directors meeting consisting solely of non-standing directors and to play a role in summarizing the opinions of non-standing directors on the board's agenda.

B. Support request for the operation of the non-standing board of directors

The CEO should provide necessary support so that the senior non-executive director may carry out tasks and discuss issues related to the board of directors and other matters relating to the operation of the institution.

C. Authority as chairman of the board

The senior non-executive director becomes the chairman of the board of directors for market-type SOEs and quasi-market type SOEs with assets over KRW 2 trillion.

If the chairman of the board of directors is unable to perform his or her duties for unavoidable reasons, one of the non-standing directors will perform the duties as prescribed by the articles of incorporation. This is to enhance the transparency and efficiency of institutional management by separating the CEO of the institution from the chairman of the board of directors.

(5) Operating board meetings

① Calling and holding a board meeting

A meeting of the board of directors shall convene at the request of at least one-third of the board of directors or a board member, and the meeting will be conducted under the chairmanship of the board of directors. In principle, meetings are held face to face (including video calls) and members are present, but written meetings are held to the extent necessary. In principle, the chairperson of the board of directors is required to notify the members at least seven days before the board meeting with information regarding the purpose and main contents of the meeting.

② Decision

A decision on an agenda item is determined by the consent of a majority of the board members. A member who has a special interest in the board agenda cannot participate in the resolution of the agenda, and the director or a member who does not participate in the decision is not included as an official member of the board. Auditors may present their opinions by attending meetings of the board of directors.

③ Supporting the board of directors

The CEOs of public enterprises and quasi-governmental organizations should periodically report to the board members in the meeting about the management status of the organization and sufficiently provide the data necessary for review of the agenda.

④ Board meeting minutes

The chairman of the board of directors shall prepare minutes recording the date and place of the board meeting, the list of attendees, the contents of the attendee remarks at the meeting, and the results of the meeting. The minutes should be reported and confirmed before the next board of directors meeting. Except for special reasons such as confidentiality in management, the minutes should be disclosed through the website and the integrated disclosure system established by the Ministry of Strategy and Finance; if not disclosed, the reasons should be specified.

(6) Establishment and operation of subcommittees

① Installation of committees

The boards of directors of SOEs may establish a committee within the board of directors in accordance with the provisions of the articles of incorporation. This facilitates the board of directors to operate the board more efficiently in terms of decision-making expertise and objectivity. A large number of SOEs and QGOs have established subcommittees for each sector to deliberate on issues such as board agendas, budgets, and management consultation.

② Establishment of an audit committee

Market-type SOEs and quasi-market SOEs with assets totaling more than KRW 2 trillion should have a mandatory audit committee on the board of directors. Quasi-market-type SOEs and QGOs with assets less than KRW 2 trillion may establish audit committees under individual laws and regulations. The audit committee shall conduct an audit of its work and report the results to the board of directors.

(7) The fund management council of fund-management-type QGOs

A fund-management-type QGO is an agency that manages the fund resources created by the public, and it is necessary to achieve greater transparency. Therefore, it is obligatory to establish a fund management council separately from the board.

(8) Request for the dismissal of the CEO

① Authority of request for the dismissal of the CEO

When it is deemed that there is a significant impediment to the performance of duties, and in the case that the executive director violates the law or the articles of incorporation, the board of directors shall ask the line minister through a resolution of the board of directors to dismiss or recommend the dismissal of the chief director.

② Authority of audit request

A non-standing director may, if deemed necessary, request an audit or audit committee for the audit of a specific matter in connection with the operation of SOEs and QGOs with the signatures of two or more non-standing directors. In this case, the auditor or audit committee must respond to the situation unless there are special circumstances.

③ Authority for data request

Non-standing directors may request the CEO to compile the necessary data for the performance of his or her duties as a director.

3) Auditing system

(1) Overview of the audit system

An audit can be defined as an action by an independent third party with formal authority to inspect the activities performed by the audited entity and its employees to request appropriate action. SOEs and QGOs must establish an auditors or audit committee in accordance with the AMPI. Auditors can be divided into standing auditors and non-standing auditors. A standing auditor is an employee who regularly comes to work and performs audits regularly. A non-standing auditor does not come to work regularly and performs audits irregularly. Standing auditors and non-standing auditors differ only in the way they work and how often they come to work, but they are the same in their authority, duty, and responsibilities. The audit committee

of SOEs and QGOs shall be composed of two-thirds of the total non-standing directors, with one member as an accounting or financial expert, and the chairman shall be selected from the non-standing directors. The audit committee is a committee within the board of directors that audits the execution of the duties of the directors. As the members of the audit committee are selected from among the directors, they have the status of auditors at the same time as board members. As a result, the members of the audit committee participate in the board of directors and exercise their voting rights to perform preventive functions such as avoiding illegal acts.

(2) Authority and responsibility

① Authority of audit

The auditor or audit committee audits business and accounting according to the audit standards set by the MOEF. The audit is divided into a comprehensive audit, specific audit, daily audit, financial audit, performance audit, and disciplinary audit. An auditor is not a member of the board of directors and therefore cannot participate in voting. However, he or she can present the opinions of the board of directors. An auditor or audit committee shall represent the institution in any disagreement among the interests of the institution, such as lawsuits between the agency and the CEO.

② Duties and responsibilities of auditors

A. Duties of auditors

A member of the audit committee must fulfill his or her duty of care as a good manager. A member of the audit committee shall not disclose or exploit the confidential information obtained in the course of business without just cause. A member of the audit committee shall comply with the instructions of two or more non-standing directors when requesting an audit for specific matters. The auditor or audit committee member shall establish an annual audit plan, notify the CEO of the audit results, and report to the board. The auditor or audit committee member shall prepare the annual audit report within two months after the end of each fiscal

year and report it to the head of the board of directors, the competent authority, and the Minister of the MOEF. In December 2009, the Audit Criteria on the SOEs and QGOs were amended to enhance the internal control function of audits. Within one month after the end of the audit, specific audit reports should be prepared and reported to the requesting organization, the board of directors, the line minister, and the Minister of the MOEF. If a violation of the management directive is found, within one month after the end of the audit, the violations and the action plan to correct it should be reported to the line minister and the Minister of the MOEF without delay.

B. Responsibility for audits

If an auditor or the audit committee does not perform the necessary duties and/or fails to fulfill an assignment due to intentional or grave error, they shall be jointly and severally liable for damages (to the third party).

After the deliberation of the Ownership Steering Committee, the Minister of the MOEF can dismiss or propose the dismissal of auditors to the appointing authority when an auditor does not fulfill the obligations, responsibilities, and duties stipulated in the act, the auditor does not fulfill the related duties, or the auditor neglects the audit. If an auditor's job performance evaluation results are poor, the auditor does not fulfill the relevant duties, or the auditor is negligent in connection with the undeclared or false submission of a performance report, the Minister of the MOEF can dismiss or propose the dismissal of auditors to the appointing authority.

IV

Current SOE and QGO management system and its operation



IV

Current SOE and QGO management system and its operation

1. Pre-feasibility test system for establishing a new SOE and QGO

1) System overview

The system was introduced to prevent the imprudent expansion of the public sector by having the Steering Committee on SOEs and QGOs review the feasibility, scale, and the need for and effect of financial support for new SOEs and QGOs. Article 7 of the AMPI stipulates that when the minister of the relevant ministry intends to establish a SOE and QGO under the act, the ministry shall request a review of the validity of the establishment of the relevant institution.

2) Requirements for review

If the minister of the relevant ministry wishes to establish an institution under the act, the new institution shall be judged on its validity. This is the case if the law defines a new basis for the institution or, if the law refers matters concerning the establishment of the institution to the enforcement decree, the institution established by civil law shall be converted to a SOE and QGO.

3) Key review criteria

The main review criteria for the screening of new institutions can be considered in three general categories: the necessity and effectiveness of projects carried out by

new institutions, the adequacy of the project implementer, and the adequacy of the financing plan.

First of all, the criteria for determining the needs and effectiveness of projects carried out by new institutions are to examine whether business demand for new institutions is universal and in accordance with public functions, whether stakeholder opinions about the establishment of related projects are considered, and whether it is sufficiently sustainable and economically feasible. The criteria for determining the adequacy of the project implementer are whether it is possible and desirable for the private sector to provide the service, whether it is possible to utilize existing organizations even if central government services are required, and whether the funding plan is appropriate or not based on the appropriateness of the annual income projection, the appropriation of labor and operating expenses over the next five years, and the required amount of financial support.

4) Inspection procedure

The line minister shall request the Minister of the MOEF to review the feasibility of the institution before hearing the legislation. At that time, a “new institution plan” will be submitted, including the business scope of the new organization, the services and/or goods provided by the new organization, the annual income and organization for the next five years, the budget for the government support plan, the expected manpower, and any data requested by the minister. The Minister of the MOEF shall review the proposed institutional plan after deliberation and approval by the Ownership Steering Committee and notify the line minister of the outcome.

2. Functional adequacy test system

1) System overview

Although SOEs and QGOs perform the functions allocated to each institution, the necessity of functional review and reorganization always arises due to changes in the economic and social environment. The SOEs and QGOs functional adequacy examination system has been derived to check and improve the social appropriateness of SOEs and QGOs. By eliminating, transferring, and integrating redundant and unnecessary functions, the SOEs and QGOs are reorganized into core functions and necessary personnel. In other words, it has supported the enhancement of competitiveness by eliminating waste and inefficiency in the public sector due to malfunctioning management and moral hazards.

The law obliges SOEs and QGOs to review their functional adequacy and to implement restructuring. However, considering policy needs, practical applicability, and work characteristics, some SOEs and QGOs are excluded. These include the following: ① SOEs and QGOs that require independence and neutrality from the government, ② an institution that has not passed three years since its establishment, and/or ③ the steering committee decides that it is not appropriate to subject the functions to adjustment for reasons such as the work characteristics of the organization.

The intention of the function inspection is to reconstruct the core functions and businesses that are suitable for the purpose of establishing SOEs and QGOs by simultaneously identifying functions that should be abolished (abatement, abuse) or reinforced.

The function inspection is able to alleviate the burden of the public and improve public services by redistributing administrative support personnel to the service site.

2) Proper function check

The main checkpoints for SOEs and QGOs functional adequacy are as follows.

First, it examines the necessity of existing functions or businesses and judges whether the necessity has been lost due to changes in socioeconomic conditions and the demand structure of SOEs and QGOs.

Second, it examines whether it is necessary to transfer a SOE or QGO to a local SOE or a local government, and examines whether it is efficient to transfer a SOE or QGO to the local government rather than to perform the function as a central SOE and QGO. If it is determined that it is better to transfer to the province, the function is adjusted in the direction of redistribution.

Third, it is necessary to determine whether it is essential for the public sector to be responsible for the current function by examining the necessity for competition introduction and then deciding whether to privatize through market testing.

Fourth, it is essential to review the need for functional reorganization (reduction, enlargement, and transfer) to determine if the function is too large or too small to carry out within the SOEs and QGOs' capacity. It is also necessary to revise the function by examining whether it is the best course of action for the current function to be performed by the SOEs and QGOs or in another institution.

3) Implementation and sustainability procedure

The Minister of the MOEF, in consultation with the line minister, selects the object of functional adequacy examination and prepares the implementation plan after deliberation and approval by the Ownership Steering Committee. The line ministry shall pursue function restructuring, privatization, and merger and consolidation according to the function adjustment plan and submit the resulting report to the MOEF, which will analyze the report and confirm the execution status. In the case that the execution is delayed or is not smooth due to social resistance, the Minister of the MOEF, through deliberation with the management committee of the SOEs and QGOs, will urge the head of the agency to make the necessary recommendations and additional plans.

3. Organization and personnel management system

1) Organization management system

(1) Organization and quota of SOEs and QGOs

① Principles of organization and quota management

The basic principles of SOEs and QGOs organization and quota management are set out in the Guidelines on the Management of SOEs and QGOs of the MOEF (directive on 8 March 2012; see below). The purpose of these guidelines is to establish the necessary matters concerning the operation of SOEs and QGOs in accordance with the provisions of the AMPI (hereinafter referred to as the act), section 50. It shall apply to all agencies designated as SOEs and QGOs in accordance with the provisions of Articles 4, 5, and 6 of the act, except where otherwise provided. The four principles of organization and management are presented as follows.

First, SOEs and QGOs should be free of function duplication and organization mirroring other SOEs and QGOs and should be organized in a comprehensive and systematic way.

Second, SOEs and QGOs should maintain their organization and capacity at the appropriate scale for the performance of their work in accordance with the nature and amount of their work.

Third, SOEs and QGOs shall coordinate organization and personnel as necessary when functions and workloads change.

Fourth, it is possible to fill vacancies for military service and parental leave for six months or more. Vacancies can be supplemented for childcare leave of three months or more.

② Operation of investment agency

The establishment and operation of the investment agency is stipulated in Article 4 of the guidelines.

First, SOEs and QGOs shall enter into an arrangement on equity investments and contributions that requires prior consultation under Article 51 of the act and Article 29 of the Enforcement Decree of the AMPI.

Second, SOEs and QGOs shall decide whether to invest in the following cases after deliberation and approval by the board of directors:

1. acquiring a 10% or more share of another entity;
2. investing more than KRW 3 billion in another corporation; and/or
3. (an investment institution) intending to secure a loan from a financial institution.

Third, SOEs and QGOs shall decide after deliberation and resolution by the board of directors if they intend to conduct internal transactions with their subsidiaries that constitute "large internal transactions" under the Monopoly Regulation and Fair Trade Act.

Fourth, if a retired employee of an SOE or QGO seeks employment in an applicant's office, a screening committee should be organized and the decision should be made by outside personnel.

Fifth, SOEs and QGOs should strive to improve the performance of their agencies and prepare internal guidelines that define their management tasks.

Sixth, SOEs and QGOs should report the performance and status of the investment institution to the line minister and the Minister of Planning and Finance by the end of April every year to prevent improvement.

③ Subcontracting of functional tasks

With regard to external entrusted services of SOEs and QGOs, the following is stipulated in Article 5 of the guidelines.

First, in the case of entrusting the function or work of an institution to an external agency, SOEs and QGOs should carry out a thorough preliminary analysis on the content, level of the entrusted work, the existing performance level, and the required budget.

Second, in principle, the selection of entrusted institutions for external projects under these regulations complies with general competition through public offering.

Transparency and fairness should be ensured by disclosing the process and results of selecting a trustee.

Third, the entrusted agency of the subcontracting business should prevent problems such as service interruption by screening the entrusted agency's ability to perform work, acceptance stance, labor relations, financial structure, and the level of treatment for the workforce.

Fourth, each institution should, in principle, specify performance indicators, such as improved service levels. After outsourcing, it is necessary to periodically check the status of the contractor's business to prevent inconvenience and burden on the public and take appropriate corrective measures if necessary.

④ Operating procedures

The procedures for increasing the number of personnel are set out in Article 6 of the guidelines.

First, SOEs and QGOs should establish the adjustment plan for the next year by the end of May every year, in consideration of the increase and decrease in the workload of the line ministry and the change in the demand of the workforce, and consult with the Minister of the MOEF through the line minister.

Second, when discussing the increasing number of personnel, the positions of the personnel shall be discussed together.

Third, SOEs and QGOs may consult with the Minister of the MOEF from time to time on the adjustment of the fiscal year when there is an urgent need for the implementation of a policy, such as amendment of laws and regulations.

Despite these regulations, SOEs and QGOs should submit reports to the Minister of Planning and Finance after consultation with the line minister, and the results of projects should be submitted to the minister. The scope of the working-level personnel will be determined by the Minister of the MOEF.

The Minister of the MOEF is required to respond to a demand set by a SOE and QGO within a period of one or more years, except when laws stipulate otherwise.

2) Personnel management

(1) General rules for personnel management

The basic principles for personnel management in SOEs and QGOs are stipulated in Article 9 of the guidelines and the contents are as follows.

1. Employees shall be treated fairly and transparently in accordance with laws, articles of organization, and self-regulation.
2. Establish and operate a management system that objectively measures the performance of executives and make efforts to establish an accountable management system.
3. Efforts should be made to utilize personnel equitably in terms of merit, persons with disabilities, women, local talent, and science and engineering majors.
4. Efforts should be made to operate diverse educational programs and secure training and education budgets in order to enhance employee performance and self-development opportunities.

(2) Salary peak system

The salary peak system of SOEs and QGOs is specified in detail in Article 10 of the directive, and the key is to utilize the labor costs saved by the salary peak system for new recruitment. The main contents are as follows.

First, the salary peak system operates for all employees of SOEs and QGOs. However, if the salary level is very low, such as below 150% of the minimum salary, the application of the salary peak may be excluded.

Second, SOEs and QGOs should actively create youth jobs through the wage peak system and set new hire recruitment goals each year.

Third, the number of new hires related to the salary peak system that is set every year will be reflected in a separate quota. This separate quota should be reflected as separate personnel or as initial staff.

(3) Open-type contracts and professional positions

In order to enhance the professionalism of SOEs and QGOs, they operate an open-type contract worker system and a professional position system.

First, the open-type position system is a system that opens a certain percentage of positions as headquarters positions to the private sector for the purpose of enhancing competitiveness through strengthening professionalism. The open-type contractor position is autonomously selected by considering the characteristics of the institution, but it is required to comply with general professionalism such as business planning, marketing, public relations, auditing, legal affairs, finance, and accounting. As a general rule, a person employed as an open-type contractor may conclude a performance contract with the CEO of the agency for a term of two years, and the CEO of the agency may extend the contract period. In this case, the criteria and procedure for the extension of the contract period can be autonomously operated according to the characteristics of the institution.

In such a case, the institution will recruit internally and externally through a public announcement of the job specifications, qualification requirements, and career conditions. A candidate should be selected fairly through recruitment tests conducted by an open-type contract selection committee composed of internal and external members.

In order to strengthen professionalism and secure business continuity, public and semi-governmental institutions should select professional positions such as policy planning, finance, legal affairs, and auditing. The person assigned to the profession is limited in terms of transference to another position for a certain period of time.

(4) Personnel management

The personnel management of SOEs and QGOs is stipulated in Section 2 of the guidelines. The main contents are designed to ensure the fairness of recruitment through the establishment of a personnel management committee, to set the standard for personnel management in advance, and to establish a management system. The

details are as follows:

First, SOEs and QGOs should establish and operate a personnel committee or similar deliberation and decision-making body to ensure the fairness and transparency of personnel management, including recruitment, promotion, and discipline.

Second, SOEs and QGOs shall include external experts in the formation of the personnel committee as stipulated under Section 1.

Third, SOEs and QGOs shall exclude those with difficulty securing a fair or impartial examination in organizing and operating the personnel committee as stipulated under Section 1.

Fourth, committee members may be excluded from examination upon approval by the chairperson of the head of the committee when there is a situation in which it is difficult to expect a fair evaluation or other conflict of interest.

Fifth, the chairperson of the personnel committee in SOEs and QGOs should prepare and preserve the minutes of meetings of the personnel committee.

In relation to the principle of employee recruitment, guidelines are provided in detail. First, SOEs and QGOs prescribe matters related to recruitment procedures and methods and disclose specific recruitment procedures and methods through announcements when hiring employees.

Second, if an SOE or QGO changes recruitment procedures for an unavoidable reason after the recruitment announcement, it shall notify employees of the revised contents through deliberation and resolution by the personnel committee.

Third, SOEs and QGOs shall, in principle, hire their employees through open competitive testing. To ensure candidates' equitable opportunities, there should be no unreasonable restrictions on gender, physical condition, appearance, academic background, or age.

Fourth, in the case of specialized professions, it is possible to hire through a limited competition test method. In this case, the employment standard or qualification requirement should be set specifically considering the position and should be disclosed in advance.

Fifth, through diversification of the criteria for document screening and the introduction of written and interview tests that can comprehensively measure job performance, personnel suitable for the position and duties should be employed.

Sixth, if employees are hired by the branch or regional headquarters of a SOE or QGO, the headquarters shall manage the recruitment process and the screening method directly, and the hiring method and procedure shall be clearly defined in advance.

Article 20 of the Guidance on Personnel Management of Employees explains the principle. First, SOEs and QGOs should take into account the major, specialty, career, and aspirations of their employees in assigning positions. Second, SOEs and QGOs can introduce and operate a career development system to systematically manage the positions of their employees and to improve professionalism. Third, SOEs and QGOs are encouraged to designate priorities, such as high employee preference or high influence, and to make efforts to ensure that employees are competence-oriented by carrying out in-house public hiring events and open appointments.

(5) Personnel management of executives

The personnel management of SOEs and QGOs is stipulated in Section 3 of the guidance. The main contents of this document are as follows. The details for the appointment of officers, such as the setting of requirements and qualifications of officers' job performance, the principle of appointment of officers, the regulations and composition of the Committee for Recommendation of Executive Officers, and the method of recruiting candidates for officers, are specified.

First of all, the job performance requirements for the officers are to define the roles and responsibilities according to the positions in consideration of the characteristics of the organizations and to set and operate the job performance requirements according to the positions. Article 33 stipulates the requirements and qualifications for the performance of duties of officers as follows.

First, SOEs and QGOs should clarify roles and responsibilities according to their positions in consideration of institutional characteristics and set up and operate their job performance requirements by position.

Second, the public enterprise and the quasi-governmental agency shall establish the qualification requirements for each position in consideration of the requirements for performing the job pursuant to the provisions of Section 1.

Third, the qualification requirements in accordance with the regulations shall be defined in consideration of the following table.

However, specific qualification requirements may be specified, if necessary, depending on the characteristics of the institution. In this case, it should be possible to select a suitable candidate according to the actual ability and qualities.

Table IV-1. Qualification requirements for executive personnel positions

Executive position	Qualification requirements
CEO	<ul style="list-style-type: none"> A. Leadership and vision as CEO B. Knowledge and experience related to the field C. Organizational management and management capabilities D. Sound ethics such as integrity and morality E. Specific capability required to reflect the characteristics and conditions of the institution
Executive officers	<ul style="list-style-type: none"> A. Knowledge and experience related to the field B. Leadership and organizational management skills C. Sound ethics such as integrity and morality D. Specific capability required to reflect the characteristics and conditions of the institution
Nonexecutive officers	<ul style="list-style-type: none"> A. Knowledge and experience of management B. Sound ethics such as integrity and morality C. Specific capability required to reflect the characteristics and conditions of the institution
Board of Audit and Inspection	<ul style="list-style-type: none"> A. Ability to monitor organizational operation and management B. Sound ethics such as integrity and morality C. Understanding of the work of the institution D. Specific capability required to reflect the characteristics and conditions of the institution

SOEs and QGOs shall appoint officers in accordance with objective procedures and standards so that persons with the ability and qualifications appropriate to the job performance requirements are employed for the position under Article 33 of the guidelines. To accomplish this, the Committee for Recommendation of Executive Officers is formed and operated. Article 35 of the directive provides for the operation of the Committee for Recommendation of Executive Officers as follows.

First, the board of SOEs and QGOs should establish regulations for the Committee on Executive Recommendation on how to organize the Committee for Recommendation of Executive Officers, criteria for candidate examination, and recommendation procedures for the purpose of selecting objective and fair officers.

Second, the board of directors of SOEs and QGOs shall, when establishing the examination criteria for candidates pursuant to Section 1, prevent a person falling under any of the following criteria from being selected as a candidate for non-executive officer: 1. spouse or lineal descendant of executives;

2. a person who conducts an audit or tax treatment of SOEs and QGOs; and/or
3. a lawyer, an authorized accountant, a tax accountant, or other consultant with a signed legal contract or management consulting contract with the SOE or QGO.

The Committee for Recommendation of Executive Officers decides how to recruit executive candidates among the three methods considering the characteristics of the institution, the requirements of job performance for the vacant position, and the work situation of the organization; the options are public recruitment, recommendation method, and a mix of both recruitment methods (concurrent recruitment).

In Article 44, it is stipulated that every executive director should make efforts to establish an accountable management system that can objectively measure work performance by reflecting the characteristics of the positions.

The MOEF should establish a system for integrating and managing performance information, such as job evaluation results from SOE and QGO executives, and strive to improve the performance of executives. To this end, the Minister of the MOEF may request the organizations and officers of the relevant agencies to submit or input

performance information on individual officers.

4. Budget management and accounting system

1) Guidelines for budget compilation and execution

Every year after the deliberations of the Ownership Steering Committee, the MOEF establishes and sets out detailed guidelines concerning budgeting and the enforcement of SOEs and quasi-government agencies based on Article 50 of the AMPI. Regarding budget compilation, the basic direction for budget compilation for the next fiscal year and organizational guidelines for each main item are included, and it is determined and deflated before the fiscal year of the following year is started. Regarding the contents of the guidelines for budget enforcement, the main guidelines and other general guidelines related to the enforcement of the budget, as organized according to the instructions of budget formation ordered by the MOEF, are included.

(1) Main contents of the budget compilation and enforcement guidelines for 2018

The guidelines for the budgeting of public and QGOs in FY 2018 were distributed to SOEs and QGOs by the MOEF in December 2017. The basic direction of the guidelines is the realization of the social value of public agencies, improvement of publicness, contribution to the growth of innovation through sustainable efforts to improve the efficiency of employment, improvement of management efficiency, and expanding investment. Public organizations strive to fulfill the social value of SOEs and QGOs and improve publicness through activities such as coexistence and cooperation among large and small enterprises, revitalization of regional economies, building a safe and healthy community, and creating jobs.

Thus, SOEs and QGOs should actively strive to create youth employment by

promoting the conversion of irregular and indirect contracts to regular jobs based on an employment roadmap and new recruitment goals based on a wage peak system. Also, SOEs and QGOs should establish a recruitment system based on job functions and continue to promote socially equitable recruitment for high school graduates and local college graduates. Furthermore, SOEs and QGOs should strive to build a fair and transparent recruitment and personnel system for eradicating employment injustice.

Second, SOEs and QGOs should make efforts to create jobs by converting irregular jobs to regular jobs. For that, SOEs and QGOs should establish a reasonable remuneration system for workers changing from irregular to regular contracts so that the workers can receive appropriate levels of treatment without unreasonable discrimination. Additionally, SOEs and QGOs should promote various forms of work sharing, such as a reduction of the gap between the fixed number of employees and the present number of employees, adopting a flexible work system, and instituting a changing shift system. SOEs and QGOs should also strive to create new jobs in the private sector through cooperation and delegation by supporting and strengthening the competitiveness of private contractors through efforts to improve treatment for them.

Finally, SOEs and QGOs should contribute to innovative growth through the expansion of investment and continue efforts to improve management efficiency. To provide public services efficiently with high quality, SOEs and QGOs should continuously promote the improvement of the rational remuneration system by considering the characteristics of each agency through an agreement between labor and management. They should strive to manage fiscal stability at the appropriate level by organizing the budget so that it can achieve the debt ratio described in the medium- to long-term financial management plan. Also, SOEs and QGOs should make efforts to improve management efficiency by abolishing or reducing projects that do not require direct enforcement by the institution and consolidating similar or overlapping businesses. And they should continue to try to prevent ineffective business management by managing the company benefit system and suppressing unnecessary expenses.

SOEs and QGOs contribute to innovative growth by expanding investment for essential public services and the core businesses of the institutions. They preferentially invest reduced financial resources gained from efforts towards management efficiency for economic revitalization. Furthermore, SOEs and QGOs should actively discover private investment funds, such as joint ventures, and promote business projects.

(2) Details of the budget compilation and enforcement guidelines for 2018

The budget compilation guidelines of FY 2018 present the fundamental direction of budgeting as a contribution to economic growth by continuing efforts to improve management efficiency and expanding investment. The basic direction of the 2018 budget compilation guidelines is not significantly different from the guidelines of 2017, but some items, such as job creation and converting irregular to regular work contracts, were supplemented for the realization of social value and the improvement of publicness. According to the guidelines, new investment projects and an investment budget are limited to the specific purpose of the institution under the relevant laws and regulations to improve financial stability. SOEs and QGOs should also operate domestic and overseas business separately to manage the performance of overseas projects systematically.

The specificities of the main items in the 2018 budget compilation guidelines are as follows. First of all, the increased rate of total personnel costs will be decided by increasing by 2.6% over the previous year and comprehensively considering the inflation rate of 2017, the private wage increase rate, the treatment improvement rate of public officials in 2018, and so on. However, institutions with an average wage per regular employee in 2016 less than 90% of the average wage of the industry and 60% of the average wage of SOEs and QGOs can make up the increased rate of total personnel costs within 4.1%. Institutions with an average wage per regular employee in 2016 less than 90% of the average wage of the industry and 70% of the average wage of SOEs and QGOs can decide the increased rate for the total personnel budget within 3.6%. And institutions with an average wage less than 110% of the average

wage of the industry can decide the increased rate for the total personnel budget within 1.6%.

Generally, the budget for total labor cost is made up by the fixed number of employees at the end of 2017, but personnel expenses for existing staff and indefinite contract workers are managed separately. Personnel expenses of employees who are converted from irregular workers into permanent workers are organized by switching over existing irregular personnel expenses that were included in existing project costs; then, they will be subtracted from the existing project costs. The following shall be included in the reserve fund: personnel expenses corresponding to an increase in the fixed number of employees in 2018, personnel expenses corresponding to the gap between the fixed number of employees and the current number of employees, additional personnel expenses due to temporary employment such as time selection, personnel expenses pertaining to exceeding the fixed number of employees temporarily due to temporary workers filling in for military enlistments or childcare leaves, actual increases in salary, grants provided by the introduction of the wage peak system under the Article 17 of the Enforcement Decree of Employment Insurance Act, and subsidies to be provided under the Enforcement Decree of Employment Insurance Act for the introduction of the conversion-type time-selection employment system. Personnel expenses for standing board members shall be formed based on the guidelines for executive remuneration of SOEs and QGOs.

Performance-based incentives from performance evaluation are excluded from the average wage, which becomes the standard for retirement pay. Performance-based incentives from performance evaluation are recorded as reserve expenses, but they cannot be used for other purposes except payment based on evaluation results. Performance-based incentives from performance evaluation for employees will be formed within 250% of the standard monthly salary in a SOE and 100% of the standard monthly salary in a QGO. However, performance-based incentives from performance evaluation for investment institutions of the government shall be formed within 300% of the basic monthly salary. Ordinary expenses should be reduced by 0.5% if the result of performance evaluation is

D and 1% in the case of E compared to the previous year. Business promotion expenses in FY 2018 should be reduced by 10% compared to the previous year.

The main points in the general guidelines for 2018 budget enforcement are the same as in the budget compilation guidelines for 2017, and the main contents of the item-specific execution guidelines are as follows. Budget enforcement should be emphasized in terms of the expansion of investment and such factors as early budget enforcement and job creation for economic revitalization. Employment-supporting projects with a high degree of public interest, large-scale SOC projects, and projects for vulnerable social groups and public welfare stability should be managed separately. To enable the effects of enforcement to be visualized at an early period, projects that are easy to enforce, such as carry-forward business from 2017 and SOC continuation business, will be executed as much as possible during the first half of the year unless there are special circumstances. New business in 2018 should include preliminary procedures for setting business plans, design, ordering, and contracts as soon as possible. Business trips both domestic and overseas should be appropriately adjusted in terms of the number of travelers to save costs.

2) Separate accounting system

(1) Background of the introduction and promotion process

As a part of the national administrative tasks announced in February 2013 and the normalization of SOEs and QGOs announced in December 2013, a separate accounting system was promoted as a debt management method to strengthen the responsibility and transparency of SOEs and QGOs.

The separate accounting system is carried out by all 13 institutions. Seven institutions were selected for the primary testing group in 2014, and six institutions were selected as the secondary testing group in 2015. Institutions in the primary testing group are the Korea Gas Corporation, the Korea Water Resources Corporation, the Korea Electric Power Corporation, the Korea Railroad Corporation, the Korea Land Housing Corporation, the Small Business Promotion

Corporation, the Deposit Insurance Corporation, and others. The secondary testing group has six institutions including four SOEs. These are the Korea Mineral Resources Corporation, the Korea Road Corporation, and the Korea National Oil Corporation, and two QGOs: the Korea Student Aid Foundation and the Korea Railway Facilities.

Table IV-2. List of SOEs and QGOs adopting separate accounting system in 2014

Classification		Major business	Name	
SOEs (9)	SOC	Development	Korea Land & Housing Corporation	
		Road	Korea Expressway Corporation	
		Water resources	Korea Water Resources Corporation	
		Railway	Korea Railroad Corporation (KORAIL)	
	Energy	Energy		Korea Electric Power Corporation
				Korea Gas Corporation
				Korea National Oil Corporation
				Korea Coal Corporation
				Korea Resources Corporation
QGOs (4)	Finance	Finance	Korea Deposit Insurance Corporation	
			Korea Student Aid Foundation	
	SOC	Fund	Small & Medium Business Corporation	
		Railway/Subway	Korea Rail Network Authority	

Source: www.alio.go.kr.

The MOEF declared that SOEs and QGOs should faithfully implement the separate accounting system in their budget compilation guidelines for 2016, which were announced in December 2015. In the budget compilation guidelines for 2015, the implementation of a separate accounting system was clearly stated and expanded to the business of all SOEs and QGOs.

Furthermore, the MOEF announced the expansion of the separate accounting system through the medium- to long-term financial management plan of 2015–2019 in September 2016 as part of efforts to strengthen the institutional basis for debt management of SOEs and QGOs. The budget compilation guidelines of FY 2016

clarified and stipulated the expansion of the separate accounting system. Through a separate accounting system, the debt of public agencies can be classified by cause. Thus, institutions can prepare and manage financial situations.

(2) Main contents of the management guidelines for the separate accounting system in SOEs and QGOs

After stipulating the expansion of the separate accounting system to all SOEs and QGOs, the MOEF prepared guidelines for the management of the separate accounting system for SOEs and QGOs (from now on referred to as the management guidelines) at the end of December 2015. They designed the management guidelines to introduce the separate accounting system for improving financial stability and performance in SOEs and QGOs under Article 50, paragraph 1 of the AMPI. Through the management guidelines, details on the separate accounting system, such as the scope of application, classifications by unit and nature, and the disclosure and quality control of information, were suggested.

Table IV-3. Expanded list of SOEs and QGOs adopting separate accounting system in 2017

Classification		Name
SOEs (14)	Air transport	Incheon International Airport Corporation, Korea Airports Corporation
	Port	Busan Port Authority, Yeosu Gwangyang Port Authority, Incheon Port Authority
	Energy	Six subsidiaries of power plant (including Korea Hydro & Nuclear Power Co., Ltd), Korea District Heating Corp
	Others	Korea Housing & Urban Guarantee Corporation, Korea Racing Authority
Quasi-governmental organization (12)	Finance	Government Employees Pension Service, Korea Technology Finance corporation, Teachers Pension, Korea Credit Guarantee Fund, Korea Trade Insurance Corporation, Korea Asset Management Corporation, Korea Housing Finance Corporation
	Others	National Health Insurance Service, Korea Sports Promotion Foundation, Korea Trade-Investment Promotion Agency, Korea Rural Community Corporation, Korea Industrial Complex Corporation

Guidelines for the management of a separate accounting system for public institutions (December 2015).

The scope of application for the separate accounting system was expanded from the existing 13 institutions to 39 institutions, which are responsible for submission of the medium- to long-term financial management plan. Thirteen institutions out of a total of 39 institutions already completed the introduction of a separate accounting system through a pilot project, and 26 institutions were instructed to introduce the new separate accounting system by the end of 2016. Furthermore, 26 institutions were expected to announce the financial information on the separate accounting system to ALIO as of 2017.

For introducing the separate accounting system, institutions should classify the business units first by considering the characteristics of the business unit. After that, institutions can go through a procedure to distinguish the accounting information by classified business unit. Therefore, the determination of the classified business unit for the separate accounting system is an important starting point for compiling information for separate accounting. The separate accounting unit and the budget accounting unit should match in order to manage the financial status of SOEs and QGOs.

For distinguishing business units for separate accounting, the MOEF should present general standards for the classification of a business unit, and the SOEs and QGOs should consult with the department after they voluntarily prepare a proposal that can be individually identified by considering assets, liabilities, and revenues. According to the standards distributed by the MOEF, essential businesses are projects related an institution's past functions and the purpose of establishment; policy projects are the projects decided by the government, such as national political agendas, and consignment businesses are projects whose institutions are designated by related laws or regulation as agents or entrusted business operators. Business units should be classified based on reasonable standards such as the goods, processes, and beneficiaries of the core business of the institutions so they can be connected with the composition of the institution.

The management guidelines for the separate accounting system mandate the designation of an accounting officer of the institution to clarify the location of responsibility and improve the accuracy of financial data. The authority for confirmation and verification of financial information under the separate accounting system is conferred to the MOEF. The MOEF can verify and confirm the accuracy of financial information for the separate accounting system based on related data submitted by SOEs and QGOs.

3) Accounting rules for SOEs and QGOs

The AMPI prescribes necessary matters for the principles of SOE accounting. The law prescribes the designation and termination of SOEs and QGOs, accounting principles, charges in accounting, expenses for payment, prepayment, payment in advance by rough estimate, bad debt treatment of bonds, acquisition of allowance for doubtful accounts, separate accounting, settlement of accounts, submission of financial statements, financial statements, consolidated financial statements, annexes and other financial statements, internal controls, and other matters.

Economic transactions arising from the management activities of SOEs and QGOs should be accounted for in a double-entry bookkeeping method on the basis of occurrence.

In the case that laws related to the establishment of each SOE or other regulations stipulate separate accounting units, the CEO of SOEs and QGOs should process accounting according to the source of financial resources and business purposes. SOEs and QGOs also prepare integrated financial statements after eliminating inter-company transactions and unrealized gains and losses between each accounting. In this case, the business performances and financial status classified by separate accounting units are described as comments.

5. The financial management system

1) Debt reduction plan

(1) Background of the introduction and promotion process

Recently, the SOEs and QGOs' financial stability began to emerge as a major problem because the debt of SOEs and QGOs rose sharply. Thus, the government ordered SOEs and QGOs to formulate a medium- to long-term financial management plan and submit it to the National Assembly. SOEs and QGOs with assets of KRW 2 trillion or more, or with regulations on capital impairment or loss, should establish a medium- to long-term financial management plan under Article 39-2 of AMPI and its Enforcement Decree 25-2. The MOEF should submit the medium- to long-term financial management plan to the National Assembly under Article 9-2 of the National Finance Act and its Enforcement Decree. Through the establishment of the medium- to long-term financial management plan of SOEs and QGOs, the Korean government paved the way to improve financial stability and enhance the transparency of the financial status of SOEs and QGOs.

The government announced measures for the normalization of SOEs and QGOs for the reduction of debt and the elimination of inefficient management in SOEs and QGOs in December 2013. As part of that, the government ordered SOEs and QGOs to submit a debt reduction plan for more intense debt management. Thirty-nine institutions with responsibilities for the submission of the medium- to long-term financial management plan were subject to the submission of a debt reduction plan. They can prepare the debt reduction plan by selling noncore assets, readjusting projects, and/or improving management efficiency. In particular, 12 SOEs and QGOs with large debt and a high debt increase rate in the past five years were designated as targets of intensive debt management, and the government required them to submit an intensive debt reduction plan to the MOEF after consultation with the related department.

The main goal of the debt reduction plan announced by the MOEF was to reduce the debt ratio of SOEs and QGOs to 200% by 2017. This represents the government's desire to restore the financial status of SOEs and QGOs to the level of regular private companies that can issue bonds (above credit rating BBB level). In 2015, while maintaining the trend of debt reduction in 2014, the government decided to formulate a medium- to long-term financial management plan reflecting actual results in 2014 and changes in conditions so far. The target organizations subject to the submission of a debt reduction plan were 39 SOEs, the same as the 2014 settlement standards.

(2) Main contents of the debt reduction plan

The MOEF delivered the guidelines for the debt reduction plan at the end of December 2013 as a follow-up to the normalization measures for SOEs and QGOs. The guidelines include debt reduction and matters concerning the preparation and submission of a debt reduction plan. The objective of the guidelines is to ensure that the debt ratio of the target institution is managed at the 200% level by 2017, and the basic direction is to implement the debt reduction plan in order to substantially reduce debt or to improve the financial structure. In response, the government ordered the SOEs and QGOs subject to the submission of a debt reduction plan to reduce the rate of increase in debt by 30% or more from the initial expectation of the medium- to long-term financial management plan.

The guidelines for the debt reduction plan emphasized prioritizing the debt reduction plan, mainly in terms of self-help efforts for SOEs and QGOs. Thus, it is focused on the adjustment of business structure, asset sales, and management efficiency. The institution to which the debt reduction plan is submitted must establish a sustainable financial structure by promoting the adjustment of the business structure as a top priority by reducing the scale of projects, adjusting timing, changing methods, and discontinuing the existing business. Supplementary business that is not essential and relevantly unconnected to the purpose of establishment of the

institution should undertake structural adjustment in general. SOEs and QGOs adjust the scale of business investment by reviewing various basic plans that form the basis of investment through consulting with the related departments and agencies.

Apart from the preliminary assessment of SOEs and QGOs, the major businesses of SOEs and QGOs should be internally assessed and reflect financial feasibility. SOEs and QGOs should review the possibility for the sale of all assets from the starting point, discover assets available for sale, and reflect this in the debt reduction plan. Assets other than those indispensable for providing public services should be described and reflected in the debt reduction plan in principle. It is necessary to pay sufficient attention so that there is no possibility of a deterioration in the financial structure regardless of the selling price. In accordance with that, measures must be taken so that assets can be actively sold by entrusting the asset sale to the Korea Asset Management Corporation or a private investment management company. The debt reduction plan should include a plan for the reduction of business expenditure and business expenses, such as promotion expenses and meeting expenses, and a scheme for improving the efficiency of human resources. SOEs and QGOs should take various measures that can maximize the revenue of owned assets and attract private capital, such as joint investment, or explore management efficiency by utilizing multiple financial techniques.

The government should monitor the performance of the debt reduction plan and establish a collateral system to make efforts to reduce the debts of SOEs and QGOs without delay. SOEs and QGOs normalization councils should check the performance of self-help efforts by the ministries, departments, and their agencies quarterly. Also, the evaluation weight of the debt reduction plan in the performance evaluation should be expanded and strengthened when assessing the performance record. If the performance level of debt reduction is lower than the initial plan, performance-based wages should be limited even if the evaluation performance in other fields is excellent.

The MOEF announced the SOE and QGO Performance Evaluation Handbook

of 2013 and prepared a legal basis that partially restricts performance-based incentives based on the evaluation results of self-help efforts for managing debt under the medium- to long-term financial management plan. It covers 10 institutions with high financial risks such as debt size and debt ratio. Based on the results of the performance evaluation of 2013, 50% of the performance-based wage rate of six institutions, excluding four (evaluation D grade, applicable to 0% for performance-based wage rate) of the 10 institutions, was reduced.

Besides this, the government strengthened the institutional basis for debt management through the introduction of a separate accounting system and a total amount system to SOEs and QGOs, imposing public and corporate bonds, the sale of assets of overdraft debt institutions, the conclusion of business agreements, the enhancement of a preliminary assessment system, and the introduction of an ex post evaluation system.

The separate accounting system is a system for preparing financial statements by business unit to determine the business results and financial situation of SOEs and QGOs. It was introduced as a pilot project to 13 organizations in 2014 and expanded to 39 institutions in 2016.

The total amount system for public bonds is a system that prescribes the balance of bonds in advance so that unnecessary public bonds are not generated. It was implemented in 16 institutions, excluding two public finance institutions out of 18 debt-management focused institutions, in 2015. The total amount system includes all types of bonds such as public and corporate bonds and short-term liquidity (CP, short-term electronic bond). Also, the total amount of 16 institutional public and corporate bonds was set to keep constant the recent three-year average ratio of public and corporate bonds to institutional financial liabilities. The medium- to long-term method for 2014 to 2018 contains complicated and unnecessary aspects such as concerns about the increase in financial expenses; thus, from 2015 it is applied only to the total amount based on a performance check of the aggregate total amount.

The government carried out adequate market research on the assets, which included

selling under the debt reduction plan, in order to make the sale of the assets of the debtor institution effective. Regarding loss on the sale of assets, the government reduced or eliminated the disadvantages of performance evaluation and audits and required public agencies to actively sell assets by entrusting asset sales to the Korea Asset Management Corporation or a private investment company. Also, the goal of the performance treaty concluded between the director of the institutions and the cabinet members of the department included the director's debt reduction efforts, which were evaluated once during the term of office and utilized as personnel data. Furthermore, to strength the management of projects by SOEs and QGOs, the government introduced the ex post evaluation system and selected the model project to evaluate.

2) Medium-to long-term financial management plan

(1) Background of the introduction and promotion process

Recently, the debt of SOEs and QGOs increased sharply, and the financial stability of SOEs and QGOs emerged as a major problem, but there was no comprehensive management system for checking the financial status of SOEs and QGOs. Thus, the government revised the related laws so that SOEs and QGOs with assets of KRW 2 trillion or more would formulate a medium- to long-term financial management plan and submit it to the National Assembly from 2012 (Article 9-2 of the National Finance Act). Medium- to long-term financial management plan should include business goals for the next five years, directions for investment, and financial management objectives including debt reduction.

[Article 39-2 of the AMPI and its Enforcement Decree] SOEs and QGOs with assets of more than KRW 2 trillion or regulations of capital impairment or loss should establish medium- to long-term financial management plans.

[Article 9-2 of the National Finance Act] The Minister of the MOEF should submit to the National Assembly the medium- to long-term financial management plan under Article 39-2 of the AMPI.

Table IV-4. The total amount of debt and its ratio of SOEs and QGOs from 2010 to 2017

Classification	2010	2011	2012	2013	2014	2015	2016	2017
Size of debt	249.3	460.3	496.1	520.4	519.7	505.3	499.4	482.3
Debt ratio	112%	196%	220%	217%	201%	183%	167%	157%

Source: The MOEF(2018).

The MOEF tried to establish medium- to long-term systematic financial management in SOEs and QGOs by checking the level of debt through the establishment and implementation of medium- to long-term financial management plans. In other words, through the formulation of the medium- to long-term financial management plan, SOEs and QGOs can continuously check and maintain their financial stability through self-help efforts such as improving management efficiency. The medium- to long-term financial management plan enhanced the transparency of the financial conditions at SOEs and QGOs by showing the financial status and financial management plan for five years so that systematic and efficient financial management in the medium to long term can be achieved.

In 2012, 39 institutions introduced a medium- to long-term financial management plan and submitted it to the National Assembly. SOEs and QGOs with assets of KRW 2 trillion or more, or with regulations for capital impairment or loss, should establish a medium- to long-term financial management plan under the law. The numbers of target institutions responsible for submitting the medium- to long-term financial management plan were 39 in 2012, 41 in 2013, 40 in 2014, and 39 in 2015 and 2016.

The following three basic directions shall be taken into consideration at the time of formulating the medium- to long-term financial management plan. First, the medium- to long-term financial management plan submitted in the relevant year should link with the medium- to long-term financial management plan submitted in the previous fiscal year. If business goals planned and submitted in the previous fiscal year are achieved, the SOEs and QGOs should reflect changes in the business environment

accompanying domestic and overseas economic fluctuations and select business projects to be submitted in the relevant fiscal year.

Second, SOEs and QGOs should develop a plan reflecting all the debt reduction plans of 2013 to 2017 that are managed after the normalization plan of SOEs and QGOs.

Third, the medium- to long-term financial management plan should be prepared by taking into consideration the role of SOEs and QGOs that can boost economic recovery. Institutions that are expected to significantly improve the external environment from 2015 to 2019 with a reasonable debt reduction in 2014 should actively consider the investment expansion plan and formulate the medium- to long-term financial management plan accordingly.

6. Customer satisfaction survey system

1) Historical overview

The MOEF periodically examines customer satisfaction based on the AMPI as part of its management system to promote customer-centered management of SOEs and QGOs and the improvement of service quality. These customer satisfaction surveys were first conducted in 1999 for government investment institutions, then expanded to government-run institutions in 2004. In 2007, the AMPI introduced three separate customer satisfaction surveys, which were integrated into the current public agency customer satisfaction survey.

In general, SOEs and QGOs have little interest in customer satisfaction management due to supplier-centered or institutional-oriented management activities. In view of this, the government developed and applied an evaluation index to measure the efforts of the public sector to improve services since the introduction of performance evaluation system for government invested institutions in 1984.

In 1999, the Ministry of Planning and Budget conducted a survey of customer

service satisfaction for SOEs and created a competitive environment among SOEs to maximize customer satisfaction level. In particular, the results of the customer satisfaction survey were reflected in the performance of institutional management and the performance of the CEO contract for government-invested institutions operated by the Ministry of Planning and Budget. In addition, the government developed a noncritical performance evaluation indicator to evaluate the adequacy of activities for satisfying customers in government-invested institutions, and this was reflected in their performance assessment (Kwack Chaegi, 2003: 67).

In 2004, the new FAMGAI was enacted, reflecting the results of SOEs and QGOs independently developed by the Ministry of Planning and Budget under the relevant regulations of the act and separate from the Public Service Customer Satisfaction Index (PCSI). In 2005, the customer satisfaction survey was expanded to all SOEs and QGOs.

As the AMPI was enacted in 2007, customer satisfaction with SOEs and QGOs was integrated into a survey system for both SOEs and QGOs using the PCSI. As a result, according to Article 13 of the AMPI and Article 17 of the Enforcement Decree, the MOEF periodically conducts customer satisfaction surveys of SOEs and QGOs and the results are reflected in the performance evaluation of institutional management. Article 13 of the AMPI also provides for the establishment and operation of a customer charter in conjunction with the customer satisfaction survey system to promote customer satisfaction management activities in SOEs and QGOs.

As such, the survey system for customer satisfaction with SOEs and QGOs is basically developed as a tool for managing customer satisfaction in SOEs and QGOs to enhance public service and enhance the national interest by objectively measuring and disclosing the service level of SOEs and QGOs. However, the customer satisfaction survey also works as a tool for assessing performance. Customer satisfaction level is considered one of the key indicators that can measure SOEs and QGOs performance. Therefore, a survey of customer satisfaction for SOEs and QGOs can be called a management tool with which the public directly participates in

the performance and evaluation of SOEs and QGOs.

Meanwhile, in 2011, the average customer satisfaction score of SOEs and QGOs exceeded 90 points on average. The MOEF newly created various performance evaluation indicator to evaluate activities relating to social values in SOEs and QGOs through the 2018 Performance Evaluation Manual.

2) Operating methods and its contribution

(1) The institutions subject to customer satisfaction surveys

According to Article 13 of the AMPI, SOEs and QGOs providing services directly to the public should conduct surveys on customer satisfaction at least once a year. Currently, SOEs and QGOs subject to customer satisfaction surveys are categorized as organizations subject to integrated surveys conducted by the MOEF, organizations subject to investigation by each ministry, and those that are excluded from the survey.

(2) Customer satisfaction survey model

In order to ensure the validity, reliability, and fairness of the results of customer satisfaction surveys for SOEs and QGOs, a customer satisfaction survey model suitable for the characteristics of SOEs and QGOs should be developed. Since 1999, Korea's survey model for customer satisfaction with SOEs and QGOs has changed from NCSI (1999–2006) to PCSI (2004–2014) to PCSI 2.0 (2015 to the time of writing).

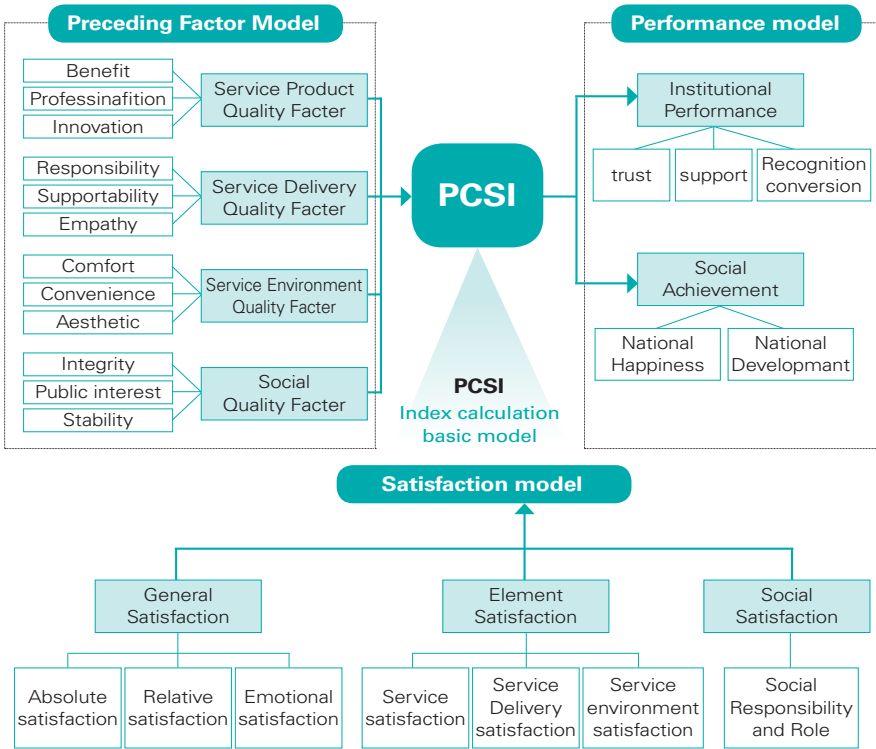
From 1999 to 2006, customer satisfaction surveys of government-invested institutions were conducted in accordance with the National Customer Satisfaction Index (NCSI). Based on the American Customer Satisfaction Index model, the NCSI model was reorganized by the Korea Productivity Center according to the characteristics of Korean SOEs. The NCSI model analyzes the causal relationship between the expected level of service use, the quality of products after use, the expected value of the service, and customer satisfaction to derive customer

dissatisfaction and customer loyalty. The target audience for the customer satisfaction survey was set up as individuals, organizations, or companies with experience in purchasing or using services or products from a public company; satisfaction was measured through one-on-one interviews.

However, the NCSI model was developed primarily to calculate the customer satisfaction of private companies. Accordingly, NCSI, a model of customer satisfaction in the private sector, had limitations in reflecting the specificity of SOEs and QGOs (e.g., evaluating public functions and the goals of SOEs and QGOs) in its factors or outcome variables for customer satisfaction. Therefore, the need to develop a new survey model that can fully reflect the specific characteristics of SOEs and QGOs was raised after conducting a survey on customer satisfaction with SOEs. The PCSI model was used as a survey model for customer satisfaction with government agencies from 2004 to 2006 and was applied to customer satisfaction surveys at all SOEs and QGOs, in addition to implementing the AMPI, in 2007.

As such, the PCSI model is a new customer satisfaction survey model specifically developed by Korea to investigate customer satisfaction with SOEs and QGOs by reflecting the characteristics of SOEs and QGOs, the concept of satisfaction, and performance variables. This PCSI model is designed to have three logical causal relationships among customer satisfaction impact factors (projective factor model) → customer satisfaction model (performance model). Pre-factor models measure the quality of customer satisfaction management activities, and performance models measure performance based on customer satisfaction management activities at the institutional and social level. The customer satisfaction level is measured using the satisfaction model. In other words, the weighted average values of 50%, 30%, and 20% of the weights predetermined by the Delphi technique for overall satisfaction, element satisfaction, and social satisfaction are calculated.

Figure IV-1. Basic structure of the PCSI customer satisfaction survey model (as of 2014)



The PCSI model, which is designed to reflect the characteristics of SOEs and QGOs, has the following advantages: first of all, customer satisfaction systematically reflects the characteristics of SOEs and QGOs and public services in the survey model itself. In addition, it has the advantage of systematic measurement that can be linked to activities for improving customer satisfaction, the universality of mutual assessment between SOEs and QGOs, and the high acceptability of individual characteristics of SOEs and QGOs.

The PCSI 2.0 model reformed the measuring item system of the model while maintaining the basic theoretical and structural framework of the PCSI model. This improved the model to enhance the validity, practicality, and general availability of customer satisfaction surveys and management.

The PCSI 2.0 model improved each of the preceding factors in customer satisfaction in three dimensions, beginning with the quality of service (products, delivery, environment, social responsibility, and mismatch). The service quality model incorporates the service quality dimensions and components shown in Table IV-5. In particular, the model was designed to measure the quality of the service environment for individual customers and corporate customers by transferring the service quality model to individual customers and corporate customers, thereby reflecting the differences in the service delivery system between individual customers and corporate customers. In addition, social responsibility levels were divided into areas of independent prior factors in order to systematically reflect the inherent social responsibility and faithfulness of SOEs and QGOs roles of implementation in the causal model. In addition, the expected uniform paradigm was applied to add a mismatch dimension (a non-service assessment model) as a precursor.

Figure IV-2. Basic structure of the PCSI 2.0 customer satisfaction survey model (as of 2017)

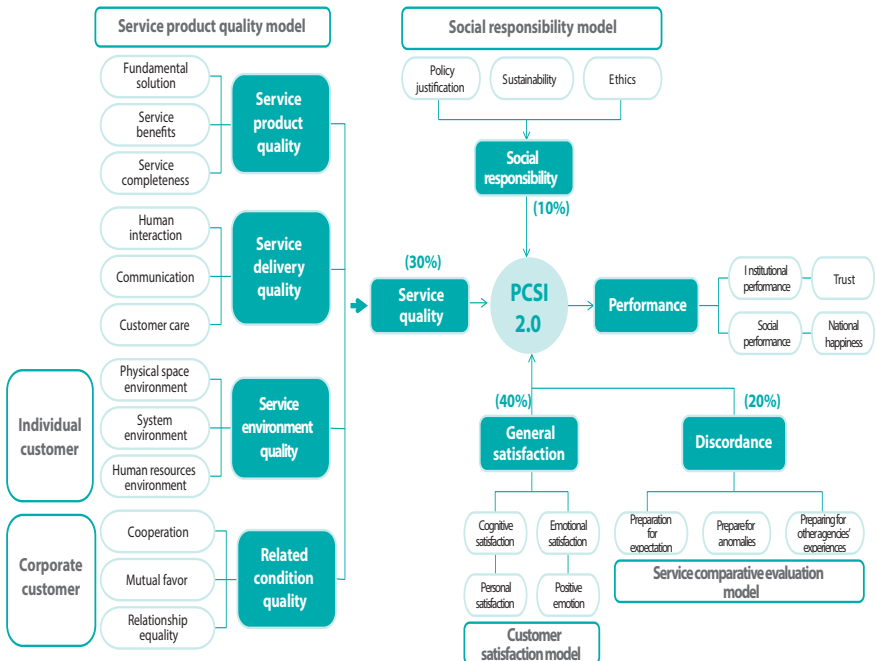


Table IV-5. Measurement of customer satisfaction with the PCSI 2.0 model

Dimension	Component		Concept
Service product quality	Fundamental solution		Solving customer problems, the fulfillment of a promise, the validity of a service
	Service benefits		Benefits to customers
	Service completeness		Sufficiency, accuracy, perfection
Service delivery quality	Human interaction		Active exchange with customers, quality and quantity of contact interaction
	Communication		Information, clarity of communication
	Customer care		Seeking the best benefits for customers
Service environment quality (personal customer)	Physical space environment		Quality of the physical facilities and the environment of the organization
	System environment		Quality of support environment for access to services Such as systems, procedures, and institution
	Human resources environment		Quality of human resources
Related condition quality (corporate customer)	Cooperation		Joint problem resolution, a joint decision
	Mutual favor		Win-win relationship for mutual benefit and success
	Relationship equality		The democratic nature of relations, an equal position
Social responsibility	Policy justification		Establish and implement correct policies
	Sustainability		The degree to which sustainability is sought
	Ethics		Morality, integrity, a public mission, a degree of transparency
Discordance	Preparation for expectation		A degree of matching or mismatches in perceived service levels against expectation
	Prepare for anomalies		A degree of matching or mismatches in perceived service levels against anomalies
	Preparing for other agencies' experiences		A degree of consistency or inconsistency in the perceived service level in relation to other agency (business) experience
General satisfaction	Cognitive satisfaction	Personal satisfaction	Comprehensive assessments and feelings about the overall service experience
	Emotional satisfaction	Positive emotion	Positive feelings left after the process of using the service
Performance	Trust		The degree to which you have trusted your institution's policies or activities after use
	National happiness		The degree to which the institution contributes to the quality of life and happiness of the people after use

Source: Korea Productivity Center (2018).

Table IV-6. Comparison of PCSI and PCSI 2.0 customer satisfaction survey models

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

In the preliminary planning phase, the MOEF establishes a basic plan for a customer satisfaction survey of SOEs and QGOs through review and approval by the Ownership Steering Committee. Then, the companies that perform customer services shall be divided into basic designers, main operators, and practical contractors for each survey stage. The basic designers are selected directly by the MOEF after deliberation by the technical evaluation committee, while main operators and companies are selected by reflecting on the scores of public agency evaluations and the results of the technical evaluation committee's review. During the preplanning stage, the basic designer utilizes data submitted by the SOEs and QGOs to perform basic design tasks such as selecting tasks (business) for investigating customer satisfaction, defining customers, classifying groups, research design, and survey design.

The basic design determines the projects and customers to be surveyed by each institution, as well as the main business operators (survey and sample allocation, survey management, results verification, computer processing, and analysis) and sub companies (phone survey, etc.). Specific research activities will be submitted to the SOEs and QGOs for the survey, along with the detailed design of the customer satisfaction surveys by weekly operators, practical customer satisfaction surveys, data processing, and customer satisfaction survey companies.

In the analysis, reporting, and reflux stage of the survey results, the main operator analyzes the results of the customer satisfaction survey for the SOEs and QGOs, submits the customer satisfaction index, and reports to the SOEs and QGOs.

(3) Utilization and reflux of customer satisfaction survey results

The results of the customer satisfaction survey are reflected in the performance evaluation of SOEs and QGOs. In addition, the results of the customer satisfaction survey are disclosed to the public through ALIO, a management information system for SOEs and QGOs, as mandatory disclosure information. In addition, agencies with poor customer satisfaction levels (C-level) should submit customer satisfaction management improvement plans. The MOEF carries out activities to solve problems identified during the customer satisfaction survey for the year. Each SOE and QGO provides current information to enhance customer satisfaction, thereby encouraging the agency to improve customer satisfaction management activities.

(4) Performance of the customer satisfaction survey system

Since 1999, customer satisfaction scores have been continuously improved as a result of active efforts such as periodically surveying customer satisfaction, disclosing the results to the public, and subjecting the results to public agency and institutional director evaluation.

As the customer satisfaction survey model has been changed three times, the data

on the customer satisfaction score are not consistent, but the customer satisfaction score for SOEs, which was measured in 1999, rose to 92.6 in 2017. In addition, QGOs saw their customer satisfaction score rise to 87.3 in 2017, although the customer satisfaction score was only 72.5 points when the survey was first conducted in 2004.

Although the improvement of public agency customer satisfaction scores contributed to the regular customer satisfaction survey system itself, the use of the results to assess the performance of SOEs and QGOs was greatly affected. While customer satisfaction survey and performance evaluation are consistently managed as part of the performance evaluation indicators of SOEs and QGOs, the problems of activities for improving customer satisfaction have been pointed out with encouragement to improve them. In particular, advanced customer satisfaction management techniques are adopted through benchmarking for excellent management practices; this brought about a competitive environment among SOEs and QGOs through the assessment of activities for improving customer satisfaction.

7. Integrity measurement and assessment of anti-corruption policies

1) Introduction

SOEs and QGOs have a duty to try to prevent corruption in order to establish social ethics for a sound society. In order to promote the fulfillment of these responsibilities by SOEs and QGOs, the ACRC started measuring integrity and the degree of anti-corruption from the year 2002. The target SOEs and QGOs are organizations belonging to the central government ministries, local governments and local assemblies, education offices, public medical service organizations, and public universities listed in the Act on the Prevention of Corruption and the Establishment and Management of the ACRC. The aim of anti-corruption measurement is to lead

SOE and QGO efforts to improve their integrity by evaluating and publicizing the appropriateness and effectiveness of anti-corruption activities conducted by the organizations during the year. The measurement results are planned to be used for the purpose of enhancing the transparency and integrity of SOEs and QGOs by inducing voluntary improvement efforts in areas vulnerable to corruption.

(1) Personnel, budget, salary

Principles such as operating personnel management processes fairly and transparently, including the appointment, recruitment, promotion, and transfer of employees, and establishing and operating a management system according to the characteristics of each organization, are suggested. In relation to budget management, running a reasonable compensation system based on job value, ability, and performance is also suggested.

2) Integrity measurement system

(1) Necessity and purpose of integrity measurement

In order for SOEs and QGOs to effectively promote anti-corruption policies, an accurate diagnosis of the areas in which corruption occurs and its level should be conducted. The results of this corruption diagnosis can be used to establish effective anti-corruption policies by focusing on preventive strategies for vulnerable sectors. The integrity measurement of SOEs and QGOs is designed to provide the basic data necessary to establish a preventive anti-corruption strategy.

The ACRC proposes the following objectives for the purpose of operating the integrity measurement system of SOEs and QGOs (Anti-Corruption and Civil Rights Commission, 2016: 5–6). First, measurement results provide basic data for enhancing integrity and effective anti-corruption activities by providing an objective and scientific measurement of the integrity of SOEs and QGOs. Second, measurement results on the integrity level of each sector in an organization, which can influence the result

of the level of integrity of the organization, can help to identify an organization's urgent sector(s) and vulnerable tasks. Third, public disclosure of the integrity level result allows SOEs and QGOs to autonomously promote integrity. Fourth, public disclosure of the measurement result will contribute to spreading and establishing social consensus on corruption prevention and integrity improvement, not only in the public sector, but also in the private sector.

(2) Scope and type of measuring target organizations

The public service integrity measurement system of the ACRC, in principle, operates for all the SOEs and QGOs specified in Article 2 of Act on the Prevention of Corruption and the Establishment and Management of the Anti-Corruption and Civil Rights Commission. The scope of SOEs and QGOs subject to integrity measurement based on the Act on the Prevention of Corruption and the Establishment and Management of the Anti-Corruption and Civil Rights Commission is set as follows.

First, all central government agencies, local government autonomous entities (executive agencies), provincial councils, and offices of education are subject to integrity measurement. Second, if it is a public service or public task organization notified by the Minister of the Personnel Management based on Article 3-2 of the Public Service Ethics Act and Article 3-2 of enforcement decree of the same act, the organization is subject to integrity measurement in principle. However, among the organizations related to public services or public tasks in the Public Service Ethics Act, the object of integrity measurement should be selected by considering the size and nature of the organization.

A total of 189 organizations out of the 338 SOEs and QGOs designated in 2018 were selected as organizations to measure integrity. Specifically, 35 SOEs (15 market-type SOEs, 20 quasi-market-type SOEs), 15 of the 16 fund-management-type organizations, 70 of the 77 commissioned-service-type QGOs, and 69 organizations out of 210 non-classified organizations (24 types of public-service-

related organizations, 23 types of research organizations, 17 types of public medical institutions, and five types of national and public universities) have been selected as institutions to measure integrity.

(3) Integrity measurement model and method

① Integrity measurement model

The integrity of SOEs and QGOs is defined as the extent to which public officials perform internal and external affairs and policies transparently and fairly without corruption. The integrity measurement model consists of the following five measurement areas and is commonly applied to central government agencies, local governments, education offices, and public service organizations.

First, external integrity indicates the degree of transparency and accountability with which public officials conduct business without being corrupted, such as receiving money or other corrupt actions during transactions with the citizens (civilian, public officials) who are customers of SOEs and QGOs receiving public services. According to the 2018 integrity measurement model, external integrity is measured in all SOEs and QGOs subject to the survey, and the model consists of two areas (corruption perception and corruption experience) with 11 questions. Second, internal integrity is the evaluation of the degree of transparency and fairness of the internal affairs (personnel, budget execution, job direction) of the affiliated organization. The internal integrity measurement model in 2018 consists of two areas (integrity culture and business integrity) with 20 questions.

Third, an evaluation is delivered from the viewpoint of the policy customers such as policy experts, business people, local residents, and parents. This evaluation focuses on the integrity and transparency of the policies and the whole business of the concerned SOE or QGO. The policy customer evaluation shall be applied only to central government agencies, the metropolitan municipality, city, provincial office of education, and/or public interest group types I and II (more than 1,000 persons) considering the purpose of the evaluation and the possibility for investigation. The

2018 policy customer evaluation model consists of three areas (corruption awareness, corruption control, and corruption experience) with 12 questions.

Fourth, “the state of the occurrence of corruption” is defined as the degree of actual detected corruption, and it is divided into the disciplinary index of corrupt officials and the corruption index. The corruption case index of public-service-related organizations is based on the evaluation of expert teams considering the corruption amount, number of related persons, customs, organization level, and negative impact power. Fifth, hampering credibility behavior refers to such issues as omission, manipulation, specimen management, missing data submission in corruption cases, and the submission of false facts, which are performed with the intention of affecting the result of integrity measurement in an unjustifiable way. When such behavior is detected, integrity points are subtracted (questionnaire deduction, field check deduction).

The total integrity level reflects the cumulative results of the integrity measurement model derived from five measurement factors from the survey of external integrity, internal integrity, policy customer evaluation (weighted sum), the incidence of corruption events (deduction), and the degree of reliability impairment (deduction). It is a comprehensive indicator that shows the degree of integrity and the occurrence of corruption cases evaluated in terms of the public (civil complainants), affiliated agency employees, and policy clients.

Table IV-7. Measurement areas and each category

Measuring area		Indicators
External Integrity	Recognition of Corruption	Special favor for a specific person
		Job treatment according to personal connection
		Abuse of authority and unfair influence
		Job treatment by illegal or improper request
		Transparency in job treatment criteria
		Accountability in job treatment

• IV. Current SOE and QGO management system and its operation

Measuring area		Indicators		
External Integrity	Corruption experience		Money and goods bribery experience rate	
			Entertainment bribery experience	
			Benefits and convenience bribery experience rate	
			Scale of money and goods, entertainment, benefits and convenience bribery experience	
			Frequency of money and goods, entertainment, benefits and convenience bribery experience	
Internal integrity	Probity culture	Organizational culture	Transparency in job treatment	
			Job treatment according to illegal or improper request	
			Job treatment according to cronyism	
			Abuse of authority and unfair influence on job treatment	
			Personal use or improper providing of job related information to other person	
			Routinization of corrupted behavior	
	Corruption prevention rule	Corruption prevention rule	Effectiveness of whistle blower protection	
			Adequacy of punishment on corruption	
			Effectiveness of operation of prohibition on illegal or improper request system	
Internal integrity	Probity of job	Personnel management	Experience	Experience rate of money and goods, entertainment, and benefits and convenience bribery
				Frequency of money and goods, entertainment, and benefits and convenience bribery
				Scale of money and goods, entertainment, and benefits and convenience bribery
		Recognition	Recognition	Providing money and goods, entertainment, benefits and convenience bribery
		Budget implementation	Experience	Experience rate of illegal or improper budget implementation
				Frequency of illegal or improper budget implementation
				Scale of illegal or improper budget implementation
Recognition	Recognition	Illegal or improper budget implementation		

Measuring area			Indicators	
Internal integrity	Probity of job	Fairness in ordering work	Experience	Experience rate of improper ordering of work
			Recognition	Frequency of improper ordering of work improper ordering of work
Policy customer evaluation	Corruption recognition		Budget waste	
			Abuse of authority and unfair influence on job treatment	
			Job treatment according to illegal or improper request	
			Special favor for a specific person	
			Job treatment according to cronyism	
			Policy and information disclosure	
			Improper influence of retired officials	
	Corruption control		Personal use or improper providing of job related information to other person	
			Adequacy of punishment on corruption	
			Effectiveness of whistle blower protection	
	Corruption experience		Efforts in corruption prevention and probity improvement	
Indirect experience of money and goods, entertainment, benefits and convenience bribery				

Public health organizations have been included in SOE and QGO integrity measurement since 2010. They have been measured annually since the development of a specialized public health agency integrity model in 2013. National and public universities have been included in SOE and QGO integrity measurement since 2012, and the integrity of the local council has been measured by a specialized model since 2013.

The integrity measurement model of public medical organizations is composed of three categories of integrity factors: external integrity, internal integrity, and customer evaluation, which is similar to the basic model. However, the measurement items and the detailed items for each integrity category are designed differently from those of general SOEs and QGOs. Different factors reflect the characteristics of public medical organizations, such as excessive charges for medical expenses. In addition, the integrity measurement model of national and public universities is composed of two categories, integrity of contract and integrity of research and administration, and

it is developed as an independent model that reflects the characteristics of public and private universities.

The current SOE and QGO integrity measurement model is divided into a basic model and a specialized model. Its characteristics can be summarized as follows. First, it is designed to function as an indicator for comparing integrity between SOEs and QGOs and as an indicator for accurately diagnosing the level of SOE and QGO integrity. Second, it is designed for systematic corruption diagnosis. In order to overcome the limitations of corruption diagnosis models due to the macroscopic unit of investigation, the new integrity measurement model has modified investigation units according to the types of clients and work. As a result, the model can measure the degree of corruption by major public and private organizations.

Third, in surveying the integrity of SOEs and QGOs, to enhance the objectivity of survey results, survey samples are selected from among the people (civil servants, public officials, policy clients, etc.) who directly experienced the services offered by SOEs and QGOs. Fourth, in surveying integrity, not only the experience of corruption by internal and external customers of SOEs and QGOs, but also the perception of the corruption level is measured. As a result, the objectivity of the survey results is improved compared to the past corruption level awareness survey model. Fifth, the objectivity of the results of integrity measurement was improved by reflecting objective data on actual cases of corruption, such as the status of corruption events, and the subjective perceptions of subjects to be measured when deriving total integrity.

② Targets for integrity measurement

In order to measure the integrity of SOEs and QGOs, the target work to be measured should be selected. However, in internal integrity measurement, all SOEs and QGOs that are subject to the basic model are standardized and the integrity level of personnel management, budget execution, and work or job order in organizations is measured. Therefore, it is not necessary to consider the selection of specialized

work units. However, in external integrity measurement, each work project or task should be selected individually for each organization. In particular, it is important not to measure the external integrity of the entire organization, but rather to select and measure important public and private services that are representative and have a possibility for corruption.

Examples of major types of work subject to external integrity measurement include contracts and management, the support and management of related organizations, inspection, investigation, guidance, enforcement, and licensing. However, for each organization, based on these types of work, specific tasks to be measured are uniquely selected. For SOE and QGO integrity measurement in 2017, a total of 2,795 units were selected for external integrity measurement from a total of 573 organizations.

In this way, since the work or task of measuring external integrity is different for each organization, it is important to note that the results of SOE and QGO integrity measurement are useful for diagnosing vulnerable areas in the organizations, but they may be limited in terms of direct comparisons between agencies.

③ Target people for integrity measurement

In order to measure the integrity of SOEs and QGOs, it is necessary to conduct surveys on the internal and external customers of the organizations concerned. Therefore, based on the integrity measurement model, the persons to be surveyed for integrity measurement are established separately for external integrity, internal integrity, and policy customers. First, the person to be measured in terms of external integrity is a citizen who has worked with the SOE or QGO and/or is the person in charge for the past year in relation to the work being measured.

Second, the person to be measured in terms of internal integrity is an employee who worked for the organizations on 30 June, the measurement date for internal integrity. Third, the person to be measured in terms of policy customer evaluation is an expert who can evaluate the target organization in the measurement year. Experts (newspaper reporters, senior assistants to lawmakers, professors, etc.) and business

stakeholders (interest groups, civil society organizations, NGOs, etc.) are set as the measurement targets for all types of organizations. The metropolitan municipalities to which the specialized models are applied include more targets such as local residents, the city office of education, and the parents of students.

(4) Procedure to measure integrity

What is the procedure for measuring the integrity of SOEs and QGOs? At the beginning of the year, the ACRC establishes a basic plan for measuring the integrity of SOEs and QGOs, which sets the basic direction for measuring integrity and selecting the target organizations. In addition, to implement the measurement successfully, it is necessary to improve the accuracy of the measurement model to enhance the validity of measurement (for example, simplification of survey items with low relevance to corruption, etc.) and to improve the reliability of measurement (rationalization of the calculation of the deduction indicator, strengthening of the verification procedure, etc.). When this procedure is done, the ACRC notifies every SOE and QGO of the implementation plan for the integrity measurement of SOEs and QGOs. The types and scope of the tasks for external integrity measurement are determined and announced in advance through the implementation plan. When a basic framework for measuring the integrity of SOEs and QGOs is established through the preparation procedure of the basic plan and the implementation plan, each organization should submit a list of candidates for integrity measurement and corruption-related data to the ACRC.

After the list of persons to be measured for integrity is submitted from each SOE and QGO, the actual integrity investigation is carried out. The ACRC selects a special investigation agency to conduct the integrity investigation work through open bidding, verifies the list of persons to be measured as submitted from each organization, and hands it over to the specialized investigation agency. Specialized research institutes determine the size of survey samples for SOE and QGO measurement tasks and

conduct surveys for each organization to measure integrity. Finally, once the actual integrity measurement work has been completed through such a series of work, the ACRC analyzes the results of the integrity measurement of SOEs and QGOs every December and announces the results.

(5) Use and feedback of integrity measurement results

The ACRC categorizes the results of the integrity measurement of SOEs and QGOs into total integrity, external integrity, internal integrity, and policy customer evaluations. The results of the integrity measurement and score ratings are disclosed on the website of the ACRC. The results of the integrity measurement of SOEs and QGOs are utilized for feedback, which is given to SOEs and QGOs, the ACRC, and the management bodies of the SOEs and QGOs as follows. First, the results of the integrity measurement of SOEs and QGOs are used as basic information for the establishment and implementation of autonomous anti-corruption strategies in SOEs and QGOs. Second, the ACRC has established measures and recommendations for the prevention of corruption by public authorities under the Act on the Prevention of Corruption and the Establishment and Management of the Anti-Corruption and Civil Rights Commission. It is used to promote, support, and improve the integrity of SOEs and QGOs by utilizing information on each organization's systems that are vulnerable to corruption through consulting on anti-corruption best practices and improving the integrity measurement model.

Third, the result of integrity measurement is used for the evaluation of SOEs and QGOs by the central government that manages the measured organizations (for example, the Ministry of Education, Ministry of Public Administration and Security, MOEF, etc.). The MOEF, which manages SOEs and QGOs, uses the results of integrity measurement in performance evaluation of SOEs and QGOs. There is no specific indicator that explicitly reflects the results of the integrity measurement at present. However, in the process of evaluating “ethical management”, the results of the integrity measurements are used as reference materials.

3) Anti-corruption policy evaluation

(1) Purpose of anti-corruption policy evaluation

In order to effectively support the enhancement of anti-corruption capacity through the evaluation of SOE and QGO anti-corruption activities, the ACRC developed an evaluation system for the implementation of anti-corruption policies and system improvement achievements for each SOE and QGO. In this respect, integrity measurement and the evaluation of anti-corruption policies complement each other. It is clear that the complementary relationship and role between the two systems can be confirmed through the fact that institutions with more thorough anti-corruption policies have higher scores on institutional integrity.

(2) Scope and type of evaluation for target organizations

Target organizations for corruption prevention policies are selected in the same way as in the integrity measurement system; namely, these are central administrative agencies, local governments, educational self-governing bodies, public-interest-related organizations, public medical institutions, and national and public universities. However, the scope of target organizations for anti-corruption policies is somewhat narrower than that for integrity measurement. Although the central administrative agency and the municipal government are both included in the evaluation target system for corruption prevention policies, in principle only self-governing bodies with a population of 500,000 or more are selected as evaluation target institutions. In addition, only institutions with KRW 300 billion or more in financial scale are selected as evaluation target organizations, and only publicly funded institutions with an enrollment of more than 2,500 students are selected as target organizations for anti-corruption policy evaluation.

(3) Evaluation index system and evaluation method

The ACRC has constructed an evaluation model for anti-corruption policies in the form of an evaluation index system. First, the evaluation model for anti-corruption

policies is divided into three evaluation sections according to the step-by-step process of "plan–execution–performance–diffusion". This involves the establishment of an integrity ecosystem, the elimination of corruption risk, the establishment of an integrity culture, the improvement of integrity, and the development and dissemination of anti-corruption cases. Each evaluation area is developed as a specific evaluation index in the form of a unit task, small index, and advantage index. Anti-corruption policies are evaluated with a total of 100 points. After this, results relating to the external exploitation of corruption cases and nonoperation of anti-corruption policies are considered in the gross points index by assigning predetermined weights to each evaluation area or unit assignment. According to the summation of subtotals, the final score is calculated.

The evaluation of policies for the prevention of corruption in SOEs and QGOs is based on a written evaluation by the external expert team formed by the ACRC and based on the performance report submitted by each SOE and QGO. In order to ensure the objectivity and fairness of these written evaluations, the ACRC has written a very detailed manual on evaluation methods for small indexes in the form of a PART (program assessor rating tool) for each unit task in advance.

(4) Feedback and utilization of evaluation results

The ACRC categorizes the evaluation results of SOE and QGO anti-corruption policies into scores and grades and announces them at the beginning of the year. The results of the evaluation on anti-corruption policies are utilized by the central government agencies that manage each SOE and QGO, the ACRC, and SOEs and QGOs as follows.

First, when the ACRC publishes the evaluation results of the anti-corruption policies, each organization should disclose the results of the policy evaluation for at least one month through the relevant website within 14 days. Through these processes, each SOE and QGO can actively utilize and implement anti-corruption policies as a means to improve the integrity of the institution. Second, the ACRC

provides incentives such as awards to outstanding organizations and persons identified according to the evaluation results on policies to prevent corruption. And the ACRC sponsors activities like developing anti-corruption countermeasure cases and providing information through the homepage of the committee. Third, the MOEF uses the results of anti-corruption policy evaluation as reference materials in the evaluation of SOE and QGO performance.

4) Outcome of the system

Integrity measurement of SOEs and QGOs and the evaluation system of anti-corruption policies are used as important policy tools to prevent corruption in SOEs and QGOs and to effectively regulate corruption. After the ACRC introduced the integrity measurement of SOEs and QGOs and the evaluation system for anti-corruption measures in 2002, the overall integrity level of SOEs and QGOs has been continuously improving.

8. Innovation of the SOE and QGO management

1) Legal basis of management innovation

(1) AMPI

The legal basis for SOE and QGO management innovation can be found in Article 15 of the AMPI. Article 15 of the act (1) stipulates that SOE and QGO management innovation should promote continuous management innovation to improve management efficiency and to improve public service quality. In addition, Article 15 (2) stipulates that the MOEF provide necessary measures such as the establishment of guidelines related to management innovation and the diagnosis of innovation level. Based on this, the MOEF suggests more specific methods for management innovation through the Guidelines on Management Innovation in SOEs and QGOs.

(2) Guidelines on Management Innovation in SOEs and QGOs

The Guidelines on Management Innovation in SOEs and QGOs, established on 8 March 2018, provide directions for innovation in almost all areas of SOE and QGO management. The guidelines suggest some principles and cases for organization and human resources management, budget and personnel operations, innovation support system management, customer satisfaction, public and social responsibility, transparent and ethical management, welfare system reform, and performance disclosure. The main contents are summarized as follows.

① Personnel, budget, salary

It suggests principles such as operating personnel management processes, including appointment, recruitment, promotion, and transfer of employees, fairly and transparently, while establishing and operating a performance management system according to the characteristics of each organization. In relation to budget management, it suggests running a reasonable compensation system based on job value, ability, and performance.

② Outsourcing, contracting

This guideline states that SOEs and QGOs should be transparent and fair in their compliance with the principles of good faith when conducting contract work. When SOEs and QGOs entrust the functions or work of an institution externally, it should be noted that it is necessary to thoroughly examine the performance of the agency to select the trustee and to specify and manage the specific service level so that inconvenience and burden do not occur to the public.

③ Innovation support system

In this guideline, the MOEF is endowed with the authority to establish and implement an innovation promotion plan to support the innovation of SOEs and QGOs. As a result, SOEs and QGOs are expected to establish and implement

innovation goals connected to the mission, vision, and strategy of the organization, along with methods to revitalize innovation activities, programs for operating organizational learning systems to strengthen core competencies, customer-first management, improvement of working methods, and to establish management innovation strategies and plans. In addition, the MOEF is able to implement the management innovation diagnosis, which includes the management status of the organization, the level of public service quality, the capacity and operational status of organization, and the appropriateness of organizational function allocation. Also, the guideline stipulates that the MOEF is able to set up an innovation portal to support innovation in SOEs and QGOs.

④ Publicness and social responsibility

This guideline stipulates that SOEs and QGOs should make efforts to realize social value and improve publicness. Social value includes creating jobs, realizing safe and healthy communities, coexistence and cooperation between conglomerates and small businesses, and revitalizing local economies. Job creation and socially balanced personnel utilization in the job market may lead to the creation of new jobs in various forms of employment, as well as expanding employment opportunities for high-performing persons, disabled persons, women (including women with career interruptions), local talent, high school graduates, and young adults.

⑤ Rationalization of the welfare system

In this guideline, the propriety principle in operating various welfare systems (retirement allowance, educational expenses, childcare expenses, medical expenses, payment of congratulatory expenses, vacation and leave system) is suggested. Specifically, it states the method of adding retirement allowance and the possibility of deduction on double or overlapping calculations. In the case of educational expenses and childcare expenses, the government allowance is based on the public servant allowance in order to prevent overpayment, and the items of repayment and payment

restrictions are specified. The scope and extent of the provision of tributes and incentives are also limited to high-value goods. The regulation of vacations and leaves of absence is also required to be more specific in accordance with the National Public Service Act.

2) Historical overview of the management innovation

From the Kim Dae-Jung administration to the Park Geun-Hye administration, SOE and QGO management innovation was mainly based on new public management theory, and it focused on structural reform including privatization, integration and functional review and reorganization, management structure reform, and performance evaluation system reform. The following is a summary of SOE and QGO reform policies under each administration.

(1) Kim Dae-Jung administration (1998–2002)

The Kim Dae-Jung administration's SOE and QGO management innovation focused on enhancing management efficiency by introducing market mechanisms. To fulfill efficiency, privatization and contracting out were introduced as market mechanisms, similar or duplicated functions between SOEs and QGOs were integrated, and some sub companies of SOEs and QGOs were merged in terms of structural reform. To reform the governance structure, the following were introduced: the board of director system reform, the CEO performance evaluation system, research institute governance structure reforms, and examination and evaluation of management innovation in SOEs, QGOs, and affiliated institutions. In relation to the management system, the reduction of SOE and QGO personnel, the introduction of an annual salary system and contract system, the introduction of a customer charter system, and the introduction of a management information disclosure system were promoted.

(2) Roh Moo-Hyun administration (2003–2007)

The Roh Moo-Hyun administration's SOE and QGO management innovation can be summarized as strengthening the accountable management of SOEs and QGOs and promoting innovation in working methods. In the case of the promotion of privatization, the fields recognized as essential public service industries, such as the network industry, stopped promoting privatization. In order to innovate the corporate governance structure and performance evaluation system, the government enacted and enforced the Framework Act on the Management of Government-Affiliated Institutions. Based on the law, performance evaluation of government-affiliated institutions, performance evaluation of CEO based on contract agreement, and evaluation of standing auditor were introduced. In addition, ALIO was established to introduce the public disclosure system, which emphasized ethical management and socially accountable management.

(3) Lee Myung-Bak administration (2008–2012)

The management innovation of SOEs and QGOs under the Lee Myung-Bak administration was based on the introduction of market-oriented measures pursuing “small government, big market” and the enhancement of management efficiency. Under this policy, the privatization of financial public companies and subsidiaries of SOEs and QGOs was carried out, but only some privatization of subsidiaries succeeded. Specific examples are the integration of the Korea Land Corporation and the Housing Corporation and the promotion of a collective of four major insurance policies. In terms of governance, an integrated performance evaluation of SOEs and QGOs and an evaluation system based on an autonomous management plan were implemented. The improvement of the management system promoted the sale of assets, securing financial soundness by reducing labor costs, introducing an annual salary system for executives, strengthening social responsibilities such as joint growth, and adopting international accounting standards.

(4) Park Geun-Hye administration (2013–2017)

The basis of the management innovation of SOEs and QGOs under the Park Geun-Hye administration focused on debt reduction and reckless management in improving management efficiency. During this period, work coordination and institutional integration were practiced through functional analysis processes in areas such as SOC, agriculture, forestry and fisheries, culture and arts, and energy and environment. In performance evaluation system reform, improvements were made to performance evaluations of CEO, adjustment of the standing audit evaluation cycle, and the implementation of non-classified public organization performance evaluations. In the field of management system reform, reforms of the welfare system for the normalization of business management, debt reduction of SOEs and QGOs, the introduction of an NCS (National Competency Standards)-based recruitment system, the introduction of a performance annual salary system for general employees, and a preliminary feasibility system were promoted.

3) Current direction of management innovation

(1) Direction of SOE and QGO innovation

The Moon Jae-In administration suggests the basic direction of SOE and QGO innovation as “restoring publicness” and “strengthening social responsibility”. The following is a summary of the direction of SOE and QGO innovation proposed by the government. First, publicness is strengthened. In order to enhance public service and enhance the quality of service, service and organizational operation innovation will be promoted. Second, the transition of the economic paradigm is essential. This includes a focus on the capacity of SOEs and QGOs to achieve income-driven economic growth, innovation growth, and fair economy, which should also be spread to the private sector. The third factor is the restoration of public confidence. The government will eradicate corruption in SOEs and QGOs and expand public participation to realize clean and transparent SOEs and QGOs.

(2) Major issues in SOE and QGO innovation

The Moon Jae-In administration is formulating major tasks based on the three basic directions of SOEs and QGOs innovation. A brief summary is shown in the following table.

Table IV-8. The Moon Jae-In administration's three main directions for SOE and QGO innovation

	Strengthening publicness	Leading the economic paradigm shift	Restoration of public trust
Tasks	Improving the publicness of institution's unique tasks Innovation in public services for people and organizational management	Leading an income-driven, job-centered economy Supporting innovation-based economic growth Building a fair economy	Strengthening ethical management Expanding the participation and cooperation of the people

① Strengthening publicness

A. Task 1: improving the publicness of institution's unique tasks

First, considering the purpose of establishing and strengthening publicness, mid-term and long-term goals and strategies for enhancing public service, improving the quality of life, and promoting national affairs are suggested. Second, the leading principles are the realization of social value through the expansion of investments such as safety, environment, and welfare, strengthening support for vulnerable groups, and procurement innovation considering social values. In particular, the government is also working to spread to the private sector the realization of social values through cooperation and working partners in SOEs and QGOs, NGOs, and social economic enterprises.

B. Task 2: innovation in public services for people and organizational management

In the case of the public service sector, tasks of promoting regular and autonomous organizational and functional reform, such as strengthening the unique functions of SOEs and QGOs and improving the efficiency of noncore businesses, were proposed. Organizational management innovation is the basic task of enhancing productivity by

innovating ways of working and providing service. This includes the implementation of measures for important national tasks (Gukjeongwajae) such as work efficiency improvement and compatibility between work and family life through work innovation, including business process redesign, abolishment of perfunctory working practices, and the establishment of a flexible work system.

② Leading the economic paradigm shift

A. Task 3: leading and income-driven, job-centered economy

In the case of income-driven and job-centered economic frontiers, the first was to continue creating jobs in the public sector and improving the quality of jobs. The core content is to promote job creation in the public sector by exploring new businesses and sharing jobs based on an institution's basic and unique tasks in consideration of changes in economic and social conditions, to promote the transition of temporary employees to regular workers, to improve labor conditions, and to shorten working hours. Through this, the administration aims to let the public sector lead improvements in the quality of labor. Secondly, it provided a plan to actively support private sector job creation and job quality improvement. Specifically, it will support the expansion of private sector employment through business-oriented public investment that has a large effect on job creation and support for job matching between job seekers and partner companies. This includes expanding monitoring and support for job creation and job quality improvement at partner companies employing young people.

B. Task 4: supporting innovation-based economic growth

In the area of innovation-based economic growth, the first goal is to proactively seek out public sector demand and support the creation of private sector demand in order to support the early stage of innovating products on the sales market. Secondly, it is suggested that SOEs and QGOs should reform regulations that hinder innovation, such as improving internal guidelines that require existing achievements and certifications in procurement qualifications. Third, it is suggested that the

information, technology, human resources, funds, and facilities possessed by SOEs and QGOs be open, disclosed, and provided to start-up companies and venture companies to promote infrastructure sharing.

C. Task 5: building a fair economy

In the field of building a fair economy, the first goal is to proactively introduce and use win-win settlement systems and subcontracting protectors in business promotion, the purchase of goods, and the settlement of accounts, as well as to strengthen win-win cooperation with SMEs and social economy companies. Second, eradicating unfair trading practices, such as running subsidiaries and affiliated companies, unfair contracts, unilateral contracts, and unfair trade practices, is suggested. Thirdly, it is suggested that “innovation cities” (Hyukshindosi) should actively contribute to local economy activation, such as job creation and local industrial development, and strengthen consideration and support for employment crisis areas.

③ Restoration of public trust

A. Task 6: strengthening ethical management

Some innovation programs for ethical management of SOEs and QGOs are as described below. First, the programs are designed to strengthen internal auditing functions to eradicate corruption in recruiting and bidding. To achieve the goal, activities such as protecting whistle-blowers and paying incentive rewards are also suggested. Secondly, strengthening prevention, response, and supervision in relation to sexual harassment is emphasized.

B. Task 7: expanding the participation and cooperation of the people

The proposal for the restoration of public trust is to expand the participation and cooperation of the people. The first goal is to expand the participation of the public in all aspects of the management of SOEs and QGOs, such as establishment, execution, inspection, service level diagnosis, and open use of government offices and training

centers for local residents, together with the provision of a program for the people.

4) Current implementation system of management innovation

(1) SOE and QGO innovation target institutions and period

As of 2018, out of 338 SOEs and QGOs, 431 small organizations with fewer than 50 employees and 251 organizations, excluding 44 research institutes, were selected as candidates for innovation plans according to the Guidelines on Management Innovation in SOEs and QGOs.

(2) SOE and QGO innovation tasks

All innovation planning organizations should establish an innovation plan covering the seven major tasks listed above, with the details being developed and established autonomously and creatively by the institution. In order to create visible results through selection and concentration, each institution needs to select and promote the key tasks and reflect the best practices of the key tasks in the innovation evaluation

(3) SOE and QGO innovation plan development methods

The development of the innovation plan of SOEs and QGOs requires that opinions inside and outside of the organization be actively collected and reflected so that the main problems of the institution can be objectively discovered and established in a bottom-up manner. In the process of public consultation and innovation planning to establish the innovation plan, the citizen participation innovation team should be constructed and operated, and the opinions of stakeholders should also be collected through the Internet, on-site meetings, and public hearings.

(4) SOE and QGO innovation plan implementation system

In order to promote SOE and QGO innovation, SOEs and QGOs should designate and operate the innovation responsibility department and innovation

task force in such a way as to unify the distributed organization and to relocate the workforce. In the case of discovering creative and innovative ideas such as the adoption of new technologies, the organization can offer rewards or incentives according to the characteristics of the organization through its own internal performance management. In addition, it will operate an interagency cooperative learning group, activate a network of innovation practitioners in each institution, and induce autonomous problem-solving through collaboration.

(5) SOE and QGO innovation plan implementation monitoring and evaluation

The line ministries of SOEs and QGOs should periodically and continuously monitor the status of implementation of the innovation plans for each institution, and the MOEF is responsible for checking and evaluating the innovation plans and achievements through a performance evaluation. Other public agencies need to be assessed regarding innovation plan achievements, which are linked to the current evaluation indicators by the line ministries.

5) Current management innovation and evaluation of SOEs and QGOs

(1) 2017 organizational innovation index of SOE and QGO performance evaluation implemented in 2018

In the SOE and QGO performance evaluation in 2018, the management innovation of SOEs and QGOs is covered under the "management strategy and social contribution" index in the field of management of organization. Specifically, it is composed of non-quantifiable indicators for "institutional management innovation", which is allocated to three points. The target of this index corresponds to all SOEs and QGOs subject to performance evaluation, such as SOEs, QGOs, and small and medium QGOs. In particular, in the 2018 performance evaluation, the same indicators were applied to the management field for small and medium QGOs.

In the case of small and medium QGOs, 2018 is the first year to apply the business management indicator system.

(2) Institutional management innovation indicators for 2018

Institutional management innovation is a measure of non-quantitative factors, and it is required to evaluate the efforts and performance of the organization for the future and in the medium to long term. Three detailed evaluation criteria are presented. Specifically, it is necessary to prepare future strategies for future changes in the environment that are appropriate to the main business of the organization, to adjust the management of the organization, and to improve its ability to respond to changes in the business environment.

Table IV-9. Management innovation indicators

Category	Institutional management innovation (non-quantitative)
Indicator	Evaluate the efforts and achievements of the organization for the future and medium- and long-term management innovation.
Sub-indicator	<ul style="list-style-type: none"> • Future and environmental change analysis and predictions are used to establish the direction of the response of the institution, and the results are used to adjust the functions of the organization (function and business maintenance) and the future strategy of the organization (new growth engine and new business discovery). • Is there effort and adequate performance to improve the ability to respond to changes in the management environment through appropriate management efficiency of the organization and innovation in business processes (simplification of procedures, etc.)? • Are efforts and achievements to enhance the performance of the organization's original task, such as improving services for the public and easing the burden of the public, sufficient and appropriate?

(3) Evaluation method of institutional innovation in 2018

Institutional management innovation is a measure of non-quantitative indicators and is evaluated according to specific indicators from the SOE and QGO

performance evaluation manual. The scale of the evaluation result is divided into five grades (A to E) based on grade C as the average, and if the performance is better than the average level, additional points are assigned to the grade and vice versa. Ultimately, a nine-grade evaluation is performed.

A large, stylized white letter 'V' logo is positioned in the upper right quadrant of the page. The background is a teal color with a faint grid of dashed lines and a large, curved white arc that sweeps across the middle of the page. A world map is visible at the bottom of the page.

**Performance evaluation
system: Evolution and current
operation**

V

Performance evaluation system: Evolution and current operation

1. Objective of the system

The aim of the performance management system of public agencies is to ensure accountability of public agencies, including SOEs and QGOs, while maintaining their management autonomy. It is also to ensure accountability and responsibility through performance evaluation to reduce unnecessary interference in management. Based on the AMPI, SOEs and QGOs are evaluated annually on their performance according to criteria set up beforehand. Following the outcomes of performance evaluation, the executives and employees of public agencies are given incentives or penalties so that public agencies can effectively perform feedback related to the outcomes of performance evaluations with their management.

The essential roles of the performance management system for public agencies are to ensure autonomy of management and to raise the levels of efficiency and transparency by making public agencies accountable and responsible for their performance. The following are the roles and functions of performance management.

First, the performance management system can establish a clear relationship between the government and public agencies through performance agreements. Based on performance agreements, public agencies can make clear their role and functions so that the government cannot interfere with their work on an arbitrary basis.

Secondly, it encourages creativity and entrepreneurship with public agencies. Creativity and entrepreneurship are the most important internal characteristics of public agencies determining their performance. In order to encourage creativity

and entrepreneurship it is essential to give autonomy of management to public agencies, including SOEs and QGOs. Following such a rationale, the performance management system is intended to give autonomy *ex ante* to public agencies and hold them accountable for outcomes *ex post* so that public agencies can improve their performance and produce outcomes contributing to the national economy.

Thirdly, it provides CEOs of public agencies with motivation to improve performance through evaluation and feedback. The performance management system can also encourage members of organizations to achieve their performance targets.

Fourthly, it prevents moral hazard and principal–agent problems in public agencies by setting up performance targets beforehand and providing incentives according to the outcomes of performance evaluations afterwards.

Fifthly, it brings about competition among public agencies, with which they would otherwise not be faced. Public agencies are not exposed to market competition or internal competition because of the monopolistic nature of their work. The performance management system introduces various institutional features that bring competition to public agencies. Such competition could enhance creativity and entrepreneurship in public agencies.

Sixthly, it constitutes a vital component of the management cycle in the form of feedback and encourages improvement in public agency performance. During the process of performance evaluation, one can identify critical issues of management, which will be addressed later. Public agencies can also learn from the best practices of other public agencies. Executives of public agencies can improve their management by identifying weaknesses as well as strengths and will then incorporate them in setting up future targets for their organizations.

Last, the performance management system enhances transparency in public agencies. The results of the performance evaluation are reported to the National Assembly and the general public through the media.

2. Institutionalization

1) Summary of institutionalization

The present system of performance management originated from the introduction of performance evaluation in public agencies funded by the government in 1984, which aimed to enhance their management autonomy and accountability based on the FAMGAI. As the FAMGAI under the government was introduced in 2003, a new performance management system was introduced to cover public agencies under the government in 2004. The new system largely followed the previous system, but also introduced new features such as evaluation commission. It is also worth noting that a separate performance agreement system was introduced in 2000 to evaluate CEO performance in public agencies under the government. It aimed to improve corporate governance in public agencies.

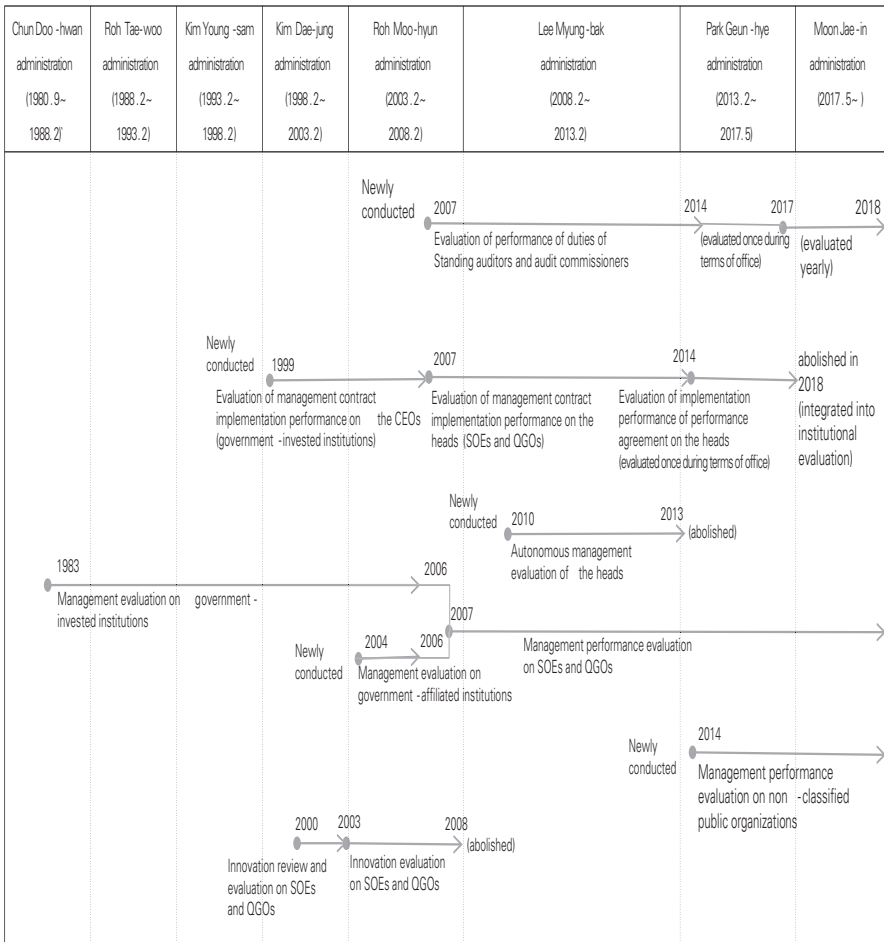
In April 2007, two different systems for the performance evaluation of public agencies were integrated into the performance management system of public agencies based on the AMPI. Through the introduction of the law, the evaluation systems for SOEs, which provide services to the public on a commercial basis, and QGOs, which perform various public functions, were integrated into one system. From 2008, criteria for evaluations and the method of evaluation were set up and implemented under the new system. From 2009, evaluations of the CEOs of public agencies were carried out separately, which continued until 2011.

Criticisms arose on the Malcom Baldrige model, which provided a rationale for evaluation by encouraging formalism and emphasizing process rather than results. In order to overcome such shortcomings, the guidelines for evaluation were completely revised in 2010, which were then used for evaluation in 2011. At this point in time, evaluations of CEOs, which were conducted separately, were integrated into the evaluation system of organization as a core component. However, the evaluations of CEOs were separated from the system again as the Park Geun-Hye government decided to evaluate CEOs only once during their three-year tenure. Accordingly,

evaluations of the auditors monitoring each public agency were carried out once during their two-year tenure.

The Park government also introduced normalization measures for public agencies on 11 December 2013, and the Ownership Steering Committee decided that “other public agencies”, which had not been included in the performance management system, should be evaluated. Due to this change, every public agency including SOEs, QGOs and other public agencies were expected to be evaluated from 2015.

Figure V-1. Transition process of performance evaluation system for SOEs and QGOs



In 2016, the government reduced the number of employees from under 500 to under 300 for small- and medium-sized enterprises as the classification criteria. However, enterprises belonging to the fund-management-type QGOs employing fewer than 300 persons, with assets less than KRW 1 trillion, are still classified as small- and medium-sized institutions. In addition, the incentive methods were diversified to pay only a 50% bonus depending on the overall grade and a 25% performance bonus according to the evaluation category and major business categories. For the evaluation of performance in 2017, both the relative evaluation and the absolute evaluation were carried out at the time of calculating the overall grade and by category.

The Moon Jae-in government, inaugurated in May 2017, launched a major reorganization of the performance evaluation system for SOEs and QGOs. First of all, the institutional evaluation was restructured to emphasize the dimensions of social value. Performance evaluation of CEO was reintegrated into the framework of the institutional performance evaluation indicator, which was previously only done once per term under the Park Geun-Hye government. On the other hand, the performance evaluation of the standing auditor and members of the audit committee, which was previously conducted once during the term of office, is set to be done every year, with a grading system of six grades rather than that of three grades. The outcome of the performance evaluation of standing auditors will be taken into consideration for their performance-related pay.

In particular, the government decided to divide the Evaluation Commission of SOEs and QGOs into two separate evaluation commissions: the Evaluation Commission of SOEs and the Evaluation Commission of QGOs. The previous system was established in 2008 after the revision of the law in 2007. Historically, the performance evaluation systems for SOEs and QGOs have been independently developed. However, in accordance with the AMPI, which was enacted in April 2007, it was integrated into one performance evaluation system. The evaluation model, evaluation standard, and evaluation method were integrated and unified, and

the composition and operation of the Evaluation Commission of SOEs and QGOs were integrated. Through these processes, performance evaluations of SOEs and QGOs which had been independently conducted were integrated into one SOE and QGO performance evaluation system, thereby creating positive improvements in terms of increasing competitiveness and improving evaluation efficiency. However, there is a fundamental difference between SOEs and QGOs in terms of the purpose of establishment, characteristics of the target business, and government relations. Nevertheless, the standardization of the evaluation index, evaluation standard, and evaluation method for SOEs and QGOs has caused structural problems in terms of fairness and equality of evaluation and securing objectivity. For example, the performance evaluation system, which is commonly applied to SOEs and QGOs, caused complaints that the burden of evaluation for QGOs increased and that fair competition became difficult. As a result, an evaluation method that could be applied only for small and medium institutions based on the number of personnel was specifically devised. In consequence, the effectiveness of performance evaluation was weakened by these special treatments for QGOs. It also resulted in a substantial erosion of competition. To solve these problems, the integrated evaluation commission system was dismantled in a one-step measure, and performance evaluation was carried out by two separate Evaluation Commissions of SOE and QGOs.

Through the process of institutionalization as described above, Korea's performance evaluation system for SOEs has been successful as a key device of SOE and QGO governance structure for establishing autonomous accountable management over the past 30 years and improving the performance of SOEs. In addition, it is recognized internationally as a good example of a performance evaluation system for SOEs. One of the driving forces to create such success stories is the continued evolution and development of the performance evaluation system based on flexibility and openness.

2) Institutionalization process

The original model of the SOE performance evaluation system, which is currently operating in Korea, was the performance evaluation system for government-invested institutions introduced in December 1983. Before that, there was a management regulation system based on the legal regulations for examination analysis, evaluation, and management analysis according to the Act on the Management of Government Investment enacted in February 1973.

In Korea, the performance evaluation system of SOEs was introduced for the first time in 1968, and the evaluation system remained intact until the introduction of the Act on the Management of Government Investment in 1973. However, until 1976, it was not very effective since the agencies responsible for evaluation were the ministries in charge of SOEs. Since 1977, the Economic Planning Board has been responsible for the performance evaluation system. However, at that time, the performance evaluation system was not effective because the government ministries strongly controlled SOEs. In particular, the management autonomy of SOEs as a prerequisite for the performance evaluation system was not established, and the system for providing incentives through the differential payment of bonuses was not introduced. In 1983, the FAMGII was enacted, and instead of direct government control over SOEs, the autonomous management of SOEs was guaranteed based on an ex post performance evaluation system (Oh, Yeon Cheon et al, 2003a: 30–31). The process of institutionalization of the performance evaluation is as follows. (Jang Ji In et al. 2013: 73–103).

(1) The Act on the Management of Government-Invested Institutions

The performance evaluation system of government-invested institutions was first introduced in Korea in 1968, but the legal foundation was established through the AMGII established in 1973 (enacted as law no. 2477 on 6 February 1973). It first established the legal basis for the performance evaluation of government-invested

institutions. At the time, the act stipulated the basic rules concerning operation and management of the evaluation.

For instance, it specified the purpose of the legislation, which was to establish management standards for each government-invested institution for sound future growth and rational management. The main contents of this law are as follows: the establishment and operation of the government investment management committee, the qualification, term, and appointment procedure for officers, the integration of external audits to government investment corporations, compulsory analysis, and unified management standards for product management. However, the terms “management analysis” and “audit analysis and evaluation” were used instead of “performance evaluation” in the law on government-invested institutions. Assessment analysis and evaluation were therefore first performed by the SOEs themselves, and self-evaluation was reported to the responsible ministries. In addition, the management analysis and audit analysis were conducted separately. The management analysis was reported to the Minister of the MOEF at that time. In short, the performance evaluation of SOEs was conducted in a fragmented manner.

In this way, the performance evaluation system prior to the establishment of the FAMGII in 1983 was subject to the concerned regulation of the AMGII and the General Rules for the Budget of Government-Invested Institutions as well. Quarterly financial report were provided and business analysis was conducted according to the AMGII and performance analysis and evaluation of government-invested institutions were conducted by the government according to the General Rules. Under the performance evaluation system at that time, the responsible ministries set management targets for government-invested institutions and they would submit the business performance report to the ministries. However, the management goal at that time was merely a budget figure, not only because it was difficult to measure the management improvement effect against the previous performance, but also because it did not give proper compensation according to the performance evaluation result.

Since the performance evaluation system was not effective in this way, the

introduction of an incentive system was explored at the beginning of 1972, mainly by the Economic Planning Board. As a result, an incentive system based on commissioned research by the Institute of Business Administration at Korea University was introduced from 1973, which was in place until 1982. The system retained its basic framework. The only new clause introduced was that the Economic Planning Board took overall responsibility for the evaluation system since 1977. The main contents of the performance evaluation system for government-invested institutions that has been applied since 1977 are as follows (Economic Planning Board, 1988: 191).

First, the performance evaluation is carried out twice, once in the first half and again in the second half of the year. Secondly, the performance evaluation index divides the main tasks into nine categories such as profitability, production and sales, cost reduction, improvement of financial structure, and personnel management, and these categories are quantified through four to 13 indicators for each SOE. After determining the standard value based on past performance, a score range for the four grades is decided based on the standard values of the indicators. The performance evaluation index for each SOE is decided by the Economic Planning Board in consultation with the responsible ministries. The Economic Planning Board evaluates the performance results twice a year.

Third, the total scores on the indicators are evaluated and then graded to up to four scales, and 50–200% of the monthly salary is given as performance-related pay per year. This incentive system was aimed at promoting the management efficiency of SOEs by providing financial incentives within the range of 200% of the monthly salary according to the performance of each SOE. However, at this time, the performance evaluation system was only formally implemented because management autonomy as a prerequisite for the evaluation system was hardly given to SOEs. In addition, according to the results of the performance evaluation, it was required to pay a differential bonus within the range of 200%. However, in reality, almost all SOEs were paid 200% incentive bonus and thus they became a part of

the normal salary. In consequence, the performance evaluation system was not able to achieve its aims. In order to solve these problems, the government introduced a new performance evaluation system that would secure self-management and an accountable management system under the FAMGII, established in 1983–1984.

3) Legislative efforts

In 1983, the Act on the Budget and Accounts of Government-Invested Institutions and the management of government-invested institutions were abolished, and the FAMGII was introduced in order to establish a system of autonomous self-management for SOEs. This law remains as the basis of the management and performance evaluation of SOEs in Korea. The law aims to establish SOEs with management autonomy and responsibility and set the performance evaluation system as a policy instrument to ensure responsibility in SOEs. The system was intended to replace *ex ante* control with *ex post* evaluation.

The new system, introduced in March 1984 following the FAMGII, was intended to enable SOEs to respond quickly and relevantly to a fast-changing world in order to serve the needs of the national economy (Economic Planning Board, 1988: 198). In other words, the government only sets major management targets and gives SOEs freedom and flexibility for their management, while the performance of SOEs would be evaluated afterwards. The FAMGII clearly states the principle of management autonomy (clause 2) and gives the CEO the power to appoint officers and to set the budget (clause 15 and 22) and the right to make contracts for procurement (clause 27) and limit mandatory external audits (clause 28 and 29).

The FAMGII specifies details about reporting on performance results (clause 6) and performance management (clause 7). Based on these clauses, the CEOs of SOEs should submit an annual performance report to the responsible ministries and the Minister of the Economic Planning Board by 20 March each year. Based on the report, the Minister of the Planning Board evaluates the performance of SOEs. He

or she then reports the outcome of the performance evaluation to the president by 20 June each year. The Minister of the Planning Board can also demand the dismissal of the CEOs of SOEs if it is concluded that such action is necessary. The responsible ministries are obliged to do so according to the law.

The FAMGII also specifies rules for the Evaluation Committee for Government-Invested Institutions, which is a deliberative body for public policy decisions related to SOEs. The committee reviews various issues such as methods of performance evaluation and the level of bonus payment related to evaluation outcomes. It also deliberates on decisions such as the dismissal of CEOs whose SOEs performed badly.

The FAMGII has been revised several times since its introduction in March 1984, and the provision on the governance of SOEs was wholly revised in February 1999. The revision brought a new rule for appointing CEOs through an appointment committee instead of direct appointment by the line ministers. It was intended to increase the space for autonomous management of SOEs. The revision also introduced civil responsibility for the board members of SOEs in order to ensure accountable and careful management following their enhanced management autonomy. Annual reports from the management were also required by the revision in order to increase public accountability of SOEs (Oh, Yeon Cheon et al, 2003a: 58–61).

Following the revision of the basic law, the management committees of SOEs were introduced, and the committees were set to review the appointment of nonexecutive audits. The members of the committees were appointed by the line ministries, and nonexecutive members were appointed by the Minister of Planning and Budget. Through this revision of the basic law, the performance contract of CEOs was also brought into practice and consequently so was the performance evaluation of CEOs. The performance evaluation was required to be reported to the National Assembly.

In short, the basic law provided a legal basis for the performance evaluation system until 19 January 2007 when a new AMPI was enacted.

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

The performance evaluation system for QGOs was first introduced on 31 December 2003 by the Framework Act on the Management of Government-Affiliated Institutions (FAMGAI) and has been implemented since 1 April 2004. With the enactment of the FAMGAI, the government intended to evaluate the performance of government-affiliated agencies and to introduce the necessary institutional basis so that government-affiliated institutions can raise efficiency with accountable and autonomous management. The first clause of the basic law stipulated the basic rules and guidelines so that QGOs have an autonomous and accountable management system.

It is worth noting that the FAMGAI had similar rules with those under the performance evaluation system for government-invested institutions. Let us take a look at the institutional features of the performance evaluation system of QGOs such as the management board, self-evaluation reporting, evaluation methods, and criteria for evaluations. There were also detailed rules on making the evaluation results public through feedback channels (Yoon Tae-beom et al, 2010: 25–28).

First, according to the FAMGAI, a steering committee for the management of QGOs should be instituted under the Ministry of Planning and Budget.

Secondly, there were various rules on the goals of agencies, planning, and operation and coordination, which would have direct impacts on the outcome of any performance evaluation. According to the clause 9 of the basic law, QGOs should set management targets and operation plans each year and submit them to the responsible ministries. The responsible ministries could then review the plans and ask the agencies to revise them accordingly.

Thirdly, clause 10 requires the CEOs of QGOs to prepare a self-evaluation report together with an annual financial report and submit them to the line ministries by the end of March in the following year. Clause 11 stipulates regulations for the performance evaluation committee, evaluation methods, and public access to evaluation outcomes. It gives power to the responsible ministries to take necessary

actions including the dismissal of personnel and the provision of evaluation-related bonuses. The steering committee monitors the actions of the responsible ministries to ascertain whether they are appropriate. Meanwhile, clause 9 of the implementation decree for the basic law specifies details on the procedures and criteria of performance evaluation. Since a single system of performance criteria could cause problems due to the diversity of work performed by QGOs, the decree allows certain factors to reflect specific characteristics of different agencies in the performance evaluation system, such as criteria for evaluation and how to compose evaluation committees. In particular, the responsible ministries could put a number of QGOs into one group if they conduct similar work, upon consultation with other line ministries.

Fourthly, according to the basic law, QGOs should be audited by external auditors headed by a certified public account (or accounting firm) if this is found necessary according to the performance evaluation, in addition to other measures in terms of personnel and budget.

However, for agencies that perform tasks involving national security, by consulting with the Minister of Planning and Budget the line ministries can exempt them from external audit.

The FAMGAI was abolished on 19 January 2007 along with the FAMGII, which provided the legal basis for the performance evaluation of government-affiliated institution.

(2) Act on the Management of Public Institutions

With the introduction of the AMPI, the governance structure of SOEs and QGOs was reformed, and the separate systems of performance evaluation for government-invested institutions and government-affiliated institutions were integrated into one system. With these changes, CEOs of QGOs were set to be evaluated as were those of government-invested institutions. Nonexecutive board members and auditors were also set to be evaluated.

The aim was to establish an overall performance evaluation system for SOEs and QGOs. The AMPI clearly states such an aim in clause 1. “This law aims to enhance the quality of services for citizens by ensuring autonomy and responsibility in the management of SOEs by stipulating the detailed measures necessary”. Clause 3 states that “the government should give autonomy to SOEs in order to establish a system of autonomous management”. With these basic principles, the law integrated the previously separated performance evaluation systems and reformed the governance structure of SOEs (Sunwoo Sukho and Kwack Chaegi, 2006: 9–11).

First, the Ownership Steering Committee for SOE and QGO management was set to be established under the purview of the MOEF in order to review policies about the management of SOEs. It integrated two previous committees for government-invested institutions and government-affiliated institutions. The Ownership Steering Committee has a mandate to deliberate and decide policy on the performance evaluation of SOEs and QGOs and to set the policy framework for the evaluation committees together with evaluations of standing auditors of SOEs.

Secondly, the law specifies the basic framework for management contracts, which should be a baseline for the performance evaluation of CEOs. When the responsible ministers appoint CEOs, they should sign management contracts that specify goals, targets, and related incentive bonuses. In the case of SOEs, the responsible ministers should consult the MOEF beforehand. CEOs, in turn, should make performance contracts with the executive board members of their organizations. CEOs can dismiss those executive board members if their performance is below a certain level.

Thirdly, the law also requires SOEs to prepare a five-year mid-term management plan every year considering the business environment and the CEO’s business plan. Such mid-term management plans should be approved by the board of the organizations before it is submitted to the line ministries and the MOEF by 31 October each year. The Minister of Strategy and Finance can ask the chief executives to revise the mid-term management plan according to government economic policy and the changing economic environment.

Fourthly, clause 47 of the law requires state-owned enterprises to submit a self-evaluation report on the performance of the past year and the chief executive performance in relation to his or her performance contract by 20 March every year in order to evaluate the performance of SOEs and QGOs. Clause 48 gives a mandate to the MOEF to take necessary measures for evaluating the performance of SOEs and QGOs. These include procedures for performance evaluation, penalties for false information, evaluation criteria, and evaluation committee (see the next Clause 47 explained below).

- Article 47 (Report on Management Performance, etc.)** (1) A public corporation and quasi-governmental institution shall prepare a report describing the management performance for the preceding year (hereinafter referred to as "management performance report") and a report on performance of the agreement executed by the institution head in accordance with Article 31 (3) and (4), and shall submit them to the Minister of Strategy and Finance and the head of the competent agency by no later than March 20 each year. <Amended by Act No. 8852, Feb. 29, 2008>
- (2) Paragraph (1) shall not be applicable to the year in which the institution is designated as a public corporation or quasi-governmental institution pursuant to Article 6 (excluding cases where such designation is changed).
- (3) The management performance report shall be accompanied by the statements on the settlement of accounts prepared according to Article 43 (1).<Amended by Act No. 9829, Dec. 29, 2009>

Article 48 (Evaluation of Management Performance) (1) The Minister of Strategy and Finance shall evaluate the management performance of a public corporation or quasi-governmental institution based on the report on the performance of the agreement executed pursuant to Article 31 (3) and (4), the management goals established under Article 46, and the management performance report: Provided, That such management performance shall not be evaluated in the year when the

institution is designated as a public corporation or quasi-governmental institution pursuant to Article 6 (excluding cases where such designation is changed).

<Amended by Act No. 8852, Feb. 29, 2008>

(2) In evaluating the management performance of a public corporation or quasi-governmental institution pursuant to the main sentence of paragraph (1), the Minister of Strategy and Finance shall utilize the results of the evaluation already made for the institutions subject to the evaluation of fund management pursuant to Article 82 of the National Finance Act and the institutions subject to the evaluation pursuant to Article 32 (3) of the Framework Act on Science and Technology.<Amended by Act No. 8852, Feb. 29, 2008; Act No. 12673,

May 28, 2014>

(3) The Minister of Strategy and Finance may request a public corporation or quasi-governmental institution to submit relevant data if necessary for the evaluation of management performance under paragraph (1).<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9277, Dec. 31, 2008>

(4) Where a public corporation or quasi-government institution fails to present a report on the performance of an agreement executed pursuant to Article 31 (3) and (4), a management performance report, and accompanying documents, or prepares and presents a false report thereon, the Minister of Strategy and Finance shall modify the results of evaluation of management performance and the performance-based payment through deliberation and resolution by the Steering Committee, and take measures, such as caution and warning, against the institution concerned, or request the head of the competent agency or institution head to take personnel actions against relevant persons. In such cases, if an auditor or an audit commissioner of the audit committee fails or neglects to perform its relevant duties, the Minister of Strategy and Finance may dismiss the auditor or audit commissioner of the audit committee concerned through deliberation and resolution by the Steering Committee or propose to his/her appointing authority to dismiss such auditor or audit commissioner.<Newly

Inserted by Act No. 9277, Dec. 31, 2008>

(5) Criteria and methods for the evaluation of management performance under paragraph (1) shall be prescribed by the Minister of Strategy and Finance through deliberation and resolution by the Steering Committee, in such a manner that the following matters shall be included in the evaluation of a public corporation or quasi-governmental institution:<Amended by Act No. 14076, Mar. 22, 2016>

1. The rationality and achievement level of management goals;
2. The public nature and efficiency of major projects;
3. The adequacy of organizational and personnel management, including types of employment of employees;
4. Soundness in financial management and budget-saving efforts, including the implementation of the mid- and long-term financial management plan formulated under Article 39-2;
5. Results of the customer satisfaction survey conducted under Article 13 (2);
6. Operation of a rational performance-based payment system;
7. Other matters related to the management of the public corporation or quasi-governmental institution.

The Minister of the MOEF shall organize an Evaluation Commission of SOEs and QGOs for SOEs and QGOs (hereinafter referred to as the Evaluation Commission of SOEs and QGOs) in order to obtain professional and technical research or consultation on the efficient implementation of performance evaluations. New establishment 25 March 2009.

The Minister of the MOEF will review the performance of SOEs and semi-governmental agencies by 20 June every year after deliberation and resolution by the steering committee and report the results to the National Assembly and the president. Amended on 29 February 2008, 31 December 2008, 25 March 2009.

The Minister of the MOEF can demand that responsible officers dismiss CEOs

and executive board members after consulting the Ownership Steering Committee, referring to Article 26, when the evaluation outcome undertaken according to Article 7 is found below a certain level for the respective SOEs or QGOs. Amended on 31 December 2008 and 25 March 2009.

The Minister of the MOEF shall demand that SOEs and QGOs take necessary measures in terms of personnel and budget after consultation with the steering committee if they are found in failure of management due to excessive personnel expenses and violation of the management guidelines pursuant to Article 50 (1) as a result of the performance evaluation pursuant to paragraph (1). Amended on 31 December 2008 and 25 March 2009.

Measures necessary for performance evaluation procedures pursuant to paragraph (1), measures according to performance evaluation results, and the composition and operation of the Evaluation Commission of SOEs and QGOs shall be determined by presidential executive decree. Amended on 31 December 2008, 25 March 2009.

Article 27 (Management Performance Evaluation) (1) The Minister of Strategy and Finance may commission the management performance evaluation of public corporations and quasi-governmental institutions to a specialized institution, after resolution by the Steering Committee, if deemed necessary. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(2) The Minister of Strategy and Finance shall prepare a manual for the management performance evaluation before the beginning of each fiscal year, taking into consideration the criteria and method for the management performance evaluation as well as the corrective measures, etc. according to the evaluation results, pursuant to Article 48 of the Act: Provided, That with respect to a public corporation or a quasi-governmental institution newly designated pursuant to Article 6 of the Act, the manual for the management performance evaluation shall be prepared within four months after such designation.<Amended by Presidential Decree No. 20720, Feb. 29, 2008;

Presidential Decree No. 23024, Jul. 14, 2011>

- (3) The Minister of Strategy and Finance may, after deliberation and resolution by the Steering Committee, take follow-up measures, such as making suggestions or demands concerning personnel or budgetary actions, or deciding on the piece rate. <Newly Inserted by Presidential Decree No. 23024, Jul. 14, 2011>

Article 28 (Organization and Operation of Management Evaluation Team for Public Corporations and Quasi-Governmental Institutions) (1) The Minister

of Strategy and Finance may occasionally organize and operate the management evaluation team for public corporations and quasi-governmental institutions (hereinafter referred to as "management evaluation team") pursuant to Article 48 (6) of the Act with the persons commissioned, from among the following persons: <Amended by Presidential Decree No. 20720, Feb. 29, 2008; Presidential Decree No. 23024, Jul. 14, 2011>

1. A professor of a college or a university who has expertise in operation and business administration of public institutions;
 2. A person working for a government-funded research institute with a doctor's degree or deemed to have an equivalent qualification;
 3. A certified public accountant, a lawyer, or a specialist in management consulting with an experience of practice for at least five years;
 4. A person recognized otherwise as having good expertise and experience in operation and business administration of public institutions.
- (2) The expenses required for the management evaluation team's performance of duties may be reimbursed within the limit of the budget.
 - (3) The management evaluation team shall be deemed to be dissolved when the missions assigned are completed.
 - (4) Matters necessary for the organization and operation of the management evaluation team in addition to the matters prescribed by this Decree shall be prescribed by the Minister of Strategy and Finance after resolution by the

Steering Committee.<Amended by Presidential Decree No. 20720, Feb. 29, 2008; Presidential Decree No. 22088, Mar. 26, 2010>

There are certain characteristics mentioned in the laws and executive decrees regarding the performance evaluation of SOEs and QGOs (Jang Ji In et al, 2013: 101–102).

- ① There are new rules for imposing sanctions on the creation of false business performance reports and excessive bonus payments based on them that were not clearly defined in the previous FAMGII and FAMGAI. In the new law, sanctions and penalties are introduced in terms of personnel and budgetary measures. According to the amendment of 31 December 2008, the MOEF is obliged to take necessary sanctions if SOEs file reports containing false information or fail to attach any necessary documents. Such sanctions include the revision of outcomes on performance evaluation, measures for personnel, and resetting related bonus payments.
- ② The MOEF was made solely responsible for performance evaluation and the Evaluation Commission of SOEs and QGOs. In the previous laws and acts, each line ministry was responsible for performance evaluations of the SOEs and QGOs under their control. In the new system, the MOEF takes sole responsibility in order to integrate the system. In particular, details on the establishment of the performance management team were specified in the law instead of executive decrees. Because of these changes, the line ministries are no longer mandated to establish an Evaluation Commission of SOEs and QGOs and make decisions on evaluative criteria.
- ③ The scope of measures for personnel and budget in relation to performance evaluation was extended in order to enhance the responsibility of SOEs. Through the amendment of 31 December 2008, the Minister of Strategy and Finance shall demand that SOEs and QGOs take necessary measures in terms of personnel and budget after consulting the steering committee if they are found in failure of management due to excessive personnel expenses and violation of the management guidelines. Further to the amendment of executive decrees on 14 July

2011, a legal basis was introduced for the MOEF to request measures on personnel and budget based on the outcomes of performance evaluation after consulting the steering committee.

- ④ In the previous system of performance evaluation, the guidelines should include criteria and methods of evaluation upon the review and decision of the Ownership Steering Committee. In contrast, following the amendment of executive decrees on 14 July 2011, the outcomes of an evaluation and measures taken afterwards should be taken into consideration in the guidelines for performance evaluation. It was intended to have more feedback from the previous performance evaluation reflected in the work of the following year.
- ⑤ In the new system, non-standing auditors and nonexecutive board members were also made subject to performance evaluation. The new change was made as part of efforts to improve the governance structure of SOEs. The Minister of MOEF can evaluate the performance of nonexecutive board members and members of audit committees if necessary and can demand that relevant officers dismiss them if their work is found unacceptable.

3. Evolution of the system

1) Steering bodies

(1) Structure of deliberative bodies

Overall, the role of the deliberative institute, which reviewed issues and made decisions in relation to SOEs, was outlined by the performance evaluation committee for government-invested institutions before 1999 and the steering committee for government-invested institutions between 1999 and 2007.

First, the performance evaluation committee for government-invested institutions existed as a deliberative committee for SOEs between 1984 and 1998. When it was first established, it was comprised of the Minister of the Economic Planning Board,

the Minister of the Ministry of Finance, other relevant ministers who were in charge of some SOEs, and expert members from universities and private think-tanks with relevant expertise. Their tenure of membership was set for two years. Until 1994, the Minister of the Economic Planning Board was chairperson and the Minister of the Ministry of Finance was vice chairperson.

Secondly, the performance evaluation committee for government-invested institutions was changed to the steering committee for government-invested institutions on 5 February 1999. The Minister of Strategy and Budget was designated as chairperson and the Vice Minister of Finance became the vice chairperson, while the vice ministers of the line ministries were made ex officio members. The Minister of Strategy and Budget recommended other private members with relevant knowledge and experience to the president. Their tenure was increased to three years from two years in order to strengthen the expertise and independence of the committee.

Table V-1. Constitution of the performance evaluation deliberative bodies

Classification		Period	Full-time member	Part-time (private sector) member
Government-invested institution	Government-invested institution performance evaluation committee (1984–1998)	1984–1993	the Minister of the Economic Planning Board (chairman of the committee) the Minister of Finance (vice chairman) Nine members including the Minister of Culture and Education, Minister of Construction, Minister of Labor	Five people
Government-invested institution	Government-invested institution performance evaluation committee (1984–1998)	1994–1997	the Minister of the MOEF (chairman) Five members including the Minister of Culture and Sports, Minister of Agriculture, Minister of Communication, Minister of Construction and Transportation	Three to five people
		1998	Minister of Planning and Budget (chairman), Minister of the Ministry of Finance (vice chairman), six members including the Minister of Culture and Sports, Minister of Agriculture, Minister of Information and Communication, Minister of Trade, Industry and Energy	Three to five people

Classification		Period	Full-time member	Part-time (private sector) member
Government-invested institution	Government-invested institution (1998–2007)	1998–2007	Minister of Planning and Budget (chairman), Vice Minister of Finance (vice chairman), and other relevant vice ministers	Five people
Government-affiliated institutions Ownership Steering Committee (2003–2007)		2003–2007	Minister of Planning and Budget (chairman) 10 members including relevant vice ministers, deputies, and other public servants	10 people
SOE and QGO Ownership Steering Committee (2007–present)		2007–present	Minister of MOEF (chairman), member appointed by Prime Minister’s Office, vice minister appointed by the president (Vice Minister of MOEF, Vice Minister of the Ministry of Public Administration and Security, vice minister appointed by Minister of Anti-Corruption and Civil Rights)	Fewer than 11 members

In 2004, the steering committee for the management of QGOs was established as a deliberative committee that would review issues and make the required decisions related to policy for QGOs. This committee included the Minister of Strategy and Budget as chairperson, the vice ministers of other relevant ministries, and other public officials, as well as fewer than 10 private members with relevant knowledge and experience.

In 2007, the steering committee for SOEs was established following the introduction of the AMPI, and the previous system of two separate committees was reformed into a system of one steering committee for SOEs. The new steering committee included the vice ministers of the relevant ministries and fewer than 11 private members.

(2) The purview of deliberation

The three committees (the performance evaluation of committee for government-invested institutions, the steering committee for government-invested institutions, and the steering committee for SOEs) were deliberative committees that reviewed

and made decisions in relation to SOEs, including SOEs and QGOs. Their purview of deliberation was wide and ranged from issues related to performance evaluation to advice in relation to the appointment and dismissal of CEO, board members, and standing auditors of SOEs.

First, following the FAMGII, the performance evaluation committee was established in 1984 as the top deliberative body. Its mandate was to give guidelines for management to SOEs, including targets and budget as well as performance evaluation criteria. It also gave guidelines about personnel appointment. Later the committee was given the power to recommend auditors for government-invested institutions.

Secondly, following the revision of the FAMGII on 5 February 1999, the deliberative committee became a steering committee for government-invested institutions. In general, its functions were similar to those of the previous committee, including ① methods of performance evaluation for government-invested institutions, ② guidelines of preparing budgets, and ③ other significant issues related to the management of government-invested institutions according to legal Article 34.

Thirdly, in contrast, the performance evaluation committee for QGOs had a mandate to decide on methods of performance evaluation, evaluation criteria, and evaluation outcomes. It also took decisions in relation to personnel, budget, external auditing, and guidelines on financial management. It had an advisory committee and decided the basic guideline for the qualifications of CEO candidates. Nevertheless, its power to dismiss the chairperson of the board and the CEO was limited. Since the final responsibility for performance evaluation rested in the line ministries, it could only provide information about performance evaluations to the line ministers, who might then take any necessary action.

Fourthly, the steering committee for SOEs became the deliberative committee for the evaluation of SOEs and QGOs. This committee has a mandate to decide on the new establishment of SOEs and the inclusion of existing public agencies as SOEs, which would be subject to performance evaluation. The committee also takes responsibility for the public management of information relating to SOEs

and sanctions on personnel in the case of violations. The committee sets goals for functional distribution and the promotion of innovation among SOEs. It also makes decisions on the appointment of senior nonexecutive board members in market-type SOEs and executive board members of SOEs and QGOs. It designates certain agencies among SOEs as service provision institutes for citizens. Most importantly, from the perspective of performance evaluation, the committee reviews guidelines for performance evaluation and decides whether they should be revised in order to make them more relevant in changing management situations.

At present the steering committee for SOEs has a concentrated mandate in order to implement a uniform performance evaluation system across SOEs and QGOs. Its mandate to approve the outcome of performance evaluations, guidelines on salary structure, and the appointment of nonexecutive board members is explicitly stated in the law. Its power to decide on issues related to the Evaluation Commission of SOEs and QGOs for SOEs and QGOs and issues related to necessary actions following performance evaluation is also explicitly stated in the law.

2) Evaluation models

(1) Performance evaluation system of government-invested institutions

Established after the FAMGII was legislated in March 1984, the performance evaluation system of government-invested institutions could be classified into a former period and a latter period by the time government-invested institutions were comprehensively reorganized in February 1999.

The performance evaluation system of government-invested institutions was designed according to the corporation evaluation model. The number of corporations' subject to the evaluation was about 24 to 25 at first, but the number continued to decline as government-invested institutions were converted to private corporations and government security holding corporations. When the Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises was implemented

in October 1997, some government-invested institutions were converted to become subject to the new law, which made the number of corporations' subject to evaluation decline to about 13. During this period, the Evaluation Commission of SOEs and QGOs was carrying out the role of deliberation, and the MOEF was in charge of managing the performance evaluation system. The ministry and the committee were able to coordinate the management goals of the corporation together. Government-invested institutions were to prepare performance reports for the ministry. The performance evaluation result was reported to the president, and if there were any modifications to be made, the president would request the minister to modify or to dismiss one of the board members. Also, a special bonus was given according to the results of the evaluation. At first, the bonus was given by class. However, after 1985, the bonus was differentiated by scores, even within same class, and the upper limit of the performance bonus rate continued to rise.

Table V-2. Comparison of former and later model of SOE and QGO evaluation system

Classification	Former model (1984–1999)	Latter model (1999–2007)
Legal basis	AMGII (legislated)	AMGII (amended) Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises (10 January 1997 implemented)
Evaluation system	Institution evaluation	Institution + CEO evaluation
Scale of evaluated institution	13–25	12–14
Deliberative body	Government-invested corporation performance evaluation committee	Government-invested institution performance Ownership Steering Committee
Overall management	The Ministry of the Economic Planning Board → The Ministry of Finance and Economy → Ministry of Budget	Ministry of Budget → Committee of Planning and Budget → Ministry of Planning and Budget
Founding goals	Screening and adjustment by line minister and the Minister of the Economic Planning Board	System abolished (1997)

Classification	Former model (1984.3–1999.1)	Later model (1999.2–2007.3)
Decision of evaluation standards and methods	Performance evaluation overall management institution	Performance evaluation overall management institution
Evaluation team management and operation	Performance evaluation overall Management institution	Performance evaluation overall management institution
Reporting performance to	Minister of Economic Planning Board and other line ministers	National assembly, Minister of Planning and Budget, and other relevant ministers
Reporting evaluation results to	The President	National Assembly and the President
Corrective recommendation	Minister of Economic Planning Board recommends to line minister, and the minister implements necessary measures	Abolished
Subject of dismissal	CEO	CEO and executive director
Rate of bonus payment	<ul style="list-style-type: none"> ·1984–1991: 100–300% ·1992–1994: 125–325% ·1995: 165–365% ·1996–1997: 124–425% ·1998: 0–500% 	<ul style="list-style-type: none"> ·Staff: 0–500% of base payment ·CEO, auditor, executive director - 2010: limit of 100% of base payment - 2011 afterwards, less than 200% for CEO and the audit, Less than 100% for executive director

In February 1999, the former model, which consisted of the systematic factors mentioned above, transformed into a new model as the FAMGII was revised.

First, the CEO’s performance evaluation system was newly adapted in order to enhance the management responsibility of government-invested institutions, creating a dual system of evaluating the corporation and the CEO. The CEO’s general managing skills are evaluated based on how much of the goal index was achieved by the nonexecutive board member representative (or representative of the Committee for Recommendation of Executive Officers) and the CEO. Meanwhile, some government-invested institutions were converted into corporations that were subject to the new law implemented in October 1997. Therefore, these corporations had only a CEO performance evaluation system

before they were also integrated as SOEs after enactment of the AMPI in April 2007.

Second, the managing institutions for the performance evaluation system were revised overall. The general managing institution changed from the national budgeting agency to the committee of national strategy and budget, then to the Ministry of Strategy and Budget. The deliberative institution for the performance evaluation system was changed from the committee of government-invested institution performance evaluation to the committee of government-invested institutions management.

Third, the coordination of government-invested institution management goals between the ministry and the committee was abolished in 1997 in order to give more autonomy to the corporations.

Fourth, the result of the performance evaluation has to be reported to the National Assembly as well so that the responsibility and transparency of corporation management will enhance. In other words, the National Assembly has had control of SOEs since then.

Fifth, requests for revision according to the results of the evaluation from the general managing institution to the minister were abolished. On the other hand, the general managing institution could request the dismissal of an appointive even when the performance of the CEO or the executive board member was low, in contrast to the former system whereby a request for dismissal was only made for the CEO in cases of severe responsibility.

Sixth, the range of the performance bonus rate increased to 0–500%, and the CEO evaluation and institution evaluation results were integrated and given separately to the CEO, inspector, and executive board member; this has been done since 1999. For the CEO and executive board member, the performance bonus rate could be up to 100% of their base wage. However, since 2000, the bonus rate could be up to 200% for the CEO. For the inspector, the rate gradually increased from 2001 to 2002, and the rate became the same as the CEO in 2002.

As mentioned above, because of revisions to the government-invested institution general management law, the performance evaluation system has changed in order to

emphasize more management accountability compared to the former model: not only the institution itself, but also the CEO was subject to the evaluation. The results were reported to the National Assembly, the request for dismissal was widened to executive board members, and the performance bonus payment rate was increased, as was the bonus payment was given to the CEO, inspector, and executive board member.

(2) Performance evaluation system of government-affiliated institutions

The characteristics of the performance evaluation system for government-affiliated institutions, which started in January 2004 when the FAMGAI was legislated, can be understood in comparison with the latter model of the government-invested institution evaluation system. Table V-3 shows the comparison between the latter model of the government-invested institution evaluation system and the government-affiliated institution performance evaluation system. The government-affiliated institution performance evaluation system stresses institution-based evaluation. Although the FAMGAI enacted the CEO management contract system, the evaluation system was only implemented with institutional evaluation in reality.

Table V-3. Comparison of governance structures between government-invested institution and government-affiliated institution

Classification	Government-invested institution (latter model)	Government-affiliated institution
Legal basis	FAMGII	FAMGAI
Evaluation system	Institution evaluation + evaluation of progress on performance contract between CEO and executive board member	Institution evaluation
Deliberative institution	Committee of government-invested institution performance evaluation	Committee of government-affiliated institution management
General management institution	Minister of Planning and Budget	line minister

Classification	Government-invested institution (latter model)	Government-affiliated institution
Evaluation standard and method	Decided by Minister of Planning and Budget (voted in committee of government-invested institution performance evaluation)	Hearing from head of authorities concerned and decided by line minister (voted in the committee of government-affiliated institution management)
	There is a difference only in the ratio between qualitative and quantitative indicators, and all results of government-invested institutions are compared	Categorized according to the characteristics of the task and compared within same categories
	No other legal basis used	For institutions that are subject to evaluation according to the Framework Act on Fund Management and the General Law on Science and Technology, the results according to those laws are used
	Manual written by Minister of Planning and Budget	Manual written by each line minister
Evaluation procedure	Done through March to 20 June	Done through March to late June
	Results reported to the president and the National Assembly	Minister of Planning and Budget sends to relevant permanent committee in the National Assembly
		If evaluation lacks fairness and objectivity, the committee can amend evaluation standards and methods and reevaluate
	Minister announces evaluation results and Minister of Planning and Budget reports to the National Assembly by the end of August	
Organizing the evaluation group	Minister of Planning and Budget appoints external experts (professors, CPAs, researchers, etc.) to organize the group	Ministers consult each other to form a common group decision
Post-measurements	Incentives given according to the results (staff gets less than 500% of their base payment, CEO gets less than 200% of the base payment)	Incentives given according to the results (staff gets less than 200% of their base payment, CEO gets less than 100% of the base payment)
	Measurements for outstanding and weak institutions	Measurements for outstanding and weak institutions

The management structure of the government-affiliated institution performance evaluation system was separated from the government-invested institution performance evaluation system. A separate deliberative institution, the committee of government-affiliated institution management, was constituted and general management was carried out by the ministry concerning government-affiliated institutions. Members of the performance evaluation committee were chosen by the minister concerned, so the minister could collaborate with other ministers to create a co-evaluation system. Meanwhile, the performance bonus payment rate was rather lower than for government-invested institutions.

(3) SOE–QGO performance evaluation system

The AMPI was legislated on 19 January 2007, and the government-affiliated institution performance evaluation system and government-invested institution performance evaluation system were integrated into one system, which is the SOE–QGO performance evaluation system. Table V-4 shows a comparison between the latter model of the government-invested institution evaluation system and the public institution–quasi-governmental agency performance evaluation system. By comparing the two systems, one can see that the public institution–quasi-governmental agency performance evaluation system is mainly based on the government-invested institution evaluation system but also has some characteristics of the government-affiliated institution performance evaluation system.

There are also some new characteristics that the preexisting systems did not have: evaluation of progress on the performance contract between the CEO and executive board member, penalties for false performance, managing diagnoses, and consulting programs for low-performance institutions. Eventually, management authority was centralized into a general management institution with ownership power of SOEs. Therefore, the power of the ministry decreased, while that of the general management institution increased.

Table V-4. Comparison between performance evaluation systems of government-invested institutions, government-affiliated institutions, and SOEs & QGOs

Classification	Performance evaluation of government-invested institutions (model developed later)	Performance evaluation of government-affiliated institutions	Performance evaluation of SOEs and QGOs
Legal basis	FAMGII	FAMGAI	AMPI
Performance evaluation structure	Institution evaluation + CEO management contract performance evaluation	Institution evaluation	<ul style="list-style-type: none"> ▪ Institution evaluation + CEO management contract performance evaluation ▪ CEO and standing auditor contract performance evaluation
Institution subject to evaluation	Government-invested institution	Government-affiliated institution	SOE + QGO
Deliberation and managerial body	Government-invested institution Ownership Steering Committee	Government-affiliated institution Ownership Steering Committee	SOE and QGO Ownership Steering Committee
Managerial body	Ministry of Planning and Budget	Line minister	MOEF
Establishing management goals	Government-invested institutions autonomously set the goals	Line minister can adjust business goals and plans	<ul style="list-style-type: none"> ▪ SOE: MOEF can request amendment ▪ QGO: line minister can request amendment
Deliberation of evaluation standard and method invested institutions, government-affiliated institutions, and SOEs & QGOs	Managerial body (Ministry of Planning and Budget)	Competent minister	Managerial body (MOEF)
Utilization of other evaluation results	Does not apply	Results from the evaluation based on the Framework Act on Fund Management and the Framework Act on Science and Technology	Results from the evaluation based on the Framework Act on Fund Management and the Framework Act on Science and Technology
Organizing and operation of Performance Evaluation Commission	Managerial body (Ministry of Planning and Budget)	line minister	Managerial body (MOEF)

Classification	Performance evaluation of government-invested institutions (model developed later)	Performance evaluation of government-affiliated institution	Performance evaluation of SOEs and QGOs
Performance evaluation period	From 20 March to 20 June	From end of March to end of June	From 20 March to 20 June
Report of management performance	National assembly + Minister of Planning and Budget + competent minister	line minister	MOEF + line minister
Penalty for false report	Does not apply	Does not apply	Adjustment in performance results, bonus payment, and personnel action
Reporting management evaluation results to	National assembly and the president	Minister of Planning and Budget + national assembly	National assembly and the president
Executives who are subject to dismissal according to performance evaluation result	CEO + executive director	President	CEO + executive director
Bonus payment according to accomplishment	<ul style="list-style-type: none"> ▪ Staff: 0–500% of base salary ▪ CEO, auditor: less than 200% of base salary ▪ Executive director: less than 100% of base salary 	<ul style="list-style-type: none"> ▪ Staff: less than 200% of base salary ▪ Head of institution: less than 100% of base salary 	<ul style="list-style-type: none"> ▪ Adopted government-invested institution, government-affiliated institution bonus payment framework
Bussiness diagnosis and consulting	Does not apply	Does not apply	Consulting done for poorly performed institutions

3) Performance indicators

(1) Transition process of evaluation indicator system

The evaluation indicator system, which is the core part of the performance evaluation systems of government-invested institutions in the past and of the current SOEs and QGOs, is not based on a specific example model even though some of

its characteristics resemble the Malcom Baldrige model from 2008. It is possible to identify each system as one independent model, though.

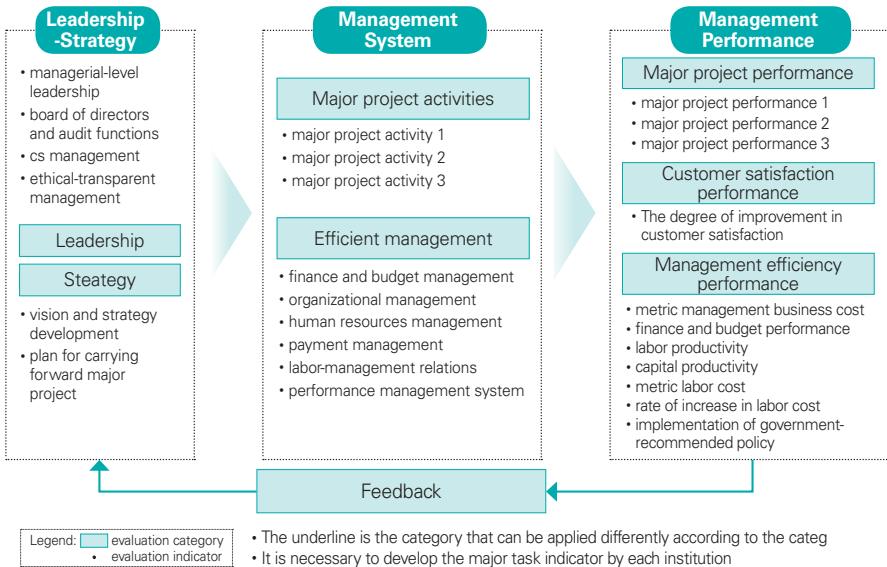
Table V-5. The 2007 manual of performance evaluation and evaluation indicator system model

SOE type I performance evaluation indicator framework		SOE type II, QGO performance evaluation indicator framework	
Evaluation category	Evaluation indicator	Evaluation category	Evaluation indicator
General management	CEO's efforts for responsible management and enhancing public good + accomplishment (qualitative)	General management	CEO's efforts for responsible management and enhancing public good + accomplishment(qualitative)
	Efforts for management renovation and accomplishment (qualitative)		(2) Committee's effort to encourage auditory function and accomplishment (qualitative)
	Committee's effort to encourage auditory function and accomplishment (qualitative)		(3) Efforts for management renovation and accomplishment (qualitative)
	(4) Productivity		(4) Customer satisfaction
	Labor productivity (quantitative)		Customer satisfaction enhancement (quantitative)
Management of fixed capital productivity or management of marketing costs (quantitative)	Efforts to establish customer satisfaction management system and accomplishment (qualitative)		
(5) Customer satisfaction enhancement (quantitative)	Productivity indicator (quantitative)		
Major projects	(1) Project indicator (quantitative, qualitative)	Major projects	(1) Relationship between founding goals and project goals (qualitative)
	(2) Project indicator (quantitative, qualitative)		...
	...		(2) Project indicator (quantitative, qualitative)

SOE type I performance evaluation indicator framework		SOE type II, QGO performance evaluation indicator framework	
Evaluation category	Evaluation indicator	Evaluation category	Evaluation indicator
Business management	Organization and human resource management	Business management	Organization and human resource management, reasonable payment
	Organization management (qualitative)		Organization management (qualitative)
	Personnel management (qualitative)		Personnel, payment management (qualitative)
	(2) Payment and labor		Productivity indicator (quantitative)
	Payment management (quantitative, qualitative)		Efforts for managing (quantitative)
	Labor management (qualitative)		Quantitative labor costs (quantitative)
	(3) Finance and budget management		(2) Labor relationship (qualitative)
	Finance policy (qualitative)		Reasonable finance and budget management
	Budget management (qualitative)		Finance management (qualitative)
	Quantitative management costs (quantitative)		Budget management (qualitative)
			Quantitative management cost (quantitative)
			Reasonable information management (qualitative)
			Adequacy of internal evaluation system and relationship with external evaluation (qualitative)

During the period when there were separate systems for the performance evaluation of government-invested institution and government-affiliated installation, the performance evaluation indicator framework was presented in the evaluation manual published in 2007. The system presented in the manual outlines a separate indicator system for SOEs as type 1 and QGOs as type 2. It consists of three parts: general management, main projects, and administrative management. This system is a representative system of the 1980s and 1990s. After the AMPI was implemented, the Malcom Baldrige (MB) system was adopted in 2008.

Figure V-2. Overall framework of performance evaluation indicators for SOEs based on MB model in 2008

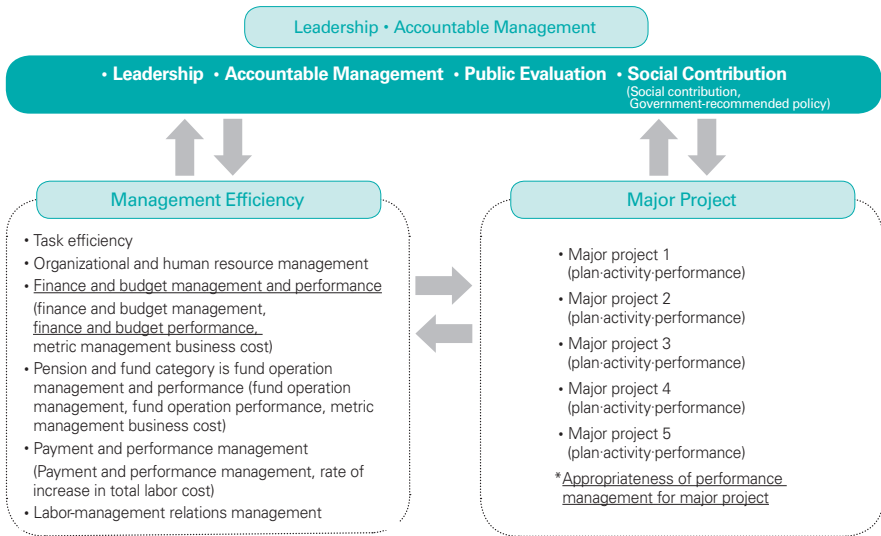


MB evaluation, which had been adopted from 2008 to 2010, utilizes three categories of evaluation targets for process evaluation. The three categories are leadership–strategy, management system, and performance. The standardization of the evaluation indicator system is helpful in that it widens potential competition and enhances the objectivity of the evaluation. In order to evaluate and compare institutions with various different characteristics, it is necessary to have a coherent and universal evaluation indicator system. If institutions have their own indicator system to reflect their peculiarities, it is hard to compare performance results among different institutions or different evaluation categories. Thus, an evaluation indicator system that can be applied to all institutions makes it possible to widen competition. Moreover, universality enhances the transparency and efficiency of the system. However, the standardization of the system has a weakness in that it lacks relevancy and fairness of evaluation. There is another critical weakness in that universality could deteriorate the performance evaluation system to enhance competitiveness for the institution. In order to enhance competitiveness as a result of evaluation, the system needs to be

customized for each institution. Customization also allows the evaluation system to be fair and makes the result more acceptable to the institutions. A standard evaluation indicator system does not meet these conditions because it would lack fairness. These are the advantages and disadvantages of the MB system adopted in 2008.

Although the MB system had a concrete theoretical basis, there were problems such as formalism and the limitations caused by putting more emphasis on the evaluation of process rather than outputs, which resulted in an overall revision of the system along with a new management evaluation manual in 2011. The characteristics of the new manual are illustrated in Figure V-3. With the help of this new model, many of the limitations of the MB model were resolved.

Figure V-3. Overall framework of evaluation indicator in 2011



- The underline is the indicator constructed differently in terms of the evaluation indicator or detailed evaluation contents according to the category or institution.
- Major task is constructed within 5 items by each institution.

Annual CEO evaluations were changed into one-time evaluations per three-year term under the Park Geun-Hye administration in 2013. Thus, the leadership and accountable management indicator was only used in the CEO evaluation and was

deleted from the institution evaluation. As a result, the institution evaluation indicator system was reorganized into two categories as shown in Table V-6. This model is still used today.

Table V-6. Reorganized framework of performance evaluation indicators for SOEs and QGOs in 2014

2013				2014						
Category	Evaluation indicator	Weight		Category	Evaluation indicator	Weight				
		Qualitative	Quantitative			Qualitative	Quantitative			
Leadership and responsible management	1. Leadership	5		Business management	1. Management strategy and social contribution - Strategy planning - Public evaluation - Government recommended policy	2	4 5			
	2. Responsible management	3								
	3. Public evaluation		5							
	4. Social contribution - Social contribution - Government recommended policy	2	5		2. Task efficiency		8			
	Subtotal	10	10		3. Organization, personnel management, and accomplishment	2				
Efficient management	1. Task efficiency		6	Major project	4. Finance budget management and accomplishment - Finance budget management - Self-effort accomplishment - Finance budget accomplishment - Quantitative cost managing	6 3	6 2			
	2. Organization and personnel management	4								
	3. Finance budget management and accomplishment - Finance budget management - Finance budget accomplishment - Managing task costs	4	6 2							
	4. Payment and accomplishment management - Payment and accomplishment management - Total payment increase rate	4	3					5. Payment and welfare benefit - Payment and welfare benefit - Total payment increase rate - Labor management	6 3	3
	5. Labor management	3								
	Subtotal	13	17							
	Major project	Major project planning (qualitative), accomplishment (quantitative) comprehensive evaluation	45					55	Major project	Major project planning (qualitative), accomplishment (quantitative) comprehensive evaluation
Total		45	55	Total		35	65			

(2) Constitution of the evaluation indicator category and weight value of the indicator

Many of the characteristics of the evaluation indicator system are determined by what indicators are included and how much weight is allocated to each indicator. The number of categories has tended to be three to six according to what the system is intended to evaluate, as shown in Table V-7.

Table V-7. Transition process of performance evaluation indicators in each evaluation category

Period	Number of evaluation categories	Evaluation category and evaluation category classification system	Note
1985	6	General indicator, management goal indicator, management indicator, efficiency indicator, service indicator, R&D indicator	performance evaluation of government-invested institutions
1986–1989	3	General indicator, founding goal indicator, management indicator	performance evaluation of government-invested institutions
1990–1991	3	General management, founding goal project, management indicator	performance evaluation of government-invested institutions
1992	3	General management, major project accomplishment, management enhancement	performance evaluation of government-invested institutions
1993–2000	4	General management, major project, management efficiency, management indicator	performance evaluation of government-invested institutions
2001–2007	3	General management, major project, management	performance evaluation of government-invested institutions
2008–2010	3	Leadership and strategy, management system (major project, management efficiency), management accomplishment (major project accomplishment, customer satisfaction accomplishment, management efficiency accomplishment)	performance evaluation of SOEs and QGOs
2011–2013	3	Leadership and accountable management, management efficiency, major project	performance evaluation of SOEs and QGOs
2014–present	2	Management, major project	performance evaluation of SOEs and QGOs

The classification system of evaluation has been adopted since 1985 when government-invested institution performance evaluation started. During this period, there were six categories: general indicator, management goal indicator, administrative indicator, efficiency indicator, service indicator, and research and development

indicator. From 1986 to 1989, the number of categories decreased to three: general indicator, establishment purpose indicator, and administrative indicator. In 1990 and 1991, the performance categories changed to general indicator, establishment purpose project indicator, and administrative indicator. In 1992, the performance category was divided into the general indicator, main project performance indicator, and management enhancement indicator. In 1994, the categories expanded to include a general indicator, main project performance indicator, management efficiency indicator, and administrative indicator. However, in 2001, the number of categories decreased again to three: general indicator, main project indicator, and administrative indicator. This classification system was typical before the MB model was introduced in 2008. When the MB model was adopted, the evaluation category consisted of leadership–strategy, management system, and performance. Since 2013, when the Park Geun-Hye administration separated the institution from the CEO evaluation system, only the two categories of administrative indicator and main project indicator have been in place for institution evaluation.

How much weight is allocated to each indicator indicates the priorities for evaluation. Efficiency and the establishment of the management system had top priority in the early years. In later years, focus has been given to other indicators as well. Mainly, the relative weight has been determined by the policy values pursued by each administration.

The general indicator started at 20% until 1998, but increased to 30% under the Roh Moo-Hyun administration, which stressed innovation. In late 2007, the innovation indicator was abolished, and the weight of the general indicator decreased to 25%, which resulted in overall balance.

The main project indicator has mostly had the highest weight except in 1985. From the Chun Doo-Hwan administration through the Roh Tae-Woo administration, the weight was increased to 50%, and except during the period when innovation was stressed, the weight has remained at 40%. This indicates that the evaluation system mainly focused on enhancing each institution's special projects.

The efficiency indicator has been used to counterbalance the general indicator. When the management system for SOEs was being established in early the period, the weight was 45 to 70%, but after the Roh administration, it was decreased to 35%. When the system was considered to be well constructed and settled, the management information indicator was deleted or its weight was decreased.

Meanwhile, after the Malcom Baldrige model was implemented, the general management indicator was replaced by the leadership–strategy indicator, and the managing system indicator was replaced by the main project and managing efficiency indicator. This was an effort to enhance the former system of categorization that involved planning, implementation, and performance by replacing it with a system including process evaluation (qualitative evaluation) and results evaluation (quantitative evaluation). However, after eliminating the MB model in 2010, the new manual of 2011 classified the system into three categories: leadership–accountable management (20%), management efficiency (35%), and major projects (45%).

However, as mentioned above, the CEO evaluation was separated from the institution evaluation in 2013, resulting in two evaluation categories. The leadership and accountable management indicator was used only for the CEO evaluation and was eliminated from institution evaluation. For SOEs and QGOs, each administrative category and main project category was weighed 50%. As a result, the balance of institution evaluation has deteriorated and it has been hard to assess leadership-related enhancement.

(3) Classification of SOEs and QGOs for evaluation

The first reason for building a reasonable classification for institutions subject to evaluation is that classification is used as a reference group when developing performance evaluation indicator systems reflecting the characteristics of institutions. Secondly, classification could also be a reference group for similar institutions to benchmark, which could positively facilitate comparison between different performance results and introduce fairness in the evaluation process. Thirdly, it provides a reference

when selecting members for an evaluation committee and rationalizing the operation system. Therefore, in order to effectively use these factors within the classification system, it is necessary to classify according to rational standards.

Since the government-invested performance evaluation system was implemented in 1984, the classification of evaluation types has been continuously evolving. The characteristics of projects, the scale of the institution, and other such factors were used as standards for classification. According to evaluation types, the specific contents of the evaluation and the weights of indicators were considered.

However, the MB model, which was introduced in 2008, adopted a standardized system without considering evaluation type. Since the MB model did not consider the specific characteristics of each project when developing indicators and allocating weight values, the model could not demonstrate practical effectiveness. In 2010, there was revision that customized indicators and evaluation methods according to evaluation type and each institution.

From this perspective, it is problematic that SOEs are categorized by scale as type I and II because there are various characteristics within each type. However, they are evaluated by the same method, so it is difficult to assess the progress of a project and other characteristics specific to institutions in the system.

For contracting-out QGOs, classification was done according to task characteristics and the scale of an institution. These were verification, culture and livelihood, industry promotion, and small strong institution.

For small and medium QGOs, which was one type of contracting-out quasi-governmental agency but is now a fund-management-type quasi-governmental agency since 2012, there is less pressure regarding evaluation because it is difficult to conduct a qualitative evaluation for small institutions, and this kind of evaluation system was first adopted in 2008. In 2008, the standard definition of a small and medium QGOs was an institution with fewer than 100 members or less than KRW 50 billion in assets. However, in order to include more institutions in the category, the standard was changed to fewer than 500 members. In consequence, the number of small

and medium QGOs was 26 in 2008, but the number increased to 55 in 2015. Since the new standard did not consider the scale of assets, institutions with a large asset scale that needed an efficient management system also went through a quantitative evaluation.

Moreover, the number 500, which is required according to labor standards, is excessively high when compared to the standard of the Framework Act on Small and Medium Enterprises. According to the law, a small business has fewer than 50 to 300 (number varies depending on the industry) full-time workers. Also, many SOEs with fewer than 500 members go through a general evaluation system, which includes qualitative indicators. Therefore, there is unfairness between SOEs and QGOs. Since a QGO has more public characteristics than a SOE, the necessity for a qualitative evaluation is even more important for a QGO than a SOE. For these reasons, applying a general evaluation that includes a qualitative evaluation even for SOEs with fewer than 200 members but only applying a quantitative evaluation to QGOs with up to 500 members is inappropriate in terms of fairness.

Realizing this problem, the government changed the standard for small and medium QGOs to 300 members, and for fund-management-type QGOs, the standard changed to fewer than 300 members and less than KRW 1 trillion in assets.

(4) Weight proportion between quantitative and qualitative indicators

Quantitative indicators are highly objective, but it is difficult to assess the specific characteristics of institutions. Especially for the general management and management efficiency indicator, a universal formula and goals could be set, but this would not take into consideration the individual situations that institutions face. Furthermore, quantitative performance could be directly affected by governmental policies, and it is hard to judge whether the result truly reflects performance.

On the other hand, qualitative indicators can evaluate factors according to the evaluation committee's expertise and consider the scale and environment of each institution. However, there could be involvement of the committee members'

individual views and beliefs, so some fear that it would bring inconsistency to the evaluation process.

Hence, the relative weight between qualitative and quantitative indicators indicates how the evaluation system puts emphasis on objectivity and expertise. When the evaluation system was first introduced in 1983, quantitative indicators weighed more than qualitative indicators. The weight of quantitative indicators was 70%, which remained at a high level around 60% through 1987. This tendency is due to pursuing an evaluation system that requires a small number of evaluation committee members.

Qualitative indicators have been emphasized since 1995, with weight values exceeding 50%; this is due to new indicators that were adopted to reflect a new era. After 1995, the labor union management indicator was included, and the Kim Dae-Jung administration included a moral management indicator as well. All of these new indicators were not easy to evaluate through quantitative methods, so naturally qualitative indicators become more important. Especially due to the MB model in 2008, qualitative indicators weighed 55%, while quantitative indicators weighed 45%. This is the result of benchmarking directly from the Malcom Baldrige model.

The weight of quantitative indicators differs between SOEs and QGOs. SOEs, which were a bit ahead in constructing a management system, established quantitative indicators prior to qualitative indicators, while QGOs, which needed more effort toward evaluation system construction, put qualitative indicators first.

Nevertheless, quantitative indicators became more important again during the Lee Myung-Bak administration. The administration tried to achieve a simpler evaluation system that many interest groups, including the head of the national competition committee, desired. In consequence, the weight of quantitative indicators increased to 60% and increased even more to 65% when the Park Geun-Hye administration reconstructed the evaluation system from 2013 to 2014. However, there were critical views that too much weight was imposed on quantitative indicators, which led to a decrease.

(5) Transition process of the number of evaluation indicators

It is inevitable to have transaction and opportunity cost when operating a SOE and QGO performance evaluation system. Therefore, effort is required to lessen the cost and burden for SOEs and QGOs to present their results and prepare reports, for example. In order to minimize the cost of an evaluation system, simplifying the indicator system and its content is the key. For simplification, similar or overlapping indicators should be integrated, and core indicators should be developed. If the content of evaluation becomes clear and simple, it would be easier to manage and guide the institution in a macro-sense. Also, it would make the indicator system and writing the performance results easier so that less labor and budget allocation are needed. However, it is important to strictly define indicators so that SOEs desire to be evaluated and SOEs need to be evaluated (Jang Ji In and Kwack Chaegi, 2006:13).

In the early period of the performance evaluation system, there were few evaluation indicators and most consisted of only examining representative tasks. The average number of indicators was 21.46 in 1983 and 24.40 in 1984. After the evaluation system began to be more sophisticated, the number began to increase. As the system settled, the average number of indicators became 31.88 in 1985, 36.40 in 1986, and more than 40 after 1987.

The average number of indicators from 1990 to 1996 was around 30: 38.26 in 1990, 33.39 in 1991, 33.96 in 1992, 32.22 in 1993 (11 to 17 quantitative indicators, 17 to 22 qualitative indicators), 32.90 in 1994, 32.28 in 1995, and 33.56 in 1996.

After 1997, the number decreased to around 20: 24.69 in 1997, 26.77 in 1998, and 28.31 in 1999. There was a slight increase in 2000 to 30.69, but this decreased to 29.69 in 2001. Then the number remained around 30 from 2000 to 2010: 29.38 in 2002, 32.1 in 2005, and 29.7 in 2008. This tendency is due to a more specialized indicator system, which was an effort to create a system that is more specific and objective. In other words, it was a period when there was emphasis on an absolute evaluation system.

Figure V-4. Simplified example of SOE and QGO evaluation indicator system

(2010) institution evaluation		(2010) institution evaluation		(2011) Institution evaluation (SOEs and QGOs)						
Category	Evaluation indicator	Category	Evaluation indicator	Category	Weight					
					Qualitative	Quantitative				
Leadership	Major contemporary task selection and reasonable management planning (10)	Leadership and strategy	Leadership (3)	Leadership and responsible management	1. Leadership	5				
			Responsible management (4)		2. Accountable management	3				
	Development of vision and strategy (3)		3. Public evaluation (customer satisfaction, public feeling)			5				
	Promoted plan for major project (3)		4. Social contribution - Social contribution - Government recommended policy		2	5				
public corporation advancement	Reasonable payment-accomplishment management system (10)	Management system	Major project activities (15)	Management efficiency	1. Task efficiency		8			
	Human resources - function adjustments and other efficiency (10)		Organizational and personnel management (3)		2. Organizational and personnel efficiency	4				
	Labor management (10)		Finance and budget management (3)		3. Finance budget accomplishment - Finance budget management - Finance budget accomplishment - Finance budget accomplishment - Managing task cost	4	6			
	Collective agreement (10)		Payment management (3)					4	2	
			Reasonable relationship among labor (3)							Accomplishment managing system (3)
										Public corporation advancement and efforts for management efficiency (2)
Peculiar tasks	Validity of accomplishment indicator setting (5)	Management and accomplishment	Major project accomplishment (25)	Major project	Comprehensive evaluation of major project planning or activity (qualitative), accomplishment (quantitative)	15	13			
	Validity of accomplishment goal setting (5)		Customer satisfaction enhancement(5)							
	Reasonable problem solving (5)		Labor productivity (5)							
			Efficiency of project implementation (5)					Capital productivity (5)		
Peculiar tasks	Degree of goal accomplishment (20)	Management and accomplishment	Quantitative labor cost (3)	Total	40	60				
			Quantitative managing task cost (4)							
	Increase rate of total labor cost (4)									
	Finance and budget accomplishment (2)									
	Government recommended policy (2)									

There was a steep decrease in the number of indicators in order to lessen the burden for institutions, so drastic integrations of similar indicators were undertaken; there were only 17.1 indicators on average during 2011. Compared to the number in 2010, which was 39 consisting of 28 institution indicators and 11 CEO indicators, the number in 2011 is very small.

(6) The overall structure and content of the evaluation

① Constitution and content of qualitative indicator

The core qualitative indicators in general management are leadership, accountability, and strategic management. The first time the leadership indicator directly appeared was in 2008, and the same indicator was applied for three years. Before there was a leadership indicator, the accountability indicator was used to evaluate leadership. In other words, there was a focus on organizational leadership rather than individual leadership.

The accountability indicator, which is the core content of leadership, has become more sophisticated and important. In early periods, the content of the leadership indicator consisted of accountability, public goodness, and operation of the board of directors of SOEs. After 2001, the internal audit system, moral administration, transparency, and social contribution were included in the evaluation.

Innovative management evaluation was previously conducted by the institution itself, but this indicator was included with 10% weight as the innovation category was formed. Considering that the innovation indicator is focused on outstanding cases, the weight value is rather high and had a critical effect on the whole evaluation. For this reason, the indicator was abolished after the Roh Moo-Hyun administration ended.

Meanwhile, the government recommended policy indicator is still included today; it was first adopted in 2001. The supporting small business indicator is now independently evaluated, but social contribution, junior internship, and hiring the disadvantaged were included in the government recommended policy indicator.

The management system consists of major projects and management efficiency. Evaluating major projects started when the Malcom Baldrige was adopted in 2008. Evaluating the management system was expected to enhance the arrangement of projects, planning, implementation, and performance management. These contents were usually applied as specific indicators under the major project indicator.

Management efficiency has been evaluated since the early period of the system, and organization and personnel management are the main contents. There has been a rather

balanced evaluation between organizational aspects and personnel management aspects.

Finance and budgeting were the focus in terms of efficiency during the early period, but after 2000, the focus was on finance strategy. This is also an effort by SOEs that corresponds to environmental changes. When financial crisis broke out, government-invested institutions needed to perform the tasks that the government had asked for primarily, so efficiency in budgeting and strategic decision-making were parts of the critical capacity that SOEs were seeking.

Payment management is an indicator that has been continuously managed. This is due to public opinion that SOEs should lessen the burden of labor costs and that salaries should decrease to a level that ordinary citizens can accept.

Labor union management has been evaluated since 1995 and has been emphasized even more since 2008. Internal evaluation, management information, and research development indicators have also been influenced by public opinion, as well as opinions from the government, various institutions, and experts.

② Changes in quantitative indicators

A quantitative indicator consists of general management, administrative management, and major projects. General management consists of the productivity of capital and labor, as well as customer satisfaction. The fixed capital productivity indicator was adopted in 1985 and was used until 2007; a similar process was carried out with sales cost management. The customer satisfaction indicator was adopted in 2001 and the public opinion indicator was included in 2011. Labor productivity was introduced in 1997.

The main quantitative indicators in the administrative category are quantity of labor costs and quantity of management task costs. The quantity management task costs have been included as an indicator since the early period in 1984, and labor cost has been evaluated since 1988. Labor cost management has been both directly and indirectly engaged with the incentive method of performance evaluation and focused on whether institutions with frequently low results were able to drastically reduce

labor costs. This is because there is a possibility that institutions may make up any losses due to a low evaluation result by increasing labor costs. The Roh Moo-Hyun administration applied an accumulative system to the labor cost increase rate in order to give penalties to institutions not following the labor cost manual. Furthermore, from 1988 to 2001, budgeting management was applied as well.

Meanwhile, major projects were introduced as a quantitative indicator in 2000. There was interest in whether qualitative performance management could be evaluated via a quantitative method.

(7) Changes in performance evaluation method

① Performance evaluation method of quantitative indicators

There are quantitative methods and qualitative methods for performance evaluation. The quantitative evaluation method has seven techniques, which are goal–performance comparison, recent trend of performance, β distribution, target suggestion, target deviation, comparison of global performance, and long-term goal suggestion. This quantitative evaluation method has developed since 1983 as follows.

When the performance evaluation of government-invested institutions was first performed in 1983, there only the goal–performance comparison method and tendency evaluation method were used. Goal–performance comparison is a method that sets indicators with the agreement of the government and the institution. The tendency evaluation system is a method that evaluates an institution based on former performance. In 1984, β distribution was introduced in order to overcome the weakness of tendency evaluation. β distribution is similar to tendency evaluation in that it tracks several former performance indicators, but it uses β distribution instead of regression analysis. The goal suggestion method was first applied to government-invested performance evaluation in 1986. The goal suggestion method was also used to overcome the drawbacks of the tendency evaluation method. The tendency evaluation method has weakness in that a full score cannot be accomplished even with a theoretically perfect performance. Therefore, indicating an impossibly perfect performance was the only way to accomplish a full

score under the evaluation system. After the AMPI was implemented in 2007, the goal suggestion (deviation) method, which differs from the standard goal suggestion method, was introduced. The standard goal suggestion method multiplies a certain indicator based on last year's performance, but the deviation method adjusts last year's performance with a certain standard deviation. For SOEs, this method was first used in 2007 and 2008 for QGOs.

Table V-8. Transition process of quantitative indicator evaluation method (1983 to 2018)

Period	Classification	Evaluation method
1983	Government-invested institution	Goal-performance comparison, tendency
1984–1985	Government-invested institution	Goal-performance comparison, tendency, β distribution
1986–2006	Government-invested institution	Goal-performance comparison, tendency, β distribution, target suggestion
2004–2006	Government-invested institution	Goal-performance comparison, tendency, β distribution, target suggestion
2007	SOE	Goal-performance comparison, tendency, β distribution, target suggestion, target suggestion (deviation)
	QGO	Goal-performance comparison, tendency, β distribution, target suggestion
2008–2010	SOE, QGO	Goal-performance comparison, tendency, β distribution, target suggestion, target suggestion (deviation)
2011–2012	SOE, QGO	Goal-performance comparison, tendency, β distribution, target suggestion, target suggestion (deviation), comparison of global performance
2013–2018	SOE, QGO	Goal-performance comparison, tendency, β distribution, target suggestion, target suggestion (deviation), comparison of global performance, long-term target suggestion

Meanwhile, the manual for performance evaluation in 2011 introduced a global performance comparison method that directly compares SOEs and QGOs with

global leading corporations in order to show the public that SOE and QGO performance is high. Since 2011, the global performance comparison method has been widened to create global Best Practice cases. Furthermore, when compiling the manual in 2013, the long-term goal suggestion method was newly included for challenging but necessary long-term goals. Long-term goals are necessary to achieve governmental goals or performances with big-gap differences from global standards.

With this kind of progress, the quantitative method has evolved by overcoming its weakness and helping to achieve SOE and QGO goals. It is especially notable that global standards and long-term goals were adopted in order to rationalize quantitative indicators. Moreover, in 2013, the goal setting method changed from a five-year standard deviation of 1 to a five-year standard deviation of 2. Also, the level of difficulty was evaluated for each indicator to apply a modification factor of 0.7–1 according to the level.

Although global standards and long-term indicators are helpful to enhance national competence and encourage the achievement of global standards in the long term, it is difficult to define which global enterprise is appropriate for comparison, and thus problems of fairness may arise.

Multiplying by a two- to five-year standard deviation and applying a modification factor may result in a distortion of importance between projects. Also, there are criticisms related to “an evaluation for evaluation” in order to judge the level of difficulty. There is another problem that according to the distribution of projects or budget from the government according to policy projects, it would be structurally decided which institutions will be at an advantage or disadvantage. Setting a goal would be problematic as well in that it may collide with governmental policy goals.

There were five levels of difficulty until 1995, and from 1996 to 2007, there were nine levels. Then, from 2008 to 2010, there were six levels. As the MB model was changed into a new system in 2011, the number of levels also changed to nine, which is still the same today.

② Performance evaluation method of qualitative indicators

For qualitative indicators, a more general evaluation is conducted first, and then a grade according to the grading system that has been decided beforehand is applied.

During the period of 2008 to 2010, when the MB model was applied, the ADL (approach–deployment–learning) perspective was adopted. As shown in Table V-7, there were three aspects in evaluation: management according to each indicator, implementation of managing methods, and learning and innovation. There were six grades to evaluate. When grades are assigned, converted scores are given according to the grade as shown in Table V-8.

Table V-9. Qualitative indicators for SOEs in the MB model

Evaluation perspective	Definition	Focus points in each evaluation perspective	Details
Management method	<ul style="list-style-type: none"> • Method in order to manage, process, plan evaluation indicator 	<ul style="list-style-type: none"> • Indicator management method • Necessity for the method • Whether the method is systematic and effective 	<ul style="list-style-type: none"> • Which method is necessary to manage the evaluation indicator? • What is the reason for using this method? • Is the method systematic and effective?
Implementation method	Consistency in scale, depth, and adaptation for indicator management method	<ul style="list-style-type: none"> • Validity of the method • Scale of the method • Depth of the method Consistency of the method 	<ul style="list-style-type: none"> • Is the method reflecting the stream of the managing environment? • To what extent is the method applied? • How deep is the method applied? • Is the method applied consistently? Is the method settled?
Learning and innovation	<ul style="list-style-type: none"> • Evaluation enhancement • Accomplishment sharing and organizational learning 	<ul style="list-style-type: none"> • Evaluation and enhancement system • Accomplishment sharing and organizational learning 	<ul style="list-style-type: none"> • Is there a system for the evaluation indicator to be managed? • Is there an effort to enhance the evaluation system? • Is there organizational learning through accomplishment sharing?

Table V-10. SOE and QGO qualitative indicator evaluation section standards from the ADL perspective

Classification	E	D	C	B	A	S
Management method	Management method absence (random perspective)	Only minimum management method applied, applying management method in only a few spheres	Management method applied in necessary spheres, which the indicator requires, but lack of evidence that the method is systematically effective	Management method applied in a few necessary spheres, which the indicator requires, and evidence that the method is systematically effective	Management method applied in most necessary spheres, which the indicator requires, and evidence that the method is systematically effective	Management method applied in all necessary spheres, which the indicator requires, and evidence that the method is systematically effective
Implementation method	No evidence that there is a systematic management method	Only minimum management method applied systematically, applying management method in only a few spheres	Management method applied systematically in most spheres, but lacks effectiveness	Management method applied systematically in a few spheres and has substantive effectiveness	Management method applied systematically in most spheres and has substantive effectiveness	Management method applied systematically in all spheres and has substantive effectiveness
Learning and innovation	No foundation for evaluation system in order to manage the results of evaluation, responses after problem occurs	Starting of a foundation for evaluation system in order to manage the results of evaluation, starting of enhancement system	Foundation for evaluation system exists, and core process of enhancement system starts	Efficiency and effectiveness accomplished through core process, and accomplishment start to be shared	Learning through sharing becomes major managing tool, and there is evidence that enhancement and innovation accomplished through sharing and learning	Learning through sharing becomes managing tool in all spheres, and there is evidence that enhancement and innovation accomplished through sharing and learning in all spheres

Table V-11. Points for each grade through qualitative indicator evaluation in the ADL perspective

Grades		E	D	C	B	A	S
Points	Point section for each grade	50 points less	50–60 points less	60–70 points less	70–80 points less	80–90 points less	90–100 points
	Converted points for each grade	30 points	55 points	65 points	75 points	85 points	95 points

Malcom Baldrige’s ADL perspective has a weakness in that the standards were ambiguous and difficult to operate, so it was eliminated from the SOE and QGO performance evaluation manual in 2011. After the ADL method was eliminated, a general evaluation was conducted by comparing with last year’s performance for a

qualitative evaluation.

As mentioned above, the methods of comparison with former performance, general evaluation along with comparison, and ADL have been used to develop and evaluate qualitative indicators. However, there are still limitations in that no method guarantees objectivity.

Table V-12. Standards for qualitative indicators in the PDCA model

Evaluation indicator	Major project (qualitative)
Definition of indicator	Planning for each major project, execution performance, validity of the feedback
Details (common for all indicators)	<p>① Were all major projects well planned in a concrete way?</p> <ul style="list-style-type: none"> - accomplishment goals and accomplishment indicator for each project - resource allocation such as finance and budget planning, organization and human resources - competition with global corporations and benchmarking for each project <p>② Was the implementation plan well executed for each major project?</p> <ul style="list-style-type: none"> - validity and efficiency of promoted actions - adaption for environmental changes and obstacles <p>③ Is qualitative accomplishment achieved at a valid level?</p> <ul style="list-style-type: none"> - actual goal accomplishment compared to initial goal - goal accomplishment compared to global corporations <p>Is feedback well done?</p>

In 2011, in order to overcome the problem of inconsistency and lack of fairness, the new manual tried to achieve the standardization of the evaluation method through the PDCA (plan–do–check–action) model, which is shown in Table V-9. Since their introduction in 2011, specific evaluation standards developed according to the PDCA model are still used for qualitative indicators in the performance evaluation process.

To be more specific, a general evaluation is conducted and an evaluation grade is given. From 1983 to 1997, 75 was a base score, and from score 75 to 100, it was divided into three (1983 to 1984), five (1985 to 1995), or nine (1996 to 1997) sections. Then, a converted score was given according to the section. In other words, 75 points

were given as a base and an additional 25 points were given according to the grade section. This kind of method was maintained until 1997.

In order to create more grade sections, there was no longer a base score but nine grade sections among 0–100 points starting in 1998. This method was used until 2008, but there were six grade sections among 30–100 points when the ADL method from the MB model was adopted after 2008. Yet, after 2011, from 20–100 points there were nine grade sections.

The reason the base score system was revived is that giving a base score enhances fairness and acceptance of the evaluation results. When there was no base score, some institutions gained zero points in some categories, and many institutions showed discontent. Logically, it is irrational to give zero points because of low progress compared to last year’s performance. Therefore, the necessity of the base score was demonstrated. Moreover, an inevitable decrease in performance can occur because of external factors, which also renders

a base score necessary. Now, 20 points are given as a base score for both qualitative and quantitative indicators.

Table V-13. Evaluation grade and grade section for qualitative indicators (1983 to 2018)

Period	Evaluation section	Grade section
1983–1984	Grade 3	High (97.5), Middle (87.5), Low (77.5)
1985–1995	Grade 5	Excellent (100.0), Good (93.75), Mediocre (87.5), Bad (81.25), Very bad (75.00)
1996–1997	Grade 9	A+ (100.00), Ao (96.87), B+ (93.75), Bo (90.62), Co (87.50), D+ (84.37), Do (81.25), E+ (78.12), Eo (75.00)
1998–2007	Grade 9	A+ (100.0), Ao (87.5), B+ (75.0), Bo (62.5), Co (50.0), D+ (37.5), Do (25.0), E+ (12.5), Eo (0.0)
2008–2009	Grade 6	S (95), A (85), B (75), C (65), D (55), E (30)
2010	Grade 6	S (100), A (90), B (75), C (60), D (45), E (30)
2011–2018	Grade 9	A+ (100), Ao (90), B+ (80), Bo (70), C (60), D+ (50), Do (40), E+ (30), Eo (20)

(8) Comprehensive evaluation grade

From 1983 to 2010, the method used for comprehensive evaluation was identical to the method for each indicator. In other words, although there had been changes in the number of grades within the method, the same method was used for both indicator evaluation and comprehensive institution evaluation. However, in 2010, a dual system was adopted; there were nine grades for indicator evaluation, but six for comprehensive evaluation. Moreover, a relative method using standard deviation was used for comprehensive evaluation.

As a result, there was some illusion with the dual evaluation system. Institutions that received a D or E grade had an especially hard time accepting their result. Also, the relative evaluation system makes it difficult for institutions to predict their grade.

In order to solve these problems, either changing the grade system to nine grades or converting to an absolute system was required. The government chose to use both a relative and an absolute evaluation system in comprehensive evaluations in 2016. The absolute system is used to decide a grade according to last year's performance. Independent evaluation committees are in charge of SOEs and QGOs, which solves the problem of one reference group being used for both SOEs and QGOs.

4. Current performance evaluation system

In this section we describe the current performance evaluation system for SOEs and QGOs and its specific methods.

1) Typology of evaluation groups

- To evaluate different types of organizations appropriately, evaluation is conducted by groups specified by the AMPI, although some QGOs are categorized as “small and medium QGOs” to which different evaluation criteria can be applied to attenuate the burden of evaluation.

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Type		Criteria of typology
SOE	Market-type I	Large-scale organizations whose main tasks are planning, construction, and management of social infrastructure (SOC), designated by AMPI §4 and §6
	Quasi-market-type II	Organizations whose primary mission is to promote industries in specific sectors, small and medium-sized SOC institutions, and subsidiaries, designated by AMPI §4 and §6
QGO	Fund-management-type	Organizations with 50 or more employees that manage or are commissioned to manage public funds by the National Finance Act, designated by AMPI §4 and §6 (other than the nonclassified small QGOs)
	Commissioned-service-type	Organizations with 50 or more employees that are designated as commissioned implementation institutions by AMPI §4 and §6 (other than the fund management institutions or nonclassified small QGOs)
	Non-classified (small-sized) QGOs	Organizations designated as commissioned implementation institutions with fewer than 300 employees that are designated as fund management institutions with assets less than KRW 1 trillion (including entrusted fund assets) and fewer than 300 employees (as of the end of 2016)

- SOEs/QGOs in 2017 are classified as follows, in accordance with the criteria for classification of evaluation type. However, the evaluation type can be adjusted if a change is made by AMPI.

Category	(Ministry) Institution
Market-type SOEs (15)	(Ministry of Trade, Industry, and Energy) Korea Gas Corporation, Korea Resources Corporation, Korea South-East Power Co., Korea Southern Power Co., Korea East-West Power Corporation, Korea Western Power Co., Korea National Oil Corporation, Korea Hydro & Nuclear Power, Korea Electric Power Corporation, Korea Midland Power Co., Korea District Heating Corporation, and Kangwon Land, Inc. (Ministry of Land, Infrastructure and Transport) Incheon International Airport Corporation and Korea Airports Corporation (Ministry of Oceans and Fisheries) Busan Port Authority
Quasi-market-type SOEs (20)	(Ministry of Economy and Finance) Korea Minting and Security Printing Corporation (Ministry of Culture, Sports and Tourism) Grand Korea Leisure Co. (Ministry of Agriculture, Food and Rural Affairs) Korea Racing Authority (Ministry of Trade, Industry, and Energy) Korea Gas Technology Corporation, Korea Coal Corporation, KEPCO Engineering & Construction Company, KEPCO KDN, and Korea Plant Service & Engineering (Ministry of Land, Infrastructure and Transport) Jeju Free International City Development Center, Korea Housing & Urban Guarantee Corporation, Korea Appraisal Board, Korea Expressway Corporation, Korea Water Resources Corporation, Korea Railroad Corporation, and Korea Land and Housing Corporation (Ministry of Oceans and Fisheries) Yeosu Gwangyang Port Authority, Ulsan Port Authority, Incheon Port Authority, and Korea Marine Environment Management Corporation (Korea Communications Commission) Korea Broadcast Advertising Corporation

Category	(Ministry) Institution
Fund-management-type QGOs (16)	<p>(Ministry of Education) Teachers' Pension</p> <p>(Ministry of Culture, Sports and Tourism) Korea Sports Promotion Foundation, Korean Film Council, Arts Council Korea, and Korea Press Foundation</p> <p>(Ministry of Trade, Industry and Energy) Korea Trade Insurance Corporation and Korea Radioactive Waste Agency</p> <p>(Ministry of Health and Welfare) National Pension Service</p> <p>(Ministry of Employment and Labor) Korea Workers' Compensation & Welfare Service</p> <p>(Ministry of SMEs and Startups) Korea Technology Finance Corporation and Small & Medium Business Corporation</p> <p>(Financial Services Commission) Korea Credit Guarantee Fund, Korea Deposit Insurance Corporation, Korea Asset Management Corporation, and Korea Housing Finance Corporation</p> <p>(Ministry of Personnel Management) Government Employees Pension Corporation</p>
Commissioned-service-type QGOs (77)	<p>(Ministry of Economy and Finance) Korea Public Finance Information Service</p> <p>(Ministry of Education) Korea Education and Research Information Service and Korea Student Aid Foundation</p> <p>(Ministry of Science and ICT) Postal Savings & Insurance Development Institute, Korea Postal Service Agency, Korea Postal Logistics Agency, National IT Industry Promotion Agency, Korea Foundation for the Advancement of Science & Creativity, Korea Communications Agency, National Research Foundation of Korea, Korea Internet & Security Agency, National Information Society Agency, and INNOPOLIS Foundation</p> <p>Ministry of Foreign Affairs) Korea International Cooperation Agency</p> <p>(Ministry of Culture, Sports and Tourism) Korea International Broadcasting Foundation, Korea Creative Content Agency, Asia Culture Institute, and Korea Tourism Organization</p> <p>(Ministry of Agriculture, Food and Rural Affairs) Korea Agency of Education, Promotion and Information Service in Food, Agriculture, Forestry and Fisheries; Korea Institute of Planning and Evaluation for Technology in Food, Agriculture, and Forestry; Korea Institute for Animal Products Quality Evaluation; Korea Agro-Fisheries & Food Trade Corporation; and Korea Rural Community Corporation</p> <p>(Ministry of Trade, Industry, and Energy) Korea Trade-Investment Promotion Agency; Korea Gas Safety Corporation; Mine Reclamation Corporation; Korea Institute of Design Promotion; Korea Institute for Advancement of Technology; Korea Evaluation Institute of Industrial Technology; Korea Industrial Complex Corporation; Korea Petroleum Quality & Distribution Authority; Korea Institute of Ceramic Engineering & Technology; Korea Energy Agency; Korea Institute of Energy Technology, Evaluation, and Planning; Korea Electrical Safety Corporation; and Korea Power Exchange</p> <p>(Ministry of Health and Welfare) Health Insurance Review & Assessment Service, National Health Insurance Service, Social Security Information Service, Korea Labor Force Development Institute for the Aged, Korea Human Resource Development Institute for Health & Welfare, and Korea Health Industry Development Institute</p> <p>(Ministry of Environment) Korea National Park Service, National Institute of Ecology, Korea Environment Corporation, and Korea Environmental Industry & Technology Institute</p>

Category	(Ministry) Institution
Commissioned- service-type QGOs (77)	<p>(Ministry of Employment and Labor) Korea Employment Information Service, Korea Occupational Safety and Health Agency, Human Resources Development Service of Korea, and Korea Employment Agency for the Disabled</p> <p>(Ministry of Gender Equality and Family) Korea Youth Counseling and Welfare Institute, and Korea Youth Work Agency</p> <p>(Ministry of Land, Infrastructure and Transport) Korea Transportation Safety Authority, Korea Agency for Infrastructure Technology Advancement, Korea Land and Geospatial Informatix Corporation, Korea Infrastructure Safety Corporation, and Korea Rail Network Authority</p> <p>(Ministry of Oceans and Fisheries) Korea Ship Safety Technology Authority, Korea Fisheries Resources Agency, Korea Institute of Marine Science and Technology Promotion, and Korea Institute of Maritime and Fisheries Technology</p> <p>(Ministry of the Interior and Safety) Korea Elevator Safety Agency</p> <p>(Ministry of SMEs and Startups) Korea Technology and Information Promotion Agency for SMEs, and Small Enterprise and Market Service</p> <p>(Federal Trade Commission) Korea Consumer Agency</p> <p>(Korea Communications Commission) Community Media Foundation</p> <p>(Nuclear Safety and Security Commission) Korea Institute of Nuclear Safety</p> <p>(Ministry of Patriots and Veterans Affairs) Independence Hall of Korea and Korea Veterans Health Service</p> <p>(Ministry of Food and Drug Safety) Korea Agency of HACCP Accreditation and Services</p> <p>(Korean National Police Agency) Korea Road Traffic Authority</p> <p>(National Fire Agency) Korea Fire Industry Technology Institute</p> <p>(Korea Forest Service) Korea Forestry Promotion Institute, Korea Forest Welfare Institute</p> <p>(Rural Development Administration) Foundation of Agricultural Technology Commercialization & Transfer</p> <p>(Korean Intellectual Property Office) Korea Intellectual Property Strategy Agency</p> <p>(Korea Meteorological Administration) Korea Meteorological Institute</p> <p>(Office for Government Policy Coordination) National Research Council for Economics, Humanities, and Social Studies, Science and Technology Policy Institute, Korea Research Institute for Human Settlements, Korea Institute for International Economic Policy, Korea Institute for Industrial Economics and 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 and Training, National Youth Policy Institute, Korea Maritime Institute, Korea Institute of Public Administration, Korea Institute of Criminology, Korea Environment Institute</p> <p>(Ministry of Economy and Finance) Export-Import Bank of Korea, Korea Investment Corporation</p>

Category	(Ministry) Institution
<p>Non-classified SOEs and QGOs (210)</p>	<p>(Ministry of Education) Gangneung-Wonju National University Dental Hospital, Kangwon National University Hospital, Kyungpook National University Hospital, Kyungpook National University Dental Hospital, Gyeongsang National University Hospital, National Lifelong Learning Agency, Northeast Asian History Foundation, Pusan National University Hospital, Pusan National University Dental 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, Institute for the Translation of Korean Classics, Korea Foundation for the Promotion of Private School, Academy of Korean Studies</p> <p>(Ministry of Science and ICT) Korea Institute of Human Resources Development in Science and Technology, Postal Facility Management Agency, Gwangju Institute of Science and Technology, National Research Council of Science and Technology, Gwangju National Science Museum, Daegu National Science Museum, Busan National Science Museum, Institute for Basic Science, Daegu Gyeongbuk Institute of Science & Technology, Specific Post Office Pension Service Agency, Ulsan National Institute of Science and Technology, Center for Women in Science, Engineering, and Technology, Korea Institute of Construction Technology, Korea Institute of Science & Technology Evaluation and Planning, Korea Institute of Science and Technology, Korea Advanced Institute of Science and Technology, Korea Institute of Science and Technology Information, Korea Institute of Machinery and Materials,</p> <p>Korea Basic Science Institute, Korea Nano Technology, Korea Data Agency, Korea Research Institute of Bioscience and Biotechnology, Korea Institute of Industrial Technology, Korea Food Research Institute, Korea Institute of Energy Research, Korea Atomic Energy Research Institute, Korea Institute of Radiological and Medical Sciences, Korea Electrotechnology Research Institute, Electronics and Telecommunications Research Institute, Korea Institute of Geoscience and Mineral Resources, Korea Astronomy & Space Science Institute, Korea Railroad Research Institute, Korea Research Institute of Standards and Science, Korea Institute of Oriental Medicine, Korea Aerospace Research Institute, and Korea Research Institute of Chemical Technology</p> <p>(Ministry of Foreign Affairs) Korea Foundation and Overseas Koreans Foundation</p> <p>(Ministry of Unification) North Korea Refugees Foundation and South-North Korea Exchanges and Cooperation Support Association</p> <p>(Ministry of Justice) Korea Legal Aid Corporation, Korea Government Legal Service, Korea Rehabilitation Agency, and IOM Migration Research & Training Centre</p> <p>(Ministry of National Defense) Military Outplacement Training Institute, War Memorial of Korea, and Korea Institute for Defense Analyses</p> <p>(Ministry of the Interior and Safety) Korea Democracy Foundation and Korean Foundation for Victims of Forced Mobilization Under Japanese Colonialism</p> <p>(Ministry of Culture, Sports and Tourism) The Gugak Broadcasting Foundation, Korea Arts Management Service, Seoul Arts Center, Jeongdong Theater, Korea Culture Information Service Agency, Game Rating and Administration Committee, Cultural Foundation of National Museum of Korea, Korean Paralympic Committee, Korean Sport & Olympic Committee, King Sejong Institute, Korea Media Rating Board, Taekwondo Promotion Foundation, Korea Craft & Design Foundation, Korea Center on Gambling Problems, Literature Translation Institute of</p>

• V. Performance evaluation system: Evolution and current operation

Category	(Ministry) Institution
Non-classified SOEs and QGOs (210)	<p>Korea, Korea Culture & Tourism Institute, Korea Arts & Culture Education Service, Korea Culture Promotion Inc., Korean Film Archive, Korean Artists Welfare Foundation, Korea Copyright Protection Agency, Korea Copyright Commission, KSPO&CO, and Publication Industry Promotion Agency of Korea</p> <p>(Ministry of Agriculture, Food and Rural Affairs) Korean Food Promotion Institute, Livestock Health Control Association, International Plant-quarantine Accreditation Board, Agricultural Policy Insurance & Finance Service</p> <p>(Ministry of Trade, Industry and Energy) Korea Smart Grid Institute, Korea Strategic Trade Institute, Korea Institute for Robot Industry Advancement, Korea Testing Laboratory, Korea Energy Information Culture Agency, Korea Nuclear Fuel, Haniil General Hospital, KEPCO International Nuclear Graduate School, and Korea Energy Foundation</p> <p>(Ministry of Health and Welfare) Korea Childcare Promotion Institute, Korea Disabled People's Development Institute, National Cancer Center, National Medical Center, Daegu Gyeongbuk Medical Innovation Foundation, Korea Red Cross, Osong Medical Innovation Foundation, Korea Health Promotion Institute, Korea Foundation for International Healthcare, National Evidence-Based Healthcare Collaborating Agency, Korea Health Personnel Licensing Examination Institute, Korea National Council on Social Welfare, Korea Medical Dispute Mediation and Arbitration Agency, Korea Organ Donation Agency, National Development Institute of Korean Medicine, and Korea Institute for Healthcare Accreditation</p> <p>(Ministry of Environment) Nakdonggang National Institute of Biological Resources, Sudokwon Landfill Site Management Corporation, Korea Water and Wastewater Works Association, and Korea Environmental Preservation Association</p> <p>(Ministry of Employment and Labor) Construction Workers Mutual Aid Association, Korea Labor Foundation, Korea Testing Institute of Technical Qualification, Korea Polytechnics, Korea University of Technology and Education, Korea Social Enterprise Promotion Agency, and Korea Job World</p> <p>(Ministry of Gender Equality and Family) Korean Institute for Healthy Family, Korean Institute for Gender Equality Promotion and Education, and Women's Human Rights Institute of Korea</p> <p>(Ministry of Land, Infrastructure and Transport) Waterway+, Korea Construction Management Corporation, Korea Housing Management, KORAIL Tourism Development Co., KORAIL Networks Co., KORAIL Logis, KORAIL Retail, KORAIL Tech Co., Korea Institute of Aviation Safety Technology, SR Co., and Korea Construction Equipment Safety Institute</p> <p>(Ministry of Oceans and Fisheries) Korea National Maritime Museum, National Marine Biodiversity Institute of Korea,</p> <p>Busan Port Security Corporation, Incheon Port Security, Korea Fisheries Infrastructure Promotion Association, Korea Institute of Ocean Science and Technology, Korea Hydrography and Research Association, and Korea Institute of Aids to Navigation</p> <p>(Ministry of SMEs and Startups) Korea Small Business Institute, Small & Medium Business Distribution Center, Korea Federation of Credit Guarantee Foundations, Korea Institute of Startup & Entrepreneurship Development, Korea Venture Investment Corp., Public Home Shopping, Disabled Enterprise Business Center, Korea Association of University, and Research Institute and Industry</p>

Category	(Ministry) Institution
Non-classified SOEs and QGOs (210)	(Financial Services Commission) Industrial Bank of Korea, Korea Development Bank, Korea Securities Depository, and Korea Inclusive Finance Agency (Federal Trade Commission) Korea Fair Trade Mediation Agency (Nuclear Safety and Security Commission) Korea Foundation of Nuclear Safety and Korea Institute of Nuclear Nonproliferation and Control (Ministry of Patriots and Veterans Affairs) 88 Country Club (Ministry of Food and Drug Safety) Medical Device Information and Technology Assistance Center, Korea Institute of Drug Safety and Risk Management, and National Food Safety Information Service (Korea Customs Service) Korea Institute of Origin Information (Defense Acquisition Program Administration) Agency for Defense Development and Defense Agency for Technology and Quality (Cultural Heritage Administration) Korea Cultural Heritage Foundation (Korea Meteorological Administration) APEC Climate Center and Korea Institute of Atmospheric Prediction Systems (Korea Forest Service) Korea Institute of Arboretum Management (Korean Intellectual Property Office) Korea Invention Promotion Association, Korea Intellectual Property Protection Agency, Korea Institute of Intellectual Property, and Korea Institute of Patent Information

2) Performance indicator system

(1) Basic system

- The evaluation indicators consist of two categories: management and core business, so as to systematically and comprehensively evaluate the performance of the SOEs and QGOs being evaluated.
- The key evaluation points for each category are as follows.

Evaluation category	Key evaluation points
Management	Management strategy and leadership, social value creation, work efficiency, organization–human resource–financial management, remuneration and benefits, innovation and communication
Core businesses	Comprehensive evaluation of SOEs and QGOs' core business plan, activity, output–outcome, and the appropriateness of quantitative indicators

- Each evaluation category is composed of specified unit evaluation indicators. Unit evaluation indicators can be composed of multiple sub-indicators. However, the core business category is clustered by businesses and comprehensively evaluates each business’s plans, activities, and outputs–outcomes by using quantitative and non-quantitative evaluation indicators.
- An evaluation indicator is composed of a definition that clarifies the purpose and target of the evaluation, as well as detailed evaluation content.
- The composition and proportion of innovation-related indicators can be changed according to the SOEs and QGOs innovation plan to be established after the establishment of the government innovation roadmap.

(2) Structure and weight of evaluation indicators by type

SOE indicators and weights

Category	Evaluation indicators	Sum	Nonquantitative	Quantitative
Management (55)	Management strategy and leadership	6	6	
	- Strategic planning		2	
	- Management improvement		2	
	- Leadership		2	
	Social value creation	22	14	8
	- Job creation	7	4	3
	- Equal opportunity and social integration	4	3	1
	- Safety and environment	3	2	1
	- Symbiosis–collaboration and local development	5	2	3
	- Ethical management	3	3	
	Work efficiency	5		5
	Organization, human resource, and financial management	9	6	3
	- General organization and human resource management	3	3	
- Financial budget operation and performance (Mid- and long-term financial management plan)	5	2	3 (1)	
- Improvement of workers’ quality of life	1	1		

Category	Evaluation indicators	Sum	Nonquantitative	Quantitative
Management (55)	Remuneration and benefits costs	8	5	3
	- Remuneration and benefits	3	3	
	- Total labor cost management	3		3
	- Labor relations	2	2	
	Innovation and communication	5	3	2
	- Innovation efforts and achievements	2	3	
	- Public communication	3		2
	Subtotal	55	34	21
Core business (45)	Comprehensive evaluation of core business plan, activity, and output–outcome	45	18	27
	Subtotal	45	18	27
Total sum		100	52	48

※ For institutions that are not subject to submitting a mid- and long-term financial management plan by AMPI §39-2, the mid- and long-term financial management plan is treated as a missing value.

QGO (commissioned-service-type) indicators and weights

Category	Evaluation indicators	Sum	Nonquantitative	Quantitative
Management (45)	Management strategy and leadership	6	6	
	- Strategic planning		2	
	- Management improvement		2	
	- Leadership		2	
	Social value creation	20	12	8
	- Job creation	6	3	3
	- Equal opportunity and social integration	3	2	1
	- Safety and environment	3	2	1
	- Symbiosis–collaboration and local development	5	2	3
	- Ethical management	3	3	
	Organization, human resource, and financial management	6	5	1
	- General organization and human resource management	3	3	
	- Financial budget operation and performance	2	1	1
	- Improvement of workers’ quality of life	1	1	
	Remuneration and benefits costs	8	5	3
- Remuneration and benefits	3	3		
- Total labor cost management	3		3	
- Labor relations	2	2		

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Category	Evaluation indicators	Sum	Nonquantitative	Quantitative
Management (45)	Innovation and communication	5	3	2
	- Innovation efforts and achievements	3	3	
	- Public communication	2		2
	Subtotal	45	31	14
Core business (55)	Comprehensive evaluation of core business plan, activity, and output–outcome	55	21	34
	Subtotal	55	21	34
Total sum		100	52	48

※ For institutions that are not subject to submitting a mid- and long-term financial management plan by AMPI §39-2, the financial budget operation performance is treated as a missing value.

QGO (fund-management-type) indicators and weights

Category	Evaluation indicators	Sum	Nonquantitative	Quantitative
Management (50)	Management strategy and leadership	6	6	
	- Strategic planning		2	
	- Management improvement		2	
	- Leadership		2	
	Social value creation	20	12	8
	- Job creation	6	3	3
	- Equal opportunity and social integration	3	2	1
	- Safety and environment	3	2	1
	- Symbiosis–collaboration and local development	5	2	3
	- Ethical management	3	3	
	Organization, human resource, and financial management	11	5	6
	- General organization and human resource management	3	3	
	- Financial budget operation and performance	2	1	1
	- Fund management and performance	5		5
	- Improvement of workers' quality of life	1	1	
Remuneration and benefits costs	8	5	3	
- Remuneration and benefits	3	3		
- Total labor cost management	3		3	
- Labor relations	2	2		
Innovation and communication	5	3	2	
- Innovation efforts and achievements	3	3		
- Public communication	2		2	

Category	Evaluation indicators	Sum	Nonquantitative	Quantitative
	Subtotal	50	31	19
Core business (50)	Comprehensive evaluation of core business plan, activity, and output–outcome	50	21	29
	Subtotal	50	21	29
Total sum		100	52	48

※ For institutions that are not subject to submitting a mid- and long-term financial management plan by AMPI §39-2, the financial budget operation performance is treated as a missing value (not applied to fund management and performance).

(3) Adjustment of evaluation indicators by type and institution

- In order to carry out a customized evaluation suitable for each institution, the weight of each indicator within each category can be adjusted.
- In order to reflect the performance of best practices in collaboration, innovation, and citizen participation by institutions, the implementation performance of the selected tasks in 2018 is evaluated. The institutions with excellent performances add to their scores a maximum of 1 point. Excellent cooperation organizations add to their scores a maximum of 0.2 points according to their degree of contribution.
- For the fund-management-type and small and medium QGOs that are subject to a fund management evaluation, the fund management evaluation result is used as part of the evaluation for the total financial budget management and performance.
- If the type of institution is changed in accordance with the AMPI, the evaluation indicators and weights can be adjusted according to the type.
- The evaluation indicators that are not specifically marked are applied to all of the institutions of the same type. The evaluation indicators in the core business category are set differently according to the business characteristics of each institution.
- The scores for quantitative indicators in the core business category can be standardized considering the average and standard deviation of the scores by indicator,

type of institution, or the difference between the highest scoring institution and the lowest scoring institution. The decision on standardization and its method shall be confirmed by the committee on the management of SOEs and QGOs.

3) Contents of performance indicators

(1) Management category

Management strategy and leadership, strategic planning

Evaluation indicator	Detailed evaluation contents	
Strategic planning	Definition	Evaluation of efforts and achievements for establishing and implementing appropriate visions corresponding to the establishing purpose of the institution, management goals, and management strategies
	Target (score)	SOEs and QGOs: 2 non-quantitative points
	Details	① Efforts and achievements for establishing appropriate visions and core values corresponding to the establishing purpose of the institution ② Efforts and achievements for establishing and implementing management goals and strategies - Balance between efficiency and social value, connectivity with core work, degree of reflecting national political agenda

Management improvement

Evaluation indicator	Detailed evaluation contents	
Management improvement	Definition	Evaluation of efforts and achievements of the institution to improve management efficiency, including the coordination of the function of the institution, the discovery of new businesses, and the establishment and implementation of a management improvement plan
	Target (score)	SOEs and QGOs: 2 non-quantitative points
	Details	① Innovation efforts and achievements through the reorientation of institutional functions (declining functions and projects) through the analysis and prediction of environmental changes and discovering new businesses * Including the confirmation of implementation performance against the plan in the case of institutions subject to functional review and reorganization ② Efforts and achievements to improve management efficiency through developing and implementing a management improvement plan in accordance with the performance evaluation and consulting and through process innovation such as removing red tape

Leadership

Evaluation indicator	Detailed evaluation contents	
Leadership	Definition	Evaluation of the CEO's leadership in terms of motivating workers, efforts and performance to implement the management contract, and operation of the board of directors
	Target (score)	SOEs and QGOs: 2 non-quantitative points
	Details	① Efforts and achievements to fulfill the objectives of the management contract, such as selecting CEO-supported management contract projects, and improving the appropriateness of the level of long-term and yearly goals and the linkage between management contract and performance indicators ② Efforts and achievements of the CEO such as sharing of the institution core values and job innovation to motivate workers ③ Efforts and achievements of the CEO to facilitate and empower the operation of the board of directors

Social value creation, job creation

Evaluation indicator	Detailed evaluation contents	
Social value creation, Job creation	Definition	Evaluation of conversion of irregular workers to regular workers, unemployed youth, and flexible working
	Target (score)	SOEs and QGOs: 3 quantitative points
	Details	① Conversion of irregular or indirect employment to regular employment (1 point) ② Job creation (2 points total) * Recruitment of unemployed youth (1.1–1.7 points), number of positions of flexible working (0.3–0.9 points)
	Definition	Evaluation of efforts and achievements to create jobs (including those in the private sector) and improve the quality of working conditions
	Target (score)	SOEs: 4 non-quantitative points, QGOs: 3 non-quantitative points
Details	① Establishment of strategies and plans for job creation and improvement of employment quality; ensuring sustainability and procedural legitimacy ② Efforts and achievements to create jobs through adopting various methods including management of the difference between the fixed and current number of workers in addition to room for more employment in the positions of retirees and improvement of working arrangements * Rotation system improvement, flexitime, flexible workplace, and flexible employment quota ③ Efforts and achievements in converting irregular to regular workers	

Evaluation indicator	Detailed evaluation contents	
		<p>* Evaluation considering the level of difficulty in conversion, surplus achievement of the goal, compliance with pertinent laws and rules</p> <p>④ Efforts and achievements for job creation in the private sector through the core business of the institution and contracting out</p> <p>* Including support for direct job creation through innovative tools such as in-house venture capital, financial support, and indirect support such as consulting</p> <p>⑤ Efforts for innovation to create jobs, achievements in collaboration and sharing</p> <p>* Technological innovation, discovery of new business opportunities, sharing of technology and outcomes with cooperative enterprises, sharing and promoting excellent cases, and collaboration with nonprofit organizations</p>

Equal opportunity and social integration

Evaluation indicator	Detailed evaluation contents	
Equal opportunity and social integration	Definition	Evaluation of efforts and achievements for social integration such as employment and protection of the disadvantaged
	Target (score)	SOEs and QGOs: 1 quantitative point
	Details	<p>① The following items for equal opportunity and social integration are set by the institution within the range of each weight (total 1 point)</p> <p>- Mandatory employment of the disabled (0.3–0.5), recruitment of national merit (0.3–0.5), compliance with the service worker protection rule (0.2–0.4)</p>
	Definition	Evaluation of efforts and achievements for social equity in human resource management and the protection of equal opportunity
Equal opportunity and social integration	Target (score)	SOEs: 3 non-quantitative points, QGOs: 2 non-quantitative points
	Details	<p>① Recruitment efforts and achievements through fair processes such as the elimination of discriminatory factors</p> <p>* Efforts to enhance transparency through blind recruitment</p> <p>② Efforts and achievements to employ youth, high school graduates, and local talent</p> <p>* Employment of youth, stepwise employment, increase in employing high school graduates, achieving the employment portion of job seekers from nonmetropolitan areas</p> <p>③ Efforts and achievements to increase the number of women at the managerial level, training of female employees, employment of career women</p>

Evaluation indicator	Detailed evaluation contents	
		④ Efforts and achievements to eliminate discrimination against and improve the status of high school graduates, non-regular workers, and other professionals

Safety and environment

Evaluation indicator	Detailed evaluation contents	
Safety and environment	Definition	Evaluation of performance for the creation of a safe working environment and environmental sustainability
	Target (score)	SOEs and QGOs: 1 quantitative point
	Details	① The following items for safety and environment are set by the institution within the range of each weight(total 1 point) - Greenhouse gas reduction and energy saving (0.2–0.8), green product purchase (0.2–0.8)
	Definition	Evaluation of efforts and achievements for maintaining safe working and living environments from disasters and accidents
	Target (score)	SOEs and QGOs: 2 non-quantitative points
	Details	① Efforts and achievements for the safety and health of workers and the public, including industrial accident management, and the establishment and operation of a disaster management system * Designation of a dedicated organization for worker safety, prevention, and education of pertinent personnel ② Efforts and achievements to establish and operate a personal information protection and security management system ③ Efforts and achievements to define and implement the concept of environmental preservation appropriate to the jobs of the institution

Symbiosis–collaboration and local development

Evaluation indicator	Detailed evaluation contents	
Symbiosis–collaboration and local development	Definition	Evaluation of achievements in local economy and collaboration and symbiosis with small and social economy businesses
	Target (score)	SOEs and QGOs: 3 quantitative points
	Details	① The following items for symbiosis and collaboration are set by the institution within the range of each weight (total 3 points)

Evaluation indicator	Detailed evaluation contents	
Symbiosis–collaboration and local development		* Small business product (0.4–1.0), technological innovation product (0.2–0.4), social enterprises and cooperative society product (0.2–0.4), traditional market vouchers (0.3–0.5), women-friendly business product (0.2–0.4), product made by the handicapped (0.4–0.8), product made by veterans (0.2–0.4), early implementation of financing (0.3–0.5)
	Definition	Evaluation of the efforts and achievements for symbiosis and collaboration with small businesses and for boosting the local community and economy
	Target (score)	SOEs and QGOs: 2 non-quantitative points
	Details	① Efforts and achievements to develop and implement programs for community participation and local economy ② Efforts and achievements to establish a fair economic order, including timely payment for contracting companies ③ Support of technology for competitiveness of small businesses ④ Support for social economy enterprises (social enterprises, cooperatives, community enterprises, self-help enterprises, etc.)

Ethical management

Evaluation indicator	Detailed evaluation contents	
Ethical management	Definition	Evaluation of efforts and achievements to comply with economic and legal responsibility as well as the ethical responsibility expected from common sense in running a business
	Target (score)	SOEs and QGOs: 3 non-quantitative points
	Details	① Efforts and achievements to establish and operate an ethical management system and prevent business activities from engaging in violations ② Efforts and achievements to enhance transparency of general management and to realize ethical management ③ Efforts and achievements to secure the appropriateness of the performance of the internal check system to support ethical management ④ Efforts and activities for human rights education and resolution processes for human rights violations

Work efficiency

Evaluation indicator	Detailed evaluation contents	
Work efficiency	Definition	Evaluation of improvement in work efficiency
	Target (score)	SOEs: 5 quantitative points

Evaluation indicator	Detailed evaluation contents	
Work efficiency	Details	① The sub-indicators are set by considering the characteristics of the institution among indicators that measure work efficiency including labor productivity and capital productivity ② Example - labor productivity = $\frac{\text{added value}}{\text{average number of workers}}$ - capital productivity = $\frac{\text{added value}}{\text{total asset}}$

Organization, human resource, and financial management (general organization and human resource management)

Evaluation indicator	Detailed evaluation contents	
General organization and human resource management	Definition	Evaluation of efforts and achievements in organization and human resource management, as well as the performance management system
	Target (score)	SOEs and QGOs: 3 non-quantitative points
	Details	① Efforts and achievements to establish an organization and human resource management plan linked with the management strategy ② Efforts and achievements to assign roles, responsibilities, and staff to unit organizations in the institution to realize the institution's core business ③ Efforts and achievements to realize the purpose of establishment and business performance of government-funded and invested institutions ④ Efforts and achievements to continuously develop and improve the competence of members ⑤ Efforts and achievements to build a rational organization and individual performance evaluation system ⑥ Efforts and achievements to enhance the expertise of human resource management

Financial budget operation and performance

Financial budget operation and performance	Definition	Evaluation of financial (budget) stability, and efficiency of investment and execution considering the management conditions of the institution
	Target (score)	SOEs : 2 quantitative points
	Details	① The sub-indicators are set by considering the management conditions of the institution among indicators including the debt ratio and interest coverage rate

Evaluation indicator	Detailed evaluation contents	
Financial budget operation and performance	Details	② Example - debt ratio = $\frac{\text{debt}}{\text{capital}}$ - interest coverage rate = $\frac{\text{business profits}}{\text{financial expenses}}$
	Definition	Evaluation of the implementation of the mid- and long-term financial management plan according to APMI §39-2
	Target (score)	Designated institutions among SOEs and QGOs : 1 quantitative point
	Details	① Achievement of the target debt ratio in the plan
	Definition	Evaluation of the construction and operation performance of the financial budget management system for sound financial structure and rational budget management
	Target (score)	SOEs : 2 nonquantitative points Designated QGOs : 1 nonquantitative point
	Details	① Appropriateness of mid- and long-term financial management plan and efforts and achievements to implement it ② Efforts and achievements to maintain the stability and soundness of the financial structure ③ Efforts and achievements for rational budgeting and implementation through ensuring the validity of project selection (preliminary feasibility study, etc.) ④ Efforts and achievements to reduce liabilities (pertinent institutions for financial risks) ⑤ Efforts and achievements for budget cuts such as cost reduction

Improvement of workers' quality of life

Evaluation indicator	Detailed evaluation contents	
Improvement of workers' quality of life	Definition	Evaluation of efforts and achievements for a balanced life and healthy and safe working conditions
	Target (score)	SOEs and QGOs: 1 non-quantitative point
	Details	① Efforts to create a safe work environment, especially for vulnerable workers such as pregnant women and the disabled ② Efforts and achievements in facilitating a work–life balance such as maternity leave and elimination of overtime labor

Remuneration and benefit costs (remuneration and benefits)

Evaluation indicator	Detailed evaluation contents	
Remuneration and benefits	Definition	Evaluation of efforts and achievements to establish a reasonable compensation and welfare system
	Target (score)	SOEs and QGOs: 3 non-quantitative points
	Details	① Efforts and achievements to operate a reasonable and equitable compensation system - Stepwise and incremental reform toward a reasonable compensation system based on 1) job value, competence, performance, 2) business objectives, job and organizational structure, and 3) the reflection of performance evaluation results ② Abiding by budget compilation and implementation guidelines, particularly regarding fringe benefits ③ Abiding by the SOEs and QGOs salary peak guidelines

Total labor cost management

Evaluation indicator	Detailed evaluation contents	
Total labor cost management	Definition	Evaluation of compliance with the rate increase guidelines for total labor costs
	Target (score)	SOEs and QGOs: 3 quantitative points
	Details	① Rate increase $\text{Rate increase} = \frac{\text{total labor costs in the year of evaluation} - \text{those in the previous year}}{\text{total labor costs in the previous year}}$ The definition of the total labor costs is given by the budget guidelines for SOEs and QGOs

Labor relations

Evaluation indicator	Detailed evaluation contents	
Labor relations	Definition	Evaluation of efforts and achievements for collaborative labor relations
	Target (score)	SOEs and QGOs: 2 non-quantitative points
	Details	① Appropriateness and lawfulness of labor relations based on collaboration and participation ② Efforts and achievements to strengthen the management capacity of labor communication and relations ③ Substantive improvement and visible performance in working conditions through labor-management cooperation

Innovation efforts and achievements

Evaluation indicator	Detailed evaluation contents	
Innovation efforts and achievements	Definition	Evaluation of efforts and achievements for communication with and participation of stakeholders and the general public in management
	Target (score)	SOEs and QGOs: 1 non-quantitative point
	Details	① Compatibility between innovation goals and the institution’s vision and strategy; causality between innovation strategies/projects and innovation goals ② Efforts and achievements of the CEO to facilitate innovation of the institution ③ Efforts and achievements in constructing an implementation organization, designing an incentive system for innovative activities, and enhancing members’ innovation ability ④ Efforts and achievements to construct an innovation network that links inside and outside actors, and a knowledge sharing system of innovative ideas and projects
	Definition	Evaluation of efforts and achievements for communication with and participation of stakeholders, and for enhancing transparency
	Target (score)	SOEs and QGOs: 1 non-quantitative point
	Details	① Efforts and achievements to develop a communication system with stakeholders and general citizens ② Efforts and achievements for outcomes and feedback such as actual influence of participation and communication on management ③ Efforts and achievements to enhance transparency by information disclosure
	Definition	Evaluation of performance of the key performance projects
	Target (score)	SOEs and QGOs: 1 non-quantitative point
	Details	Performance of the key performance projects of the institution

Public communication

Evaluation indicator	Detailed evaluation contents	
Public communication	Definition	Evaluation of the accuracy and timeliness of public data on the management information disclosure system (ALIO) to enhance management transparency
	Target (score)	SOEs and QGOs: 1 quantitative point
	Details	① Items for evaluation are defined by the Standards for the Comprehensive Disclosure of SOEs and QGOs ② Detailed scores are calculated based on the performance data prepared by the MOEF

Evaluation indicator	Detailed evaluation contents	
Public communication	Definition	Evaluation of the level of customer satisfaction and contribution to creating social value indicated in the customer satisfaction survey and the social value creation survey
	Target (score)	SOEs and QGOs: 1 quantitative points
	Details	① Calculation of the points: customer satisfaction (8), contribution to create social value (2) (except small-and-mid-sized PIs, which only consider customer satisfaction) * When there is no survey data available, the point is treated as a missing value ② Detailed scores are calculated based on the performance data prepared by the MOEF

Core business; appropriateness of performance management for the core businesses

Evaluation indicator	Detailed evaluation contents	
Appropriateness of performance management for the core businesses	Definition	Evaluation of the appropriateness of planning, doing, checking, and acting; the appropriateness of quantitative indicators
	Target (score)	SOEs: 12 non-quantitative points, QGOs: 14 non-quantitative points
	Details	① Has the plan for each core business been established in a concrete and appropriate manner? ② Has the plan for each core business been appropriately implemented? ③ Is performance of each core business appropriate? ④ Has the feedback activity of each core business been handled appropriately? ⑤ Has the institution considered social value in the process of planning, doing, checking, and acting?

Appropriateness of the construction of core business indicators

Evaluation indicator	Detailed evaluation contents	
Appropriateness of the construction of core business indicators	Definition	Evaluation of the appropriateness of the definition and goal level of the core business indicators
	Target (score)	SOEs: 6 non-quantitative points, QGOs: 7 non-quantitative points
	Details	① Are the definition and goal level of the core business indicators appropriate? - Representativeness of indicators in terms of the relationship to the founding goals of the institution - Difficulty level of goals

Extra points for innovative growth

Evaluation indicator	Detailed evaluation contents	
Innovative growth	Definition	Evaluation of efforts and achievements to create innovative growth demands, to fuse innovative technologies, and to construct innovative growth infrastructure
	Target (score)	SOEs: 2 points, QGOs: 1 points
	Details	① Efforts and achievements to create innovative growth demands ② Efforts and achievements to facilitate fusion of innovative technologies for public service improvement ③ Efforts and achievements to construct innovative growth infrastructure

4) Performance evaluation rules

(1) Non-quantitative indicators

- The scale for non-quantitative indicators is divided into nine grades (A+ to E0) with C (normal) as the basis.

Table V-14. Grades and scores of non-quantitative indicators

Grades	Scores
A ⁺	100
A ⁰	90
B ⁺	80
B ⁰	70
C	60
D ⁺	50
D ⁰	40
E ⁺	30
E ⁰	20

- Non-quantitative indicators are graded based on overall operational performance and year-on-year improvement by considering the performance evaluation of all indicators as a whole.
- Nevertheless, when the institution’s effort to improve performance for indicators that have been continuously judged as demonstrating moral hazards by external institutions is unsatisfactory, or when the case demonstrates serious moral

hazards, the pertinent indicator can be given the lowest score/grade.

- When the institution has continuously been criticized in the process of performance evaluation by external institutions such as the Board of Audit and Inspection with regard to compensation and fringe benefits, or when the institution has violated the implementation details of the SOEs and QGOs reform plan such as background agreement and restoration of reforms, the pertinent indicator shall be given the lowest score/grade.

(2) Quantitative indicators

- Quantitative indicators, if there are no other rules applied to unique indicators, are evaluated as follows.

Method	Description	Specifics
Goal setting (deviation)	This measures the difference between the performance of the year and the lowest goal divided by the difference between the highest and lowest goals. The highest and lowest goals are calculated using the standard deviation for 5 years.	This can be used when performance data for longer than 5 years is available and reliable.
Goal setting	This measures the difference between the performance of the year and the lowest goal divided by the difference between the highest and lowest goals. The highest and lowest goals are calculated considering a certain level of the ratio to the base value.	This can be used when the performance data is available for less than 3 years or when 5-year data available is not reliable.
Global comparison	This adopts the goal setting (deviation) method, while considering the performance of global power businesses and global standards when setting the highest and lowest goals.	This can be constructed by considering the performance of global power businesses or global performance standards certified by globally authorized institutions.
Long-term goal setting	A long-term goal is set by considering the line ministry's long-term plan or the standard of developed countries. The yearly goals are set by considering the length of the project and the final goal, with the application of the goal setting method above.	This can be used when the goal is monitored by a mid-term plan of the line ministry's or when prompt improvement of service quality compared to developed countries is required.

Method	Description	Specifics
Goal achievement	This method simply measures the degree of achievement of the goal indicated in the evaluation manual.	This is used when the performance data available is for less than 5 years.
β distribution	This method first calculates the standard value and deviation by considering the highest, lowest, and the preceding year performance value. Then this method measures in what range of probability the actual performance falls distant from the standard value.	This is used when the performance data has been accumulated for 5 to 10 years and is reliable.
Trend	This method first calculates the standard value and deviation by using a regression analysis, then measures in what range of probability the actual performance falls distant from the standard value.	This is used when the performance data has been accumulated longer than 10 years and is reliable.

Goal setting method (definition)

- The basic score of the method is 20 points (out of 100 points). The range of the score is from 20 to 100. The score is calculated as follows.

$$20 + 80 * (\text{performance} - \text{lowest goal}) / (\text{highest goal} - \text{lowest goal})$$
- There are two ways to define the highest and lowest goals: the general method (multiplying a certain ratio to the base value) and the standard deviation method (adding and subtracting the standard deviation of a certain term to and from the base value). The base value is defined as the maximum value (upward indicator) or the minimum value (downward indicator) between the preceding year performance and the average performance of the three preceding years. When performance data for three years based on the same accounting standards is not available, only two-year data is used.
- As for the general goal setting method, the following rule is applied.

	Highest goal	Lowest goal
Upward indicator	base value * 110%*	base value * 80%
Downward indicator	base value * 90%**	base value * 120%

Note: * is 120% and ** is 80% if the indicator measures a core business performance.

- As for the goal setting (deviation) method, the following rule is applied.

	Highest goal	Lowest goal
Upward indicator	base value + 1**STD(past 5 years)	base value – 2*SD (past 5 years)
Downward indicator	base value – 1**STD(past 5 years)	base value + 2*SD (past 5 years)

Note: * is 2 if the indicator measures a core business performance.

- When performance data for five years based on the same accounting standards is not available, the three- or four-year standard deviation can be used.
- The highest and lowest goal can be defined differently to reflect the uniqueness of the indicator.
- When it is not appropriate to use the goal setting (deviation) method due to a discontinuity caused by the change in business structure, the general goal setting method can be used.
- The standard deviation (SD) is calculated as follows.

$$SD = \sqrt{\sum_{i=1}^n \frac{(Y_i - \bar{Y})^2}{n}}$$

Y_i: Y at year i

\bar{Y} : the average of Y

n: number of years

Outliers

Calculation considering outliers

- When using the goal setting (deviation) method, statistical outliers can be removed. An outlier is defined by considering whether the five-year deviation is two times larger than the four-year deviation without the outlier, along with why it happened and how it was treated in the past.

Adjustment of the base value

- When there is an outlier among the performance values in the past three years,

the base value is calculated as follows.

Condition	Calculation of base value			
When the outlier occurred at (t-1)	upward indicator	max of	min of	(t-1) performance
				(t-2) performance + 2*SD (past 5 years)
	downward indicator	min of	max of	(t-1)(t-2)(t-3) 3-year average performance
				(t-1) performance
When the outlier occurred at (t-2) or (t-3)	upward indicator	max of	min of	(t-2) performance - 2*SD (past 5 years)
				(t-1)(t-2)(t-3) 3-year average performance
	downward indicator	min of	max of	(t-1) performance
				3-year average performance excluding the outlier in any of (t-1), (t-2), (t-3), and (t-4)
downward indicator	min of	max of	(t-1) performance	
			3-year average performance excluding the outlier in any of (t-1), (t-2), (t-3), and (t-4)	

Global comparison

- This method measures the performance based on a comparison to the performance of global standard businesses or global performance standards certified by globally authorized institutions. This method basically applies the goal setting (deviation) method.

Long-term goal setting method, general cases

- This method focuses on comparing short-term (one to three years) performance and mid- to long-term performance, which is set by considering the desirable level of achievement and target year from the viewpoint of mid- to long-term performance management.
- A score range is set by considering a base value, which is set from the long-term trend line and the highest and lowest goals calculated from the base value.
- The score is calculated as follows.

$$-20 + 80 * [(performance - lowest\ goal)/(highest\ goal - lowest\ goal)*\alpha + (performance(three\text{-}year\ average) - lowest\ goal(three\text{-}year\ average))/highest$$

goal(three-year average) - lowest goal(three-year average))*(1- α), where α denotes the weight of the current year performance and (1- α) denotes the weight of the three-year performance.

- The default value for α is set to 0.5; however, the value can be set differently by considering the unique condition of the project or the institution. Once the value is set, it should continue for three years unless there is any other reason to change it.
- The three-year average is calculated by considering the current year (t), t-1, and t-2; however, if the project began very recently and three-year data is not available or if the long-term trend line needs to be adjusted, only two-year data (t and t-1) can be used.
- The long-term trend line is defined by considering base goal (A), mid- to long-term goal (B), and the length of the year term (n). The line can be adjusted by considering the recent three-year performance unless otherwise required by law or policy change.
- The base goal (A) is set by the most recent year data available when the indicator is applied for the first time.
- The mid- to long-term goal (B) is set by the line ministry's long-term plan, the level of counterparts in developed countries, or the long-term plan reported to the minister of the MOEF and the line ministry according to AMPI §46.
- The base value is calculated as follows.

$$\text{Unit goal}(\alpha) = |(B-A)/n|$$
- The items above can be set differently when the long-term trend line is not linear.
- As for the calculation of the goals, the following rule is applied.

	Highest goal	Lowest goal
Upward indicator	base value + 2*unit goal(α)	base value - 2*unit goal(α)
Downward indicator	base value - 2*unit goal(α)	base value + 2*unit goal(α)

Evaluation of the mid- to long-term financial management plan implementation

- When debt exceeds assets, the debt/asset ratio can be used in the place of the debt/capital ratio.
- The basic score of the method is 20 points (out of 100 points). The range of the score is from 20 to 100. The score is calculated as follows.
 $20 + 80 * (\text{performance} - \text{lowest goal}) / (\text{highest goal} - \text{lowest goal})$
- As for the highest and lowest goals, the following rule is applied.

		Highest goal	Lowest goal
Upward indicator	current year goal > preceding year goal	base value + 1*unit goal(α)	base value – 2*unit goal(α)
	current year goal < preceding year goal	base value – 1*unit goal(α)	base value – 3*unit goal(α)
Downward indicator	current year goal < preceding year goal	base value – 1*unit goal(α)	base value + 2*unit goal(α)
	current year goal > preceding year goal	base value + 1*unit goal(α)	base value + 3*unit goal(α)

- The unit goal is calculated as follows:

$$\text{Unit goal}(\alpha) = | \text{current year goal}(A) - \text{preceding year goal}(B) |,$$

where A is the current year debt ratio (plan) and B is the preceding year debt ratio (performance).

Trend method

- This method uses the results of regression analysis with past performance data to calculate the base value and standard deviation. The score is calculated as follows.
 $20 + 80 * \text{trend score},$
 where the trend score (%) is calculated as follows.
 When the trend line is defined as $\hat{Y} = a + bX,$
 - $Y_s = a + b X_p$ (where Y_s is the base value)

$$-S = \sqrt{\frac{\sum_{i=1}^n (Y_i - a - bX_i)^2}{n-2}} \times \left\{ 1 + \frac{1}{n} + \frac{(X_p - \bar{X})^2}{\sum_{i=1}^n (X_i - \bar{X})^2} \right\}$$

$X_i = X$ at the i^{th} year, $X_p = X$ at the evaluation year, $\bar{X} =$ mean of X

$Y_i = Y$ at the i^{th} year, $\hat{Y} =$ estimate value of Y

$a, b =$ parameter estimates from regression analysis

$n =$ length of terms

- Then, a standardized z value is calculated as follows.

$$Z_p = \frac{Y_p - Y_s}{S}$$

$Y_p = Y$ at the evaluation year, $Y_s =$ the base value of Y

- The table below shows the list of cumulative probabilities and corresponding standardized z values.

Cumulative probability and z values.

Cumulative probability	$P_{2.474}$	$P_{4.947}$	$P_{11.928}$	$P_{23.973}$	$P_{40.682}$	$P_{59.318}$	$P_{76.027}$	$P_{88.072}$	$P_{95.053}$	$P_{97.527}$
z value	-1.965	-1.650	-1.179	-0.707	-0.236	0.236	0.707	1.179	1.650	1.965

- The performance score is calculated as indicated in Table 2.

Probability interval and calculation of score.

Probability interval	Calculation of score (%)
A ⁺	$88.896 + 5.556 \times \frac{PV - P_{95.053}}{P_{97.527} - P_{95.053}}$
A ⁰	$77.784 + 11.112 \times \frac{PV - P_{88.072}}{P_{95.053} - P_{88.072}}$
B ⁺	$66.672 + 11.112 \times \frac{PV - P_{76.027}}{P_{88.072} - P_{76.027}}$
B ⁰	$55.560 + 11.112 \times \frac{PV - P_{59.318}}{P_{76.027} - P_{59.318}}$
C	$44.448 + 11.112 \times \frac{PV - P_{40.682}}{P_{59.318} - P_{40.682}}$

Probability interval	Calculation of score (%)
D ⁺	$33.336 + 11.112 \times \frac{PV - P_{23.978}}{P_{40.682} - P_{23.978}}$
D ⁰	$22.224 + 11.112 \times \frac{PV - P_{11.928}}{P_{23.978} - P_{11.928}}$
E ⁺	$11.112 + 11.112 \times \frac{PV - P_{4.947}}{P_{11.928} - P_{4.947}}$
E ⁰	$5.556 + 5.556 \times \frac{PV - P_{2.474}}{P_{4.947} - P_{2.474}}$

Note : P_a denotes the cumulative probability value of z when Y is larger than a%. The range of the score is from 0% to 100%. PV denotes the standardized z value of the performance in the evaluation year.

Outliers

- Outliers in calculating the trend can be removed or treated as dummy variables. A value is considered as an outlier when the performance value in the current year is different from an estimated value calculated by not considering the performance value in the current year by three standard deviations. The way the outliers were treated and why they occurred can also be considered.

β distribution method

- The base value and standard deviation in this method are calculated as follows.

$$- Y \text{ (base value)} = \frac{Y_a + 4Y_m + Y_b}{6}$$

$$- S = \sqrt{\frac{(Y_b - Y_a)^2}{36}}$$

Y_a : the highest value among the previous performance values

Y_b : the lowest value among the previous performance values

Y_m : the performance value of the year preceding the evaluation year

- Other than these exceptions listed above, the trend method is applied in calculating the performance score.

Goal achievement method

- This method first simply calculates the ratio between performance and goal. Goals should be clearly defined in terms of quantity, throughput, and ratio.

$$\text{Degree of achievement} = \text{achievement}/\text{goal}$$

- The performance score is calculated as follows:

$$\text{upward indicator} : 20 + 80 \times Y$$

$$\text{downward indicator} : 20 + 80 \times \frac{1}{Y}$$

where Y denotes the degree of achievement in the evaluation year.

Other methods

- The measurement of the total labour cost management indicator is categorized according to the goal setting method. The score is 100 when the total labour cost increase rate is smaller than the criterion set by the SOEs and QGOs budget guideline in the evaluation year, and 0 when larger.
- The measurement of the indicators in the social value creation category follows the method suggested by the line ministry.

Reference to and use of external evaluation and audit

- By using the data from this evaluation when the institution is also evaluated or audited according to other laws and regulations, it is expected for the institution to decrease the burden of evaluation preparation and ensure consistency among different evaluations.

Follow-up actions

Summing up the scores

- The comprehensive evaluation score and those by category are calculated by

multiplying the score of each indicator by its weight value and then adding up the quantitative and nonquantitative scores.

- When there is a missing value, the final score is calculated first by summing up the other scores excluding the value, then by transforming the score to a score on the 100-point scale.
- The final evaluation is composed of comprehensive score and scores by category. One of six grades is given to institutions by category of institution type.

Grade	Definition
Superb (S)	The institution has a systematic management system in all management areas, carries out effective management activities, and achieves a very high level of performance.
Excellent (A)	The institution has a systematic management system in most management areas, carries out effective management activities, and achieves a high level of performance.
Good (B)	The institution has a good management system in most management areas and achieves an acceptable level of performance.
Fair (C)	The institution has a fair management system in most management areas and carries out a fair level of management activities.
Poor (D)	The institution has a fair management system in a few management areas and achieves an overall unsatisfactory performance.
Very poor (E)	The institution lacks a systematic management system in most management areas, does not carry out effective management activities, and requires reform to achieve an innovation-oriented system.

- Grades are given by comparing the institution's performance to its previous year performance and to the performance of other institutions of the same type in the same year. The Ownership Steering Committee reviews and decides the evaluation results.

Performance-based bonus

- A performance-based bonus is determined according to the institution's evaluation result and the SOE and QGO budget guidelines.

- Performance-based bonuses for executives and employees are determined according to the institutions' evaluation result, reviewed and decided by the Ownership Steering Committee, and finally confirmed by the minister of the MOEF.
- The size of a performance-based bonus can be reduced depending on the financial risk of the institution such as debt size and ratio.

Action for superb and very poor institutions

- The minister of the MOEF can award superb institutions.
- The minister of the MOEF or the line ministry can require a management improvement plan from institutions that received a “very poor” grade by September in the same year, check the progress, and carry over the result in the next evaluation.
- The minister of the MOEF can propose the dismissal of the CEO and/or executive directors of institutions that received a “very poor” grade to the person with appointive power through the review and decision of the Ownership Steering Committee. This applies only to those who occupy the position longer than six months by the end of the evaluation year.

Penalty for non-submission of the management report

- When the institution does not submit the management report or submits a report with fraudulent claims or errors, the following penalties can be allocated depending on the causes and responsibility.
 - Reduction of the score on the pertinent indicator (to 0 points)
 - Cut of performance-based bonus
 - Warning against the institution or notification to the director that requests punishment of the responsible person(s)

Serious offense against basic social obligations or social contribution

- The grade or bonus for institutions committing a serious offense against basic social obligations, such as corruption in recruitment, violation of gender and employment equality, minimum wage violations, and tax evasion, can be reduced.
- The grade or bonus for institutions making a significant contribution to the national economy, social welfare, and the positive image of the country can be upgraded.

Exempt from evaluation for indicators with an excellent score

- Indicators for which an institution receives excellent grades (A+, A0) for more than two consecutive years are exempt from evaluation in the following year.

Korea Electric Power Corporation (SOE type I)

• Summary of indicators

Category	Evaluation indicator	Weight		Sum
		Nonquant.	Quant.	
Management	1. Management strategy and leadership			6
	(1) Strategic planning	2		
	(2) Management improvement	2		
	(3) Leadership	2		
	2. Social value creation			22
	(1) Job creation	4	3	
	(2) Equal opportunity and social integration	3	1	
	(3) Safety and environment	2	1	
	(4) Symbiosis, collaboration, and local development	2	3	
	(5) Ethical management	3		
	3. Work efficiency			5
	(1) Labor productivity		2.5	
	(2) Capital productivity		2.5	
	4. Organization, human resource, and financial management			9
	(1) General organization and human resource management	3		
	(2) Financial budget operation and performance	2		
	a) Interest coverage rate		1	
	b) Asset turnover ratio		1	
	c) Mid- and long-term financial management plan implementation		1	
	(3) Improvement of workers' quality of life	1		
	5. Remuneration and benefit management			8
	(1) Remuneration and benefits	3		
	(2) Total labor cost management		3	
	(3) Labor relations	2		
	6. Innovation and communication			5
	(1) Innovation efforts and achievements	3		
(2) Public communication		2		
	Subtotal	34	21	55

Category	Evaluation indicator	Weight		Sum
		Nonquant.	Quant.	
Core business	1. Electric supply			5
	(1) Global load factor management		5	
	2. Transmission and transformation of electric power			7
	(1) TTEP blackout and breakdown rate management		7	
	3. Supply of electric power			10
	(1) Global transmission and distribution loss factor management		3	
	(2) Specific voltage management		7	
	4. Future growth			5
	(1) Growth rate of future business		3	
	(2) Growth of new regeneration energy		2	
	5. Appropriateness of core business performance management	12		12
	6. Appropriateness of indicators for core business	6		6
	Subtotal	18	27	45
	Total sum	52	48	100

* For indicators that are not explained in detail in this section, see the previous section. They simply follow the standard definition.

Management

3. Work efficiency (5 points)

(1) Labor productivity (goal setting (deviation), 2.5 points)	
Definition	Improvement in labor productivity (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding three years
Goal	Highest : $BV + 1 \times SD$ (past 5 years) Lowest : $BV - 2 \times SD$ (past 5 years)
Formula	Labor productivity = $\frac{\text{Added value}}{\text{Average number of employees}}$
(2) Capital productivity (goal setting (deviation), 2.5 points)	
Definition	Improvement in capital productivity (upward)

Base value	Maximum between performance in the preceding year and average performance of the preceding three years
Goal	Highest : $BV + 1 \times SD$ (past 5 years) Lowest : $BV - 2 \times SD$ (past 5 years)
Formula	Capital productivity = $\frac{\text{added value}}{\text{total assets}}$

4. Organization, human resource, and financial management

(2) Financial budget operation and performance(3 points)

a) Interest coverage rate (method: goal setting (deviation), 1 point)	
Definition	Improvement in interest coverage rate (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding three years
Goal	Highest : $BV + 1 \times SD$ (past 5 years) Lowest : $BV - 2 \times SD$ (past 5 years)
Formula	① Interest coverage rate = $\frac{\text{profit}}{\text{interest cost}}$
b) Asset turnover ratio (method: goal setting (deviation), 1 point)	
Definition	Management and growth of total asset (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding three years
Goal	Highest : $BV + 1 \times SD$ (past 5 years) Lowest : $BV - 2 \times SD$ (past 5 years)
Formula	① Asset turnover ratio = $\frac{\text{sales}}{\text{total asset}}$
c) Mid- and long-term financial management plan implementation (method: long-term goal setting, 1 point)	
Definition	Progress in mid- and long-term financial management plan implementation
Base value	The highest goal of the previous year
Goal	Highest goal : $BV + 1 \times \text{unit goal}$ Lowest goal : $BV + 3 \times \text{unit goal}$
Formula	① debt ratio = $\frac{\text{debt}}{\text{equity}}$

Core business

1. Electric supply (5 points)

(1) Global load factor management (method: ①Global comparison, ②goal setting (deviation), 5 points)	
Definition	Level of effort to manage electric demand compared to the global standard (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding three years (applied only ②)
Goal	① Highest : the best load factor at the global level Lowest : the average of the load factors of the top five countries ② Highest : $BV + 2 \times SD$ (past 5 years) Lowest : $BV - 2 \times SD$ (past 5 years)
Formula	Global load factor order (A) $\cdot 20 + 80 \times \frac{\text{load factor of Korea} - \text{lowest goal}}{\text{highest goal} - \text{lowest goal}}$ Global load factor index (B) $= \text{Global load factor index (B)} \times \frac{\text{load factor of Korea}}{\text{load factor of the best country}}$ $\text{Score} = A \times .7 + B \times .3$ ※ load factor of Korea : $\frac{\text{average power (MW)}}{\text{maximum power (MW)}} \times 100$ *Comparison countries : Japan, Taiwan, USA, Canada, Australia, France, Germany, Sweden, England, Italy.

2. Transmission and transformation of electric power (7 points)

(1) TTEP blackout and breakdown rate management (method: goal setting (deviation), 7 points)	
Definition	The level of TTEP blackout and breakdown rate in terms of the reliability of electric power supply and the quality of electric power (downward)
Base value	Minimum between performance in the preceding year and average performance of the preceding three years
Goal	Highest : $BV - 2 \times SD$ (past 5 years) Lowest : $BV + 2 \times SD$ (past 5 years)
Formula	① breakdown rate = $\frac{\text{breakdown wattage}}{\text{transformer capacity(MVA)} + \text{transmitter capacity(MVA)}}$ Breakdown wattage : breakdown wattage for more than 5 minutes due to the institution's facilities

3. Supply of electric power (10 points)

(1) Global transmission and distribution loss factor management (method : ① global comparison, ② goal setting (deviation), 3 points)	
Definition	Effort to improve operation efficiency of the institution's power facility at the global level (downward)
Base value	Minimum between performance in the preceding year and average performance of the preceding three years (applied to only ②)
Goal	① Highest : the best loss factor at the global level Lowest : the average of the loss factors of the top five countries ② Highest : $BV - 2 \times SD$ (past 5 years) Lowest : $BV + 2 \times SD$ (past 5 years)
Formula	Global loss factor order (A) $\cdot 20 + 80 \times \frac{\text{loss factor of Korea} - \text{lowest goal}}{\text{highest goal} - \text{lowest goal}}$ Global loss factor index (B) $\cdot \text{Global load factor index (B)} : \frac{\text{loss factor of Korea}}{\text{loss factor of the best country}}$ $\text{Score} = A \cdot .7 + B \cdot .3$
(2) Specific voltage management (method: goal setting (deviation), 10 points)	
Definition	Stability of specific voltage as advancement of electric power quality (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding three years
Goal	Highest : $BV + 2 \times SD$ (past 5 years) Lowest : $BV - 2 \times SD$ (past 5 years)
Formula	Stability of specific voltage (%) = $\frac{\text{Number of measuring points of appropriate voltage (A)}}{\text{Total number of measuring points of voltage (B)}}$ A : supply points of electricity that maintained specific voltage for 24 hours B : supply points of electricity at which sample voltages are measured

4. Future growth (5 points)

(1) Growth rate of future business (method: goal setting (deviation), 3 points)	
Definition	Evaluation of efforts for future growth business according to the increase in sales in the business (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding three years
Goal	Highest : $BV + 2 \times SD$ (past 5 years) Lowest : $BV - 2 \times SD$ (past 5 years)
Formula	$\textcircled{1} \text{ Growth rate of future growth business} = \frac{\text{sales of the business (million KRW)}}{\text{total sales (million KRW)}}$ <p>Future growth business : overseas business, R&D, and new regeneration business</p>
(2) Growth of new regeneration energy business (method : goal setting (deviation), 2 points)	
Definition	Evaluation of efforts for growth of new regeneration energy business through facility capacity (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding three years
Goal	Highest : $BV + 2 \times SD$ (past 5 years) Lowest : $BV - 2 \times SD$ (past 5 years)
Formula	$20 + 80 \times \frac{\text{facility capacity of new regeneration energy} - \text{lowest goal}}{\text{highest goal} - \text{lowest goal}}$

Korea Electric Power Corporation (market type II)

• Summary of indicators

Category	Evaluation indicator	Weight		Sum
		Nonquant.	Quant.	
Management	1. Management strategy and leadership			6
	(1) Strategic planning	2		
	(2) Management improvement	2		
	(3) Leadership	2		
	2. Social value creation			22
	(1) Job creation	4	3	
	(2) Equal opportunity and social integration	3	1	
	(3) Safety and environment	2	1	
	(4) Symbiosis, collaboration, and local development	2	3	
	(5) Ethical management	3		
	3. Work efficiency			5
	(1) Labor productivity		2.5	
	(2) Capital productivity		2.5	
	4. Organization, human resource, and financial management			9
	(1) General organization and human resource management	3		
	(2) Financial budget operation and performance	2		
	a) Interest coverage rate		1	
	b) Asset turnover ratio		1	
	c) Mid- and long-term financial management plan implementation		1	
	(3) Improvement of workers' quality of life	1		
	5. Remuneration and benefit management			8
	(1) Remuneration and benefits	3		
	(2) Total labor cost management		3	
	(3) Labor relations	2		
	6. Innovation and communication			5
	(1) Innovation efforts and achievements	3		
(2) Public communication		2		
	Subtotal	34	21	55

Category	Evaluation indicator	Weight		Sum
		Nonquant.	Quant.	
Core business	1. Operation of generation unit			17
	(1) Reduction of unplanned loss		8	
	(2) Reduction of forced outages		6	
	(3) Improvement of air quality		3	
	2. Supply of electric generator fuel			7
	(1) Enhancement of competitiveness of unit price of bituminous coal		5	
	(2) Effort to expand eco-friendly fuels		2	
	3. Future growth			3
	(1) Growth rate of future business		3	
	4. Appropriateness of core business performance management	12		12
	5. Appropriateness of indicators for core business	6		6
	Subtotal	18	27	45
	Total sum	52	48	100

* For indicators that are not explained in detail in this section, see the previous section. They simply follow the standard definition.

Management

3. Work efficiency

(1) Labor productivity (goal setting (deviation), 2.5 points)	
Definition	Improvement in labor productivity (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding 3 years
Goal	Highest : BV + 1×SD (past 5 years) Lowest : BV - 2×SD (past 5 years)
Formula	$\text{Labor productivity} = \frac{\text{Added value}}{\text{Average number of employees}}$
(2) Capital productivity (goal setting (deviation), 2.5 points)	
Definition	Improvement in capital productivity (upward)

Base value	Maximum between performance in the preceding year and average performance of the preceding 3 years
Goal	Highest : $BV + 1 \times SD$ (past 5 years) Lowest : $BV - 2 \times SD$ (past 5 years)
Formula	Capital productivity = $\frac{\text{Added value}}{\text{Total assets}}$

4. Organization, human resource, and financial management

(2) Financial budget operation and performance(3 points)

a) Interest coverage rate (method: goal setting (deviation), 1 point)	
Definition	Improvement in interest coverage rate (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding 3 years
Goal	Highest : $BV + 1 \times SD$ (past 5 years) Lowest : $BV - 2 \times SD$ (past 5 years)
Formula	① Interest coverage rate = $\frac{\text{Profit}}{\text{Interest cost}}$
b) Asset turnover ratio (method: goal setting (deviation), 1 point)	
Definition	Management and growth of total assets (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding 3 years
Goal	Highest : $BV + 1 \times SD$ (past 5 years) Lowest : $BV - 2 \times SD$ (past 5 years)
Formula	① Asset turnover ratio = $\frac{\text{Sales}}{\text{Total assets}}$
c) Mid- and long-term financial management plan implementation (method: long-term goal setting, 1 point)	
Definition	Progress in mid- and long-term financial management plan implementation
Base value	The highest goal of the previous year
Goal	Highest goal : $BV + 1 \times \text{unit goal}$ Lowest goal : $BV + 3 \times \text{unit goal}$
Formula	① Debt ratio = $\frac{\text{Debt}}{\text{Equity}}$

Core business

1. Operation of generation unit (17 points)

(1) Reduction of unplanned loss (method: comparison to similar institutions, 8 points)	
Definition	Strengthening electric power supply and demand stability and improving the quality of electricity by reducing unplanned losses in the electric power production process (downward)
Goal	Highest goal: min (5-year performances of five power corporations by the method of generation) Lowest goal: max (5-year performances of five power corporations by the method of generation)
Formula	<p>① Performance is calculated by each method of generation, and the score is the sum of the scores for each method of generation. ※ Method of generation: coal, fluidized bed, LNG, heavy oil (including internal combustion engine)</p> <p>② Score = $\frac{\text{Unplanned losses}}{\text{Base quantity of electric power}} \times 100$</p> <p>③ Base quantity of electric power = bid capacity × operation time ④ Unplanned loss = base quantity of electric power – planned loss – actual amount of bid</p>
(2) Reduction of forced outage (method: comparison to similar institutions, 6 points)	
Definition	Successful management of the power demand and supply stability and the quality of electricity through a reduction of forced outages (downward)
Goal	Highest goal: min (5-year performances of five power corporations by the method of generation) Lowest goal: max (5-year performances of five power corporations by the method of generation)
Formula	<p>① Performance is calculated by each method of generation, and the score is the sum of the scores for each method of generation. ※ Method of generation: coal, fluidized bed, LNG, heavy oil (including internal combustion engine)</p> <p>② Ratio = $\frac{\text{Outage time}}{\text{Operation time}}$</p> <p>③ Outage time = abrupt stop + unplanned maintenance stop + operation failure ④ Operation time = 365 days (1 year) × 24 (hours) ⑤ Performance = weighted sum of the ratios by power generation type</p>
(3) Improvement of air quality (method: goal setting, 3 points)	
Definition	Efforts to reduce air pollutants generated by coal power plants to improve air quality (upward)

Base value	Amount of reduction of air pollutants set by government (Ministry of Industry)
Goal	Highest goal: base value × 120% Lowest goal: base value × 80%
Formula	① Improvement of air quality = amount of reduction of air pollutants (A) ② (A) is defined by the difference between the amount of air pollutants generated by coal power plants in the current and previous years

2. Supply of electric generator fuel (7 points)

(1) Enhancement of competitiveness of unit price of bituminous coal (method: comparison to similar institutions, goal achievement, 5 points)	
Definition	Unit price of bituminous coal the institution paid (downward) compared to domestic and global competitors (sub indicators)
Goal	(Domestic competitiveness of unit price of bituminous coal): the lowest unit price among the five power corporations in the evaluation year (efforts to reduce unit price compared to the international market condition): gCI NEWC average price in the year × 90%
Formula	① Competitiveness of unit price of bituminous coal = (performance of unit price of bituminous coal) × 1/3 + (efforts to reduce unit price compared to the international market condition) × 2/3 ② Performance of unit price of bituminous coal Score = $\frac{\text{FOB unit prices of the corporation}}{\text{Min (FOB unit prices of the five power corporations)}}$ ③ Efforts to reduce unit price compared to the international market condition Score = $\frac{\text{FOB unit prices of the corporation in the evaluation year}}{\text{gCI NEWC average price in the current year} \times 90\%}$
(2) Effort to expand eco-friendly fuels (method: goal setting, 2 points)	
Definition	Efforts to obtain low-sulfur coal to reduce fine dust (upward)
Base value	Goal to reduce sulfur (%p) - from the average during the past 5 years (2013–2017) to the reduction of 0.01%p in 2018, 0.03%p in 2019, 0.04%p in 2020
Goal	Highest goal: base value × 120% Lowest goal: base value × 80%
Formula	Score (%p) = the average ratio of sulfur during the past 5 years (%) – the average ratio of sulfur in the current year (%)

3. Future growth (3 points)

(1) Expansion of new renewable energy (method: goal setting (deviation), 3 points)	
Definition	Performance of the expansion of new renewable energy measured by facility expansion and the amount of power generation through renewable energy (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding 3 years
Goal	Highest: $BV + 2 \times SD$ (past 5 years) Lowest: $BV - 2 \times SD$ (past 5 years)
Formula	① $Score = (\text{renewable energy facility capacity} \times 0.5) + (\text{amount of power generation through renewable energy} \times 0.5)$

National Pension Service (fund-management type)

• Summary of indicators

Category	Evaluation indicator	Weight		Sum	
		Nonquant.	Quant.		
Management	1. Management strategy and leadership			6	
	(1) Strategic planning	2			
	(2) Management improvement	2			
	(3) Leadership	2			
	2. Social value creation			20	
	(1) Job creation	3	3		
	(2) Equal opportunity and social integration	2	1		
	(3) Safety and environment	2	1		
	(4) Symbiosis, collaboration, and local development	2	3		
	(5) Ethical management	3			
	3. Organization, human resource, and financial management			11	
	(1) General organization and human resource management	3			
	(2) Financial budget operation and performance	1			
	a) Mid- and long-term financial management plan implementation		1		
	b) Fund management and performance		5		
	(3) Improvement of workers' quality of life	1			
	4. Remuneration and benefits management			8	
	(1) Remuneration and benefits	3			
	(2) Total labor cost management		3		
	(3) Labor relations	2			
	5. Innovation and communication			5	
	(1) Innovation efforts and achievements	3			
	(2) Public communication		2		
	Subtotal		31	19	50

Category	Evaluation indicator	Weight		Sum
		Nonquant.	Quant.	
Core business	1. Beneficiary management			16
	(1) Expansion of beneficiaries in vulnerable groups		6	
	(2) Expansion of insurance premium charge		10	
	2. Pension benefit management			13
	(1) Improving the accuracy of entitlement evaluation		5	
	(2) Prevention of failure to receive benefits		3	
	(3) Timely payment of benefits		5	
	3. Appropriateness of core business performance management	14		14
	4. Appropriateness of indicators for core business	7		7
	Subtotal	21	29	50
Total sum		52	48	100

* For indicators that are not explained in detail in this section, see the previous section. They simply follow the standard definition.

Management

3. Organization, human resource, and financial management

(2) Financial budget operation and performance (6 quantitative points)

b) Fund operation and management and performance (5 points)	
Definition	The performance of fund operation and management applies the evaluation result of the asset operation on the fund operation evaluation in 2018.
Formula	The score is the sum of the quantitative and non-quantitative indicators in the evaluation result of the asset operation on the fund operation evaluation.

Core business

1. Beneficiary management (16 points)

(1) Expansion of beneficiaries in vulnerable groups (method: long-term goal setting, 6 points)	
Definition	Efforts to expand beneficiaries employed by small businesses by providing subsidies for insurance premium (upward)

Base value	Max (the goal, the performance) of the previous year in the long-term trend						
Goal	Highest: $BV + 2 \times \text{unit goal}$ Lowest: $BV - 2 \times \text{unit goal}$						
Formula	$20 + 80 * \{((\text{performance} - \text{lowest goal})/(\text{highest goal} - \text{lowest goal})) * 0.5 + ((\text{performance (3-year average)} - \text{lowest goal (3-year average)})/(\text{highest goal (3-year average)} - \text{lowest goal (3-year average)})) * 0.5\}$						
	① Expansion of beneficiaries in vulnerable groups = the number of newly affiliated beneficiaries who are employed in small businesses with fewer than 10 employees during the evaluation year (persons)						
	Goal	Base	2018	2019	2020	2021	2022
	Long-term	2,315,147	3,135,102	3,408,421	3,681,739	3,955,058	4,228,376
Unit	273,318						

(2) Expansion of insurance premium charge (method: long-term goal setting, 10 points)

Definition	Efforts to increase premiums such as the expansion of taxpayers and management of standard monthly income (upward)						
Base value	Max (the goal, the performance) of the previous year in the long-term trend						
Goal	Highest: $BV + 2 \times \text{unit goal}$ Lowest: $BV - 2 \times \text{unit goal}$						
Formula	$20 + 80 * \{((\text{performance} - \text{lowest goal})/(\text{highest goal} - \text{lowest goal})) * 0.5 + ((\text{performance (3-year average)} - \text{lowest goal (3-year average)})/(\text{highest goal (3-year average)} - \text{lowest goal (3-year average)})) * 0.5\}$						
	① Expansion of insurance premium charge = the sum of insurance premium charged to newly affiliated businesses, local beneficiaries, and voluntary (continuous) beneficiaries (million KRW)						
	Goal	Base	2018	2019	2020	2021	2022
	Long-term	1,210,887	1,545,304	1,656,777	1,768,249	1,879,722	1,991,194
Unit	111,472						

2. Pension benefit management (13 points)

(1) Improving the accuracy of entitlement evaluation (method: goal setting (deviation), 5 points)

Definition	Efforts to improve the accuracy of entitlement evaluation (downward)						
Base value	Minimum between performance in the preceding year and average performance of the preceding 3 years						
Goal	Highest: $BV - 2 \times SD$ (5 years) Lowest: $BV + 2 \times SD$ (5 years)						

• V. Performance evaluation system: Evolution and current operation

Formula	① Improvement of the accuracy of entitlement evaluation = $\frac{\text{Number of entitlement cancellations in the year}}{(\text{Number of entitlement decisions}/100,000)}$
(2) Prevention of failure to receive benefits (method: goal achievement, 3 points)	
Definition	Efforts to prevent eligible citizens from not requesting pension by providing information (upward)
Goal	70% (according to the Basic Pension Act)
Formula	Prevention of failure to receive benefits = the ratio of beneficiaries (A) – the ratio of excess beneficiaries (B) A = MIN [$\frac{\text{number of beneficiaries}}{\text{population over 65}}$ 70%] B = MAX [$\frac{\text{number of beneficiaries} - (\text{population over 65} \times 70\%)}{\text{population over 65}}$ 0%]
(3) Timely payment of benefits (method: goal setting (deviation), 5 points)	
Definition	Efforts and achievements to provide pension responsively and on time for those who are eligible or disabled
Base value	Timely payment for those whose became eligible (upward) : maximum between performance in the preceding year and average performance of the preceding 3 years (A) Timely payment for the disabled (downward) : minimum between performance in the preceding year and average performance of the preceding 3 years (B)
Goal	A: Highest: BV + 2 × SD (5 years) Lowest: BV – 2 × SD (5 years) B: Highest: BV – 2 × SD (5 years) Lowest: BV + 2 × SD (5 years)
Formula	① Score = (A × 0.9) + (B × 0.1) ② Timely payment = $\frac{\text{Number of people who received timely payment}}{\text{Number of newly entitled people} - \text{continuous members}}$ -Timely payment: payment beginning in the next month to which the date of the entitlement belongs

Korea Trade-Investment Promotion Agency (commissioned-service type)

• Summary of indicators

Category	Evaluation indicator	Weight		Sum
		Nonquant.	Quant.	
Management	1. Management strategy and leadership			6
	(1) Strategic planning	2		
	(2) Management improvement	2		
	(3) Leadership	2		
	2. Social value creation			20
	(1) Job creation	3	3	
	(2) Equal opportunity and social integration	2	1	
	(3) Safety and environment	2	1	
	(4) Symbiosis, collaboration, and local development	2	3	
	(5) Ethical management	3		
	3. Organization, human resource, and financial management			6
	(1) General organization and human resource management	3		
	(2) Financial budget operation and performance	1		
	a) Mid- and long-term financial management plan implementation		1	
	(3) Improvement of workers' quality of life	1		
	4. Remuneration and benefits management			8
	(1) Remuneration and benefits	3		
	(2) Total labor cost management		3	
	(3) Labor relations	2		
	5. Innovation and communication			5
	(1) Innovation efforts and achievements	3		
	(2) Public communication		2	
	Subtotal	31	14	45
Core business	1. Strengthening global competitiveness of small and medium businesses			8
	(1) Support for domestic companies to develop new global markets and become exporting companies		8	
	2. Supporting small- and medium-sized businesses for export			14

Category	Evaluation indicator	Weight		Sum
		Nonquant.	Quant.	
Core business	(1) Customized service provision for potential exporting companies		8	
	(2) Increase in the number of foreign buyer contracts		6	
	3. Support for domestic companies to expand overseas businesses			5
	(1) Support for foreign investment		2	
	(2) Support for overseas employment		3	
	4. Attracting foreign investment and support			7
	(1) Amount of foreign investment		7	
	5. Appropriateness of core business performance management	14		14
	6. Appropriateness of indicators for core business	7		7
		Subtotal	21	34
Total sum		52	48	100

* For indicators that are not explained in detail in this section, see the previous section. They simply follow the standard definition.

Management

3. Organization, human resource, and financial management

(2) Financial budget operation and performance (1 quantitative point)

a) Mid- and long-term financial management plan implementation (method: long-term goal setting, 1 point)	
Definition	Progress in mid- and long-term financial management plan implementation
Base value	The highest goal of the previous year
Goal	Highest goal: BV + 1 × unit goal Lowest goal: BV + 3 × unit goal
Formula	① Debt ratio = $\frac{\text{Debt}}{\text{Equity}}$

Core business

1. Strengthening global competitiveness of small and medium businesses (8 points)

(1) Support for domestic companies to develop new global markets and evolve into exporting companies (method: global comparison, 8 points)	
Definition	Achievements to turn domestic companies into exporting companies by supporting them (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding 3 years
Goal	Highest goal: $BV \times (1 + \max(\text{export increase rates of the global reference for the last 5 years}))$ Lowest goal: $BV \times (1 + \min(\text{export increase rates of the global reference for the last 5 years}))$
	① Score = the number of new export contracts by small businesses that participated in the institution's support programs ② Global reference = OECD member average

2. Supporting small- and medium-sized businesses for export (14 points)

(1) Customized service provision for potential exporting companies (method: global comparison, 8 points)	
Definition	Increase in export of small businesses through customized foreign marketing aid service (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding 3 years
Goal	Highest goal: $BV \times (1 + \max(\text{export increase rates of the global reference for the last 5 years}))$ Lowest goal: $BV \times (1 + \min(\text{export increase rates of the global reference for the last 5 years}))$
Formula	$\text{① Score} = \frac{\text{Sum of exports of small- and medium-sized companies that received the service (USD)}}{\text{Sum of exports of all small- and medium-sized companies (USD)}}$
(2) Increase in the number of foreign buyer contracts (method: global comparison, 6 points)	
Definition	Increase and diversification of foreign buyer contracts through foreign marketing aid service (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding 3 years
Goal	Highest goal: $BV \times (1 + \max(\text{export increase rates of the global reference for the last 5 years}))$ Lowest goal: $BV \times (1 + \min(\text{export increase rates of the global reference for the last 5 years}))$
Formula	① Score = Number of new contracts through institution aid

3. Support for domestic companies to expand overseas businesses (5 points)

(1) Support of foreign investment (method: goal setting (deviation), 2 points)	
Definition	Completion of the establishment of overseas offices as a result of support for domestic companies to expand overseas investment, which is the final stage of the institution's aid service (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding 3 years
Goal	Highest: $BV + 2 \times SD$ (5 years) Lowest: $BV - 2 \times SD$ (5 years)
Formula	① Score = number of overseas offices established ② Overseas offices include overseas corporations, branches, and communication posts of a company.
(2) Support for overseas employment (method: goal setting (deviation), 3 points)	
Definition	Achievements in expanding overseas employment opportunities for youth (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding 3 years
Goa	Highest: $BV + 2 \times SD$ (5 years) Lowest: $BV - 2 \times SD$ (5 years)
Formula	① Score = number of employed persons/number of job seekers ② The numbers are counted only when the overseas employment information portal is used (World Job Plus).

4. Attracting foreign investment and support (7 points)

(1) Amount of foreign investment (method: goal setting, 7 points)	
Definition	Efforts to attract foreign investment (upward)
Base value	The national goal for foreign investment (according to the Ministry of Industry)
Goal	Highest goal: $BV \times 110\%$ Lowest goal: $BV \times 80\%$
Formula	① Score = the reported amount of foreign investment (USD)

Korea Infrastructure Safety Corporation (non-classified small-sized type)

• Summary of indicators

Category	Evaluation indicator	Weight		Sum
		Nonquant.	Quant.	
Management	1. Management strategy and leadership			6
	(1) Strategic planning	2		
	(2) Management improvement	2		
	(3) Leadership	2		
	2. Social value creation			20
	(1) Job creation	3	3	
	(2) Equal opportunity and social integration	2	1	
	(3) Safety and environment	2	1	
	(4) Symbiosis, collaboration, and local development	2	3	
	(5) Ethical management	3		
	3. Organization, human resource, and financial management			6
	(1) General organization and human resource management	3		
	(2) Financial budget operation and performance	1		
	a) Mid- and long-term financial management plan implementation		1	
	(3) Improvement of workers' quality of life	1		
	4. Remuneration and benefits management			8
	(1) Remuneration and benefits	3		
	(2) Total labor cost management		3	
	(3) Labor relations	2		
	5. Innovation and communication			5
(1) Innovation efforts and achievements	3			
(2) Public communication		2		
Subtotal		31	14	45
Core business	1. Securing the safety of major national facilities			
	(1) Improvement in sustaining the rate of the facility safety level		3	
	(2) Maintaining the quality of inspection and diagnosis of apartment houses		11	
	(3) Improvement in the use of the facility management system		3	

Category	Evaluation indicator	Weight		Sum
		Nonquant.	Quant.	
Core business	2. Securing the safety of infrastructure for quality of life			
	(1) Securing the safety of small and vulnerable facilities		12	
	(2) Ground investigation to prevent sinkholes		5	
	3. Appropriateness of core business performance management	14		14
	4. Appropriateness of indicators for core business	7		7
	Subtotal	21	34	55
Total sum		52	48	100

* For indicators that are not explained in detail in this section, see the previous section. They simply follow the standard definition.

Management

Core businesses

1. Securing the safety of major national facilities (17 points)

(1) Improvement in sustaining the rate of the facility safety level (method: goal setting, 3 points)	
Definition	Efforts to improve the safety of major national facilities managed by the institution (upward and downward)
Base value	Upward indicator: maximum between performance in the preceding year and average performance of the preceding 3 years Downward indicator: minimum between performance in the preceding year and average performance of the preceding 3 years
Goal	Upward indicator <input type="checkbox"/> Highest goal: $BV \times 120\%$ <input type="checkbox"/> Lowest goal: $BV \times 80\%$ Downward indicator <input type="checkbox"/> Highest goal: $BV \times 80\%$ <input type="checkbox"/> Lowest goal: $BV \times 120\%$

Formula	<p>① Score = (quality of inspection and diagnosis (A) × 80%) + (improvement in the safety level evaluation (B) × 20%)</p> <p>② A (upward) = number of pre-evaluations and in-depth evaluations for inspection and diagnosis by private diagnosis institutions</p> <p>③ B (downward) = $\frac{\text{Facilities with safety level D and E}}{\text{Number of facilities managed by the institution}}$</p> <p>※ Safety level: A (excellent), B (good), C (fair), D (unsatisfactory), E (poor)</p>
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(2) Maintaining the quality of inspection and diagnosis of apartment houses (method: goal setting, 11 points)

Definition	Maintaining the quality of inspection and diagnosis of apartment houses to reduce the number of cases evaluated as inappropriate (downward)
Base value	Minimum between performance in the preceding year and average performance of the preceding 3 years
Goal	Highest goal: BV × 80% Lowest goal: BV × 120%
Formula	① Score = $\frac{\text{Number of cases evaluated as inappropriate}}{\text{Number of inspections and diagnoses of apartment houses}} \times 100$

(3) Improvement in the use of the facility management system (method: goal setting (deviation), 3 points)

Definition	Improvement in the use of the facility management system (FMS) for the safety management of type 1 and 2 facilities (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding 3 years
Goal	Highest: BV + 2 × SD (5 years) Lowest: BV - 2 × SD (5 years)
Formula	① Score = the yearly amount of FMS usage per person

2. Securing the safety of infrastructure for quality of life (17 points)

(1) Securing the safety of small and vulnerable facilities (method: goal setting, 12 points)

Definition	Achievements in building a safe living environment for citizens through the safety diagnosis of small and vulnerable facilities such as social welfare facilities, public buildings in traditional markets, and apartment houses with fewer than 150 households (upward)
Base value	Maximum between performance in the preceding year and average performance of the preceding 3 years

Goal	Highest goal: BV × 120% Lowest goal: BV × 80%
Formula	① Score = (A × 0.5) + (B × 0.5) ② A = $\frac{\text{Number of safety diagnoses of small and vulnerable facilities}}{\text{Number of facilities under management}}$ ③ B = $\frac{\text{Number of safety diagnoses of small and vulnerable facilities}}{\text{Number of inspectors}}$
(2) Support for overseas employment (method: goal setting (deviation), 3 points)	
Definition	Efforts to prevent sinkhole accidents and to resolve citizen anxiety by investigating ground conditions in vulnerable areas; notifying local governments for necessary responses (upward)
Base value	Performance of the previous year (3-year data not available.)
Goal	Highest goal: BV × 120% Lowest goal: BV × 80%
Formula	① Score = (the length of roads for the institution investigated × 70%) + (the number of sinkholes found × 30%)

5. Current operational process

1) Overview

In order to effectively achieve the objectives of SOE and QGO management evaluations, a series of activities needs to be carried out, including the development of performance evaluation indicators and evaluation methods, preparation of the performance evaluation manual, performance evaluation using the performance evaluation indicators, the provision of feedback, and the utilization of evaluation results. To this end, it is necessary to create an organic division of roles between various participants in SOE and QGO performance evaluations, which are overseen by the MOEF: establish the necessary principles and standards for effectively implementing the performance evaluation activities of which each participating organization is in charge and establish a systematic foundation for carrying out performance evaluations. The actual success or failure of the SOE and QGO

performance evaluations will depend on how well the evaluations are established and how efficiently, transparently, and fairly they are operated.

Table V-15. Types of SOE and QGO performance evaluations

Category	Legal basis	Evaluating organization	Evaluation frequency	Note
Evaluation of institution's performance	AMPI, Article 48	MOEF	Once a year	
Performance evaluation of CEO	AMPI, Article 31	MOEF	Once during the term (2014–2017)	Incorporated into the institution evaluation starting in 2018
Evaluation of standing auditor	AMPI, Article 36	MOEF	Once during the term (2014–2017) Once a year starting in 2018	
Evaluation of non-classified public organizations	MOEF guidelines	Competent agency	Once a year	

The operating system of SOE and QGO performance evaluations is built around the elements that are commonly applied to the overall performance evaluation of SOEs and QGOs. However, the specific procedures and methods differ depending on the type of performance evaluation. According to the AMPI, the types of SOE and QGO performance evaluations are performance evaluation (institution evaluation), performance evaluation of the CEOs of SOEs or QGOs based on the performance agreement (performance evaluation of CEO), evaluation of the performance of duties of standing auditors and audit commissioners of SOEs or QGOs (audit evaluation), and performance evaluation of non-classified SOEs and QGOs (evaluation of non-classified SOEs and QGOs). Among these, performance evaluation of CEOs was abolished and incorporated into the institution evaluation in 2018, and the evaluation of non-classified SOEs and QGOs is conducted by the ministries in charge of overseeing the institutions. In this chapter, we would thus like to explain the operating system and evaluation procedure for performance evaluations, focusing mainly on institution evaluations and audit evaluations.

2) Evaluation commission

(1) Operating system for SOEs and QGOs performance evaluations

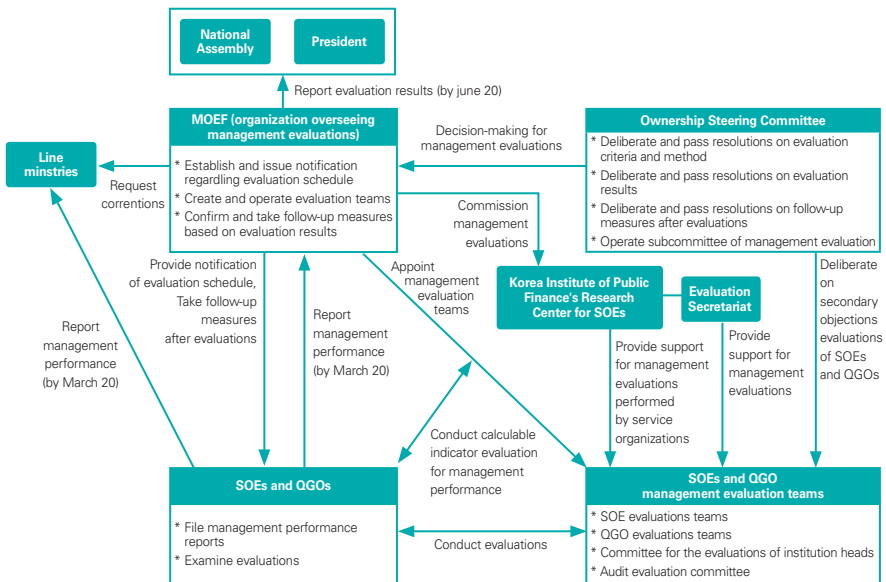
The operating system of SOE and QGO performance evaluations comprises the legal and institutional measures and procedures that define the division of roles and relationships of the various agencies that participate in the SOE and QGO performance evaluations, including the MOEF (in charge of designing and operating the performance evaluations), the Ownership Steering Committee (an agency affiliated with the MOEF that handles deliberation and resolution on the management policies of SOEs and QGOs), the line ministries in charge of projects that adhere to the organizations' purpose of establishment, Evaluation Commission of SOEs and QGOs (in charge of carrying out performance evaluations), and the Korea Institute of Public Finance (KIPF) Research Center for SOEs (in charge of supporting and researching the MOEF's management policies and evaluations of SOEs and QGOs).

The operating system of SOE and QGO performance evaluations changed significantly after the establishment of the KIPF Research Center for SOEs. Prior to the establishment of the research center, SOE and QGO performance evaluations were designed and operated by the MOEF and the Evaluation Commission of SOEs and QGOs. However, since its establishment in 2010, the center has begun conducting many of the activities previously performed by the Evaluation Commission of SOEs and QGOs and gradually expanded its role. Initially, the center was responsible only for coordinating the performance evaluation system of the MOEF's SOEs and QGOs Policy Bureau and supporting the Evaluation Commission of SOEs and QGOs efforts to develop and improve performance evaluation indicators. Recently, however, the center has been expanding its role by gradually replacing the Evaluation Commission of SOEs and QGOs. As a result, the current operating system for SOE and QGO performance evaluations is shown in Figure V-5.

Currently, the MOEF is in charge of overseeing the SOE and QGO performance evaluation system. The ministry establishes and notifies each SOE or QGO of the evaluation schedule, creates and operates the evaluation teams, confirms the evaluation

results, and conducts follow-up activities. The MOEF’s performance evaluation activities are subject to the deliberation and resolution of the Ownership Steering Committee. Detailed document and on-site evaluations based on the performance reports submitted by SOEs and QGOs are deliberated on by the Ownership Steering Committee and commissioned to specialized institutions or the MOEF’s Evaluation Commission of SOEs and QGOs. Until recently, the MOEF chose the latter method and organized the Evaluation Commission of SOEs and QGOs to be in charge of evaluation activities. Starting in 2018, however, the Evaluation Commission of SOEs and QGOs and Research Center for SOEs began sharing performance evaluation activities.

Figure V-5. Governance structure for performance evaluation of SOEs and QGOs



(2) Role of the MOEF and the Ownership Steering Committee

Currently, the MOEF is responsible for overseeing the SOE and QGO performance evaluation system. Article 47 of the AMPI stipulates that SOEs and QGOs must submit reports on their performance in the previous year, including

the implementation of management contracts signed by CEOs or presidents of SOEs and QGOs, to the Minister of the MOEF as well as to the line ministers by 20 March. Article 48 of the same act gives the Minister of the MOEF the authority to evaluate the performance of SOEs and QGOs based on their management goals and performance reports. In evaluating the performance of SOEs and QGOs in accordance with the regulations stipulated in Article 82 of the National Finance Act (evaluation of fund management) and Article 32, Subparagraph 2 of the Framework Act on Science and Technology, the Minister of the MOEF is required to use the results of the evaluations in an effort to prevent any evaluation overlap. Article 36 of the AMPI also grants the Minister of the MOEF the authority to evaluate the actual performance of duties conducted by standing directors and audit commissioners.

Prior to the implementation of the AMPI in 2007, performance evaluations of government-invested institutions and government-affiliated institutions were overseen by the Ministry of Planning and Budget and the line ministries. However, the AMPI integrated the roles of conducting performance evaluations for both SOEs QGOs and organizing and operating the Evaluation Commission of SOEs and QGOs. In addition, the AMPI was revised on 25 March 2009, creating a legal basis for the organization and operation of SOE and QGO Evaluation Commission of SOEs and QGOs, which had originally been regulated by the Enforcement Decree of the AMPI. This clarified the legal basis for the organization of the Evaluation Commission of SOEs and QGOs and the fact that the MOEF is the institution in charge of organizing and operating all Evaluation Commission of SOEs and QGOs. As a result, the MOEF's SOEs and QGOs Policy Bureau was put in charge of overseeing the SOE and QGO performance evaluation system.

Pursuant to Article 8 of the AMPI, the MOEF created and operates the Ownership Steering Committee under the authority of the Minister of the MOEF for deliberation and resolution on matters related to the operation of SOEs and QGOs. Currently, as part of its deliberation and resolution activities, the Ownership Steering Committee deliberates and passes resolutions on the evaluation of the performance of duties of non-standing

directors and auditors, the evaluation of the performance of SOEs and QGOs, matters related to requesting specialized institutions to conduct performance evaluations, and matters related to the operation of the Evaluation Commission of SOEs and QGOs. More specifically, the Ownership Steering Committee is responsible for deliberation and resolutions on performance evaluation criteria, methods, performance evaluation results, and follow-up measures after the evaluations.

In addition, based on the performance evaluations for 2017, which were conducted in 2018 after the Evaluation Commission of SOEs and QGOs was divided into the SOE evaluation team and QGO evaluation team, in accordance with the revised SOE and QGO performance evaluation system that the MOEF implemented in December 2017, the Ownership Steering Committee created performance evaluation subcommittees to deliberate on the application of common criteria in performance evaluations and objections to performance evaluations. The Evaluation Commission of SOEs and QGOs are in charge of determining and providing notification of the first round of objections raised by SOEs and QGOs in the process of performance evaluations, while the second round of objections are reevaluated by the performance evaluation subcommittees.

(3) Composition and role of the Evaluation Commission of SOEs and QGOs

Currently, the Evaluation Commission of SOEs and QGOs are in charge of carrying out performance evaluations of SOEs and QGOs. To evaluate the performance of SOEs and QGOs, the Minister of the MOEF creates and operates SOE and QGO Evaluation Commission of SOEs and QGOs every year. Pursuant to Article 48(6) of the AMPI, the Minister of the MOEF has the authority to create and operate Evaluation Commission of SOEs and QGOs to ensure the efficiency of performance evaluations of SOEs and QGOs and conduct expert or technical research on or provide consultation regarding performance evaluations. In addition, according to Article 27(1) of the enforcement decree of the same act, the Minister of the MOEF can request that specialized institutions conduct performance evaluations

of SOEs and QGOs through the deliberation of the Ownership Steering Committee when deemed necessary. Despite these two legalized alternatives, the MOEF, as mentioned earlier, organized provisional the Evaluation Commission of SOEs and QGOs every year to carry out performance evaluations. Starting in 2018, however, the MOEF decided to commission a specialized institution to conduct calculable indicator evaluations among the different types of performance evaluations, in accordance with the revision of the SOE and QGO performance evaluation systems established by the MOEF in December 2017. Currently, the KIPF Research Center for SOEs is responsible for conducting evaluations using calculable indicators for management.

As of 2018, the Evaluation Commission of SOEs and QGOs are in charge of all evaluations using evaluation indicators other than the calculable indicators for management. The teams are divided into the SOE evaluation team and QGO evaluation team. In addition, there is an evaluation commission for CEOs and presidents of SOEs and QGOs, which is in charge of evaluating the implementation of performance contracts, and an standing auditors, which is responsible for evaluating the performance of duties of standing auditors and audit commissioners.

The composition and division of roles of the Evaluation Commission of SOEs and QGOs have changed continuously in line with the MOEF's policies. After the implementation of the AMPI in 2007, the MOEF integrated the Evaluation Commission of SOEs and QGOs for government-invested and government-affiliated institutions into the SOE and QGO Evaluation Commission of SOEs and QGOs in 2008. It has been operated as part of an integrated evaluation system for the past 10 years. However, in order to establish a customized performance evaluation system that takes into consideration the different characteristics of SOEs and QGOs, the Evaluation Commission of SOEs and QGOs was divided once again into the SOE evaluation team and QGO evaluation team.

During the time when institution evaluations and evaluations of institution heads were conducted separately (2008 to 2010), the Evaluation Commission of SOEs and QGOs was divided into the team for evaluating the performance of the institution

and that of CEOs, which were operated independently. However, in an effort to relieve the burden of performance evaluations on SOEs and QGOs and organically connect and coordinate between institution evaluations and CEO evaluations, the institution and CEO evaluation teams were integrated into one team in 2011. As a result, after 2011, institution, CEO, and standing auditor evaluations were all carried out in an integrated manner. In 2017, however, the CEO evaluation commission and the auditor evaluation commission were created and operated in addition to the institution evaluation team. The Evaluation Commission of SOEs and QGOs, consisting of professors, accountants, and other civilian experts, was also organized to secure both expertise and impartiality. To this end, the specific eligibility criteria for Evaluation Commission of SOEs and QGOs members was set by a statute. Article 28 of the Enforcement Decree of the AMPI stipulates that members of the team are to be selected from among college or university professors who have expertise in the operation and business administration of SOEs and QGOs, people working for government-funded research institutes who hold doctorates or equivalent qualifications, certified public accountants, lawyers, or specialists in management consulting with at least five years of experience in their fields, and people who have otherwise been recognized as having sufficient expertise and experience in the operation and business administration of SOEs and QGOs. In addition, the MOEF implemented regulations on the organization of the Evaluation Commission of SOEs and QGOs in an effort to ensure the transparency, fairness, and predictability of the composition and operation of the Evaluation Commission of SOEs and QGOs and improve the ethics of Evaluation Commission of SOEs and QGOs members.

The Evaluation Commission of SOEs and QGOs was organized every February and operated over a basic one-year term. The MOEF created a pool of personnel based on recommendations by line ministries, organizations, and institutions, as well as through a public call, and appointed Evaluation Commission of SOEs and QGOs members through negotiations with the heads of the Evaluation Commission of SOEs and QGOs. In appointing Evaluation Commission of SOEs and QGOs members, the MOEF makes an

effort to select experts from various areas in consideration of the period of participation in performance evaluations, the interests of SOEs and QGOs, and the results of the survey on SOE and QGO levels of acceptance of performance evaluations. In accordance with the revision of the performance evaluation system for SOEs and QGOs by the MOEF in December 2017, more experts working in various fields were appointed to major projects, and the participation of civic and social organizations was increased in order to change the closed Evaluation Commission of SOEs and QGOs, which was comprised of only experts, to a more open and participatory team that invited the participation of the people. In addition, the MOEF invited the participation of university student observers, and the MOEF’s university student reporters participated in the actual performance evaluation process to increase the transparency of and people’s interest in the evaluations.

The size of the Evaluation Commission of SOEs and QGOs changed every year depending on changes in the scale of the institutions subject to evaluation and the MOEF’s policy decisions. In 2016, the size of the Evaluation Commission of SOEs and QGOs was the largest ever recorded, with 161 members, but decreased dramatically to 119 members in 2017. Since the research center for SOEs was made responsible for conducting performance evaluations using calculable indicators in 2018, the evaluation teams have been created with a total of 99 members: 33 on the SOE evaluation team, 56 on the QGO evaluation team, five on the CEO evaluation commission, and five on the standing auditor evaluation commission.

Table V-16. Roles of the members of the Evaluation Commission of SOEs and QGOs

Position	Main tasks (in chronological order)
Manager	<ul style="list-style-type: none"> ■ Manage evaluation tasks, including evaluation progress ■ Maintain balance between evaluation criteria and methods <ul style="list-style-type: none"> · Coordinate the review of detailed evaluation schedules by team · Coordinate the review of evaluation reports (team leaders→managers) · Comprehensively coordinate problems in the evaluation process, such as the interpretation of guidelines · Perform on-site monitoring of institutions ■ Oversee evaluation meetings for different areas ■ Report to the Ownership Steering Committee and prepare for meetings prior to press conferences

Position	Main tasks (in chronological order)
Team leader	<ul style="list-style-type: none"> ■ Coordinate team schedule and assign roles to team members ■ Aggregate the team-related issues that were pointed out in the previous year's evaluations ■ Aggregate the preliminary document evaluations from team members ■ Oversee on-site inspections and the team's evaluation meetings ■ Aggregate the interim evaluation results and revise the interim report ■ Oversee the second evaluation meeting for the team and attend the issue coordination meeting ■ Aggregate the final evaluation results and revise the final report ■ Prepare and submit the records (cosigned by team members and confirmed by the general management team)
Team member	<ul style="list-style-type: none"> ■ Attend the workshops for the Evaluation Commission of SOEs and QGOs ■ Check on the team-related issues that were pointed out in the previous year's evaluations ■ Prepare a list of questions prior to the preliminary document evaluations and on-site inspections (prepare for on-site inspections) ■ Visit institutions and conduct on-site inspections (with the entire team) ■ Attend the first team evaluation meeting ■ Attend the second team evaluation meeting of the general issue coordination meeting ■ Review institution opinions and reflect them in the final report ■ Prepare and submit the final report

The internal composition and division of roles within the Evaluation Commission of SOEs and QGOs change in a flexible manner every year depending on the scope of the duties that the Evaluation Commission of SOEs and QGOs must perform. In general, however, the Evaluation Commission of SOEs and QGOs consist of the general team (evaluation team heads, business management heads, and major project heads) and the evaluation team, which is organized based on the type of institution and scope of evaluation. The performance evaluation of SOEs and QGOs is conducted under the principle of joint evaluation by the team, and the activities of the Evaluation Commission of SOEs and QGOs are conducted at the team level. The major duties performed by the managers, team leaders, and team members of the Evaluation Commission of SOEs and QGOs are listed in Table V-15. The Evaluation Commission of SOEs and QGOs established a secretariat comprised of three permanent members in order to provide support for the tasks of the evaluation team. Starting in 2018, however, this function was

transferred to the research center for SOEs.

The key role of the Evaluation Commission of SOEs and QGOs was to evaluate the performance of SOEs and QGOs, as well as the CEOs or presidents of SOEs and QGOs, and audit information. The Evaluation Commission of SOEs and QGOs members performed their basic roles in the evaluation process, which involved the preparation of on-site inspection through preliminary document evaluation, participation in on-site inspection, submission of an interim report, receipt of feedback from institutions subject to evaluation, submission of a final report, hosting of an information session on the performance evaluation results, and the provision of management consulting for failing institutions. The performance evaluations were performed in the first half of every year. In the second half of the year, a few of the Evaluation Commission of SOEs and QGOs members were selected to serve on the indicator improvement team in an effort to provide follow-up measures regarding the evaluation results. With the indicator improvement team, the evaluation management team led the effort to implement measures to improve the existing evaluation indicators and methods and develop new evaluation indicators and methods for the following year's performance evaluation guidelines. After the adoption of the performance evaluation system for government-invested institutions in 1984, the development and improvement of evaluation indicators became one of the basic tasks performed by the Evaluation Commission of SOEs and QGOs. Recently, however, the MOEF's SOEs and QGOs Policy Bureau has begun taking the lead in the development and improvement of evaluation indicators, which has gradually reduced the role of the Evaluation Commission of SOEs and QGOs. Since 2017, the research center for SOEs has been leading development and improvement activities for the preparation of the following year's performance evaluation guidelines. As a result, the role of the current Evaluation Commission of SOEs and QGOs has been reduced to evaluating performance by applying pre-confirmed performance evaluation indicators and methods and providing management consulting for institutions with poor evaluations.

(4) Role of the research center for SOEs and QGOs

Until now, the KIPF Research Center for SOEs has performed policy research on SOEs and QGOs, supported the improvement of the performance evaluation system, and inspected and analyzed the issues of SOEs and QGOs. In recent years, however, the research center for SOEs has gradually begun expanding its authority by taking over the role of the evaluation management teams. Starting in 2017, it began improving and developing performance evaluation indicators for the following year's performance evaluation guidelines, which is a task that was originally carried out by the Evaluation Commission of SOEs and QGOs. In 2018, the center was entrusted with inclusive performance evaluation tasks by the MOEF and has been acting as a specialized research institution in charge of evaluating calculable indicators for different categories of management. In addition, the center is responsible for providing inclusive and comprehensive support to the Evaluation Commission of SOEs and QGOs; this has led it to integrate the function of the Evaluation Commission of SOEs and QGOs secretariat, which had been previously operated by the Evaluation Commission of SOEs and QGOs. Currently, the research center for SOEs has an established evaluation secretariat (four members) as part of the evaluation research team to provide support for the Evaluation Commission of SOEs and QGOs.

3) Evaluation cycle and procedures

(1) Performance evaluation cycle

The performance evaluation procedure for SOEs and QGOs includes setting management goals, preparing a performance evaluation manual, drafting and submitting performance reports, organizing and operating an Evaluation Commission of SOEs and QGOs, evaluating and reporting on performance, and providing follow-up management based on the results of the performance evaluation. This evaluation cycle takes three years and continues sequentially and repetitively. As described in Figure V-6, management goals are set and the performance evaluation

manual (evaluation criteria and methods) is drafted in the year prior to the evaluation year (year Y-1). During the evaluation year (year Y), SOEs and QGOs carry out their management activities and major projects in accordance with their performance evaluation manual. In the year following the evaluation year (year Y+1), the performance evaluation is conducted, and the results are reported to the public and within the institutions to be utilized and receive feedback.

Figure V-6. The planning and evaluation cycle of SOEs and QGOs

Year Y-1	Year Y (year subject to evaluation)	Year Y+1
<ul style="list-style-type: none"> · Set management goals · (December) confirmation of performance evaluation guidelines (evaluation criteria and methods) 	<ul style="list-style-type: none"> · (January to December) management activities of SOEs and QGOs 	<ul style="list-style-type: none"> · Distribution of guidelines for preparation of performance reports · Preparation and submission of performance reports (March) · (February to March) organization and training of Evaluation Commission of SOEs and QGOs · (March to May) performance evaluation (document evaluation, on-site inspection, preparation of evaluation result reports) · (June) confirmation of evaluation results and payment of bonuses

In the case of performance evaluations of SOEs and QGOs, the key aspects of the evaluation process, including the evaluation method, timing, and timeline, are stipulated in the AMPI and the Enforcement Decree of the said act. Article 47 of the AMPI stipulates that CEOs must submit performance reports to the Minister of the MOEF and the line ministers by no later than 20 March. Article 48(7) of the same act also stipulates that the Minister of the MOEF must finish the performance evaluation of SOEs and QGOs by no later than 20 June and report the results to the National Assembly and the President.

(2) Establishment of management goals

In relation to the establishment of management goals, which are directly related to the SOE and QGO performance evaluations, Article 46 of the AMPI stipulates that the CEO or the president of each SOE and QGO must establish mid- to long-term goals for a period of not less than five fiscal years, including the following year, based on consideration of business projects, management environment, and management agreements signed by the CEO. Once the goals are confirmed by a resolution of the board of directors, the goals must be submitted to the Minister of the MOEF and the line minister by no later than 31 October.⁸ In addition, in the event that the CEOs change the management goals, the changes must be confirmed through a resolution of the board and immediately submitted to the Minister of the MOEF and the line minister. In consideration of the management environment, financial conditions, and national policy directions, the Minister of the MOEF has the authority to request that the CEOs of SOEs make changes to their management goals. Likewise, the line minister can request the same of the presidents of QGOs.

(3) Preparation of performance evaluation manual

The performance evaluation manual is the basic guideline for evaluating the performance of SOEs and QGOs. It provides the evaluation criteria for each SOE and QGO (evaluation indicators and performance goals) along with specific evaluation methods. Pursuant to Article 48(5) of the AMPI, the Minister of the MOEF must draft the performance evaluation manual for each fiscal year based on the deliberation and resolution of the Ownership Steering Committee and distribute it to SOEs and QGOs before the beginning of the fiscal year, thus providing the management direction and goals that each SOE and QGO must pursue.

Article 48(5) of the AMPI, which was revised in March 2016, specifically stipulates the evaluation criteria and methods that the performance evaluation manual must

⁸ The length of time for the achievement of management goals was originally three fiscal years, but the law was revised to make it no less than five fiscal years on 17 May 2010.

provide. For the manual, the Minister of the MOEF must develop and provide specific evaluation criteria and methods encompassing the following: the rationality and achievement level of management goals; the public nature and efficiency of major projects; the adequacy of organizational and personnel management, including types of employment; the soundness of financial management and budget-saving efforts, including the implementation of mid- and long-term financial management plans; the results of the customer satisfaction survey; the operation of a rational performance-based payment system; and other matters related to the management of SOEs or QGOs. In addition, Article 27(2) of the Enforcement Decree of the same act stipulates that the Minister of the MOEF must prepare the manual by taking into consideration the corrective measures to be taken according to the evaluation results and the criteria and methods for the performance evaluation stipulated in Article 48 of the same act, including the manuals, as part of the follow-up measures established based on the results of the evaluations.

In principle, the performance evaluation manual must be drafted before the beginning of every fiscal year. However, for SOEs and QGOs that were newly designated at the beginning of the year, the evaluation manual must be provided within four months of designation. In recent years, the performance evaluation manual, which is confirmed at the end of each previous year, has come to be routinely revised and passed through the resolution of the Ownership Steering Committee in the second half of every year based on consideration of revisions to statutes and rapid changes in the management environment, with the aim of increasing the timeliness and receptiveness of performance evaluations.

Prior to 2017, the development of evaluation criteria and methods, which is central to the performance evaluation manual, was undertaken by the Evaluation Commission of SOEs and QGOs. As part of this process, the MOEF and KIPF Research Center for SOEs held performance evaluation workshops for SOEs and QGOs in September every year to gather opinions and have discussions on measures for improving the performance evaluation system for the following year's management

evaluation manual. Afterward, the Evaluation Commission of SOEs and QGOs organized the indicator improvement team, and the SOEs and QGOs drafted and submitted measures for designing indicators to the indicator improvement team. The team then reviewed the evaluation manual for each institution between November and early December, finalized the measures for improving the performance evaluation indicators, and submitted them to the MOEF. In the process of drafting measures for the development of performance evaluation indicators to submit to the Evaluation Commission of SOEs and QGOs, SOEs, QGOs, and the MOEF engaged in negotiations with the line ministries. When a draft of the performance evaluation manual is created for the following year, the MOEF confirms the manual through the deliberation and resolution of the Ownership Steering Committee by the end of December and distributes the manual to each SOE and QGO.

In 2017, the research center for SOEs replaced the Evaluation Commission of SOEs and QGOs in the process of drafting the performance evaluation manual. Currently, the SOE and QGO performance evaluation manual is drafted through cooperation between the MOEF SOEs and QGOs Policy Bureau and the research center for SOEs. The people who have participated in the Evaluation Commission of SOEs and QGOs in the past or the current members of the Evaluation Commission of SOEs and QGOs participate individually in drafting the performance evaluation manual, led by the Research Center for SOEs.

(4) Preparation and submission of performance reports

In accordance with Article 47 of the AMPI, SOEs and QGOs draft reports on their performance for the previous year by no later than 20 March every year and submit them to the Minister of the MOEF and the line minister.⁹ The format and deadlines for the submission of reports can be established separately by the Minister of the MOEF. Currently, the Minister of the MOEF drafts the guidelines

⁹ SOEs and QGOs are exempt from performance evaluation in the year in which they are designated as SOEs and QGOs. This does not apply to institutions whose status was changed from SOE to QGO or from QGO to SOE.

for the performance report in January every year and distributes them to the SOEs and QGOs, which then follow the guidelines when drafting and submitting their performance reports. At this time, each SOE and QGO must receive confirmation from designated accounting firms or auditors (audit commission) regarding the accuracy of the reports, as stipulated by Article 43 of the AMPI. The performance report must also include a report on the settlement of accounts. The Minister of the MOEF can also request additional materials from SOEs and QGOs as necessary for evaluating their performance.

In the case that the CEO of a SOE or the president of a QGO fails to submit a report on their execution of the management agreement, performance report, other accompanying documents, or submits a false report, the Minister of the MOEF must modify the results of the performance evaluation and performance-based incentives through the deliberation and resolution of the Ownership Steering Committee and take appropriate measures, such as issuing a caution or warning against the institution concerned or request that the line minister or CEO of the institution take personnel actions against relevant persons. In such cases, if the Minister of the MOEF finds that the auditor or the standing audit commissioner of the audit committee failed to perform his or her duty, the minister may dismiss the auditor or standing audit commissioner concerned through the deliberation and resolution of the steering committee or propose that the authority in charge of appointing auditors or standing audit commissioners dismiss the auditor or audit commissioner concerned. Currently, the SOE and QGO performance evaluation manual also includes penalties for institutions that do not submit performance reports, such as lowering the evaluation score (to as low as zero) or reducing previously determined incentive bonuses.

(5) Performance evaluation by the Evaluation Commission of SOEs and QGOs

Currently, the performance evaluation of SOEs and QGOs and the evaluation of the performance of duties of standing auditors and audit commissioners are

conducted by the Evaluation Commission of SOEs and QGOs. To this end, the MOEF organizes the Evaluation Commission of SOEs and QGOs every February based on a one-year term. In addition, since 2018, the research center for SOEs has been carrying out the calculable indicator evaluation for different categories of performance among the performance evaluation of SOEs and QGOs.

Every year, the performance evaluations for SOEs and QGOs are conducted once the SOEs and QGOs submit their reports on performance for the previous year to the Minister of the MOEF and the line minister, which they must do between 20 March and 20 June. Generally, the evaluation of the performance of SOEs and QGOs is conducted according to the following process: SOEs and QGOs draft and submit performance reports → the Evaluation Commission of SOEs and QGOs conducts preliminary document evaluation and on-site inspection and files evaluation reports (interim and final) → the Ownership Steering Committee confirms evaluation results and follow-up measures → the MOEF submits final evaluation reports to the National Assembly and the president. As can be seen in Figure V-9, different organizations are in charge of each step of the evaluation procedure. To ensure the efficiency of the performance evaluation of SOEs and QGOs, as well as expert and technical consultation regarding the evaluation, the Minister of the MOEF organizes and operates the Evaluation Commission of SOEs and QGOs to aid in the process of evaluating the performance of SOEs and QGOs. The table below presents a detailed explanation of the Evaluation Commission of SOEs and QGOs activities.

Table V-17. Evaluation procedure of the Evaluation Commission of SOEs and QGOs in 2018

• 10 March 10	Joint workshop for the Evaluation Commission of SOEs and QGOs (SOE evaluation team, QGO evaluation team, CEO evaluation commission and standing auditor evaluation commission)
• 16–17 March	Information session for SOEs and QGOs regarding 2017 performance (SOEs and QGOs→evaluation teams)
• 19 March	Gathering of opinions from line ministries
• 23 March	Preliminary document evaluation: submit worksheets (reports) and checklists (used for the performance evaluation portal)

• V. Performance evaluation system: Evolution and current operation

• 26 March to 20 April	On-site inspection for performance evaluation (visit institutions or collective inspection)
• 25 April	Submission of first draft of interim report (does not include evaluation ratings, which are submitted separately to the evaluation team managers)
• 30 April to 11 May	First interim evaluation meeting (all evaluation team members must attend)
• 11–14 May	Evaluation review meeting (when necessary)
• 14–18 May	Interim reports distributed to SOEs and QGOs (used for objections, responses from evaluation team members, and the performance evaluation portal)
• 22–23 May	Second interim evaluation meeting
• 30 May	Submission of draft of the final report
• 19 June	Deliberation and resolution of the Ownership Steering Committee on the evaluation performance and results
• Sometime in July	Information session for SOEs and QGOs on the 2017 performance evaluation results
• Sometime in August	Management consulting sessions for institutions with poor performance Submission of 2017 performance evaluation results report (print)

Table V-16 presents a detailed timeline of the activities conducted by the SOE and QGO Evaluation Commission of SOEs and QGOs, which are responsible for evaluating the performance of SOEs and QGOs, from the organization of the Evaluation Commission of SOEs and QGOs to the final days of its activities. This table was created based on the actual performance of the 2018 the Evaluation Commission of SOEs and QGOs, which were organized to evaluate the performance of SOEs and QGOs from 2017.

As seen in the above timeline, after the Evaluation Commission of SOEs and QGOs are organized in February every year, workshops and training sessions for the Evaluation Commission of SOEs and QGOs members are conducted in February and March in order to improve the expertise of members and the fairness of evaluation. In March and April, the Evaluation Commission of SOEs and QGOs conducts preliminary document evaluations, on-site inspections, and interviews with executives and employees of SOEs and QGOs. At this time, the Evaluation Commission of SOEs and QGOs evaluates the performance of SOEs and QGOs based on the performance reports and related documents submitted by the SOEs

and QGOs. During on-site inspections, the team may request additional information from the SOEs and QGOs if necessary, and the SOEs and QGOs must respond to such requests in good faith. After May, each member of the Evaluation Commission of SOEs and QGOs must draft and submit a performance evaluation report (interim report), and the team holds coordination meetings to review the interim reports. The reports are then distributed to institutions for review and feedback, and any feedback or objections to the evaluation results are reviewed and reflected in the final reports written up by the Evaluation Commission of SOEs and QGOs.

One of the most important aspects of the Evaluation Commission of SOEs and QGOs' activities for evaluating the performance of SOEs and QGOs is on-site inspection. To conduct a fruitful, fair, transparent, and objective on-site inspection, the Evaluation Commission of SOEs and QGOs develops a non-calculable indicator evaluation manual (which is distributed to the members through the Evaluation Commission of SOEs and QGOs workshop), trains members through workshops, and shares the inspection procedure and preparatory steps with SOEs and QGOs that are subject to on-site inspection. In addition, the Evaluation Commission of SOEs and QGOs uses worksheets to conduct preliminary document evaluations and creates a checklist to encourage team members to make preparations beforehand.

In the process of confirming the evaluation results, which is done after on-site inspection during the performance evaluation procedure, the key role played by the Evaluation Commission of SOEs and QGOs is determining the rating levels of non-calculable indicators. It is possible to derive objective ratings from calculable indicators of the performance evaluation results according to the formula proposed in the evaluation manual. However, it is difficult to provide objective ratings from non-calculable indicators using the evaluation methods proposed in the evaluation manual. To resolve this issue, the evaluation management team systematically conducts a non-calculable indicator evaluation rating procedure as outlined in Figure V-7. In addition, non-calculable indicators are evaluated by more than one evaluation team member. Moreover, a grid model, as shown in Table V-17, was

developed for rating institutions based on non-calculable indicators to standardize the evaluation rating decision-making method and minimize the differences among evaluation team members when determining the evaluation ratings. Currently used by the Evaluation Commission of SOEs and QGOs to determine evaluation ratings based on specific non-calculable indicators, this model ① divides the management-related overall system establishment and operation performance for each indicator into four levels (excellent, good, average, and unsatisfactory) and ② divides the year-on-year improvement for each indicator into six levels (excellent, good, satisfactory, average, unsatisfactory, and poor), thus providing standards for determining evaluation ratings based on absolute scoring. However, for some of the specific evaluation categories within the indicators, if institutions fail to address issues that have been repeatedly pointed out by external organizations as moral hazards, the relevant indicators could receive the lowest ratings.

Figure V-7. Procedure for determining evaluation ratings for non-calculable indicators in the SOE and QGO performance evaluation

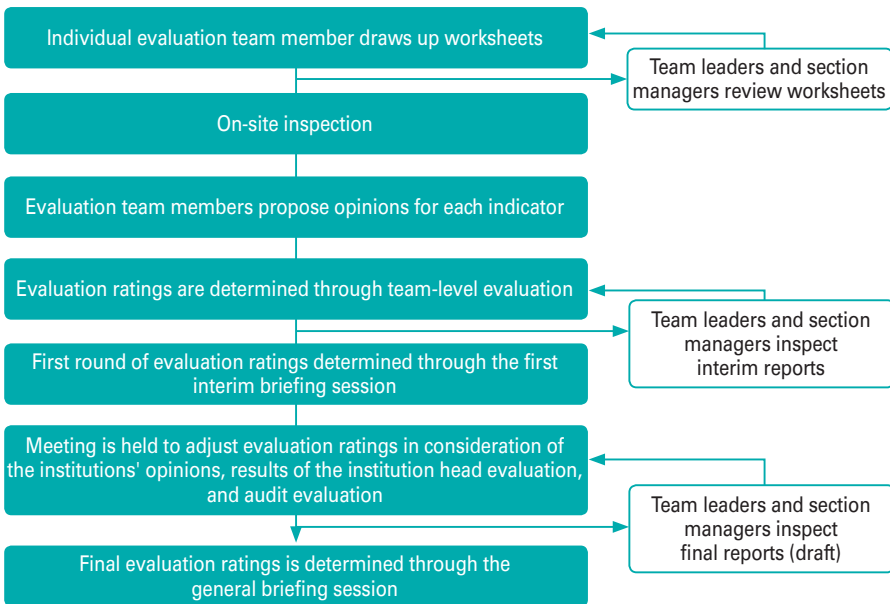


Table V-18. Criteria for determining evaluation ratings for non-calculable indicators in the SOE and QGO performance evaluation

		Level of overall system establishment and operation performance			
		Excellent	Good	Average	Unsatisfactory
Level of year-on-year improvement of overall performance	Excellent	A+	A0	B+	B0
	Good	A0	B+	B0	C
	Satisfactory	B+	B0	C	D+
	Average	B0	C	D+	D0
	Unsatisfactory	C	D+	D0	E+
	Poor	D+	D0	E+	E0

When the results of the non-calculable indicator evaluation are determined after the Evaluation Commission of SOEs and QGOs preliminary document evaluation and on-site inspections, as well as the procedure for determining evaluation ratings for non-calculable indicators, the comprehensive evaluation results and the results for each category (business management and major projects) are produced based on the results of the calculable and non-calculable indicator evaluations, as described above. Prior to 2017, only the comprehensive evaluation results for institutions were calculated. However, starting with the evaluations of performance for 2016, which were conducted in 2017, evaluation ratings for different categories (business management and major projects) were added. The six levels of overall ratings and the ratings for each category are excellent (S), good (A), satisfactory (B), average (C), unsatisfactory (D), and poor (E). This six-level rating system was introduced in the 2007 performance evaluation.

The comprehensive institution rating and category ratings are calculated by adding the scores from the calculable and non-calculable indicator evaluations (score per indicator \times weighted value per indicator), converting the scores to a 100-point scale, and determining the scores for each institution and category. Until the 2016 performance evaluation, the score range for each rating was determined by dividing the institutions subject to evaluation into two groups (SOEs and QGOs;

small and medium QGOs) and using the average scores and standard deviation of the performance evaluation for institutions in each group in order to determine the comprehensive institution rating and category ratings. However, starting with the 2017 performance evaluation, the MOEF created three reference groups for determining evaluation ratings based on the improved measures for the SOE and QGO performance evaluation system, which was implemented in December 2016: SOEs (SOE I and SOE II), QGOs (fund-management-type and commissioned-service-type), and small and medium QGOs. In addition, the ratings were determining through relative comparison of institutions in the same group.¹⁰ This method became firmly established in 2018, with the Evaluation Commission of SOEs and QGOs being divided into the SOE evaluation team and QGO evaluation team.

Table V-19. Changes in the composition of reference groups for determining performance evaluation ratings for SOEs and QGOs

Prior to 2017		After 2017	
SOE I	Comprehensive comparison	SOE I	Comparison between SOEs
SOE II		SOE II	
Fund-management-type QGOs		Fund-management-type QGOs	Comparison between QGOs
Commissioned-service-type QGOs		Commissioned-service-type QGOs	
Small and medium QGOs	Comparison between small and medium QGOs	Small and medium QGOs	Comparison between small and medium QGOs

Since the 2017 performance evaluation, the MOEF has been applying the relative evaluation and absolute evaluation in equal parts, as shown in Table V-19, when determining the comprehensive institution rating and category ratings. Similar to the original evaluation rating system, the relative evaluation method is applied among institutions within the same reference group and uses the average score and standard

¹⁰ For the 2017 performance evaluation, it seems that the score range for each rating level in the absolute evaluation of SOEs was determined by pooling 35 SOEs into one group and using the average scores and standard deviations from the performance evaluation results over the previous five years.

deviation of the corresponding year’s performance evaluation results for each group to determine the score range for each rating level. As for the absolute evaluation, which was introduced in 2018, the score range for each rating level is determined by the scores and distribution (average scores and standard deviation) of the past performance of each institution within the three reference groups. The score range for rating levels to determine the evaluation ratings for institutions is determined through the deliberation and resolution of the Ownership Steering Committee when the evaluation results are being confirmed.

Table V-20. Method for determining comprehensive and category ratings in the SOE and QGO performance evaluation

Comprehensive results (50%)	Results by category (50%)	
	Business management (25%)	Major projects (25%)
Relative evaluation (25%)	Relative evaluation (12.5%)	Relative evaluation (12.5%)
Absolute evaluation (25%)	Absolute evaluation (12.5%)	Absolute evaluation (12.5%)

From 2014 to 2017, the ratings for performance evaluation of CEOs and evaluation of standing auditor were determined by adding the scores from the calculable and non-calculable indicator evaluations (score per indicator x, weighted value per indicator) and converting the scores to a 100-point scale. The score ranges for the three different rating levels were good (80 or higher), average (60 to less than 80), and unsatisfactory (less than 60). For the audit evaluation, however, the ratings reverted back to the six-level evaluation system in 2018.

In the process of evaluating the performance of SOEs and QGOs through the various steps described above, close interactions and exchanges of information and documents take place between Evaluation Commission of SOEs and QGOs and the SOEs and QGOs. To improve the receptivity and transparency of the evaluation results, starting with the 2017 performance evaluation, the MOEF systematically organized the procedure for SOEs and QGOs to make objections to the results of the interim evaluation (report) and adopted a retrial system through the management

evaluation subcommittee of the Ownership Steering Committee. In addition, the MOEF created a new performance evaluation portal to enable the Evaluation Commission of SOEs and QGOs and SOEs and QGOs to upload management-evaluation-related data, prepare for official negotiations, make objections, and provide deliberation results. By limiting official communication and document exchange between Evaluation Commission of SOEs and QGOs members and the SOEs and QGOs to the performance evaluation portal, the MOEF helped increase the transparency of the performance evaluation process.

(6) Confirmation of evaluation results, reports, and follow-up

The Minister of the MOEF must confirm the final results of performance evaluations conducted by the Evaluation Commission of SOEs and QGOs through the deliberation and resolution of the Ownership Steering Committee.

The minister must then report the results to the National Assembly and the President by no later than 20 June every year. The Ownership Steering Committee is responsible for confirming the evaluation results and follow-up measures, while the MOEF is in charge of reporting the final evaluation results to the National Assembly and the President.

Aside from the confirmation and reporting of evaluation results by the MOEF and the Ownership Steering Committee, the Evaluation Commission of SOEs and QGOs provide their own feedback and follow-up measures to the evaluated institutions.

First, the Evaluation Commission of SOEs and QGOs regularly host informational briefing sessions to explain the results of the SOE and QGO performance evaluation and introduce exemplary cases with the aim of improving the receptivity of performance evaluation and providing mutual learning opportunities for the institutions and evaluation management teams. These briefing sessions are held to deliver accurate evaluation results to institutions and provide opportunities for institutions to benchmark excellent institutional policies; they must therefore be held as soon as the evaluation results have been confirmed.

Second, the Evaluation Commission of SOEs and QGOs provide management consultation for the SOEs and QGOs that were found to have a poor performance (comprehensive performance evaluation rating of D or lower) in an effort to increase the benefits of the performance evaluation and offer practical assistance in improving the institutions' performance.

4) Feedback of performance evaluation results

The results of the SOE and QGO performance evaluation are utilized in various ways to provide follow-up measures. The success of the operation of the performance evaluation system depends on how effectively the evaluation results are used. The follow-up measures implemented based on the results of the performance evaluation are important policy tools that can be used to ensure that executives and employees take responsibility for performance and induce improvements in management. Therefore, it is important to systematically utilize the results of the performance evaluation to increase the efficiency of the performance evaluation system.

The ways in which the SOE and QGO performance evaluation results can be utilized are systematically legalized in the AMPI and the SOE and QGO performance evaluation manual. Currently, the SOE and QGO performance evaluation results are used to provide differentiated incentive payments depending on the institutions' ratings, respond to institutions with excellent and poor ratings (recommendations from the Minister of the MOEF for excellent institutions, management inspection for institutions with poor performance, dismissal of CEOs or standing directors of institutions with poor performance, and budgetary measures), exempt institutions with excellent ratings on some indicators from the evaluation of said indicators (institutions with business management category indicator(s) that received a rating of good (A+ or A0) for two consecutive years are exempt from the evaluation of those particular indicators), and draft annual reports. Among these various uses, the exemption of institutions from evaluation for indicators on which they have received

excellent ratings was newly introduced in the 2018 evaluation manual. In addition, according to Article 48(9) of the AMPI, the Minister of the MOEF may request that personnel or budgetary measures be taken to secure responsibility for future management and improve management through the deliberation and resolution of the Ownership Steering Committee in regard to SOEs or QGOs that have exhibited insolvent management due to the excessive appropriation of personnel expenses and violations of the guidelines for management.

As outlined above, various ways of utilizing the results of the SOE and QGO performance evaluation have been systematized. The following are additional details on institutional measures for utilizing the performance evaluation results that are not specifically explained in the SOE and QGO performance evaluation manual.

(1) Differentiated performance evaluation incentive bonuses

Among the ways of utilizing the results of the SOE and QGO performance evaluation, the most effective is the provision of differentiated incentive bonuses depending on the evaluation results. Under the current system, differentiated performance evaluation incentive bonuses within the incentive ranges by institution type are provided to SOEs and QGOs that have received a rating of average (C) or higher in the comprehensive or category (business management and major projects) ratings on the relative and absolute evaluations.

Currently, the maximum incentive bonus provided to the employees of SOEs and QGOs following the results of a performance evaluation is 250 percent of the monthly base pay for SOEs and 100 percent of the monthly wage for QGOs. Among SOEs, institutions that were designated as government-invested institutions prior to the enactment of the AMPI are permitted to provide up to 300 percent of the monthly base pay as performance incentive bonuses. Therefore, depending on the results of the annual performance evaluation, institutions receive differentiated incentive bonuses within the incentive ranges, which differ by institution type.

The upper limits of the performance evaluation incentive bonuses for the CEOs

and standing directors of institutions, as well as the evaluation incentive bonuses for the performance of duties of standing auditors and audit commissioners, are decided, based on the Guidelines on Compensation for SOE and QGO Executives. Currently, among SOEs, the maximum performance incentives for CEOs and standing directors are 120 percent and 100 percent of the base salary, respectively, while the maximum duty performance incentive for standing auditors is 100 percent of the base salary. Among QGOs, the maximum performance incentives for CEOs and standing directors and the maximum duty performance incentive for standing auditors are all 60 percent of the base salary. These incentive bonuses for CEOs, standing directors, standing auditors, and audit commissioners are all differentiated based on the institution evaluation results.

In 2016, the standards for calculating incentive bonuses for performance and duty performance within the upper limits of incentive payments were diversified. Starting with the 2016 performance evaluation, the comprehensive rating (50 percent), business management rating (25 percent), and major project rating (25 percent) were added to determine the incentives. Prior to the 2016 performance evaluation, which was conducted in 2017, the comprehensive institution rating was used to calculate differentiated performance incentive bonuses. With the MOEF's revision of the performance evaluation system, the method for calculating the incentives was diversified to include category ratings for determining differentiated incentive bonuses in order to establish a multilevel incentive system and reduce the intense competition between SOEs and QGOs. In addition, since 2018, when the new absolute evaluation method was introduced in addition to the comprehensive institution rating and category ratings, incentive bonuses have been calculated in the same way as the evaluation rating. Specifically, the comprehensive institution rating accounts for 50 percent of the total incentive score, half of which reflects the relative evaluation rating and the other half reflects the absolute evaluation rating. The other 50 percent consists of the category ratings, half of which reflects the business management rating and the other half reflects the major project rating. The

category ratings are also divided into halves, or 12.5 percent of the total incentives, with each half reflecting the relative and absolute evaluations. According to the 2018 SOE and QGO performance evaluation manual, in addition to reflecting the results of the performance evaluation in determining incentive payments, violations of basic social duties and social contribution levels along with a lack of efforts to implement modified functions for institutions can be factored into decisions to increase or decrease the incentive bonuses.

Table V-21. Percentage of evaluation ratings reflected in the calculation of performance evaluation incentives (as of 2018)

Comprehensive institution rating (50% incentive)	Category rating (50% incentive)	
	Business management (25% incentive)	Major projects (25% incentive)
Relative evaluation (25%)	Relative evaluation (12.5%)	Relative evaluation (12.5%)
Absolute evaluation (25%)	Absolute evaluation (12.5%)	Absolute evaluation (12.5%)

The differentiated payment of incentives by dividing the evaluation results of the management of institutions into six levels was first adopted in the 2008 performance evaluation, and the measures for taking away incentives from institutions, CEOs, and institution auditors that received a rating of unsatisfactory (D) or lower was introduced in the 2011 performance evaluation. Prior to the 2011 evaluation, differentiated incentive bonuses were provided to institutions based on the performance evaluation, and the lowest incentives were provided to institutions, CEOs, and institution auditors with poor performance.

Prior to the 2014 revision of the evaluation system, which required CEOs and auditors to be evaluated only once during their terms, the results of evaluations of CEOs and standing auditors accounted for 50 percent of the total score for determining the differentiated incentives for CEOs, standing auditors, and audit commissioners. In addition, beginning with the 2010 performance evaluation, the evaluation results for CEOs was added to or subtracted from the differentiated

incentive bonuses for institution employees. However, since the 2014 revision of the evaluation system, which required CEOs and auditors to be evaluated only once during their terms, the evaluation results for institution heads and audits have been used only as references for personnel decisions, such as for consecutive terms, and are not used for incentive payments. This decision was changed again in 2017, meaning that the evaluation results will be used to determine differentiated incentive payments for standing auditors and audit commissioners starting with the performance evaluation in 2018.

(2) Warnings and requests to dismiss CEOs, standing directors, or auditors

Pursuant to Article 48(8) of the AMPI, the Minister of the MOEF issues warnings to the CEOs and standing directors of institutions with poor performance or requests that the people with the authority to appoint the CEOs and standing directors of institutions with poor performance remove the CEOs or standing directors. Currently, the Minister of the MOEF can issue warnings to the CEOs and standing directors of institutions that have received a rating of unsatisfactory (D) on the relative evaluation of the comprehensive institution and recommend or request that the appointing authority remove the CEOs and standing directors of institutions that have received a rating of poor (E) or two consecutive ratings of unsatisfactory (D) through the deliberation and resolution of the Ownership Steering Committee. From 1984, when the performance evaluation system was first adopted, to 2001, there was only one case in which the Minister of the MOEF recommended the dismissal of an CEO. Since 2008, however, frequent warnings and recommendations for the dismissal of CEOs have been made.

Pursuant to Article 36(2) of the AMPI, the Minister of the MOEF can, after the deliberation and resolution of the Ownership Steering Committee, dismiss or recommend that the appointing authority dismiss the standing auditors and audit commissioners of institutions that show poor performance in the evaluation of the performance of duties.

From 2000 to 2013, the Minister of the MOEF issued warnings and recommendations to remove CEOs based on the CEO evaluation results. In 2014, however, the system was revised so that the evaluation of CEOs and standing auditor evaluations are conducted only once during their terms. As a result, such personnel measures are taken based on the results of the institution evaluation. From 2014 to 2017, the results of CEO evaluations and auditor evaluations were used only as references for personnel decisions, such as determining consecutive terms.

(3) Budgetary measures, management improvement inspection, and annual reports

Based on the results of institution performance evaluations for SOEs and QGOs, institutions that have received a comprehensive rating of unsatisfactory (D) or lower are subject to an operating budget reduction for the following year. Institutions that have received a D rating are subject to a 0.5 percentage point budget reduction, while E-rated institutions are subject to a one percentage point budget reduction. Beginning with the 2007 performance evaluation, institutions with outstanding performance (A rating or higher) were given incentives to increase their operating budget for the following year by one percentage point, but this measure was abolished recently.

The Minister of the MOEF or the competent minister can demand that institutions that have received a comprehensive institution rating of unsatisfactory (D) or lower on the relative evaluation draft and submit management improvement plans, separate from the management consulting provided by the Evaluation Commission of SOEs and QGOs, to the MOEF and the line ministries. The implementation of the plans will then be inspected in the future and can be reflected in the following year's performance evaluation.

Moreover, the Minister of the MOEF can draft an annual report on the management conditions of SOEs and QGOs based on the performance reports and performance evaluation results every year; the report can be made public.

VI

Privatization of SOEs



VI

Privatization of SOEs

1. Introduction

After the Second World War, many countries tried to correct market failure by extending public areas such as the nationalization of core business, while aiming at welfare states. In South Korea, the public sector was a critical part of the economy from the 1960s to the early 1980s as a consequence of the SOEs that were born through the formation of social infrastructure and the development and procurement of government businesses under government control. However, the enlargement of the public sector caused a great burden on the national finances and overlapped the private sector; as a result, the capacity of the national economy decreased.

SOE reforms in the dimension of corporate governance are regarded as part of a continuous spectrum. Management reform, which includes imposing a competitive system and linking performance-assessment remuneration, is still under government control. On the other hand, privatization moves power from the government to the market. In the 1980s and 1990s, many countries sold and privatized SOEs such as energy companies, social overhead capitals, manufacturing companies that needed large-scale facilities, public financial companies that supported the development of the state, and other network businesses. Various opinions exist for such phenomena, but in general, it is considered positive that they contributed to national economic development in terms of productivity and efficiency.

The discussion of privatization in the pursuit of sustainable economic growth started with the importance of efficiency through market competition and the supplementing of public interest through government regulation. In many countries, privatization means both of the following: the first is to delegate responsibilities to

private enterprises for social infrastructure when the business conditions of private enterprises have been settled or the need for public involvement is lowered. The second is to switch business management to a business scheme that uses expertise and private company funds for businesses in which public involvement is necessary.

Since the 1980s, criticism of the operating system of SOEs has been raised worldwide, and a strong trend of privatization has emerged. In particular in 1983, the FAMGII was enacted. To improve efficiency, a company board of directors was separated into a board of directors that was composed of the president and nonexecutive directors and an internal board of directors with the president as chairman. The core of the management problem of SOEs is the difficulty of how effectively the inducement mechanism is to be established under the state-owner system. Therefore, minimizing political involvement, clarifying corporate goals and performance indicators, strengthening autonomy and responsibility, measuring performance, and linking compensation were emphasized. Attempts at privatization have been ongoing since the late 1980s through economic liberalization and relaxing emphasis on public interest, but full-fledged privatization was actively developed in 1997 during the economic crisis because of concerns about chaebol-centric economic concentration and bureaucratic inertia.

Privatization was implemented for the purpose of overcoming the loss of competitiveness and inefficiency of the SOE sector, and a full-scale debate began in 1998. Of course, privatization through such pathways as in-kind investment and competitive bidding was promoted primarily as part of the reorganization of defective enterprises, nurturing private enterprises, improving the competitiveness of banks, and economic liberalization as a matter of course. Even in the 1980s, efforts to privatize were continued, including selling some shares of Korea Electric Power (KEPCO) and Pohang Steel Corporation (POSCO). However, it can be said that the privatization of large-scale SOEs was planned seriously after the currency crisis.

After the 1997 financial crisis, the issue of attracting foreign capital and financial conservation through sales proceeds became the background of the discussion on

privatization, but the basic purpose of privatization was to improve the management efficiency of SOEs and strengthen competitiveness. Korea's need for changes in SOEs and QGOs was expanded earlier, but the phenomenon emphasizing the role of the state and the expansion of the public sector emerged in 2007 after the economic crisis. During the Kim Dae-Jung administration, the paradigm of the national management system in South Korea was converted from the development model of a developing country to a market economy model, and SOE reform was strongly promoted, focusing on privatization such as structural adjustment.

To overcome the concentration of economic power and the burden of the stock market that had been mainly mentioned as obstacles to promoting the privatization of SOEs in past governments, various sales methods and efforts to attract foreign investment were explored, but before the Kim Dae-Jung government these efforts were insufficient. In some cases, privatization during the Kim Dae-Jung government received negative reviews because good companies were often sold under the harsh environment of the IMF's financial support system due to the currency crisis, but it had a positive effect on the national economy. It also showed remarkable results.

Table VI-1. Privatization stages and considerations

1. Restructuring prior to privatization	
Enterprise level	Industry level
Separation of regulatory and corporate functions	Establish independent regulatory organization
Incorporation or capital structure change	Eliminate entry barriers
Reorganization of management	Anti-competition regulation
Business strategy adjustment	Review of past industrial policies
2. Process of privatization	
Sales method: direct sale or public offering	
Sales price: fixed price or competitive bidding, general/large and domestic/overseas differential price	
Timing and stage of sale: consider the size of the sale and the ability to absorb the stock market	
3. Management control after privatization	
Limitations on individual shareholders and foreign investors	
Issue of golden shares	
Block voting rights	

4. Other considerations

Labor rebellion

Usage of sales income

Prior to the Kim Dae-Jung government, privatized SOEs were mainly in mining, manufacturing, construction, and finance and insurance, and privatization in the manufacturing sector became prominent. This suggests that the selection range of traditional privatization targets was focused on the probability of privatization success and market structure, and industrial characteristics should be taken into consideration including methods, priorities, and so on. In the case of companies with poor business performance or financial structure before privatization or insufficient profitability, privatization may be a very effective means for short-term management rationalization. In this case, the process of persuading stakeholders is important in that a strong structural adjustment for efficiency improvement, such as staff reduction, must also happen. There is a high probability of success in privatization when privatization reflects the characteristics of the industry, in other words, privatization can be more successful when companies that have higher marketability and are easier to operate in market conditions privatize.

Privatization was promoted most actively at the time of the Kim Dae-Jung government with POSCO, Korea Telecommunications (KT), and Korea Tobacco Corporation (KT&G) as the representative cases. On the other hand, in the case of companies that are public in nature in terms of their products and/or services, it is easy to experience difficulties in forming a national consensus due to the quality of service and price hike concerns. In addition, since the management of transparent processes is emphasized, the asset size of the companies to be privatized is very large, and the influence on the national economy and the stock market is significant. The discussion on privatization is an increasingly political debate that has a high possibility of being connected with many stakeholders. Therefore, transparent and fair management of privatization process is important to mitigate concerns over the outflow of national wealth and secure confidence in the government's policy. In the

case of South Korea, three out of six companies (KT&G, KT, and Korea Heavy Industries) listed in the 1997 ‘Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises’ were successfully privatized. In contrast, Incheon International Airport Corporation, Korea Airport Corp., and Korea Gas Corporation have been delayed in their privatization.

After the Kim Dae-Jung government, the role and scale of the public sector evolved so that the government maintained its ownership of the public sector rather than having it privatized, but the government can respond to the development process of the private sector in the national economy through management innovation in order to improve the proper management structure within the public sector. Beginning in 2008, privatization, integration, discontinuation, and functional review and reorganization were partially carried out through the evolution of the SOEs and QGOs reform at the time of the Lee Myung-Bak administration. Despite the expansion of the capacity of the domestic economy’s private sector and the need to reestablish the role of SOEs, the budget of SOEs, which is the budget of SOEs compared to the government’s general accounts and GDP, is increasing in various areas such as human resources. Despite the revitalization of the private economy, the proportion of SOEs in the domestic economic sector has not decreased much. One factor that causes the size of SOEs and QGOs, such as SOEs, to grow is the expansion of business areas by promoting the pursuit of self-interests in SOEs and QGOs.

Currently, the public has a critical opinion of the inefficiency of SOEs; also, as per the phrase “workplace of the gods,” when we compare the performance of SOEs in the national economy, we see that compensation is excessive. In order to improve the public’s opinion on SOEs, we should reestablish SOEs’ roles through reforms, improve productivity and efficiency, and improve management areas such as organization, personnel, and budget execution. Attempts to control such excessive compensation levels should continue, particularly with regard to the average salary per capita and other welfare wages, which have become a social agenda to be dealt with

using a systematic approach in SOE management.

Compared to the general private sector, there is bias of talent wanting to go to the SOE sector. In response to this, efforts are regularly made to enforce innovation seamlessly, such as redefining the functions of SOEs, rebuilding personnel, redesigning organizations, implementing management contract arrangements, and strengthening performance management. Privatization should also be considered as the development of the private economy in addition to a way of reforming the public sector.

This section proceeds as follows: in Chapter II, we provide an overview of the policies of the various administrations in Korea and the privatization of SOEs during 1948–2018. The main objective of this chapter is to give the reader an overview of the evolution of SOE privatization policy, planning, and results of every administration from 1948. It allows one to compare the policies of past administrations with those of the current administration on the privatization of SOEs. As case studies, we assess in detail the process and performance of KT and POSCO privatization.

Chapter III describes the models and strategies of SOE privatization, such as what to privatize, how to privatize, and whom to sell. The framework for the execution system of the transfer of ownership, restructuring, and regulation policies for the specific industry are discussed. We also summarize full and partial privatization and the sequence and valuation process. Finally, we draw our conclusions and summarize the implications.

2. Historical overview

1) Before the Kim Dae-Jung administration

(1) Progress of privatization

From the latter half of the 1960s to the beginning of 1973, Korea conducted privatization to sell 11 companies to the private sector, e.g., Korea Transportation, Korea Shipping, Korea Shipbuilding, Incheon Heavy Industries, Korean Air, and Incheon Steel Corporation. The privatization method, which was in line with organizing defective

companies and nurturing private companies, was the sale of shares and investment in-kind. Since the privatization of most institutions, except three companies, were converted into surpluses, the privatization policy has been perceived as having a positive influence on the improvement of management outcomes.

Table VI-2. Considerations for privatizing companies

	First (1968)	Second (1980)	Third (1987)	Fourth	
				First stage (1993)	Second stage (1996)
President	Park Jung-Hee	Cheon Doo-Hwan	Cheon Doo-Hwan	Kim Young-Sam	Kim Young-Sam
Purpose of privatization	<ul style="list-style-type: none"> • Liquidate insolvent corporations • Promote private enterprises 	<ul style="list-style-type: none"> • Enhance competitiveness of national banks • Economic liberalization 	<ul style="list-style-type: none"> • Improve business efficiency of public enterprises 	<ul style="list-style-type: none"> • Management under ownership 	<ul style="list-style-type: none"> • Enhance management autonomy
Main agent of promotion	Leading department	Leading department	Economy Planning Board/ SOE Privatization Committee	Ministry of Finance and Economy/ SOE Privatization Committee	Ministry of Finance and Economy
Target SOEs	11 companies in the fields of aircraft, manufacturing, transport business, and commercial banks	Four banks (Hanil, Trust, Cheil, Choheung), Korean Dredging Corporation, and Korea National Oil Corporation	Divesture (Korea Electric Power Corporation and Pohang Iron & Steel Corp.)	22 companies focusing on subsidiaries were privatized, five companies were merged	Improve management structure (Korea Tobacco & Ginseng Corp., Korea Telecom, Korea National Oil Corp., and Korea Heavy Industries & Construction)
Sales method	<ul style="list-style-type: none"> • Competitive bidding • Investment in kind 	Distribute shares	National stock sharing	<ul style="list-style-type: none"> • Competitive bidding • Share distribution 	–
Assessment	Resulted in controversy about preferential treatment	<ul style="list-style-type: none"> • Excessive share distribution • Bank interventions resulted in economic crisis 	<ul style="list-style-type: none"> • Contributed to the development of the capital market • Failure to actually achieve privatization • Lack of improvement in management efficiency 	Stake sale without full consideration of related industry	Retreat of privatization concept

Source: Economic Planning Board (1988).

In the 1980s, two SOEs and four public banks were privatized, and the privatized companies at that time also showed improved performance. The Korean Oil Corporation, Hanil Bank, and the Korean Dredging Corporation, among others, are perceived as being successful, as performance after privatization turned profitable. Emphasizing the autonomous management of SOEs under government control through the establishment of the FAMGII in 1983 and the introduction of a public corporate management evaluation system, instead of reducing direct government interference, a post-assessment of management efforts was conducted to indirectly improve the control structure according to the results.

In 1987, the Cheon Doo-Hwan administration established the Privatization Promotion Committee of SOEs as a separate organization for promoting privatization, and the Economic Planning Institute promoted the privatization of SOEs in all ministries and agencies together with the committee. The target organizations were 11 institutions including KEPCO, POSCO, KT, KT&G, Korea Stock Exchange, National Textbook Compilation Committee, Korea Appraisal Board, Kookmin Bank, Small and Medium Enterprise Bank, and Korea Exchange Bank. At this time, privatization was advanced in various ways such as the national shareholders method, the public offering method, and the competitive bidding method with the voluntary contract method. In particular, by applying the national share method to increase the fairness of the distribution of wealth, shares equivalent to KRW 5 trillion in government-owned stocks of seven companies (including POSCO, KEPCO, Kookmin Bank, and Korea Exchange Bank) were spread by fostering SOEs, so the government tried to contribute to the formation of property for the low-income group. However, since the national shareholder system prioritized the formation of assets of the middle and lower income classes, it differed from the original purpose of privatization, which was the "improvement of SOE efficiency"; thus, there was a limit.

At the time of the Kim Young-Sam administration, under the premise of completely selling the shares of the government investment institutions and formulating a large-scale privatization plan for SOEs, the government promoted the sale of the shares of 58 companies and the consolidation and elimination of

10 companies. The direction of the plan was designed mainly by the Finance and Economy Research Institute and the Promotion Committee for the Privatization of. Promotion performance was managed, and the competitive bidding and equity distribution method was applied by targeting 23 government investment institutions and two government-sponsored institutions (KOGAS and KT&G); the fully privatized organizations are the national banks only, excluding KDB. Three national policy institutions, including banks and mortgage companies, were all included. Thirty-one companies, including Korea Heavy Industries, that were SOE subsidiaries were planned to be fully privatized, but this was only partially completed.

(2) Performance of policy implementation

In general, the promotion of government privatization was weak during the Park Jung-Hee, Cheon Doo-Hwan, and Kim Young-Sam administrations because of the limited domestic stock market, the concentration of economic power in chaebol, and the stance among stakeholders and their SOEs. At that time, there were the problems with promoting the privatization of SOEs and not having a concrete, detailed strategy for the privatization policy. Mainly, the outcome was sluggish compared to the original privatization plan because of the lack of government Commitment and preparation; i.e., the leaders lacked an understanding of privatization and its necessity, and their motivation to implement was inadequate. In addition, the main ministries and agencies whose interests were directly connected to privatization were justified in maintaining SOEs, and specific detailed strategies for executing plans were not appropriately formulated.

Government must determine specific methods and alternatives to overcome the concentration of economic power with the chaebol and the burden of the stock market. Coordination of qualifications, share ceilings, and industry structural adjustment efforts can ease competition worries and relax the concentration of economic power in the chaebol. The effect of revitalizing the securities market by creating demand can also be expected. Fears concerning the occupation of the national core industry with foreign capital also requires strategies to maximize the

positive effect of improving competitiveness while suppressing institutional adverse effects, such as foreign dominance.

In particular, the Kim Young-Sam administration developed the Detailed Promotion Plan for Privatization and SOE Function Adjustment, and prepared privatization plans for 61 companies out of 133 SOEs. However, the implementation of this plan was limited to 16 SOEs, mainly banks (Kookmin Bank, Korea Exchange Bank, Industrial Bank of Korea, and Housing Bank) and the National Textbook Compilation Committee; nevertheless, it was very stagnant. The reasons for this include the absence of detailed basic research, the selection of SOEs with a relatively small size, and the impossible task of privatizing 30 companies in 10 months.

Promotion of simple stock sale by selling divisions of subsidiaries that produce tobacco vending machines and telephone books, for example, while excluding large-scale key industries such as POSCO, KEPCO, and KT from privatization, also showed the limits of the plan. The plan to privatize through the sale of government shares was canceled by deciding to suspend the sale of stocks of publicly traded companies based on the securities market stabilization measures introduced in May 1995. Measures to promote management efficiency and privatization of SOEs were introduced in November 1996 and presented a professional management system for the operation of large-scale SOEs and privatizing SOEs in the special finance sector. In 1997, the Special Act on Structural Improvement and Privatization of SOEs introduced an accountable professional management system covering KT&G, KOGAS, Korea Communications, and Korea Heavy Industries. The Act acknowledged that allowing chaebol groups to purchase controlling interest of a large SOE would aggravate the problems that the economic concentration system had caused. As a result, it prohibited the purchase of controlling interest of large SOEs by chaebol groups by imposing a 15% ceiling on ownership by a single party. However, the special law for the four large-scale SOEs focused only on separating corporate management and industrial policy, and efforts to introduce the concept of competition in business management were not enough. By simply discussing

issues such as the election of a management team and the composition of a board of directors rather than creating conditions for privatization by changing industrial policies that focused mainly on competition, there was limited improvement in efficiency through competition in certain energy and telecommunications industries.

2) During the Kim Dae-Jung administration

The partial and intermittent privatization policy that lasted until the 1980s began to be promoted seriously after the 1997 currency crisis. The privatization of major SOEs such as KT&G, POSCO, Korea Communications, and Korea Heavy Industries was achieved accordingly. In particular, the Kim Dae-Jung government aggressively promoted the structural adjustment and privatization of the public sector in order to reduce rapidly increasing foreign bonds and overcome the loss of competitiveness and inefficiency that had been spreading throughout the public sector.

(1) SOE privatization: strategies and implementation

In response to the 1997 currency crisis, the government promoted the reform of the four major sectors: public sector, companies, finance, and labor. The privatization of SOEs as part of reforming these public sectors was to eliminate the expansion of the market economy and the inefficiency of SOEs, as well as to further enhance competitiveness by expanding the country's growth potential in the long term and restore foreign trust to overcome the economic crisis in the short term. In response, the government established a planning and budget committee that was responsible for reforming the public sector, not the existing government organization, and privatization. The executives of the government reforming office, which is responsible for the privatization of SOEs, was mostly made up of civilians.

The three basic principles of promoting the privatization of SOEs are as follows. In consideration of the characteristics of each institution's environment and the market condition, SOEs that can be privatized at an early stage should be

privatized first, and other SOEs that are difficult to privatize early should promote structural adjustment first and privatize step by step. Second, by diversifying selling methods including overseas sales, sales value can be maximized by adjusting the timing according to changes in economic conditions. Third, in order to expand the participation of citizens and SOEs engaged in business, the government offer public and employee stock ownership because SOEs are fundamentally assets of the citizens.

In addition to these principles, Korea strengthened its efforts to gain the consensus of the nation in order to minimize the opposition of stakeholders in the process of privatization promotion. In particular, when a monopoly is connected to each company and industry, in order to improve the outcome of privatization by establishing ownership and governance at an appropriate level, a system for developing competitive conditions in related industries is also emphasized. In addition, based on concerns about the concentration of economic power by chaebols, the government fixed the stock limit to 7%, encouraged institutional investors to actively participate, and designed a corporate governance structural reform based on the Anglo-Saxon style.

In addition, the government established the SOE Privatization Promotion Committee within the Planning Budget Commission as the best decision-making organization to formulate a privatization promotion plan and to monitor the plan's status. The SOE Privatization Promotion Committee was composed of the committee chairperson, the vice chairperson of the Fair Trade Commission, the vice ministers of the line ministries, the deputy governor of the industrial bank, two members from the private sector, and a secretariat from the government's reform office. In order to enforce the committee's practical policies, the relevant ministry of the SOEs concerned formed a task force team for privatization of SOEs, consisting of officials from related ministries, private experts and executives of SOEs.

The task force team developed and executed detailed strategies such as specific sales methods and schedules, and was responsible of readjusting related laws and regulations and improving the system.

According to the primary plan announced in July 1998, 11 companies including 26 parent companies excluding finance-related SOEs, such as POSCO, KT, KEPCO, and Gas Construction, were selected as privatization targets. Then, businesses in areas such as road construction work, water resources, and KOTRA were delegated for government work; 15 SOEs and QGOs with a strong public nature were made to undergo structural adjustment. Of the 11 SOEs, POSCO and Korea Heavy Industries were classified as institutions that could be privatized immediately after considering the characteristics of other organizations and the market environment. Six companies, including KEPCO and Gas Construction, decided to promote privatization step by step.

Among the first privatization plans of SOEs announced in July 1998, the most distinguishing feature was that POSCO, KT, and KEPCO, which had been regarded as core industries till then, were planned to be privatized. It was decided that the government would cover the costs relating to financial structural adjustment and unemployment countermeasures with the proceeds of sales gained through the privatization of SOEs.

The privatization of additional SOEs and the management reform plan were announced in August 1998 to complement the first plan. In order to create new value for SOEs, the second plan called for reestablishing functions and roles so that SOEs could be reborn as institutions to serve citizens; thus, Korea established and concentrated on business and core operations. Moreover, an autonomous accountable management system of SOEs and a reformed operations system were presented. The second plan included structural adjustment and privatization targeting 55 subsidiaries of 19 SOEs including KT. Subsidiaries that did not conform and subsidiaries with insufficient management status were sold or abolished, and the subsidiaries' functions were consolidated in the parent company accordingly.

(2) Methods of privatization and improvement of institutions

In 1997, Korea established a law on the improvement and privatization of the SOE management structure to promote the privatization of SOEs such as KT&G, KT,

Korea Heavy Industries, KOGAS, Incheon International Airport, and Korea Airport. At the time, the Kim Dae-Jung government sold financial institutions and took the debt burden of commercial companies to overseas capital such as Goldman Sachs and others. It was also true that there was an “eat and run debate” raised in each case. From 1998 to the end of 2002, the total income from SOEs and their subsidiaries was KRW 23.4 trillion (fiscal revenue of KRW 13.9 trillion and other income of KRW 10.5 trillion), which was the effect of increasing government revenue and business efficiency. It was effective in reducing the deficit of nonperforming SOEs; the government’s reduced role within the industry presented opportunities for the expansion of the private sector, and the size of the public sector was reduced considerably.

The Kim Dae-Jung government completed the privatization of eight of the 11 privatized parent companies by the end of 2002. National Textbook Co. was sold to a private textbook company through the competitive bidding method. Pipeline Construction Co. was sold to an existing petroleum company, a private shareholder, through an investment agreement signed with existing shareholders. POSCO sold all the shares of the government and IBK, through the sale of its own shares, issued overseas DRs (depository receipts) three times. Korea Heavy Industries sold 24% of the shares owned by IBK and KEPCO through domestic public offering, and in December 2000 they exchanged management rights through dozens of restricted competitive biddings to Doosan, which was one of the chaebol groups. The KT also sold shares completely in various ways such as overseas DRs, domestic competitive bidding, and domestic public offering. The KT&G was privatized completely through the issue of overseas DRs, EBs (exchangeable bonds), and domestic public offering.

Three energy SOEs, KEPCO, KOGAS, and the Regional Heating Corporation, were partly privatized but remain market-type SOEs today. Among the 77 subsidiaries that planned to privatize based on the SOEs and QGOs subsidiary arrangement plan (2001.3), as of November 2002, 66 companies were almost completely reorganized and reported that 86% of the planned progress had been achieved. There

were 32 companies privatized with the parent company, 18 companies privatized independently, and 16 companies that were liquidated or absorbed by the parent company. There were many difficulties in overcoming the opposition of labor unions concerning deteriorating working conditions. The government engaged in aggressive process of gathering opinions and persuading unions through the Labor Management Committee (economic, social, and labor council). As a result, the Labor Management Committee, through mutual consultation, provided employment security, buffer jobs for a certain period to the extent that it did not hinder privatization, an employee stock-holding system, and adjustment of the timing of privatization. Finally, it was able to induce consent. The Labor Management Committee expanded and became the Economic and Social Labor Relations Committee by the amendment of the law in 2018. With its launch in 1998, it is perceived as being a critical contributing factor of overcoming the crisis with social agreements.

In order for SOEs to become privatized and to ultimately enjoy the benefits from consumers, it is necessary not only to transfer ownership to the private sector, but also to create competitive conditions and rationally reform the fee structure. It is necessary to increase the efficiency of public services to ensure that those services remain available even after privatization. By introducing a shared-use system of the equipment in the network industry, such as electricity, gas, and communication, the supply value chain could create competitive conditions in order to use and provide services jointly between businesses.

First, in the case of the electric power industry, through the establishment and revision of the ‘Electricity Utilities Industry Law’ and the ‘Law Concerning Regional Support around the Power Plant’, the competition system shifted from the KEPCO monopoly stage to many electric power producers and distributors competing in the emerging market. The government split power generation into six companies, established an electric committee and a power exchange, and induced competition in the electricity market. It also created and operated a strategic industrial foundation fund so that electricity could be supplied stably to areas with low profitability after privatization.

In the telecommunications industry, the ‘Telecommunications Business Law’ and the ‘KT Abolition Act’ were revised to allow Korean telecommunications’ monopolized subscriber networks to be used by multiple operators and compete in the wired communications business. Services for disabled people and people with low incomes and other universal services such as communication support for non-profitable areas continued to be offered through private sharing among carriers, even after privatization.

In the tobacco industry, KT&G has traditionally carried out various legal obligations, such as buying tobacco leaves from production farmers, purchasing all tobacco leaves, providing disaster compensation, and incentive payments, while being the exclusive tobacco manufacturer. The government revised the ‘Tobacco Business Law’ in March 2001 to abolish the exclusive manufacturing rights of KT&G and the obligation to support tobacco farmers. The government decided to support leaf tobacco farmers by creating the Yeopuoncho Stable Production Fund as a measure in accordance with the abolition of leaf tobacco farmer support. Additionally, in order to establish fair market competition, the ‘Tobacco Business Law Enforcement Order’ was revised, and the basis for tobacco sales prices changed from the approval system to the notification system.

Table VI-3. Ratio of SOEs subject to privatization (as of the end of 1998)

(Unit: KRW 100 million)

Classification	Number of enterprises (subsidiaries)	Number of people	Sales	Budget
Total SOEs (A)	26 (82)	214	707,520	989,123
Subject to being privatized (B)	11 (52)	165	546,375	780,264
Ratio (B/A)	42	77.3	77.2	78.9

Source: Ministry of Planning and Budget (2002), Public Sector Reform Report for the Kim Dae-Jung government.

(3) Privatization results during the Kim Dae-Jung administration

The Kim Dae-Jung government saw remarkable differences in terms of the privatization of SOEs promoted by the government and national economic outcomes. More than anything, the privatization of SOEs during this period secured foreign currency

income and fiscal income and made a big contribution to overcoming the economic crisis of the time. Through overseas sales, Korea successfully attracted foreign capital and improved its external reliability. The concern about national competitiveness weakening in conjunction with overseas sales could also be overcome through premium addition to the domestic stock price and issuing overseas DRs to prevent selling low.

The privatization and management innovation of SOEs promoted in the first and second stages triggered a considerable reduction of public sector size and an expanded private sector. Kim Dae-Jung attempted to reduce the number of talented people and organizations, compared with the 1998 as of November 2002, so that the number of SOEs, 20.8%, the number of subsidiaries, 78.3%, and the number of employees, 61.7%, have decreased. The privatization of eight institutions was completed, and Korea Housing Guarantee Co., Incheon International Airport Corporation, and Korea Airport Corp. were newly incorporated into SOEs, resulting in a net decrease of five SOEs.

Table VI-4. Financial indicators that show significant changes by company

	Classification	Company	Financial indicators showing significant changes after privatization		
			Total number	Sector (number)	Indicators
1	Government Direct Investment or Investment Institution	KT&G Inc.	8	Growth (1) Profitability (3) Productivity (2) Efficiency (2)	Increase in the number of employees, net sales profit margin, net capital ratio, real value added, labor productivity, sales per capita, net income per capita
2		Doosan Heavy Industries & Construction Co., Ltd.	2	Productivity (1) Efficiency (1)	Labor productivity, sales per capita
3		Government Direct Investment and Investment Agency	2	Efficiency (1) Activity (1)	Sales per capita, asset turnover
4		KT Corp.	5	Profitability (2) Productivity (1) Efficiency (2)	Total net income, net capital ratio, capital productivity, sales per capita, net income per capita
5		POSCO	9	Profitability (3) Productivity (3) Efficiency (2) Activity (1)	Net sales ratio, total net income, net capital ratio, real value added, labor productivity, capital productivity, sales per capita, net income per capita, asset turnover

	Classification	Company	Financial indicators showing significant changes after privatization		
			Total number	Sector (number)	Indicators
6		Daehan Oil Pipeline Corporation	9	Profitability (3) Productivity (3) Efficiency (2) Activity (1)	Net sales ratio, total net income, net capital ratio, real value added, labor productivity, capital productivity, sales per capita, net income per capita, asset turnover
7	Subsidiaries	KT Hitel Corp., Limited	1	Growth (1)	Sales growth rate
8		Korea Telephone Directory	None		
9		DB Communication & System Corp.	3	Growth (1) Productivity (2)	Tangible asset growth rate, real value added, capital productivity
10		KR Industry Company	1	Profitability (1)	Net sales ratio
11		Maeil Dairies Co., Ltd.	6	Profitability (2) Productivity (2) Efficiency (2)	Net sales ratio, total net income, real value added, labor productivity, sales per capita, net income per capita
12		Noryangjin Fisheries Corp.	2	Growth (1) Efficiency (1)	Asset growth rate, sales per capita
13	KDB holds stakes	Samsung Chemical Co.	9	Profitability (3) Productivity (3) Efficiency (2) Activity (1)	Net sales profit ratio, net income of total assets, net profit of equity capital, real added value, labor productivity, capital productivity, per capita net income, per capita net income
14		Asiana Airlines, Inc.	1	Efficiency (1)	Net income per capita
15		Korea Ratings Corp.	3	Productivity (1) Efficiency (2)	Real added value, sales per capita, net income per capita

Source: Park Jhung-soo (2011).

Companies that completed privatization generally showed considerable improvement in management efficiency, which was intended. The market capitalization of privatized enterprises also increased significantly. KDB increased from KRW 81.5 billion to KRW 130.5 billion, POSCO increased from KRW 10,712.2 billion to KRW 7 trillion 660.6 billion, and Doosan Heavy Industries & construction CO.,Ltd increased from KRW 433.5 billion to KRW 604.4 billion. The privatized enterprises transformed into private enterprises with specialized management and advanced governance structure and had a positive ripple effect in

terms of improved market efficiency and national economic efficiency. In particular, shareholder-centered management, business reorganization with high added value, and improved efficiency and profitability contributed to the efficiency of HR (human resources) and the establishment of an accountable management structure.

Nonetheless, we point out the following problems. First, the government-invested institutions focused on modifying its function and organization through business innovation, and promoting competition and strengthening managerial transparency through autonomy and responsible management, rather than conducting privatization.

Second, by implementing a rule that limits the shares held by the same person after the privatization, handing over the management rights could become virtually impossible, thus a company could still maintain the nature of SOEs even after the privatization.

Concerned about the concentration of economic power, the government's focus was more on securing fiscal income, so it fell short of enhancing economic efficiency through privatization and providing institutional strategy for economic revitalization.

Third, there was a lack of efforts to enhance public support and improve sustainability because the government chose the share selling method, mainly the overseas DR issuance, to sell SOEs instead of appropriately utilizing the employee shareholding system or the public stock method. As a result, there was no active program to protect the profits and resolute the interests of the weak who suffered losses in the process of privatization.

Fourth, the SOEs of the time had various benefits, such as special exceptions for asset revaluation, exceptions for land expropriation, exceptions for application of the Fair Trade Act, procurement of low-interest finance in overseas markets, and subsidy payments for covering operational deficit. On the other hand, the government is obliged to fulfill public service obligations that private companies are not burdened with, such as the redistribution policies. Whether it is necessary to develop these preferences and obligations or not, the business domain of the Public Company Establishment Act is exclusive or, in many cases, subject to government

price restrictions, and despite the difficulty of revitalizing competition, the specific measures for this were insufficient.

Fifth, the privatization of SOEs is a matter of many discussions if there are many stakeholders involved in policy design and implementation in general. Ownership and control, the choice of structure design, and the method of selling shares are strategic and flexible in terms of policy decisions based on a number of factors such as determining the sales price of shares, adjusting the market structure, relaxing government regulation, and restructuring. There were issues with the lack of blueprints, the formation of a national consensus to overcome various opposition, and the presence of fewer laws and amendments.

Sixth, through the SOE Privatization Promotion Committee, the Planning and Budget Committee, which took overall responsibility of the privatization policy, compromised with line ministries of SOEs to implement privatization policy. Korea did not promote a comprehensive and consistent privatization policy that was eclectic in appearance but a decentralized model in its actual operation. According to the FAMGII under the jurisdiction of the MOEF and the law concerning structural adjustment and privatization of SOEs in the charge of the MOEF, the detailed planning and enforcement of policies is handled by the line ministries and agencies.

Considering the government's five-year unilateral terms of office, it was a problem to execute a large-scale privatization plan all at once in a short time. While executing all the plans for the five-year period, the rest of the execution beyond the possibility of market acceptance was delayed in the process of large-scale public corporate divestiture in the first two years. Government-led privatization promotion that did not undergo sufficient discussion with stakeholders triggered social conflict among the stakeholders with criticism regarding non-sympathetic execution, which led to delay.

(4) Case study of KT

① Overview of the company

KT responded to the increase in telecommunications demand accompanying economic development in the 1980s. In December 1981 came the Telecommunications Public Corporation Law of Korea from the Department of Communication for the purpose of efficient telecommunication service specialization and business management. In 1984, TDX-1, the world's top electronic exchanger, was developed to solve telephone excess demand in 1987 through sustained efforts to expand the communication networks and modernize telephone networks nationwide. In 1982, the telephone system, which was only 4.5 million lines, was expanded to 20 million lines by 1993 to prepare the foundation for building an information network.

In 1995, KT launched the Mugunghwa Satellite 1 of Korea's first commercial television broadcasting commission. They succeeded in launching Mugunghwa 2 and 3 and headed toward building domestic satellite communication services. In 1996, KT acquired PCS and CT-2 business rights, established Korea Communication Freetel Co., Ltd., and started a mobile communication business. In December 2001, KT celebrated the 20th anniversary of its founding, changed the company name to KT, declared a rebirth as a global company, and expanded the business model to include wired–wireless integration service and the e-portal. In 2009, KT merged with Korea Telecom Freetel, which was in charge of mobile communications business. Currently, KT operates in various fields such as mobile communication, satellite communication, Internet service, IT service rentals, digital entertainment, bead solutions, and the existing domestic online and offline telephone business. It provides communication and network services.

Since the establishment of KT in 1981, until the late 1980s, business was carried out under the monopoly system in the city; therefore, the effort to improve management innovation was insufficient in the international telephone business. There were several problems, such as the decreased efficiency of domestic telecommunications carriers. In order to prepare for the opening of a communication market in the

future, in 1991, the government chose Dacom as the second international operator in order to strengthen the competitiveness of the domestic communication market and induced competition with KT in the international telephone field. After that, Hanaro Communication was to participate in local calls in 1999. In Korea's telecommunications market, competing systems were introduced to international telephone business starting from 1991, and the competition system in all towns and international telephone markets was to be carried out in eight years.

Based on the 1998 WTO Agreement, the domestic telecommunications market was opened; therefore, KT had not only domestic competitors such as Dacom and Hanaro Communication, but also overseas leading telecommunications companies such as AT&T, BT, and NTT. In order to survive in a fiercely competitive market and to secure the competitiveness to respond to this competition, Korea had to undertake management reforms in the industry. As a representative telecommunication company in Korea, KT could not avoid the privatization option to adapt to a new competitive environment that does not have government protection. KT privatization was carried out in conjunction with changes in the market environment such as the development of IT technology and the pressure of global liberalization.

② Process of privatization

Looking at the characteristics of KT before the promotion of privatization, the natural monopoly characteristics had been disappearing due to the development of technology in the telecommunications industry, and private companies such as LG Dacom and SK Telecom had already entered the telecommunications industry. It was determined that privatization was possible along with competition. The communication service provided by KT was very advantageous to general consumers and was a field in which new business could be expanded through advances in technology. However, due to the nature of the telecommunications industry, the idea of providing universal service for network access still existed in consideration of the privatization of KT.

An attempt to sell shares for KT privatization began in 1987 when the Roh Tae-Woo administration was in power. The SOE Privatization Promotion Committee was formed in 1987 in order to review the role of SOEs fully from the viewpoint of private-led economic development consolidation and readjustment of the division of roles between the government and private sector. The Korean government formulated a plan to promote the privatization of KEPCO, POSCO, and KT and selected part of the government interest as a sales target. After deciding to privatize KT through a shares system, the government of Korea attempted to sell 25% and 24% of stock in 1990 and 1991, respectively, but failed. This failure was due to the reorganization of the telecommunications industry structure at the time, the final ownership control structure of KT, and the specific plan for step-by-step share sales with the change in the management environment. More than anything, the privatization of the people's share system that was enforced at that time experienced difficulties and conflict in two aspects. First, the government of Korea tried to sell the shares of high-priced SOEs cheaply to low-income brackets to help them acquire their own property, but the comprehensive stock index at that time fell from 1000 points to 500 points (the worst stock market slump), stock prices fell, and special support was not provided to the people in the low-income brackets. In addition, due to rising concerns that selling shares while privatizing multiple SOEs at the same time might negatively affect the stability of the stock market, the KT privatization promotion plan that took effect in 1987 was withdrawn.

The Kim Young-Sam government announced in 1993 that the final ownership control structure of KT, the sales plan of concrete shares to achieve it, the reorganization plan of the telecommunications industry that would have a decisive influence on the stock price, and the regulation system would be introduced in the future. Other specific plans had yet to be finalized, and the Korean government announced that it would sell 49% of the shares of KT starting with the gradual sale of 10% of the government's share in 1993. However, conflict between stakeholders, such as the problem of concentration of economic power, anxiety in the stock

markets, and labor union resistance, made this policy delayed; only 8.8% of the government share was sold through a competitive bidding system in 1996. Finally, the Kim Young-Sam government's sale of KT shares was interrupted. In fact, from 1993 to 1996, 28.8% of the shares were sold to domestic individuals and institutional investors, resulting in total sales proceeds of KRW 2,750 billion.

In this way, KT's privatization remained at a standstill. The government fully revised the privatization policy of SOEs in 1997, and one of the most important results of the KT privatization was the introduction of the Special Law on Privatization of SOEs and the abolition of the establishment law of KT, and the decree of exception of the FAMGII. With this measure, KT was converted from a government-invested institution to a government-sponsored institution, a 15% ceiling of acquisition for the management rights of chaebols was applied with limited ownership of the same party, and the privatization and commercial management of the KT operating system was promoted. Despite the introduction of the special law, no additional sales of shares occurred in 1997 because the economic crisis was taking place at that time, and the financial markets were not favorable.

During the economic crisis, the Kim Dae-Jung government, which started in March 1998, announced privatization and structural adjustment measures for SOEs in July 1998, and KT was subject to this measure. The sale of stocks restarted after being classified. After listing on the Korea Stock Exchange on 23 December 1998, KT sold 6.7% of its government-owned shares and 7.8% of new shares to the US NYSE using the overseas DR method in May 1998, totaling 2.49 billion in earned income from the sale of the shares. In February 2001, bidding for the domestic sale of 14.7% (50.97 million shares) of KT shares took place, but only 5.597 million shares were sold. The government's shareholding decreased from 71.2% to 57.9%. Beginning in April 2001, due to the amendment of the 'Telecommunications Business Law', instead of relaxing foreigner equity restraints from 33% to 49%, foreign nationals were prevented from becoming major shareholders. Thus, because the bidding was lower than expected, the government set a policy of domestic divestiture after the overseas sale of the line,

based on which the company sold 17.8% of the government's shares to DRs on the US NYSE and UK LSE. The KT overseas DRs sold for USD 20.2 per share, which was 0.35% higher than the domestic circumference stock price (22 June 2001 closing price), whereby foreign capital of USD 2,242,290 flowed into the country. As a result, the government ownership of KT shares decreased from 58.9% to 40.1%. Then, KT's government share decreased to 28% through these ongoing domestic sales, overseas DR issuance, and selling shares to overseas' strategic investors.

One of the important measures promoted in the process of KT privatization was that KT was allowed to acquire Hansol@.com, a private PCS operator (June 2000), and as a complementary measure in 2002, they decided to fully privatize. This fundamentally changed the early KT privatization policy of the Kim Dae-Jung government, which is meaningful in that KT was a target for full privatization and this clarified the specific timing of privatization. In addition, it was decided to block the privatization of enterprises with UK-style corporate governance by blocking the acquisition of the management rights of Zaibatsu. In May 2002, the Fair Trade Commission decided to exclude it from the total investment limitation system of major chaebols that acquired the shares of the KT.

The government received a stock application for strategic investors and general investors, with allocations of 2% for institutional investors, 1.83% for general investors, 5.7% share ownership, and 5% strategic investors. As a result of the government's sale of its KT shares, SK Telecom became KT's largest shareholder. By 22 May 2002, the Korean government completed the KT privatization, which took more than 15 years, by selling all 28.36% of the government's share to domestic companies and the public, not through over-the-counter bidding but through overseas bidding.

In May 2002, in connection with the full privatization of KT, the effect of the largest privatization policy was that the ownership structure of KT changed completely. Looking at the trends of the sale of KT shares that took place since 1993, the ownership structure of KT, which sought to sell government-owned shares, was

completely transferred from the government to the private sector. The privatization of KT increased management efficiency and extinguished the government's regulatory grounds; government regulation triggered the switch to the regulation method for the entire telecommunications industry, not corporate management regulation. In addition, by establishing an autonomous management system by private shareholders through the introduction of KT's management and ownership, launching a specialized management system brought about significant improvement in the competitiveness of the company. Table VI-5 summarizes the sales trends of KT shares between 1993 and 2002 and the changes in the owner shareholding ratios.

Table VI-5. Changes in shareholding ratios of KT shareholders

(Unit: %)

	1998	1999	2000	2001	2002
Government	71.2	58.99	58.99	40.15	0
Financial institutions	0.92	0.28	0.21	0.6	6.64
Stock companies	0.96	0.33	0.16	0.02	0.38
Insurance companies	0.34	0.96	0.4	0.56	0.09
Other corporations	8.71	11.22	11.22	10.93	31.63
Foreigners	0.03	18.72	19.41	37.2	41.64
Individuals	17.81	9.5	9.57	10.54	19.62
Total	100	100	100	100	100

Source: KT Business Report; Data Analysis, Retrieval and Transfer System from Financial Supervisory Service (<http://dart.fss.or.kr>).

(5) Case study of POSCO

① Overview of the company

As part of the Economic Development Five-Year Plan in the early 1960s, POSCO strategically trained steel industry personnel on the basic material industry, which affected the development of other industries, and they established the foundation of an independent economic system. Based on this, in 1968 POSCO was established as an SOE with KRW 400 million (75%) and Korea Tungsten Co. contributed KRW

100 million (25%). In April 1970, construction began on a comprehensive ironworks factory with an operation of 1,300,000 tons of crude steel, and in July 1973, the equipment for the first phase of Pohang Ironworks was established. Subsequently, in December 1985, construction began on the Koyo Steelworks, and in May 1987, the executive committee completed the 20.0 million-ton-scale crude steel operation at the Koyo Steelworks.

Currently, POSCO has five blast furnaces, PCI (pulverized coal blowing) facilities, and two FINEXs that exchange furnace construction methods. The Koyo Steelworks has five blast furnaces and PCI facilities, and the annual production capacity of both steelworks is 5 million tons (Pohang) and 18 million tons (Gwangyang), reaching a total of 33 million tons. In 2009, the annual crude steel production was 14.34 million tons in Pohang and 15.1 million tons in Gwangyang, for a total of 29.53 million tons, making it the fourth largest in the world. In addition to the core steelmakers, Korea has stepped up business activities in various fields such as harbor port cargo handling, transportation, warehousing, city gas, district heating, resource development, education, and business-related services. The main products are hot rolling, wire rods, molten zinc, electric zinc, stainless steel, electric steel plating, cold rolling, thick plates, and so on.

A proposal for the privatization of POSCO was submitted to the Ministry of Finance in 1976 to raise funds for the industrialization of heavy and chemical industries, but it was withdrawn by POSCO and the Ministry of Commerce and Industry. After that, privatization became full-fledged through a proposal to sell the official public offering of government-invested institutions, which was announced in January 1986, and measures for privatization were promoted by POSCO voluntarily in April 1987. In December 1987, the government expanded the base of capital markets to distribute the business results of SOEs to the middle and lower classes, thereby exceeding 36% of the national share dissemination strategy to increase the property of the low-income group. The company decided to sell shares of seven SOEs including POSCO and KEPSCO, among others, and announced that it would be selling through the people's share method. In other words, the national stock system that appeared in the background of POSCO's

privatization was implemented with the goal of preventing the concentration of economic power by the acquisition of certain *chaebol* companies, thus providing fairness of distribution to the common people.

The purpose of POSCO's privatization was to improve efficiency so that it could compete with global steel companies overcoming steel demand stagnation since the 1990s. Meanwhile, the Kim Dae-Jung government promoted the privatization of SOEs to overcome the economic crisis, which aimed to secure foreign currency and fiscal revenue. Therefore, the aim of the foreign currency reserve and fiscal revenue of the government and interests of POSCO, which had been seeking management innovation, aligned, and POSCO was included in the privatization. The Kim Dae-Jung government's privatization policy, which had excluded the SOE acquisition method by *chaebols*, was aimed at general investors to sell POSCO.

② Process of privatization

POSCO was a highly marketable company before privatization. Although POSCO was held by the government in the form of an SOE for the purpose of securing resources and stabilizing prices, taking into consideration the maturity of the domestic industry, the characteristics of the company are very commercial. In addition, the end consumers of steel products (the goods produced by POSCO) are private enterprises in industries such as shipbuilding and construction, and POSCO enjoyed near-monopoly status domestically, but overseas, it competed with large global steel companies. POSCO's profitability was higher than other SOEs, and there was no government public policy partnership.

Looking at the process of POSCO's privatization promotion, we can see that policy compromises were conducted among the many stakeholders involved. As can be seen from the fact that the POSCO privatization policy, which began in 1976 and was finalized nearly 10 years later in 1987, the stakeholders had diversified and it took a lot of time to adjust and narrow the gap.

In particular, the Chamber of Commerce and Industry expanded POSCO to a

reasonable scale and strongly opposed privatization due to the sustained planned new investment. Nevertheless, the privatization of POSCO was carried out because there was an adjustment in the position of the POSCO management team, employees, and the Treasury Department. POSCO management did not oppose the privatization unless a specific chaebol wanted to buy it, and the employees approved the employee preferred stock allocation of 10%. The Ministry of Finance tried to promote the privatization of POSCO because it aimed to cool the overheating stock market, secure investment resources, and reduce financial burden. Thus, although there were different positions for each stakeholder, in the end, there was a common point that benefits were generated for all the stakeholders through POSCO privatization.

Following the adjustment of stakeholder positions, in June 1988, the sale of the government's equity shareholdings and the company's own shares was carried out. The shareholding changed from 33.4% to 20.0% for the MOEF and from 38.0% to 15% for the KDB (Korea Development Bank); own shares totaled 10%, public stock sale 27.3%, and commercial banks and others 27.7%. These shareholder compositions ultimately succeeded in spreading the nation's property and distributing shares of POSCO by public offering to the general people, but the stock market had been sluggish since POSCO listed. The majority of the people participating were subject to substantial loss of property. The privatization was very successful in dispersing shares to a large number of citizens, but can be evaluated as somewhat unsuccessful in the purpose of the redistribution.

Thereafter, private equity ownership, such as an increase in the share of foreigners, changed greatly during the decade (1988 to 1997), but the government's equity was maintained at almost 35%, as was the status of POSCO as an SOE. There has been no change, but since the Kim Dae-Jung administration was established, POSCO's privatization was promoted seriously based on the privatization plan of the first SOE in July 1998. According to the plan, in terms of the sale of shares, the shares held by the government and KDB were to be sold at 3% per party and distributed to domestically and abroad. As a rule, when the sale of an equity share in an industrial

bank is completed, foreign investment restrictions should end; however, the limit on ownership per person was not abolished until the end of 2001. In addition, based on the same plan, when determining the board of directors' structure of control, nonexecutive directors should occupy the majority of governance power. Based on these plans, the sale of the government's POSCO shares and KDB was carried out sequentially. At that time, the Kim Dae-Jung administration had an equity structure of 3.14% in the MOEF, 23.57% in KDB, 30% in foreign investors, 7.5% in the Bank of Commerce, and 35.79% in other with the first overseas stock DR method; all the shares owned by the MOEF were sold on the US NYSE and UK LSE. This was the first overseas sale that took place after the privatization plan was announced, and it was sold at a premium of 25% of the domestic stock price.

In July 1999, the Korean government sold 8% of the stock owned by the KDB in the second overseas DR method. As a result of the first and second divestitures, all of POSCO's shares of government investment were retained, and only stocks owned by the KDB were retained. On 4 December 1999, the Korean government attempted to sell the remainder (12.38 million shares) of the industrial bank's shares, but only 15.1% of the total sales price of KRW 1,944.6 billion was achieved.

On 18 December 1999, the Korean government sold 3% of the ownership share of KDB through the employee stock method; in June 2000, they added 3% ownership share of the KDB to sell through the employee stock method and adjusted the shares owned by the KDB down to 6.84%. In September 2000, following the announcement of the June 2000 postponement of the sale of POSCO shares because of the overseas DR price decrease, the government announced the cancellation of the designation of POSCO as an SOE, with the same party ownership limit of 3%, and the foreign ownership limit of 30% was abolished.

On 29 September 2000, 4.6% (4.43 million shares) of the 6.84% (6.59 million shares) of shares held by the KDB was sold through the overseas DR method, and the remaining 2.4% was sold to employees. For the first time in POSCO's history, all public interest was eliminated and they achieved full privatization.

In October 2000, the largest shareholder changed from the KDB to IBK (Industrial Bank of Korea), and the third overseas DR (4.6% stock) was issued. Table VI-6 shows the transition of the POSCO owner shareholding ratio between 1996 and 2000.

Table VI-6. Changes in shareholding ratios of POSCO shareholders

(Unit: %)

	1996	1997	1998	1999	2000
Government	19.55	19.57	0	0	0
Government-invested institutions	0	14.06	0	9.96	0
Financial institutions	42.15	19.05	40.97	24.19	14.69
Stock companies	2.16	1.19	2.3	1.16	0.67
Insurance companies	6.46	3.94	3.39	2.64	1.9
Other corporations	5.24	5.3	5.49	11.43	26.32
Foreigners	15.29	25.06	38.1	42.98	48.94
Individuals	9.15	11.83	9.75	7.64	7.48
Total	100	100	100	100	100

Source: Nam Ilhong et al. (2003), A Study on Public Ownership and Ownership Structure after Privatization, p.18.

3) After the Kim Dae-Jung administration

The Roh Moo-Hyun government entered, and privatization was interrupted as the new government pursued the reform of the public sector through management efficiency, not the method of selling SOEs. In the case of energy SOEs, a competitive environment was not in place. It was thought that through privatization, a public monopoly was merely a change to a "private monopoly" in which fees increase, the quality of service drops, and people do not support initiatives. However, through the AMPI in 2007, Korea strengthened the monitoring of the management activities of the public sector and demanded ongoing technological innovation.

Unlike the policy trend of the government in 2008, the Lee Myung-Bak

government aggressively began to reconsider the privatization of the public sector. By preparing and promoting the Evolution Advancement Plan a total of six times by March 2009, the Korean government decided to promote the sale of some shares through the execution plan; 12 were sold among the 38 planned. The sale of shares related to Agricultural Land Improvement (2008), Ansan City Development (2009), Korean Asset Trust (2010), and IPO was completed in three companies: Grand Leisure Korea, Korea Electric Power Technology, and Korean District Heating.

Meanwhile, the Korea Airport Corporation and Cheongju Airport Management Co., Ltd. completed an agreement to transfer the operation rights of Cheongju International Airport to the private sector for 30 years. Ownership of the airport facilities will not be transferred to the private sector until the main facilities of Cheongju International Airport have been expanded in response to changes in demand, and private enterprises are in charge of setting up the commercial and support facilities.

3. Selection criteria of privatization

1) Privatization models

Privatization includes outright privatization and public–private partnership (PPP), which transfers ownership through performance agreement. Privatization of ownership transfer means the process by which an entity transfers ownership or control from the public sector to the private sector, abolishes the monopoly of the public sector, and introduces elements of competition. On the other hand, PPP is a privatization in which the government has ownership if it is impossible to introduce competition or the development of the regulatory structure is not effective due to ownership transfer. PPP generally refers to a contract-type privatization because there are possibilities that various forms of PPP contents may be included according to business type and government request within the contract.

When the government uses SOEs, it compares the government-controlled transaction cost of market regulation when choosing privatization and implements reasonable privatization measures. If transaction costs are ignored, the privatization of all SOEs would be possible. And if a preliminary decision for SOE privatization is made, market regulation restructuring should be followed according to the type of industry and SOE. In the end, it is necessary to promote regulatory policy and industrial policy in close cooperation with privatization policy.

First, SOEs for commercial purposes that secure 100% of the production cost in sales revenue are the most easily privatized type (type 1). The second type (type 2) also secures 100% of the production cost in sales revenue; however, if public policy purposes rather than profit incentive have been emphasized, it should be converted to the structure of a commercial companies first. The third type (type 3) cannot hold 100% of the production cost in their sales revenue, and the government allows a switch to type 2 through the contract conversion of financial support to SOEs if necessary. Except for type 1, it requires a step-by-step approach, and it needs gradual efforts to mitigate the conditions of a nonmarket system. Therefore, success in full privatization would depend upon whether the performance contract nature of the market transaction costs increases or decreases in the specific SOE.

In order to privatize type 2 and type 3 SOEs, a performance contract must be introduced on public policy projects and government subsidies. The advantage of the process of privatization using outcome contracts must be accurately grasped in terms of the cost and confrontation with potential competitive pressures. It is possible to recognize customers rather than the government, to standardize the businesses that companies engage in, and to clarify responsibility. The disadvantages, on the other hand, are the high costs of fulfilling the contract and the many conflicts of interest. If the contract is ambiguous, a hostile atmosphere is created in the process of checking the contract, and the government can incur additional costs. The cost for inspection is high, and in the process of materializing the contract contents, autonomy is restricted.

The factors that influence the transaction costs include (i) whether there is a private

competitive market, (ii) choice of the appropriate size, (iii) distribution of customers of the business, (iv) the necessity for confidentiality, (v) the control capacity, (vi) the possibility of disruption of processing, (vii) the level of trust from the providers' customers, (viii) the possibility of exclusive business, (ix) the possibility of a future change in business, and (x) the possibility of efficiency improvement due to change in the organization system.

As a standard for keeping an SOE as it is and judging it as a potential target for privatization, we must first consider the necessity of the SOE's mission and main business in relation to the current economic environment. It is important to determine whether the SOE has customer demand. When establishing SOEs, it is necessary to consider potential and current competitors as well as the costs and impacts of not doing business. Second, it is desirable to share the roles of the execution of specific functions and the production and supply of goods and services in terms of the appropriateness of role sharing between the public sector and the private sector. The business purpose of an SOE should be established; i.e., does it have a public nature, does establishing the SOE match public interest, does it meet a welfare or government policy goal, and is the SOE a private enterprise or voluntary organization? Whether or not it is guaranteed to be an SOE, whether the objective involves business-related goods and service providers in the private market, and whether or not a competitive regime has been formed should also be considered.

Third, whether or not the responsibility of the public sector is sustained, whether it is necessary to operate as a permanent institution, and whether market failure is temporary within the project should be checked.

2) Privatization strategies

Most important in the process of privatization is thorough consideration and thorough preparation. It is necessary to create a competitive environment that considers the market structure of the industries to which the targeted SOE belongs

and the ease of entry. It is necessary to prevent the harmful effects of artificial division, ensure the independence of the regulatory bodies, and to establish an appropriate regulatory environment. It is important to calibrate the market environment distorted by government interventions and to maintain the momentum of change to be privatized in stages, even if the stages are short in duration. Therefore, preparation is also necessary for a sufficient period, but it should be emphasized that the process of executing a plan while observing changes in the market also requires a sufficient time period.

The privatization methods, including choice of ownership transfer, asset sales, stock sale, and the merits of privatization without owner and privatization with owner, should be compared thoroughly. Lessons can be learned from the failure of the pre-privatization cases of the Kim Dae-Jung government and the success stories of the Kim Dae-Jung government. After all, the intention of powerful leadership, the preparation of a precise plan, and full-fledged execution efforts created a significant difference in the final result.

The consistent leadership of the highest rulers and clarification of priorities are important. Securing execution power, sharing consistent leadership and vision, and a strategy to overcome resistance from various stakeholders effectively are major success factors. A desirable privatization promotion system requires the organization of units and the participation of external experts and advisory bodies, and the stakeholders must maintain a level of practical support. It is crucial to ensure independence from the line ministries and agencies in the establishment and operation of privatization promotion through centralized enforcement.

4. Korean experience

The definition of a general SOE is that the government owns more than 50% of its shares, it can exercise more than 50% of voting rights, and it is managed commercially in the market: this means it is a company. The listing of SOEs makes it

possible to trade some or all of the shares owned by the government on the capital market, so it can be understood as the level before privatization. As a result, if the government's share is less than 50% and management rights are transferred to the private sector, it is a privatization. If the government maintains more than 50% of the stock and still has management rights, then it is an SOE.

In the case of the OECD, based on 2012 data from 31 countries, 20 countries own publicly traded corporations, and there are more than 60 listed SOEs (OECD, 2014). SOEs or mixed-ownership models, as are being pursued through existing privatization, introduce private market principles and improve the efficiency of enterprise management, but they are different from full privatization. This is because by maintaining the government's management rights, it is possible to maintain its influence, and it is preferred for the innovation proposals of SOEs to maintain the public nature of the institutions. The process of privatization of SOEs that are listing shares through company disclosure have a higher transparency obligation according to capital market regulation while procuring investment resources easily through the market. This can be seen as a measure for improving efficiency that is suitable for growth-type SOEs that continuously need large investments.

Korea operates SOEs and QGOs based on the AMPI enacted in 2007, which contains eight listed SOEs, but the categorization of commercial SOE type, governance, and management strategy is different from other quasi-nongovernmental institutions. Therefore, in order to improve the efficiency of listed SOEs, governance and management should be operated discriminately so as to be compatible with listed private corporations. It is necessary to present the pursuit of listed SOEs clearly. The autonomy of listed companies and the independence of operations must be improved, and the market must be formed sufficiently so that publicly listed companies can improve their efficiency through market competition. The fact that the rights of minority shareholders in the operation of listed SOEs should be adequately protected is also frequently referred to in the OECD's recent version of the guidelines of corporate governance of SOEs (2015).

Recently, the reform theme of SOEs centering on the OECD is not limited to the discussion of pure privatization only, but rather to a transparent dominant structure, such as capacity building of the executive board and contraction of public preferences involving tax concessions and preferred status for public procurement. Even before privatization, regulatory reforms such as easing corporate autonomy and mitigating various regulatory measures that constrain competitive activities were necessary. Korea started a program for the provision of more autonomous governance to market-type SOEs for better competitiveness. As part of the competition promotion policies that tried to overcome the difficulty of tight control from the state, they prepare their own budgets, organize, and make their own investment decisions without ex anti approval from the line ministries. This has been somewhat successful; however, the pressure of privatization can still be a very good policy alternative. For this reason, policy priorities go through the process of public debate.

Depending on the choice of how to allocate the limited resources of the economy to the public and private sectors, the impact on the national economy can be different. Privatization policy is based on a lack of competition, lack of profit motivation, and/or lack of responsibility awareness. The efficiency of the public sector falls below that of the private sector, and SOEs are bloated due to their public nature, eventually putting national finance and national competitiveness at risk. It starts as a burden on the national economy. In order to deal with the inefficiency of SOEs and QGOs, it is also possible to improve efficiency through structural adjustment by placing SOEs under government control. However, the effect is limited only in the absence of information asymmetry. Therefore, at the core of privatization is a privatization as a global trend by changing the ownership and control structure of SOEs and exposing SOEs to severe competition; there are no exceptions.

The main lesson to be learned from Korea's experience is that the governance of commercial SOEs needs to be based on strong profit incentives, independent of the policy functions of the line ministries and other government agencies (KDI, 2013). A considerable number of SOEs that has been significantly affected by the Kim

Dae-Jung government's privatization have already been fully privatized. It is known that the higher the profitability or the higher the loss and the higher the debt ratio, the more preferential the privatization progress (Park Kibaik and Park Sangwon, 2010). Privatization of SOEs in which the industrial advantage is large or low-income families are the main consumers of the goods and services produced by the SOEs is determined to be delayed in priority.

The choice of enforcement is important in judging these privatization policies. It is difficult to accept the collective claim while having the right to debate the principle of privatization and the implementation of privatization to achieve desirable results. Therefore, by gradually increasing efficiency through the application of the market principle comes the establishment of an independent regulatory body. As a result of the privatization policy and the economic situation of the country, the institutional conditions vary depending on the social atmosphere, among other factors. The conditions can be different based on how the policy enforcer manages the policy. In addition, privatization must take into consideration the characteristics of the competitive structure with the development stage of the industry, the characteristics of stakeholders, and transaction costs. The role and function of the SOEs and QGOs itself, namely the "universal provision of public services", should be taken into consideration, and the "evaluation of the quality (ability) of public services" must also be strengthened in the management evaluation system.

We should now go back to the very basic question of where privatization has not been successful and why not. We thoroughly assessed the experience of Korea's privatization history during the last 60 years. Korea largely followed the corporate governance standards in SOEs, which is the separation of regulation and ownership. The triple role of the government as the regulator, regulation enforcer, and owner of SOE assets can undermine SOE competitiveness and efficiency because of corruption, mismanagement, and the technical incompetence of staff. Korea tried to follow this rule, especially during the Kim Dae-Jung administration when the privatization effort was very successful. Still, Korea did not complete the privatization

of the energy sector, which included KEPCO, and the country did not follow this separation principle. One more success factor for Korea's privatization trial was worth sharing with South Africa, which is the specialized privatization agency's activities. The national leadership with legislative agreement could select and focus its enforcement resources on one centralized agency and let it plan, implement, and provide feedback with clearly identified executive powers subject to the highest standards of transparency and accountability. The MOEF steers the administration of SOEs and assigns responsibility for state-owned assets to line ministries that would like to conduct industrial policy. In Korea's case, the central executive authority, which is MOEF, is responsible for the formulation and implementation of the state economic policy, including the definition of general principles and strategic priorities for the administration of state-owned assets. It performs the full centralized ownership function and ensures that no combination of regulatory rule is made with formulating state policies and the administration of SOEs.

The first step toward privatization should be to create a favorable environment that encourages competition. This can be done by undertaking regulatory reform and industrial policy reforms as well as removing obstacles in relation to private sector entry and exit. Privatization works best when it is implemented together with reforms designed to build an environment that encourages efficiency. The second step is to make the privatization process transparent. An important aspect of transparency is the valuation of an enterprise's net worth by independent and professional firms to set the minimum base price for privatization. Not only the valuation process, but also the whole process of privatization (see Table VI-1, step 2) requires transparency.

The interest in privatization should stem from its fundamental usefulness. Privatization improves the optimum allocation of public resources. It leads to improved operational efficiencies. It also serves as an important instrument to attract investment and promote innovation. However, realizing these benefits is not a simple task. Favorable effects can be attained only by properly implementing privatization. Many countries suffered from economic crisis after the privatization of key sectors.

For instance, the sweeping economic reforms and subsequent privatization in Argentina in the early 1990s resulted in the discharge of more than 80% of the employees in some privatized sectors. On the other hand, countries that followed appropriate privatization procedures, such as China and Korea, saw increased productivity and efficiency. Consumer-oriented industries saw larger gains than strategic (heavily regulated) sectors.

Finally, distinguishing the goods and services whose production and trade can be handled better by profit-seeking firms rather than the government should be emphasized, and it should be clear that privatization should take place as soon as possible. The government businesses or SOEs that produce commercial goods and services should be allowed to operate based on profit incentives as much as possible without the interference of government policy functions and without much consideration of the concentration of economic ownership. The successful experience of Korea, especially during the latter part of the 1990s and 2000s, in privatization is strong evidence to share with other countries.

VII

Policy implications and conclusion



VII

Policy implications and conclusion

This report introduces the historical development of SOEs and QGOs management policies since the 1980s in Korea and explains the SOEs and QGOs governance and management system based on the AMPI enacted in 2007. In so doing, this report aims to propose key learning points on policy transfer for developing countries. From this viewpoint, in this concluding chapter we explain the success factors of the Korean SOEs and QGOs policies and management systems and summarize useful points for benchmarking for those countries interested in adopting such a system.

1. Success factors

SOEs and QGOs in Korea have successfully played the role of policy implementer in the social and industrial infrastructure area within the national and economic development process, which was driven mainly by the government. Their functions include providing capital where the private sector cannot provide it sufficiently, engaging in the quasi-market where private firms are reluctant to enter due to risk and uncertainty, and facilitating strategic industries for economic development. In doing so, SOEs and QGOs have attempted to fulfill requirements on both the efficiency and the publicness. The organizations have generally experienced positive reviews.

Various institutional foundations have helped SOEs and QGOs to achieve their missions, such as the FAMGII enacted in 1984, the FAMGAI enacted in 2003, and AMPI enacted in 2007, by integrating the preceding acts. Based on these legal frameworks, the government has developed and improved the management and

performance evaluation system of SOEs and QGOs.

The positive role of the SOEs and QGOs management system, particularly the performance evaluation system, has been praised by international scholars and organizations such as Professor L. P. Jones and the International Monetary Fund. SOEs such as Incheon International Airport Corporation, Korea Electric Power Corporation, and Korea Railroad Corporation are already globally recognized for their high-quality service and performance. This success has been benchmarked as a set of best practices by developing countries in Southeast Asia, South America, and Africa. Political leaders and public managers in countries of these regions are visiting Korea to learn from the Korean experience, and the Korean government is sending scholars and practitioners to these countries to share knowledge on the management of SOEs and QGOs through the Knowledge Sharing Program(KSP) project.

Not all policy and management systems of SOEs and QGOs have been successful. Even recently there has been a lot of criticism of the system and calls to improve its performance. Nevertheless, it can be said that the system was generally successful enough, and the following factors partly explain its success.

First, since the enactment of the FAMGII in 1983, jurisdiction for policies on and the management of SOEs and QGOs has been endowed to an independent government unit that is not entangled with SOEs and QGOs for political interests. In 2005, the OECD announced the SOE governance guideline in which it claims that “SOE governance should be designed based on the separation between the ownership of government and the regulation/industrial policy.” The FAMGII in 1983 had already partly realized the key idea of the guideline with gradual improvement of the management system, as shown in the enactment of the FAMGAI in 2003 and AMPI in 2006.

Generally speaking, the line ministries that “commands and controls” SOEs and QGOs through industrial policies and regulations to fulfill the purpose of the institution’s establishment is not free from the institution’s interests, and hence it is difficult for ministries to reform SOEs and QGOs under their authority. The

institutional key of the Korean SOEs and QGOs management system is to endow the central planning and budget agency, which was expected to be neutral and independent, with the power to regulate SOEs and QGOs. Although there was resistance from line ministries, presidents who reformed the management system, including Chun Doo-Hwan in 1983 and Rho Moo-Hyun in 2003 and 2006, exerted strong leadership to overcome political and organizational resistance. Although the structure and function of the central planning and budget agency have been the target of government reform since 1984, its jurisdictional authority over SOEs and QGOs has been maintained. Since then, the agency has played a key role in designing innovative SOEs and QGOs management systems, redefining the missions and functions of SOEs and QGOs, and improving their effectiveness and efficiency.

Second, the government has made efforts to import advanced foreign systems of SOEs and QGOs management to improve the management efficiency and competency of SOEs and QGOs. Those foreign systems were analyzed and adapted to fit the institutional conditions in the Korean context. For example, the globally known SOEs and QGOs performance evaluation system in Korea was first adopted in 1968 as a result of a benchmark from the French system. This system had remained dormant for a long time before the 1984 reform. Since then, reforms of the management system have been made in a very open and flexible manner.

Another huge step toward an innovative system reform was the adoption of a customer survey on the service quality of SOEs and QGOs, which facilitated an organizational culture that puts customer satisfaction forward under the Kim Dae-Jung administration. At first, the survey system was a benchmark of the Korean NCSI, which is a benchmark from the American customer satisfaction index. Realizing that the NCSI model did not fit well in considering the unique nature of SOEs and QGOs, the government developed the PCSI model in 2004, which was dedicated to customer satisfaction surveys for SOEs and QGOs. This system has been updated to improve reliability, validity, and objectivity. Similarly, the government launched SOEs and QGOs integrity survey in 2002 and has improved the survey since its launch. The

integrity survey and related anti-corruption effort evaluation system received the UN public service award in 2012 as an innovative SOEs and QGOs management system.

Third, independent research institutions and think tanks have played an important role in improving the SOEs and QGOs management system. The Korea Development Institute contributed to the paradigm shift from *ex ante*, process-based control to *ex post*, performance-based control and from competent-ministries-driven to independent-agency-driven management in the 1983 enactment, mostly remaining as a key knowledge powerhouse during the 1980s and 1990s. Since 2010, the newly established KIPF's Research center for SOEs has inherited the role. During the period, the center has functioned as a key professional research and consulting institution in designing the SOEs and QGOs policy and performance management system for the minister of the MOEF. In addition, the successful institutionalization of the SOEs and QGOs management system has benefited from the participation of university professors and accountants to the Evaluation Commission of SOEs and QGOs. The Evaluation Commission of SOEs and QGOs, which are formed every year and composed of experts from the private and nonprofit sectors, has established a policy network to run and improve the performance evaluation system and to consult the government from a politically neutral standpoint.

Fourth, SOEs and QGOs management system reform was carried out successfully in the absence of any serious political resistance, particularly due to the effort to strike a balance between autonomy and accountability. The 1983 enactment made the first step to relieve regulatory burdens on SOEs and QGOs by line ministries and endow more management autonomy to them. The 2006 enactment progressed further by transforming the monitoring and control system by line ministries from an inclusive to a specific exemplary system and by endowing CEOs with the authority to appoint executive directors. These innovations to enhance autonomy were accompanied by systems to ensure accountability and transparency, such as the reinforcement of the management system and the management information disclosure system. This balanced approach significantly improved the acceptability of the reforms.

Finally, the occasional economic crisis ironically created a “policy window” to reform the management system. The 1983 enactment aimed to fundamentally change SOEs and QGOs governance to better serve macroeconomic policy under economic crisis at that time. A series of SOEs and QGOs reforms toward the privatization of SOEs under the Kim Dae-Jung administration also aimed to overcome the financial crisis since 1997. These reforms driven by serious economic crises gained support from citizens, so political resistance to the reforms remained minimal.

2. Lessons

The evolution of the Korean SOEs and QGOs policy and management system is the result of different streams including the economic development status, the change in the economic environment, and the political environment and structure. It is also the result of aligning the status and function of SOEs and QGOs in accordance with the transition of the government’s role in nation building and economic development. We offer a few practical points for countries interested in benchmarking the Korean SOEs and QGOs management system.

First, it is important to continuously make efforts to reform the SOEs and QGOs governance structure. A working system is not created in a day; instead, it takes a long time to improve the system and reap the benefits of reforms. Second, it is important to find an institutional balance between autonomy and accountability. The SOEs and QGOs performance evaluation system can play a pivotal role in finding this balance. Third, citizen satisfaction should be put at the center of reforms. The public service reforms and social responsibility of SOEs and QGOs should aim at citizen satisfaction and can be ensured by adopting SOEs and QGOs customer satisfaction survey linked to the performance evaluation system. Management transparency can be enhanced by adopting a management information disclosure system such as ALIO, which is run by the Korean government. Surveys on SOEs and QGOs managerial integrity and anti-corruption efforts are also important. These institutional

arrangements make it possible for citizens and media to influence the management and reform of SOEs and QGOs.

Finally, there are some caveats to benchmarking these policies. First, one needs to take into account institutional affinity before benchmarking. The transplantation of a management system alone does not guarantee success. For example, tools to enhance the autonomy of SOEs and QGOs and to ensure their accountability should go hand in hand. The main point is the compatibility and affinity among different policy tools in the overall context of SOEs and QGOs governance.

Second, one needs to take into account economic development status and social consensus on the role of government at the time. The 2006 enactment was the result of the evolution of policies enacted in 1983, reflecting the economic development and the change in citizen understanding of government and, most importantly, the change in the political environment and structure during the period. The main point is that the most updated system in Korea may not be the best for other countries with different contexts; even a precedent arrangement, for example that implemented in 1983, can work better in some countries depending on the conditions of economic development and public sector institutionalization (Nam, 2013). The same logic can be applied to the SOEs and QGOs performance evaluation system; a review of the historical development of performance evaluation indicators would be a deciding factor in terms of what system to use.

Finally, South Korea has also been successful in privatizing many SOEs, which provides a lesson for other countries that require similar policies. The privatization of SOEs was implemented gradually for the restructuring of SOE missions and statuses in accordance with the status of economic development. There were trials and errors. For example, the privatization of state-owned banks under the Chun Doo-Hwan administration in the 1980s proved to be only partially successful in changing the ownership structure; because there was no working “corporate governance with a responsible owner”, and many privatized banks went bankrupt during the financial crisis in 1997. By contrast, the financial sector reform under the Kim Dae-Jung

administration after the financial crisis was successful in formulating a corporate governance following the Anglo-American shareholder capitalism model, including expanding the ownership of minor shareholders.

In conclusion, the Korean experience with SOEs and QGOs management policy provides rich stories and examples of adoption, failure, evolution, and success that render informative benchmarking points for developing countries. Interested countries and public leaders may learn from the contents of this report to better serve their citizens by institutionalizing their own SOEs and QGOs management system in a way that fits the economic, political, and social contexts of the country.



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Appendix

ACT ON THE MANAGEMENT OF PUBLIC INSTITUTIONS

[Enforcement Date 28. Jun, 2017.] [Act No.14461, 27. Dec, 2016., Partial Amendment]

Article 1 (Purpose)

The purpose of this Act is to provide for basic matters concerning the operation of public institutions as well as matters necessary for the establishment of self-controlling and accountable management system, with the aim of rationalizing management and enhancing transparency in operation, thereby contributing to the improvement of public institutions' services to the people.

Article 2 (Scope of Application, etc.) (1) This Act shall apply to the public institutions designated and publicly notified under the provisions of Articles 4 through 6.

(2) This Act shall apply in preference to any other Acts as to public institutions, notwithstanding any pertinent provisions therein contrary to this Act, except as otherwise expressly provided for in this Act to follow the pertinent provisions in any other Act.

Article 3 (Guarantee for Self-Controlling Operation)

The Government shall ensure a self-controlling operation of public institutions in order to establish the accountable management system in public institutions.

Article 4 (Public Institutions) (1) The Minister of Strategy and Finance may designate any of the following institutions, which are a legal entity, organization, or institution (hereinafter referred to as "institution") other than the State or a local government, as a public institution: <Amended by Act No. 8852, Feb. 29, 2008>

1. An institution directly established pursuant to other Act with an investment by the Government;
2. An institution for which the amount of the Government grants (in cases of an

- institution to whom some affairs of the Government are directly commissioned, or a monopoly is granted, pursuant to statutes, the revenue earned from its commissioned affairs or monopoly shall be included; hereinafter the same shall apply) exceeds one-half of the amount of its total revenue;
3. An institution which the Government holds at least 50/100 of the outstanding shares of, or secures de facto control over decision-making on policies through the exercise, etc. of the power to appoint executive officers with at least thirty percent of such outstanding shares;
 4. An institution which the Government together with an institution falling under any of subparagraphs 1 through 3 hold at least 50/100 of the outstanding shares of, or secure de facto control over decision-making on policies through the exercise etc. of the power to appoint executive officers with at least thirty percent of such outstanding shares;
 5. An institution which a single institution, or two or more institutions, falling under any of subparagraphs 1 through 4, hold at least 50/100 of the outstanding shares of, or secure de facto control over decision-making on policies through the exercise, etc. of the power to appoint executive officers with at least 30/100 of such outstanding shares;
 6. An institution established by an institution falling under any of subparagraphs 1 through 4 with an investment by the State or the establishing institution.
- (2) Notwithstanding the provisions of paragraph (1), the Minister of Strategy and Finance may not designate any of the following institutions as a public institution:<Amended by Act No. 8696, Dec. 14, 2007; Act No. 8852, Feb. 29, 2008>
1. An institution established for the purpose of mutual aid, improvement of welfare, enhancement of rights and interests, or maintenance of order in business transactions between its members;
 2. An institution which a local government establishes and is involved in its management;

3. The Korea Broadcasting System established under the Broadcasting Act and the Korea Educational Broadcasting System established under the Korea Educational Broadcasting System Act.

(3) Matters necessary for the criteria and method for calculating the amount of the Government grants and the amount of the total revenue referred to in the provisions of paragraph (1) 2 and the criteria for the secured de facto control referred to in the provisions of subparagraphs 3 through 5 of the said paragraph shall be prescribed by Presidential Decree.

Article 5 (Classification of Public Institutions) (1) The Minister of Strategy and Finance shall designate a public institution by classifying it within the category of public corporation, quasi-governmental institution, or non-classified public institution, and a public corporation or quasi-governmental institution shall be designated, from among public institutions prescribed number of personnel of which is at least fifty persons. <Amended by Act No. 8852, Feb. 29, 2008>

(2) In designating public corporations and quasi-governmental institutions pursuant to paragraph (1), the Minister of Strategy and Finance shall designate public corporations, from among those whose self-generating revenue reaches or exceeds 1/2 of the amount of total revenue, while he/she designates quasi-governmental institutions, from among public institutions not classified into public corporations.<Amended by Act No. 8852, Feb. 29, 2008>

(3) The Minister of Strategy and Finance shall classify public corporations and quasi-governmental institutions referred to in paragraphs (1) and (2) into the following classification and designate them accordingly:<Amended by Act No. 8852, Feb. 29, 2008>

1. Public corporations:

(a) Market-type public corporations: Public corporations whose asset size reaches or exceeds two trillion won and whose self-generating revenue out of total revenue reaches or exceeds the criterion prescribed by Presidential Decree;

- (b) Quasi-market-type public corporations: Public corporations other than market-type public corporations;
- 2. Quasi-governmental institutions:
 - (a) Fund-management-type quasi-governmental institutions: Quasi-governmental institutions to which the management of a fund is assigned or commissioned pursuant to the National Finance Act;
 - (b) Commissioned-service-type quasi-governmental institutions: Quasi-governmental institutions other than fund-management-type quasi-governmental institutions.
- (4) The Minister of Strategy and Finance shall designate institutions not classified into either public corporations or quasi-governmental institutions, from among public institutions provided for in paragraph (2), as non-classified public institutions. <Amended by Act No. 8852, Feb. 29, 2008>
- (5) Detailed criteria and method for calculating the self-generating revenue and the total revenue referred to in paragraphs (2) and (3) shall be prescribed by Presidential Decree.

Article 6 (Procedures for Designation of Public Institutions, etc.) (1) The Minister of Strategy and Finance shall newly designate public institutions, cancel the designation thereof, or designate such public institutions following changes in the classification, within one month after the commencement of each fiscal year: Provided, That the Minister of Strategy and Finance may newly designate public institutions, cancel the designation thereof, or designate such institutions following changes in the classification, according to the following classification even in the middle of a fiscal year: <Amended by Act No. 9829, Dec. 29, 2009>

- 1. Where an institution falling under each subparagraph of Article 4 (1) is newly established: New designation;
- 2. Where an institution designated as a public institution is no longer subject to this Act due to privatization, consolidation, discontinuation, or split of the institution

or due to amendments, repeal, etc. of relevant statutes or where it becomes necessary to change the designation thereof: Cancellation of designation or designation following a change in the classification.

- (2) Where the Minister of Strategy and Finance intends to designate a new public corporation, quasi-governmental institution, or non-classified public institution, or to cancel or change such designation, pursuant to paragraph (1), he/she shall consult with an administrative agency having control over the affairs of such public corporation, quasi-governmental institution, or non-classified public institution (hereinafter referred to as "competent agency") in accordance with relevant statutes, and then shall refer it to the Ownership Steering Committee referred to in Article 8 for deliberation and resolution.<Amended by Act No. 8852, Feb. 29, 2008>
- (3) When designating a new public corporation, quasi-governmental institution, or non-classified institution, or cancelling or changing such designation pursuant to paragraphs (1) and (2), the Minister of Strategy and Finance shall make a public notification thereof. In such cases, if deemed necessary, existing public corporations, quasi-governmental institutions, and non-classified public institutions may be included in such public notification.<Amended by Act No. 8852, Feb. 29, 2008>
- (4) Matters necessary for the procedures, etc. for the designation (including changes in designation) of public corporations, quasi-governmental institutions, and non-classified public institutions, the cancellation of such designation, and the public notification shall be prescribed by Presidential Decree.

Article 7 (Examination on Establishment of New Institution) (1) The head of the competent agency who intends to newly establish any of the following institutions pursuant to Acts, shall request the Minister of Strategy and Finance to examine the feasibility of the establishment of such a new establishment before making a prior announcement of such a legislative bill: <Amended by Act No. 8852, Feb. 29, 2008>

1. An institution for which the ground for investment by the Government is specified in the legislative bill;

2. An institution in whose case the amount of the Government grants is estimated to exceed 1/2 of its total revenue;
 3. An institution specified as the one in which the Government alone or together with a public institution shall invest at least 30 percent of its capital.
- (2) The Minister of Strategy and Finance shall, upon receiving the request for examination under the provisions of paragraph (1), examine the needs, effects, etc. of new establishment of the institution and financial support through deliberation and resolution by the Ownership Steering Committee provided for in Article 8, and shall notify the head of the competent agency of the results thereof.<Amended by Act No. 8852, Feb. 29, 2008>
- (3) Matters necessary for the examination, etc. on the feasibility of the establishment of a new institution under paragraphs (1) and (2) shall be prescribed by Presidential Decree.

CHAPTER II OWNERSHIP STEERING COMMITTEE

Article 8 (Establishment of Ownership Steering Committee)

The Ownership Steering Committee (hereinafter referred to as the "Steering Committee") shall be established under the jurisdiction of the Minister of Strategy and Finance for deliberation and resolution on the following matters concerning the management of public institutions:<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9277, Dec. 31, 2008; Act No. 9829, Dec. 29, 2009; Act No. 14076, Mar. 22, 2016>

1. Designation of public corporations, quasi-governmental institutions, and non-classified public institutions, and cancellation and change of such designation pursuant to Articles 4 through 6;
2. Examination on the establishment of a new institution pursuant to Article 7;
3. Publication on the management of public institutions pursuant to Article 11 (1) 15;
4. Personnel action, etc. based on a violation of the duty of publication, etc. pursuant to Article 12 (3);

5. Adjustment of functions, etc. of public institutions pursuant to in Article 14;
6. Assistance in innovation, etc. of public institutions pursuant to in Article 15;
7. Appointment of the non-standing senior directors of market-type public corporations and quasi-market-type public corporations pursuant to the proviso to Article 21 (2);
8. Appointment, etc. of executive officers of public corporations and quasi-governmental institutions pursuant to Articles 25 and 26;
9. Guidelines for remuneration provided for in Article 33;
10. Removal, recommendation of removal, etc. of executive officers of public corporations and quasi-governmental institutions pursuant to Article 35 (2);
11. Evaluation, etc. of performance of duties of non-standing directors and auditors pursuant to Article 36;
12. Evaluation, etc. of management performance of public corporations and quasi-governmental institutions pursuant to Article 48;
13. Guidelines for management of public institutions and quasi-governmental institutions provided for in Article 50;
14. Monitoring of the adequacy of supervision over public corporations and quasi-governmental institutions and improvement of such supervision pursuant to Article 51 (4);
15. Other matters prescribed by Presidential Decree concerning the management of public institutions.

Article 9 (Composition of Steering Committee) (1) The Steering Committee shall be comprised of one chairperson and the following members, and the Minister of Strategy and Finance shall be the chairperson: <Amended by Act No. 8852, Feb. 29, 2008; Act No. 11690, Mar. 23, 2013>

1. One Vice Minister-level public official of the Office for Government Policy Coordination as nominated by the Minister of the Office for Government Policy Coordination;

2. Vice Minister, Deputy Administrator, or an equivalent public official of the related administrative agency as prescribed by Presidential Decree;
 3. Vice Minister, Deputy Administrator, or an equivalent public official of the competent agency who does not fall under subparagraph 2;
 4. Not more than eleven persons commissioned by the President on the recommendation of the Minister of Strategy and Finance, from among persons in various fields including law, economy, press, academia, labor, etc. who have good knowledge and experience in the area of operation and business administration of public institutions as well as good reputation for impartiality.
- (2) The term of office of the committee members under the provisions of paragraph (1) 4 shall be three years, and they may be consecutively appointed.
 - (3) The committee members under the provisions of paragraph (1) 4 shall perform their duties faithfully following their conscience for the establishment of self-controlling and accountable management system in public institutions and the enhancement of the efficiency in their management.
 - (4) A committee member under the provisions of paragraph (1) 4 may be dismissed if he/she falls under any of the following subparagraphs:
 1. If he/she is unable to perform his/her duties due to physical or mental disability;
 2. If he/she is found incompetent to his/her office on the ground of neglect of his/her duties, indecent manner, or otherwise;
 3. If he/she is indicted in a criminal case in connection with his/her duties.
 - (5) The committee chairperson may recommend the President to dismiss a committee member under the provisions of paragraph (1) 4, if the committee member falls under any of the subparagraphs of paragraph (4): Provided, That the committee chairperson shall compulsorily recommend the President to dismiss a committee member who falls under paragraph (4) 1.
 - (6) Matters necessary for the composition of the Steering Committee shall be prescribed by Presidential Decree.

Article 10 (Steering Committee's Meeting) (1) The Steering Committee's meeting shall be comprised of not more than 20 members including the chairperson, and the members to attend the Steering Committee's meeting shall be designated by the chairperson, from among the members falling under Article 9 (1) 2 and 3, depending upon the agenda, while the number of members falling under subparagraph 4 of the said paragraph shall constitute a majority of the members of the meeting. <Amended by Act No. 8852, Feb. 29, 2008>

- (2) The Steering Committee's meeting shall be held with the presence of a majority of the members of the meeting, and adopt a resolution with the affirmative vote of a majority of the members present at the meeting.
- (3) The Chairperson of the Board of Audit and Inspection and the head of the administrative agency concerned may, if deemed necessary in relation to the deliberation and resolution by the Steering Committee, submit their opinions to the Steering Committee, and dispatch a public official of the Board or the agency to appear before the Steering Committee to speak upon the request from the committee chairperson or the resolution of the Steering Committee.
- (4) The Steering Committee shall have one executive secretary for processing its affairs, and the executive secretary shall be appointed by the committee chairperson, from among the public officials in the Senior Civil Service Corps.
- (5) Matters necessary for the operation of the Steering Committee shall be prescribed by Presidential Decree.

CHAPTER III PUBLICATION, ETC. ON MANAGEMENT OF PUBLIC INSTITUTIONS

Article 11 (Public Disclosure of Management Performance) (1) A public institution shall disclose the following matters to the public: Provided, That, if any of the following matters is information subject to non-disclosure under Article 9 of the Official Information Disclosure Act or the head of the competent agency has

consulted with the Minister of Strategy and Finance thereon because it is deemed necessary for national security, the relevant matters may be excluded from disclosure: <Amended by Act No. 8852, Feb. 29, 2008; Act No. 9277, Dec. 31, 2008; Act No. 9829, Dec. 29, 2009; Act No. 14076, Mar. 22, 2016>

1. Business goals, budget, and management plan;
2. Statements on settlement of accounts;
3. Current status of executive officers and operating personnel (including the gender of such executive officers, types of employment of workers, rate of non-regular workers converted into regular workers);
4. Budget for personnel expenses and fringe benefits, and status of execution thereof (the budget for different types of allowances shall be disclosed by type);
5. Present status of the details of transactions and the exchange of human resources with subsidiaries;
6. Results of a survey on customer satisfaction level conducted pursuant to Article 13 (2);
7. Results of audit and appraisal of the actual performance of duties of audit commissioners of the audit committee provided for in Article 36 (1);
8. Results of business performance evaluation conducted pursuant to Article 48 (limited to public corporations and quasi-governmental institutions);
9. Articles of association, the corporate bond register, internal regulations such as guidelines and established rules, minutes of directors' meeting;
10. Audit report prepared by the auditor or the audit committee (including matters pointed out, matters requesting disposition and a plan of measures for them);
11. Results of audit on public institutions by the heads of the competent authorities (including matters pointed out, matters requesting disposition and a plan of measures for them);
12. Details of the judgment on the liability for damages or the request for disciplinary action, correction, improvement, etc. pursuant to Articles 31 (Judgment on Liability for Damages) through 34-2 (Recommendation, etc.) of

the Board of Audit and Inspection Act or the request for correction pursuant to Article 16 (Disposition of Results of Inspection or Investigation) of the Act on the Inspection and Investigation of State Administration, if any, and the measures taken by the public institution, etc. for such judgment or demand;

13. Status of operation of the disciplinary system, including information about the disciplinary system and disciplinary actions taken;
 14. Status of lawsuits, legal advice, attorneys and legal advisers;
 15. Other important matters concerning the management of the public institution, as requested by the Minister of Strategy and Finance to publish after deliberation and resolution by the Steering Committee.
- (2) A public institution shall disclose the matters specified in each subparagraph of paragraph (1) to the public on its Internet webpage, and shall keep necessary documents at its offices.
 - (3) Upon receipt of a request for inspection or a copy of the matters disclosed referred to in paragraph (1), a public institution shall allow the applicant to inspect them or deliver him/her a copy or reproduced material. In such cases, Article 17 of the Official Information Disclosure Act shall apply mutatis mutandis to the defrayment of expenses incurred therefrom.
 - (4) Matters necessary for the public disclosure of management performance of public institutions shall be prescribed by Presidential Decree.

Article 12 (Consolidated Publication) (1) The Minister of Strategy and Finance may prepare a separate standardized form for consolidating main items, from among the matters to be published by each public institution in accordance with Article 11 (1), and publish such items in the consolidated form (hereinafter referred to as "consolidated publication" in this Article). <Amended by Act No. 8852, Feb. 29, 2008>

- (2) The Minister of Strategy and Finance may request public institutions to present necessary data for consolidated publication, and public institutions shall, in turn, comply with such a request, unless there are extraordinary circumstances to the

contrary.<Amended by Act No. 8852, Feb. 29, 2008>

- (3) If a public institution fails to perform the duty to make the publication on management as provided for in Article 11 or the consolidated publication provided for in paragraph (1) in good faith, or if it publishes a false fact thereon, the Minister of Strategy and Finance may order the public institution to publish such failure and order it to correct such false fact, etc., and request the head of the competent agency or the public institution concerned, after deliberation and resolution by the Steering Committee, to take personnel actions against relevant persons.<Amended by Act No. 8852, Feb. 29, 2008>
- (4) Matters necessary for the guidelines, method, etc. for the consolidated publication shall be prescribed by Presidential Decree.

Article 13 (Customer Charter and Customer Satisfaction Level Survey) (1) Every public institution that provides people with a direct service shall establish and publish a customer charter containing the following descriptions:

- 1. Fundamental duties;
- 2. Details of the service provided and desirable level of the service;
- 3. Procedures for processing complaints and correction for the service provided and liability for damages, etc.;
- 4. Efforts, plans, etc. for improvement of the service provided.

(2) Every public institution that provides people with a direct service shall conduct a survey on those who have experienced the service provided by the institution for customer satisfaction level at least once a year. 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 survey for publication.<Amended by Act No. 8852, Feb. 29, 2008>

(3) Matters necessary for the scope of public institutions bound to establish and publicly announce the customer charter or conduct the customer satisfaction level survey pursuant to the provisions of paragraphs (1) and (2), the

establishment and public announcement of the customer charter, the procedure, scope, etc. of the customer satisfaction level survey shall be prescribed by Presidential Decree.

Article 14 (Adjustment of Functions of Public Institutions, etc.) (1) The Minister of Strategy and Finance shall examine the appropriateness of functions performed by public institutions after consultation with heads of the competent agencies and deliberation and resolution by the Steering Committee, and shall establish a plan for consolidation, merger, or abolition of institutions, re-adjustment of their functions, privatization, etc. In this case, the Minister of Strategy and Finance shall report on the established plan to the relevant standing committee of the National Assembly.

<Amended by Act No. 8852, Feb. 29, 2008; Act No. 14461, Dec. 27, 2016>

(2) The heads of the competent agencies shall implement the plan as established under the provisions of paragraph (1), and shall submit a report on their performances to the Minister of Strategy and Finance.<Amended by Act No. 8852, Feb. 29, 2008>

(3) The Minister of Strategy and Finance may, if deemed necessary as a result of an analysis on the details of the report submitted under the provisions of paragraph (2) and a confirmation and inspection of the actual state of the performances, demand the head of the competent agency, after deliberation and resolution by the Steering Committee, to take necessary measures for smooth implementation of the plan.<Amended by Act No. 8852, Feb. 29, 2008>

(4) Matters necessary for the establishment and implementation of the plan under the provisions of paragraphs (1) through (3) shall be prescribed by Presidential Decree.

Article 15 (Innovation of Public Institutions) (1) Every public institution shall promote continuous innovation in management in order to enhance the efficiency in management and improve the quality of public service.

- (2) The Minister of Strategy and Finance may take necessary measures, including the establishment of related guidelines, rating of innovated levels, etc., after deliberation and resolution by the Steering Committee, to assist in management innovation referred to in paragraph (1). <Amended by Act No. 8852, Feb. 29, 2008>

CHAPTER IV MANAGEMENT OF PUBLIC CORPORATIONS AND QUASI-GOVERNMENTAL INSTITUTIONS

SECTION 1 Articles of Association

Article 16 (Mandatory Provisions of Articles of Association) (1) The articles of association of public corporations and quasi-governmental institutions shall include the provisions concerning the following matters: Provided, That the provisions irrelevant to a certain public corporation or quasi-governmental institution in light of its form, characteristics, or business affairs may be omitted: <Amended by Act No. 9277, Dec. 31, 2008>

1. Purpose;
2. Name;
3. Location of principal office;
4. Capital amount;
5. Stock or investment certificates;
6. Matters concerning executive officers and employees;
7. General meeting of shareholders or investors;
8. Management of the board of directors;
9. Scope of business, details, and the execution thereof;
10. Accounting;
11. Method of public notice;
12. Issuance of corporate bonds;
13. Amendment to the articles of association;

14. Other matters prescribed by Presidential Decree.

(2) Every public corporation and quasi-governmental institution shall obtain authorization for the articles of association under the provisions of paragraph (1) from the head of the competent agency within three months after it is designated as a public corporation or quasi-governmental institution in accordance with Article 6. The foregoing shall also apply to an amendment, revision, or modification of any provisions in the articles of association as authorized.

SECTION 2 Board of Directors

Article 17 (Establishment and Functions of Board of Directors) (1) Every public corporation and quasi-governmental institution shall have the board of directors for deliberation and resolution on the following matters: <Amended by Act No. 10286, May 17, 2010>

1. Business goals, budget, management plan, and mid-and long-term financial 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 the guarantees for obligations provided by a public corporation 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 executive officers;
 13. Matters that the head of the public corporation or quasi-governmental institution (hereinafter referred to as "institution head") considers necessary to refer to the board of directors for deliberation and resolution;
 14. Other matters considered necessary by the board of directors.
- (2) The institution head shall report the following matters to the board of directors:
1. Matters pointed out at the inspection of state administration, the accounting audit conducted pursuant to Article 43 (1), or the audit conducted by the Board of Audit and Inspection pursuant to Article 52, and the plan for measures to be taken for such matters and the results thereof;
 2. Results of an collective agreement executed by the public corporation or quasi-governmental institution and the estimated budget required for such an agreement (limited to a case where a collective agreement is entered into);
 3. Other matters on which the board of directors demands the institution head to report.
- (3) Where any other Act requires a public corporation or quasi-governmental institution to have any organization in lieu of the board of directors to perform the functions referred to in paragraph (1) in providing for the establishment and management of the public corporation or the quasi-governmental institution, such organization in whatsoever name shall be deemed to be the board of directors, while the members of such an organization shall be deemed to be the directors under this Act, to whom this Act shall apply.

Article 18 (Composition) (1) The board of directors shall be comprised of not more than 15 directors including the institution head: Provided, That it may be comprised of not less than 15 directors if the institution falls under any of the following:

1. A public corporation or quasi-governmental institution having the general

- meeting of members, such as the general meeting of shareholders or the general meeting of investors, and established as a federation of local or trade institutions under any other Act;
2. Where the number of directors as of the time when it is designated as a public corporation or quasi-governmental institution pursuant to Article 6 exceeds 15 persons: Provided, That the foregoing shall be applicable only for the period of time during which the term of incumbent directors as of the time of designation under the proviso to Article 28 (1) is guaranteed;
 3. Where the number of directors exceeds 15 persons as a consequence of appointment of non-standing directors in accordance with the provisions of the latter part of Article 25 (3).
 - (2) The chairperson of the board of directors of a market-type public corporation and quasi-market-type public corporation, the asset size of which is not less than two trillion won shall become a non-standing senior director under Article 21: 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.<Amended by Act No. 9829, Dec. 29, 2009>
 - (3) In applying paragraph (2), if no non-standing director exists at the time an institution is designated as a market-type public corporation or quasi-market-type public corporation pursuant to Article 6, the person prescribed by statutes at the time the institution is designated as a market-type public corporation or a quasi-market-type public institution shall be the chairperson of the board of directors until non-standing directors are appointed in accordance with the second sentence of Article 25 (3).<Amended by Act No. 9829, Dec. 29, 2009>
 - (4) The institution head shall become the chairperson of the board of directors of a quasi-market-type public corporation, the asset size of which is 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 offices.<Amended by Act No. 9829, Dec. 29, 2009>

Article 19 (Meeting) (1) The meeting of the board of directors shall be convened by the chairperson or at the request of at least 1/3 of the incumbent directors, and the chairperson shall preside over the meeting.

(2) A resolution at the directors' meeting shall be adopted by the affirmative vote of a majority of the incumbent directors.

(3) 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 such cases, a director, etc. who is barred from participating in resolution shall not be included in the number of the incumbent directors under the provisions of paragraph (2).

(4) The auditor may attend the directors' meeting to present his/her opinion.

(5) The provisions of Article 391 (Method of Resolution by Board of Directors) (2) and 391-3 (Minutes of Board of Directors) (1) and (2) of the Commercial Act shall apply *mutatis mutandis*, respectively, to the resolution of the board of directors via telecommunication means, the minutes of the directors' meeting, etc.

Article 20 (Committees) (1) The board of directors of a public corporation may establish committees within the board of directors in accordance with the articles of association of the relevant public corporation. In such cases, the provisions of Article 393-2 of the Commercial Act shall apply *mutatis mutandis* to the matters concerning composition, power, etc. of such committees.

(2) Any market-type public corporation and quasi-market-type public corporation, the asset size of which is not less than two trillion won shall establish an audit committee under the board of directors as the committee under paragraph (1), in lieu of an auditor under Article 24 (1): Provided, That if a public

corporation which shall newly establish an audit committee has an auditor, the audit committee shall be established after expiration of the auditor's term of office.<Amended by Act No. 9829, Dec. 29, 2009>

- (3) A quasi-market-type public corporation, the asset size of which is less than two trillion won, and a quasi-governmental institution may have an audit committee in accordance with the provisions of other Act.<Amended by Act No. 9829, Dec. 29, 2009>
- (4) Except as otherwise expressly provided in this Act, Articles 542-11 and 542-12 (3) through (6) of the Commercial Act shall apply mutatis mutandis to the composition, power, etc. of the audit committee.<Amended by Act No. 8635, Aug. 3, 2007; Act No. 9829, Dec. 29, 2009>
- (5) The audit committee shall audit business affairs and accounting in accordance with the provisions of Article 32 (5), and shall report the results thereof to the board of directors.

Article 21 (Non-standing Senior Director) (1) Every public corporation and quasi-governmental institution shall have one non-standing senior director.

- (2) The non-standing senior director shall be elected by and among non-standing directors: Provided, That the non-standing senior director of a market-type public corporation and quasi-market-type public corporation, the asset size of which is not less than two trillion won, shall be appointed by the Minister of Strategy and Finance, from among non-standing directors, after deliberation and resolution by the Steering Committee.<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9829, Dec. 29, 2009>
- (3) Matters necessary for the non-standing senior director's qualification, performance of duties, etc. shall be prescribed by Presidential Decree.

Article 22 (Request for Removal, etc.) (1) If it is found that the institution head commits an act in violation of a statute or the articles of association, neglects his/her

duties, or he/ she has a serious trouble 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) A non-standing director may, if deemed necessary, request the auditor or the audit committee to audit a specific case in connection with the operation of the public corporation or quasi-governmental institution by a written request jointly signed by at least two non-standing directors. In such cases, the auditor or audit committee shall take action in accordance with such a request, unless there is a particular reason otherwise.
- (3) Non-standing directors may demand the institution head to furnish 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 to the contrary.

Article 23 (Fund Management Deliberation Council) (1) Notwithstanding the proviso to Article 74 (1) of the National Finance Act, a fund-management-type quasi-governmental institution shall have a deliberative organization for fund management (hereinafter referred to as "fund management deliberation council"), independent of the board of directors of the quasi-governmental institution: Provided, That a fund-management-type quasi-governmental institution shall not have the fund management deliberation council, if other statutes require that an organization for deliberation on important policies for the fund managed by the fund-management-type quasi-governmental institution be established in the competent agency.

- (2) The matters concerning the functions, composition, and operation of the fund management deliberation council under the provisions of the main sentence of paragraph (1) shall be governed by the National Finance Act.
- (3) Where a fund-management-type quasi-governmental institution has the fund management deliberation council established under the provisions of paragraph (1)

and other statutes specify some of the matters set forth in subparagraphs of Article 17 (1) as the matters subject to deliberation and resolution by the fund management deliberation council, the matters so specified may be excluded from the matters subject to deliberation and resolution under the provisions of Article 17 (1).

SECTION 3 Executive Officers

Article 24 (Executive Officers) (1) A public corporation or quasi-governmental institution shall have directors, including the head of such corporation or institution, and auditors: Provided, That where an audit committee is established pursuant to Article 20 (2) and (3), no auditor shall be appointed.

(2) Directors shall be classified into standing and non-standing directors.

(3) The number of standing directors of a public corporation, and the number of a quasi-governmental institution, the size of which meets or exceeds the criteria prescribed by Presidential Decree or which is prescribed by Presidential Decree in consideration of the special characteristics of business affairs of such institution, shall respectively be less than 1/2 of a fixed number of directors, including each head of such corporation and institution: Provided, That where the fixed number of standing directors as at the time such corporation and institution were designated respectively as a public corporation and quasi-governmental institution pursuant to Article 6 equals or exceeds 1/2 of a fixed number of directors, including each head of such corporation and institution, the fixed number of standing directors may equal or exceed 1/2 of the fixed number of directors, including each head of such corporation and institution, while the terms of office of executive officers have been guaranteed pursuant to the proviso to Article 28 (1).<Amended by Act No. 9829, Dec. 29, 2009>

(4) The number of standing directors of any quasi-governmental institution other than those referred to in the main sentence of paragraph (3) shall be less than 2/3 of a fixed number of directors, including the head of such institution:

Provided, That where a fixed number of standing directors as at the time such institution was designated as a quasi-governmental institution pursuant to Article 6 equals or exceeds 2/3 of a fixed number of directors, including the head of such institution, the fixed number of standing directors may equal or exceed 2/3 of the number of directors, including the head of the institution, while the terms of office of executive officers have been guaranteed pursuant to the proviso to Article 28 (1).<Newly Inserted by Act No. 9829, Dec. 29, 2009>

- (5) An auditor shall be a standing or non-standing member as prescribed by other statutes, or the articles of association.<Newly Inserted by Act No. 9829, Dec. 29, 2009>

Article 25 (Appointment or Removal of Executive Officers of Public Corporations)

(1) The head of a public corporation shall be appointed by the President on the recommendation of the head of the competent agency, from among multiple candidates recommended by the Committee for Recommendation of Executive Officers as provided for in Article 29 (hereinafter referred to as the "Committee for Recommendation of Executive Officers"), and then be selected through deliberation and resolution by the Steering Committee: Provided, That the head of a public corporation, the size of which is below the criteria prescribed by Presidential Decree, shall be appointed by the head of the competent agency, from among multiple candidates recommended by the Committee for Recommendation of Executive Officers, and then selected through deliberation and resolution by the Steering Committee.

- (2) Standing directors of a public corporation shall be appointed by the head of the public corporation: Provided, That a standing director who becomes an audit commissioner of the audit committee as provided for in Article 20 (2) and (3) (hereinafter referred to as "standing audit commissioner") shall be appointed either by the President or the Minister of Strategy and Finance.<Amended by Act No. 9829, Dec. 29, 2009>

- (3) Non-standing directors of a public corporation shall be appointed by the

Minister of Strategy and Finance after deliberation and resolution by the Steering Committee, from among multiple candidates, who have good knowledge and experience in the field of management (excluding public officials who are not teachers of national and public schools), recommended by the Committee for Recommendation of Executive Officers. In such cases, a public corporation that has no non-standing director as at the time of designation pursuant to Article 6 shall appoint at least two non-standing directors within three months after such designation.<Amended by Act No. 8852, Feb. 29, 2008>

- (4) The auditor of a public corporation shall be appointed by the President on the recommendation of the Minister of Strategy and Finance, from among multiple candidates recommended by the Committee for Recommendation of Executive Officers, and then be selected through the deliberation and resolution by the Steering Committee: Provided, That the auditor of a public corporation, the size of which is below the criteria prescribed by Presidential Decree shall be appointed by the Minister of Strategy and Finance, from among multiple candidates recommended by the Committee for Recommendation of Executive Officers, and then be selected through deliberation and resolution by the Steering Committee.<Amended by Act No. 8852, Feb. 29, 2008>
- (5) The head of a public corporation shall not be removed earlier than the expiry of his/her term unless he/she is removed by his/her appointing authority under Articles 22 (1), 35 (3), and 48 (8), or there is a ground for removal as specified in the articles of association.<Amended by Act No. 9277, Dec. 31, 2008; Act No. 9513, Mar. 25, 2009>

Article 26 (Appointment or Removal of Executive Officers of Quasi-Governmental Institutions) (1) The head of a quasi-governmental institution shall be appointed by the head of the competent agency, from among multiple candidates recommended by the Committee for Recommendation of Executive Officers:

Provided, That 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 considering the peculiarities of its business affairs, shall be appointed by President on the recommendation of the head of the competent agency, from among multiple candidates recommended by the Committee for Recommendation of Executive Officers.

- (2) Standing directors of a quasi-governmental institution shall be appointed by the head of the quasi-governmental institution, and, where other statutes require to establish a separate recommendation committee for standing directors, the provisions of such statutes shall govern the recommendation of standing directors: Provided, That a standing audit commissioner shall be appointed either by the President or the Minister of Strategy and Finance according to the procedures prescribed by paragraph (4).<Amended by Act No. 9829, Dec. 29, 2009>
- (3) Non-standing directors of a quasi-governmental institution (excluding those appointed as ex officio non-standing directors pursuant to other statutes or the articles of association of the quasi-governmental institution; hereinafter the same shall apply in this paragraph) shall be appointed by the head of the competent agency, while the non-standing directors of a quasi-governmental institution, the size of which meets or exceeds the criteria prescribed by Presidential Decree or which is prescribed by Presidential Decree considering the special characteristics of its business affairs, shall be appointed by the head of the competent agency from among multiple candidates recommended by the Committee for Recommendation of Executive Officers: Provided, That where other statutes provides for a separate procedure for the recommendation of non-standing directors, the provisions of such statutes shall govern the recommendation of non-standing directors.<Amended by Act No. 9829, Dec. 29, 2009>
- (4) The auditor of a quasi-governmental institution shall be appointed by the Minister of Strategy and Finance, from among multiple candidates

recommended by the Committee for Recommendation of Executive Officers, and shall be selected through deliberation and resolution by the Steering Committee: Provided, That the auditor of a quasi-governmental institution shall, if its size exceeds the criteria prescribed by Presidential Decree or if it is specified by Presidential Decree considering the peculiarities of its business affairs, be appointed by the President on the recommendation of the Minister of Strategy and Finance, from among multiple candidates recommended by the Committee for Recommendation of Executive Officers and then be selected through deliberation and resolution by the Steering Committee.<Amended by Act No. 8852, Feb. 29, 2008>

(5) Article 25 (5) shall apply mutatis mutandis to the guarantee of the term of office for the head of a quasi-governmental institution. In such cases, "head of a public corporation" shall be construed as "head of a quasi-governmental institution."<Amended by Act No. 9829, Dec. 29, 2009>

Article 27 (Special Exception concerning Appointment of Executive Officers of Public Corporations and Quasi-Governmental Institutions with General Meeting of Members)

The public corporations and quasi-governmental institutions that have general meetings of members, including general meetings of shareholders and general meetings of contributors, shall adopt a resolution at a general meeting of members in connection with the appointment of executive officers, if such resolution is required by any other statute.

Article 28 (Term of Office) (1) The term of office of the institution head appointed pursuant to Articles 25 and 26 shall be three years, and the term of office of directors and auditors shall be two years: Provided, That the directors incumbent as at the time the public institution is designated as a public corporation or quasi-governmental institution pursuant to Article 6 shall be deemed to have been appointed pursuant to

Articles 25 and 26, and the relevant statutes, etc. in force as at the beginning of the terms of office of such directors shall apply to their terms.

(2) An executive officer of a public corporation and quasi-governmental institution may be consecutively appointed to one-year terms. In such cases, his/her appointing authority shall decide whether to appoint an executive officer consecutively, considering the matters as categorized in the following subparagraphs:<Amended by Act No. 14076, Mar. 22, 2016>

1. Institution head: Evaluation results of management performance as provided for in Article 48;
 2. Standing director: Results of the evaluation of the standing director's performance under the performance agreement executed pursuant to Article 31 (7) and results of performance of other duties;
 3. Non-standing director and auditor: Results from an evaluation of performance of duties provided for in Article 36 and results of performance of other duties.
- (3) Where an executive officer of a public corporation or quasi-governmental institution is consecutively appointed pursuant to paragraph (2), such an appointment does not require the recommendation process conducted by the Committee for Recommendation of Executive Officers.
- (4) Where an institution head is appointed for a consecutive term pursuant to paragraph (2), an agreement shall be made again in compliance with Article 31 (3). In such cases, a negotiation with the Committee for Recommendation of Executive Officers provided in Article 31 (2) is not required.
- (5) Executive officers shall perform their duties even after expiration of their terms until their successors are appointed.

Article 29 (Committee for Recommendation of Executive Officers) (1) Every public corporation and quasi-governmental institution shall have the Committee for Recommendation of Executive Officers for recommending candidates for executive officers of the public corporation or quasi-governmental institution pursuant to

Articles 25 and 26 and for negotiating the matters concerning the draft agreement with candidates for the institution head pursuant to Article 31 (2). <Amended by Act No. 9829, Dec. 29, 2009>

- (2) The Committee for Recommendation of Executive Officers shall be comprised of non-standing directors of the public corporation or quasi-governmental institution and the members appointed by the board of directors.
- (3) Neither executive officers and employees of a public corporation or quasi-governmental institution nor public officials may become members of the Committee for Recommendation of Executive Officers: Provided, That the foregoing shall not apply to non-standing directors of the public corporation or quasi-governmental institution, teaching staff under the Educational Officials Act, and public officials of the competent agency for the quasi-governmental institution.
- (4) The fixed number of the members appointed by the board of directors shall be less than 1/2 of the fixed number of the members of the Committee for Recommendation of Executive Officers: Provided, That if only one non-standing director exists at the time the Committee for Recommendation of Executive Officers is established, the fixed number of the members appointed by the board of directors may be 1/2 of the fixed number of the members of the Committee for Recommendation of Executive Officers.<Amended by Act No. 9829, Dec. 29, 2009>
- (5) The chairperson of the Committee for Recommendation of Executive Officers shall be elected by the committee members among non-standing directors of the public corporation or quasi-governmental institution, who are also the committee members.
- (6) If there is no non-standing director in a public corporation or a quasi-governmental institution at the time when the Committee for Recommendation of Executive Officers 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.

- (7) The Committee for Recommendation of Executive Officers shall prepare and maintain a set of minutes that describe all the matters discussed and resolved at each meeting, and make them available for inspection by the public: Provided, That the Committee may not allow public access to such minutes, if the case falls within any subparagraph of Article 9 (1) of the Official Information Disclosure Act.<Newly Inserted by Act No. 14461, Dec. 27, 2016>
- (8) Matters necessary for the composition, operation, etc. of the Committee for Recommendation of Executive Officers shall be prescribed by Presidential Decree.

Article 30 (Criteria, etc. for Recommendation of Candidates for Executive

Officers) (1) The Committee for Recommendation of Executive Officers shall recommend a person, as a candidate for the institution head, who has good knowledge and experience relating to corporate management and business affairs of the public corporation or quasi-governmental institution and competent ability for Chief Executive Officer.

- (2) The Committee for Recommendation of Executive Officers shall recommend a person, as a candidate for a director other than the institution head and an auditor, who has good knowledge, experience, and competent ability necessary for performing his/her duties as a director or auditor of the public corporation or quasi-governmental institution.
- (3) In cases of recommending candidates for executive officers pursuant to paragraphs (1) and (2), the Committee for Recommendation of Executive Officers shall provide for the eligibility criteria for executive officers in consideration of the specialties and requirements of the corresponding corporation or institution, and recommend candidates meeting such criteria. In this case, any particulars that would be necessary for providing for the eligibility criteria shall be determined based on the management guidelines established

under Article 50.<Newly Inserted by Act No. 14461, Dec. 27, 2016>

- (4) In order to recommend a candidate for an executive officer, the Committee for Recommendation of Executive Officers may invite the general public for the candidacy, as prescribed by Presidential Decree.

Article 31 (Agreement, etc. with Institution Head) (1) In relation to the appointment of the institution head as provided for in Articles 25 (1) and 26 (1), the board of directors shall prepare a draft agreement that contains the specific business goals that the institution head shall achieve during his/her term of office, the performance-based compensation, etc., and shall deliver the draft to the Committee for Recommendation of Executive Officers. In such cases, the incumbent institution head shall not participate in the directors' meeting for preparing such a draft agreement.

- (2) In receipt of the draft agreement delivered under paragraph (1), the Committee for Recommendation of Executive Officers shall negotiate the terms and conditions of the agreement with the person whom the committee considers recommending as candidate for the institution head, and shall inform the head of the competent agency of the result. In such cases, the Committee for Recommendation of Executive Officers may partially modify the details, terms, and conditions of the draft agreement, if necessary for negotiation with the candidates for the institution head.

- (3) The head of the competent agency shall sign an agreement with the person to be appointed as the institution head in accordance with the draft agreement as negotiated pursuant to paragraph (2), but an agreement with the head of a public corporation shall be signed after prior consultation with the Minister of Strategy and Finance. In such cases, the head of the competent agency may negotiate the terms and conditions of the agreement with the person to be appointed as the institution head to determine the terms and conditions differently from those of the draft agreement prepared pursuant to paragraphs (1) and (2).<Amended by Act No. 8852, Feb. 29, 2008>

- (4) The institution head and the head of the competent agency may modify the

details, terms, or conditions of the agreement through negotiations when unavoidable circumstances occur after the agreement is signed pursuant to paragraph (3): Provided, That the head of the competent agency shall consult with the Minister of Strategy and Finance in advance when he/she intends to agree with the head of a public corporation to modify the details, terms, or conditions of the agreement.<Amended by Act No. 8852, Feb. 29, 2008>

- (5) The head of the competent agency shall sign the agreement as negotiated under paragraph (3) with the institution head incumbent as at the time the institution is designated as a public corporation or quasi-governmental institution (excluding the case of change of designation) pursuant to Article 6, within three months after such designation: Provided, That the agreement as negotiated under paragraph (3) shall not be signed if the remaining term of office is less than six months.
- (6) The Minister of Strategy and Finance or the head of the competent agency may evaluate the performance of the head of a public corporation or quasi-governmental institution at least once during his/her term of office based on the reports on the performance of the agreements entered into pursuant to paragraph (3) or (4).<Newly Inserted by Act No. 14076, Mar. 22, 2016>
- (7) The institution head may enter into a performance agreement with standing directors of the institution concerned (excluding a standing audit commissioner; hereinafter the same shall apply in this paragraph) and evaluate their performance under the performance agreement, and may remove any standing director if the results of evaluation of the standing director's performance show poor performance.<Amended by Act No. 9829, Dec. 29, 2009; by Act No. 14076, Mar. 22, 2016>

Article 32 (Executive Officers' Duties, etc.) (1) The institution head shall represent the public corporation or quasi-governmental institution, have overall control over its business affairs, and take the responsibility for the management performance of the public corporation or quasi-governmental institution.

- (2) The institution head shall not represent the public corporation or quasi-governmental institution with respect to a matter in which the public corporation or quasi-governmental institution and he/she have conflicting interests. In such cases, the auditor or the audit committee shall represent the public corporation or quasi-governmental institution instead.<Amended by Act No. 9829, Dec. 29, 2009>
- (3) When the institution head is unable to perform his/her duties due to an unavoidable cause, one of the standing directors shall act on behalf of the institution head in accordance with the articles of association, while a director prescribed by the articles of association shall act on behalf of the institution head, if there is no standing director or if the standing director is unable to act on his/her behalf.
- (4) Directors shall deliberate on the matters brought up to the directors' meeting, and shall participate in the adoption of a resolution.
- (5) The auditor shall audit the business affairs and accounting of the public corporation or quasi-governmental institution in compliance with the audit guidelines prescribed by the Minister of Strategy and Finance, and shall present his/her opinion to the board of directors. In such cases, the Board of Audit and Inspection may present its opinion concerning the audit guidelines to the Minister of Strategy and Finance.<Amended by Act No. 8852, Feb. 29, 2008>
- (6) The institution head shall assist, as necessary, the auditor or the audit committee in employment, placement, etc. of employees necessary for performing his/her/its duties.<Amended by Act No. 9829, Dec. 29, 2009>

Article 33 (Guidelines for Remuneration for Executive Officers) (1) The guidelines for remuneration for executive officers of a public corporation or quasi-governmental institution shall be determined by the board of directors in accordance with the guidelines for remuneration determined by the Minister of Strategy and Finance through the deliberation and resolution by the Steering Committee considering the following matters: <Amended by Act No. 9277, Dec. 31, 2008; Act

No. 9829, Dec. 29, 2009; Act No. 14076, Mar. 22, 2016>

1. Institution head: The management performance of the public corporation or quasi-governmental institution, and the details of the agreement executed that is made under Article 31 (3) and (4) and the performance level thereof;
 2. Standing directors (excluding standing audit commissioners): Results from the evaluation of actual execution of the performance agreement under Article 31 (7);
 3. Standing auditors and standing audit commissioners: Results from the evaluation of actual performance of duties under Article 36.
- (2) An interested executive officer shall not participate in the directors' meeting in which the guidelines for remuneration for executive officers under the provisions of paragraph (1) are established.
- (3) Notwithstanding the provisions of paragraph (1), the relevant statutes, etc. in force as at the time of designation shall apply to the remuneration for the executive officer for the year when the institution is designated as a public corporation or quasi-governmental institution pursuant to Article 6 (excluding the year in which the designation is changed).

Article 34 (Grounds for Disqualification) (1) A person who falls under any of the following subparagraphs shall not be qualified as an executive officer of a public corporation or quasi-governmental institution: <Amended by Act No. 9277, Dec. 31, 2008; Act No. 9513, Mar. 25, 2009>

1. A person who falls under any of the subparagraphs of Article 33 (Disqualifications) of the State Public Officials Act;
 2. A person in whose case three years have not passed since he/she was removed from his/her office in accordance with Articles 22 (1), 31 (6), 35 (2) and (3), 36 (2), and 48 (4) and (8).
- (2) An executive officer shall be automatically discharged, if he/she falls under any subparagraph of paragraph (1) or if it is discovered that he/she has fallen under any subparagraph of paragraph (1) at the time of his/her appointment.

- (3) An act in which an executive officer discharged under the provisions of paragraph (2) was involved before he/she is discharged shall remain valid and effective.

Article 35 (Liabilities, etc. of Directors and Auditors) (1) The provisions of Articles 382-3, 382-4, 399, 400, and 401 of the Commercial Act shall apply mutatis mutandis to directors of public corporations and quasi-governmental institutions, while the provisions for release of liability to company in Articles 414 and 415 of the Commercial Act shall apply mutatis mutandis to auditors of public corporations and quasi-governmental institutions (including auditors of the audit committee; hereafter the same shall apply in this Article).

- (2) If a non-standing director (excluding a non-standing director of a quasi-governmental institution; hereafter the same shall apply in this paragraph) or auditor (including a standing audit commissioner; hereafter the same shall apply in this paragraph) fails or neglects to perform his/her duties and responsibilities under paragraph (1) and his/her duties under Article 32, the Minister of Strategy and Finance may, following the deliberation and resolution by the Steering Committee, remove the non-standing director or auditor or recommend the appointing authority to remove the non-standing director or auditor and may also demand the public corporation or quasi-governmental institution concerned to claim indemnification for damages.<Amended by Act No. 8852, Feb. 29, 2008; by Act No. 9829, Dec. 29, 2009>

- (3) If the institution head, a standing director (excluding a standing audit commissioner; hereafter the same shall apply in this paragraph), and non-standing director of a quasi-governmental institution fails or neglects to perform his/her duties and responsibilities under paragraph (1) and his/her duties under Article 32, the head of the competent agency may remove the institution head, standing director, and non-standing director of the quasi-government institution or recommend or demand the appointing authority

to remove such institution head, standing director, and non-standing director, and may also demand the public corporation or quasi-governmental institution concerned to claim indemnification for damage: Provided, That if the head of the competent agency removes the institution head of a public corporation or recommends the appointing authority to remove such institution head, it shall undergo deliberation and resolution by the Steering Committee.<Amended by Act No. 9829, Dec. 29, 2009>

Article 36 (Evaluation of Actual Performance of Duties as Non-Standing

Directors and Auditors) (1) The Minister of Strategy and Finance may, if deemed necessary, evaluate the actual performance of duties of non-standing director, auditor, or audit commissioner of the audit committee of a public corporation or quasi-governmental institution. <Amended by Act No. 8852, Feb. 29, 2008>

(2) The Minister of Strategy and Finance may, after deliberation and resolution by the Steering Committee, remove a non-standing director, an auditor, or an audit commissioner of the audit committee or recommend the appointing authority to remove such non-standing director, auditor, or audit commissioner, if the results from an evaluation of actual performance of duties of non-standing director, auditor, or audit commissioner of the audit committee under paragraph (1) show poor performance.<Amended by Act No. 8852, Feb. 29, 2008>

(3) The criteria and method for the evaluation of actual performance of duties provided for in paragraph (1) shall be prescribed by the Minister of Strategy and Finance after deliberation and resolution by the Steering Committee.<Amended by Act No. 8852, Feb. 29, 2008>

Article 37 (Restriction on Concurrent Offices of Executive Officers and Employees)

(1) Neither standing executive officers nor employees of a public corporation or quasi-governmental institution may engage in a business other than their duties for the purpose of making a profit.

- (2) If a standing executive officer of a public corporation or quasi-governmental institution obtains permission from his/her appointing authority or recommending authority, or if an employee of a public corporation or quasi-governmental institution obtains permission from the institution head, such standing executive officer or employee may take a non-profit office concurrently.
- (3) The scope of the business for profit referred to in paragraph (1) shall be prescribed by Presidential Decree.

SECTION 4 Budget and Accounting

Article 38 (Fiscal Year)

The fiscal year of a public corporation and a quasi-governmental institution shall conform to the State's fiscal year.

Article 39 (Accounting Principles, etc.) (1) The accounting of a public corporation and a quasi-governmental institution shall be based on accruals to clearly show business performance and increases, decreases, and changes in assets.

- (2) A public corporation or quasi-governmental institution may place an individual, legal entity, organization, etc. under restrictions on qualification for participating in a bid for a certain period of time not exceeding two years, if it is clearly foreseeable on its judgment that the individual, legal entity, organization, etc. will interfere with fair competition or proper performance of a contract.
- (3) Necessary matters concerning the accounting principles and restrictions on the qualification for bidding under the provisions of paragraphs (1) and (2) shall be prescribed by Ordinance of the Ministry of Strategy and Finance.<Amended by Act No. 8852, Feb. 29, 2008>

Article 39-2 (Establishment, etc. of Mid-and Long-Term Financial Management Plans) (1) The head of an institution falling under any of the following subparagraphs

shall annually establish a mid- and long-term financial management plan (hereinafter referred to as "mid- and long-term financial management plan") for at least five fiscal years, including the year concerned, have such plan finalized via resolution by the board of directors, and submit them to the Minister of Strategy and Finance and the heads of competent administrative agencies by June 30: <Amended by Act No. 12268, Jan. 21, 2014>

1. Public corporations and quasi-governmental institutions, the total asset size of which is over two trillion won, or for which the provisions on compensation by the Government for their losses are prescribed by the Acts that set forth the grounds for the establishment of such public corporations and quasi-government institutions;
2. Other public corporations and quasi-governmental institutions falling under the categories prescribed by Presidential Decree, in consideration of the size of their assets and liabilities.

(2) The mid- and long-term financial plan shall include the following details:

1. Business goals under Article 46;
2. Business plans and investment directions;
3. Financial outlook, the grounds thereof, and management plans;
4. Liability management plan detailing the outlook for liability increase and/or decrease, the grounds thereof, management plan, etc.;
5. Evaluation and analysis on any change against the mid- and long-term financial management plan for the previous year, causes of changes, management plan, etc.;
6. Other matters prescribed by Presidential Decree.

(3) In consideration of the direction for national policies as well as the management environment and economic conditions of an institution preparing a mid- and long-term financial management plan (hereinafter referred to as "institution subject to formulation of the plan" in this paragraph), the Minister of Strategy and Finance may request the head of an institution subject to formulation of the plan, which is a public corporation, to change its mid- and long-term

financial management plan, and the head of the competent agency may request the head of an institution subject to the plan, which is a quasi-governmental institution, to change its mid- and long-term financial management plan.<Newly Inserted by Act No. 12268, Jan. 21, 2014>

- (4) Matters, such as detailed methods for preparing a mid-and long-term financial management plan, shall be prescribed by Presidential Decree.<Amended by Act No. 12268, Jan. 21, 2014>

[This Article Newly Inserted by Act No. 10286, May 17, 2010]

Article 40 (Budget Compilation) (1) The budget of a public corporation or quasi-governmental institution shall be compiled with the separate parts of the general provisions, the estimated income statement, the estimated balance sheet, and the financial plan.

- (2) The institution head shall prepare a budget bill for the next fiscal year in accordance with the business goals under the provisions of Article 46 and the guidelines for management under the provisions of Article 50, and shall submit the bill to the board of directors of the public corporation or quasi-governmental institution no later than the beginning of the next fiscal year.

- (3) The institution head shall conduct a preliminary feasibility study as prescribed by Presidential Decree, in order to compile a budget for a new investment project and capital investment: Provided, That such preliminary feasibility study need not be conducted for any of the following projects:<Newly Inserted by Act No. 14076, Mar. 22, 2016>

1. A project for which the preliminary feasibility study is conducted pursuant to Article 38 of the National Finance Act among projects funded by the government budget;
2. A project related to inter-Korean exchanges and cooperation or a project implemented under an agreement or treaty entered into with another country;
3. A simple improvement and maintenance project implemented to increase the use

- of an existing facility, such as road maintenance and improvement of deteriorated waterworks;
4. A project that needs to be implemented urgently to support the recovery from a disaster defined in subparagraph 1 of Article 3 of the Framework Act on the Management of Disasters and Safety (hereinafter referred to as “disaster”), or to ensure the safety of facilities and to cope with health or food safety issues;
 5. A project that needs to be implemented urgently to prevent a disaster, to which the consent of the competent Standing Committee of the National Assembly has been granted;
 6. A project that should be implemented pursuant to the statutes;
 7. A project that needs to be implemented as a national policy in order to ensure balanced regional development and to cope with urgent economic and social situations, and that meets both of the following requirements. In such cases, the details of a project exempt from the preliminary feasibility study and the grounds for exemption shall be reported without delay to the competent Standing Committee of the National Assembly:
 - (a) A detailed project plan including the purpose, scale and implementation method of the project and other matters shall have been formulated;
 - (b) The project shall have been confirmed at the meeting of the State Council because it needs to be implemented as a national policy.
 - (4) The budget bill prepared and submitted under the provisions of paragraph (2) shall be finalized by resolution of the board of directors: Provided, That if other Act requires a separate process in connection with the budget of a public corporation or quasi-governmental institution, such as a resolution by the general meeting of members including the general meeting of shareholders or investors, or a resolution by the fund management deliberation council under the provisions of Article 23, the budget shall be finalized through such a process after resolution by the board of directors, and where other Act requires approval of the head of the competent agency for finalizing a budget of a

quasi-governmental institution, such approval shall be obtained from the head of the competent agency after resolution by the board of directors.<Amended by Act No. 14076, Mar. 22, 2016>

- (5) The budget already finalized at the time of designation as a public corporation or quasi-governmental institution under the provisions of Article 6 shall be deemed to have been prepared and finalized in accordance with the provisions of paragraphs (1) through (4).<Amended by Act No. 14076, Mar. 22, 2016>
- (6) The institution head who intends to revise the finalized budget of the public corporation or quasi-governmental institution because of a change in business goals of the public corporation or quasi-governmental institution or any other unavoidable circumstances shall prepare and submit a bill of revised budget to the board of directors. In this case, paragraph (4) shall apply mutatis mutandis to the finalization of the bill of revised budget.<Amended by Act No. 14076, Mar. 22, 2016>
- (7) When the budget is finalized or revised pursuant to paragraphs (4) through (6), the public corporation or quasi-governmental institution shall report the details to the Minister of Strategy and Finance, the head of the competent agency, and the Chairperson of the Board of Audit and Inspection: Provided, That it shall be deemed to have been reported to the head of the competent agency, where approval under the proviso to paragraph (4) has been obtained from the head of the competent agency.<Amended by Act No. 8852, Feb. 29, 2008; Act No. 14076, Mar. 22, 2016>

Article 41 (Quasi-Budget) (1) If a public corporation or quasi-governmental institution fails to finalize its budget before the beginning of a fiscal year due to a natural disaster or any other inevitable cause or event, the public corporation or quasi-governmental institution may compile and manage a budget based on the budget for the preceding fiscal year (hereinafter referred to as "quasi-budget" in this Article).

- (2) The quasi-budget shall become ineffective when the budget for the fiscal year is finally established. In such cases, the budget already executed under the quasi-budget shall be deemed to have been executed under the budget for the corresponding fiscal year.

Article 42 (Establishment of Management Plan) (1) When the budget is finally established under the provisions of Article 40 (4) and (5), the public corporation or quasi-governmental institution shall establish a management plan without delay, in accordance with the budget for the corresponding fiscal year after resolution by the board of directors: Provided, That the management plan already established as at the time of designation as a public corporation or quasi-governmental institution in accordance with Article 6 shall be deemed to have been established under this Act. <Amended by Act No. 14076, Mar. 22, 2016>

- (2) When a public corporation or quasi-governmental institution revises the budget established in accordance with the provisions of Article 40 (6), it shall revise the management plan established in accordance with the provisions of paragraph (1) without delay, after resolution by the board of directors.<Amended by Act No. 14076, Mar. 22, 2016>

- (3) A public corporation or quasi-governmental institution shall submit the management plan established for the corresponding fiscal year pursuant to paragraphs (1) and (2) to the Minister of Strategy and Finance (only in cases of public corporations) and the head of the competent agency within two months after the budget is finalized in accordance with the provisions of Article 40 (4) through (6).<Amended by Act No. 8852, Feb. 29, 2008; Act No. 14076, Mar. 22, 2016>

Article 43 (Submission of Statements on Settlement of Accounts) (1) A public corporation and quasi-governmental institution shall prepare the statements on the settlement of accounts for the corresponding fiscal year, without delay, at the end of the fiscal year, and shall be subject to an accounting audit conducted by an accounting auditor (hereinafter referred to as "accounting auditor") appointed, from

among persons falling under any of the following subparagraphs. In such cases, a public corporation and quasi-governmental institution shall submit the statements on settlement of accounts within the period prescribed by the Rules of the Board of Audit and Inspection: <Amended by Act No. 9513, Mar. 25, 2009>

1. An accounting firm (hereinafter referred to as "accounting firm") referred to in Article 23 of the Certified Public Accountant Act;
2. An audit team (hereinafter referred to as "audit team") referred to in Article 3 (1) 3 under the Act on External Audit of Stock Companies.

(2) Each public corporation and quasi-governmental institution shall, respectively to the Minister of Strategy and Finance and the head of the competent agency, submit each of the following statements on the settlement of accounts prepared according to paragraph (1) no later than the last day of February of the following year and finalize the settlement of accounts by obtaining approval no later than the last day of March: Provided, That the settlement of accounts shall be finally approved by the general meeting of members, if the public corporation or quasi-governmental institution has the general meeting of members, such as the general meeting of shareholders or investors:<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9513, Mar. 25, 2009; Act No. 9829, Dec. 29, 2009>

1. Financial statements (including the auditor's opinion by an accounting auditor) and accompanying documents;
2. Other documents necessary for clarifying the details of the settlement of accounts.

(3) The Minister of Strategy and Finance and the head of the competent agency shall submit to the Board of Audit and Inspection the statements on the settlement of accounts of the public corporation or quasi-governmental institution as finalized in accordance with paragraph (2) and other necessary documents (hereafter referred to as "statements, etc. on the settlement of accounts" in this Article) no later than May 10 every year.<Amended by Act No.

8852, Feb. 29, 2008; Act No. 9829, Dec. 29, 2009>

- (4) The Board of Audit and Inspection shall, upon receiving the statements, etc. on the settlement of accounts under paragraph (3), inspect the statements, etc. on the settlement of accounts submitted by the legal entities under Article 22 (1) 3 of the Board of Audit and Inspection Act and other public corporations and quasi-governmental institutions as specified by the Rule of the Board of Audit and Inspection, and shall submit the results thereof to the Minister of Strategy and Finance by no later than July 31.<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9829, Dec. 29, 2009>
- (5) Necessary matters concerning the criteria for selection of an accounting firm and audit team qualified for accounting audits pursuant to paragraph (1), the procedures of accounting audits, and the audit by the Board of Audit and Inspection for the settlement of accounts pursuant to paragraph (4) shall be prescribed by the Rule of the Board of Audit and Inspection.<Amended by Act No. 9513, Mar. 25, 2009>
- (6) The Minister of Strategy and Finance shall report to the State Council the statements, etc. on the settlement of accounts referred to in paragraph (3) along with the results of the audit conducted by the Board of Audit and Inspection referred to in paragraph (4), and shall also submit them to the National Assembly by no later than August 20.<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9829, Dec. 29, 2009>
- (7) Notwithstanding the provisions of paragraphs (1) through (6), the settlement of accounts for the year in which a public corporation or a quasi-governmental institution is designated under the provisions of Article 6 shall be governed by the statutes in force at the time of such designation.

Article 43-2 (Consultation on Transferring Capital of Public Corporation, etc.)

- (1) Where a public corporation intends to transfer the profit reserve, the accumulated fund for business expansion, other reserves or accumulated funds into the capital, it shall

consult with the Minister of Strategy and Finance in advance before passing the relevant procedure, such as the board of directors, a general meeting of stockholders, etc.

- (2) Where a public corporation has transferred the profit reserve, the accumulated fund for business expansion, other reserves or accumulated funds into the capital, it shall report the fact to the head of the competent agency.

[This Article Newly Inserted by Act No. 10896, Jul. 25, 2011]

Article 43-3 (Appointment, etc. of Accounting Auditors) (1) Any public corporation or quasi-governmental institution shall establish and operate an appointment committee for accounting auditors with its specialty and independence guaranteed (if an audit committee under Article 20 is established, it shall be deemed the appointment committee for accounting auditors) to appoint the accounting auditors. In such cases, all non-standing directors of the public corporation or quasi-governmental institution concerned shall be appointed as the members of the appointment committee for accounting auditors.

- (2) Matters concerning the composition and operation of the appointment committee for accounting auditors referred to in paragraph (1) shall be prescribed by Presidential Decree.

- (3) Articles 3 (3) through (5) and (7), 4 (7), and 6 (1) of the Act on External Audit of Stock Companies shall apply mutatis mutandis to grounds for disqualification, qualifications, appointment, powers, etc. of accounting auditors. In such cases, an "auditor," a "company," and the "auditor selection and appointment commission" shall be construed as "accounting auditor," a "public corporation or quasi-governmental institution," and the "appointment committee for accounting auditors," respectively.

- (4) Any accounting auditor and a certified public accountant, employee, and any other person under his/her control shall not disclose any confidential information acquired in the course of performing his/her duties concerning the accounting audits of a public corporation or quasi-governmental institution: Provided, That this shall not apply where special provisions exist in other Acts

or the Rules of the Board of Audit and Inspection referred to in Article 43 (5).
[This Article Newly Inserted by Act No. 9513, Mar. 25, 2009]

Article 43-4 (Liability for Damage)

@Article 17 (1) through (5) and (7) shall apply mutatis mutandis to liability for damage by an accounting auditor, director, auditor, or an audit commissioner of the audit committee against a public corporation, a quasi-government, or a third party. In such cases, "auditor," "company," and "Article 4" shall be construed as "accounting auditor," "public corporation or quasi-governmental institution," and "Article 43," respectively.

[This Article Newly Inserted by Act No. 9513, Mar. 25, 2009]

Article 44 (Commission of Purchasing Goods and Contracting Construction Works)

(1) Where any public corporation or quasi-governmental institution intends to purchase competing products among small and medium enterprises under Article 6 of the Act on Facilitation of Purchase of Small and Medium Enterprise-Manufactured Products and Support for Development of Their Markets for not less than the amount announced by the Minister of Strategy and Finance pursuant to Article 4 (1) of the Act on Contracts to which the State is a Party, the public corporation or quasi-governmental institution shall commission the purchase thereof to the Administrator of the Public Procurement Service or purchase them according to contracting methods provided for in Article 5 of the Government Procurement Act: Provided, That this shall not apply to cases prescribed by Ordinance of the Ministry of Strategy and Finance in consideration of the uniqueness, specialty, safety and other aspects of a product to be purchased.
<Newly Inserted by Act No. 9829, Dec. 29, 2009>

(2) A public corporation or quasi-governmental institution may commission the Administrator of the Public Procurement Service to purchase goods in demand or sign a contract for construction works, if deemed necessary. <Amended by

Act No. 9829, Dec. 29, 2009>

Article 45 (Investment Method)

When the Government invests capital in a public corporation or quasi-governmental institution, the Minister of Strategy and Finance shall determine the period and method for such investment to implement it accordingly.<Amended by Act No. 8852, Feb. 29, 2008>

SECTION 5 Evaluation and Supervision of Management

Article 46 (Establishment of Management Goals) (1) The institution head shall set up medium- and long-term management goals for not less than five fiscal years including the following year, considering the substance of business, the management environment, and the details, etc. of the agreements executed pursuant to Article 31 (3) and (4), and shall submit them to the Minister of Strategy and Finance and the head of the competent agency by no later than October 31 every year after finalizing them through resolution by the board of directors. <Amended by Act No. 8852, Feb. 29, 2008; Act No. 10286, May 17, 2010>

(2) Notwithstanding the provisions of paragraph (1), with respect to the year in which the institution is designated as a public corporation or quasi-governmental institution (excluding a change in designation) under the provisions of Article 6, the institution head shall set up medium and long-term management goals for not less than three fiscal years including the corresponding year within three months after such designation, and shall submit them to the Minister of Strategy and Finance and the head of the competent agency after finalizing them through resolution by the board of directors.<Amended by Act No. 8852, Feb. 29, 2008>

(3) Whenever the management goals set up pursuant to paragraphs (1) and (2) are changed, the head of institutions shall submit the details of the change to the

Minister of Strategy and Finance and the head of the competent agency immediately after finalizing them through resolution by the board of directors.<Amended by Act No. 8852, Feb. 29, 2008; Act No. 10286, May 17, 2010>

- (4) Considering the management environment, the economic situation, the direction of national policies, etc. of a public corporation or quasi-governmental institution, the Minister of Strategy and Finance may demand the head of a public corporation to change business goals, while the head of the competent agency may demand such a change to the head of a quasi-governmental institution.<Amended by Act No. 8852, Feb. 29, 2008>

Article 47 (Report on Management Performance, etc.) (1) A public corporation and quasi-governmental institution shall prepare a report describing the management performance for the preceding year (hereinafter referred to as "management performance report") and a report on performance of the agreement executed by the institution head in accordance with Article 31 (3) and (4), and shall submit them to the Minister of Strategy and Finance and the head of the competent agency by no later than March 20 each year. <Amended by Act No. 8852, Feb. 29, 2008>

- (2) Paragraph (1) shall not be applicable to the year in which the institution is designated as a public corporation or quasi-governmental institution pursuant to Article 6 (excluding cases where such designation is changed).
- (3) The management performance report shall be accompanied by the statements on the settlement of accounts prepared according to Article 43 (1).<Amended by Act No. 9829, Dec. 29, 2009>

Article 48 (Evaluation of Management Performance) (1) The Minister of Strategy and Finance shall evaluate the management performance of a public corporation or quasi-governmental institution based on the report on the performance of the agreement executed pursuant to Article 31 (3) and (4), the management goals established under Article 46, and the management performance report: Provided,

That such management performance shall not be evaluated in the year when the institution is designated as a public corporation or quasi-governmental institution pursuant to Article 6 (excluding cases where such designation is changed). <Amended by Act No. 8852, Feb. 29, 2008>

- (2) In evaluating the management performance of a public corporation or quasi-governmental institution pursuant to the main sentence of paragraph (1), the Minister of Strategy and Finance shall utilize the results of the evaluation already made for the institutions subject to the evaluation of fund management pursuant to Article 82 of the National Finance Act and the institutions subject to the evaluation pursuant to Article 32 (3) of the Framework Act on Science and Technology.<Amended by Act No. 8852, Feb. 29, 2008; Act No. 12673, May 28, 2014>
- (3) The Minister of Strategy and Finance may request a public corporation or quasi-governmental institution to submit relevant data if necessary for the evaluation of management performance under paragraph (1).<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9277, Dec. 31, 2008>
- (4) Where a public corporation or quasi-government institution fails to present a report on the performance of an agreement executed pursuant to Article 31 (3) and (4), a management performance report, and accompanying documents, or prepares and presents a false report thereon, the Minister of Strategy and Finance shall modify the results of evaluation of management performance and the performance-based payment through deliberation and resolution by the Steering Committee, and take measures, such as caution and warning, against the institution concerned, or request the head of the competent agency or institution head to take personnel actions against relevant persons. In such cases, if an auditor or an audit commissioner of the audit committee fails or neglects to perform its relevant duties, the Minister of Strategy and Finance may dismiss the auditor or audit commissioner of the audit committee concerned through deliberation and resolution by the Steering Committee or propose to his/her

appointing authority to dismiss such auditor or audit commissioner.<Newly Inserted by Act No. 9277, Dec. 31, 2008>

- (5) Criteria and methods for the evaluation of management performance under paragraph (1) shall be prescribed by the Minister of Strategy and Finance through deliberation and resolution by the Steering Committee, in such a manner that the following matters shall be included in the evaluation of a public corporation or quasi-governmental institution:<Amended by Act No. 14076, Mar. 22, 2016>
1. The rationality and achievement level of management goals;
 2. The public nature and efficiency of major projects;
 3. The adequacy of organizational and personnel management, including types of employment of employees;
 4. Soundness in financial management and budget-saving efforts, including the implementation of the mid- and long-term financial management plan formulated under Article 39-2;
 5. Results of the customer satisfaction survey conducted under Article 13 (2);
 6. Operation of a rational performance-based payment system;
 7. Other matters related to the management of the public corporation or quasi-governmental institution.
- (6) The Minister of Strategy and Finance may organize and operate an evaluation team for the management of public corporations and quasi-governmental institutions (hereinafter referred to as "management evaluation team") to ensure the efficient evaluation of management performance provided for in paragraph (1) and to provide professional and technical research or consultation concerning the evaluation of management performance.<Newly Inserted by Act No. 9513, Mar. 25, 2009>
- (7) The Minister of Strategy and Finance shall finish the evaluation of the management performance of public corporations and quasi-governmental institutions by no later than June 20 each year, and shall report the results

therefrom to the National Assembly and the President after deliberation and resolution by the Steering Committee.<Amended by Act No. 8852, Feb. 29, 2008; by Act No. 9277, Dec. 31, 2008; Act No. 9513, Mar. 25, 2009>

- (8) If the evaluation of management performance of a public corporation or quasi-governmental institution under paragraph (7) reveals its poor performance, the Minister of Strategy and Finance may recommend or request a person authorized pursuant to Articles 25 and 26 to appoint the institution head and standing directors of such public corporation or quasi-governmental institution to remove the institution head or the standing directors after deliberation and resolution by the Steering Committee.<Amended by Act No. 8852, Feb. 29, 2008; Act No. 9277, Dec. 31, 2008; Act No. 9513, Mar. 25, 2009>
- (9) In regard to a public corporation or quasi-government institution which the evaluation of management performance under paragraph (1) reveals has caused the insolvent management due to the excessive appropriation of personnel expenses and violation of guidelines for management established under Article 50 (1), the Minister of Strategy and Finance may request to take personnel or budgetary measures for securing the responsibility for future management and improvement in management through deliberation and resolution by the Steering Committee.<Newly Inserted by Act No. 9277, Dec. 31, 2008; Act No. 9513, Mar. 25, 2009>
- (10) Matters necessary for the procedure for the evaluation of management performance, the measures following the evaluation results of management performance under paragraph (1), and the composition, operation, etc. of the management evaluation team shall be prescribed by Presidential Decree.<Amended by Act No. 9277, Dec. 31, 2008; by Act No. 9513, Mar. 25, 2009>

Article 49 (Preparation of Annual Reports)

The Minister of Strategy and Finance may prepare and publish an annual report concerning the business status, etc. of public corporations and quasi-governmental

institutions every year, based on the management performance report and the evaluation results of management performance under the provisions of Article 48.<Amended by Act No. 8852, Feb. 29, 2008>

Article 50 (Guidelines for Management) (1) The Minister of Strategy and Finance shall establish the guidelines for the following matters in connection with the daily affairs relating to the administration of public corporations and quasi-governmental institutions (hereinafter referred to as "management guidelines") after deliberation and resolution by the Steering Committee, and shall notify the guidelines to the heads of public corporations, quasi-governmental institutions, and competent agencies: <Amended by Act No. 8852, Feb. 29, 2008>

1. Matters concerning the administration of organization and the prescribed number and management of personnel;
2. Matters concerning the budget and the fund administration;
3. Other matters that the Minister of Strategy and Finance considers necessary for securing the financial soundness of public corporations and quasi-governmental institutions.

(2) If necessary for the transparent and fair personnel management, ethical management, etc. of public corporations and quasi-governmental institutions, the head of a relevant administrative agency responsible for the related policy may present the Minister of Strategy and Finance his/her opinion about the management guidelines established under paragraph (1).<Amended by Act No. 8852, Feb. 29, 2008>

Article 51 (Supervision over Public Corporations and Quasi-Governmental Institutions) (1) The Minister of Strategy and Finance and the head of the competent agency shall limit their supervision over public corporations and quasi-governmental institutions to the matters and the extent expressly prescribed in this Act or other statutes in order to ensure that self-controlling management of public

corporations and quasi-governmental institutions is not undermined. <Amended by Act No. 8852, Feb. 29, 2008>

(2) The Minister of Strategy and Finance shall supervise the matters concerning the compliance with the management guidelines for public corporations.<Amended by Act No. 8852, Feb. 29, 2008>

(3) The head of the competent agency shall supervise the following matters of public corporations and quasi-governmental institutions:

1. Matters concerning proper execution of the business commissioned by the head of the competent agency to public corporations and quasi-governmental institutions under relevant statutes or the business directly related to their assigned business affairs and other matters prescribed by related statutes;

2. Matters concerning the compliance with the management guidelines for quasi-governmental institutions.

(4) The Minister of Strategy and Finance and the head of the competent agency shall monitor whether the supervision conducted pursuant to paragraphs (2) and (3) is properly executed, as prescribed by Presidential Decree, and shall take measures necessary for improvement after deliberation and resolution by the Steering Committee.<Amended by Act No. 8852, Feb. 29, 2008>

Article 51-2 (Consultations on Establishment, etc. of Funding or Investment

Institutions) (1) Where a public corporation or quasi-governmental institution intends to establish a funding or investment institution or to fund or invest in other corporations, it shall hold a prior consultation with the head of the competent agency and the Minister of Strategy and Finance: Provided, That, where the public corporation or quasi-governmental institution has already followed the formalities equivalent to a prior consultation, or a public institution dealing with finance makes an investment, in specific cases prescribed by Presidential Decree, it need not hold a prior consultation.

(2) Matters necessary for the prior consultation under paragraph (1) and other

matters shall be prescribed by Presidential Decree.

[This Article Newly Inserted by Act No. 14076, Mar. 22, 2016]

- Article 52 (Audit by Board of Audit and Inspection)** (1) The Board of Audit and Inspection may audit the affairs and accounting of public corporations and quasi-governmental institutions in accordance with the Board of Audit and Inspection Act.
- (2) The Board of Audit and Inspection may commission or delegate the audit provided for in paragraph (1) to the head, etc. of a relevant administrative agency.
- (3) Matters necessary for the scope of the head, etc. of a relevant administrative agency to whom the Board of Audit and Inspection may commission or delegate the audit of a public corporation and quasi-governmental institution pursuant to paragraph (2), the report on the results of the audit, the actions following the results, etc. shall be prescribed by the Rule of the Board of Audit and Inspection.

- Article 52-2 (Presentation of Audit Results, etc. to National Assembly)** (1) A public corporation or a quasi-government institution shall present the following matters to the competent standing committee of the National Assembly without delay:
1. An audit report having synthesized the audit result executed by an auditor or an audit committee;
 2. Matters pointed out and matters requesting disposition in an audit executed by the Board of Audit and Inspection pursuant to Article 52 and a plan of measures for them.
- (2) The Minister of Strategy and Finance shall present the results of evaluation of the actual performance of duties of the auditor or the audit commissioners of the audit committee executed pursuant to Article 36 (1) to the National Assembly without delay.

[This Article Newly Inserted by Act No. 9277, Dec. 31, 2008]

CHAPTER V SUPPLEMENTARY PROVISIONS

Article 53 (Legal Fiction of Public Officials in Application of Penalty Provisions)

A person who serves as an executive officer or employee of a public institution, a member of the Steering Committee, or a member of the Committee for Recommendation of Executive Officers, who is not a public official, shall be deemed a public official in application of Articles 129 through 132 of the Criminal Act.<Amended by Act No. 14076, Mar. 22, 2016>

Article 53-2 (Notification by Investigation Agencies, etc. Upon Commencement and Completion of Investigations)

Upon commencing or completing an inquiry or investigation into a case related to the duties of an executive officer or employee of a public institution, the Board of Audit and Inspection of Korea, the Prosecutors' Office, the Korea National Police Agency, or any other investigation agency shall notify the head of the public institution of the relevant facts and results of the inquiry or investigation within 10 days.

[This Article Newly Inserted by Act No. 14076, Mar. 22, 2016]

Article 53-3 (Restrictions on Voluntary Dismissal from Office)

A person authorized to appoint or recommend executives officers of a public institution may elect to disapprove the voluntary dismissal of an executive officer who has applied for voluntary dismissal from office, if the executive officer is being investigated by the Prosecutors' Office, the Police Agency, or any other investigation agency, or audited by the Board of Audit and Inspection or any other audit agency in relation to his/her misconduct, or if a request has been made to the disciplinary committee of the public institution concerned to pass a resolution on a severe disciplinary action against the executive officer.

[This Article Newly Inserted by Act No. 14076, Mar. 22, 2016]

Article 54 (Exercise, etc. of Minority Stockholders' Rights)

@Article 542-6 of the Commercial Act shall apply mutatis mutandis to the

exercise of minority stockholders' rights in and stockholders' proposal to public corporations and quasi-governmental institutions, the stocks of which have not been listed in the securities market prescribed by Presidential Decree.<Amended by Act No. 11845, May 28, 2013>

[This Article Wholly Amended by Act No. 9829, Dec. 29, 2009]

CHAPTER VI PENALTY PROVISIONS

Article 55 (Penalty Provisions) (1) If any accounting auditor, certified public accountant under an accounting auditor's control, auditor, or member of the appointment committee for accounting auditors (referring to an audit commissioner if an audit committee is established) receives, requests for, or promises money, valuables, or gains after having received an illegal solicitation in respect of his/her duty, he/she shall be punished by imprisonment with labor for not more than three years or by a fine not exceeding ten million won: Provided, That each of the aforesaid persons shall be punished by a fine not exceeding the amount equivalent to five times the economic gains acquired in respect of the duty in question, if five times the amount of the economic gains acquired in respect of the duty in question exceeds three million won in cases of imposition of a fine.

(2) Any person who promises, provides, or indicates his/her intention to provide money, valuables, or gains prescribed under paragraph (1) shall be also subject to paragraph (1).

(3) Money, valuables, or gains prescribed under paragraphs (1) and (2) shall be confiscated. Where all or any of the money, valuables, or gains can not be confiscated, the equivalent value shall be additionally collected.

[This Article Newly Inserted by Act No. 9513, Mar. 25, 2009]

Article 56 (Penalty Provisions) (1) Where any person falling under Article 635 (1) of the Commercial Act, or any other person who is in charge of accounting of a public corporation or quasi-governmental institution prepares and announces a false financial statement, in violation of the accounting principles under Article 39 (1), he/she shall be punished by imprisonment with labor for not more than five years or by a fine not exceeding five million won.

(2) Where any person falling under Article 635 (1) of the Commercial Act, or any other person who is in charge of accounting of a public corporation or quasi-governmental institution or who is an accounting auditor or certified public

accountant under his/her control performs any of the following acts, such person shall be punished by imprisonment with labor for not more than three years or by a fine not exceeding 30 million won:<Amended by Act No. 10896, Jul. 25, 2011>

1. Where he/she fails to appoint an accounting auditor without justifiable grounds;
2. Where he/she fails to make an entry of any matter to be described in the auditor's opinion or makes any false entry;
3. Where he/she divulges confidential information, in violation of Article 43-3 (4);
4. Where he/she fails to prepare the statements on the settlement of accounts.

(3) Where any person falling under Article 635 (1) of the Commercial Act or any other person who is in charge of accounting of a public corporation or quasi-governmental institution performs any of the following acts, such person shall be punished by imprisonment with labor for not more than two years or by a fine not exceeding 20 million won:<Amended by Act No. 10896, Jul. 25, 2011>

1. Where he/she presents false data to an accounting auditor or certified public accountant under his/her control or interferes with an accounting auditor in conducting a normal accounting audit by deceit or other illegal means;
2. Where he/she refuses, interferes with, or challenges an accounting auditor's requests for inspection, reproduction, submission, etc. of data or investigation under Article 43-3 (3) or fails to submit relevant data, without justifiable grounds;
3. Where he/she fails to submit the statements on the settlement of account to an accounting auditor, in violation of Article 43 (1).

[This Article Newly Inserted by Act No. 9513, Mar. 25, 2009]

ADDENDA <No. 8635, 03. Aug, 2007>

Article 1 (Enforcement Date)

This Act shall enter into force one year and six months after the date of its promulgation. (Proviso Omitted.)

Articles 2 through 44 Omitted.

ADDENDA <No. 8696, 14. Dec, 2007>

This Act shall enter into force on the date of its promulgation.

ADDENDA <No. 8852, 29. Feb, 2008>

Article 1 (Enforcement Date)

This Act shall enter into force on the date of its promulgation. (Proviso Omitted.)

Articles 2 through 7 Omitted.

ADDENDA <No. 9277, 31. Dec, 2008>

This Act shall enter into force three months after the date of its promulgation.

ADDENDA <No. 9345, 30. Jan, 2009>

This Act shall enter into force on the date of its promulgation.

ADDENDA <No. 9513, 25. Mar, 2009>

- (1) (Enforcement Date) This Act shall enter into force on January 1, 2010: Provided, That the amended provisions (limited to the parts amended under this Act) of Articles 25, 34, and 48 of the amended Act on the Management of Public Institutions (Act No. 9277) shall enter into force three months after the date of its promulgation.
- (2) (Applicability to Accounting Audits, Appointment of Accounting Auditors, Accounting Auditor's Liability for Damage) The amended provisions of Articles 43, 43-2, and 43-3 shall apply beginning with the settlement of accounts for the fiscal year of 2010.
- (3) (Applicability to Composition and Operation of Management Evaluation Team) The amended provisions (limited to the parts amended under this Act) of Article 48 of the amended Act on the Management of Public Institutions (Act No. 9277) shall apply beginning with the first evaluation of management performance conducted after this Act enters into force.

ADDENDA <No. 9829, 29. Dec, 2009>

- (1) (Enforcement Date) This Act shall enter into force on the date of its promulgation: Provided, That the amended provisions of Articles 24, 26 (3), and 44 shall enter into force three months after the date of its promulgation.
- (2) (Applicability to Submission of Statements on Settlement of Accounts) The amended provisions of Article 43 shall apply beginning with the settlement of accounts for the fiscal year of 2010.
- (3) (Applicability to Appointment and Removal of Executive Officers) Where the procedure of appointing and removing the executive officers of a public corporation and quasi-governmental institution is in progress as at the time this Act enters into force, the previous provisions shall govern, notwithstanding the amended provisions of Articles 25 and 26.

ADDENDA <No. 10286, 17. May, 2010>

- (1) (Enforcement Date) This Act shall enter into force on the date of its promulgation.
- (2) (Applicability to Mid- and Long-term Financial Management Plan) The amended provisions of Articles 39-2 and 46 shall apply beginning with mid- and long-term financial management plans and mid- and long-term business goals to be established in 2012.

ADDENDA <No. 10896, 25. Jul, 2011>

This Act shall enter into force on the date of its promulgation.

ADDENDA <No. 11690, 23. Mar, 2013>

Article 1 (Enforcement Date)

- (1) This Act shall enter into force on the date of its promulgation.
- (2) Omitted.

Articles 2 through 7 Omitted.

ADDENDA <No. 11845, 28. May, 2013>

Article 1 (Enforcement Date)

This Act shall enter into force three months after the date of its promulgation.

(Proviso Omitted.)

Articles 2 through 17 Omitted.

ADDENDA <No. 12268, 21. Jan, 2014>

This Act shall enter into force on the date of its promulgation.

ADDENDA <No. 12673, 28. May, 2014>

Article 1 (Enforcement Date)

This Act shall enter into force on the date of its promulgation. (Proviso Omitted.)

Articles 2 through 4 Omitted.

ADDENDA <No. 14076, 22. Mar, 2016>

This Act shall enter into force six months after the date of its promulgation.

ADDENDA <No. 14461, 27. Dec, 2016>

This Act shall enter into force six months after the date of its promulgation.

ENFORCEMENT DECREE OF THE ACT ON THE MANAGEMENT OF PUBLIC INSTITUTIONS

[Enforcement Date 09. Aug, 2017.] [Presidential Decree No.28232, 09. Aug, 2017.,
Partial Amendment]

Article 1 (Purpose)

The purpose of this Decree is to provide for the matters delegated by the Act on the Management of Public Institutions and matters necessary for the enforcement thereof.

Article 2 (Amount of Total Revenue)

"Amount of total revenue" in Articles 4 (1) 2 and 5 (2) and (3) 1 (a) of the Act on the Management of Public Institutions (hereinafter referred to as the "Act") means an amount calculated in accordance with the attached Table 1, excluding the amount of obligations to pay in the future from the revenue acquired by the institution as earnings from its business or granted as an aid by the State, a local government, a private sector, etc. and the derivative revenue yielded from such revenue.

Article 3 (Amount of Government Aid)

"Amount of the Government grants" in Article 4 (1) 2 of the Act means the aggregate of the following amounts out of the amount of total revenue:

1. The amount of revenue transferred from the Government including contributions and subsidies, and the amount of revenue transferred from a private sector, etc. in compliance with mandatory provisions of the statutes, including charges under the Framework Act on the Management of Charges;
2. The amount of revenue earned from a business specified by a statute as a business of the institution or commissioned on the grounds prescribed for such commission by a statute or the amount of revenue earned from an monopoly provided for by the statutes or granted on the grounds prescribed by the

statutes. In such cases, the amount of revenue means all revenues earned from a commissioned business or monopoly, including fee, admission fee, use charge, insurance premium, contribution, charge, etc. in whatsoever name;

3. The amount of derivative revenue yielded from the management of the revenues specified in subparagraphs 1 and 2.

Article 4 (Criterion of Securing Practical Control)

"Securing de facto control" in Article 4 (1) 3 through 5 of the Act means any of the following cases:

1. Where it is possible, because of the largest shares in possession, to control the institution by the exercise of shareholders' rights in light of the diversification of shares;
2. Where involvement in appointment (including approval and recommendation) of the head of the institution or a majority of members of its board of directors is secured by the statutes or the articles of incorporation;
3. Where an authority to approve the budget or business plan of the institution is secured by the statutes or the articles of incorporation.

Article 5 (Self-Generating Revenue)

"Self-generating revenue" in Article 5 (2) and (3) 1 (a) of the Act means the aggregate of the following revenues, excluding the amount falling under subparagraph 1 of Article 3 from calculation of the following revenues:

1. Revenue from the business for its original purpose: The amount of revenue directly generated from the business specified in the Act that provides for the ground for the establishment of the relevant institution or its articles of incorporation, as calculated in accordance with the attached Table 2;
2. Revenue from other business: The amount of revenue generated from the business not specified in the Act that provides for the ground for the establishment of the relevant institution or its articles of incorporation, as

calculated in accordance with the attached Table 2;

3. Revenue from any sources other than business: The amount of incidental revenue accrued derivatively from the business specified in subparagraphs 1 and 2, such as interest income accrued from the momentary fund management, as calculated in accordance with the attached Table 2.

Article 6 (Method for Calculating Total Revenue, etc.) (1) The amount of total revenue under Articles 4 (1) 2 and 5 (2) and (3) 1 (a) of the Act, the amount of the Government grants under Article 4 (1) 2 of the Act, and the amount of self-generating revenue under Article 5 (2) and (3) 1 (a) of the Act (hereinafter referred to as "amount of total revenue, etc.") shall be the average amount for the latest three years, calculated based on the financial statements for the settlement of accounts for the latest three years.

(2) In calculating total revenue, etc. in accordance with paragraph (1), an institution of which financial statements have been prepared for less than three years shall calculate its total revenue, etc. utilizing the financial statements for the corresponding period of time, while an institution whose financial statements have not been prepared yet shall prepare data equivalent to those statements based on its budget for such calculation.

(3) The financial statements under paragraph (1) shall be basically the financial statements prepared on the basis of accruals: Provided, That an institution that does not prepare such statements in accordance with accruals shall prepare data equivalent to those statements for such calculation.

(4) The prescribed number of personnel in applying Article 5 (1) of the Act, Article 3 (2) of the Addenda to the Act, and Articles 21 and 22 of this Decree shall mean the prescribed number of personnel as of the end of the year immediately preceding the designation as a public institution or the appointment or removal of executive officers: Provided, That in cases of a public institution of which the prescribed number of personnel as of the end of the immediately preceding year does not exist due to reasons, such as being newly designated

as a public institution under the proviso to Article 6 (1) of the Act, it refers to the prescribed number on the day such reason arises.<Amended by Presidential Decree No. 22088, Mar. 26, 2010>

- (5) The asset size under Article 5 (3) 1 (a), the main sentences of the Article 18 (2) and (4), the main sentences of Article 20 (2) and (3), the proviso to Article 21 (2) of the Act, and Article 22 (1) 2 of this Decree shall be calculated based on the financial statements for the settlement of accounts for the latest year: Provided, That in cases of a public institution, financial statements of which are not prepared due to reasons, such as being newly designated as a public institution pursuant to the proviso to Article 6 (1) of the Act, the asset size shall be calculated based on the budget of the year in which such reason arises.<Amended by Presidential Decree No. 22088, Mar. 26, 2010>
- (6) The amount of total revenue under Articles 21 and 22 (1) 1 shall be calculated based on the financial statements for the settlement of accounts for the latest year: Provided, That in cases of a public institution, financial statements of which are not prepared due to reasons, such as being newly designated as a public institution under the proviso to Article 6 (1) of the Act, the amount of total revenue shall be calculated based on the budget of the year in which such reason arises.<Amended by Presidential Decree No. 22088, Mar. 26, 2010>
- (7) The Minister of Strategy and Finance may prepare specific guidelines for calculating total revenue, etc. to notify them to the administrative agencies that control the affairs of public corporations, quasi-governmental institutions, and non-classified public institutions under the relevant statutes (hereinafter referred to as "competent agencies").<Amended by Presidential Decree No. 20720, Feb. 29, 2008>

Article 7 (Criterion of Designation of Market-based Public Corporations)

"Criterion prescribed by Presidential Decree" in Article 5 (3) 1 (a) of the Act means 85/100.

Article 8 (Procedure for Designation of Public Institutions, etc.) (1) The head of the competent agency shall notify the Minister of Strategy and Finance of the institutions subject to designation of public institutions pursuant to Article 4 of the Act by no later than one month before the beginning of each fiscal year. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(2) If any change occurs in the legal personality, name, etc. of a public institution, or any reason arises for initial designation of or designation of a public institution by changing the classification or any reason for the cancellation of designation pursuant to the proviso to Article 6 (1) of the Act, the head of the competent agency shall notify the details thereof to the Minister of Strategy and Finance without delay.<Amended by Presidential Decree No. 22088, Mar. 26, 2010>

Article 9 (Examination on Establishment of New Institution)

Where the head of the competent agency requests the Minister of Strategy and Finance to examine the feasibility of the establishment of a new institution in accordance with Article 7 (1) of the Act, he/she shall submit a plan containing the following descriptions and materials:<Amended by Presidential Decree No. 20720, Feb. 29, 2008>

1. Scope and details of the business of the institution;
2. Services and goods that the new institution will provide;
3. Annual revenue expected and budget of the Government grants required for the next five years;
4. Plan for the operation of the organization and human resources for the next five years;
5. Current status of related institutions already established;
6. Other materials requested by the Minister of Strategy and Finance.

Article 10 (Matters Subject to Deliberation and Resolution by Steering Committee)

"Other matters prescribed by Presidential Decree concerning operation of

public institutions" in subparagraph 15 of Article 8 of the Act means the following matters:<Amended by Presidential Decree No. 28232, Aug. 9, 2017>

1. Matters concerning the items, guidelines, procedure, etc. for the consolidated publication under Article 16;
2. Matters concerning the scope of public institutions that provide direct services to the people under Article 17 (1);
3. Matters concerning the designation of the institutions exempt from the adjustment of function, etc. under Article 18 (2);
4. Matters concerning the request for evaluation of management performance under Article 27 (1);
5. Matters concerning the operation of the management evaluation team for public corporations and quasi-governmental institutions under Article 28 (4);
6. Matters concerning the determination on whether to consider as actual revenue under subparagraph 3 (c) of attached Table 1.

Article 11 (Composition of Steering Committee) (1) "Vice Minister, Deputy Administrator, or an equivalent public official of the related administrative agency as prescribed by Presidential Decree" in Article 9 (1) 2 of the Act means the following persons: <Amended by Presidential Decree No. 20720, Feb. 29, 2008; Act No. 24441, Mar. 23, 2013; Presidential Decree No. 25751, Nov. 19, 2014; Presidential Decree No. 28211, Jul. 26, 2017>

1. The Vice Minister of Strategy and Finance nominated by the Minister of Strategy and Finance;
2. The Vice Minister of the Interior and Safety;
3. One Vice Minister-level public official nominated by the Chairman of Anti-Corruption & Civil Rights Commission;
4. The Minister of Personnel Management.

(2) "People who have good knowledge and experience in the area of the operation and business administration of public institutions" in Article 9 (1) 4 of the Act

means any of the following persons:<Amended by Presidential Decree No. 20947, Jul. 29, 2008>

1. Persons who have 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;
 2. Persons who have a career as a judge, a prosecutor, or a lawyer for at least ten years;
 3. Persons who have a career of working for a public institution under the Act and this Decree or a stock-listed corporation under Article 9 (15) 3 of the Financial Investment Services and Capital Markets Act for at least twenty years and who have served as an executive officer for at least three years;
 4. Persons who have a career of engaging in the area of audit or accounting for the institutions listed in subparagraph 3 with a license of certified public accountant for at least ten years;
 5. Public officials in the Senior Civil Service Corps or persons who have served as a public official in political service;
 6. Other persons whose careers, etc. related to the operation of a public institution are recognized as equivalent to the criteria set forth in subparagraphs 1 through 5.
- (3) The Steering Committee may establish and run an advisory team composed of related specialists to give advices on specialized or technical matters relating to the operation of public institutions.

Article 12 (Operation of Steering Committee) (1) The chairperson shall convene and preside over the meetings of the Steering Committee.

- (2) If the chairperson is unable to perform his/her duties due to any unavoidable cause, a member designated by the chairperson shall act on behalf of the chairperson.<Amended by Presidential Decree No. 22088, Mar. 26, 2010>
- (3) The Steering Committee may request a public official concerned or an executive officer or an employee, etc. of a public institution to appear before the

committee, submit materials, and present his/her opinion whenever necessary for executing its business.

- (4) Allowances, travel expenses, and other necessary expenses may be reimbursed to the committee members, other than public officials, within the limit of its budget.
- (5) The chairperson shall send the materials related to the matters on the agenda brought up to the meeting of the Steering Committee, in advance, to the Chairperson of the Board of Audit and Inspection and the heads of related administrative agencies pursuant to Article 10 (3) of the Act.
- (6) Other matters necessary for the operation of the Steering Committee shall be prescribed by the chairperson after resolution by the Steering Committee.
- (7) The matters prescribed in paragraph (6) shall include the matters concerning the preparation and preservation of the minutes of meeting of the Steering Committee and the disclosure of the contents of the minutes of meeting under the Official Information Disclosure Act.

Article 13 (Exclusion, Challenge, and Abstention of Members of Steering

Committee) (1) A committee member shall be excluded from deliberation and resolution on any of the following matters:

1. A matter in which the member has direct interests;
 2. A matter in which the member's spouse, relative by blood within the fourth degree, or relative by marriage within the second degree, or an institution to which the member belongs has interests;
 3. A matter in which a person who acts as an advisor, a consultant, etc. for the member, or an institution to which the member belongs has interests.
- (2) A person who has direct interests in a matter subject to deliberation and resolution by the Steering Committee may file an application for challenge against a member, if there is any ground on which it is difficult to expect fairness in deliberation and resolution. In such cases, the chairperson shall decide whether to accept the application for challenge, without referring it to the Steering

Committee for resolution.

- (3) A committee member may voluntarily abstain from deliberation and resolution on a case, if he/she falls under any of the grounds set forth in paragraph (1) or (2).

Article 14 (Subcommittees) (1) The Steering Committee may have subcommittees composed of some of the committee members for carrying out its business affairs in an efficient manner.

- (2) The chairperson and members of a subcommittee shall be appointed by the chairperson of the Steering Committee.
- (3) The subcommittee shall review matters decided by a resolution of the Steering Committee, and shall report the results thereof to the Steering Committee.
- (4) Other matters necessary for the organization and operation of subcommittees shall be prescribed by the chairperson after resolution by the Steering Committee.

Article 15 (Publication on Management)

The publication on the matters specified in Article 11 (1) of the Act shall be made as follows:<Amended by Presidential Decree No. 22088, Mar. 26, 2010; Presidential Decree No. 27505, Sep. 22, 2016>

1. The publication on management shall be made by posting and furnishing the data for the latest five years concerning the matters subject to publication;
2. The statements on the settlement of accounts under Article 11 (1) 2 of the Act shall be posted and furnished within 90 days after the end of each business year;
3. Information about the matters under Article 11 (1) 1 and 3 through 15 of the Act shall be posted and furnished without delay whenever the relevant matter arises.

Article 16 (Consolidated Publication) (1) The Minister of Strategy and Finance shall prescribe the items subject to consolidated publication under Article 12 of the Act and the matters concerning the criteria and procedures therefor (hereinafter referred

to as "criteria, etc. for consolidated publication") after deliberation and resolution by the Steering Committee, and shall notify them to the heads of public institutions. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(2) In cases of revising the matters concerning the criteria, etc. for consolidated publication prescribed in accordance with paragraph (1), the Minister of Strategy and Finance shall finalize such revision after deliberation and resolution by the Steering Committee, and shall notify it to the heads of public institutions by no later than fourteen days before enforcing the criteria, etc. for consolidated publication as revised. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(3) The head of a public institution shall publish the operation information in accordance with the criteria, etc. for consolidated publication under paragraphs (1) and (2) on the Internet site designated by the Minister of Strategy and Finance. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

Article 17 (Customer Charter, etc.) (1) The Minister of Strategy and Finance shall determine the scope of public institutions that provide direct service to the people, after deliberation and resolution by the Steering Committee, and shall notify the heads of public institutions of such scope. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

(2) Upon establishing the customer charter under Article 13 (1) of the Act, every public institution shall announce it via the Internet, etc. or post it at a certain place to make it known to the people.

(3) The heads of public institutions may request an independent specialized institution to conduct a survey on customer satisfaction level under Article 13 (2) of the Act.

Article 18 (Adjustment, etc. of Functions of Public Institutions) (1) The Minister of Strategy and Finance may carry out adjustment of functions, etc. of public institutions under Article 14 of the Act step by step, considering the nature, peculiarities of business affairs, etc. of public institutions. <Amended by Presidential

Decree No. 20720, Feb. 29, 2008>

- (2) The Minister of Strategy and Finance may exclude any of the following public institutions from those subject to adjustment of functions, etc. under Article 14 of the Act after deliberation and resolution by the Steering Committee:<Amended by Presidential Decree No. 20720, Feb. 29, 2008>
1. An institution for which a relevant Act provides that it is necessary to guarantee independence from the Government and neutrality in executing the functions of the institution;
 2. An institution for which three years have not passed yet since its establishment;
 3. Other institutions for which the Steering Committee determines it not proper to be subjected to adjustment of functions, etc., considering the peculiarities of its business affairs, etc.
- (3) Where necessary for the smooth implementation of the plan under Article 14 (3) of the Act, the Minister of Strategy and Finance may, after consultation with the head of the competent agency and through deliberation and resolution by the Steering Committee, request the head of the competent agency to entrust the disposal of properties owned by the State and public institutions to the Korea Asset Management Corporation (hereinafter referred to as the “Korea Asset Management Corporation”) prescribed in the Act on the Efficient Disposal of Non-Performing Assets, etc. of Financial Companies and the Establishment of Korea Asset Management Corporation.<Newly Inserted by Presidential Decree No. 23024, Jul. 14, 2011; Presidential Decree No. 25279, Mar. 24, 2014>
- (4) When entrusting the disposal of owned properties pursuant to (3), the head of the competent agency shall enter into a commission contract with the Korea Asset Management Corporation that includes each of the following subparagraphs:<Newly Inserted by Presidential Decree No. 23024, Jul. 14, 2011>
1. The purpose of the entrustment;
 2. The cost and fee of the entrustment;
 3. Other matters necessary for execution of the entrustment.

Article 19 (Non-Standing Senior Director) (1) A non-standing senior director prescribed in Article 21 of the Act shall be appointed, from among persons who have good knowledge and experience in operation and business administration of public institution and good reputation of impartiality and fall under any subparagraph of Article 11 (2).

(2) A non-standing senior director may convene and preside over the non-standing directors' meeting to discuss the matters on the agenda of the directors' meeting and other matters concerning the operation of the institution.

(3) The head of a public corporation or a quasi-governmental institution shall help a non-standing senior director carry out the affairs set forth in paragraph (2) as necessary.

Article 20 (Explanation for Non-standing Director's Request for Audit, etc.) (1)

Where it is difficult to comply with the non-standing director's request for audit under Article 22 (2) of the Act due to extraordinary circumstances, the auditor or the audit committee shall explain such circumstances to the non-standing director, and shall report it to the board of directors.

(2) Where it is difficult to comply with the non-standing director's demand for data under Article 22 (3) of the Act due to extraordinary circumstances, the head of a public corporation or a quasi-governmental institution shall explain such circumstances to the non-standing director, and shall report it to the board of directors.

Article 21 (Appointment or Removal from Office of Executive Officers of Public Corporations)

"Public corporation, the size of which is below the criteria prescribed by Presidential Decree" in the provisos to Article 25 (1) and (4) of the Act means a public corporation whose total revenue under Article 2 is less than one hundred billion won or whose

prescribed number of personnel is less than five hundred persons.

Article 22 (Appointment or Removal from Office of Executive Officers of Quasi-

Governmental Institutions) (1) "Criteria prescribed by Presidential Decree" in the provisos to Article 26 (1) and (4) of the Act and "criteria prescribed by Presidential Decree" in the main sentences of Articles 24 (3) and 26 (3) of the Act means the following criteria, respectively: <Amended by Presidential Decree No. 22088, Mar. 26, 2010; Presidential Decree 27073, Mar. 31, 2016>

1. Commissioned service-type quasi-governmental institutions: Whose total revenue under Article 2 shall be no less than one hundred billion won and whose prescribed number of personnel shall be no less than five hundred persons;
 2. Fund operation-type quasi-governmental institutions: Whose asset size (including fund assets in commissioned operation) shall be no less than one trillion won and whose prescribed number of personnel shall be no less than five hundred persons.
- (2) "Quasi-governmental institution which is prescribed by Presidential Decree" in the main sentences of Articles 24 (3) and 26 (3) of the Act and the proviso to Article 26 (4) of the Act and "quasi-governmental institution which is specified by Presidential Decree" in the proviso to Article 26 (1) of the Act means any of the following institutions:<Amended by Presidential Decree No. 22088, Mar. 26, 2010; Presidential Decree 27073, Mar. 31, 2016>
1. Independence Hall of Korea under the Independence Hall of Korea Act;
 2. Korea Workers' Compensation and Welfare Service under the Industrial Accident Compensation Insurance Act;
 3. Korea Consumer Agency under the Framework Act on Consumers;
 4. Korea Housing Finance Corporation under the Korea Housing Finance Corporation Act;
 5. National Research Foundation of Korea under the National Research Foundation of Korea Act;
 6. Korea Student Aid Foundation under the Act on the Establishment, etc. of

Korea Student Aid Foundation;

7. The Korea International Cooperation Agency established under the Korea International Cooperation Agency Act.

Article 23 (Organization and Operation of Committee for Recommendation of

Executive Officers) (1) Where it is necessary to appoint a new executive officer due to expiration of an executive officer's term of office or any other reason, the board of directors of a public corporation or a quasi-governmental institution shall organize the Committee for Recommendation of Executive Officers provided for in Article 29 of the Act (hereinafter referred to as "Recommendation Committee") without delay.

(2) The number of members of the Recommendation Committee shall be determined by a resolution of the board of directors within the range between five and fifteen persons: Provided, That the number of the members may be two or three persons, if the number of non-standing directors as at the time of the organization of the Recommendation Committee is not more than two persons.<Amended by Presidential Decree No. 22088, Mar. 26, 2010>

(3) The members appointed by the board of directors under Article 29 (2) of the Act shall be chosen, from among persons with good knowledge and experience in the various areas of law, economy, press, academia, labor, etc.: Provided, That such members shall include one person who can represent the opinions of the members of the relevant public corporation or quasi-governmental institution.

(4) The Recommendation Committee shall adopt a resolution by the affirmative vote of a majority of its incumbent members.

(5) The Recommendation Committee may commission some of its works, including invitation and search of candidates for executive officers, to a specialized institution.

(6) Matters necessary for the operation of the Recommendation Committee, such as the organization of the Recommendation Committee, the system for exclusion, challenge, or abstention of a member, etc. and the appointment of

executive officers in addition to the matters prescribed by the Act or this Decree shall be provided for by the articles of incorporation or the bylaws of the public corporation or the quasi-governmental institution.

(7) Deleted. <by Presidential Decree No. 28232, Aug. 9, 2017>

Article 24 (Invitation of Candidates for Executive Officers) (1) When inviting candidates for executive officers publicly in accordance with Article 30 (4) of the Act, such invitation shall be publicly announced on the Internet homepage of the public corporation or the quasi-governmental institution and in one or more daily newspapers, and the period of time allowed for application shall be at least one week: Provided, That such period of time may be shortened with approval of the head of the competent agency, if there exist unavoidable circumstances for prompt appointment. <Amended by Presidential Decree No. 22088, Mar. 26, 2010; Presidential Decree No. 28232, Aug. 9, 2017>

(2) When publicly notifying the matters concerning the open invitation of candidates for executive officers under paragraph (1), a public corporation or a quasi-governmental institution shall request the competent agency, the Ministry of Strategy and Finance, and the Ministry of Personnel Management to post such invitation on their homepages.<Amended by Presidential Decree No. 20720, Feb. 29, 2008; Act No. 24441, Mar. 23, 2013; Presidential Decree No. 25751, Nov. 19, 2014>

Article 24-2 (Request for Re-recommendation of Candidates for Executive Officers)

An appointing authority or recommending authority for appointment of executive officers of a public corporation or a quasi-government institution referred to in Article 25 or 26 of the Act may make a request for the re-recommendation of candidates for executive officers to the Recommendation Committee, if the candidates for executive officers recommended by the Recommendation

Committee fall under the grounds for disqualifications under Article 34 (1) of the Act or are deemed noticeably inappropriate for the operation of a public corporation or a quasi-government institution.

[This Article Newly Inserted by Presidential Decree No. 22088, Mar. 26, 2010]

Article 25 (Restriction on Concurrent Offices of Executive Officers and Employees)

@Article 25 of the State Public Officials Service Regulations shall apply mutatis mutandis to the scope of business for profit referred to in Article 37 (3) of the Act.

Article 25-2 (Institutions, etc. to Establish Mid- and Long-Term Financial Management Plans)

(1) “Public corporations and quasi-governmental institutions under the categories prescribed by Presidential Decree” under Article 39-2 (1) 2 means any of the following public corporations and quasi-governmental institutions:

1. Public corporations and quasi-governmental institutions for which the provisions on compensation by the Government for their losses are prescribed by the Acts that set forth the grounds for the establishment of such public corporations and quasi-government institutions;
2. Public corporations and quasi-governmental institutions that the Minister of Strategy and Finance determines and publicly announces, based on the comprehensive consideration of the scale, cause, term, etc. of the encroachment of capital, from among public corporations and quasi-governmental institutions the amount of debt of which exceeds assets.

(2) When establishing a mid- and long-term financial management plan, the head of an institution falling under any of the subparagraphs under Article 39-2 (1) of the Act shall comply with the preparation method, etc. determined and publicly announced by the Minister of Strategy and Finance, in consideration of the following:

1. Matters relating to specific items that must be commonly included in the contents to be prepared;
2. Matters relating to standard setting, such as an assumption commonly applied to

various kinds of prospects, assessments, and analyses;

3. Matters necessary for maintaining objectivity of the contents to be prepared;
 4. Matters relating to contents that must be included in the financial management plan referred to in Article 39-2 (2) 3 of the Act and the liability management plan referred to in subparagraph 4 of the same Article.
- (3) Where necessary for establishing matters regarding the preparation method of the mid- and long-term financial management plan under (2), the Minister of Strategy and Finance may consult with the head of the competent agency.

[This Article Newly Inserted by Presidential Decree No. 24780, Oct. 2, 2013]

Article 25-3 (Preliminary Feasibility Study) (1) The head of a public corporation or quasi-governmental institution (hereafter referred to as “institution head” in this Article) shall apply for a preliminary feasibility study as provided for in the main sentence of Article 40 (3) of the Act to the Minister of Strategy and Finance, if he/she intends to compile a budget for any new investment project or capital investment that meets both of the following requirements:

1. The total required budget is 100 billion won or more;
 2. The sum of the amounts to be contributed by the State and the relevant institution is 50 billion won or more.
- (2) An institution head who applies for a preliminary feasibility study under paragraph (1) shall submit a business plan specifying the name, outline, necessity, etc. of the relevant project to the Minister of Strategy and Finance.
- (3) The Minister of Strategy and Finance who receives an application under paragraph (1) shall determine whether to conduct the preliminary feasibility study, after a consultation with relevant experts.
- (4) If an institution head wishes to obtain confirmation that any new investment project or capital investment meeting both requirements of subparagraphs of paragraph (1) is eligible for an exemption from a preliminary feasibility study under the proviso to Article 40 (3) of the Act, he/she shall submit to the Minister of Strategy and Finance a written requirement for confirmation of

exemption from a preliminary feasibility study that specifies the name, outline, necessity, etc. of the relevant project and the reason for exemption: Provided, That the institution head is also allowed to submit the requirement for confirmation of exemption from a preliminary feasibility study before obtaining the consent of the competent Standing Committee of the National Assembly under Article 40 (3) 5 of the Act, if he/she wishes to obtain confirmation from the Minister of Strategy and Finance that the relevant project needs to be urgently implemented to prevent a disaster.

- (5) If the Minister of Strategy and Finance who receives a written requirement for confirmation of exemption from a preliminary feasibility study under paragraph (4) confirms, after a consultation with relevant experts, that the relevant project corresponds to any subparagraph of Article 40 (3) of the Act, he/she shall inform the result to the institution head.
- (6) The Minister of Strategy and Finance shall prepare and inform to each institution head a guideline including selection criteria, agencies, methodologies, procedures, etc. for a preliminary feasibility study under Article 40 (3) of the Act.

[This Article Newly Inserted by Presidential Decree No. 27505, Sep. 22, 2016]

Article 26 (Submission of Statements on Settlement of Accounts) (1) Deleted.

<by Presidential Decree No. 23221, Oct. 14, 2011>

- (2) A quasi-governmental institution shall submit the final statements on the settlement of accounts to the Minister of Strategy and Finance within ten days after the statements are finalized in accordance with Article 43 (2) of the Act.<Amended by Presidential Decree No. 20720, Feb. 29, 2008>

Article 26-2 (Organization and Operation of Appointment Committee of Accounting Auditors) (1) Members of an appointment committee for accounting

auditors referred to in Article 43-2 (1) of the Act (excluding cases where audit committee is deemed an appointment committee for accounting auditors under the

same paragraph) shall be comprised of all auditors and non-standing directors of the relevant public corporation or quasi-government institution.

- (2) The chairperson of the appointment committee for accounting auditors shall be elected, from among the members who are non-standing directors of the relevant public corporation or quasi-government institution.
- (3) The chairperson shall convene and preside over the meetings of the appointment committee for accounting auditors.
- (4) Meetings of the appointment committee for accounting auditors shall be held with the attendance of more than 2/3 of the incumbent members and require the consent of a majority of the members present for resolution.
- (5) In addition to the matters specified in paragraphs (1) through (4), matters necessary for the operations, etc. of the appointment committee for accounting auditors shall be prescribed by the Minister of Strategy and Finance.

[This Article Newly Inserted by Presidential Decree No. 22088, Mar. 26, 2010]

Article 27 (Management Performance Evaluation) (1) The Minister of Strategy and Finance may commission the management performance evaluation of public corporations and quasi-governmental institutions to a specialized institution, after resolution by the Steering Committee, if deemed necessary. <Amended by Presidential Decree No. 20720, Feb. 29, 2008>

- (2) The Minister of Strategy and Finance shall prepare a manual for the management performance evaluation before the beginning of each fiscal year, taking into consideration the criteria and method for the management performance evaluation as well as the corrective measures, etc. according to the evaluation results, pursuant to Article 48 of the Act: Provided, That with respect to a public corporation or a quasi-governmental institution newly designated pursuant to Article 6 of the Act, the manual for the management performance evaluation shall be prepared within four months after such designation.<Amended by Presidential Decree No. 20720, Feb. 29, 2008;

Presidential Decree No. 23024, Jul. 14, 2011>

- (3) The Minister of Strategy and Finance may, after deliberation and resolution by the Steering Committee, take follow-up measures, such as making suggestions or demands concerning personnel or budgetary actions, or deciding on the piece rate. <Newly Inserted by Presidential Decree No. 23024, Jul. 14, 2011>

Article 28 (Organization and Operation of Management Evaluation Team for Public Corporations and Quasi-Governmental Institutions)

(1) The Minister of Strategy and Finance may occasionally organize and operate the management evaluation team for public corporations and quasi-governmental institutions (hereinafter referred to as "management evaluation team") pursuant to Article 48 (6) of the Act with the persons commissioned, from among the following persons: <Amended by Presidential Decree No. 20720, Feb. 29, 2008; Presidential Decree No. 23024, Jul. 14, 2011>

1. A professor of a college or a university who has expertise in operation and business administration of public institutions;
 2. A person working for a government-funded research institute with a doctor's degree or deemed to have an equivalent qualification;
 3. A certified public accountant, a lawyer, or a specialist in management consulting with an experience of practice for at least five years;
 4. A person recognized otherwise as having good expertise and experience in operation and business administration of public institutions.
- (2) The expenses required for the management evaluation team's performance of duties may be reimbursed within the limit of the budget.
 - (3) The management evaluation team shall be deemed to be dissolved when the missions assigned are completed.
 - (4) Matters necessary for the organization and operation of the management evaluation team in addition to the matters prescribed by this Decree shall be prescribed by the Minister of Strategy and Finance after resolution by the

Steering Committee.<Amended by Presidential Decree No. 20720, Feb. 29, 2008; Presidential Decree No. 22088, Mar. 26, 2010>

Article 29 (Monitoring Adequacy of Supervision)

The Minister of Strategy and Finance and the head of the competent agency may monitor the adequacy of the supervision over public corporations and quasi-governmental institutions and take measures for improvement step by step pursuant to Article 51 (4) of the Act, considering the nature, peculiarities of business affairs, etc. of such corporations and institutions.<Amended by Presidential Decree No. 20720, Feb. 29, 2008>

Article 29-2 (Prior Consultations on Funding or Investment) (1) “Specific cases prescribed by Presidential Decree” in the proviso to Article 51-2 (1) of the Act

means where a public corporation or quasi-governmental institution acquires any stake in another corporation in accordance with any of the following decisions, etc:

1. Where a public institution that provides financial services makes an investment in accordance with the following:
 - (a) A decision on authorization of rehabilitation plan under Article 242 of the Debtor Rehabilitation and Bankruptcy Act;
 - (b) A resolution of the Council on the adjustment of claims under Article 17 of the Corporate Restructuring Promotion Act;
 - (c) A resolution on the adjustment of claims of any council established for having discussions on credit risk assessment and restructuring plans for a company subject to financial restructuring among creditor banks with claims against said company;
 - (d) Investment in a special purpose company for providing a guarantee to said company under Article 28-3 of the Korea Technology Finance Corporation Act or Article 23-3 of the Credit Guarantee Fund Act;
 - (e) Guarantee-linked investment under Article 28-4 of the Korea Technology

- Finance Corporation Act or Article 23-4 of the Credit Guarantee Fund Act;
- (f) Financing to an insured financial company under Article 38 of the Depositor Protection Act;
 - (g) Providing public funds under the Special Act on the Management of Public Funds;
2. Where an investment is made through the deliberation and resolution of a meeting attended by persons in ministerial level positions or above, which serves as a de facto prior consultation with the head of the competent agency and the Minister of Strategy and Finance.
 - (2) If a deliberation and resolution by the board of directors of a public corporation or quasi-governmental institution is required to establish a funding or investment institution or to fund or invest in another corporation, a prior consultation under Article 51-2 of the Act shall be held before such deliberation and resolution of the board of directors.
 - (3) If a public corporation or quasi-governmental institution holds a prior consultation to establish a funding or investment institution or to fund or invest in another corporation under Article 51-2 of the Act, it shall submit a plan that includes the following information to the head of the competent agency and the Minister of Strategy and Finance:
 1. Objective of and necessity for the relevant funding or investment;
 2. Scope and content of business engaged in by the corporation subject to the relevant funding or investment;
 3. Amount of and time frame for the relevant funding or investment;
 4. Annual financial plans of the corporation subject to the relevant funding or investment over the last five years or more;
 5. Details of budget support, debt guarantees, loss compensation, etc. provided by the Government or a public institution to the corporation subject to the relevant funding or investment;
 6. Other data requested by the head of the competent agency and the Minister of

Strategy and Finance.

[This Article Newly Inserted by Presidential Decree No. 27505, Sep. 22, 2016]

Article 30 (Execution of Rights of Minority Shareholders, etc.)

"Securities market prescribed by Presidential Decree" in Article 54 of the Act means the securities market under Article 176-9 (1) of the Enforcement Decree of the Financial Investment Services and Capital Markets Act.

[This Article Newly Inserted by Presidential Decree No. 24697, Aug. 27, 2013]

Article 31 (Management of Personally Identifiable Information)

The Minister of Strategy and Finance, the heads of the competent agencies, the heads of public corporations, and the heads of quasi-governmental institutions may manage data containing resident registration numbers prescribed in subparagraph 1 of Article 19 of the Enforcement Decree of the Personal Information Protection Act, if it is inevitable to verify the grounds for disqualification of the executive officers of public corporations or quasi-governmental institutions as prescribed in Article 34 of the Act.

[This Article Newly Inserted by Presidential Decree No. 25532, Aug. 6, 2014]

ADDENDA <No. 20720, 29. Feb, 2008>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation. (Proviso Omitted.)

Articles 2 through 8 Omitted.

ADDENDA <No. 20947, 29. Jul, 2008>

Article 1 (Enforcement Date)

This Decree shall enter into force on February 4, 2009. (Proviso Omitted.)

Articles 2 through 28 Omitted.

ADDENDA <No. 22088, 26. Mar, 2010>

This Decree shall enter into force on March 30, 2010.

ADDENDA <No. 23024, 14. Jul, 2011>

This Decree shall enter into force on the date of its promulgation.

ADDENDA <No. 23221, 14. Oct, 2011>

Article 1 (Enforcement Date)

This Decree shall enter into force on October 15, 2011.

Article 2 Omitted.

ADDENDA <No. 24441, 23. Mar, 2013>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation.

Articles 2 through 5 Omitted.

ADDENDA <No. 24697, 27. Aug, 2013>

Article 1 (Enforcement Date)

This Decree shall enter into force on August 29, 2013. (Proviso Omitted.)

Articles 2 through 13 Omitted.

ADDENDA <No. 24780, 02. Oct, 2013>

This Decree shall enter into force on the date of its promulgation.

ADDENDA <No. 25279, 24. Mar, 2014>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation.

Articles 2 and 3 Omitted.

ADDENDA <No. 25532, 06. Aug, 2014>

This Decree shall enter into force on August 7, 2014.

ADDENDA <No. 25751, 19. Nov, 2014>

Article 1 (Enforcement Date)

This Decree shall enter into force on the date of its promulgation: Provided, That Presidential Decrees amended by Article 5 of the Addenda, which were promulgated before this Decree enters into force but the enforcement dates of which have not arrived yet, shall enter into force on the enforcement date of the respective Decrees.

Articles 2 through 5 Omitted.

ADDENDA <No. 27073, 31. Mar, 2016>

This Decree shall enter into force on the date of its promulgation.

ADDENDA <No. 27505, 22. Sep, 2016>

Article 1 (Enforcement Date)

This Decree shall enter into force on September 23, 2016.

Article 2 (Applicability to Preliminary Feasibility Study)

The amended provisions of Article 25-3 shall apply, beginning with the first application for a preliminary feasibility study made on or after the date this Decree enters into force.

ADDENDA <No. 28211, 26. Jul, 2017>

Article 1 (Enforcement Date)

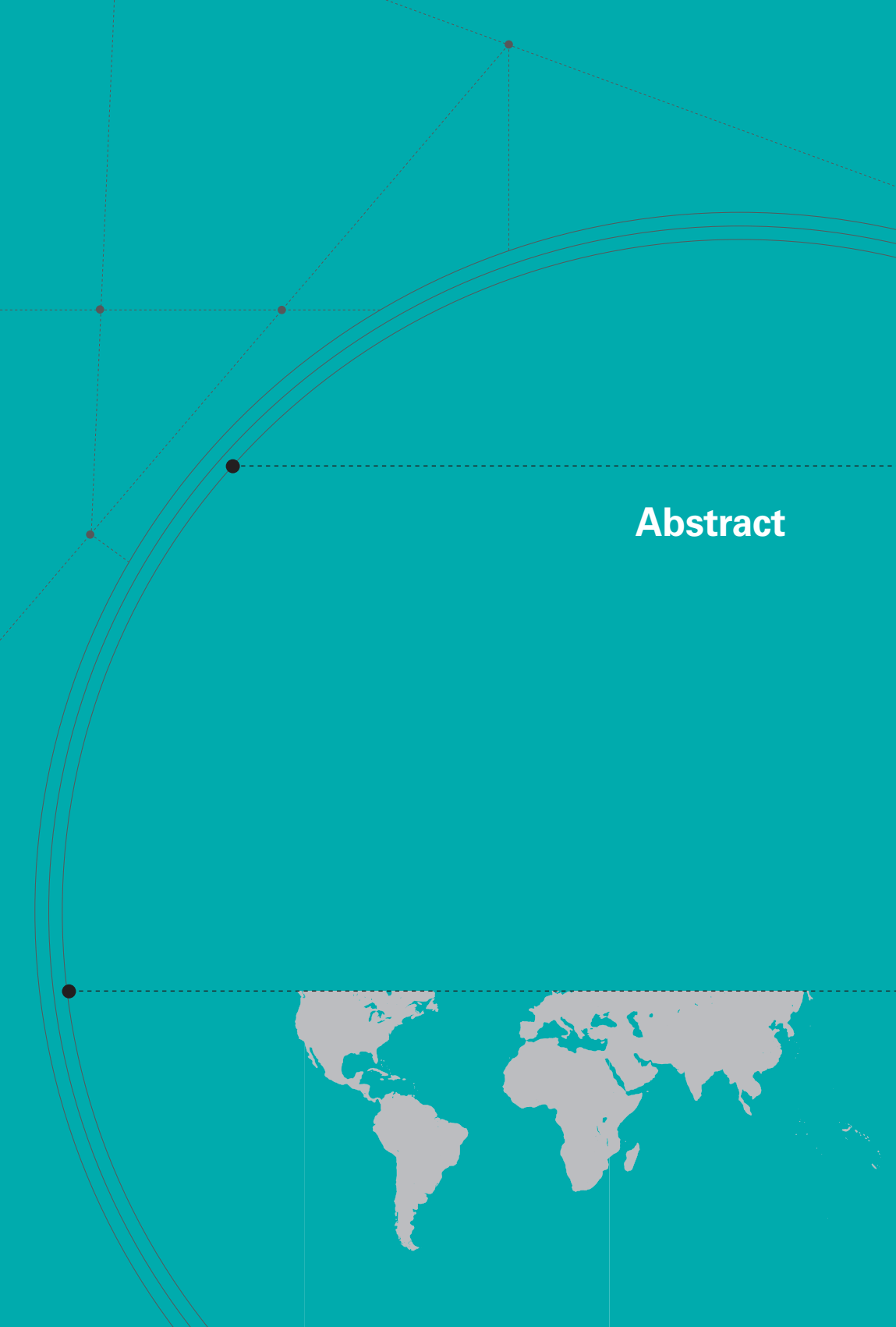
This Decree shall enter into force on the date of its promulgation: Provided, That Presidential Decrees amended by Article 8 of the Addenda, which were promulgated before this Decree enters into force but the enforcement dates of which have not arrived yet, shall enter into force on the enforcement date of the

respective Decrees.

Articles 2 through 8 Omitted.

ADDENDA <No. 28232, 09. Aug, 2017>

This Decree shall enter into force on the date of its promulgation.



Abstract

I. Introduction to SOEs and QGOs in Korea

State-owned enterprises and quasi-governmental organizations (SOEs and QGOs) are established and operated to provide public goods or services. They are systematic alternatives for providing public services, carrying out the business and commercial activities of the government, and intervening in production through regulations which are tools to resolve market and government failures. Basically, SOEs and QGOs are social institutions that exist as a corporate system subject to strong political and administrative control instead of market regulations. SOEs and QGOs are required to supply goods at low cost to allow more people to use those goods without difficulty. They are also permitted to seek profits; those who does are called market-type SOEs. SOEs and QGOs have basic roles to support the development of the national economy and to provide services for the people, which justifies the establishment and maintenance of SOEs and QGOs. Organizations that have relatively stronger public characteristics are classified as commissioned-service-type QGOs and they emphasize efficient budget execution over profit generation. The specific purposes of establishing SOEs and QGOs vary by organization and there may be differences in the levels of public and corporate interests that the organizations aim to realize. According to the UN's System of National Accounts (SNA), the public sector is divided into the general government sector and the SOE sector (nonfinancial and financial corporations). Although the classification for the institutional components of the public and private sectors are defined differently, the relative degree to which the given institutional unit serves the public interest and the degree of separation from the government are crucial criterias.

In theoretical classification, the central government public sector in Korea consists of government sector institutions (government organization), general government institutions (government sector and QGOs), and SOEs and QGOs (QGOs, corporate-type agencies, government enterprises, and SOEs). SOEs and QGOs, under the AMPI, can be divided into QGOs (commissioned-service-type and fund-management-type

QGOs), corporate-type agencies (special accounts organizations of executive agencies), government enterprises, and market-type and quasi-market-type SOEs. National SOEs are classified, broadly speaking, as government enterprises (corporate special accounts), corporate-type agencies (special accounts organizations of executive agencies and government enterprises), SOEs (market-type and quasi-market-type SOEs), and non-classified SOEs and QGOs. Meanwhile, from a narrower perspective, only market-type SOEs and quasi-market-type SOEs are included in the scope of national SOEs. Following the legal classification system, under the AMPI enacted on 1 April 2007, the Minister of the MOEF can designate any corporations, groups, or institutions that are not national or local governments as SOEs or QGOs if they meet certain requirements. In accordance with the law and through the deliberation of the SOE and QGO Management Committee, there are 35 SOEs as of 2018: 15 market-type and 20 quasi-market-type SOEs (five institutions newly designated in 2017).

SOEs and QGOs serve to overcome the operational limitations of existing government organizations and supplement them. SOEs and QGOs also carry out executive tasks for which the government is responsible. In the 20th century, the establishment and intervention of SOEs and QGOs increased significantly, which is closely related to financial crises. The OECD (2005) explained that the roles of SOEs and QGOs are 1) policy response for certain industries, 2) economic development, and 3) general fiscal policy. Recently, they have taken a more active and broader role, demanding greater social responsibility on the part of SOEs and QGOs. According to the MOEF (2011), SOEs and QGOs in Korea have played the following roles: 1) promoting economic development by supplementing private capital and advancing into areas where private corporations lack of experience and the high risk involved, 2) carrying out monopolistic business, 3) forming social overhead capital (SOC), 4) effectively and promptly meeting the various demands of the public, and 5) meeting the demands of national finance. Yoon (2012) stated that the roles of SOEs and QGOs can be roughly classified as developing infrastructural industries and directly supporting people's daily lives.

II. Evolution of the management system

While the Korean government has used SOEs and QGOs as key policy instruments for the implementation of government-led economic development strategies, the government has continued to reform the governance and management system of SOEs and QGOs in order to resolve structural issues in the public sector, such as inefficient management.

The SOE and QGO management system has evolved from a direct, ex ante control and management system into a more indirect and ex post management system maintaining a focus on securing the public interest. The developmental process of the SOE and QGO management system can be largely divided into five stages according to the changes in related laws and institutions.

The first stage (1948–1962) was a period in which the government had only loosen control over government-invested institutions. During this time, there were no laws related to the control of government-invested institutions other than the establishment laws for each organization. Therefore, control over government-invested institutions was left to the relevant ministries, and there was no systemic central control by the financial authorities. Moreover, there was no centralized purchasing system.

The second stage can be called the formation stage (1962–1984) during which the Act on the Budget and Accounts of Government-Invested Institutions and the AMGII were in effect. One key feature of this stage is a diversified management system for government-invested institutions in which the central budget agency and ministries in charge of each function participated in the management of government-invested institutions.

The third stage began in March 1984, when the Framework Act on the Management of Government-Invested Institutions (FAMGII) was implemented. This framework act replaced the Act on the Budget and Accounts of Government-Invested Institutions and the Act on the Management of Government-Invested

Institutions. The act improved the previous non-systematic management of institutions and was accompanied by other reform programs based on government policies, such as privatization and the elimination of the fiscal deficit. Unlike in the past when government-invested institutions were under the direct control of and subject to bureaucratic intervention by the relevant ministries, the framework act aimed to provide autonomy and flexibility in project management by allowing government-invested institutions to pursue their original goals and make decisions on budgeting, personnel, and material procurement autonomously. Moreover, the act employed an indirect management method by evaluating performance afterward in order to guarantee accountable management.

The fourth stage is the stage of SOE governance reform, during which the FAMGII was revised numerous times. The reason for this revision was that the law contained regulations about government control that hindered the autonomy of government-invested institutions. The most significant change brought about by the revision of the framework act was the drastic overhaul of the board of director system and executive officer appointment procedure. The non-standing director system was changed to a system of executive and non-standing directors. Standing directors were appointed and dismissed by the ministers of the relevant ministries at the recommendation of the CEOs of the institutions.

The most significant difference between the fourth stage and the preceding stages is the division of the evaluation of the management of government-invested institutions into the evaluation of the institution and the evaluation of the CEO. Evaluations of the CEOs of government-invested institutions involve the assessment of the overall management capabilities of the CEOs and the quality of the goal indicators based on the management goals stated in the CEO management contracts, which are signed by the representatives of non-standing directors or the chairmen of the Committee for Recommendation of Executive Officers and the CEOs themselves. Based on the evaluation results, the bonuses for the following year were paid differentially.

The recent reform stage can be characterized by the implementation of the AMPI

on 1 April 2007. The key point of the reform plan for the governance structure of SOEs and QGOs established by the AMPI is the “eradication of careless management and moral laxity through the fundamental reform of the SOE and QGO management system”, along with “practical support for the autonomous and accountable management system”. Since overcoming the Asian financial crisis in 1997, Korea has continuously promoted the management reform of SOEs and QGOs. Reforms with a focus on the privatization and restructuring of SOEs were prioritized, and the improvement of the operation system was promoted simultaneously, leading to the introduction of the retirement allowance system, welfare system, annual salary system, and team system. During this stage, the heads of SOEs and QGOs were granted autonomy over the management of personnel and budgets in order to strengthen the accountable management system. In addition, the management oversight of the Steering Committee for SOEs and QGOs was centered on goal setting and follow-up evaluation. Only the minimum guidelines were provided for management, which involved budgeting, personnel, wages, and financial management.

III. Internal and external governance structure and its current operation

1. Importance of the governance structure

Public entities are not clearly defined in terms of their property rights and ownership. Due to these proprietary constraints of SOEs and QGOs, supervisors or managers of SOEs and QGOs lack the motivation and norms to increase property values and maintain and manage them appropriately. The relationship between the government and SOEs and QGOs is in fact based on the premise of ownership governance. The difference is in the clarity of property rights and property entities. Private companies have clear definitions of property rights and property entities than that of SOEs and QGOs. The governance structure of SOEs and QGOs is a

problem of the level of governance, which is concerned to the management decision-making and the control of SOEs and QGOs.

2. Reform of the governance structure of SOEs and QGOs based on the AMPI

From 2004, the Roh Moo-Hyun administration began fundamentally restructuring its SOE and QGO management system to eradicate problems such as reckless or lax management and moral hazards in order to substantively support the implementation of a self-management system for SOEs and QGOs. Since 2005, performance evaluations for government-affiliated institutions and government-invested institutions have been conducted. AMPI after two years of preparation, enacted on 1 April 2007, brought a paradigm shift in the governance structure and management system of SOEs and QGOs in Korea. The FAMGII includes not only the governance structure of government-invested institutions subject to this act, but also the regulations on operating systems such as budget management, disclosure, and purchase and construction contracts. The ‘Act on the Improvement of the Managerial Structure and Privatization of Public Enterprises’ prescribes the governance structure of government-funded institutions under this act. The ‘Act on the Establishment, Operation, and Fostering of Government-Funded Research Institutes’ prescribes the governance structure and supervisory system of government-funded research institutes under the authority of the Prime Minister. The AMPI is continually revised, and institutional arrangements for SOE and QGO governance have continued to expand or have been modified.

3. Operation of the external governance

The MOEF designates SOEs and QGOs every January in accordance with the AMPI and classifies the types of institutions. The Ownership Steering Committee is established under the MOEF. The Ownership Steering Committee deliberates and resolves matters concerning SOE and QGO designation, SOE and QGO

advancement policy, the appointment of SOE and QGO executives, and the supervision of SOEs and QGOs.

SOEs and QGOs have to disclose their management goals and financial statements through their website and provide or display necessary materials in their offices or facilities. The MOEF has a separate standardized major disclosure system via a public information management system (ALIO; www.alio.go.kr).

The macro-governance and control activities of the government in terms of SOEs and QGOs are carried out through the Ownership Steering Committee and the performance evaluation system. Regarding micromanagement activities, the MOEF and the competent ministry conduct regulation, management, and supervision activities through an administrative process.

SOEs and QGOs should follow regulations on human resource management, budget management, price, and profit management. These are controlled through the investigation of state affairs and the public inspection of SOEs and QGOs, thereby providing the National Assembly with a control system through which reports are submitted, such as the results of the management of SOEs and QGOs, performance evaluations, and audit results.

4. Operation of the internal governance

The executives of SOEs and QGOs are divided into directors and auditors, and the directors are divided into standing and nonexecutive directors. The auditor of a SOEs and QGOs is recommended by the executive Committee for Recommendation of Executive Officers, and after the deliberation of the Ownership Steering Committee, it is proposed by the Minister of Strategy and Finance and approved by the president. The auditor of QGOs is designated by presidential decree in consideration of the specificity of the contents of the work or the institutional size, which is more than the standard prescribed by presidential decree.

The board of directors is the highest decision-making body that has authority

to review major management strategies and objectives of SOEs and QGOs and to supervise overall management. The CEOs of SOEs and QGOs should periodically report to the board members in the meeting about the management status of the organization and sufficiently provide the data necessary for review of the agenda.

A non-standing director may, if deemed necessary, request an auditor or audit committee for the audit of a specific matter in connection with the operation of SOEs and QGOs with the signatures of two or more non-standing directors. Non-standing directors may request the CEO to compile the necessary data for the performance of his or her duties as a director.

SOEs and QGOs must establish an auditor or audit committee in accordance with the law on the operation of SOEs and QGOs. The auditor or audit committee audits business and accounting according to the audit standards set by the MOEF. A member of the audit committee must fulfill his or her duty of care as a good manager. The auditor or audit committee member shall establish an annual audit plan, notify the chief executive officer (CEO) of the audit results, and report to the board. The auditor or audit committee member shall prepare the annual audit report within two months after the end of each fiscal year and report it to the head of the board of directors, the competent authority, and the Minister of the MOEF.

IV. Current SOE and QGO management system and its operation

1. Pre-feasibility test system for establishing a new SOE and QGO

The system was introduced to prevent the imprudent expansion of the public sector by having the Steering Committee on SOEs and QGOs review the feasibility, scale, and the need for and effect of financial support for new SOEs and QGOs. The main review criteria for the screening of new institutions can be considered in three general categories: the necessity and effectiveness of projects carried out by

new institutions, the adequacy of the project implementer, and the adequacy of the financing plan. The head of the competent authority should request the Minister of the MOEF to review the feasibility of the institution before hearing the legislation. The Minister of the MOEF should review the proposed institutional plan after deliberation and approval by the Steering Committee on SOEs and QGOs and notify the head of the relevant institution of the outcome.

2. Functional adequacy test system

The SOEs and QGOs functional adequacy examination system has been derived to check and improve the social appropriateness of SOEs and QGOs. By eliminating, transferring, and integrating redundant and unnecessary functions, the SOEs and QGOs is reorganized into core functions and necessary personnel. The law obliges SOEs and QGOs to review their functional adequacy and to implement restructuring. The main checkpoints for SOEs and QGOs functional adequacy are as follows. First, it examines the necessity of existing institution functions or businesses and judges whether the necessity has been lost due to changes in socioeconomic conditions and the demand structure of SOEs and QGOs. Second, it examines the necessity of transfer to a local SOE or local government and examines whether it is efficient to transfer to the local government rather than to perform the function in the central SOEs and QGOs. Third, it is necessary to determine whether it is essential for the public sector to be responsible for the current function by examining the necessity for competition introduction and then deciding whether to privatize through market testing. Fourth, it is essential to review the need for functional reorganization (reduction, enlargement, and transfer) to determine if the function is too large or too small to carry out within the SOEs and QGOs' capacity. The Minister of the MOEF, in consultation with the head of the competent authority, selects the object of functional adequacy examination and prepares the implementation plan after deliberation and approval by the Steering Committee on SOEs and QGOs. The

separate ministry should pursue function restructuring, privatization, and merger and consolidation according to the function adjustment plan and submit the resulting report to the MOEF, which will analyze the report and confirm the execution status.

3. Organization and personnel management system

1) Organization management system

The basic principles of SOEs and QGOs organization and quota management are set out in the Guidelines on the Management of SOEs and QGOs of the MOEF. The establishment and operation of the investment agency is stipulated in Article 4 of the guidelines. SOEs and QGOs should enter into an arrangement on equity investments and contributions that requires prior consultation. SOEs and QGOs should decide whether to invest after deliberation and approval by the board of directors. SOEs and QGOs should decide after deliberation and resolution by the board of directors if they intend to conduct internal transactions with their subsidiaries that constitute "large internal transactions". If a retired employee of an SOE or QGO seeks employment in an applicant's office, a screening committee should be organized and the decision should be made by outside personnel. SOEs and QGOs should strive to improve the performance of their agencies and prepare internal guidelines that define their management tasks. SOEs and QGOs should report the performance and status of the investment institution to the heads of the relevant agencies and the Minister of Planning and Finance by the end of April every year to prevent improvement.

With regard to external entrusted services of SOEs and QGOs, the following is stipulated. In the case of entrusting the function or work of an institution to an external agency, SOEs and QGOs should carry out a thorough preliminary analysis on the content, level of the entrusted work, the existing performance level, and the required budget. In principle, the selection of entrusted institutions for external projects under these regulations complies with general competition through public offering. The entrusted agency of the subcontracting business should prevent

problems such as service interruption by screening the entrusted agency's ability to perform work, acceptance stance, labor relations, financial structure, and the level of treatment for the workforce. Each institution should, in principle, specify performance indicators, such as improved service levels.

2) Personnel management system

The basic principles for personnel management in SOEs and QGOs are stipulated. Employees should be treated fairly and transparently in accordance with laws, articles of organization, and self-regulation. Establish and operate a performance management system that objectively measures the performance of executives and make efforts to establish an accountable management system. Efforts should be made to utilize personnel equitably in terms of merit, persons with disabilities, women, local talent, and science and engineering majors. Efforts should be made to operate diverse educational programs and secure training and education budgets in order to enhance employee performance and self-development opportunities. The salary peak system of SOEs and QGOs is specified. The salary peak system operates for all employees of SOEs and QGOs. SOEs and QGOs should actively create youth jobs through the wage peak system and set new hire recruitment goals each year. The number of new hires related to the salary peak system that is set every year will be reflected in a separate quota.

In order to enhance the professionalism of SOEs and QGOs, they operate an open-type contract worker system and a professional position system. The open-type position system is a system that opens a certain percentage of positions as headquarters positions to the private sector for the purpose of enhancing competitiveness through strengthening professionalism.

The personnel management of SOEs and QGOs is stipulated. The board of SOEs and QGOs should establish regulations for the Committee on Executive Recommendation on how to organize the executive Committee for Recommendation of Executive Officers, criteria for candidate examination, and recommendation

procedures for the purpose of selecting objective and fair officers. The board of directors of SOEs and QGOs should, when establishing the examination criteria for candidates, prevent a person falling under listed criteria from being selected as a candidate for nonexecutive officer.

4. Budget management and accounting system

The guidelines for the budgeting of SOEs and QGOs in FY 2018 were distributed to SOEs and QGOs by the MOEF in December 2017. The basic direction of the guidelines is the realization of the social value of public agencies, improvement of publicness, contribution to the growth of innovation through sustainable efforts to improve the efficiency of employment, improvement of management efficiency, and expanding investment. SOEs and QGOs strive to fulfill the social value of SOEs and QGOs and improve publicness through activities such as coexistence and cooperation among large and small enterprises, revitalization of regional economies, building a safe and healthy community, and creating jobs.

First, SOEs and QGOs should actively strive to create youth employment by promoting the conversion of irregular and indirect contracts to regular jobs based on an employment roadmap and new recruitment goals based on a wage peak system. Also, SOEs and QGOs should establish a recruitment system based on job functions and continue to promote socially equitable recruitment for high school graduates and local college graduates. Furthermore, SOEs and QGOs should strive to build a fair and transparent recruitment and personnel system for eradicating employment injustice.

Second, SOEs and QGOs should make efforts to create jobs by converting irregular jobs to regular jobs. For that, SOEs and QGOs should establish a reasonable remuneration system for workers changing from irregular to regular contracts so that the workers can receive appropriate levels of treatment without unreasonable discrimination. Additionally, SOEs and QGOs should promote various forms of work sharing, such as a reduction of the gap between the fixed number of employees and the present number of employees, adopting a flexible work system, and instituting a changing shift system. SOEs and

QGOs should also strive to create new jobs in the private sector through cooperation and delegation by supporting and strengthening the competitiveness of private contractors through efforts to improve treatment for them.

Finally, SOEs and QGOs should contribute to innovative growth through the expansion of investment and continue efforts to improve management efficiency. To provide public services efficiently with high quality, SOEs and QGOs should continuously promote the improvement of the rational remuneration system by considering the characteristics of each agency through an agreement between labor and management. They should strive to manage fiscal stability at the appropriate level by organizing the budget so that it can achieve the debt ratio described in the medium- to long-term financial management plan. Also, SOEs and QGOs should make efforts to improve management efficiency by abolishing or reducing projects that do not require direct enforcement by the institution and consolidating similar or overlapping businesses. And they should continue to try to prevent ineffective business management by managing the company benefit system and suppressing unnecessary expenses.

SOEs and QGOs contribute to innovative growth by expanding investment for essential public services and the core businesses of the institutions. They preferentially invest reduced financial resources gained from efforts towards management efficiency for economic revitalization. Furthermore, SOEs and QGOs should actively discover private investment funds, such as joint ventures, and promote business projects.

5. The financial management system

The government announced measures on the normalization of SOEs and QGOs; the reduction of debt and the elimination of inefficient management in SOEs and QGOs in December 2013. As part of that, the government ordered SOEs and QGOs to submit a debt reduction plan for more intense debt management. Thirty-nine institutions with responsibilities on the submission of the medium- to long-term financial management plan were subject to the submission of a debt reduction plan. They prepared the debt reduction plan by selling noncore assets, readjusting projects, and/or improving management

efficiency. In particular, 12 institutions with large debt and a high debt increase rate in the past five years were designated as targets of intensive debt management, and the government required them to submit an intensive debt reduction plan to the MOEF after consultation with the related department.

The main goal of the debt reduction plan announced by the MOEF was to reduce the debt ratio of SOEs and QGOs to 200% by 2017. This represented the government's desire to restore the financial status of SOEs and QGOs to the level of regular private companies that could issue bonds (above credit rating BBB level). In 2015, while maintaining the trend of debt reduction in 2014, the government decided to formulate a medium- to long-term financial management plan reflecting actual results in 2014 and changes in conditions so far. The target organizations subject to the submission of a debt reduction plan were 39 SOEs, the same as the 2014 settlement standards.

6. Customer satisfaction survey system

1) Historical overview

In 1999, the Ministry of Planning and Budget conducted a survey of customer service satisfaction for SOEs and created a competitive environment among SOEs to maximize customer satisfaction level. In 2004, the new FAMGAI was enacted, reflecting the results of SOEs and QGOs independently developed by the Ministry of Planning and Budget under the relevant regulations of the act and separate from the Public Service Customer Satisfaction Index (PCSI). In 2005, the customer satisfaction survey was expanded to all SOEs and QGOs. Meanwhile, in 2011, the average customer satisfaction score of SOEs and QGOs exceeded 90 points on average. The MOEF newly created various management evaluation indexes to evaluate activities relating to social values in SOEs and QGOs through the 2018 Management Evaluation Manual.

2) Operating methods and its contribution

In order to ensure the validity, reliability, and fairness of the results of customer satisfaction surveys for SOEs and QGOs, a customer satisfaction survey model suitable for the characteristics of SOEs and QGOs should be developed. Since 1999, Korea's survey model for customer satisfaction with SOEs and QGOs has changed from NCSI (1999–2006) to PCSI (2004–2014) to PCSI 2.0. The PCSI 2.0 model reformed the measuring item system of the model while maintaining the basic theoretical and structural framework of the PCSI model. This improved the model to enhance the validity, practicality, and general availability of customer satisfaction surveys and management.

The results of the customer satisfaction survey are reflected in the performance evaluation of SOEs and QGOs. In addition, the results of the customer satisfaction survey are disclosed to the public through ALIO, a management information system for SOEs and QGOs, as a mandatory management disclosure information. The customer satisfaction score for SOEs, which was first measured in 1999, rose to 92.6 in 2017. In addition, QGOs saw their customer satisfaction score rise to 87.3 in 2017, although the customer satisfaction score was only 72.5 points when the survey was first conducted in 2004.

7. Integrity measurement and assessment of anti-corruption policies

1) Introduction

In order to promote the fulfillment of these responsibilities of SOEs and QGOs, the ACRC started measuring integrity and the degree of anti-corruption from the year of 2002. The target SOEs and QGOs are organizations belonging to central government ministries, local governments and local assemblies, education offices, public medical service organizations, and public universities listed on the 'Act on Anti-Corruption and the Establishment and Operation' of the ACRC.

2) Integrity measurement system

The measurement result on the integrity level of each section in an organization, which can influence the result of the level of integrity of the whole organization, can help to identify an organization's urgent section and vulnerable tasks. Public disclosure of the integrity level allows SOEs and QGOs to autonomously promote integrity.

The integrity measurement model consists of five measurement areas and is commonly applied to central government agencies, local governments, education offices, and public service organizations. The total integrity level reflects the cumulative results of the integrity measurement model derived from five measurement factors from the survey of external integrity, internal integrity, policy customer evaluation (weighted sum), the incidence of corruption events (deduction), and the degree of reliability impairment (deduction). It is a comprehensive indicator that shows the degree of integrity and the occurrence of corruption cases evaluated in terms of the public (civil complainants), affiliated agency employees, and policy clients.

The results of integrity measurement and scores are disclosed on the website of the ACRC. The results of the integrity measurement of SOEs and QGOs are utilized, and feedback is given to SOEs and QGOs, the ACRC, and the management bodies of the SOEs and QGOs. The results of the integrity measurement of SOEs and QGOs are used as basic information for the establishment and implementation of autonomous anti-corruption strategies for SOEs and QGOs. The ACRC has established measures and recommendations for the prevention of corruption by public authorities under the Act on Anti-Corruption and the Establishment and Operation of the ACRC and the Establishment and Management of the ACRC. The result of the integrity measurement is used for the evaluation of SOEs and QGOs by the central government that manages the measured organizations.

3) Anti-corruption policy evaluation

Target organizations for corruption prevention policies are selected in the same

way as in the integrity measurement system; namely, these are central administrative agencies, local governments, educational self-governing bodies, public-interest-related organizations, public medical institutions, and national and public universities. The ACRC has constructed an evaluation model for anti-corruption policies in the form of an evaluation index system. First, the evaluation model for anti-corruption policies is divided into three evaluation sections according to the step-by-step process of "plan–execution–performance–diffusion". This involves the establishment of an integrity ecosystem, the elimination of corruption risk, the establishment of an integrity culture, the improvement of integrity, and the development and dissemination of anti-corruption cases.

The results of the evaluation of anti-corruption policies are utilized by the central government agencies that manage each SOE and QGO, the ACRC, and SOEs and QGOs. When the ACRC publishes the evaluation results of the anti-corruption policies, each organization should disclose the results of the policy evaluation for at least one month through the relevant website within 14 days. Through these processes, each SOE and QGO can actively utilize and implement anti-corruption policies as a means to improve the integrity of the institution. The ACRC provides incentives such as awards to outstanding organizations and persons identified according to the evaluation results on polices to prevent corruption. And the ACRC sponsors activities like developing anti-corruption countermeasure cases and providing information through the homepage of the committee. The MOEF uses the results of anti-corruption policy evaluation as reference materials in the evaluation of SOE and QGO performance.

8. Innovation of the SOE and QGO management

1) Legal basis of management innovation

AMPI Article 15 (1) of the act stipulates that SOE and QGO management innovation should promote continuous management innovation to improve management efficiency

and to improve public service quality. The Guidelines on SOE and QGO Management Innovation provide directions for innovation in almost all areas of SOE and QGO management. The guidelines suggest some principles and cases for organization and human resources management, budget and personnel operations, innovation support system management, customer satisfaction, public and social responsibility, transparent and ethical management, welfare system reform, and performance disclosure.

2) Historical overview of the management innovation

From 1998 to 2002, the Kim Dae-Jung administration's SOE and QGO management innovation focused on enhancing management efficiency by introducing market mechanisms. From 2003 to 2007, the Roh Moo-Hyun administration's SOE and QGO management innovation can be summarized as strengthening the accountable management of SOEs and QGOs and promoting innovation in working methods. From 2008 to 2012, the management innovation of SOEs and QGOs under the Lee Myung-Bak administration was based on the introduction of market-oriented measures pursuing “small government, big market” and the enhancement of management efficiency. From 2013 to 2017, the basis of the management innovation of SOEs and QGOs under the Park Geun-Hye administration focused on debt reduction and reckless management in improving management efficiency.

3) Current direction of management innovation

The Moon Jae-In administration suggests the basic direction of SOE and QGO innovation as “restoring publicness” and “strengthening social responsibility”. First, publicness should be strengthened. Second, the transition of the economic paradigm is essential. The third factor is the restoration of public confidence. All innovation planning organizations should establish an innovation plan covering the seven major tasks with details being developed and established autonomously and creatively by the institution. The line ministries of SOEs and QGOs should periodically and

continuously monitor the status of implementation for the innovation plans in each institution, and the MOEF is responsible for checking and evaluating the innovation plans and achievements through a performance evaluation.

In the SOE and QGO performance evaluation in 2018, the management innovation of SOEs and QGOs is covered under the "management strategy and social contribution" index in the field of management of organization. Specifically, it is composed of non-quantifiable indicators for "institutional management innovation", which is allocated three points.

V. Performance evaluation system: Evolution and current operation

1. Objective of the system

The aim of the performance management system of public agencies is to ensure accountability of public agencies, including SOEs and QGOs, while maintaining their management autonomy. It is also to ensure accountability and responsibility through performance evaluation to reduce unnecessary interference in management. Based on the FAMGAI, SOEs and QGOs are evaluated annually on their performance according to criteria set up beforehand. Following the outcomes of performance evaluation, the executives and employees of public agencies are given incentives or penalties so that public agencies can effectively perform feedback related to the outcomes of performance evaluations with their management.

The essential roles of the performance management system for public agencies are to ensure autonomy of management and to raise the levels of efficiency and transparency by making public agencies accountable and responsible for their performance. The following are the roles and functions of performance management.

First, the performance management system can establish a clear relationship between the government and public agencies through performance agreements. Based

on performance agreements, public agencies can make clear their role and functions so that the government cannot interfere with their work on an arbitrary basis.

Secondly, it encourages creativity and entrepreneurship with public agencies. Creativity and entrepreneurship are the most important internal characteristics of public agencies determining their performance. In order to encourage creativity and entrepreneurship it is essential to give autonomy of management to public agencies, including SOEs and QGOs. Following such rationale, the performance management system is intended to give autonomy *ex ante* to public agencies and hold them accountable for outcomes *ex post* so that public agencies can improve their performance and produce outcomes contributing to the national economy.

Thirdly, it provides CEOs of public agencies with motivation to improve performance through evaluation and feedback. The performance management system can also encourage members of organizations to achieve their performance targets.

Fourthly, it prevents moral hazard and principal–agency problems in public agencies by setting up performance targets beforehand and providing incentives according to the outcomes of performance evaluations afterwards.

Fifthly, it brings about competition among public agencies, with which they would otherwise not be faced. Public agencies are not exposed to market competition or internal competition because of the monopolistic nature of their work. The performance management system introduces various institutional features that bring competition to public agencies. Such competition could enhance creativity and entrepreneurship in public agencies.

Sixthly, it constitutes a vital component of the management cycle in the form of feedback and encourages improvement in public agency performance. During the process of performance evaluation, one can identify critical issues of management, which will be addressed later. Public agencies can also learn from the best practices of other public agencies. Executives of public agencies can improve their management by identifying weaknesses as well as strengths and will then incorporate them in setting up future targets for their organizations.

Last, the performance management system enhances transparency in public agencies. The results of the performance evaluation are reported to the National Assembly and the general public through the media.

2. Institutionalization

The present system of performance management originated from the introduction of performance evaluation in public agencies funded by the government in 1984, which aimed to enhance their management autonomy and accountability based on the FAMGAI. As the FAMGAI under the government was introduced in 2003, a new performance management system was introduced to cover public agencies under the government in 2004. The new system largely followed the previous system, but also introduced new features such as evaluation commission. It is also worth noting that a separate performance agreement system was introduced in 2000 to evaluate CEO performance in public agencies under the government. It aimed to improve corporate governance in public agencies.

In April 2007, two different systems for the performance evaluation of public agencies were integrated into the performance management system of public agencies based on the AMPI. Through the introduction of the law, the evaluation systems for SOEs, which provide services to the public on a commercial basis, and QGOs, which perform various public functions, were integrated into one system. From 2008, criteria for evaluations and the method of evaluation were set up and implemented under the new system. From 2009, evaluations of the CEOs of public agencies were carried out separately, which continued until 2011.

Criticisms arose on the Malcom Baldrige model, which provided a rationale for evaluation by encouraging formalism and emphasizing process rather than results. In order to overcome such shortcomings, the guidelines for evaluation were completely revised in 2010, which were then used for evaluation in 2011. At this point in time, evaluations of CEOs, which were conducted separately, were integrated into the

evaluation system of organization as a core component. However, the evaluations of CEOs were separated from the system again as the Park Geun-Hye government decided to evaluate CEOs only once during their three-year tenure. Accordingly, evaluations of the auditors monitoring each public agency were carried out once during their two-year tenure.

The Park government also introduced normalization measures for public agencies on 11 December 2013, and the Commission for the Management of Public Agencies decided that “other public agencies”, which had not been included in the performance management system, should be evaluated. Due to this change, every public agency including SOEs, QGOs and other public agencies were expected to be evaluated from 2015.

In 2016, the government reduced the number of employees from under 500 to under 300 for small- and medium-sized enterprises as the classification criteria. However, enterprises belonging to the fund-management-type QGOs employing fewer than 300 persons, with assets less than KRW 1 trillion, are still classified as small- and medium-sized institutions. In addition, the incentive methods were diversified to pay only a 50% bonus depending on the overall grade and a 25% performance bonus according to the evaluation category and major business categories. For the evaluation of performance in 2017, both the relative evaluation and the absolute evaluation were carried out at the time of calculating the overall grade and by category.

The Moon government, inaugurated in May 2017, launched a major reorganization of the public agency management evaluation system. First of all, the institutional evaluation was restructured to emphasize the dimensions of social value. Evaluation of the CEO was reintegrated into the institutional management evaluation index system, which was previously only done once per term under the Park Geun-Hye government. On the other hand, the performance evaluation of the standing auditor and members of the audit committee, which was previously conducted once during the term of office, is set to be done every year, with a grading system of six grades rather than that of three grades. The outcome of the performance evaluation of

standing auditors will be taken into consideration for their performance-related pay.

In particular, the government decided to divide the Evaluation Commission of SOEs and QGOs into two separate evaluation commissions: The Evaluation Commission of SOEs and the Evaluation Commission of QGOs. The previous system was established in 2008 after the revision of the law in 2007. Historically, the management evaluation systems of SOEs and QGOs have been independently developed. However, in accordance with the Law on the Management of Public Agencies, which was enacted in April 2007, it was integrated into the institutional management evaluation system. The management evaluation model, evaluation standard, and evaluation method were integrated and unified, and the composition and operation of the Evaluation Commission of SOEs and QGOs were integrated. Through these processes, management evaluations of SOEs and QGOs were integrated into the SOE and QGO corporation management evaluation system, thereby creating positive improvements in terms of increasing competitiveness and improving evaluation efficiency. However, there is a fundamental difference between SOEs and QGOs in terms of the purpose of establishment, characteristics of the target business, and government relations. Nevertheless, the standardization of the evaluation index, evaluation standard, and evaluation method for SOEs and QGOs has caused structural problems in terms of fairness and equality of evaluation and securing objectivity. For example, the management evaluation system, which is commonly applied to public and semi-governmental organizations, caused complaints that the burden of evaluation for QGOs increased and that fair competition became difficult. As a result, an evaluation method that could be applied only to small and medium institutions based on the number of personnel was specifically devised. In consequence, the effectiveness of management evaluation was weakened by these special treatments for quasi-government institutions. It also resulted in a substantial erosion of competition. To solve these problems, the integrated evaluation team system was dismantled in a one-step measure, and management evaluation was carried out by the SOE and QGO evaluation team and the quasi-governmental agency

evaluation team.

Through the process of institutionalization as described above, Korea's performance evaluation system for SOEs has been successful as a key device of SOE and QGO governance structure for establishing autonomous accountable management over the past 30 years and improving the performance of SOEs. In addition, it is recognized internationally as a good example of a performance evaluation system for SOEs. One of the driving forces to create such success stories is the continued evolution and development of the management evaluation system based on flexibility and openness.

3. Current performance evaluation system

An example of the actual SOE/QGO performance evaluation manual that is currently used is described: typology of SOEs and QGOs, evaluation indicator system, detailed evaluation contents by evaluation indicators, and specific evaluation rules of performance. The performance evaluation is composed of two parts: management and core businesses along with five major categories of market-types I and II (SOE), fund-management-type, commissioned-service-type, and non-classified QGOs (QGO). The management evaluation system includes points such as management strategy and leadership, social value creation, work efficiency, organization-human resource-financial management, remuneration and benefits, and collaboration and participation. Both quantitative and non-quantitative indicators are used, while the specific weights of each indicator differ across institutions. Quantitative indicators are measured by the following methods: simple goal setting, goal setting by deviation, global comparison, long-term goal setting, goal achievement, β distribution, and trend. Institutions are given one of the six grades (S, A, B, C, D and E), followed by awards and sanctions.

4. Current operational process

In order to effectively achieve the objectives of SOE and QGO management evaluations, it is necessary to create an organic division of roles between various participants in SOE and QGO management evaluations, which are overseen by the MOEF. The specific procedures and methods differ depending on the type of management evaluation such as institution evaluation, evaluation of institution heads, audit evaluation, and evaluation of non-classified SOEs and QGOs.

The operating system of SOE and QGO performance evaluations comprises the legal and institutional measures and procedures that define the division of roles and relationships of the various agencies that participate in the SOE and QGO performance evaluations. The MOEF is in charge of overseeing the SOE and QGO management evaluation system. Its activities are subject to the deliberation and resolution of the Ownership Steering Committee and commissioned to specialized institutions or the MOEF's Evaluation Commission of SOEs and QGOs. The MOEF has the authority to create and operate Evaluation Commission of SOEs and QGOs to ensure the efficiency of performance evaluations of SOEs and QGOs and conduct expert or technical research on or provide consultation regarding management evaluations. In addition, the MOEF implemented regulations on the organization of SOE and QGO Evaluation Commission of SOEs and QGOs in an effort to ensure the transparency, fairness, and predictability of the composition and operation of the Evaluation Commission of SOEs and QGOs and improve the ethics of Evaluation Commission of SOEs and QGOs members.

The management evaluation procedure for SOEs and QGOs includes setting management goals, preparing a management evaluation manual, drafting and submitting performance reports, organizing and operating an Evaluation Commission of SOEs and QGOs, evaluating and reporting on performance, and providing follow-

up management based on the results of the management evaluation. This evaluation cycle takes three years and continues sequentially and repetitively.

The results of the SOE and QGO performance evaluation are utilized in various ways to provide follow-up measures. The follow-up measures implemented based on the results of the management evaluation are important policy tools that can be used to ensure that executives and employees take responsibility for performance and induce improvements in management. The results are used to provide differentiated incentive payments depending on the institutions' ratings, issue warnings to the heads and standing directors of institutions with poor performance, and operate budget reduction for the following year.

VI. Privatization of SOEs

Korea operates SOEs and QGOs based on the AMPI enacted in 2007, which contains eight listed SOEs, but the categorization of commercial SOE type, governance, and management strategy is different from other quasi-nongovernmental institutions. Therefore, in order to improve the efficiency of listed SOEs, governance and management should be operated discriminately so as to be compatible with listed private corporations. It is necessary to present the pursuit of listed SOEs clearly. The autonomy of listed companies and the independence of operations must be improved, and the market must be formed sufficiently so that publicly listed companies can improve their efficiency through market competition. The fact that the rights of minority shareholders in the operation of listed SOEs should be adequately protected is also frequently referred to in the OECD's recent version of the guidelines of corporate governance for SOEs (2015).

The main lesson to be learned from Korea's experience is that the governance of commercial SOEs needs to be based on strong profit incentives, independent of the

policy functions of the line ministries and other government agencies (KDI, 2013). A considerable number of SOEs that are expected to be significantly affected by the Kim Dae-Jung government's privatization have already been fully privatized. It is known that the higher the profitability or the higher the loss and the higher the debt ratio, the more preferential the privatization progress (Park Kibaik and Park Sangwon, 2010). Privatization of SOEs in which the industrial advantage is large or low-income families are the main consumers of the goods and services produced by the SOEs is determined to be delayed in priority.

The choice of enforcement is important in judging these privatization policies. It is difficult to accept the collective claim while having the right to debate the principle of privatization and the implementation of privatization to achieve desirable results. Therefore, by gradually increasing efficiency through the application of the market principle comes the establishment of an independent regulatory body. As a result of the privatization policy and the economic situation of the country, the institutional conditions vary depending on the social atmosphere, among other factors. The conditions can be different based on how the policy enforcer manages the policy. In addition, privatization must take into consideration the characteristics of the competitive structure with the development stage of the industry, the characteristics of stakeholders, and transaction costs. The role and function of the SOEs and QGOs itself, namely the "universal provision of public services", should be taken into consideration, and the "evaluation of the quality (ability) of public services" must also be strengthened in the management evaluation system.

We should now go back to the very basic question of where privatization has not been successful and why. We thoroughly assessed the experience of Korea's privatization history during the last 60 years. Korea largely followed the corporate governance standards in SOEs, which is the separation of regulation and ownership. The triple role of the government as the regulator, regulation enforcer, and owner

of SOE assets can undermine SOE competitiveness and efficiency because of corruption, mismanagement, and the technical incompetence of staff. Korea tried to follow this rule, especially during the Kim Dae-Jung administration when the privatization effort was very successful. Still, Korea did not complete the privatization of the energy sector, which included KEPCO, and the country did not follow this separation principle. One more success factor for Korea's privatization trial was worth sharing with South Africa, which is the specialized privatization agency's activities. The national leadership with legislative agreement could select and focus its enforcement resources on one centralized agency and let it plan, implement, and provide feedback with clearly identified executive powers subject to the highest standards of transparency and accountability. The MOEF steers the administration of SOEs and assigns responsibility for state-owned assets to line ministries that would like to conduct industrial policy. In Korea's case, the central executive authority, which is MOSF, is responsible for the formulation and implementation of the state economic policy, including the definition of general principles and strategic priorities for the administration of state-owned assets. It performs the full centralized ownership function and ensures that no combination of regulatory rule is made with formulating state policies and the administration of SOEs.

The first step toward privatization should be to create a favorable environment that encourages competition. This can be done by undertaking regulatory reform and industrial policy reforms as well as removing obstacles in relation to private sector entry and exit. Privatization works best when it is implemented together with reforms designed to build an environment that encourages efficiency. The second step is to make the privatization process transparent. An important aspect of transparency is the valuation of an enterprise's net worth by independent and professional firms to set the minimum base price for privatization. Not only the valuation process, but also the whole process of privatization requires transparency.

The interest in privatization should stem from its fundamental usefulness. Privatization improves the optimum allocation of public resources. It leads to improved operational efficiencies. It also serves as an important instrument to attract investment and promote innovation. However, realizing these benefits is not a simple task. Favorable effects can be attained only by properly implementing privatization. Many countries suffered from economic crisis after the privatization of key sectors. For instance, the sweeping economic reforms and subsequent privatization in Argentina in the early 1990s resulted in the discharge of more than 80% of the employees in some privatized sectors. On the other hand, countries that followed appropriate privatization procedures, such as China and Korea, saw increased productivity and efficiency. Consumer-oriented industries saw larger gains than strategic (heavily regulated) sectors.

Finally, distinguishing the goods and services whose production and trade can be handled better by profit-seeking firms rather than the government should be emphasized, and it should be clear that privatization should take place as soon as possible. The government businesses or SOEs that produce commercial goods and services should be allowed to operate based on profit incentives as much as possible without the interference of government policy functions and without much consideration of the concentration of economic ownership. The successful experience of Korea, especially during the latter part of the 1990s and 2000s, in privatization is strong evidence to share with other countries.

VII. Policy implications and conclusion

This report introduces the historical development of SOE and QGO management policies since the 1980s in Korea and explains the SOEs and QGOs governance and management system based on the AMPI enacted in 2007. In this concluding

chapter, we explain the success factors of the Korean SOEs and QGOs policy and management system and summarize for those countries interested in adopting such a system. The Korean experience with SOE and QGO management policy provides rich stories and examples of adoption, failure, evolution, and success that render informative benchmarking points for developing countries. Interested countries and public leaders may learn from the contents of this report to better serve their citizens by institutionalizing their own SOE and QGO management system in a way that fits the economic, political, and social contexts of the country.

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