

PERFORMANCE APPRAISAL AND PERFORMANCE-RELATED PAY IN GOVERNMENT: THE CASE OF SOUTH KOREA

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Abstract

Many OECD countries began to move from the single pay scale toward more flexible pay arrangements that have pay for performance, and not pay for seniority. The purpose of this study is to review the case of South Korea on pay flexibility in the Korean civil service. Since a performance evaluation is a key element in performance management system, performance appraisal systems in the Korean Central Government are first elaborated, followed by discussion of two performance-related pay systems (performance-related pay for higher-level officials and performance-related pay for middle- and lower-level officials) used in the Korean central government. After that, the impact of pay flexibility in government, policy implications, and concluding remarks are presented.

Key Words: *performance appraisal, performance-related pay, pay flexibility, Korea, performance management*

I. Introduction

The Organisation for Economic Cooperation and Development (OECD) member countries have moved towards a flexible pay arrangement in the public sector which is, in essence, a combination of key features of performance-related pay (PRP) and differentiation (Manning, 2001; OECD, 2005; Hasnain, Manning, and Pierskalla, 2012). A recent World Bank report (2014) asserts that pay flexibility can improve performance directly through financial incentives and indirectly through improved management with greater efforts by managers, although there is general scepticism in the public administration literature on this topic. It has been argued that

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traditional pay arrangements are unable to ensure that performance objectives are met within fiscal constraints. Consequently, many OECD countries began to move from the single pay scale toward more flexible pay arrangements that have pay for performance, and not pay for seniority (OECD, 2005; World Bank, 2014).

The purpose of this study is to review the case of South Korea (hereafter, Korea) on pay flexibility in the Korean civil service in looking at performance appraisal systems and performance-related pay systems. The Korean government has several different pay tables that include: general service, public security service, research service, support service, technical service, constitution researchers, police and fire fighters, teachers, professors, military service, and labour. Pay tables are slightly different from each other due to the nature of each public service provided. There are pay differences within and across government ministries, departments, and agencies depending on the nature of their service. For example, the average pay level of the public security service is slightly higher than the general service, although the pay difference is not highly significant.

Generally speaking, the Korean civil servant's salary is composed of base pay, allowances and welfare expenses. The base pay is the regular pay that is paid "by grade and pay step" according to the degree of responsibility and difficulty of the position, and length of service. The allowances constitute additional remuneration that is paid separately according to the position and living condition of individuals; and they include family support allowances, allowances for working in special areas, allowances for special work, allowances for extra work, and bonus or performance-related pay. The welfare expenses that are paid for civil servants' welfare include items such as meal payments, job grade assistance payments, traditional holiday payments, and unused vacation payments (Kim, 2003).

Historically, the pay structure for Korean civil servants was based on the rule of seniority. The rate of pay was determined according to the length of service with automatic salary increases every year. The concept that the payoff of a civil servant was a reward for length of service rather than job performance has remained almost unchanged. In the past, the pay did not function as an incentive for better job performance. In the middle of the 1990s, the Korean

government introduced the special bonus system for the first time, but failed to implement it effectively. In 1999, right after the IMF Bailout, the Korean government introduced the performance-related pay system with more serious methodical preparation and a stronger willingness to implement. Socioeconomic difficulties have led to the need for different types of incentives other than promotion to enhance performance management. It aimed at strengthening the competitiveness and performance of the public service. The main goals of the introduction of the performance-related pay system were: (1) to create a hard-working atmosphere in the public office; (2) to attract competent and professional talent from the private sector into the public sector; and (3) to spread a competitive attitude in the government so that every civil servant can carry out his or her tasks with liveliness and creativity. Most categories of staff are covered by PRP schemes, with two different systems applying to top-level staff and mid-managers and below (Kim and Kim, 1997; Kim, 2003, 2012; Kim and Hong, 2013).

The performance-related pay system is operated in connection with the performance management systems. There are two types of programs in the performance-related pay system: the annual merit incremental program for higher-level officials and the performance bonus program for middle- and lower-level officials. The annual merit incremental program for higher-level officials is divided into two portions: the fixed pay portion and the variable (performance-related) pay portion. The variable pay portion is paid separately according to the performance appraisal grade; and the appraisal grade is determined on the basis of the appraisal result of each official. The performance appraisal system for middle- and lower-level officials is the performance bonus system. The general guidelines for the performance appraisal system and PRP arrangements are defined by the central personnel authority. PRP arrangements are defined in the following two decrees: the Decree of Compensation for Civil Servants and the Decree of Allowances for Civil Servants.

II. Performance Appraisal System in the Korean Central Government

The performance appraisal system has been relatively well institutionalized in the Korean government (Kim, 2010, 2011). The legal foundations of this performance appraisal system include: (1)

the National Civil Service Act (articles 40 and 51); and (2) the Decree on the Civil Servant Performance Appraisals and Related Matters. Article 51 of the National Civil Service Act requires that the head of each government agency should evaluate the performance of his or her employees regularly in an objective and fair way and reflect such results in public personnel management records. Article 40 also indicates that promotion should be based on performance appraisal and other forms of evaluation. The National Civil Service Act was originally promulgated in 1949 and it has been revised several times since then. Detailed issues on performance appraisal are written in the performance appraisal decree. The performance appraisal decree was originally passed in 1961 and it has been renamed several times. The current Decree on Civil Servant Performance Appraisals and Related Matters was expanded in 2005. Currently, the central personnel authority is responsible for making or revising public personnel policies including performance appraisal systems.

In Korea, Grade 9 is the lowest level, while Grade 1 is the highest career level in the civil service. Above Grade 1, there are two more levels such as minister and deputy minister levels and both of these levels are political appointments. There are two different types of individual-level performance appraisal management systems in the Korean government: performance agreement for higher-level officials and general performance appraisal for middle- and lower-level officials (See Table 1).

Table 1: Performance Appraisal Systems in the Korean Central Government

Targeting Grade Levels*	Appraisal Systems
Grade 4 and above including members of the Senior Civil Service (SCS)	Performance Agreement System
Grade 5 and below (Middle- and lower-level officials)	General Performance Appraisal System

* Note: The target groups of the performance agreement are government officials who are director-level (Grade 4), director-general-level (Grade 3), and above. The target groups of the general performance appraisal system are government officials who are deputy-director-level (Grade 5) and below.

First, the performance agreement system applies to civil servants above grade 4 (managers) and equivalent grade levels including members of the Senior Civil Service (SCS). This performance agreement system is an evaluation system based on a performance agreement in relation to performance goals and indices, made between the head of the agency and heads of departments and bureaus. Evaluation items could include: individual-level performance, organizational-level performance based on his/her position as a manager (i.e., in terms of citizen satisfaction on service delivery, citizen satisfaction on major public policies, telephone response, knowledge management, deregulation, etc), and/or job-related abilities (competency, ethical integrity, etc). This system evaluates a manager's performance relevant to the 'performance agreement', and then the results can be applied to personnel management including the provision of performance-related pay and/or promotion (Kim, 2003; OECD, 2005). The nature of the performance agreement varies depending upon the type and task of the ministry. This is based on an individually-specific performance agreement along with strategic organizational goals in a given organization. For example, the policy-oriented departments have more qualitative targets, while the service delivery-related departments have more quantitative targets.

Second, a general performance appraisal system is applied for civil servants below grade 5 and equivalent grade levels. This evaluation is conducted by superiors to their subordinates to evaluate his or her individual performance (MOPAS, 2009). The typical performance appraisal system is based on a check list or rating scale that could be based on two major areas: (1) job performance in major performance goals or major tasks in terms of job difficulties, completeness, and timeliness; and (2) job-fulfilling abilities (core competencies such as planning, communication, cooperative team work, execution, innovation, customer-orientation, etc (these items can be differentiated by the job nature of each agency)). In addition, job-performing attitude can also be selected as an evaluation criterion, but most government agencies do not include it due to the possibility of making potential evaluation errors.

The result of each individual's performance appraisal could be used for various public personnel management purposes including

promotion, compensation, capacity building (training and education), and placement. Each person should be informed of his or her individual appraisal result and there is an appeals process if someone is dissatisfied with the outcome. Each agency has a certain degree of autonomy in terms of selecting appraisal items and the individual performance appraisal is designed to allow each ministry to decide the elements and scores by considering the details of each case depending upon the nature of the job of each agency.

In addition, there is an “organizational-level” performance management system in the Korean government and public bodies in the form of the organizational performance evaluation or the management assessment for public organizations. The term ‘organizational performance evaluation,’ specifically targeting central and local governments, has officially been in use since the Basic Act on Government Performance Evaluation in 2001, when the Cabinet Office conducted a general evaluation on government organizations. The organizational performance evaluation is a general performance evaluation system of organizational-level performance, which includes the evaluation of central government, local governments, government-invested enterprises, government-supported research institutes, and executive agencies. Such an evaluation is usually conducted by the Prime Minister’s Office and the result of this organization-level performance evaluation usually affects the tenure of the head of the agency. Overall government evaluation is handled by the Government Performance Evaluation Committee (GPEC) in the Office of the Prime Minister. The Government Performance Evaluation Committee, co-chaired by the Prime Minister and an external expert, is composed of not more than 15 people including three ministers (from the Ministry of Security and Public Administration, the Ministry of Strategy and Finance, and the Prime Minister’s Office) related to evaluation supervision and several private experts. Policies implemented by central ministries and local governments are evaluated in order to ensure the responsibility, efficiency and effectiveness of public administration. Agencies subject to evaluation are central ministries, local governments, and public bodies.

Government performance evaluation has two major evaluation components: (1) self-evaluation (central ministries or local

governments evaluate their own policies based on three areas such as major policies, financial projects, and organizational capability, and then the Government Performance Evaluation Committee verifies and corrects the supporting materials for self-evaluation); and (2) specific evaluation (the Government Performance Evaluation Committee evaluates central ministries in terms of three major areas such as regulatory reform, customer satisfaction, and specific government policies). All of the evaluation results are put together and forwarded to the Cabinet Council. A Government Performance Evaluation Report Meeting is held the following year. Meanwhile, non-departmental public bodies have been evaluated through the public body management evaluation system. Organizational-level PM targeting Korea's public bodies were introduced in 1984. Along with the revision of related laws, the organizational-level PM for public bodies now covers more than 200 quasi-governmental organizations including 20 state-owned enterprises (SOEs). The Korean government can grant the citation of outstanding performance and/or the financial incentives to an agency that received an evaluation of 'excellent', based on the result of the organizational-level performance evaluation, and the head of an agency that received an evaluation of excellent from the Government Performance Evaluation Committee could be provided with an award, bonus, and/or promotion to government officials who made substantial contributions to the increase of organizational-level performance (in accordance with the provisions of Article 30 of the Basic Act on Government Performance Evaluation).

III. Performance-Related Pay System

3.1. Performance-Related Pay for Higher-Level Officials

The Korean government established the Senior Civil Service (SCS) in 2006 and SCS includes the Director-General (DG) level (generally, its starting level is equivalent to Grade 3) and above in the career service. Minister- and Deputy Minister-levels are political appointees and they are not part of the SCS. The Senior Civil Service performance-related pay system applies to the civil service in grades 1 to 3 and contracted civil service and there are two levels in SCS: level A and level B. The pay is composed of four types of payments: the base pay, job pay, the performance-related

pay, and other allowances. SCS member's maximum base pay is currently 82,464,000 won (approx. 74 158 USD), while its minimum base pay was 55,397,000 won (approx. 49 817 USD) in 2013. Job pay depends on the nature of each job in terms of its responsibilities and difficulties of job fulfilment. PRP depends on the appraisal grade which has four categories (S, A, B and C).

Table 2: Appraisal Grade and Pay Rate

Performance Agreement-based Appraisal Result	Grade S (Outstanding)	Grade A (Good)	Grade B (Satisfactory or Normal)	Grade C (Weak and/or Very Weak)
Pay rate	15%	10%	5%	0

As shown in Table 2, if someone obtains Grade S, he/she will get an increase of 15 percent of the standard base pay. Likewise, if someone has Grade A or B, he/she will receive 10 or 5 percent of the standard base pay, respectively. However, if someone receives Grade C, no PRP will be awarded. As of 2013, the standard base pay for the Level-A of SCS was 80,518,000 won (approx. 72 408 USD), while the standard base pay for the Level-B of SCS was 67,100,000 won (approx. 60 341 USD). Based on the performance appraisal results from the previous year, the individual PRP pay amount is determined by multiplying the standard base pay by the pay rate assigned to the relevant appraisal grade of an individual.

3.2. Performance-Related Pay for Middle- and Lower-Level Officials

Performance bonuses are paid to government employees annually and designed for mid- and lower-level employees (Grade 4 and below). The performance bonus is paid once a year after appraisal. However, if the minister in charge takes the matter of increased organization performance and official motivation into account, it can be paid twice or more in a year if necessary. Performance bonuses can be provided in various ways on an individual basis, on a departmental basis, and combinations of both. The performance bonus is paid as a lump sum allowance. However, the minister in charge may decide to divide the allowance in months based on the acceptance of opinion from an affiliated employee.

The performance bonus must be given within the range of budget, however, if paid only once a year after appraisal for the year of 2013, the amount paid will be 110% of the average monthly base pay amount (130% is applied for armed servicemen). However, if the performance bonus is paid twice or more in a year, the minister in charge may change the average amount paid based on the number of appraisals made. The minister in charge should determine the performance bonus payment based on the period of each appraisal and reasonably allocate the payment within the budget. For example, where the performance appraisal is made twice as of the second half of 2012 and the first half of 2013, the first performance bonus payment will be allocated in half of the budget (6 months, given the total appraisal period is 12 months), and the second payment will be based on the other half of the budget.

3.3. Performance Bonus Payment Methods: Differentiation and Delegation

Based on the characteristics of the institution and employees, the minister in charge may consult with officials in the organization to rationally choose the most optimal payment method for performance bonuses that are listed below. Basically, there are four different ways of PRP payment: (1) individually differentiated payment; (2) equal individual payment after a departmentally differentiated payment- if an agency chooses this method, it must consult with the central personnel authority; (3) utilizing a combination of both individually and departmentally differentiated payments; and (4) individually differentiated payment after a departmentally differentiated payment. In addition, the minister in charge may adjust the payment methods if necessary, based on the occupation and tasks of each department.

For the purpose of performance increases of the entire organization and the settlement of this performance-based payment system, the minister in charge may adjust the method of payment based on the characteristics of policy-formation-oriented department, policy-implementation-oriented department, street-level office, and cross-shift working office. If necessary, the minister in charge may pay the performance bonus based on methods that are not listed above, if having first consulted with the central personnel authority. The

performance bonus is paid through each affiliated organization or department. The minister in charge may consolidate an organization or department if necessary. Each agency should have a PRP review committee comprised of a minimum number of 3 to a maximum number of 7 members who are senior to those subject to payment (the head of department in the case of department payment). The PRP review committee decides the priority of the payment of the performance bonus and picks out the rank of those with an equal score. Also, it reviews the payment for officials who raise an appeal. The minister in charge is responsible for the general adjustment of the overall performance bonus system, separate from the PRP review committee, and maintains a PRP management committee in order to review the performance bonus payment plans. The following contents are based on payment after appraisal once a year. For cases where the performance bonus is paid twice or more a year, the payment plan must be adjusted based on the appraisal frequency and period.

A. Individually Differentiated Payment: the most common method in the Korean Government

The performance bonus is paid based on the appraisal of individual performance based on their occupation and rank. The head of organization may consolidate or separate occupations or ranks for payment if necessary. The payment classification and rating of the performance bonus are shown in Table 3. The performance bonus amount varies: (1) an excellent performer (top 20%) with Grade S gets over 172.5% of his/her standard salary; (2) an outstanding performer (21-60%) with Grade A receives 125% of his/her standard salary; (3) a normal performer (61-90%) with Grade B gets 85 percent of his/her standard salary or below; and (4) a low performer (bottom 10%) with Grade C receives no performance bonus. However, the pay scope can be adjustable upon the characteristics of each government agency. Before 2009, the Korean government "recommended" to each agency to have a fair distribution of the pay scope: (1) an excellent performer (top 20%) with Grade S; (2) an outstanding performer (21-60%) with Grade A; (3) a normal performer (61-90%) with Grade B; and (4) a low performer (bottom 10%) with Grade C. In 2009, however, the Korean government set a new policy for enforcing a "forced distribution." The Grade S should be granted

to “top 20 percent or less” and the Grade C should be given the “bottom 10 percent or more.” In other words, it is impossible to rate almost everyone as highly satisfactory. As of 2012, 30 government agencies are using this method including the Office of the Prime Minister and many others. The minister in charge may decide to apply ratings that differ from the pay scope and a rating list above through collection of opinion among the officials in charge. Criteria for applying alternative pay scope and payment rating based on classification include: (1) there should be 3 or more pay grades; (2) the highest grading pay rate should be more than 172.5%, which is more than 3 times the rate of the lowest rank (except in the case where the lowest grade of pay rate is 0%); (3) the pay scope should normally be distributed between pay grades, and the pay scope of a single pay grade should not exceed 60%; (4) the pay rate gap between pay grades should, if possible, be even; and (5) any standards that differ from the criteria listed above should be consulted with the central personnel authority.

B. Equal individual payment after departmentally differentiated payment

The departments in which it is difficult to evaluate individual performance based on the characteristics of occupation or organizations with systemized shift work may consult with the central personnel authority in order to have a differentiated performance bonus by department while receiving equal amount of performance in a given department. In other words, a performance bonus will be paid evenly based on rank within the department, while each department might have a different amount of performance bonuses. If an agency chooses this method, it must consult with the central personnel authority. The criteria for performance appraisal for each department are set by the minister in charge based on the characteristics of occupation. In the situation where evaluations such as performance contracts are applied, unless there are special circumstances, the evaluation results by the head of department should be applied. The PRP review committee is placed in each performance bonus payment department or organization, and is comprised of up to 7 members (possibly 3 or more), who are senior to those subject to payment, and selected by the head of department in the case of department payment. However, in the situation where there is a shortage of superiors, personnel with the equal

rank may be chosen. Based on the PRP criteria, the PRP Committee adjusts the performance appraisal results of each department in order to determine their relevant appraisal grades. As of 2012, no government agency uses this method.

C. Utilizing a combination of both individually and departmentally differentiated payments

This method combines two methods based on both the individual and the department allocation of the performance bonus budget to each method by nearly half and half. The performance bonus can be differentiated by each department's performance level (the amount of bonus cannot exceed 50 percent of the total performance bonus budget) and its proceeds will be equally shared by officials in the department. In the process of the departmental evaluation, overall department distribution should have a normal distribution and one appraisal grade should not exceed 60 percent of all departments. A line ministry should make at least three appraisal grades. For example, a department that gets the Grade S could receive 95 percent of the performance bonus, while a department that gets the Grades A, B, or C, could receive 80, 50, or 45 percent, respectively (the highest bonus pay rate should be double that of the lowest pay rate). Within a department, the bonus granted for a departmental-level performance will be distributed equally to each official. The minister in charge may provide additional information in regards to departmentally differentiated pay methods. In addition, each official will be evaluated by his/her performance and the result will be differentiated. In order to do so, the performance appraisal grade and pay rate should be set by the minister in charge along with the consultation with the central personnel authority. In most cases, the pay scope and pay rate for the individual performance bonus is similar to the Type A as discussed above (Individually Differentiated Payment). As of 2012, 10 government agencies are using this method including the Ministry of Environment.

D. Individually differentiated payment after departmentally differentiated payment

Performance bonus payments are made per department after the performance appraisal of each department. After that, an

individual performance bonus is distributed based on each individual's performance appraisal result. The minister in charge may provide additional information in regards to departmental pay methods. In the process of the departmental evaluation process, the department's overall distribution should be normal and one appraisal grade should not exceed 60 percent of all departments. A line ministry should make at least three appraisal grades. The highest bonus pay rate should be double that of the lowest pay rate. The minister in charge may refer additional information in regards to departmentally differentiated pay methods. As of 2012, 4 government agencies are using this method including the Ministry of Trade, Industry and Energy, the Korean National Policy Agency, the National Human Right Commission and the Rural Development Administration.

E. Alternative Payment Method set after consulting the Minister of Public Administration and Security

A government agency can use its own performance bonus payment methods. For example, an agency can distribute the performance bonus equally to each department. After that, a division head can evaluate his/her staff's performance and then distribute the bonus based on an individual's appraisal results. The head of department should interview each official individually and notify him or her of the relevant pay grade arrived at, and the reasoning. As of 2012, no government agency uses this method.

IV. Discussion on the Impact of Pay Flexibility

Although the overall impact of PRP on motivation could be ambivalent, PRP could act as a motivator, by providing extrinsic rewards in the form of pay and intrinsic rewards through the recognition of effort and achievement (OECD, 2005). There are not many studies on the Korean PRP issues in Korea. At the individual level, each person is keen to be aware of his or her performance level and civil servants are accustomed to being able to realize his or her performance goals and record his or her performance. In doing so, it also improved the quality of the performance dialogue between staff and managers. In other words, each official is responsible to recognize his/her performance goals and requirements so that

the performance management system helps the dialogue between staff and managers in a given organizational setting. Performance appraisals rely on the assessment of pre-identified objectives and on dialogue with line management. Introducing PRP can be the catalyst that allows possible changes to occur and, at the same time, facilitates a renegotiation of the “effort bargain” thus assisting in recasting the culture of public organizations (OECD, 2005). During the performance appraisal process, a mid-term check is required for both sides. A manager needs to see his/her staff in the middle of each year and discuss overall or expected performance, while a member of staff can discuss his/her tasks and roles in the organization to achieve performance goals with a manager. Managers should openly communicate the organization’s new expectations, and clearly delineate the new criteria in the context of PRP. To do that, it is essential for both managers and employees to be trained in order to reduce resistance to the new system and to establish a performance-oriented culture. Moreover, PRP could complement the results-based management, performance-based budgeting, or other public sector reforms because PRP stimulates a lever for the introduction of wider management and organizational change. In the early stages of implementing a performance management system, public managers might have to act as change agents to encourage employees to bring innovative ideas in order to build more efficient government work processes and provide a vision for further organizational reforms.

In performance management and measurement, agencies should set SMART (specific, measurable, achievable, relevant and time-based) goals because such goals could support the business success of public organizations. Therefore, setting the rules of the game is very important for the success of PRP. Performance goals should reflect major activities and responsibilities of a government official. Government officials pay attention to key activities that are measured. However, if some activities are not measured by a performance appraisal framework, he/she may not focus on those activities. Therefore, the Korean government requires senior civil servants to identify several key performance targets rather than one or two performance goals. Moreover, the general performance appraisal system for middle- and lower-level officials reviews performance goals in three aspects: task completeness, achievement

timeliness, and job difficulties. Some people may pursue relatively easy tasks, while some people may have relatively difficult tasks. In order to minimize a gaming or such evaluation error, job difficulties are commonly evaluated in addition to the quantity of tasks, job completeness, and timeliness. In other words, both quantity and quality should be considered comprehensively in the process of performance measurement.

Sungjoo Han (2010) reviewed the Korean PRP in-depth with a selective number of government officials and found that PRP was effective in making government officials realize the importance of their performance. According to Han's study (2010), many Korean central government officials admitted the political symbolism of PRP system, although they do have some reservations about the appropriateness of its appraisal methods and evaluation results. According to Han's study (2010), Korean central government employees perceive that performance management along with PRP is a global trend so that they do not resist it, but many government officials indicated that the fairness of the performance appraisal is critical to the successful implementation of PRP system in the public sector. PRP for higher performers is a motivational factor, but the motivational impact of PRP for low performers was not significant. Government officials also perceived PRP as a complementary tool to supplement one's salary and it is also viewed as managers' tool for organizational management. Han also (2010: 36) asserts that the Korean central government implemented a relatively well based PRP on its official standards differentiating PRP, while Korean local governments carried out appraisals and awarding bonuses with a lack of differentiation among government officials. Han's claim is also partially supported by Lee's study (Lee, 2010). In the central government, PRP seems to have become relatively well established but the implementation of PRP in the Korean local governments, particularly in rural municipalities, needs to be improved in terms of improving overall transparency and fairness of the appraisal and its process. Han (2010: 44) also reports that relatively young and high-performers are more supportive for PRP than old and low-performers.

According to Heetae Lee (2010: 149), 47.2 percent of local government employees in the Pusan Province felt positively toward

the necessity of the performance bonus system, while 26.8 percent of respondents were neutral and 26.0 percent of respondents were negative. However, 40.4 percent of respondents were not satisfied with the current performance bonus system, while 30 percent of respondents were neutral and 29.6 percent were positive. Overall, many local government employees recognized the necessity of the performance bonus system, but they were not satisfied with the current system due to its lack of fairness. Many respondents indicated that it lacks the rationality of performance standards and performance measurement as well as the objectivity of a good performance appraisal process (Lee, 2010: 152). The performance appraisal process is at the heart of the PRP system. Therefore, the performance appraisal scheme should be continuously improved and practiced in a way that places its legitimacy and fairness beyond any doubt. Among respondents, 38.5 percent of respondents were positive about the contribution of the performance bonus to the willingness to work, while 39.7 percent of respondents were neutral and 21.8 percent of respondents were negative. In addition, 36.7 percent of respondents were positive about the contribution of the performance bonus to the improvement of performance, while 45.5 percent of respondents were neutral and 17.8 percent of respondents were negative (Lee, 2010: 150).

The nature and characteristics of each department in the agency seems to affect the performance appraisal results of government officials. Based on the in-depth interviews, Han (2010: 40) asserts that many interview respondents indicated that those who are working in core departments such as policy-making or coordinating departments get better performance appraisals than ones in peripheral departments such as operational departments because core departments deal with more strategic issues and often meet top leadership in the agency and the government. In any organization, jobs are not equally distributed: some departments have more work and some departments have less work. In such cases, Han asserts that those who work in the departments with more work are likely to get better performance appraisal results than ones in the departments with less work. Han (2010) also indicates that those who work in the office of human resource management or inspection or monitoring are more supportive for PRP system than those working in other departments. Moreover, PRP seems to be

more effective in agencies with relatively easily measurable outputs, such as the service-delivery agencies (employment, welfare, health, collection, other social service agencies, etc.)

The Korean government PRP system has significantly affected many public bodies including state-owned enterprises and public corporations. According to Ilyong Kwon (2010: 129), more public bodies had introduced PRP than private companies: 71 percent of public bodies have PRP, while only 49 percent of private companies. However, the average amount of PRP in private companies was higher than that in public bodies (Kwon, 2010). Overall, PRP is now well institutionalized in Korea, both in private and public sectors. Although methodological debates on the performance appraisal system and PRP payment continue, the necessity of PRP has been widely accepted and approved in Korean society including the public sector. Over the years, the role of human resources management, in general, and performance management in particular, has become very important in public management. In particular, the role of each line ministry has been expanded in order to meet new tasks including implanting PRP with an increasing degree of flexibility. In the past, a function of HRM in many line ministries belonged to the Department of General Affairs, but the function of HRM has been expanded significantly over the years due to the increasing trend of delegation transferring authority over HRM from a central personnel agency to line ministries and agencies. Consequently, most central line agencies and local governments have their own department of HRM because the HRM department has now more delegated power on HRM. The Korean government has initiated continuous civil service reform in the past several years in order to promote professionalism and the global competitiveness of the Korean government.

Moreover, the role of trade unions is usually significant in the process of reform in many countries. For example, the role of trade unions has been very active and critical in the Korean private sector. However, the role of the government employees' union was not critical until the late 1990s with the exception of the teachers' union. Authoritarian governments did not allow government employees to have a union until the late 1990s. In fact, the Law on the Establishment and Operation of the Teachers' Union was

promulgated in 1999. However, the Korean Teachers and Education Workers Union (KTU) was originally established as an illegal entity in 1989 and active before 1999. For general government employees, the related law had been made several years later. The Law on the Establishment and Operation of the Government Employees' Union was promulgated in 2005. Originally, the Korean Association of Government Employees' Work Councils in 1999, which became the Korean Government Employees' Union (KGEU) as an illegal entity in 2002. Currently, the Korean Government Employees' Union (KGEU) is actively trying to achieve the common goals of government employees such as having better working conditions. Regarding PRP, the KGEU actively opposed it because PRP was introduced in the Korean government well before the KGEU was established. In other words, the KGEU's voice was not integral in the process of PRP implementation because the KGEU had its own struggle for institutionalizing itself in that decade. However, the KTU was strongly against it when the government introduced PRP in the public schools. The KTU attempted to differentiate teachers from general government employees and delayed the expansion of a PRP system for teachers for several years. PRP for teachers was officially introduced in 2001, but the KTU tried to distribute PRP among teachers equally. Consequently, unlike general government employees, teachers have PRP, but a large proportion of it has been distributed among teachers equally. Nevertheless, many teachers are now seeing PRP as an unavoidable trend of HRM and the overall societal influence of KTU has declined in recent years.

V. Policy Implications and Conclusions

PRP fits within the wider performance management issues. The political community such as the National Assembly is supportive of performance management in government and the National Assembly has promoted performance budgeting and its related systems over the years. Consequently, when the Korean government introduced PRP in the 1990s, the National Assembly supported the idea enthusiastically because it was a politically appealing idea. PRP may be a politically feasible and fiscally less costly way of increasing public sector salaries (World Bank, 2014).

However, the implementation of PRP is not simple and easy. When the National Assembly reviewed the overall implementation of a

PRP system in the Korean government, it found a certain degree of leniency of performance appraisal particularly for SCS members. In the past, overall performance evaluation for SCS was generally positive so that the National Assembly demanded that the Korean central government improve the performance appraisal of SCS members. Consequently, the performance appraisal system has been changed making sure of a relative and more objective evaluation, instead of an absolute evaluation, in order to minimize the moral hazard of performance appraisal in giving all good grades. In the process of performance appraisal, at least three categories (Grade S, Grade A, and Grade B) should be maintained now. In other words, it is not acceptable to have only one (Grade S only) or two categories of grade (Grades S and A only) in the performance appraisal in a given agency or department. In other words, more monitoring and oversight must be done by the National Assembly and/or civil society in the process of performance appraisal and PRP payments.

Furthermore, individual-level performance management is useful, but it is not sufficient. In order to enhance overall performance of governments in addition to individual-level performance appraisal, the Korean government established an “organizational-level” performance management system in the public sector including government agencies and public bodies in the form of the organizational performance evaluation for government agencies and the management assessment for public organizations. Accordingly, the Korean government promulgated the Basic Law on Government Performance Evaluation in 2001 in order to improve performance of government tasks, the quality of public policy and satisfaction of citizens. The term ‘organizational performance evaluation,’ targeting central and local governments as well as public bodies, has officially been in use since the Basic Law on Government Performance Evaluation in 2001, when the Cabinet Office conducted a general evaluation on government organizations. Overall government evaluation is handled by the Government Performance Evaluation Committee (GPEC) in the Office of the Prime Minister. Meanwhile, non-departmental public bodies have been evaluated through the public body management evaluation system. Policies implemented by central ministries and local governments are evaluated in order to secure the responsibility, efficiency and effectiveness of the national administration. Agencies subject to evaluation are central ministries, local governments, and public bodies.

Overall, pay flexibility with performance-related pay is an appealing idea, but experience indicates that its implementation is complex and it may bring some negative side effects (Kim and Hong, 2013). For example, individual rewards may breed harmful competition among peers and group-based rewards could encourage free-riding; small rewards may have limited effects, while large rewards could further encourage number gaming (managing by numbers) and perverse incentives (Hood, 2007; World Bank, 2014). Thus many questions remain and much more research is needed in the future.

Nonetheless, performance is a topic that is now a popular catch-cry around the world and performance management has become a new organizational management doctrine. Under the global economic crisis, almost every public and private organization is struggling with a performance challenge, one way or another. Various aspects of performance management have been extensively discussed in the literature and the field of management in both private and public management. The term “performance management” was not utilized in Korea until the 1980s, but now, the language of performance has become an almost every-day feature of work in many public and private sector organizations. Therefore, it is fair to say that performance management with pay flexibility has become irreversible and it appears to be a new social norm in South Korea.

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