Strengthening the Pay-Performance Link in Government: A Case Study of Korea

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In the era of globalization and borderless economies, performance improvement is not an option. It is a must for enhancing government’s global competitiveness. Quality and performance of government employees need substantial improvement. In that regard, this study focuses on how performance-related pay (PRP) strategies strengthen the pay-performance link. Establishing PRP programs in government seems to be a good idea, but the Korean government’s current experience with PRP shows a number of limitations. Recently, PRP and performance measures faced serious criticism from government employees for various reasons. PRP and performance measures must be improved in order to alleviate complaints and dissatisfaction. Cultural transformation, in particular, must occur for successful implementation of PRP measures.

Economic success in the global marketplace is no longer assured. In order to hold the competitive advantage and maintain a high level of success in the world, creative reforms must be taken and resources must be used wisely. Strides to increase global competitiveness will not result from more technologies or reliance on cost cutting, but from our most critical resource: people. Workforce performance will have increased significance on our socio-economic future, and an effective human resource system requires focus on performance. In order to improve competitiveness, a performance management system must be utilized and at the core of an organization’s human resource efforts. Studies (McCloy, Campbell, and Cudeck, 1994) show that employee performance depends on the following general factors:

Employee performance = f (K, S, A, M) where:

- K = Knowledge of facts, rules, principles, and procedures
- S = Skills to handle tasks
- A = Abilities to perform tasks
- M = Motivation to perform

Employee performance depends upon some blend of knowledge, skill, ability, and motivation. People with in-depth knowledge (K) need to be hired. It is also nec-
ecessary to concentrate on building skills (S) and abilities (A), and to find ways to motivate (M) employees to perform in ways that contribute to higher individual and organizational performance. For an organization to succeed, it needs employees who perform well. This involves not only good compensation strategy and practice, but other well-developed human resource policies as well.

To discuss performance, it is necessary to review all factors related to individual and organizational performance. However, this study limits its scope in order to narrow down its focus. In other words, this study focuses on motivation to perform in terms of incentive strategy, which includes the use of performance-related pay (PRP) to strengthen the pay-performance link. This article discusses what motivates employees in terms of motivation theories and discussions of the Korean government's experience of performance-related pay, limitations of performance-related pay schemes, how to strengthen the pay-performance link, and conclusions.

What Motivates Employees?

Motivation theory is characterized by a diversity of models and theoretical frameworks. There are numerous motivation theories, but a full description of such theories is beyond the scope of this study. Instead, two major theories in both content and cognitive process theories of motivation are briefly summarized here with implications for PRP. Content models of motivation focus on identifying the substantive nature of individual needs, while cognitive process theories attempt to explain how and why people are motivated (Gortner, Mahler, and Nicholson, 1997).

According to Maslow (1954), individuals are motivated to satisfy unfulfilled needs, and individual needs form a hierarchy. The five need levels in Maslow's model are physiological, safety and security, social affiliation, esteem and recognition, and self-actualization. When needs are not met, people become frustrated. Maslow's theory implies that base pay must be set high enough to provide individuals with the economic means to meet their basic needs. Incentive pay is motivating to the extent that it is attached to achievement and recognition.

Herzberg (1966) extended Maslow's work considerably by identifying two factors: hygiene factors (rules, pay, working conditions, interpersonal relationships, status, position, security) and motivation factors (responsibility, recognition, promotion, challenging work, growth and development, and achievement). Performance is obtained through rewards and PRP is motivating to the extent that it is connected with meeting employees' needs for recognition and achievement. Pay level is important and must meet minimum requirements before PRP can operate as a motivator, and success-sharing plans will be motivating (Milkovich and Newman, 1999: 276).

Equity theory (Adams, 1963, 1975) is cognitively based, and its explanation of how motivation occurs derives from cognitive dissonance and exchange theories. Employees are motivated when perceived outputs (pay) are equal to perceived inputs such as effort and energies. If employees perceive that others are paid more for the same effort, people will react negatively to correct the dis-equilibrium in the output-
to-input balance. Since employees evaluate their pay-effort balance in comparison to other employees, relative pay matters and the pay-performance link is critical. Fairness and consistency of PRP amongst all employees in an organization is important. If payouts do not match expectations, employees will react negatively (Milovich and Newman, 1999: 277).

Expectancy theory posits that people have needs that they want to satisfy, that they are rationally able to calculate expectancies and instrumentalities, and will behave accordingly. Human beings act and choose in ways that fit their personalities and needs, while taking account of the opportunities and constraints in the situation (Porter and Lawler, 1968). Management, in turn, must know what rewards are valued by workers and be able to set up conditions wherein (1) the worker has a high level of expectancy, and (2) the connections between job performance and rewards established by the organization are clear and highly predictable in the administration (Nigro and Nigro, 2000: 79). People choose the behavior that leads to the greatest reward, and employee assessments of their ability are important.

PRP can be used to induce employee performance, but base pay must be set high enough for employees to meet basic needs. Generally speaking, employees dislike risky pay. People will demand a wage premium such as higher total pay in exchange for accepting PRP. When PRP is utilized as a means to promote performance, PRP must be large enough to be seen as rewards worthy of desirable efforts. In order to make PRP successful, non-monetary conditions should also be met: job tasks should be clarified, and performance measures must be clearly defined and linked to organizational objectives.

**Korean Government’s Experience on Performance-Related Pay**

The Korean government introduced annual merit increment and performance bonus programs in 1999 in order to improve productivity and competitiveness. The Civil Service Regulation for Pay (Article 39) and the Civil Service Regulation for Allowances (Article 7) allow providing performance-related pay to those who proved excellence in job performance. This section introduces the structure of compensation and discusses PRP schemes and performance measures.

**General Structure of Compensation in the Korean Government**

The Korean civil servant’s pay is composed of base salary, allowances, and welfare expenses. Base salary is the regular pay that is paid by grade and pay step according to the degree of responsibility, difficulty of the position, and length of service. It accounts for approximately half of an employee’s monthly pay, depending on the rank in the organization. There are 11 base salary schedules by job category: political service, administrative service, security service, research service, technical advice service,
technical service, labor service, police service and fire fighting service, educational service, military service, and expert technical service.

The allowance is an additional remuneration that is paid separately according to the position and living conditions of individuals. Allowances are broadly classified into three categories: common allowances, special allowances, and extra work allowances. There are five types of common allowances (seasonal allowance, diligence allowance, seniority allowance, family support allowance, and managerial allowance). Also, there are three categories of special allowances (hardship post allowance, high risk allowance, and special task allowance) and three types of extra work allowances (overtime work allowance, midnight work allowance, and holiday work allowance). The expenses paid for civil servants’ welfare include meal payments, grade payments, household support payments, commutation payments, traditional holiday bonuses, and non-vacation payments.

Korean civil servants are very concerned about living standards. As of 2000, the average pay level of civil service employees was equal to 88.4 percent of the pay of the private sector (Civil Service Commission, 2000). So the CSC set a five-year plan to rationalize the pay system and attempt to improve the pay system to reflect individual and organizational needs. Individual employees demand pay increases, while agencies such as the Civil Service Commission and offices in charge of government reform want to make PRP schemes successful.

**Performance-Related Pay Schemes**

There are two forms of PRP schemes used in Korea: merit increments and bonuses. Merit increments are added to the annual salary of a government employee and linked to performance ratings of higher-level employees. Bonuses are paid to government employees annually and designed for mid and lower level employees. Two types of programs in the performance-related pay system, the annual merit incremental program, and the performance bonus program are elaborated upon in the following section.

**Annual Merit Incremental Program**

The most common form of PRP is merit increments. Many countries have some type of merit increment program either alone or in combination with a bonus scheme (OECD, 1997: 21). The Korean annual merit incremental program under the name of “the performance-based annual salary” consists of two portions: the fixed pay portion and the variable (performance-related) pay portion. The variable pay portion is paid separately according to the appraisal grade. The appraisal grade is determined on the basis of the appraisal result of the management by objectives (MBO). This applies to civil servants in Grade 3 or higher (director-general level) and contracted service. The annual salary is composed of three types of payments: the base annual salary, the performance-related annual salary, and other allowances such as employee benefits.
The appraisal grade has four categories from S to C as shown in Table 1. In Korea, Grade 1 is the highest level (assistant minister level) in the career path for Korean civil servants while positions of deputy ministers and ministers are politically appointed. Each grade has a base pay per year: 19,800,000 won for Grade 1; 18,727,000 won for Grade 2; and 17,389 won for Grade 3. The amount of performance-related merit increments can be calculated from the formula of the base pay multiplied by performance pay rate. An example would be the amount of performance-related merit increment for a Grade 1 employee with an appraisal grade A. In this case, the merit increment can be calculated from the formula of one’s base pay (19,800,000 won) multiplied by a corresponding performance pay rate of 5 percent, which comes to 990,000 won. Annual pay for this particular year would be 990,000 won more than the previous year’s annual salary if other conditions remained equal. It is also noteworthy that the performance-based annual salary is not paid to 10 percent of the civil servants who belong in the bottom rank with Grade C (as shown in Table 1).

<table>
<thead>
<tr>
<th>Appraisal Grade</th>
<th>Excellent (Grade S)</th>
<th>Outstanding (Grade A)</th>
<th>Normal (Grade B)</th>
<th>Unsatisfactory (Grade C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment Scope</td>
<td>Upper 10%</td>
<td>11-40%</td>
<td>41-90%</td>
<td>91-100%</td>
</tr>
<tr>
<td>Performance pay rate</td>
<td>8%</td>
<td>5%</td>
<td>3%</td>
<td>0%</td>
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**Performance Bonus Program**

The Korean government has a similar system that follows the most common form of bonus payment based on an annual bonus through appraisals of performance for the year (OECD, 1997: 22). This program applies to all civil servants from the rank of division director to lower levels, in whole categories. In determining the bonus scope, bonuses for civil servants in Grade 3 (division director level) and 4 are based on the MBO, while bonuses for those in Grade 5 or lower are determined by the performance appraisal system. This will be granted as a lump sum bonus and will vary in size from 110 percent to 40 percent of the monthly base salary per year.

Performance bonus can be provided in various ways: (1) individual base, (2) departmental base, and (3) combinations of individual and departmental bases. Performance bonus by an individual base is the most common form in Korea at present. When an individual differentiation in task fulfilment is extremely difficult and teamwork is essential in daily duties, performance bonuses can be allocated by a departmental base. As of 2002, four areas where output is a group collaboration effort (defense, police, security such as the Presidential Security Service, and railroad service) use performance by a departmental base. Also, performance bonuses can be distributed by a combination of individual and departmental bases, and a couple of agencies (i.e., the Ministry of Gender Equality and the Ministry of Labour) utilize such
methods. Table 2 shows the appraisal frame for the performance-related bonus program based on individual base, and pay mechanisms for departmental base are determined by each agency under the guidelines of the Civil Service Commission.

<table>
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<th>Table 2. Appraisal Frame for the Performance-Related Bonus Program</th>
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<tr>
<td>Appraisal grade</td>
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<tr>
<td>Payment Scope</td>
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<td>Performance bonus rate</td>
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The main appraisal method of the performance bonus for mid and lower level employees is performance appraisal. The head of an agency or ministry can utilize other performance appraisal methods in addition to traditional performance appraisals if necessary. While additional methods such as 360-degree feedback are used, it is not mandatory since a 360-degree feedback can be exempt if an agency or ministry has special circumstances.

**Performance Measures**

Two measures are used in the Korean government: MBO for higher-level employees and performance appraisal rating for mid and lower-level employees. In addition, 360-degree feedback is used for supplementing existing appraisals. Each of them is reviewed briefly as follows.

**Performance Appraisal**

Under current personnel regulations, performance of civil servants is evaluated regularly. Most agencies utilize the appraisal results as basic data for promotions and the performance bonus. According to the Regulation for Performance Appraisal, the performance appraisal includes three major areas: performance (quality of performance, quantity of performance, timeliness of task accomplishment, and process improvement), ability (IT literacy, familiarity with a given task, judgment, planning, professional certificate, and required fluency of a specific foreign language, if any), and attitude (lateness, absence, discipline, and kindness toward the public). Three areas have different weights: performance takes the largest proportion (60 percent), followed by ability (30 percent) and attitude (10 percent) as shown in Figure 1. Among the three key factors (performance, ability, and attitude) mentioned here, only the performance factor is counted for determination of the performance-related bonus. Recently, the performance share was increased to reflect the significance of employee performance in government. Appraisal permits that each ministry can decide the elements and scores in consideration of case details.
**Appraisal by MBO**

Management by Objectives (MBO) is a planning and appraisal tool that has many different variations across organizations. MBO typically evaluates employee progress toward strategic planning objectives. MBO was introduced in the Korean government in March of 1998 and tested from July to December of 1998. After pilot studies in 1998, it was implemented government-wide beginning in January of 1999 as a tool to encourage competency in high-level officials. In the past, there was no performance rating for Grade 4 or higher-level officials. Those who were in Grade 4 had annual evaluations in terms of behavior but did not have a performance rating. Also, those in Grade 3 or higher did not have any performance ratings in the past.

The MBO scheme is based on evaluation by the degree of goal accomplishment and the nature of goals (strategic goals, main goals, and basic goals) to fulfill for the year. Such goals are set based on performance indicators, and the emphasis is on outcomes achieved by employees. In the beginning of a performance review period, the employee and supervisor discuss performance objectives and meet to record results formally. Results are then compared against objectives, and a performance rating is
then determined based on how well objectives were met. Such performances are evaluated at the end of the year in terms of accomplishment of objectives (60 percent) and characteristics of objectives (40 percent: importance of objectives and the degree of difficulty to fulfill).

**360-degree Feedback**

In Korea, upward feedback has been viewed as counter-cultural, but the culture within organizations has undergone a revolution in the past several years. The Korean Civil Service Commission (CSC) and the Ministry of Government Administration and Home Affairs (MOGAHA) have developed a formal policy on 360-degree assessment. This policy supports the use of multiple raters as an effective method of assessing performance both for developmental and appraisal purposes. The Central Government revised the Civil Service Employment Decree (CSED: Kongmoowon-Imyongryung). On December 31, 1998, CSED was revised to incorporate Article 35, which allows but does not mandate that 360-degree feedback be used to determine government employees' promotions as one of the personnel reform measures in the Kim Dae-Jung Administration. On January 16, 2000, the Article was revised again to state that 360-degree feedback could be used not only for promotions, but also to determine pay step increases, performance-related pay, training, position assignments, and other personnel practices (Kim, 2001).

The 360-degree feedback program requires managers, subordinates, and peers to participate in evaluating one another on work-related items such as performance, attitude, and leadership. The practice of the 360-degree feedback program has already been used to an extent in the Ministry of Agriculture, the Ministry of Patent, and the Administration of Supply to provide supplementary data for promotion review since 1997. The CSC and the MOGAHA implemented the plan to develop and promote the new evaluation system, frequently referring to the 360-degree feedback program as an aid to employee assessment. Hearing how subordinates view them gives leaders the chance to modify behavior (Bearly and Jones, 1996; Milkovich and Newman, 1999; Kim, 2001). The difficulty with this type of rating is attaining candid reviews and counselling on how to deal with the feedback.

**Obstacles in Implementation of Performance-Related Pay Schemes**

Despite the growing popularity of performance-related pay (PRP) systems, these programs have potential limitations, which may lessen credibility with employees (Martocchio, 2001: 84-85). If employees do not believe in a PRP program, the pay system will not bring about expected motivational impacts. Supervisors, HR managers, and officials in charge of civil service reform must address the following potential problems with PRP programs.
Lack of Experience in Utilization of PRP

PRP is a newly introduced system in Korea and only recently embraced in the private sector. Intensified competition at home and abroad forced conglomerates (chaebol) to introduce merit pay programs to improve employee and organizational performance. Amid the proliferation of performance-based incentives, regular bonus payments were gradually giving way to performance-linked, differential bonus programs. Some examples in major conglomerates include Kolon International Corporation's reduction of regular bonus payments from six months' salary a year to two months' salary in 1998. Instead, Kolon employees' extra allowances were indefinitely linked to job performance. Hyosung Corporation also abolished regular bonus payments in favor of a performance-based package, which calls for differential bonus payment ratios ranging from 50 percent to 800 percent. At the Samsung Group, which is enforcing the annual-salary system for all mid-level employees above division-director level, the salary gap between the top and bottom annual wages has recently been expanded from 25 percent to 40 percent. The salary gap for the same division-directors can amount to 10 million won. Hyundai Motor Company also introduced the annual salary system in 1999 and plans to set the salary gap among the same-grade employees at 3 million won. The annual-salary system is now quickly spreading to core affiliates (Yoo, 1999).

As shown in such examples, utilization of PRP is even relatively new in the private sector. The Korean government's lack of experience with PRP until the late 1990s may lead to confusion and conflict in implementing PRP programs.

Union's Resistance

The Civil Service Commission recommends agencies not allocate an equal amount of performance bonus to government employees without differentiation by performance. Schoolteachers under the Ministry of Education and Human Resources, however, demand to have performance bonuses as allowances that do not differentiate among government employees. Korea Teachers and Workers Union (KTU) refused performance bonuses for some time in 2001, so that PRP payment was delayed for several months. Conflict with teachers' unions was one of the major stumbling blocks in full-scale implementation of PRP in the Korean government. Basically, teachers want to receive additional monetary returns, but KTU refused to have PRP because it is based on differentiation of performance. In February 2002, KTU demanded that government distribute PRP to all teachers as part of an allowance or abolish it (Ha, 2002).

Historically, public unions were under-developed in the Korean government except medical technicians, and postal and railroad workers amounting to 43,637 (MOGAHA, 2001: 156). Since 1998, the Workplace Council for lower-level government employees is legally organized, although its status is not yet a public union. KTU, formerly an illegal organization, was legally authorized as a public union for schoolteachers after the Act for Establishment and Management of the Teachers' Union was passed in the National Assembly on January 6, 1999. Currently, KTU's position is to abolish the performance-based bonus program or to make it a typical allowance that does not differentiate employee performance.
Egalitarian Culture

When someone receives better treatment, particularly in a homogenous society such as Korea, it often accelerates sensitivity among members of society. Korea was an agrarian society for a long time, and land was one of the most valuable estates for Koreans throughout history, as reflected by an old saying in Korea: “When someone buys real estate, one’s cousin becomes jealous.” Such an egalitarian culture is very pervasive in Korea. There is little doubt that policy makers in government know that PRP should be large enough to motivate government employees. But in the process of personnel policy making, such an idea could have been intervened by demands made by fellow government employees to share such fruits more equally.

Authoritarian regimes in the past also affected reinforcement of such an egalitarian culture. Under dictatorship, people demanded democratic values such as equality and fair representation without discrimination. Such sentiments seem to accelerate egalitarian culture in Korea’s modern history.

There are other cultural factors that affect PRP’s success. For example, the seniority system would be another major barrier for full-scale materialization of the PRP program in government. Seniority is a major factor in determining pay. Other cultural characteristics (whether employees are materialistic, individualists, or risk-takers) could affect employee motivation toward PRP.

Little Monetary Value

PRP programs may not always influence employee motivation positively as intended. According to motivation theories, increases in performance must be matched by commensurate increases in pay or incentives. Employers and employees may differ in what they see as large enough merit increases to motivate positive worker behavior. For example, increases diminish after deducting income taxes and contributions to pensions. Assuming that an employee receives a PRP increase once per year, differences in employees’ monthly paychecks may be negligible.

At present, Korean performance-related annual merit increments are not very attractive. PRP differences between one in the top grade “S” and one in the bottom grade “C” are not significant. In the case of Grade 1, for example, the maximum difference would be 1,584,000 won (US$1,235 as of February 15, 2002) per year when all other things are equal. Those with the highest appraisal grade would have pride and honor, but monetary return is not large enough.

Supervisors’ Bias and Poor Performance Measures

Performance evaluations often rely on supervisors’ subjective assessments of employees’ job performances. Supervisors are subject to a number of errors (halo, horn, first impression, recency, leniency, severity, central tendency, clone, and spillover errors) when they make subjective assessments of job performances. These errors often undermine the credibility of the performance evaluation process. Performance evaluation processes that lack credibility do little to create the perception among employ-
ees that pay reflects performance. Accurate and comprehensive performance measures that capture the entire scope of an employee's job are essential to successful PRP. Unfortunately, developing bias-free performance measures for every single job is not only difficult but expensive.

**Failure of Differentiation among Performers**

Employees may receive merit increases even if performances do not warrant them, because supervisors want to avoid creating animosity among employees. Cultural roots that produce champions are relatively weak in Korea. Under the current PRP system, pay differentiation between high and poor performers is not significant. Therefore, poor performers may receive the similar pay increase as exemplary performers and may come to view PRP increases as entitlements. Consequently, superior performers may question the value of striving for excellent performance.

**Side Effects of Competition**

Because PRP programs focus mostly on individual employees, these programs do little to integrate workforce members. With limited budgets for merit increases, employees must compete for larger shares of this limited amount. Competition among employees is counterproductive if teamwork is essential for successful projects. Merit increases are best suited for jobs where the employee works independently and in many professional positions. In other words, merit increases based on individual performance might create undesirable consequences in which team spirit is strongly required. When people perceive competition as a personal war, which is often the case in Korea, it is counterproductive for human relationships in an agency.

Other problems with PRP could be identified. Nigro and Nigro (2000: 147) summarized such problems as follows: lack of adequate funding for PRP, perceived inequities in performance awards, conflict between raters and those being evaluated, lack of confidence in performance evaluation techniques, excessive demands on supervisors' time, employee suspicion and distrust of management's motives, system failure to meet employee expectations, and lack of supervisory compliance with program requirements. Although there is no empirical evidence, most of these issues seem to apply in the Korean experience in various ways, although the intensity of such problems may vary.

**How to Strengthen the Pay-Performance Link**

The traditional approaches to performance evaluation and pay do not conform to the merit principle. Some scholars (Kellough and Selden, 1997: 1-2) documented difficulties associated with PRP, but the public sector will continue to utilize PRP as globalization and market economies prevail. HR managers and officials in charge of civil service reform can employ a number of approaches to strengthen the link between pay and job performance (Martocchio, 2001: 82-83). Possible approaches are summarized in the following section.
Improve Pay System for Government Employees

Allowances are overdeveloped; base pay accounts for approximately half of the monthly pay, while allowances and other welfare expenses take the remaining half. Under this circumstance, government employees are likely to perceive PRP as an allowance. In order to avoid such a situation, allowances must be integrated with base pay as much as possible in the near future. Also, the pay level must be adjusted in the future because the pay level of government employees is lower than other neighboring countries such as Japan, Hong Kong, and Singapore. Particularly, the pay level of higher-level officials is relatively low in Korea. Accordingly, government employees have general discontent with the government pay system and such situations generate distrust between workers and management, as well as dissatisfaction with the current pay system including the PRP program. Pay systems need substantial improvements in order to build up trust for the pay system and make PRP successful. Furthermore, it is critical to secure adequate funding of the PRP program so that employees could see payouts as meaningful.

Establish Effective Appraisals and Analyze Jobs Continuously

Government employees often complain about performance appraisal and performance measures in Korea. The biggest problem with the move to a meritocracy is that it is subject to measurement where doubt undermines the system. During performance appraisal meetings with employees, supervisors should discuss goals for future performance and employee career plans more seriously. When performance deficiencies are evident, supervisors and employees should work together to identify possible causes to develop an action plan to remedy these deficiencies.

Job analysis is vital to organizations that wish to establish internally consistent compensation systems. Supervisors that create objective performance measures use job descriptions or a product of job analysis. Job descriptions note the duties, requirements, and relative importance of a job within an agency. Supervisors appraising performances can match performances to these criteria. This approach may help reduce supervisors' arbitrary decisions about merit increases by clarifying the standards against which employees' performances are judged. In the past, the Korean government did not pay attention to job analysis. The Civil Service Commission established the Job Analysis Division in 1999 in order to meet such needs. At present, several agencies (for example, the Ministry of Foreign Affairs and the Trade, and the Korea Meteorological Administration) have had job analysis consultations with the Civil Service Commission. It is expected that such activities could contribute to development of a more rational HRM in the future.
Differentiate among Performers

The current appraisal systems used in most Korean agencies have problems such as leniency. Korean managers tend to evaluate subordinates too leniently with little differentiation between high and low performers. This tendency of Korean managers and the use of traditional seniority-based reward systems are no doubt related to the harmony-oriented (inbwua) or paternalistic (onjungjooeui) Korean culture. Harmony is one of the most emphasized values in Korean agencies. Most Korean managers are more inclined to maintain harmony by producing lenient appraisals of subordinates than to arouse conflict and tension through critical or negative appraisals. Paternalistic leadership behavior under traditional Confucianism also tends to lead Korean managers to produce generous, lenient ratings of subordinates.

At present, PRP difference between top and poor performers in the Korean government is not substantial as mentioned earlier. Superior performers would feel valued when they are equitably compensated for their efforts. Thus, merit increases should consist of meaningful increments. If employees do not see significant distinctions between top performers and poor performers, top performers may become frustrated and reduce levels of performance. If most employees receive PRP, PRP will lose its attractiveness to employees, and they will see it as an entitlement. Thus, Korean PRP’s current payment scope must be readjusted for substantial differentiation among performers.

Empower Employees and Communicate with Them

Supervisors need to take on a coach’s role to empower workers. It is important to find a way to embed individual-based knowledge in the agency, making it accessible and useful not just to one unit or function but to the entire organization. As coaches, supervisors must ensure that employees have access to the resources necessary to perform jobs. In a Korean public sector with a somewhat authoritarian culture, the role of supervisors-as-coaches is critical for successful implementation of PRP. Supervisors can have a means of pressuring poor performers to improve through PRP schemes, but they should not wield the sceptre excessively. Instead, supervisors should help employees interpret and respond to work problems as they develop. Empowering employees in this fashion should lead to more self-corrective actions rather than reactive action to supervisory feedback.

In an environment of secrecy and authoritarianism in Korea, employees and unions lack the information necessary to determine if pay actually links to job performance. Trust is difficult to build when decisions are kept secret and employees and unions have no influence on pay decisions. For performance-related pay (PRP) programs to succeed, therefore, employees and unions must clearly understand what they need to do to receive merit increases, and what the rewards for performances will be. Open communication helps employees and unions develop reasonable expectations and encourages them to trust the system and those who operate it. Therefore, employee participation in the design, implementation, and evaluation of PRP schemes is also an important factor in the success of PRP.
Link Performance Appraisals to the Competitive Strategies

The standards for employee performance judgment should be linked to the competitive strategies an agency has engaged. For example, each member of a policy development team charged with the responsibility of developing a new policy might be given merit increases if certain goals are reached. In order to do so, alternative or supplementary methods can be utilized. For example, incentive payment and task-specific bonuses would be other alternatives for improving performance in government. These forms of bonus payments usually have the benefit of being tied to specific quantitative or verifiable measures of performance, and do not rely on the more subjective appraisal rating of performance to determine a person's PRP award (OECD, 1997: 22).

Develop a Model Case

Human resource management for high-level positions should be well-developed, but it is relatively under-developed in Korea. As mentioned earlier, MBO was recently adopted as an evaluation tool for higher-level officials. Accordingly, more strategic HRM is necessary for higher-level officials in the future. As a potential alternative for such a purpose, the American model of the Senior Executive Service (SES) or the British model of the Senior Civil Service (SCS) that utilizes the competency framework for human resource development can be benchmarked for further development. In doing so, performance management can be improved for high-level officials and such development could affect mid and lower level employees in the long run. Higher-level officials must demonstrate a model case in a performance improvement system so that mid and low-level employees can follow in their footsteps.

Conclusion

In the 21st century, performance improvement is not an option. It is a must for enhancing government's competitiveness. In the era of globalization and borderless economies, quality and performance of government employees need substantial improvement. In that regard, having PRP programs seems to be a good idea. However, the well-articulated system design based on an in-depth understanding of complex human nature and effective management of such programs are the keys to success. Having a good idea is not enough. The good idea must be followed up by system improvements and sound practices. Accordingly, PRP and performance measures must be improved or adjusted to be successful in the near future.

Although it is too early to evaluate overall performance, the Korean government's current experience with PRP shows a number of limitations. Recently, PRP and performance measures such as MBO faced serious criticism from government employees for various reasons. First, these new systems were not well-prepared prior to implementation. These systems were suddenly introduced in 1998 and were implemented government-wide in 1999. Second, many officials lacked in-depth under-
standing about the nature of these systems and the difficulties of setting performance objectives for the year. Third, people dislike evaluating as much as being evaluated. The seniority-based system is still prevalent in many Korean organizations, which makes it hard to change perception and behavior in the short term. Fourth, it is difficult to develop performance objectives and performance indicators because the nature of public affairs is often hard to quantify. Fifth, these systems appear to require more paperwork and increase both performance pressure and stress.

Therefore, PRP and performance measures must be improved in order to alleviate complaints and discontent. Since it will take time to succeed at such new systems, it is necessary to make continuous improvements based on both domestic and international partnerships. Changing from an entitlement to a performance culture represents a major philosophical shift and cultural revolution for government employees (Schay, 1997: 270). Resistance to change can be overcome if there is a strong, long-term commitment to making the change successful. Therefore, strong commitment of government leaders in promoting a performance culture is very important.

In addition, government must invest in human capital and provide opportunities for further human resource development. We need to recognize that motivated people are central to the operation of any agency that wishes to function well in the new age. A decade of downsizing, organizational restructuring, and reengineering has produced employees who are more exhausted than empowered, more cynical than optimistic. Many agencies are only marginally focused on the problems of employee capability and motivation. Somewhere between theory and practice, precious human capital is being misused, wasted or lost (Barlett and Ghoshal, 2002: 34). Therefore, management needs to develop the engaging and motivating culture necessary to attract, excite, and retain employees.

Notes

1 For more details, see http://www.cse.go.kr.
2 The Korean Civil Service has 9 grades: Grade 1 is the highest, while Grade 9 is the lowest.
3 There are some exceptions. First, the head of each agency or ministry can adjust its payment scope within 5 percent points based on its budget in order to reflect its organizational characteristics. Second, the head of each agency or ministry can provide more than 110 percent based on its budget if one had the highest appraisal grade (Grade “S”) and his or her performance is exceptional. Third, the head of each agency or ministry can make a different performance pay scheme based on consultation with the Civil Service Commission if an agency or ministry has special circumstances due to characteristics of its tasks and employees.
4 MBO can promote effective communication between employees and their superiors, but it is time consuming, requiring constant information flows between employees and superiors.
5 Despite the many positive aspects of the annual-salary system, union leaders see that some companies may attempt to abuse the system to cut wages and reduce severance pay.
6 As of September 30, 2001, 82,000 persons among 343,000 employees in educational service combined are members of KTEU. For more details, see at http://eduhope.net. Korea Union of Teaching and Educational Workers (KUTE) has approximately 36,000 members in 2001. For more details, see at http://kute.or.kr.
The seniority-based pay system, a time-honoured tradition among domestic firms and agencies, is causing problems in terms of deterrence of fair compensation and incentive creation.

An entitlement refers to the following situation where a person well enough to be entitled to the same size paycheck as everyone else but not poor enough to be fired. PRP program is a movement away from entitlement (Milkovich and Newman, 1999: 296).

References


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