

# On Reforming Korean Personnel System: The Role of Promotion as an Incentive System\*

**Kim, Rando**

*Assistant Professor of Dept. of Consumer Studies  
Seoul National University*

## **Abstract:**

This paper argues that the reform of incentive system, rather than structural reorganization, is crucial for changing the behavior of bureaucrats in government organizations. Incentive system is composed of a lot of factors that organizational members aspire after such as monetary compensation, nonmonetary benefits, and status advancement within organization. This paper especially centers on the incentive in career advancement, i.e. promotion. Chapter II discusses why promotion is more important than any other incentive in Korean bureaucracy. As the importance of promotion may be theoretically explained by organizational psychology and principal-agent theory, Chapter III is composed of the possibility and limitation of these two theoretical approach and their relevance for designing organizational incentives. Based on the theoretical discussions, Chapter IV focuses on the practical issues of reforming Korean personnel system to make promotion an incentive system. It also makes suggestions about how promotion and personnel systems can be restructured to enhance bureaucratic performance. Then, the final chapter summarizes and concludes the paper.

## **I. Introduction**

### **1. The Year 1998: Administrative Reform, Again**

Korean society has been in a turbulent process of reformation since the inauguration

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of the new President, KIM, Dae-Jung. At the same time, the foreign currency deficit, a.k.a. IMF crisis, since 1997 has ignited the necessity for administrative reform of Korean government. Under the 30 years' experience of authoritarian regime, the administrative sector of Korean government is claimed to be corruptive, inefficient, and unproductive. Along with structural reorganization efforts in every party of the country, tremendous efforts are under progress to make the government more effective.

Structural reorganization, deregulation, and privatization has become popular slogans of new government. As soon as Kims administration launched, it reorganized, restructured, and renamed major departments such as Planning and Budgeting Commission (KPBC), Ministry of Finance and Economy (MOFE), and Ministry of Foreign Affairs and Trade (MOFAT). It does not seem to be confined to the governmental sector; it tries to reform the rest of sections, including Quasi-governmental organizations, public enterprises, government-owned Banks, and even private enterprises especially *chaebols*.

Such efforts are not a unique situation for Korea, though. The call for administrative reform to reinvent government seems to be a global movement. Most administrative systems in the world is experiencing persistent demands for reform and reinvention to increase the capacity of the system. So called "reinventing government" movement (Osborne and Gaebler, 1992; Kettl and DiIulio, 1995) has been one of the most popular concepts in the 1990s. Some reform pushes are initiated from outside the government, and some are initiated by the government itself but, in either case, the stated objective for reform has been always the same: to enhance the administrative and managerial capacity of public administration to achieve national goals (UN, 1983: 3-4) given that the administrative system and the human beings in it perform below expectations or even fail to perform at all (Caiden, 1992: 283).

## 2. Past Attempts: Structural Strategies

Korea is no exception to such global efforts and this is not the first time to reform, either. It has made a number of efforts to reform its administrative system. Furthermore, because of frequent political upheavals, Korea has had six republics in less than 50 years. Every time a republic was inaugurated, there was significant administrative reform attempts. Although the social conditions and political demands, goals, and *enclaves*<sup>1)</sup> of reforms were different each time, the reform strategies were largely the same: administrative reform by *structural* change, i.e., the reform programmes focusing on the establishment, merger, abolition, or reorganization of government ministries and agencies.

Despite numerous reform efforts, however, there is no evidence that the Korean administrative system has improved. The problems of the Korean administrative system have actually been put in the limelight by corruption scandals connecting two past president, the collapse of a big department store building due to lax enforcement of building codes, and the collapse of a major bridge in its capital city owing to official negligence. Bureaucratic corruption has persisted even after the democratic election of a president who has devoted his whole life to the democratization of Korea and who has also carried out radical administrative reform to democratize the administrative, political, and social systems.

The persistence of public *maladministration* (Caiden, 1991b) in Korea implies that the behavior of bureaucrats did not change in spite of numerous purification movements, and various organizational and institutional changes. What are the reasons for the failure in ameliorating the persistence of public maladministration? Why have over forty years' efforts of cleansing and punishing activities have turned out to be fruitless in curing bureaucratic pathologies? Such failures show the limitations of

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1) Reform enclaves refers to "some units or islands in which some relatively change-prone and reformist elements find themselves" (Lee, 1985: 240). Here, the term includes both reform leadership and elite.

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structural strategy in bureaucratic reform.

Korean reform strategies have focused on the alteration of the *hardware*, i.e., formal structures, without considering the behaviors, preferences, beliefs, attitudes, and culture of the people in them. Many of these reforms assumed that the establishment, merger, abolishment, or even simple renaming of government ministries and agents were able to solve the problems. Little attention has been given to the often traumatic side effects of reorganization (Miles, 1977: 161). About the limitations of reform by reorganization, Brown (1977: 261) notes as follows:

“Reorganization,” Harold Seidman, a former head of the Bureau of the Budget’s Division of Administrative Management, has reminded us, “has become almost a religion in Washington.” It is too frequently talked to, particularly by new administrators; too much is claimed for and expected of it; and too little usually happens as a result.

Indeed, questions about the effectiveness of reform by reorganization ensue: Does renaming “Ministry of Education” to “Ministry of Education and Youth” contribute to solving juvenile delinquency problems? Can the establishment of “Ministry of Culture” enhance the cultural level of a nation? Or, will promoting the legal status of “Environment Administration” into “Ministry of Environment” better solve environmental problems? Will all these efforts contribute to lessening bureaucratic corruption?

### **3. The Issue for the Paper: Individuals in Action and Incentive System**

Administrative reform should not be confined to changing organizational structures. Rather, it should also aim at changing the *people* in it. Without the comprehension of the incentive, preference, and motivation of the individuals, it will be impossible for any reform to accomplish the desired end-state by only changing organizational structures.

In this sense, the studies on administrative reform have neglected one crucial aspect of the reform: the individuals in action. Individual belief, attitude, and behavior do not change in a day by modifying the organizations and institutions to which the people belong. Rather, they are prone to change through their calculative cognitive processes about incentive, preference, and motivation. Accordingly, reform should also focus on both bureaucrats' *incentives* and institutional change.

This paper argues that the preference of bureaucrats is critical as an administrative reform strategy in inducing behavioral change. Wilson (1989) claims that the change of incentives of organizational members is important to induce behavioral change. In order to change the incentive of organizational members, understanding their preferences is essential. As one of the important preferences of Korean bureaucrats is promotion aspiration, the paper delineates how the existence of promotion aspiration can be used as a strategy for managing behavioral change and bureaucratic resistance.

Acknowledging bureaucrats' preference is critical in dealing with the bureaucratic resistance in the course of reform and behavioral change, too. The main reason why reform fails at the implementation stage is because of stalled bureaucracy. Indeed, it goes without saying that the success of administrative reform depends on eliminating resistance rooted in bureaucratic power. Reform strategies must include the strategy for managing bureaucratic resistance. For example, the existence of strong political leadership and the support of citizens are needed for eliminating resistance (Maheshwari, 1993). Tackling resistance is an essential component of the reform process, as Caiden (1991a: 41-42) explains in terms of three distinctive features of administrative reform: moral purpose, artificial transformation, and administrative resistance. As most reform efforts fail at the implementation stage (Khan, 1981: 16), implementation is the "Achilles' heel of administrative reform" (Caiden, 1976).

#### **4. The Organization of the Paper**

Again, the main argument of this paper is that the reform of incentive system,

rather than structural reorganization, is crucial for changing the behavior of bureaucrats in government organizations. Incentive system is composed of a lot of factors that organizational members aspire such as monetary compensation, nonmonetary benefits, and status advancement within organization. This paper especially centers on the incentive in career advancement, i.e. promotion, for the reasons that the rest of the paper deals with.

The next chapter (Chapter II) discusses why promotion is more important than any other incentive in Korean bureaucracy. As the importance of promotion may be theoretically explained by organizational psychology and principal-agent theory, the following chapter (Chapter III) is composed of the possibility and limitation of these two theoretical approach and their relevance for designing organizational incentives. Based on the theoretical discussions, chapter IV focuses on the practical issues of reforming Korean personnel system to make promotion an incentive system. It also makes suggestions about how promotion and personnel systems can be restructured to enhance bureaucratic performance. Then, the final chapter (Chapter V) summarizes and concludes the paper.

## **II. Promotion as an Incentive System**

### **1. Organization, People, and Promotion: A General Discussion**

Organization is one of the most ubiquitous and essential aspects of human life. Human beings are affiliated with various organizations for many reasons: living, learning, socializing, or just having fun. In addition to being a prominent characteristic of modern society (Scott, 1992: 4), organizations, especially large ones, have significantly contributed to the development of capitalism and the enhanced living standards and national power of the United States and other countries (Presthus, 1962: 17).

Organizations induce individuals to contribute to organizational missions by providing such incentives as pay, social relationships, status and esteem, sense of belonging, pleasure of labor, and self-actualization (Clark and Wilson, 1961). Different individuals, however, may possess different preferences regarding these incentives. To be effective, organizations need to develop incentive systems that are compatible with their members' preferences. Therefore, fundamental questions in organizational analysis are: What do individuals value most in an organizational setting? Is there a universal preference that is shared by all organizational members? Or, is there an incentive system that can elicit extra efforts by organizational members?

Career advancement is an objective sought by members in most organizations. Within an organization, winning a promotion is a major indicator of one's career success. To advance to higher positions in the hierarchical ladder is one of the most important aspects in many people's organizational life. Promotion is significant not only to the individuals in an organization; it is also critical to the organization itself (Snow and Snell, 1993: 448). When a position becomes vacant, an organization has two alternatives to fill it: promotion from within or recruitment from the outside. The decision on which alternative to adopt depends on the relative costs and benefits of the two alternatives (Jacobs, 1981).

Relying solely on promotion as a means of filling vacant positions has potential drawbacks: organizational rigidity and inflexibility, fewer candidate choices, fewer new ideas, narrower perspectives, and conflicts among organizational members (Markham et al., 1987: 243). Despite these potential drawbacks, most organizations favor promotion from within because it enhances morale, keeps the organization homogenous, sustains stability and continuity of manpower, decreases search and training costs, helps superiors to assess the job candidates better, and creates a sense of unity between promoted superiors and subordinates (Markham et al., 1987: 243-244). In addition, promotion from within provides organizational members with *incentive* and thereby helps the organization to motivate them. This seems to be the fundamental reason that many organizations adhere to the promotion system.

While promotion is a major means for motivating employees, many actual promotion systems are not based on the merit principle. As will be shown in later chapters, for example, regional considerations and personal connections are major factors affecting one's chance of promotion in the South Korean bureaucracy. In the United States, bureaucratic promotion is reported to be affected by the following informal factors: family social standing and connections; memberships in social and civic organizations; memberships in professional organizations; recreational activities and hobbies; judicious consumption; spousal influence; the acquisition of the attitudes, values, and behavior patterns of successful superiors; the establishment of higher-level friendships; and retaining lower-level friendship (Coates and Pellegrin, 1957: 204-208).

The existence of such informal and "particularistic" (Perrow, 1986: 6-14) criteria implies that there is a discrepancy between an *ideal* promotion system and *actual* practices. This discrepancy suggests that many organizational members may develop frustration, anxiety, and dissatisfaction because they feel that their contributions have not been adequately rewarded by the organization's promotion system (Heisler, 1978: 62-63). Therefore, it is necessary to understand how promotion practice and process are perceived by organizational members.

## **2. The Role of Promotion as Incentive System within Organization**

Promotion is important not only in the process of administrative reform and behavioral change but also in tackling bureaucratic resistance because promotion provides bureaucrats with an *incentive*. The incentive system is one of the essential elements of organization as it is a critical factor that influences organizational characteristics and the behaviors of its members (Clark and Wilson, 1961: 130). On the importance of incentive, Barnard once wrote:

The contributions of personal efforts which constitute the energies of organizations are yielded by individuals because of incentives. The egotistical motives of self-preservation and of self-satisfaction are dominating forces; on the whole,



organizations can exist only when consistent with the satisfaction of these motives, unless, alternatively, they can change these motives. The individual is always the basic strategic factor in organization. Regardless of his history or his obligations, he must be induced to cooperate, or there can be no cooperation (Barnard, 1938: 139).

As shown in the previous chapter, promotion is one of the most preciously cherished resources for Korean bureaucrats and the perceptions on the promotion and subsequent personnel system heavily affect bureaucrats' job satisfaction which is directly related to morale within the public sector. In a practical sense, together with monetary compensation and nonmonetary benefits, promotion is an important organizational reward (Dessler, 1979: 112).

In addition, in a strictly hierarchical setting as in a bureaucracy, upward intra-organizational mobility itself constitutes an incentive because it accompanies many other components especially in the culture that emphasizes the hierarchical order. Furthermore, promotion is the sole performance-related incentive where other performance-based rewards, such as the introduction of a performance-based pay system, are difficult to use because of the constraints of budgetary regulations in the public sector (Rose-Ackerman, 1986: 140). Therefore, promotion is one of the most significant incentives in Korean bureaucracy.

As discussed earlier, numerous purging efforts often resulted failures in ameliorating pathological behavior of bureaucrats. These failures occurred because punishment has *little* effect on subordinate compliance (Brehm and Gates, 1994: 338). On the contrary, it is necessary to understand an individual's perception set (Schott, 1991), or to change the incentives of organizational key members (Wilson, 1989: 321-323), if one hopes to influence that person's behavior. Therefore, when promotion criteria are connected to desirable reform goals, promotion can provide employees with a reward (Vardi, 1980: 343-344), and behavioral changes can be induced by the exercise of promotions.

Yet more questions remain: On what bases can promotion as a reward contribute to the change of behavior? How should the promotion system be practiced and reformed

for behavioral change? To answer the first question on theoretical grounds for explaining how promotion as a reward alters behaviors, the following section undertakes a theoretical review regarding organizational psychology and principal agent theory.

### **III. Theoretical Discussions**

#### **1. Organizational Psychology**

One of the most fundamental notions in organizational psychology is that reward expectation, extrinsic or intrinsic, can motivate and contribute to the behavioral change of the employees. The reasoning utilized to explain the trajectory from reward to behavioral change is diverse, but the basic logic has been all the same: reward motivates people. One typical example is the cognitive process theories of motivation.

The basic logic has not been changed since Lewin that motivation is a function of the subjective probability of achieving a desired outcome and the valence (value) of the desired outcome. Vroom's VIE theory (1964), expectancy theory (Staw, 1976), the goal-setting theory (Locke, 1968), and the comprehensive Porter-Lawler model (Lawler and Porter, 1967) are primarily constructed under the same logic.

Considering these theoretical assumptions, expectation of promotion will undoubtedly motivate the bureaucrat as promotion is the most valued reward in Korean public organizations as previous chapters revealed. The strength of motivation depends on the bureaucrat's perception about the link between their performance and the probability of promotion. If the exercise of promotion is not tied to performance, promotion will not motivate at all, no matter how the bureaucrat aspires for promotion.

According to the equity theory, an employee is constantly comparing the ratio of his or her input and output with other people's inputs and outputs (Adams, 1963).

When one perceives oneself to be unduly under-compensated compared to other people, one will keep one's perceptual balance by reducing input. In other words, when the monetary compensation is constant and not related to performance, or when bureaucrats perceive that they are unduly under-rewarded in terms of promotions, they reduce their effort. In this regard, appropriately exercised promotion not only motivates bureaucrats, but unduly practiced (or so perceived) promotions also demotivate them.

However, the problem is, as attribution theory implies, one attributes the cause of *one's own promotion* to factors such as ability and performance while one tends to attribute the cause of *other people's promotions* to non-ability-related factors such as luck, connection, and interpersonal relationship. The implication of the attribution theory is that those who fail to get promoted potentially tend to have negative perceptions of the promotion decision regardless of its degree of fairness.

Since those who do not get promoted outnumber those who win promotions, any organization will be full of promotion despair sooner or later. Therefore, it is necessary to use promotion criteria that everybody accept-such as seniority or examination. This is why it is difficult to depend fully on performance-based promotion criteria. Considering all these, the point is to blend various kinds of promotion criteria keeping a balance between stimuli and stability.

## **2. Principal Agent Theory**

### **(1) The Theory in Brief**

The principal agent relationship occurs when a party (the principal) makes a contract with another (the agent) to carry out some tasks on behalf of the principal and to pay a certain amount in return for the delegation (Eisenhardt, 1989; Pratt and Zeckhauser, 1985: 2-24). As the agent performs the task in the interests of the principal, he<sup>2</sup>) retains more knowledge and information about himself, the task, and environment. This difference of knowledge between the principal and the agent is

called “information asymmetry,” (Knott, 1993) and causes “agent (or agency) problems” meaning that the agent tries to maximize his own utility instead of the principal’s, under the assumption that the actors are rational and self-interested.

The central concerns of principal agent theory are: (1) how to select and hire an appropriate agent without knowing the agent’s ability and willingness (adverse selection problem), and (2) how to arrange an incentive design, or to monitor the performance of an agent, in order to align the agent’s preference with the principal’s interest, without knowing if the agent will perform in the principal’s interest (moral hazard problem).

Adverse selection problems arise as the principal is less informed about the agent’s ability and willingness to perform the tasks than the agent himself (*information asymmetry of hidden type*). To handle an adverse selection problem, therefore, it is critical to reduce information asymmetry. The followings are effective to reduce information asymmetry: (1) making an agent reveal his ability and knowledge (signaling), (2) providing the agent with incentives to reveal his ability and knowledge (screening), and (3) making use of the “reputation” of the agent (Milgrom and Roberts, 1992: 126-159).

Even after the selection of the agent, information asymmetry problem does not disappear since it is difficult for the principal to be fully aware of the activity of the agent whether the agent is performing the task in the interest of the principal. This *information asymmetry of hidden action* brings about a moral hazard problem. Within organizational or hierarchical settings where the employees are regarded as the agents, a moral hazard problem takes the form of shirking, bureaucratic inertia, and sometimes resistance. Therefore, lessening the moral hazard problem is significant within bureaucracy.

In general, information asymmetry of hidden action and subsequent moral hazard

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2) For the sake of convenience, a female pronoun (she or her) refers to the principal and a male pronoun (he, his, or him) to the agent (in principal agent theory section only).

problems can be decreased by: (1) hiring multiple agents to facilitate the competition, mutual control, and monitoring among agents, (2) establishing an information system or knowledge pool, and (3) designing and furnishing agents with incentives that are compatible with the interests of the principal. Of all those methods to reduce the agency problems, the essential one is the last one: to provide an incentive to align the agent's preference with the principal's interest. Most of the principal agent theory literature is devoted to developing such incentive schemes. The performance-based pay system, such as stock-options, is a typical example.

However, introducing the performance-based pay system does not necessarily efficiently reduce the agency problem when considering uncertainty and risk problems (Grossman and Hart, 1983). As the principal agent relationship occurs in an uncertain situation, neither agent nor principal can have enough knowledge of future circumstances. Therefore, it is necessary to share the risk of the unexpected situation between the two. For the risk sharing to be efficient, the risk should be borne by a "risk-neutral" party, not by a "risk-averse" party. In an organizational situation where the individual employees are the agents and the organization is the principal, the agents are risk-averse in general. Therefore, a fully performance-based reward system imposes too much risk on the employees who usually are risk-averse. Thus, when one considers the problem of risk and uncertainty, introducing a highly performance-based incentive system is not efficient.

For practical and technical reasons, it is not easy to introduce a performance-based pay system in public settings. In public organizations, the goals of a ministry are vague, multiple, and even conflicting, and the performances of individual bureaucrats are hard to measure. Furthermore, under the current budgetary laws and regulations, the budget system is not flexible enough to pay in response to bureaucrats' performances (Rose-Ackerman, 1986: 140).

What can be done to reduce the agent problem within the organization, then? When it is difficult to measure the agents' performances, comparing the rank among multiple agents (tournament<sup>3)</sup>) can reduce the agency problems mentioned above. The

advantages of using multiple agents are: (1) to encourage the agents to monitor each other, (2) to make the agents voluntarily reveal the information about their and other agents' ability and performance, and (3) to let the agents compete for better performance.

Therefore, awarding a promotion to reward agents' superior performance can significantly reduce agency problems (Sappington, 1991: 63). As competition for promotion provides agents with the incentive to reveal the information about the task, environment, and types of rival agents, promotion will facilitate lessening the agency problems from information asymmetry. Moreover, competition will induce agents to monitor the shirking behavior of other bureaucrats. Through this mutual monitoring, the moral hazard problem can be significantly reduced.

However, in order for promotion tournaments to contribute to diminishing agency problems, several conditions should be met. Above all, promotion should be based on performance. If the criteria for promotion are irrelevant to organizational goals and beyond the locus of bureaucrats' control, such as connection, academic background, or money, then promotion will not reduce the agency problem; on the contrary, it will worsen the problem by frustrating bureaucrats.

Promotion criteria incongruous to the organizational goals will bring about another problem, too. If the criteria have nothing to do with the performance of bureaucrats or organizational goals, as bureaucrats aspire for promotion, they will begin to influence promotion decisions by all possible means (Milgrom, 1988; Milgrom and Roberts, 1988).<sup>4</sup> This "influence activity" is detrimental to organizations in many aspects: it not only makes bureaucrats allocate their time and efforts to *influencing* their superiors rather than performing their tasks, but it also harms the solidarity of the organization.

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3) The term tournament in the principal agent theory refers to evaluation of the agents by *ordinal* measurement among them instead of the measurement of absolute level of performance (Ehrenberg and Bognanno, 1990; Green and Stokey, 1983; Lazear and Rosen, 1981; Rosen, 1986).

4) This is what economists call rent seeking behaviors.

In this sense, the criteria for promotion are crucial in many ways. The next section explores such problems in Korean bureaucracy.

## (2) The Limits of Principal Agent Theory

Moe highlights the contribution of the principal agent theory as follows:

The economics of organization may turn out to be different. It sheds interesting new light on bureaucratic behavior by focusing on hierarchical control-an elegant, beautifully suitable focus that captures the essence of organizational relationships and offers a coherent framework for integrating both the bureaucratic and the political dimensions of administrative performance(Moe, 1991: 772).

The principal agent theory has certain advantages in analyzing many social situations. In a theoretical aspect, it is parsimonious in that it can explain various phenomena with a small number of concepts and that it can be easily formalized and generalized. In a practical aspect, it has many useful suggestions and implications because it considers ubiquitous compliance problems in various settings.

However, the limitations of principal agent theory should be acknowledged, too. Above all, the criticisms are centered on the behavioral assumptions of the theory. The assumptions of self-interest and opportunistic behavior are criticized by many scholars who indicate that human beings are not always that guileful and that many factors alter assumptions.

Second, the methodological aggregation problem should be noted. In other words, the principal agent theory confronts the organizational problem as a sum of individual contracts among principals and agents. However, there are many holistic features such as culture that may not be explained by aggregating individual characteristics.

Third, the assumption on the stability of actors' preferences is also problematic. The principal agent theory presupposes the constant preferences of both principal and agent, but the preferences can be influenced by organizational factors, especially when the principal agent relationship exists in a long-term contract such as organizational

employment.

Fourth, the narrowness of the theory can also be indicated. Petersen (1993: 288-290) remarks that the theory is “too narrow” in that (1) the actions by the agents are measured only in terms of quantity, so the “quality” or other array of activities is ignored, and (2) the reward is assessed only by monetary terms, so other rewards such as “social rewards” that are important for governing workplace behavior are neglected. In addition to these criticisms, the review of Wilson and Perrow is conspicuous.

J. Q. Wilson (1989) criticizes the self-interest assumption on which theory stands. He claims that the employees do not work solely for their personal interests. Rather, they work for pride, peer-expectation, cooperation, and a sense of mission. In addition to contracting effective incentive schemes, he argues, important is developing organizational culture that can enhance organizational mission. That is, a culture is crucial in which the employees do their best in performing the tasks without any carrots or whips (Wilson, 1989: 154-158).

Perrow's (1986: 224-236) critique is more acrimonious. He claims that the theory is possibly “a means of disguising some essential facts about organization.” His first criticism is on the unilateral nature of the principal agent theory. He argues that “the agency theory sees only bilateral contracts, but it curiously tends to neglect the bilateral nature of contracts when constructing its models and equations.” In other words, adverse selection and moral hazard are not only the problems of agents but also that of principals. The latter also have “a type” that can be disguised or concealed (adverse selection of the principal), and they, too, tend to shirk (moral hazard of the principal) – e.g., falsify the records or jeopardize the health of employees.

Perrow's second criticism is that other existing theories of organization such as the human relations theory, bureaucratic theory, or structural approach do better in explaining individual behaviors in organizational settings. He enumerates the issues such as the inequalities of power, the contexts that elicit behaviors, and the structure that can evoke the tendency of “self-regarding” (self-interested) behaviors, all of which



the principal agent theory can less suitably explain.

He also argues that (1) because the theory scarcely puts forth efforts to predict or elucidate real events, it is hardly subject to empirical testing, (2) the assumption of self-interest is not congenital but can be modified by organizational variables such as structure, (3) the existence of labor unions functions more than "risk-sharing" by the agents, and (4) the mobilization of workers is not as easy as the principal agent theorists presume for the labor market is fairly competitive. In sum, he warns the danger of the principal agent theory as follows (Perrow, 1986: 235): "The most insidious danger of agency theory is that all of us apply it in our daily life when we shouldn't, and we should be aware of this."

#### IV. The Reform of Promotion System: General Directions

The reform of the promotion system is essential if it is intended to contribute to the behavioral change of bureaucrats. The necessity of reforming the personnel system has been acclaimed by many reform commissions (Gore, 1993). DiIulio et al. (1993) emphasize the call for the reform of the personnel system as follows:

Within agencies, these [personnel] rules give managers little flexibility in encouraging high-performing employees. It would be neither feasible nor desirable to abolish the civil service general schedule, but there is no reason why a more loosely structured personnel system cannot be adopted. *Needed is more flexibility to promote superior performers, demote or fire mediocre ones, and transfer workers among jobs within agencies*(DiIulio et al., 1993: 66, emphasis by the authors).

For promotion to work as an incentive, promotion must be based on formal procedures, fair criteria, and valid appraisals (Dessler, 1979: 112). The future reform of Korea promotion system, therefore, should begin with objective promotion criteria and valid appraisals.

First of all, the promotion criteria should be impartial. Personnel laws and

regulations prescribe formal criteria such as seniority, performance, and training result; however, most Korean bureaucrats perceive the existing criteria in practice are personal and unjust, e.g., connection. This perception is reasonable when one analyze the regional background of ministers, vice-ministers, and the heads of administrations as shown in Table 1.

**Table 1.** Background Analysis of Ministers, Vice-minister, and Heads of Administration (1963 ~ 1986).

province	1963 ~ 1972	1972 ~ 1979	1979 ~ 1981	1982 ~ 1985	total (A)	population <sup>a</sup> (B)	ratio (A/B)
Seoul	15.54	8.50	9.60	10.56	11.37	14.1	0.81
Kyonggi	6.22	5.23	6.40	8.33	6.61	11.9	0.56
Kangwon	2.07	8.50	8.80	5.56	5.84	5.2	1.12
Chungchong	13.99	16.99	13.60	14.44	14.75	14.7	1.00
Chungla	10.88	13.07	14.40	9.44	11.67	20.5	0.57
Kyongsang	29.53	32.68	31.20	43.33	34.41	30.9	1.11
Other <sup>b</sup>	21.76	15.03	16.00	8.33	15.36	2.7	5.69
Total	100.00	100.00	100.00	100.00	100.00	100.0	1.00

a) as of 1988.

b) Cheju and North Korean areas (Whanghae, Pyongan, Hamkyong)

[Source: Kim, 1991: 61-62; Park, 1994: 445]

The table illustrates that some regions are overrepresented and other regions are underrepresented. For example, when a bureaucrat is from the *Chunla* area, one finds it hard to be promoted (representation ratio: .57). This tendency is caused from the prejudice that people from one's own areas are more reliable than those who from other regions. This is one remnant of the agricultural tradition, which still prevails in personnel practice even in the modernized era. With such prejudice, it is difficult to expect promotion to function as an incentive and thereby motivate bureaucrats.

Therefore, the promotion system should be reformed in the ways that promotion criteria are formal and just. For example, it is worthwhile to consider the introduction

of diversified criteria such as references from peer bureaucrats working in the organization. To make promotion criteria more unbiased, it is also necessary to consider performance tests for technical and lower grade bureaucrats, and probationary periods (Smith, 1983: 236).

The criteria should not only be formal, but also must be tied to performance. Although rewarding performance is essential in eliciting the best from organizational members (Jamieson and O'Mara, 1991: 109-116), the method for rewarding individuals' superb performance is overly restricted in the Korean public sector. Performance-based compensation is difficult to introduce because: (1) the consequences of bureaucratic performances are usually hard to measure, (2) fixed budgetary constraints make the flexible management of compensation impossible, and (3) most important, as Wilson indicates, organizational members *dislike* binding performance and pay in practice (Wilson, 1989: 144).

Considering these factors, one concludes that promotion is one of the few reinforcers that can play an important role in rewarding better performance in Korean public bureaucracy. When promotion is perceived as a consequence of performance, it can best motivate performance (Dessler, 1979: 112-119). If not, however, it will fail to reinforce bureaucrats to be more responsive to organizational and situational demands. Savas and Ginsburg describe the consequences when promotion decisions fail to link to performance as follows:

How long will a highly motivated and competent individual be willing to put forth extra efforts when he receives no real reward compared with others who do much less? A sensible individual would conclude that instead of spending extra energy and effort on doing his job well, his time would be better spent studying for promotion examinations, or simply relaxing (Savas and Ginsburg, 1973: 164).

In addition to linking performance and promotion decision, assessing performance and potential for promotion becomes another critical aspect of promotion decisions. How can one validly measure performance? Due to the difficulty of this appraisal,

rules tend to replace performance as a basis for managing personnel (Wilson, 1989: 145). Instead of relying totally on subjective evaluations of the head or directors of a agency, bureaucrats can use other methods that can precisely appraise the performance and overcome favoritism. For example, it is worthwhile to consider adopting appraisal skills such as structured interviews and assessment centers (Smith, 1983: 236). At the same time, the participation of the immediate-supervising officers, peers, and even subordinates in the appraisal process can reduce the prevalence of biased promotion decision.

Flexibility in the public personnel system (Ingraham, Romzek, and associates, 1994: 281) becomes more important. The restrictive regulations of the civil service personnel system have detrimental effects on the efficient management in the public sector (Rainey, 1979: 445-446). Therefore, rigid rules and particularistic biases should be replaced with flexible promotion that can give vitality to public administration.

## **V. Summary and Conclusion**

In summary, given that promotion provides bureaucrats with scarce and valuable incentives, the practice of promotion in Korean public bureaucracy is important in managing behavioral change and bureaucratic resistance. Promotion criteria should be impartial, tied with performance, and based on fair and accurate appraisals in order to contribute to the behavioral change of Korean bureaucrats.

However, there are some obstacles to such a change. First, unchanged are the persistent belief system of public managers who make personnel decisions. Namely, they still favor certain groups of subordinates in promotion only because of school or regional connections. The problems in individuals' belief system is serious in that the personnel system will remain unchanged however sophisticated personnel institutions and practices are introduced.

This individual belief system is basically a cultural problem. Since Korea had been

an agricultural country before the recent economic development and modernization from 1960s, Korean people had traditionally put great importance on their family and neighborhoods, which composed the agricultural community. As organizational homogeneity is important in Korean culture, people tend to promote someone who is similar to them in as many aspects as possible. The change of this belief system, therefore, is crucial in ameliorating maladministration in the promotion system because the reform of laws and regulations would be ineffective as long as there is room for the superiors' discretion if their beliefs are not changed.

Besides, bureaucrats themselves may not be willing to accept the promotion criterion such as performance. The causes of this reluctance are varied. First, since bureaucrats regard organizational seniority as important, they will feel uneasy if a junior bureaucrat is promoted to a higher position just because he or she has "better performance." In that sense, the promotion of young and junior bureaucrats is difficult in Korean public organizations, and it may even harm the stability of the organization. This is the rationale for an open bureaucracy with greater organizational mobility and fair promotion. In addition, bureaucrats may be hesitant about performance-based promotion as it will bring about more work and competition. If they seek leisure and less work load, they would prefer promotion by seniority so that they may shirk in work.

Therefore, the introduction of elaborate promotion procedures and regulations should be backed up changes in culture and beliefs. However, the question of how to modify culture and the belief system leaves too many debates to discuss in a limited space here. For example, such a topic as leadership of cultural change within organization alone will constitute a large independent volume of study. Leaving such discussions for future assignment, this paper acknowledges the importance of fair and performance-based promotion and its obstacles for current reform efforts.

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