

# Governance Innovation of Quasi-Governmental Organizations: A Case Study of South Korea\*

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**Abstract:** This paper has several critical questions for quasi-governmental organizations. How well are quasi-governmental organizations monitored by the relevant oversight system? Do quasi-governmental organizations have good governance? How might quasi-governmental organizations be made to perform as well as intended? How might the public or national interest be protected against the interest of private parties? These are the central questions of this paper. Accordingly, the purpose of this paper is to review the overall status of quasi-governmental organizations in South Korea, to examine the governance challenges they face, and to find possible measures for better governance of these organizations. A review of the necessity of governance innovation in quasi-governmental organizations will be followed by a discussion of governance innovations of quasi-governmental organizations, policy implications, and conclusions.

**Keywords:** Governance Innovation, Korea, Quango, Quasi-Governmental Organizations

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## INTRODUCTION

In this paper, the term *quasi-governmental organization* (QGO) broadly includes various types of public entities in the study. The term generally refers to various kinds of nondepartmental or nongovernmental public organizations (Moe 2001; Skelcher 1998). In South Korea, these organizations are often called *agencies under the government umbrella*. There are many other labels for such organizations: *shadow government* (Eger 2005), *quasi government* (Koppell 2003; Moe 2001; Seidman 1988), and *unbundled government* (Pollitt and Talbot 2004). Generally speaking, a QGO is a hybrid entity created by government (either by legislative or executive action) to address a specific public policy purpose (Perry and Rainey 1988). In other words, QGOs are instruments of public policy or governmental instrumentalities (Moe and Stanton 1989; Musolf 1984; Thynne 1998).

However, there is no universal understanding of just what constitutes a QGO. It, virtually by its name alone and the intentional blurring of its boundaries, is not definable in any precise way (Moe 2001, 291). Even the derivation of the term *quango* is explained in various ways: quasi-autonomous non-governmental organization, quasi-non-governmental organizations, or quasi-autonomous national government organization (Barker, 1982; Ridley and Wilson, 1995).<sup>1</sup> There is little agreement on the definition of *quangos*. These organizations have also been described as non-departmental public bodies (NDPBs) in the British Commonwealth (UK Cabinet Office 2000, 2001). Thus it is difficult to form a clear definition of QGOs (Koppell 2003: 17). It could be argued that there is a continuum of quasi-autonomous organizations, ranging from contract agencies to public bodies, voluntary organizations, and government owned enterprises.

Because of the lack of a defined characterization of scope, there have been problems in understanding the nature and status of these QGOs and in enforcing a coherent management system (OECD 2001a). In fact, the actual status of QGOs depends on how they are categorized, because they are eligible for different types and levels of contributions, commissions, or support from the government, not to mention the sheer number of the agencies themselves (OECD, 2001b; Kim, 2003).

The South Korean government, in its process of rapid economic development, has established various types of QGOs to implement programs with specific policy objectives. In particular, as a result of the past administrations' prudent stance against the expansion of the government sector, some types of public entities have been estab-

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1. The term *quango* is now less used than other terms because it has taken on a negative connotation in recent times.

lished as QGOs in South Korea.

Despite the relatively fair performance of QGOs in the past several decades of rapid economic development in South Korea, most people do not have a very favorable impression of these entities, especially since the political democratization in the late 1980s. Critics of QGOs claim that hybrids are simply beyond the control of elected officials and, by extension, the public. In the rush to bring flexibility and market efficiency into the public sector, policy responsibilities have been delegated to hybrids with little consideration of the potential political costs (Kim 2003; Kim and Moon 2002; Koppell 2003).

The current Roh Moo-hyun administration (2003-2008) carried out a broad range of the public sector reform as part of the presidential agenda. In particular, QGO governance innovations are being undertaken to a great degree. Of course, this is not the first attempt to transform the governance of QGOs. Such efforts extend from the immediate past Kim Dae-jung administration (1998-2003) and the previous Kim Young-sam administration (1993-1998).<sup>2</sup> Historically, many QGOs have been operating in South Korea without serious monitoring systems since their establishment, but public sector reform trends have been expanded to include QGOs, particularly as a result of South Korea's IMF bailout in 1997 and the New Public Management (NPM) movement prevailing around the world (Kim 2003; Kim and Kim 2001a).

It is noteworthy that the OECD (2005) presented an international standard on corporate governance of QGOs with commercial characteristics, by adopting the *OECD Guidelines on Corporate Governance of State-Owned-Enterprises (SOEs)*.<sup>3</sup> Governance of QGOs is a major challenge in most countries, but there had not been any international benchmark to help governments assess and improve the way they exercise ownership of QGOs. In that regard, the OECD publication is informative because it represents the first international benchmark to assist governments in improving the corporate governance of SOEs.

According to OECD (2005), the critical challenges facing QGOs are as follows:

- (1) a major challenge is to find a balance between the state's responsibility for actively exercising its ownership functions, such as the nomination and election

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2. More detailed information on how the South Korean government reformed the public sector during the Kim Dae-jung Administration can be found on the MPB's homepage at <http://www.mpb.go.kr/english.html>.

3. The term *SOEs* refers to enterprises in which the state has significant control, through full, majority, or significant minority ownership. The Guidelines were published in September 2005; free copies can be downloaded from the OECD's homepage at <http://www.oecd.org/dataoecd/46/51/34803211.pdf>.

of the board, while at the same time refraining from imposing undue political interference in the management of the organization; and (2) another important challenge is to ensure that there is a level playing field in markets where private sector companies can compete with state-owned enterprises and that government do not distort competition in the way they use their regulatory or supervisory powers.

Although the governance of QGOs might differ in countries having different histories and cultural backgrounds, the challenges mentioned above are important matters in South Korea. Accordingly, the Ministry of Planning and Budget (MPB) set up a Task Force on governance innovation of QGOs in April 2005.<sup>4</sup> The Task Force presented the recommendations in August 2005.<sup>5</sup> From then on, various discussion sessions were held to incorporate public opinion. In May 2006, the Council of Ministers adopted the final innovation initiatives as part of the key innovation measures for QGOs.

The purpose of this paper is to review the overall status of QGOs in South Korea and the governance challenges they face, and to examine possible measures for better governance of these QGOs. This paper will first review the necessity of governance innovation in QGOs; governance innovation of QGOs will then be discussed in detail, followed by policy implications and conclusions.

## **THE DEVELOPMENT OF QGOS AND THE NECESSITY OF GOVERNANCE INNOVATION**

In South Korea, there is practically no official interpretation or definition of which entities belong to the category of QGOs. Therefore, it is even not clear how many QGOs have been established so far. The number varies according to the time of survey as well as the standard used for the classification. Furthermore, a fully comprehensive management system has not yet been introduced, and some QGOs are not under managerial control by the government even though they are funded by tax revenues.<sup>6</sup>

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4. More detailed information can be found on the MPB's homepage at <http://www.mpb.go.kr/pg.html>.

5. The MPB's Bureau of Innovation for Public Bodies is responsible for developing and monitoring innovations for QGOs. For more information, visit the MPB's homepage at <http://www.mpb.go.kr/english.html>.

6. There are four framework acts regulating QGOs in South Korea: (a) the Basic Law on Management of Government Invested Agencies, which regulates the major SOEs; (b) the Law

According to the results of a survey by the MPB in February 2005, the number of QGOs in South Korea is estimated at 575. This includes government invested institutions (14), government affiliated institutions (88), government invested research institutes (46), and other various types of organizations (MPB 2006a). These entities vary in terms of purpose, function, legal foundation, degree of autonomy from the government, and governance structure. It is hard to quantify the exact number of QGOs because there are a variety of hybrids in terms of ownership, funding, legal status, and control mechanism.

Presently, the MPB (2006a) is in charge of general oversight of QGOs. Of the 575 QGOs mentioned above, the MPB broadly manages 213 entities, as shown in Table 1. Others are under control of the sponsoring (mother) ministries or beyond the control of government.<sup>7</sup>

**Table 1.** Major Quasi-Governmental Organizations in South Korea

Category	Sub-total	Government Invested Institutions	Government Affiliated Institutions	Government Invested Research Institutes	Other Public Entities
Number of entities	213	14	88	47	64
Total budget (billion US\$)	173.8	67.6	61.5	2.4	42.3
Financial transfers from government (billion US\$)	20.2	6.4	11.2	0.9	1.7
Employees (thousand)	199	75	61	10	53

Source: Internal Data of the MPB (2006a).

The budgets of these entities total US \$173.8 billion, which is approximately 91.8% of the consolidated central government budget (MPB 2006b). Fiscal transfers

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on Management Improvement and Privatization of Public Corporations, which regulates public corporations; (c) the Law on Establishment, Operation and Development of Government-Invested Research Organizations, which regulates public research institutions; and (d) the Basic Law on Management of Organizations under the Umbrella of Government, which regulates public organizations. However, the scope of the QGOs regulated by these framework acts is still limited.

7. Moe (2001, 291) categorized quasi-governmental entities in 7 different ways: quasi-official agencies, government-sponsored enterprises, federally funded research and development corporations, agency-related nonprofit organizations, venture capital funds, congressionally chartered nonprofit organizations, and instrumentalities of intermediate character. There is nothing definitive about these categories.

from the government to the QGOs amount to US \$20.2 billion (MPB 2006b). In terms of personnel, the QGOs are entirely staffed by private sector employees, with their total number reaching 199,000 full-time employees.

After the Second World War, the number of QGOs proliferated rapidly in South Korea. Many QGOs have been established to take responsibility for building key infrastructures in the transportation (roads, railroads, and airports); water resources; communication; and energy sectors. Moreover, these QGOs contributed to the enhancement of national competitiveness through technological and human resources development, as well as by supporting industries and businesses and fostering a better business environment.

Originally, sponsoring ministries (or mother ministries) had entire authority over the management of QGOs. In the 1960s and 1970s, a dual model of control by the sponsoring (mother) ministry and the budget authority was introduced. The budget authority began to control the budget of QGOs; the Accounting and Budget of Government-Invested Agencies Act was enacted in 1962, and the Management of Government-Invested Agencies Act was promulgated in 1973. In the 1980s, the government's regulations were partially relaxed. These two acts were unified into the Basic Management of Government-Invested Agencies Act in 1983.

However, with the democratization movement in the late 1980s and globalization of the South Korean economy in the 1990s, the focal point of the economy began to shift from the government to the market. In this process, many QGOs became major targets for public criticism. In particular, they were criticized for imprudent management practices and lack of accountability. There was also strong public criticism of the levels of remuneration at QGOs, which had risen to those of their private sector counterparts (Alles et al. 1995). QGOs were often criticized by the press as "being fed from ever-filling iron rice bowls," enjoying special privileges in their advantageous status of shadow (or unbundled) government.

As a result, substantial managerial improvements were required, and privatization was also promoted. Two major laws were passed during the late 1990s. The Management Improvement and Privatization of Public Corporations Law was enacted in 1997 to promote privatization and management innovation. In 1999, the Establishment, Operation and Development of Government-Contributed Research Organizations Law was promulgated in order to change the governance of government-contributed research institutions. Furthermore, the autonomy of QGOs was significantly enhanced, while organization-based performance evaluation was strongly emphasized to assure management responsibility of QGOs. In 2004, the Basic Management of Organizations under the Government Umbrella Law was enacted to enhance accountability and organizational performance of public entities that were not covered by any of the laws

mentioned above.

Although governance of QGOs has continued to develop in South Korea, presently there is widespread criticism from the public in various areas. With the performance of QGOs in mind, it is necessary to review the reasons for the criticism QGOs have been facing.

### **External Supervision of Quasi-Governmental Organizations**

The primary responsibilities of supervision of QGOs belong to the sponsoring ministries. Criticism has arisen over the tendency of sponsoring ministries to make intervene excessively in the internal management of QGOs. Ministries tend to impose more explicit (and sometimes implicit) regulations than are necessary. Also, back-scratching alliances between sponsoring ministries and QGOs appear from time to time.

### **Internal Check and Balance Mechanism**

Although internal legal frameworks for monitoring and balancing bodies (such as executive board and chief internal auditor) have been established for most QGOs, these bodies have not been working well in practice because of limitations in their specialized knowledge and their responsibilities. Board members and chief internal auditors have been criticized for their lack of responsibility and their lack of loyalty to the public interest (i.e., the interests of the final shareholders), because they tend to give in to institutional interests (e.g., the welfare of employees and labor unions) rather than the national interests. The Federation of Korean Public Trade Unions (FKPU), a strong entity comprising 56 unions, is usually against public sector reform.<sup>8</sup>

### **Appointment of Top Management**

All QGOs have installed their own autonomous recruiting system based on open competition, and independent nomination subcommittees recommends qualified candidates for CEOs. However, appointment of top management, board of directors, and chief internal auditors of QGOs has been under the control of sponsoring ministries and the Office of the President, and sponsoring ministries usually exercise influence in nominating a CEO. Critics assert that QGOs are not working for the public but for the interests of the sponsoring ministries. The tradition of “parachute appointments”

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8. The FKPU's homepage is available at <http://www.publicunion.or.kr> (in Korean).

(*nakhasan-insa*) is said to still remain (Kim, 2003; Lee, 1997).<sup>9</sup> In the last few years, employees at many state-run companies have protested the appointment of new CEOs or other executives. Workers complained that the new executives were appointed only because they were former government officials or close to governing-party politicians, and that they lacked essential expertise (Moon 2007).

There is widespread concern that in the absence of an ownership function, the employees and labor unions, including the FKPU, are acting as owners of the institutions, or as agents without principals. The public and mass media keep raising questions on improper management behaviors and the moral hazards thereof. A special kind of moral hazard is known as the principal-agent problem—the agent may have a tendency to act inappropriately from the viewpoint of the principal if the interests of the agent and the principal are not aligned. As a result, pressure from the Korean general public for proper control or supervision of QGOs is increasing.

## GOVERNANCE INNOVATION OF QUASI-GOVERNMENTAL ORGANIZATIONS

This section will examine various reform measures for better governance of QGOs. The discussion will cover the objectives of governance innovation, as well as the scope of QGOs, QGO classifications, QGO steering committees, and external and internal governance innovations.

### Objectives of Governance Innovation

Governance is intended to help QGOs achieve their goals effectively and efficiently. Generally speaking, governance is about managing the rules of the game, but its concept is still developing and evolving. In the past, the term *governance* meant something similar to government or the act of governing (Kooiman 2003). However, the meaning is currently very distinct from government, and governance now involves the presence of multiple stakeholders. Governance means there is no one center, so that

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9. This pattern resembles the Japanese *amakudari* (literally, “descent from heaven”). *Amakudari*, or the appointment of retired government officials to senior management positions in private companies, is one of the informal institutions most frequently mentioned in the literature on the Japanese political economy (Blumenthal 1985; Horiuchi and Shimizu 2001). In Korea, many sponsoring ministries directly appoint or recommend candidates for QGO CEO, board director, and chief internal auditor positions (Kim, 2003; Lee, 1997).



government is only one of the actors (Kjaer, 2004; Pierre, 2000; Rhodes, 1997). Governance has multiple centers; there is no sovereign authority, because networks have considerable autonomy. The term *governance* is applied to various contexts such as public governance, corporate governance, global governance, and local governance. A common analysis of governance focuses on the formal and informal participants involved in decision making, implementation of decisions, and the formal and informal structures that have been set in place to arrive at and implement the decision (Pierre 2000). Changes in the previous monopoly-type governmental system of rule caused the appearance and development of the new concept of governance. Regarding QGOs, it is fair to say that governance is the institutional capacity of public bodies to provide the public services and other goods demanded by citizens in an effective, transparent, and accountable manner.

Therefore, the objective of governance innovation is to ensure good governance for QGOs so that QGOs will play their proper roles, thus enhancing performance and management efficiency, improving customer satisfaction, and contributing to the development of the national economy. Good governance can be understood as a set of several major characteristics: participation, transparency, responsiveness, consensus building, rule of law, accountability, and the three Es (efficiency, effectiveness, and equity).

More specifically, the goal of governance innovation is to establish an integrated monitoring and supervision system that allows QGOs to maximize their corporate value and to best serve the interests of the public. Detailed objectives of governance innovation include (a) enhancing transparency by reinforcing QGOs' disclosure of management information; (b) allowing greater autonomy by installing a system for improving the objectivity of government regulations, so that the government regulation and supervision do not disrupt day-to-day management activities; (c) strengthening responsibility for performance by introducing strategic planning, performance evaluation, and better alignment among management objectives, performance evaluation, and remuneration; (d) setting up an effective internal governance structure so that the checks and balances mechanism can work in the decision-making processes; and (e) installing a fair system for appointing CEOs, executive directors, and chief internal auditors (MPB 2006a).

## **Identifying the Scope of Quasi-Governmental Organizations**

As mentioned earlier, it is estimated that there are approximately 575 QGOs, but there is no officially fixed or agreed-upon criteria regarding which institutions are considered QGOs. The organizational labels are also confusing and slippery. Corporations

are called enterprises; enterprises are called authorities; authorities are called agencies; agencies are called institutions; and institutions are called corporations. The simple objective of determining what organizations to consider QGOs can be elusive (Koppell 2003, 8).

Perry and Rainey (1988) proposed a typology that incorporates three characteristics: ownership (public vs. private), funding (public vs. private), and mode of control (polyarchy vs. market). Such a typology of institutions requires that there be criteria for whether an institution is a public one for legal and behavioral categorization. In South Korea, whether an institution is a public one is determined according to international standards.<sup>10</sup> The MPB (2006a) has suggested the following criteria for determining whether a specific institutional unit is a nondepartmental public entity: (a) the government holds more than 30% of the shares and keeps a de facto dominating capacity over the entity; (b) the entity was established by law, and the government contributes financially; (c) more than half of the revenue comes from government assistance (e.g., provision of subsidy, delegation of project implementation, endowment of legal monopolistic capacity); (d) the government and any entity meeting any of the above criteria hold more than 30% of the shares and maintain a de facto dominating capacity over the entity; and (e) a subsidiary of an entity meeting any of the first four criteria (MPB, 2006a).

### **Classifying the Quasi-Governmental Organizations**

Classification of QGOs into several classes in accordance to the characteristics of their tasks aids in the design of good governance structure for public entities. Placing QGOs with similar characteristics in the same class facilitates the design of differentiated governance structures for each of the classes, while maintaining overall consistency in QGO management.

In keeping with international practices and norms, we will first classify QGOs into state-owned enterprises (SOEs) and nonprofit public entities according to their degree of commerciality; highly commercial ones can be classified as SOEs and highly public ones as nonprofit public entities (see Table 2). Here, there can be several criteria for classification, but the international criteria seem to converge with the market output ratio. That is, if an institution's market output ratio is over 50%, it is classified as an SOE, and if not, it is classified as a nonprofit public entity.<sup>11</sup>

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10. The UN System of National Account, the IMF Government Financial Statistics Manual, the EU European System of National Accounting 95 and ESA95 manual on government debt, etc.

SOEs then will be subdivided into commercial and semicommercial ones. SOEs with greater commercial characteristics will be subject to the principle of commercial companies. Nonprofit public entities will be subdivided into (a) those of the fund-managing type, which manage and operate governmental funds; and (b) those of agency type, which execute governmental tasks.

**Table 2.** Classes of Quasi-Governmental Organizations

Class	Criteria
SOEs	Self-generated revenue/total revenue $\geq$ 50%
• Commercial SOEs	• Self-generated revenue/total revenue $\geq$ 90% and total assets exceeding 2 trillion Won
• Semi-commercial SOEs	• The remaining SOEs
Nonprofit Public Entities	Self-generated revenue/total revenue $<$ 50%
• QGOs managing government funds	• QGOs which are authorized by law to manage government funds
• QGOs delegating government projects	• The remaining QGOs

Source: Internal data of the MPB (2006a).

Exemplary reclassification of 94 QGOs was conducted by applying the classification criteria above.<sup>12</sup> As a result, 14 out of 77 government-affiliated institutions subject to the Basic Management of Organizations under the Government Umbrella Law were reclassified as SOEs. Three out of the 14 government-invested institutions subject to the Basic Management of Government-Invested Agencies Law were reclassified as nonprofit public entities.

### Steering Committee of Quasi-Governmental Organizations

The Steering Committee of Government-Invested Institutions and the Steering Committee of Government-Affiliated Institutions merged into the Steering Committee of Quasi-Governmental Organizations, which has greater powers than the previous committees and currently functions as a consulting and decision-making organ of the

11. However, because of difficulties in calculating the market output ratio of specific institutional units, some researchers suggest using the proxy variable: self-generated revenue over total revenue. This method was adopted in the South Korean situation.

12. Considering the difficulties of the tasks in the reform process, the government first selected 94 organizations were selected on the basis of costs related to the reform, practical feasibility, importance, and size. Other institutions need to be reformed in the future stages.

MPB. The committee is composed of 20 members, including specialists from the private sector and representatives of the sponsoring ministries and other government authorities. Subcommittees will also be composed as the need arises.

**Table 3.** Functions of the Steering Committee of Quasi-Governmental Organizations

<ol style="list-style-type: none"><li>1. <i>Appointment, or recommendation to the Minister or the President</i>, of top leadership management, outside directors, and chief internal auditors of QGOs; evaluation of board members and chief internal auditors; and HRM of CEO candidates.</li><li>2. <i>Setting guidelines</i> on strategic planning of QGOs, performance contracts with CEOs, and review of annual performance plan, and incorporation of these guidelines into the medium-term economic framework; setting guidelines on disclosure of management information, accounting standards, and establishing subsidiaries of QGOs; and setting guidelines for controls on the establishment of new QGOs by the sponsoring ministries.</li><li>3. <i>Periodic review</i> of appropriateness of government regulations, classification of individual QGOs, and governance structure; and monitoring the operation of an Internet portal site for disclosure of information on all QGOs.</li><li>4. <i>Performance evaluation</i> of QGOs.</li></ol>
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Source: Internal data of the MPB (2006a).

### **External Governance Innovations**

*Transparency.* Enhancing transparency of QGOs will be an important part of the innovation process. For all QGOs, disclosure of management information will be extended to the level of listed companies in the private sector. Information regarding organizational structure, human resources, budget, financial situation, governance structure, and status of major projects, will be publicized. Apart from this disclosure of information about individual QGOs, an Internet portal site will be set up to integrate QGO management information for easy access by ordinary citizens, who will be able to compare management information regarding the public entities.

*Performance management and evaluation.* Performance management will be handled in a more systematic way. Every QGO will be obliged to establish mid- to long-term strategic goals, and a performance contract will be concluded between the sponsoring ministry and the CEO. After implementation of these measures, every QGO will be required to submit an annual performance report to the MPB. The MPB will conduct an annual evaluation of management performance, and the result will be closely linked to the remuneration of management and employees.

*Managerial autonomy.* Managerial autonomy will be enhanced, and the government's intervention will be limited to a necessary minimum. The clauses of the existing acts of that allow sponsoring ministries comprehensive and unlimited supervisory

capacities will be amended, and the scope of government intervention will be explicitly listed. Government regulation of internal management of QGOs will be streamlined and simplified under the initiative of the Steering Committee of Public Bodies. Efforts will be made to minimize *ex ante* regulations on the management of QGOs and to shift toward *ex post* evaluation, enhancing managerial autonomy.

### **Internal Governance Innovations**

Internal governance innovations will center on strengthening internal checks and balances mechanisms to ensure more effective decision-making at the board level. Critics have pointed out that because the board is dominated by the CEO and executive directors, outside directors (who came from outside entities) cannot play a relevant role. It is recommended that the role and capacity of outside directors on the board be increased.

The representation of external professionals on the board will be increased. In all QGOs, the outside directors will represent more than half of the board. A lead director, who will chair the meetings of outside directors and represent their views, will be nominated by the Steering Committee to ensure that greater consideration of the public interest will be reflected in board decision making. As for the commercial SOEs, which require full-fledged managerial autonomy, the chair of the board and the CEO will be separated in order to strengthen the supervisory role of the board. As for the other classes, the CEO will continue to serve as the chair of the board.

The board will be given more capacity to monitor top management. It will be allowed to make recommendations to the Steering Committee on dismissal of a CEO or executive director whose performance is below expectations. Outside directors will be allowed to request that the chief internal auditor conduct an official audit and inspection and report back to the board with the result. Moreover, the role and the responsibility of the internal audit function will be strengthened. As for commercial SOEs, it will be compulsory to institute an audit committee within the board (for other types of QGOs, the current chief internal auditor will continue to take responsibility for the audit).

## **POLICY IMPLICATIONS AND CONCLUSION**

The financial crisis in the late 1990s and the NPM movement affected the scope of Korean public sector reform (Kim and Moon 2002). Today's reform measures cover not just central and local government affairs, but also many management and gover-

nance issues of QGOs. Since the late 1990s, QGOs became major targets for public sector reform in South Korea. The MPB set up a Task Force on governance innovations for QGOs in 2005 and had many discussion sessions to incorporate public opinion as well as professional advice. In early 2006, the Council of Ministers (Cabinet) adopted the final innovation initiatives, which include most issues discussed in this paper, as part of the key innovation measures for QGOs. On June 8, 2006, the Korean central government submitted a new bill, the Operation of Public Bodies Law, to the National Assembly.<sup>13</sup> The Operation of Public Bodies Act was finally promulgated on January 19, 2007.

QGOs are operated by public money, but critics including the mass media say that nonaccountable activity is taking place from time to time. QGOs usually receive public money from government, and their business is somewhat monopolistic. Such situations have made QGOs risk averse and inactive. Furthermore, in the past, internal and external control mechanisms were not well established. For example, external auditing systems and overseeing functions were weak, particularly where the governance structure of QGOs was highly diversified (Congressional Budget Office 1991; Government Accounting Office 1995; Khademian 1995; Kim 2003; Kim and Kim 2001b; Mitchell 1999). Accordingly, it is difficult to institute the consistency and integrity that will be necessary to ensure accountability and transparency of QGOs (Flinders Smith 1999; Moe 2001; Pollitt and Talbot 2004).

Regarding management and accountability issues of QGOs, Moe (2001) maintained that

quasi-governmental organizations may be a creative response to a specific set of circumstances. However, such hybrids carry risks for a democratic policy. The management of these risks is among the most critical government responsibilities. The quasi management of the quasi-government is itself a risk to the citizenry that needs to be understood, addressed and ultimately reduced so that full democratic governance can be restored to our republic.

QGOs play an instrumental role in achieving public goals and in implementing public projects, but the general public and the press often criticized QGO malmanagement and inefficiency resulting from lack of accountability and transparency. As OECD (2005, 13) suggested, the state should act as an active owner and establish a clear and consistent ownership policy to ensure that the governance of QGOs is carried out in a transparent and accountable manner. Thus, it is necessary to modernize the governance of QGOs in South Korea (Kim 2003).

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13. For more details, see the National Assembly's homepage at <http://www.assembly.go.kr>.

However, doing so is not an easy task because of resistance from stakeholders, including unions and politicians, who do not want to change their status quo. Because a great deal of management authority previously held by sponsoring ministries will be transferred to the Steering Committee, resistance from these ministries might be also salient. Even an individual QGO itself often fails to understand that its management autonomy can be damaged by the double check from the sponsoring ministry and the Steering Committee of Public Bodies. Opposition from labor unions (the Federation of Korean Public Trade Unions and individual public unions) is also quite substantial, as expected. The National Assembly and political circles also may not be very supportive of this reformation of the existing system. Accordingly, it seems that extensive and focused efforts to gain public and political support for governance innovation of QGOs will be necessary.

A reliable regulator of QGOs must serve the function of an effective principal in order to successfully monitor organizational performance of QGOs. As many theorists of the principal-agent problem have indicated, agents (QGOs) often behave in a manner inconsistent with the interests and preferences of the principals (government, the President and, by extension, the general public). Therefore, the MPB and the Steering Committee of Public Bodies should become reliable regulatory agencies for QGOs in South Korea. However, the problem with designs that make regulators of QGOs more effective as principals is that they might make them less effective as agents. As Koppell (2003, 163) warned, the problem is that reliable regulatory agencies are not always likely to prove effective in compelling the desired performance from hybrids. This complex conundrum makes searching for a new or better alternative to QGO governance an endless journey.

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