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**STRENGTHENING THE PAY-PERFORMANCE LINK IN GOVERNMENT --  
A CASE STUDY OF KOREA**

**Governing for Performance in the Public Sector**

**OECD-Germany High-Level Symposium, Berlin, 13-14 March 2002**

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**Governing for Performance in the Public Sector**  
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**STRENGTHENING THE PAY-PERFORMANCE LINK IN GOVERNMENT:  
A CASE STUDY OF KOREA**

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**STRENGTHENING THE PAY-PERFORMANCE LINK IN GOVERNMENT:  
A CASE STUDY OF KOREA <sup>1</sup>**

**I. INTRODUCTION**

1. Economic success in the international marketplace is no longer assured. Creativity must be tapped and resources must be used to increase competitiveness to maintain a high level of success in the world. Strides to increase competitiveness will not result from more computers or reliance on cost cutting, but from our most critical resource that is people. Workforce performance will have increased significance on our socio-economic future and an effective human resource system requires focus on performance. To improve productivity a performance improvement system must be utilized and be at the core of an organization's human resource efforts to remain competitive in the long run. Along this line, studies (McCloy, Campbell, and Cuedeck, 1994) show that employee performance depends on the following three general factors:

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

- S = skill and ability to perform tasks
- K = Knowledge of facts, rules, principles, and procedures
- M = Motivation to perform

2. For an organization to succeed, it needs employees who perform well. This involves not only good compensation strategy and practice, but also other well-developed HR policies. People with skill and ability (S) need to be hired, concentration on building skill based knowledge (K) and ways to motivate (M) employees to perform in ways that contribute to individual and organizational performance.

3. To discuss performance it is necessary to review all factors related to performance. In addition to the three major elements in employee performance mentioned above, this study focuses on motivation to perform in terms of incentive strategy, that includes performance-related pay (PRP) in order to strengthen the pay-performance link. This paper discusses what motivates employees in terms of motivation theories followed by discussions of the Korean government's experience of performance-related pay, limitations of performance-related pay schemes, other major factors that affect PRP's success in Korea, how to strengthen the pay-performance link, and conclusions.

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1. This draft was prepared for delivery at the OECD/Germany High-Level Symposium on Governing for Performance in the Public Sector in Berlin, Germany on 13-14 March, 2002. This is not for quotation.

## II. WHAT MOTIVATES EMPLOYEES?

4. Maslow (1943) shows that people are motivated by inner needs and needs form a hierarchy from most basic (biological and safety needs) to higher-order (self esteem 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. However, PRP may be de-motivating if it impinges upon an employees' capacity to meet daily living needs (Milkovich and Newman, 1999: 276).

5. Herzberg (1966) identified two types of motivators such as hygiene factors (rules, pay, working conditions, personal relationships, position) and satisfiers (responsibility, recognition, promotion, opportunity for growth, and achievement). His study implies that base pay must be set high enough to provide individuals with the economic means to meet hygiene needs because higher pay could reduce job dissatisfaction. PRP is motivating to the extent that it is connected with meeting employees' needs for recognition and achievement. So pay level is important and it must meet minimum requirements before PRP can operate as a motivator; and other conditions in the working relationship influence effectiveness of PRP (Milkovich and Newman, 1999: 276).

6. Equity theory (Adams, 1963) is also helpful to understand motivation to perform in organizations. 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. Accordingly, performance inputs and expected outputs must be clearly defined because employees evaluate the adequacy of pay via comparisons with other employees. Since employees evaluate their pay-effort balance in comparison to other employees, relative pay matters. Fairness and consistency of PRP amongst all employees in an organization is critical. If payouts do not match expectations, employees will react negatively (Milkovich and Newman, 1999: 277).

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

## III. KOREAN GOVERNMENT'S EXPERIENCE ON PERFORMANCE-RELATED PAY

8. The Korean government introduced an annual merit increment and performance bonus programs in 1999 in order to review the Korean government's experience with PRP. The Civil Service Regulation for Pay (Article 39) and the Civil Service Regulation for Allowances (Article 7) allow providing for performance-related pay to those who proved excellence in job performance. This section first introduces the structure of compensation briefly, followed by discussion of PRP schemes in detail, and performances measures respectively.

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

9. 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 employees' 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 advise service, technical service, labor service, police service and fire fighting service, educational service, military service, and expert technical service.

10. 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 5 types of common allowances (seasonal allowance, diligence allowance, seniority allowance, family support allowance, and managerial allowance). Also, there are 3 categories of special allowance (hardship post allowance, high risk allowance, and special task allowance) and 3 types of extra work allowance (overtime work allowance, midnight work allowance, and holiday work allowance). The expenses paid for civil servant's welfare include meal payments, grade payments, household support payments, commutation payments, traditional holiday's bonus, and non-vacation payments.

11. Korean civil servants are concerned about living standards. As of 1999, the average pay level of civil service employees was equal to 87 per cent of the pay of the private sector.<sup>2</sup> So the CSC set a 5-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 particularly the Civil Service Commission and offices in charge of government reform want to make PRP schemes successful.

## **Performance-Related Pay Schemes**

12. 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 on respectively in the following section.

### Annual Merit Incremental Program

13. The most common form of PRP is merit increments and 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 MBO. This applies to civil servants in Grade 3 (director-general level) or higher 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.

14. 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

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<sup>2</sup> For more details, see at <http://www.csc.go.kr>.

ministers and ministers are politically appointed. Each grade has a base pay per year of: 21,985,000 won for Grade 1; 20,794,000 won for Grade 2; and 19,309 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 the one's base pay (19,800,000 won) multiplied by a corresponding performance pay rate of (5 per cent), 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 30 per cent of the civil servants who belong in the bottom rank with Grade C as shown in Table 1.

**Table 1. Appraisal Grade, Payment Scope, and Performance Pay Rate**

Appraisal grade	Excellent (S)	Outstanding (A)	Normal (B)	Unsatisfactory(C)
Payment Scope	Upper 10%	11~30%	31~70%	71~100%
Performance pay rate	8%	5%	3%	0%

### Performance Bonus Program

15. 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 in the rank of division director, and 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.<sup>3</sup> This will be granted as a lump sum bonus and will vary in size from 110% to 40% of the monthly base salary per year.<sup>4</sup>

16. Performance bonus can be provided in various ways: (1) individual base, (2) departmental base, and (3) combinations of individual or departmental bases. Performance bonus by an individual base is the most common form in Korea at present. When an individual differentiation in task fulfillment is extremely difficult and teamwork is essential in daily duties, performance bonuses can be allocated by a departmental base. As of 2002, 4 areas (defense, police, security such as the Presidential Security Service, and railroad service) where output is a group collaboration effort, use performance by a departmental base. Also, performance bonuses can be distributed by a combination of individual and departmental bases, but performance bonus by a combination is not used at present, though it is possible to utilize, because it is more complicated than performance bonus by either individual or organizational base.

<sup>3</sup> The Korean civil service has 9 grades: Grade 1 is the highest, while Grade 9 is the lowest.

<sup>4</sup> 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.

**Table 2. Appraisal Frame for the Performance-based Bonus Program**

Appraisal grade	Excellent (Grade S)	Outstanding (Grade A)	Normal (Grade B)	Unsatisfactory (Grade C)
Scope	Upper 10%	11~40%	41~90%	91~100%
Performance bonus rate	110% or more	80%	40%	0%

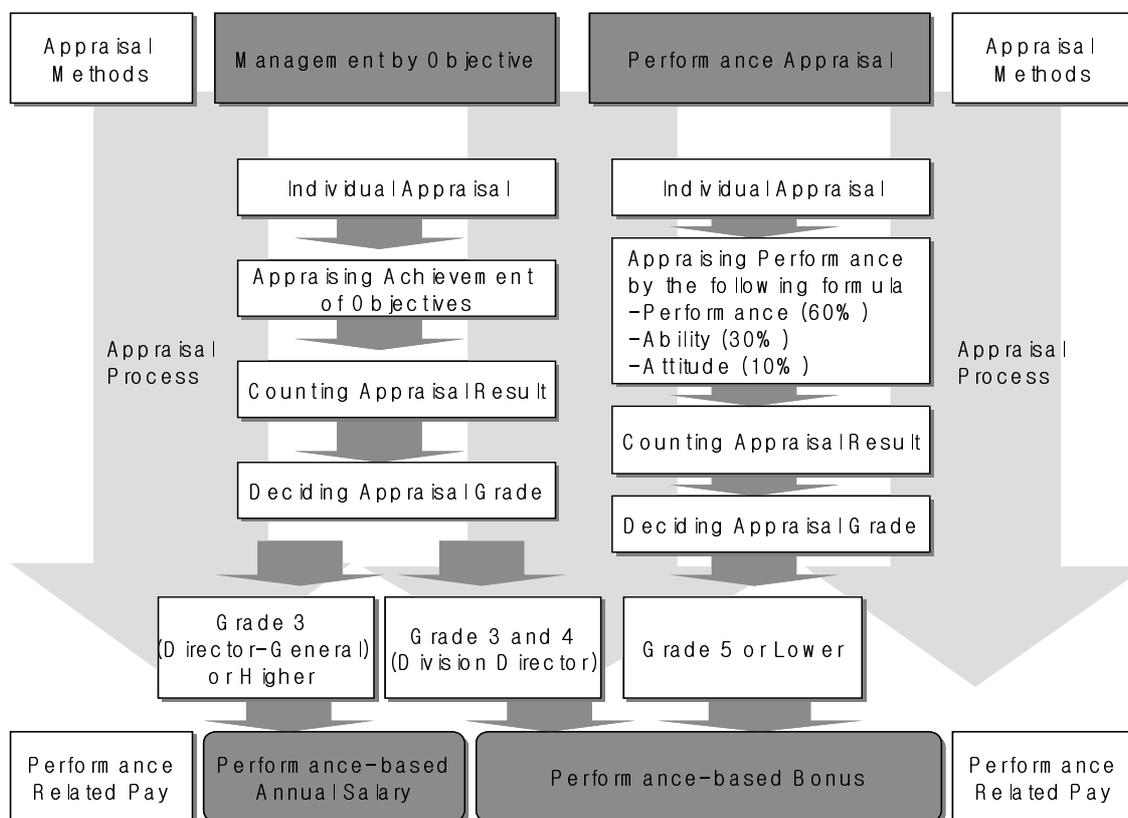
17. The main appraisal method of the performance bonus for mid and lower level employees is performance appraisal. The head of an agency or ministry can utilize other performance appraisal methods in addition to traditional performance appraisals if necessary. So additional methods such as 360-degree feedback are used, but it is not mandatory in that a 360-degree feedback can be exempt if an agency or ministry has special circumstances.

### **Performance Measures**

18. 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 as follows.

### Performance Appraisal

19. Under current personnel regulations, performance of civil servants is evaluated regularly. Most agencies utilize the appraisal results as basic data for the promotions and 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 towards the public). Three areas have different weights: performance takes the largest proportion (60 per cent), followed by ability (30 per cent) and attitude (10 per cent) as shown in Figure 1. Recently, the performance share was increased to reflect the significance of employee performance in government. In order to provide flexibility in performance appraisal, the Regulation for Performance Appraisers can evaluate subordinates based on 5 categories (excellent, outstanding, normal, unsatisfactory, unacceptable). Appraisal permits that each ministry can decide the elements and scores in consideration of case details.

**Figure 1. Performance Appraisal and MBO for PRP**

Source: Modified by the author from <http://www.csc.go.kr/pay/os/main.gif>

### Appraisal by MBO

20. Management by Objectives (MBO) is a planning and appraisal tool that has many different variations across organizations. 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 high level officials competency. In the past, there was no performance rating for Grade 4 or higher-level officials. Those who are 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.

21. The MBO scheme is based on evaluation by the degree of goal accomplishment. For example, each unit goal has a weight: strategic goals (1.2), main goals (1.1), and basic goals (1.0). Those who are under appraisal by the MBO must prepare 3~7 goals to fulfill for the year. Each goal is classified as follows: (1) the strategic goal that is assigned to the level of the director-general; (2) the main goal that is assigned to the level of the division-director; and (3) the basic goal that is assigned to the level of the assistant director. 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 objectives are evaluated at the end of the year in terms of accomplishment of objectives (60 per cent) and

characteristics of objectives (40 per cent: importance of objectives, the degree of difficulty to fulfill, and measurability of objectives).

### 360-degree Feedback

22. 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 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).

23. The 360-degree feedback program requires all 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 in fact 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 them the chance to see how others view strengths and weaknesses as a leader so as 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 counseling on how to deal with the feedback.

## **IV. LIMITATIONS OF PERFORMANCE-RELATED PAY SCHEMES**

24. 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 performance-related pay (PRP) program, the pay system will not bring about expected motivational impacts. Supervisors, HR managers, and officials in charge of government reform must address the following potential problems with PRP programs.

### **Failure of Differentiation among Performers**

25. Employees may receive merit increases even if performances do not warrant them, because supervisors want to avoid creating animosity among employees. Therefore, poor performers may receive the same pay increase as exemplary performers, and poor performers may come to view PRP increases as

entitlements,<sup>5</sup> consequently, superior performers may question the value of striving for excellent performance.

### **Supervisors' Bias and Poor Performance Measures**

26. Employee's job performances tend to be assessed subjectively, based on supervisors' judgments. PRP programs 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 employees 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 performance measures for every single job is not only difficult but also expensive.

### **Little Motivational Value**

27. PRP programs may not always influence employee motivation positively as intended. 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.

28. At present, Korean performance-related annual merit increment is not very attractive. In other words, differences between one in the top category "S" and one in the bottom category "C" are not significant. In a case of Grade 1, 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.

### **Undesirable Competition**

29. Because PRP programs focuses 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. When people perceive competition as a personal war it is counter-productive for human relationships in an agency.

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<sup>5</sup> 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).

## V. OTHER MAJOR FACTORS THAT AFFECT PRP'S SUCCESS IN KOREA

### Lack of Experience in Utilization of PRP

30. PRP is a newly introduced system in Korea and only recently embraced in the private sector. Intensifying 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, meanwhile, regular bonus payments were gradually giving way to performance-linked, differential bonus programs. Some examples in major conglomerate companies are as follows. Kolon International Corporation reduced regular bonus payments from six months' salary a year to two months' salary in 1998. Instead, the Kolon employees' extra allowances were indefinitely linked to job performances. 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 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).

31. As shown in such examples, utilization of PRP is even relatively new in the private sector.<sup>6</sup> The government had almost no experience with it up until the late 1990s. The Korean government's lack of experience with PRP might lead to confusion and conflict in implementing PRP programs in government at least for a while in Korea.

### Union's Resistance

32. 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 demand to have performance bonuses as allowances that do not differentiate among government employees. Korea Teachers and Workers Union (KTU) refused performance bonuses in 2001 so that performance bonuses were not distributed to teachers. 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 government to distribute it to all teachers as part of an allowance or abolish it (Ha, 2002).

33. Historically, public unions were under-developed in the Korean government except medical technicians, and postal and railroad workers that count 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. Furthermore, 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

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<sup>6</sup> 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.

passed in the National Assembly on January 6, 1999.<sup>7</sup> 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**

34. When someone receives better treatment particularly in a homogenous society such as Korea, it often accelerates sensitivity among members of society.<sup>8</sup> 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 in order to motivate government employees. But in the process of personnel policy making, such an idea could have been intervened by demands of fellow government employees for sharing such fruits more equally. Also, authoritarian regimes in the past also affected reinforcement of such 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.

35. There are other 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.<sup>9</sup> Seniority is a major factor in determining pay.

## **VI. HOW TO STRENGTHEN THE PAY-PERFORMANCE LINK**

36. HR managers and officials in charge of government 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.

### **Link Performance Appraisals To Business Goals**

37. 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 can be utilized. For example, incentive payment and task specific bonus would be also other alternatives for improving performance in government. These forms of

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<sup>7</sup> As of September 30, 2001, 82,000 persons among 343,000 employees in educational service combined are members of KTU. 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>.

<sup>8</sup> Korea was an agrarian society for long time and land was one of the most valuable estates for Koreans through history reflected by an old saying in Korea: "when someone buys real estate, one's cousin becomes jealous." Such tradition might have affected Korean culture through history.

<sup>9</sup> The seniority-based pay system, a time-honored tradition among domestic firms and agencies, is causing problems in terms of deterrence of fair compensation and incentive creation .

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).

38. 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 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 performance improvement system so that mid and low-level employees can follow their footsteps.

### **Improve Pay System for Government Employees**

39. 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 with the pay system and make PRP successful.

### **Establish Effective Appraisals and Analyze jobs Continuously**

40. Government employees often complain about performance appraisal and performance measures in Korea. The biggest problem is the move to a meritocracy is that subjective 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 employee should work together to identify possible causes to develop an action plan to remedy these deficiencies.

41. 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 needs. At present, several agencies (for example, the Ministry of Foreign Affairs and the Trade, and the Korea Meteorological Administration) have had job analysis with consultation 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**

42. 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. The tendency of Korean managers towards lenient employee appraisal and the use of traditional seniority-based reward systems are no doubt related to the harmony-oriented (*inhwa*) 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. 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. When agencies' merit increases don't clearly reflect differences in actual job performances, they need to provide alternative rewards. For example, fringe compensation can complement performance-related pay (PRP) increases.

### **Empower Employees and Communicate with Them**

43. 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. Supervisors-as-coaches 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 coursed action to supervisory feedback.

44. In an environment of secrecy and authoritarianism, 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 encourage them to trust the system and those who operate it. For example, government must communicate with employees and unions about the fact that workers must be willing to adjust in order to meet various challenges such as new technologies and new work processes.

## **VII. CONCLUSIONS**

45. 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 economy, quality and performance of government employees need substantial improvement. In that regard, having PRP programs seems to be a good idea. However, the design and effective management of such programs is key to success. Having a good idea is not enough. The good idea must be followed up by sound practices.

Accordingly, PRP and performance measures must be improved or adjusted to be successful in the near future.

46. 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 also they were implemented government-wide at once in 1999. Second, many officials lacked in-depth understanding about the nature of these systems and the difficulties setting performance objectives to fulfill for the year. Third, people dislike to evaluate as well as to be evaluated in general. The seniority-based system is still prevailed in many Korean organizations so that it is 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 with PRP and performance measures. It will take time to succeed at such new systems so it is necessary to make continuous improvements based on both domestic and international partnership.

47. PRP is a part of differentiation strategies and a differentiation strategy requires creative, open-minded, risk-taking employees. PRP could promote creativity and risk taking by linking with innovative job accomplishments. At the same time, however, government must invest on human capitals and provide opportunities for further human resource development. In addition, we need to recognize that motivated people are central to the operation of any agency that wishes to function well in the new age.

48. A decade of downsizing, organizational restructuring, and reengineering has produced employees who are more exhausted than empowered, more cynical than self-renewal. Many agencies are only marginal managerial attention 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, motivating and bonding culture necessary to attract and keep talented employees to attract, develop, excite and retain employees in addition to making substantial improvements in employee performance.

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