

(초고임)

A Draft for Talk

at the Korea Business Administration Association

한국 정부운영의 경영화: 어디까지 왔나?

How far has the Korean Public Administration
Converged on the Private Sector Business
Administration ?

2008. 5. 23

Dalgon Lee

(Graduate School of Public Administration, SNU)

I. Introduction

State and civil society had entered into rivalry with each other long time ago. Market had been rather a new element of the societal composition, sometimes been a friendly rivalry to the other two elements and sometimes a tool for complementary relationship. Recently, in the borderless economy of super-capitalism, however, market becomes a fountain for social energy and dynamics.

But market showed its failure in many cases, resulting in collectively suboptimal outcome of rational individual choices. Market does some things well and other things poorly. The same is true of government: it is good at some things, bad at others. At this juncture, market and state are viewed as complementary, not as alternative policy instrument.

The two academic fields, Business administration, or, private management and public administration, or, public management, have traditionally divided their focus on enterprise, which is main actor of market, and on government, which is real entity of state, respectively. There seems an old-aged demarcation of the two fields: a body of theory and principles that describes, analyzes and prescribes private management practices and skills is quite significantly different from that of public

management practices and skills. But the fundamental similarity and difference of the two fields has been an endless controversy. Many argue that the two have very common nature and a practice in private sector can be transferred to public sector, on the other hand, the same number of people contend that the two are fundamentally different.

The main conventional distinction between public and private organizations is their ownership (Rainey et al., 1976): private firms are owned by entrepreneurs or shareholders, public agencies collectively by members of political society. This distinction makes further contrast: (1) private firms are paid directly by customers, public agencies are funded largely by taxation; (2) private firms are controlled by market forces, public agencies predominantly by political forces. Ownership, control, and funding can be synthesized into a dimensional model of publicness (Bozeman, 1987). The economic theory of property rights suggests that common ownership of an organization leads to lower efficiency in the public sector (Clarkson, 1972). Whereas owners and shareholders in private organization have a direct monetary incentive to monitor and control the behavior of managers and similarly managers themselves are likely to benefit from better performance, property rights in the public sector are diffuse and vague and

monitoring is another public good— individual voters have little to gain from expending efforts on this activity.

II. Past Trajectory: Micro-level Analysis

In the 1960s and 1970s, the Korean government seemed very effective in realizing economic policy goals, and at that time, the management capacity of the military were the backbone of the government. At the time the authoritative nature of the government operation was blamed and government operation showed many characteristics of 'old public administration.' There were rigid hierarchical ordering of organizations and formalism overran all over the mechanism. Transparencies were low and responsiveness was not a concern at the time. Efficiency and productivity was main goal and it was believed to be increased through tight command and control system. During this time Taylor's scientific management of the work seemed a common area of concern for public administrators and private manager. In addition to that, planning or strategic planning was a common ground for the managers of the two sectors.

In 1980s, administrative democratization was main concern. People wanted more open and responsive government in accordance with societal democratization

process. People expressed sharp criticism of the authoritative behavior of the bureaucrats. Kim Young Sam government put emphasis on small government by reducing the power of the executive branch of the government and deregulation. Decentralization and autonomy was the theme of administrative reform. Local autonomy system was introduced at the time.

During the 1990s, the public sector in the European countries underwent enormous change, and several scholars in the U.S. found a different model of old public administration. So called the New Public Management (NPM), a program for governmental transformation, was launched in the U.K. and the concept of reinventing government appeared in the U.S. (Osborne and Gaebler, 1992) Motivated in part by Thomas Kuhn's *The Structure of Scientific Revolutions*(1970), NPM was hailed as a sweeping fresh worldview full of new ideas, issues, and recipes for reform. NPM's operating principles have not been based on a well-defined theory, but as practical solutions to the operational problems confronting governments.

They identify a number of principle that represent an operational definition of NPM which represent a paradigmatic break from the traditional model of public administration. Several countries became exemplar of NPM, in particular New Zealand and Australia and the U.K., and their public sector have been changed

significantly to converge on the private management model. NPM, a post-bureaucratic paradigm of public management, enacted a break from the traditional model of public administration underpinned by Webber's bureaucracy(1946), Wilson's policy-administration(1887), and Taylor's scientific management of work organization(1911).

Hood set out its key doctrinal components(1991)

1. Hands-on professional management;
2. explicit standards and measures of performance;
3. Great emphasis on output controls;
4. Disaggregation of units in the public sector;
5. Greater competition in the public sector;
6. Private sector styles of management practice;and
7. Greater discipline and parsimony in resource use.

NPM movement raised many issues in government reform. A central element of the reform programme associated with NPM is that public organizations should import managerial processes and behaviour from the private sector.(Box, 1999) It has arrived in Korea when it faced financial crisis. The Kim Daejung government adopted basic logic of NPM and government reform of the time was carried out in line with those doctrines. At the time, small government by reducing the size of the government was a main trend. Privatization of the government-owned enterprises was

a fashion at the time. Other methods of commercializing the public sector may include quasi-markets, competitive tendering, customer choice. Other corporate management style of reform, such as, total quality management, the accrual basis book keeping, performance measurement, performance budgeting, incentive pay (performance-related pay), evaluation system, contract out, executive agency and so on, were introduced. Knowledge management and e-government type of IT utilization is also similar in the two sectors. Special independent agency, which was popular in the U.K. government reform, was introduced in order to allow extensive autonomy for the agency managers. Boucher system, utilizing market

In the following Rho Moo Hyun Administration, the opposite line of former reforms was carried out. They moved back towards the big government direction. They enlarged manpower size and budget size very rapidly, reducing the domain of private sector. Of course there is continuation of the former reform tendencies which include customer satisfaction, open recruitment for many higher positions, policy evaluation, and performance measurement, and double entry book keeping system.

In the new Administration, which puts more emphasis on market-oriented reform, NPM type of government reform will be the main underpinning. Small government

is pursued to expand the scope of the market and privatization of the public corporation has been sought in order to introduce market principle.

III. Macro-level Association

When Koreans are talking about statecraft, we do put 'Running a State (Country)' in the same category as big business administration. 'Business administration', sometimes, give off much higher meaning than public administration of a government. It may mean a efficiency improvement and effective handling of policy matters through determined leadership. It is also expected that the government overcomes slow adaptation to the swiftly changing domestic as well as international environment with the help of business-like operation. Higher level of risk-taking posture and decisive handling of complicated social conflict are also implied by business orientation.

With this kind of connotation in mind, we can trace the trajectory of the Korean Government Operation and the major global business enterprises in Korea. A comprehensive study (Jung, 2008) of modern business development in Korea shows that the change of business practices have been very active and those has put impact on the government management and at the

same time the government has been a crucial environment of business enterprises.

There are affinities and specificities between the operation mode of the two sectors. When we include political aspect of government management, specificities will be more salient than the affinities between the two. Politics involves power struggle based on political rationality, and political calculus is very different from the profit calculus. Military rule and authoritative government operation based on command and control mechanism can not be properly associated with private business administration.

However, we found close similarities between the two areas of concern. During the development periods of 1970s, bulldozer style of organizational management was preferred and yielded a significant results of national economic growth in the public sector and enterprise growth in the private sector. During the democratization process of 1980s, conflict management and consolidation among stakeholders was important function of government officials and business executives. In the late 1980s, every business entities faced challenge from the workers and labour unions. When labour movement gushed out, traditional production process efficiency got out of the way. That was true during the democratization period in the government. Democratic and fair treatment of the

clients had been the top priority in the public sector as well as in the private sector.

Usually the private sector in Korea opens their eyes for the new challenge before the public sector. Globalization, for example, has been lead by the big business enterprises and voice for deregulation of economic activities has early been made by the businessmen. Knowledge management and importance of specialists for innovation are the leading paradigm of the business world. But the public sector still have faced problems of generalist culture yet.

IV. What We Learned

NPM initiatives have had the objective of making managerial behavior in the public sector organization more similar to that in the private sector(Poole M., Mansfield, R. and J. Gould-Williams, 2006; 1051). It is also evident that the NPM efforts in reforming the Korea government attempt to utilize the private sector management principles and tools in the public sector. There are, however, several preconditions to be tested: (1) If government reformers are to derive lessons from the private sector, he should establish, as the first step, attempt to establish more clearly the determinants of performance in the private firm, and (2) He also should clearly show the empirical causality of a certain

management tool and its performance because the technical aspects for NPM depend partly on whether private sector management principles and processes are likely to work in the public sector.

It is generally known that management techniques cannot be exported successfully from one sector to another sector because of difficulties in culture, organizational environments, goals, structures, tasks, and managerial values (Boyne, 2002: 118). Whether or not NPM movement in the Korea Government has changed the culture or ethos of the its public sector is difficult to determine.

For example, executive agency, which has been introduced in major executive administrative organizations beginning 2001 and extended to 44 organizations in 2006, were expected to show higher level of performance and better governance. However, an empirical research (Jeong, 2007) finds several disappointing outcomes: (1) the scope of autonomy has not been expanded notwithstanding formal market-like type of governance; (2) several performance measurement indicators did not show significant improvement, (3) internal management practices had not been changed as expected, but (4) some indicators, such as, employee expectations, customer satisfaction level, budgetary management showed some positive atmosphere. In addition, we modestly are able to

conclude that the impact of NPM in the bureaucratic circle not so simple: attitudinal and behavioral change seems temporal.

However, it is certain that the continuation of the movement is needed under the international, economic and political situation. For example, transparency and cost inflation have been a deep seated disease of the bureaucracy. By introducing a business-like electronic boucher system, diverse irrationality and corruption was able to be eradicate in the public sector.

Every business organization can be defined by its accountability. There may be four different kinds of accountability: (1) accountability to shareholder interests; (2) customer; (3) responding to the claims of workers; and (4) accountability for social results (Parston, 1997) It is true that this kind of perspective can be applicable to the public organization. But in the public sector, shareholder and customer are sometimes the same entity and social results are evaluated mostly by the customer. At the same time, participation from stakeholders or the mass are very important aspect of decision-making in the public sector. For example, customer satisfaction is important in applying bcs(balanced score card) in business, but in the public sector citizens participation is not less important aspect of governance than client satisfaction with delivered administrative services.

However, at the macro level, it seems very easy to find the fact that the private business sector leads the public sector. They positioned themselves at the top of the change and became warrior in the frontline of global challenge. They cultivated globalization by doing business all over the world and building global business networks and made clear that the innovation and technology will lead the 21st century. In this sense, the government operation should pay keen attention to the preceding efforts of the private business enterprises.

Reference

Box, R. (1999), "Running Government like a Business: Implication for Public Administration Theory and Research," *American Review of Public Administration*, 29.19-43.

Bozeman, B. (1987), *All Organizations are Public*, London: Jossey-Bass.

Boyne, G.A.(2002), "Public and Private Management : What's the Difference?," *Journal of Management Studies*, 39. 1.

Clarkson, K.(1972), "Some Implications of Property Rights in Hospital Management," Journal of Law and Economics, 15, 363-84.

Jeong, Moon-Gi (2007), "Governance and Performance of the Executive Agency in Korea," Journal of Governance Studies, 2.2. (Korean)

Jung, Koo-Hyun (2008), Business Enterprise 20 Years in Korea, SERI, Seoul, (Korean)

Osborne, D. and Gabler T. (1992), Reinventing Government: How the entrepreneurial Spirit is transforming the Public Sector, New York: Peguine Books.

Parston, Greg(1997), "Producing Social Results," inHesselbein, F., M. Goldsmith, and R. Beckhard, Organization of the Future, San Francisco, Jossey-Bass Inc., pp.341-348.

Poole M., Mansfield, R. and J. Gould-Williams, (2006), "Public and Private Sector Managers Over 20 Years: A Test of the 'Convergence Thesis,'" Public Management, 84, 4.

Rainey, H., Backoff, R. and Levine, C. (1976),

"Comparing Public and Private Organizations," *Public Administration Review*, 36, 233-44.