

Performance Budgeting in Korea*

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I. Efforts to Install Performance Budgeting

Late in 1960 the Bureau of the Budget began an extensive study of the concept and techniques of performance budgeting. This was initiated by Director Hahn-Been Lee and was a purely spontaneous move on the part of the Korean government. In April 1961, a group of six men, including the Director of the Budget Bureau, visited Manila to observe performance budgeting in the Philippine government.⁽¹⁾ Performance budgeting in the Philippines was the object of interest to the Korean officials for two reasons. In the first place, they wanted to know whether performance budgeting was successful in such a developing country as Philippines. More than this, they wanted to know what were the major obstacles in installing performance budgeting and how these obstacles were overcome by the Philippine government. Secondly, Malcolm Parsons' article, "Performance Budgeting in the Philippines" and comments made by Messrs. Zimmermann, Kroeger and Stene on the article aroused much interest among knowledgeable Korean officials.⁽²⁾

After the group returned from the Philippines, the Bureau of the Budget began a two-week training program for ministerial budget officers and other officials concerned.

The following fifteen programs in three ministries were selected to make the pioneering shift to performance budgeting in the fiscal year 1962.

Ministry of Agriculture and Forestry

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(1) The author was a member of the group.

(2) See Malcolm B. Parsons, "Performance Budgeting in the Philippines," *Public Administration Review*, Summer 1957; and V.B. Zimmermann, L. J. Kroeger and E. O. Stene, "Comments on 'Performance Budgeting in the Philippines,'" *Public Administration Review*, Winter 1958.

1. Farmland development
2. Forestation
3. Erosion control

Ministry of Health and Social Affairs

1. Psychiatric hospital
2. Tuberculosis
3. Leprosariums
4. Public Health Technicians Training Institute
5. Quarantine laboratory

Ministry of National Construction

1. Flood control
2. Dam construction
3. Highway construction
4. Port and harbor construction
5. Port and harbor dredging
6. Water system construction⁽³⁾

These fifteen programs were in turn divided into ninety-three projects or activities.

These efforts to install performance budgeting were briefly interrupted by the military revolution in May 1961, but were resumed in a month or so. The Budget and Accounting Law, which was promulgated in December 1961, contained some provisions encouraging performance budgeting, although the term performance budget did not appear in the statute.

II. The Problems of Installation

Samuel M. Roberts, writing in 1952, noted:

The basic concept of performance budgeting is easily understood. In its simplest terms the goal of performance budgeting is to prepare, analyze, and interpret the financial plan in terms of services and activity programs, rather than limiting the budget to a detailing of objects of disbursement such as personal services, supplies, equipment, and so on.⁽⁴⁾

(3) Before the military revolution of May 1961, these six programs were under the jurisdiction of the Bureau of Public Works of the Home Ministry. In October 1961, the Bureau of Public Works was made a part of the Office of National Construction, which was promoted to a ministry in June 1962.

(4) Samuel M. Roberts, "Trend Toward Performance Budgeting," *Public Management*, October 1951, p. 224. The first Hoover Commission in the United States first used the term performance

In applying the basic concept of performance budgeting there are several approaches. Generally speaking, government activities may be divided into two categories, namely, (a) those activities which are amenable to production measurement, and (b) those activities which cannot easily be measured. For the first category of government activities, the cost-accounting, the man-hour, and the work-load approaches are applicable. As for non-measurable government activities, the ratio of personnel basis and the point grading system are applicable.⁽⁵⁾

Among these several approaches, the Korean government chose the cost accounting approach for the fifteen programs mentioned above. The cost accounting approach is the most difficult and yet the most reliable method. As Sherwood observes:

While it has been pointed out that performance budgeting does not rest entirely on cost accounting, there is little doubt that such a system provides the most reliable facts on those activities whose production can be measured.⁽⁷⁾

To be brief, under the cost accounting approach, the total cost of a project can be computed by using the following formula:

Unit Cost X Number of Units=Total Cost⁽⁷⁾

There are two prerequisites for the use of this formula, namely, the identification of work units and determination of unit cost.

In Korea, as elsewhere, the selection and application of work units (units of work measurement) that are true expressions of accomplishment was not an easy job, although only measurable activities were selected for the installation of performance budgeting. Some of the criteria for the selection of a unit of work measurement are summarized by Sherwood as follows:

1. The unit, if possible, should be uniform each time performed.
2. The unit should be simple and be recognizable by the worker.
3. The unit description should have common meaning in both private industry and government work and mean the same thing each time it is used.

budge : "We recommend that the whole budgetary concept of the Federal Government should be refashioned by the adoption of a budget based upon functions, activities, and projects: this we designate as a 'performance budget.'" (Commission on Organization of the Executive Branch of the Government, *Budgeting and Accounting*, Washington, 1949, p. 8.).

(5) Frank P. Sherwood, "Some Non-Cost Accounting Approaches to Performance Budgeting," *Public Management*, January 1954, pp. 9-12.

(6) Frank P. Sherwood, *The Management Approach to Budgeting*, Brussels, International Institute of Administrative Sciences, 1954, p. 37.

(7) *Ibid.*, p. 38.

4. The unit must lend itself to accounting and statistical methods. Terminology such as loads, batches, blocks, etc., is too indefinite for mathematical computation.
5. The unit must be an item that is controlled by the worker or supervisor.
6. The unit must relate directly to the work performed.
7. The unit measurement must be easily computed.
8. The unit should be visible, such as meals served, tons of garbage collected, yards of concrete laid, etc.⁽⁸⁾

It goes without saying that the selection of work units which satisfy these criteria is the most difficult job. In the case of psychiatric and tuberculosis hospitals, for example, "patient-day" was used as a unit of work measurement.⁽⁹⁾ Superficially, this was a reasonable unit of work measurement but the problem of homogeneity was not solved here. This point is well made by Henry and Proctor in connection with the performance budget experiment in five of the seven state tuberculosis hospitals in New York State:

Different treatment regimens, the wide spectrum of drugs and their varying costs, differences in duration of hospital stay all conspire to make *patients-treated* a measure of little value. Age distribution of patients and the extent of other disabilities that require additional nursing care are important variables. The amount of surgery needed by different patients varies so greatly that previous experience provides a poor index for estimating future requirements⁽¹⁰⁾

In many projects under the farmland development, forestation and erosion control, "chongbo" (2.45 acres) was selected as a work unit. Here again, a homogeneity problem entered. More dubious work units such as "set" and "place" were used for projects under the dam construction and water system construction programs.⁽¹¹⁾

A more difficult problem than the selection of work units was the computation of unit costs. Parsons, in speaking of performance budgeting in the Philippines, points out:

(8) Sherwood, *The Management Approach to Budgeting*, p. 36. In Los Angeles, the following criteria are used in the selection of work units: (1) The work unit must be *countable*; (2) The work unit must express *output*; (3) The work unit must reflect *work effort*; (4) The work unit must have *consistency*; and (5) The work unit must be expressed in *familiar terminology*. (International City Managers' Association, *Municipal Finance Administration*, fifth edition, Chicago, International City Managers' Association, 1955, p. 83.)

(9) Seung Soo Hahn, "Hangook ei Sungkwa-chui Yesan Yungoo" (A Study of Performance Budgeting in Korea), unpublished M.A. thesis, Graduate School of Public Administration, Seoul National University, 1963, p. 49.

(10) Marion L. Henry and Willis Proctor, "New York State's Performance Budget Experiment," *Public Administration Review*, Spring 1960, p. 730.

(11) Difficult problems in the selection of units of work measurement are also pointed out in Ali Eghte'ari and Frank Sherwood, "Performance Budgeting in Los Angeles," *Public Administration Review*, Spring 1960, p. 68; and also in Vernon E. Koch, "Cincinnati's Budget Developments," the same issue, p. 81.

Apart from this basic policy problem is the technical difficulty of determining unit costs and setting cost standards..... The dominant concept of legal accountability is a serious limitation on meaningful performance budgeting in the Philippines. There have been no established cost accounting and work measurement systems..... There is a shortage of personnel possessing adequate accounting skills. Much of what passes for accounting is little more than book-keeping..... Under these circumstances the cost and accomplishment data in the 1957 budget document are not products of performance accounting and work measurement systems but are inferences and guesses about these things in agencies never organized, staffed, or disposed to determine them.⁽¹²⁾

Practically the same criticism could be applied to the Korean accounting system and "cost accounting." In many cases a unit cost was computed by dividing the total cost for the preceding year by the total units of work performed there.

In any event, performance budgeting was again applied to the same programs in the fiscal year 1963, but it was abandoned in the fiscal year 1964, ending two years of the performance budget experiment in Korea.

III. Evaluation and Conclusion

Parsons, in criticizing performance budgeting in the Philippines, pointed out the following defects:

1. Achieving the advantages of performance budgeting depends on overcoming pervasive problems of measurement, personnel, organization, and the role of the legislature.
2. Accounting and measurement systems are not yet able to produce the data required for performance budgeting.
3. The civil service, because of patronage and *pabagsak*, does not generally produce the superior personnel needed to insure the effective working of a complex system like performance budgeting.
4. Formal change of administrative structure is less significant in determining organizational effectiveness for performance budgeting than what actually goes on within affected agencies.
5. There are indications that the legislature is unwilling to modify its role so as to facilitate rather than hinder performance budgeting.⁽¹³⁾

Practically the same defects were experienced in Korea. The problem then is how to explain the fact that performance budgeting is still in use in the Philippines despite the "imperfections of the program in its early stages,"⁽¹⁴⁾ while the performance budget experiment was ended

(12) Parsons, *op. cit.*, p. 175.

(13) Malcolm B. Parsons, "Reply to Comments on 'Performance Budgeting in the Philippines,'" *Public Administration Review*, Spring 1958, p. 129.

(14) Zimmermann, Kroeger and Stene, *op. cit.*, p. 49.

in Korea after two years of experience. Several factors appear to be responsible for this.

In the first place, "performance budgeting as developed in the Philippines was truly a joint enterprises with Filipinos and Americans working side by side,"⁽¹⁵⁾ while the Korean experiment was a unilateral project on the part of the Korean government. In the Philippines, the FOA "sponsored a contract between the Republic of the Philippines and an American firm of management consultants for installation of performance budgeting,"⁽¹⁶⁾ whereas there was no U.S. technical assistance for the Korean project.⁽¹⁷⁾

Secondly, performance budgeting had no *explicit* legal basis in Korea, whereas in the Philippines it is based on the Performance Budget Act of 1954,⁽¹⁸⁾ requiring "that the whole budgetary concept of the government be based on functions, activities, and projects, in terms of expected results."⁽¹⁹⁾ No similar clause will be found in the Budget and Accounting Law of 1961 in Korea.

Thirdly, the installation of performance budgeting had the backing of the President in the Philippines even though it was initiated by Budget Commissioner Aytona, who later was promoted to the Secretary of the Treasury.⁽²⁰⁾ In Korea, this was not so. The performance budget experiment was initiated by Director Hahn-Been Lee of the Budget Bureau with the backing of the Finance Minister, but it did not have the backing of the Prime Minister. The military revolution of May 1961, which resulted in five Finance Ministers in two years, made the situation more complicated. Furthermore, the Bureau of the Budget was transferred from the Ministry of Finance to the Economic Planning Board in July 1961, while Director Lee was promoted to be Vice Minister of Finance in May 1961.

Fourthly, "budget practice in actual operation," as White pointed out, "vary widely from place to place and from time to time under the influence of personalities...."⁽²¹⁾ The most important factor for the demise of performance budgeting in Korea was that Mr. Hahn-Been Lee, who

(15) *Ibid.*, p. 43.

(16) Parsors, "Performance Budgeting in the Philippines," *PAR* Summer 1957, p. 174.

(17) Prof. Hahn-Been Lee, who initiated the installation of performance budgeting, calls this *endogenous* reform. (Hahn-Been Lee, "A Study of the Korean Budget Reform, 1955-1961: A Reformer's Self-Evaluation," Paper presented to the DAG/EROPA Seminar held in Bangkok, March 1968)

(18) Zimmermann, *et al.*, *op. cit.*, p. 44.

(19) Parsors, "Performance Budgeting in the Philippines," *PAR* Summer 1957, p. 174.

(20) *Ibid.*, p. 178; and also Zimmermann, *et al.*, *op. cit.*, p. 44.

(21) Leonard D. White, *Introduction to the Study of Public Administration*, third edition, New York, Macmillan, 1948, p. 260.

initiated the installation of performance budgeting, was transferred from Vice Minister of Finance to Korean Ambassador to Switzerland in January 1962. Mr. Bong-Hyun Chin who brought the demise of performance budgeting and who was a member of the group visited Manila, has never been enthusiastic about performance budgeting.

The fifth factor is closely related to the fourth. Director Lee did not work hard to "develop a healthy reform climate and a predisposition toward new forms of thinking and behavior."⁽²²⁾ To many of the Budget Bureau staff including Mr. Chin who was later promoted to be Budget Director, performance budgeting was Director Lee's reform, not theirs. This was the most important reason why the reform collapsed as soon as Director Lee left the scene.

Performance budgeting, as Professor Seckler-Hudson points out, is "a continuous, on-going activity on the part of all who participate in it."

It is not a destination but a pilgrimage—never perfect, but being perfected—as the light of experience and careful research point the way to greater improvement in the management of public affairs.⁽²³⁾

It is unfortunate for the Korean government that performance budgeting, after only two years of experience, was abandoned because of imperfections and difficulties in its early stage.

(22) Gerald Caiden, *Administrative Reform*, Chicago, Aldine Publishing Co., 1969, p. 203.

(23) C. theryn Seckler-Hudson, "Performance Budgeting in Government," *Advanced Management* March 1953, p. 32.