

Decision-Making Process in Korean Public Administration: The Rate Setting of Public Utilities in the Korean Central Government*

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I. Research Objectives

The objectives of the research were (1) to examine the decision making process on the setting of public utility rates in the Korean central government with emphasis on the actual and dynamic process of decision making, and (2) to recommend the changes necessary in organizational structure, procedures and the major factors to be taken into account in the determination of a specific rate. In this paper the writer concerns himself only with the first objective

II. Research Scope

Original scope was on the cases after the Korean War on the three functional areas of electric utility, mass transit lines and communications service. Out of the case inventories covering the above scope, the writer further limited his concern in the following manner. With regard to bus fare, that of the City of Seoul, with regard to the communication services, the telephone and postal service rates were considered as more accessible for the study and also as having had greater impact on the society. Such delimitation of the scope was further necessitated because of the inadequate number of research staff and the time and financial

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limits. Thus, finally, one case from the mass transit fare of the City of Seoul, one case from the telephone service, one case from postal service and two cases from the electric utility service were chosen for intensive study. The reason for the selection of two cases from utility service rates was mainly because of the fact that the two were so much interrelated as inseparable for the understanding of the process. In this paper the two cases are put together as one because of this close relationship and high degree of mutual similarities.

The specific cases selected were as follows:

- (1) Bus Fare; Feb. 2, 1966 decision to raise bus fare from 5 Won to 8 Won.
- (2) Postal Service Rates; Sept. 24, 1965 decision to raise postal service rates by 70%.
- (3) Telephone Service Rates; Sept. 24, 1965 decision to raise telephone service rates by 100%.
- (4) Electric Utility Rates; Sept. 1, 1964 decision to raise electric utility rate by 50% and April , 1966 decision to raise it by 25%.

III. Research Design

The research design was based from the initial period of research on such variables as (1) decision units (2) perception of situation by the decision units, (2) goals, (4) alternatives considered and the perception of their consequences, (5) conflicts and power, and (6) decision making process and communications.

Since it was found through preliminary studies that the above variables can be applied to the Korean public administration, it was decided to follow the similar frameworks in formulating the final research design. For this purpose, the most frequently referred book was J. March and H. Simon's *Organizations*. However, this does not mean that the writer always closely followed their model. Because this research was the first of its kind in Korean public administration the writer perceived his role as that of stimulating the scholars concerned to conduct such a research in the future and with increased rigour.

The final research design was formulated entirely by me and was intended to serve at the same time as guides for the interviewers. It is appended to this paper and the reader will find in it the phrases referring to the interviewers and interviewing situations.

IV. Research Methods

The research took around seven months. During the first three months the writer was

engaged in the preparatory works such as (1) collection of the reference books and review of the organization theories concerned, (2) collection of the laws and regulations concerned with the decisions, (3) making newspaper clippings, (4) and making inventories of the previous similar decisions.

The final research design was formulated as a result of the above works and preliminary interviews of around 10 persons who were familiar with the decisions. The rest of the seven months were spent in conducting interviews in offices, tea rooms and restaurants for almost fifty persons.

V. Findings

A. Introductory Statement

The research has been handicapped in that those incumbents currently occupying the ministerial positions or the positions of similar level were not cooperative to the research team's call for help in providing themselves as interviewees to our interviewers. Another obstacle was the fact that most of our interviewees were reluctant to disclose informations on the informal aspects of the decision process and when did so they put the statements in vague and cloudy manner. This tendency was especially conspicuous among the interviewees in the government. Because of these difficulties, the analyses of the data collected could not be as rigorous as the writer originally had hoped for in the research design. The degree of rigorousness in the following findings should be understood as the results of these retarding factors. The findings presented hereunder include only those which are convincing unless otherwise mentioned. The findings in the individual cases will be presented first and the findings based on the comparisons of all of the cases will be presented thereafter.

B. Findings out of Individual Case Analysis

(1) The Decision on Bus Fare

(a) Memories

The memories of the similar previous decisions were stored in the individuals of middle management levels of both the Ministry of Transportation and the City of Seoul. In spite of the political upheavals such as the April student revolution of 1960 and May military revolution of 1961 and the reshuffles in the career personnel which ensued these political changes, there remained both in the Ministry of Transportation and the City of Seoul the career civil servants of middle management level who were more or less informed about this kind of decision.

They were largely centered in the Bureau of Land Transportation in the ministry and Bureau of Tourism and Transportation in the city government.

On the other hand the decision makers in the top level of the government such as ministers, the prime minister and the president did not have memories concerning this kind of decision making. This was largely due to the almost complete changes in the personalities because of the above political changes.

Memories in the middle management level mentioned above were almost individual memories. There were few memories formally stored in the organizational units in the above two bureaus. The only data stored in the bureaus are those simple documents used in the formalization of the previous decisions. These documents specifically include the notice to the mass transit business associations approving the raise of the fares and the simple upward referral documents within the bureaucracy asking for the decisions by higher authorities. These documents are classified only by date and filed according to the same criterion. However, the records on what happened a few years ago are not easily identifiable as to their location.

The content of the memories stored in the individuals had the following characteristics. Through the experience of the previous decisions it was perceived that the decision on the bus fare is always decided by those in the top level of the government. Therefore, the career civil servants in the middle management level are incapable of exercising dominant influence in the decision process. Scientific cost analysis for mass transit business is impossible and, even when it is done, the final decision will not be based on such cost analyses. It will be made between the top leaders of the government and the mass transit business on the grounds other than rational bases. Since these grounds are largely political reasons and they change with the passing of time, there have not been developed formalized standard procedures.

These memories of the middle management level were not actively communicated to the top level leaders of the government but retained in their own minds. This factor together with the following made the decision process have uniqueness in that more time span was taken to arrive at the final agreement and more affective factors governed the process than in previous similar decisions. Additional factors which made this case unique were (1) conspicuous changes in the political and economic environment, and in the balance sheet of the mass transit business, (2) unprecedented means utilized both by the business and the government, (3) timing which took advantage of the elections, and (4) fixation of the rate 5W for the unprecedentedly long period. In spite of these uniqueness the case is similar with the previous cases in that the rate

was determined politically.

The memories of the middle management level also had the following aspects. The experience with the previous cases showed that the initiation of the process is always made by the mass transit business, and the raise of the bus fare will have immediate effect of raising the general price level and will encounter oppositions from the press.

The memories of the representatives of the mass transit business also had the similar content with those of the middle management personnel. This was largely due to the more frequent interactions between these two groups and also due to the relative stability of the leadership of the mass transit business association who had had the experiences of dealing with the government agencies with respect to the raising of bus fare.

(c) Goals

The dominant goals of the top leaders of the government with regard to this decision were not clear and varying frequently with the passing of time. Goal structures were not logical and very unstable. Because of such features of goal, the whole decision process became very complex and took very long time, and the decisions were extemporary. In spite of such vagueness the following generalizations are possible. In the first phase of the process, the government's dominant goal was to win in the forthcoming general election. For this purpose the maintenance of the current rate was thought as the only feasible alternative, because raising of the fare will have the consequences of raising the general price level and unfavorably affect the voting outcome. In the second phase, low price policy and the continuous operation of the buses were dominant goals. In the third phase, the negative sanctions on the mass transit business first and later the continuous operation of the buses were the governing goals. The continuous operation of the buses was the outcome of the threats by the mass transit business and the bus labor union to stop the operations of the buses. In this third phase, in spite of the fact that the government informally had decided already in May 1964 to raise the bus fare from 5 Won to 8 Won, the formal decision to this effect was prolonged until the threat of strike by the labor union in February 1966. This postponement of the raise was largely due to the intentions of the government to exercise punishment on the mass transit business for the latter's prior act of actually stopping all the buses for one day and refusing the government's proposal to raise the fare to 8 Won in 1964 instead of 10 Won.

The mass transit business was consistently governed by profit motive, for whose realization the raising of bus fare was thought the only alternative. As long as the satisfactory profit level

is attained the business is not insistent upon the raising of the fare. It was due to unsatisfactory level of profit and possibly due to deficits in their balance sheets that the business was so much insistent upon the raise and that they appealed to extreme means of exercising their power of stopping buses and that they continued to present such demands for more than two years and a half. The reduction in the income was largely due to the continuous escalation of the general price level, the unprecedentedly long period of maintenance of the constant fare rate, the increase in the costs of the parts and the oils and gasoline.

When we juxtapose the goals of the leaders of the government and those of the mass transit business, we find that they were mutually irreconcilable especially in the initial period. For example, the winning of elections and the profit motive cannot be mutually consistent. For the winning of elections the maintenance of the current rate was a logical conclusion. For the profit-making, the raising of the fare was the logical conclusion. Similar conclusion can also be derived as to the low price policy of the government. In order to maintain the general price level low, the bus fare had to be kept at the current rate. The solution for the conflicting demands was feasible only in the latter stage of the second phase and the third phase. The government was more concerned about the continuous operation of the buses than about the low price policy. For the continuous operation of the buses, the raising of the fare was necessitated. On the other hand, for the mass transit business the stopping or the strike of the buses was to worsen their balance sheet situation. Thus the government and the business interests met on the continuous operations of the buses and the raising of the fare was made possible only when such mutual convergence of interests occurred.

Such differences in goals affected the decision making process involved in the case in the following manner. The decision was largely political involving bargaining, formation of coalitions and exercise of coercive power rather than the search for the facts involved. The facts as to the costs of the business operation was regarded either as irrelevant, unreliable, unimportant and/or easy to revise for any purpose.

Given the above general characteristics of goals, there were varieties of goals among the persons and organizational subunits in the government. As to the winning of elections, however, there does not seem to have existed much varieties among the actors in the government. As to the low price policy the Minister of the Economic Planning Board (EPB) was the most ardent upholder of that policy. The Mayor of the City of Seoul was not consistent in his behavior; sometimes supporting the low price policy and sometimes showing his sympathy toward

the mass transit business suggesting the possibility of the raise. Minister K of the Transportation Ministry was relatively more consistent in denying the possibility of raise. His line of approach was to work on the reduction of the unit costs of the major input items of the mass transit business so that both the government's goal and the business goal could be achieved without raising the fare. However, such line of approach was successfully rejected by the Minister Commerce and Industry who had the jurisdiction over the oil, gasoline and the parts. Minister K's such goal was evidently revised later due to the stopping of the buses by the business and the lack of cooperation by the above minister.

The goal of the bureau chief and the vice minister of transportation was to raise the income status of the mass transit business. However, this goal was strongly colored by the need to adjust themselves to the goal of their superior, Minister K. Thus their goal was not expressed toward the direction of raising of the fare under the minister. The goals of the middle management personnel of the two bureaus were largely dominated by the personal goal of keeping themselves out of the trouble and thus keep their status intact. This was one of the reasons why they did not actively communicate to the top leaders their belief in the extreme deficits being suffered by the mass transit business and also why they were not explicit their response to the business demands for the raise of the fare.

The above differences in the goals made the different actors in the government to act in inconsistent and uncoordinated manner. Such inconsistencies and lack of coordination were least observable only when the continuous operation of the buses became the dominant concern of the government because of the threats posed by the business and the union.

(c) Perception of Situation.

The perceptions of the actors in the government had the following common features. Bus fare was considered to have direct influence on the general price level. Especially the bus fare in the City of Seoul was considered to have been a target of criticism by public opinion. The alternative of raising the bus fare was considered to bring the unfavorable outcome on the election results to the government and the government party. On the other hand, in the first phase it was thought that the rejection of the business demands would not result in the extreme means of stopping the buses by the business.

Among the actors in the government those who were most familiar with the facts on the financial condition of the mass transit business were those in the middle management level and the bureau chief of the City of Seoul. There had existed a relatively constant stream

of contacts between the Transportation Administration Section of the City of Seoul, the Highway Transportation Section of the Ministry of Transportation and the representatives of the mass transit business due to the official activities of the sections regulating the mass transit business. These people in the sections were aware that the mass transit business was losing the money under the current fare of 5 Won. The evidences they used for such judgement were such factors as (1) the level of price increase in the past, (2) unprecedently long period of fixation of the same rate, (3) the frequency and seriousness of the demands by the drivers and conductors to the owners of the buses for the raise of pay, (4) the price increase in the parts, gasoline and the oil, (5) the changes in the sale prices of buses in the market and the number of bus owners who wanted to sell the buses. Some of these indicators are very rough. However, they are considered as more accurate means of measuring the financial status of the bus owners than modern scientific ways of cost analysis.

Cost analyses either in aggregate or in individual unit analysis are perceived as impossible to conduct and, if conducted, as unreliable. This is due to the multiplicity of parts, frequent changes in the prices of parts, the oldness of the ages of buses, the facts that the individual buses are the mixtures of different models assembled with whatever parts available at the time of assemblage, most of the owners have one to three buses, the owners disguise their incomes, the owners either directly or through the drivers submit bribes to the police, and the irregular amount of compensation for the accidents to the damaged.

With respect to the perception on the cost analysis utilizing modern accounting techniques, the perceptions of the mass transit business were very similar to those of the civil servants of the middle management level. Both groups coincide in the fact that they perceive such cost analysis as impossible and when made reflect subjective opinions of the analysts.

It was because of such perception of the mass transit business that they bribed the middle management personnel who were conducting the cost analysis. It was also due to such perception of the civil servants that they did not use for the decision the cost analysis report submitted by the Business Management Research Institute of the Korea University, because they found the fare proposed in the report was too high compared with the rate they wanted. The fact that the bureau chief of the City of Seoul informally and secretly requested the Korea Productivity Center to derive the fare which is very close to what he wanted is also an evidence of such perception of the cost analysis.

In spite of the relatively accurate perceptions by the civil servants in the middle management

level about the financial conditions of the mass transit business, they never attempted to communicate such facts to the top management level. This was due to their perception that the decision to raise the bus fare had always been decided politically. More important was their personal goal not to involve themselves in the trouble. The sections mentioned above were considered as the most lucrative units as far as the incomes other than the official salary are concerned. The section personnel were thus always under suspicion that the transactions between the mass transit business and the section personnel may involve illegal money. Consequently whatever is said in favor of the business could likely to be regarded by the personnel in the top management and the colleagues as a sign of having received bribes. In order to show them as clean, none of them provided decision makers in the top level with the facts which might be used in the interests of the business.

While the top leaders of the government certainly acted on the basis of political considerations such as the elections and the low price policy, their estimate of the possible responses of the mass transit business to the government's rejection of the demands was based on the inaccurate perception of the financial conditions of the mass transit business. For example, the top leaders of the government did not think that there would occur the stoppage of the buses. Such an inaccurate perception was largely due to the blockage of the information from the middle management level to the top management. The facts that the cost analyses conducted by the civil servants themselves and the so-called independent agencies were largely initiated by the direction of the top leaders and this action was taken when they were under the extreme pressures put by the business and that the leaders in the government largely relied on persuasion of the business in the first phases are the evidences for this reasoning.

Perception by the business group had the following features. If the bus fare is not raised the business will have greater difficulties in the financial situation in the future. The raise of the fare is the only alternative which can be considered. If the bus fare is not raised, the business will encounter the strikes by the labor union because the financial situation based on the current fare will not allow the raise of the pay for the drivers and the conductors. However, raising of the fare will have direct effect on the general price level and the public opinion will show strong opposition. The timing for the presentation of the request should be when the government is under weaker position and thus is likely to render favors to the public concerned. For this purpose the period immediately preceding the general elections is the most adequate. Since this kind of decision is largely governed by bargaining factors, always utilize

the weak points of the government. For this purpose, present bribes to the middle management personnel who also think that there does not exist accurate measuring devices for the financial status of the business. Since actual decisions are made by the top leaders of the government in the various ministries and they are in positions too remote to allow personal contacts, present petitions simultaneously to the president's office, the prime minister, the Ministers of EPB, Commerce and Industry, Finance together with those to the Minister of Transportation and the Mayor of the City of Seoul. Present higher figure which can be reduced later gradually through bargaining process to the point of their satisfaction.

In the second phase of the decision process, the business group perceived themselves as cheated by the leaders of the government and thought that further peaceful means would be responded in the similar manner by the government. The lack of coordination among the major actors in the government as to the government's attitude toward the raise of fare certainly contributed to this sense of having been cheated. From this point, the decision process has been governed by very strong element of affective factors as shown in such utterances of a representative of the business group that they "would not hesitate to demolish the buses and sell them as scraps". The only remaining alternative was perceived to be the stopping of all of the buses. This alternative was considered as would make the government surrender and would not harm seriously the business financial status any more than to continue to operate. In the third phase when the labor union threatened to strike, the business regarded this as a good occasion to force the government to raise the fare and at the same time the alternative of not acting for the prevention of the strike was considered as would exempt the business group from the possible future arrests by the police which they had experienced in the second phase.

Until the last date of bargaining, the labor union did not know the fact that the Korea Productivity Center had submitted the cost analyses report, in which the wage level much higher than they requested was recommended. If this fact had been known to the labor union, the final decision would have been made more easily.

Perception by the press as shown in the editorials especially in the third phase was that the business group actively sought for and recommended strikes to the labor union. The press created the impression that the business group was greedy for profit and entirely disregarded the public interest. As pointed out above, the business did not actively involved themselves in the attempted strike but passively acted in order not to involve themselves again in the possible

arrests.

In the second phase, from the moment that the business group actually stopped the bus operation for one day, the government actors' behavior was largely governed by affective factors. This is shown in the fact that while the government secretly had decided to raise the fare to 10 Won, it did not formalize it for almost two years in order to punish the business on the act of stopping the buses in 1964.

(d) Alternatives

The alternative of cutting down the current rate was never considered by any actor involved in the case. Therefore, the major alternatives were between keeping the current rate and raising the current rate. The government's response to the formal petitions by the business group for the raise of fare is likely to be to stick to the alternative of keeping the current rate. Only upon meeting with extreme demands such as the stopping of buses, strikes, the government will seriously consider the alternative of raising the rate.

For the mass transit business the greater the financial difficulty the greater will be the seriousness of their demand for the raise of current rate.

The alternative of cutting down the costs and keeping the current rate is never considered by the mass transit business. In the government minister K of the Transportation Ministry was the only one who formally expressed the need for such measures as the import of parts and maintenance of current price level for the gasoline. The other measures such as giving subsidies, loans, applying special low rates were never considered by any actor involved in the government.

Important subsidiary alternatives were on timing of the raise and amount of the raise. It seems that the timing decision was perceived as almost identical with the decision whether or not to raise the rate, because to promise to the business only the raise and not to commit about timing is similar to rejecting the demand for raise. The decision on the different rates of the raise is based on bargaining considerations rather than on cost analysis.

The order of consideration of alternatives is that of sequence examining one or two at the first place, if none of them work, another one or two are considered until the final decision is made. The characteristic of search behavior was that of collecting the informations on the maneuvering of the opposites either secretly and/or by informal channels of contacts. Since the experience stored in the memories of the middle management personnel was not widely shared, the actors in the government handles the case in a trial and error base. Except the cost analyses conducted in the case there has been very little search for the information on the substantive

facts on the bus fare. This was largely due to the perception by both the mass transit business and the middle management personnel that the decision on the bus fare is always decided on the basis of political considerations.

(e) Decision Procedures

This has a very low degree of programmed content either in procedural aspect or in substantive aspect. Consequently, the procedures were very irregular and governed by very high degree of irrationality and affectivity. Except the business audit taken by the Korea University and the cost analyses by the Korea Productivity Center, there was very little effort to rationalize the decision procedures. The decision was also governed by high degree of secrecy.

While the decision units provided in the law are the Mayor of the Special City Seoul, the Tourism and Transportation Bureau, the Minister of Transportation, Vice-Minister of Transportation, and Land Transportation Bureau of the Ministry, the actual decision units in the government included in addition to the above, those above the ministerial level such as the president, the Prime Minister, the Minister of EPB, the Minister of Commerce and Industry, the Minister of Finance, and the cabinet. Therefore, one can say that there is a discrepancy between the decision procedures provided in the law and the actual procedures, and such discrepancy should be understood in terms of the fact that while the decision on bus fare is actually highly political decision the laws did not take into account this fact.

Interactions among the actors in the government became frequent only when the government was faced with emergency situations such as the stopping of buses by the mass transit business and by the labor union. There was not enough of the horizontal communications cutting across the agencies as to make the different actors in the top management act in concert. The officials in the middle management level were ousted from the formulation of major decisions. Neither the substantive procedures nor the procedural programs were applied in a problem solving manner. However, only in the third phase in which the goals of the government and the goals of the business and the goals of the labor union were mutually complementing, the decision procedures took the character of problem solving approach.

(f) Conflicts

The typical character of the decision making process of this case can be regarded as that of conflicts between the groups involved. The conflicts were due to the different goals between the government and the mass transit business. They were also due to the differences in the perceptions of facts on the financial status of the business between the top leaders of the

government and the mass transit business. If the communication from the middle management level personnel to the top leaders of the government had been accelerated, the latter would have had more accurate perception of the facts and this would have helped them to arrive at the solution of the conflict much earlier.

There were not superior common goals governing both the business and the government. Only in the third phase in which the continuous operation of the buses became the sole ground common to the government, the business and the labor, all of the parties involved came to regard the facts more important and the technique of persuasion could work.

However, the dominant characteristic of the whole decision process is that it was governed mainly by bargaining, formation of implicit coalition among the actors and exercise of coercion. This characteristic made the actors involved in the decision process regard the factual analyses as tools and excuses for bargaining and perceptions of facts sometimes produced chaotic conditions.

The only criterion to arrive at the resolution of conflict under such conditions was to appeal to force. Thus the threats by the government to cancel the authorization of the mass transit business and the arrests of the representatives of the business were used by the government. The business also relied on threats such as the stoppage of buses.

The police and even the CIA acted as a partner for the coalition formation for the government and the threat of strike by the labor union actually functioned as additions to the power of the mass transit business.

Since the mass transit business and the labor are largely outside of government power hierarchy, the conflicts took longer period to resolve and were more vivid.

(2) The Decision of Postal Service Rate

(a) Memories

A great amount of formal memories were stored in the formal organizational units such as the Bureau of Postal Service and the Office of Planning and Management. However, the amount of information stored was greater in the former office. These memories were not fully utilized as supporting data for the initiation of the decision process. This was partly due to the feeling of jealousy actors in the Bureau had to the Office of Planning and Management which took the initiative in the formalization of the process within the Ministry of Communications. Another and, more important reason was that the raise of postal service rate was perceived as having greater degree of feasibility of actualization because of the previous

approval by the Committee on the Examination of Public Utility Rates, the support previously promised by a few key members of the Committee of Transportation and Communications of the National Assembly and the strong support promised by the newly appointed minister k. The greater the feasibility perception of the adoption of a proposed decision, the less the utilization of the available memories at hand in the formulation of the proposal.

However, the memories concerning the prior attempt to raise the rate and the approval by the Committee on the Examination of Public Utility Rates in 1962 exerted greater influence and were utilized in the decision making process of this case. This kind of information was explicitly utilized in the process of formulating and executing the ministry's external strategies vis-a-vis the other hierarchically superior decision units in the government.

The search for the memories stored in the Bureau was actively done rather by the sub-section chief of the finance in the Office of Planning and Management than by the bureau itself. The search for additional information from external sources on the substantive aspect of postal service rates was not attempted.

The decision making process was largely a reproduction of the previous decision of similar case. A minor uniqueness involved in the case was due to such factors as the personalities involved in the ministerial level both within and outside the Ministry of Communications. Uniqueness was relatively more evident in the process of formulating and executing external strategies.

(b) Goals

The dominant goals in this case were (1) low price policy and (2) termination of deficit operation of the postal accounts. These goals were in conflict against each other. The minister of EPB represented the goal of low price policy while the Ministry of Communications was more concerned with the elimination of deficits.

Within the ministry the goal to eliminate the deficits was formed because of the following factors. First, the current rate had been maintained for almost 10 years since 1956. The aspiration to raise the rate was widely shared within the ministry because of the above factor. Second, the Bureau of Postal Service no longer was to receive inputs as in the past from the Telecommunication Service Bureau in the same ministry. Telecommunications service was to operate under an independent business type account and was prohibited from transferring its income to other accounts under the AID loan agreement. The third factor was that the ministry had planned the expansion of postal service facilities in the first five year economic development plan. The final factor was that the values or the concepts toward the operation

of the postal service was changing within the ministry from that of regarding the postal service as the one to be operated with low cost even under deficits because of the public interests involved to that of rejecting such idea and regarding it as one of the business and for this reason a reasonable profit should be expected from the operation. The bureau chief of the Postal Service was the one who represented this goal of eliminating the deficits.

Minister K was highly motivated for achievement and open to the ideas of his subordinated for this purpose. However, one does not know to what extent behavior of positively acting for the realization of the raise was influenced by personal goal.

The government party members of the Committee on Transportation and Communications of the National Assembly were more concerned with forthcoming election. More postal stations could be established through the elimination of deficit.

In the initiation process within the ministry the Office of Planning and Management played more active role in compiling data and formulating ideas than the Bureau of Postal Service, which showed jealousy toward the former because of this fact. The office might have been motivated by group goal to show its achievements to the Minister. It seems there occurred a subtle kind of competition between the Bureau and the Office as to the actual staff works. The greater the feasibility of a proposal to be adopted, the greater will be the competition among the organizational units for merit.

(c) Perception of Situations

The continued maintenance of the current rate was thought to bring further deficits and these deficits would not be made up with the inputs from the telecommunication service account. The raising of the rate would be the means to attain the goal of eliminating the deficits. Further it would guarantee the independence of the bureau from the Bureau of Telecommunications Service. Other alternatives were not considered.

Minister K was perceived by the other actors in the government as having close personal relationship with the president and enjoying greater amount of the latter's confidence compared to the previous minister.

The actors in the ministry including the minister himself perceived that the press is most likely to oppose against the raise and therefore the matter should be kept secret until the major decision makers such as the president, the National Assembly and the government party give their commitment.

These actors also perceived that the time available for the actualization of the decision is

very short because it was thought that the year 1966 most inadequate due to the general elections to be held in the 1967. Consequently, the actors were under constant time pressure throughout the decision process to get the decision formally adopted during the year 1965.

The external environment for the actualization of the decision was perceived to be rather favorable. The emphasis placed on the strategy vis-a-vis the external units was mainly due to the fact that another case on the raise of the rates for telecommunication service was lumped together with this case in the same process.

(d) Alternatives

The alternatives considered as to the substantive content of the decision were (1) to continue to maintain the current rate and (2) to raise the rate. The alternative of cutting down the current cost was never considered.

The determination of unit costs for the postal service was set aside as impossible and the aggregate total income versus aggregate total expenditure were presented as data. Korea Productivity Center was given the contract for an independent analysis of costs. However, the ministerial decision as to the specific rate to be proposed was not based on the reports of the KPC. The figure shown by the Bureau of Postal Service, 100%, was the one in which the later possible reduction was taken into account. This is shown by the fact that, when the Office of Planning and Management, less involved than the bureau as far as the interests in the substance is concerned, showed 50%, the bureau easily withdrew to 70%.

As to the timing of the raise it has the similar character of taking into account the possible latter unfavorable disturbance. The ministry actually planned for the raise from Jan. 1 of 1966 but disguised this by saying to the Committee on the Examination of Public Utility Rates that they were planning for the raise from Aug. 1 of 1965 in the original proposal.

The time pressure evidently was a cause for the less degree for search for factual information on the substance of the postal service rates. The less search for factual information was also due to the perception that the environment was rather favorable for the adoption of the proposal. It was also due to the bureau's feeling that it was deprived of initiative by the Office of Planning and Management.

(e) Decision Procedures

The decision process was initiated because of the stimulus that a new minister the perception toward whom was as mentioned above showed his strong support. The decision procedures were relatively programmed within the ministry and unprogrammed vis-a-vis external units. By

excluding the wide participation of the civil servants concerned within the ministry the decision was made secret. The decision units as provided in the laws and regulations are (1) the Minister of Communications, (2) Vice Minister of Communications, (3) the bureau director, the section chief and the subsection chief in the Bureau of the Postal Service, (4) the Committee on the Examination of Public Utility Rates, (5) the Cabinet, and (6) the Prime Minister and the President.

The actual decision units involved in the process were (1) the President, (2) the Prime Minister, (3) the Minister of EPB, (4) the Committee on the Examination of Public Utility Rates, (5) the Minister of Communications, (6) the Director of the Office of Planning and Management and the sub-section chief of finance in the same office, (7) the bureau director and the sub-section chief of planning in the Postal Service Bureau and (8) the Committee on Transportation and Communications of the National Assembly, and the Policy Committee of the Government party.

The discrepancy between the legal and the actual is noticeable in the following aspects. First, the Government party was involved in the case. Second, the roles played by vice minister and section chiefs are almost negligent. Probably the most important positions in the ministries in the formulation of a new ministerial policy are bureau chiefs and sub-section chiefs. Third, the opposition party was disregarded as to its influence.

The most noted phenomenon in the decision procedures is that the minister made a detour by first briefing the Prime Minister and the President and then letting the Minister of EPB know about the proposal. This was mainly due to the minister's perception that the Minister of EPB would oppose the proposal because of his low price policy and that the latter would faithfully follow the intentions of his hierarchical superiors. According to the legal procedures, the ministry has to go through the procedures step by step climbing hierarchical ladder. In other words the Minister of EPB had to be briefed and his approval should have been granted first before the proposal reaches to those in the higher level.

In the formulation of strategies vis-a-vis the external units, all of those above the bureau chief level within the ministry were active participants. These strategies were based on informal and personal linkages the participants could mobilize and were carried out before the convening of conferences of external units and the formalization of approvals. There developed a sort of division of work in the execution of strategies among these participants. The minister himself contacted the Prime Minister and the President and briefed to the press when

the news on the matter leaked out and was picked up in the papers. The others above the bureau chief level divided their work so that each person was responsible for one or two persons of the Committee on Transportation and Communication of the National Assembly, the Policy Committee of the government party and the Committee on the Examination of the Public Utility Rates.

The Committee on the Examination of Public Utility Rates is composed of the Minister of EPB as chairman, the Ministers of Finance, Agriculture and Forestry Commerce and Industry, Transportation, and Communications and also the 9 civilians who are either scholars or representatives of Korea Productivity Center, Korea Electric Association or a staff of the Committee on Commerce and Industry of the National Assembly. The committee did not exercise its legally provided power of examining the proposal. The proposal was presented with the explanations that the president had already approved the case, there were international obligations committed in the AID loan agreement and the budget document which is on the new rate had already been submitted to National Assembly for its examination. Consequently the committee was actually incapacitated and had to approve the case.

(f) Conflict

Theoretically there was to be conflict between the Minister of EPB and the Minister of Communications because of the differences of goals. However, there did not develop this conflict because of the latter's maneuvering in secrecy aimed at exerting political and hierarchical pressures on the former. Consequently the content of the proposals formulated by the Ministry of Communications were kept intact until the final moment of adoption. One might call this made of decision making as analytic as far as the substantive content of the decision is concerned. However, different views held by the other decision units were not reflected. Conflict was resolved with the exercise of political and hierarchical power. The feeling of relinquishment on the part of the Minister of EPB is well reflected in his behavior of disregarding the substantive content of the matter by ordering to close the briefing in the midst of it.

The conflicts in the ministry itself occurred between (1) Postal Service Bureau and the Office of Planning and Management and (2) Postal Service Bureau and Telecommunications Bureau. These conflicts were mainly due to the sense of competition among these units. However, they were not serious as to harm the analytical character of the process within the ministry. Such an easy resolution might have been due to the high integrative ability of the new minister.

(3) The Decision on Telephone Service Rate

a) Memories

A great amount of formal memories were stored in the Telecommunications Bureau. These memories were sought for, collected, stored and utilized to a great extent in the preparatory work conducted by the bureau. The reason for such an extensive search for formal data was because the probability of actualization of the proposal was perceived as low. The greater is the extent that the environment is perceived as unfavorable the greater will be the search for factual information in the formulation of a proposal. The memories concerning the previous attempt to get the approvals of the previous Minister of Communications and the Minister of EPB were stored in the Bureau chief and were utilized in the decision making process of this case.

The search for the memories was conducted by the bureau staff especially by the sub-section chief of planning rather than by the Office of Planning and Management as in the case of postal service rate.

(1) Goals

The dominant goals in this case were (1) low price policy and (2) expansion of the telecommunication facilities. Outwardly these goals were in conflict against each other. The Minister of EPB represented the former goal while the Bureau of Telecommunication Service and the Minister of Communications represented the latter goal.

The Bureau of Telecommunication Service traditionally had enjoyed relatively higher prestige within the ministry especially vis-a-vis the Postal Service Bureau. The motivation to maintain this status was working among the bureau staff of telecommunication service.

In addition to this informal group goal, the commitments which had been made in the first five year economic plan for the expansion of telecommunication services especially to the rural areas and the lack of domestic funds for the purchase of parts and installation of the telecommunication facilities which were being imported with the AID loan and the second loan given by West Germany were the dominant contributing factors to the alternative of raising the rates. In addition, because of the separate and independent account of telecommunication services the bureau could not expect the transfer of funds to this account from the other sources of the government.

The members of the Committee on Transportation and Communications of the National Assembly were more concerned about the forthcoming elections. The raise of the rate was interested

as to its future effects on the election outcome.

There did not develop a sense of competition between the Office of Planning and Management and the Bureau of Telecommunication Service. The latter welcomed whatever support it could get within the ministry and therefore welcomed the former's role in integrating the this case and the case on postal service rate.

The other factors were very similar to those of the postal service case.

(c) Perception of Situation

It was thought that the expansion of the facilities as committed in the first five year economic plan is possible only through the raise of rates. However, not only the external environment but also the internal environment within the ministry was thought unfavorable for the actualization of the raise. With regard to the internal environment such perception was especially due to the memory that the similar proposal by the bureau had been rejected by the previous minister. The above perception of the external environment was reinforced because of the prior rejection by the EPB of the proposal. The proposal in this case, therefore, was considered as an adventure. It was also thought that unless the rate is raised during 1965, the current rate would continue to exist well beyond the 1967 elections.

The bureau chief of postal service and the director of the Office of Planning and Management did not object to the initiation of this proposal to raise the telephone rate. On the contrary they perceived that it would help their strategy for the realization of the raise of postal service rate. This strategy was to give up the raise of the telephone service rate in case it is met with strong opposition by other external units and for the price of this sacrifice to acquire the raise of the postal service. As far as their relations to the external decision units were concerned they were perceived as political and bargaining relationships.

The other factors were similar to the case of the postal service rates.

(d) Alternatives

The major alternative considered were (1) to keep the current rates and (2) to raise the rates. The alternative of cutting down the current cost was never really considered. Thus the appearance of this alternative in the documentation used in the proposal is merely an attempt to cheat the adopters by making it appear as rational.

The alternative of maintaining the current rates was perceived as would bring the consequences such as (1) the deficits in the account, (2) non-abidance with the commitments made in the five year economic plan, (3) degrading of relative prestige of the Bureau of Telecom-

munications, and (4) inability to install and operate the facilities imported with foreign loan funds. The alternative of raising the current rates was eliminate the above consequences but would bring serious objections both within and outside the ministry.

The members of the National Assembly were divided as to the consequences of raising the rates. Some were of the opinion that public opinion is formed in this country by the middle class in urban areas and would oppose to the measure because most of the customers are these people. On the other hand, some were of the opinion that the increased collection of fees from the urban centers would enable the fund to be transferred to the rural areas and further expansion of facilities in the rural sectors would be possible. The evaluation of the consequences was made on the basis of each assemblyman's calculation of the increase in the probability of his getting reelected in his own district in the forthcoming election.

The other features are very similar with the case of postal service rates.

(e) Decision Procedures

The initial attempt to raise the telephone service rates was made in 1964 when the Bureau of Postal Service was working on its proposal to raise postal service rate. The stimulus for the initiation of the raise of telephone service at that time was the attempt of the Bureau of Postal Service to raise its own rates. In 1965 the stimulus for the revival of the proposal was the new achievement oriented minister's appointment to this ministry.

The noted feature of this case is that the staff study on the proposal was strictly put under secrecy even within the ministry and the bureau until its formal initiation within the ministry. Thus the number of persons who joined in the study was kept to the minimum of two to three within the bureau.

We find in this case that the sub-section chief of planning of the Bureau of Telecommunication actively cooperated with the subsection chief of finance in the Office of Planning and Management in the compilation of data for the proposal. While in the case of postal service rates the sub-section chief of planning in the Bureau of Postal Service was reluctant to surrender the bureau's data to the sub-section chief of finance of the Office of Planning and Management, the pattern of interaction in this case was different.

On the other hand, the interactions between the two bureaus in the formulation of the proposals which were to be put together and pushed through in one package were almost nil.

The other findings in the case are almost identical with the case on postal service rates.

(f) Conflicts

The conflict between the two bureaus was due to the sense of competition to enhance the relative prestige of the groups in the ministry. As far as the feasibility of actualization of the proposal is concerned, the raise of the postal service rates was perceived as having greater degree of feasibility than the raise of the telephone service rates. In other words, the Bureau of Telecommunications was in weaker position. This made this bureau to form a sort of seeking coalition with the Office of Planning and Management against the Bureau of Postal Service. However, this coalition was to win over the other party but to get its proposal adopted together with the proposal submitted by the other bureau.

The other findings are the same with those in the case on the postal service rates.

(4) The Decision on Electric Utility Rates

(a) Memorials

The experience utilized for this case starts with the decision to raise the rates in 1961 immediately after the consolidation of three companies into the Korea Electric Co., The experience prior to 1931 was not utilized in these case. The decision in 1966 was almost a reproduction of that in 1964. This was because of the fact that the latter decision was a mere execution of the decisions already arrived at in 1964.

The most noted phenomenon of this case is the fact that an extraordinary amount of data on the substantive content of the decision was available at the time of the two decisions in 1964 and 1966. This was due to the following two factors. First, the EBASCO and Thomas teams helped in the systematization of data and in the analyses of financial status of the company. Second, the Korea Electric Co. had in the company structure an organizational unit, Rates Section, which was specializing in the area of the substance.

(b) Goals

The goals governed this case were (1) the expansion of the sources of electric power, (2) low price policy, and (3) fair return for loan investment. The first goal was represented by the Korea Electric Co. and the Ministry of Commerce and Industry. The second goal was upheld by the Minister of EPB. The third was represented by USOM/K. The alternative of raising the rates was found by the USOM/K and the company as serving their respective goals. However, the goal of low price policy and the other two were in conflict.

This is the reason why there developed conflicts between the Minister of EPB and the USOM/K.

The other actors in the decision process such as the president, the cabinet, the Minister without Portfolio and the Minister of Government Administration opposed to the rise of the rates, but insisted upon the reduction of the costs for the operation of the Korea Electric Co. This alternative was to serve all of the above goals.

(c) Perception of Situations

The increase in the electric power was perceived as an absolute necessity in order to facilitate the further expansion of secondary industry as planned in the first five year economic development plan and to be planned in the first five year economic development plan. This perception was common to all of the actors in the government. In order to increase the electric power further investments were necessitated. However, as to the means for the acquisition of funds for such further investments, the actors in the government differed. Some thought reduction of current costs was necessary. However, the Korea Electric Co. and Ministry of Commerce and Industry thought the only alternative is to get foreign loans and for this purpose to raise the incomes through the raise of the rates. From the standpoint of the Korea Electric Co. it could divide the responsibility for the raise of the rates with the aid giving agency, because the latter was as much interested in the raise as the company.

The raise of the rates of the electric utility service was perceived by all of the actors in the decision process as having most important cost-push effect on the industries than any other government owned public utilities.

Compared to the other cases of the above, this case is least governed by group pressure and competition.

The actors like the Minister of EPB and the Minister of Commerce and Industry perceived the decision on different rates of increase as the matter of bargaining with the USOM/K rather than as the problem of rigorous and rational analyses of the necessities for the raise of rates for the additional investments.

(d) Alternatives

The major alternatives were (1) to maintain the current rates and (2) to raise the current rates. The alternative of cutting down the current cost was raised by other independent sources such as the cabinet, the office of the Minister without Portfolio, the president, the Minister of Government Administration. However, this alternative was never seriously considered by the Korea Electric Co.

The company together with the aid rendering agency mobilized the objective data for the

achievement of the alternative of raising the current rates.

The subsidiary alternatives were the timings and the different rates of increase. Both kinds of these alternatives were determined by bargaining rather than on the rational bases.

Only when the decision on the raise and timing were made, further subsidiary alternatives were considered by the actors in the government as to the exceptions to be made. These exceptions were made on the bases of the consequences the raise would bring especially as to the impact on the big industries and the probability of opposition by the public opinion against the measure.

e) Decision Procedures

The decision procedure was largely initiated by the aid giving agency by requesting a fixed ratio of return on investment as a condition to the loan. The reports of the EBASCO and Thomas teams served as common ties for both the Korea Electric Co. and the aid agency, on the bases of which the same conclusion was derived by both of the actors. Within the company a highly programmed decision procedures governed. However, among the actors of the top management of the government above the ministerial level including the representative of the USOM/K, non-programmed decision procedures governed.

The Committee on the Examination of Public Utility Rates exercised little influence. It rather served as a mere mechanism of formalization for the decision already made.

Because the rates and the timings were determined by bargaining, the Korea Electric Co. had to re-arrange the data in order to make them fit to these decisions made by higher levels of the government.

The formal decision units are (1) the Korea Electric Co., (2) Minister of Commerce and Industry, (3) Minister of EPB, (4) the Committee on the Examination of Public Utility Rates, (5) the Cabinet (6) USOM/K. However, actual decision units included in addition to this units were (1) the president, (2) the Minister without Portfolio, (3) the Minister of Government Administration, (4) the government party, (5) the Council on Economics and Sciences.

Thus the discrepancy occurred so as to include the president and to let allow wider participation of those at the ministerial level.

(f) Conflict;

There was a kind of coalition formed between the USOM/K and the Korea Electric Co. on the one hand and the other actors in the top managerial level on the other. The Minister of Commerce and Industry was playing the mediating role sometimes siding himself with the lower

rates and sometimes working for higher rates.

The conflicts were mainly due to the difference in goals. However, at to the fact that further investment into the expansion of electric power and for this purpose the foreign loan was needed, both sides were in agreements.

C. Findings Common to the Cases

1) The Committee on the Examination of Public Utility Rates does not serve the intended function of examining the needs for the different rates of changes submitted by the individual ministries. The main function of the committee is to formalize the decision arrived at already by others.

2) The decision on public utility rates is always the decision to increase the rates and this decision is governed by highly political maneuvering and bargaining. The powers used are such as the financial resource power, hierarchical power, and physical power.

3) The data on the substance of the rates are collected, presented, and interpreted so as to fit with the above character of the decision making process.

4) The alternative of reducing the current costs of operation is never seriously considered by the agency which is the main beneficiary of the raise of the rates. Thus the cost analyses made are likely to be in aggregate figures of total investment versus total income and when unit cost analyses are attempted there is no effort to reduce them especially these concerning the maintenance of the organization.

5) The decision procedures always positively involve those at the top of the government such as the president and the prime minister to the contrary of the legal provisions.

6) The decision procedures are governed by high degree of secrecy. Unless otherwise forced by external environment which is out of the control of the decision makers, the procedures are likely to remain secret.

APPENDIX

FINAL RESEARCH DESIGN: DECISION-MAKING PROCESS FOR THE GOVERNMENT UTILITY RATE SETTING

(Simultaneously to serve as interview guides)

General Frames of Reference to be Followed

Interviewers should bear the following frames of reference which are to govern the whole process of interviewing.

- A. Identify decision units: these may be either individuals or formal organizational units.
- B. Subdivide the whole time span into several major phases. The criteria to be used in such subdivision may either be (a) climax of the process, (b) major decisions and/or (c) crucial decisions whose explanations are needed for the understanding of subsequent phases of the decision process.
- C. Interviewers should always focus their attention on the dynamic phases of the process. By *dynamic* it is meant *informal, sociological, psychological, and interactional*.
- D. Interviewers should always try to find the *relationships* between various variables. If this is not done the study will probably result in a failure. This means you are required to be analytic rather than descriptive.
- E. Always keep in mind that the purpose of study is to arrive at some *generalizations* (hypotheses, propositions which are useful for scholarship and practices of decision making theory.
- F. Try to derive some practical *policy recommendations* out of the above generalizations. I think the USOM and the ministries concerned are more interested in such recommendations.

Specific Variables to be Focused On.

A. Memories

By *memories* it is meant the *experience* with regard to the particular type of previous decisions. Experience may be of an *individual* or *organizational*. Content of experience consists of all the variables to be enumerated hereunder. Try to find whether you can derive broad generalizations with regard to this type of decisions. This will also enable you to judge whether this specific decision is *unique* and in what sense or it is largely a *reproduction* of the previous decisions of the same type.

Memories of individuals, organizations and organizational units (decision units) should be analyzed.

If the memories are stored in organization or its subunits, what type of information are formally *stored* and what type excluded from storage?

If the memories are not stored in organization or its subunits and there have occurred personnel change, is the *previous experience* not *reflected* in the decision? If reflected, how? Is there such tendency that the more the memory the more the decision making process routinized, and the less the search for new alternatives?

Are the organizationally stored memories *utilized*? If they are, how? If not, why?

If this decision is unique in any sense compared to the previous decision, what are *the factors*

which made the decision unique.

B. Goals

While not neglecting stated (formal) goals your emphasis should be on *real goals*. The methods to be used for finding real goals should be inductive rather than deductive. For this purpose get data such as social background or socialization process of the individuals concerned, their attitude toward clients, the press, political parties, power figures in the government, the subunits and organization to which they belong. From these data you will be able to induce the subcategories of real goals such as *personal goal*, *organizational goal*, *informal group goal* and *subunit goals*.

Then compare these goals with stated goals and find the discrepancy between the two types of goals. Explain why such discrepancy occurred and in the particular manner. Try to put the problem in the *framework of conflict* theory. This might aid you in deriving meaningful explanation. Another meaningful way of putting the question is to ask "Are not the goals derived from alternatives rather than the other way around?"

State also the extent to which the goals were *operationalized* and examine how the operability of the goals affected the mode of the subsequent process of decision making. Since the goals are changing through the various phases of decision process, please examine *how and why goal changes occurred*.

C. Perception of Situation

Situation consists of (1) *future events and their probability* distributions, (2) alternatives available for action, (3) *consequences attached to alternatives*, and (4) *rules or principles for ordering alternatives*.

Perception is affected by two factors, namely (1) *motivational* or affective aspects and (2) cognitive or knowledge aspects. Therefore, interviewers are required to focus their inquiry on these two factors of perception with regard to each of the elements of situation.

For example the variables important for motivational aspects might be *aspiration level*, content of *personal goal* or *incentives*, *group pressure*, *competition*, and *identification targets*. Cognitive aspects might be explained through such variables as individual's competence including *his previous knowledge*, *organizational structure* and *information processing*, and *environment*. Try to relate these variables to each of the situation elements within the context of dependent and independent variable relationship.

Political economic and social conditions surrounding the organization should be carefully

scrutinized and relate such conditions to each of the above situation elements.

D. Alternatives

In finding alternatives considered do not rely on formal data only, but also analyze those considered in the *mental process* of individuals and discussed informally or formally between individuals.

If there were more than two alternatives considered, identify their *order of consideration* and explain the factors influencing such sequence of consideration.

Besides the different ranges of raising the rates, always ask how the alternative of *keeping the current rates* and *saving current cost of operation* was treated.

What were the *characteristics of search behavior*? For example, was there any search behavior noticeable? What were the factors determining the amount of search behavior? Did they ever search for the alternative of cutting down the current cost and why?

As to "alternatives considered", "perception of consequences of alternatives" and "evaluation of consequences", recapitulate what were found in connection with C above. However, try to examine the case more rigorously with respect to the following questions.

What were the *major stimuli* evoking specific alternatives? *How were the goals* (refer B above) *related* to evaluation and perception of consequences? In perception of consequences of alternatives what did they *expect of the responses of the press, the clients, the opposition party and the public*? *How were these responses treated* in the process of evaluating the alternatives?

E. Decision Procedures

By decision procedures it is meant the whole process starting from the initiation to the conclusion of the decision. Find how the above stated variables mutually interact with each other according to the changes in the phases of the decision process. The contents and patterns of communications should be classified. Find also the discrepancy between the formal rules of procedure and actual procedures. Interactions cutting across the different organizations should also be our concern.

F. Conflict

In the case of conflict, you are not required to concern yourself too much with regard to individual conflict. Such a judgement is due to the fact that knowledge on depth psychology is needed to tackle individual conflict. However, sketchy analyses might be necessary, provided you are not unduly subjective in your judgement. *Conflicts between individuals and groups* should be analyzed intensively as to their *causes* and the *methods of resolution*. As to the methods, *analytic vs. bargaining, dictatorial vs. democratic, force vs. persuasion* classifications will help you.