What Causes Death of Public Sector Organizations? Understanding Structural Changes and Continuities in Korean Quangos: 1993~2010

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Introduction

- The causes of death of public sector organizations in Korea

- Event history analysis with data from Korean quangos between 1993 and 2010

- What is public sector organizations?

- How can we define the death or termination of an organization?

Public Sector Organizations or quasi-autonomous non-governmental organizations (QUANGOs)

- a popular form of delivering social services
- provide public services with public money
- different from public organizations in that they are in between the public and the private sector and operating at arm's length of the government
- Reforms of quangos involve structural changes
- An immortal entity?

A Korean Case

- Quangos in the Korean developmental state
- Korean quangos are excellent subjects for examining the dynamics of structural changes because they have been through various institutional reforms for a short period of time.
- Presidential periods:

1993 ~ 1997	1998 ~ 2002	2003 ~ 2007	2008~2012
Young-Sam Kim	Dae-Jung Kim	Moo-Hyun Roh	Myoung-Bak Lee

Defining Organizational Termination

- No clear answer.

- Termination as "the abolition of an organization with no replacement organization established" (Peters and Hogwood 1988: 132).

- Extend the boundary of organizational termination by including succession-type organizational changes (Peters and Hogwood 1988; Roland and Roness 2010; Hajnal 2011).

- Following the previous research, I consider organizational termination as to involve three types of reorganization including merging, splitting, and shifting to the private sector, i.e., privatizing.

- Organizations that only changed a name and some of their functions are not considered to be terminated.

Data and Method

- A longitudinal data on quangos in Korea between 1993 and 2010

- Including only public enterprises and quasi public organizations according to the new law

- The dependent variable of this study is the duration until an organization is terminated.

- Event history analysis or survival analysis: the incidence of an event within a period of the study in relation to a set of covariates.

- A model is developed to predict under which conditions quangos are more likely to be terminated.

- Treating censorship issues

- The Cox proportional hazard model:

  the hazard rate: $h(t|x_j) = h_0(t) \exp(x_j \beta_X)$,

The Causes of Agency Termination

- Theoretical tensions between organizational theory and rational choice theory

  1) Inefficiency and ineffectiveness of the organization: Organizational survival as a function of adaptive capacity

  2) The politics of termination: External factors such as political turnover, economic hardship, and critical events or crisis: Organizational survival as a function of institutional design

High costs of termination

- The short-term costs of termination: employees, customers, and constituents; backlash from the opposition group

- The long-term costs of termination: Political uncertainty, the cynicism of politicians

- Because of the high costs, the timing of termination is rather predictable.

Hypotheses

- Two main assumptions:

  1) politicians consider political costs and benefits of organizational termination.

  2) quangos are trying to survive by being resilient to the outside influence with their own organizational resource.

- Two dimensions of determinants of termination: Internal and External factors

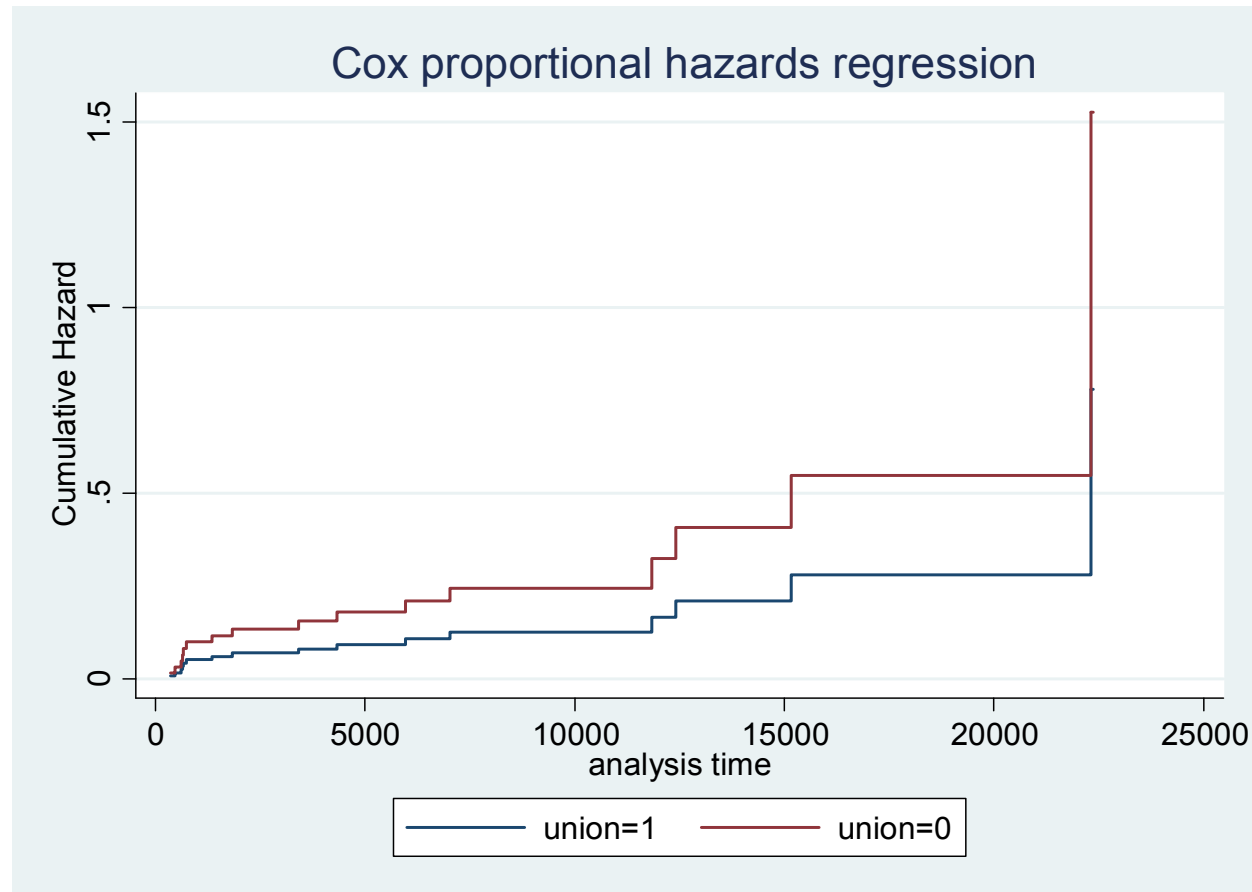# Internal Factors: Organizational Characteristics

- H1: The change of a CEO (-)

- H2: The financial dependence (-)

- H3: The size of a quango (+)

- H4: The organizational age (+)

- H5: A quango with a union and a clear source of legal origin will be more stable than other quangos.

- H6: A quango under the economic affairs departments is more likely to survive.

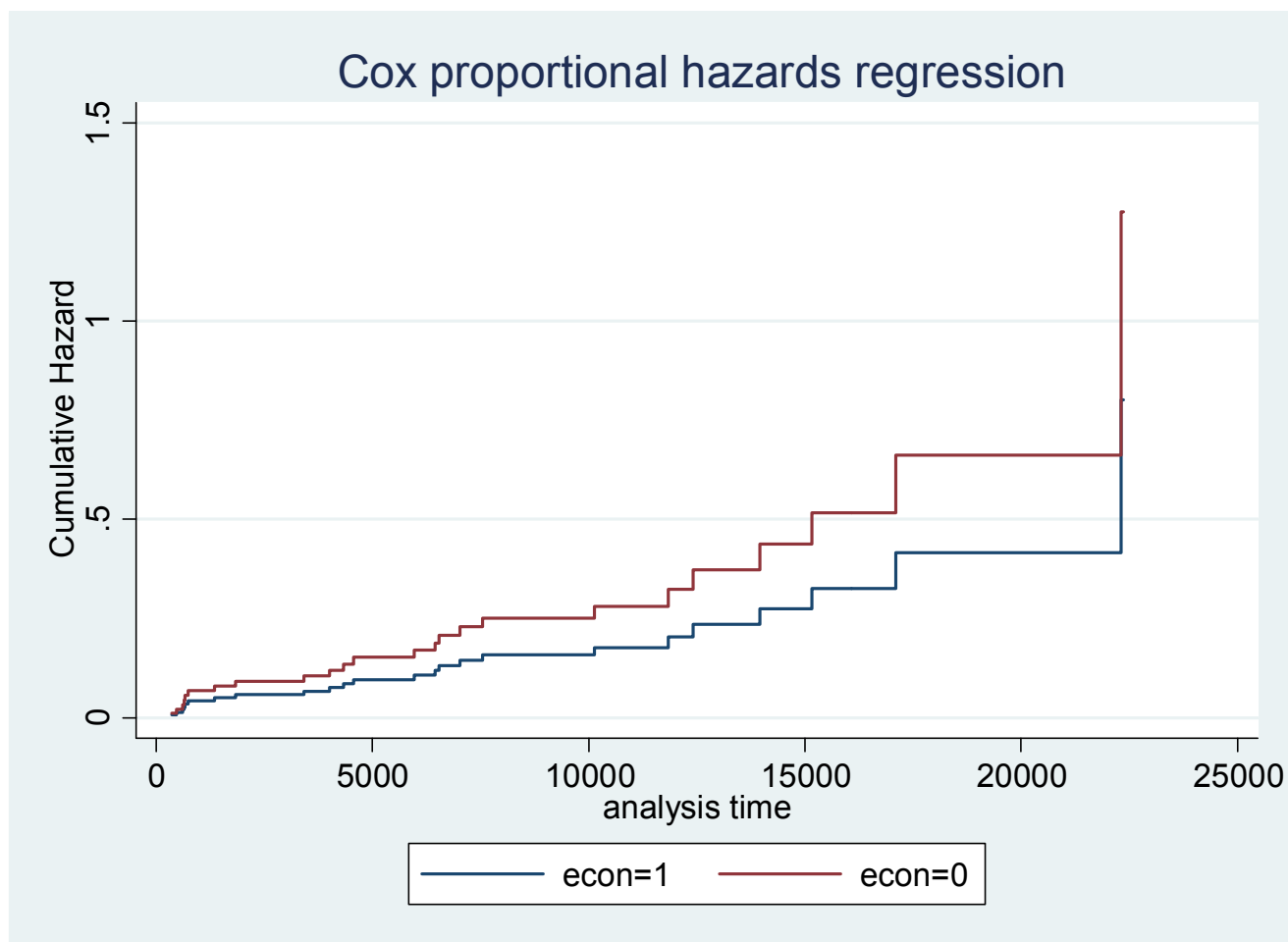# External Factors: the Politics of Termination

- H6: Presidential turnover (-)

- H7: Presidential time (-)

- H8: The proportion of presidential party members in the National Assembly (-)

- H9: Institutional change (-)

- H10: Economic hardship (-)

- H11: Social demand for public sector reform (-)
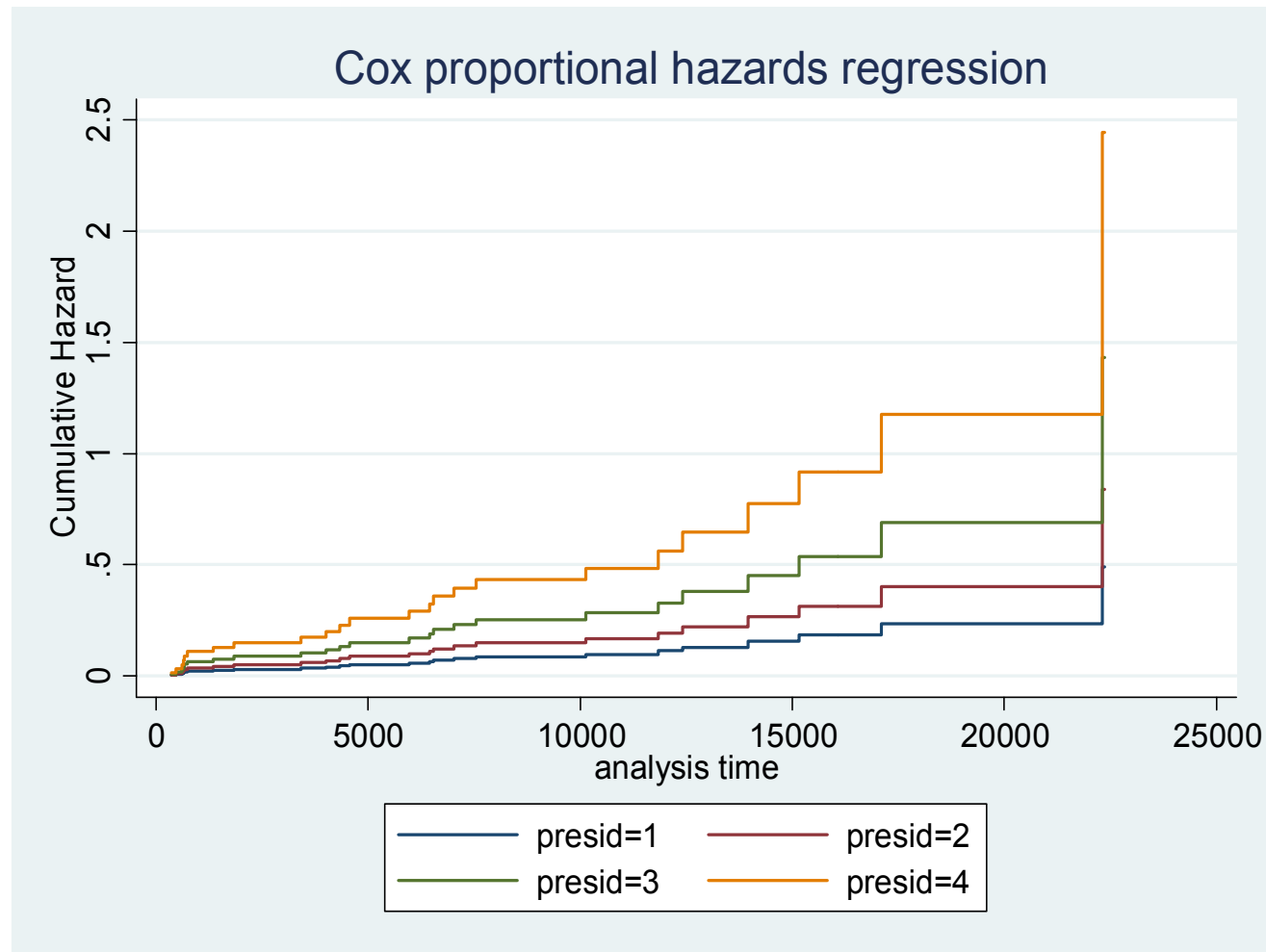
Results and Discussion
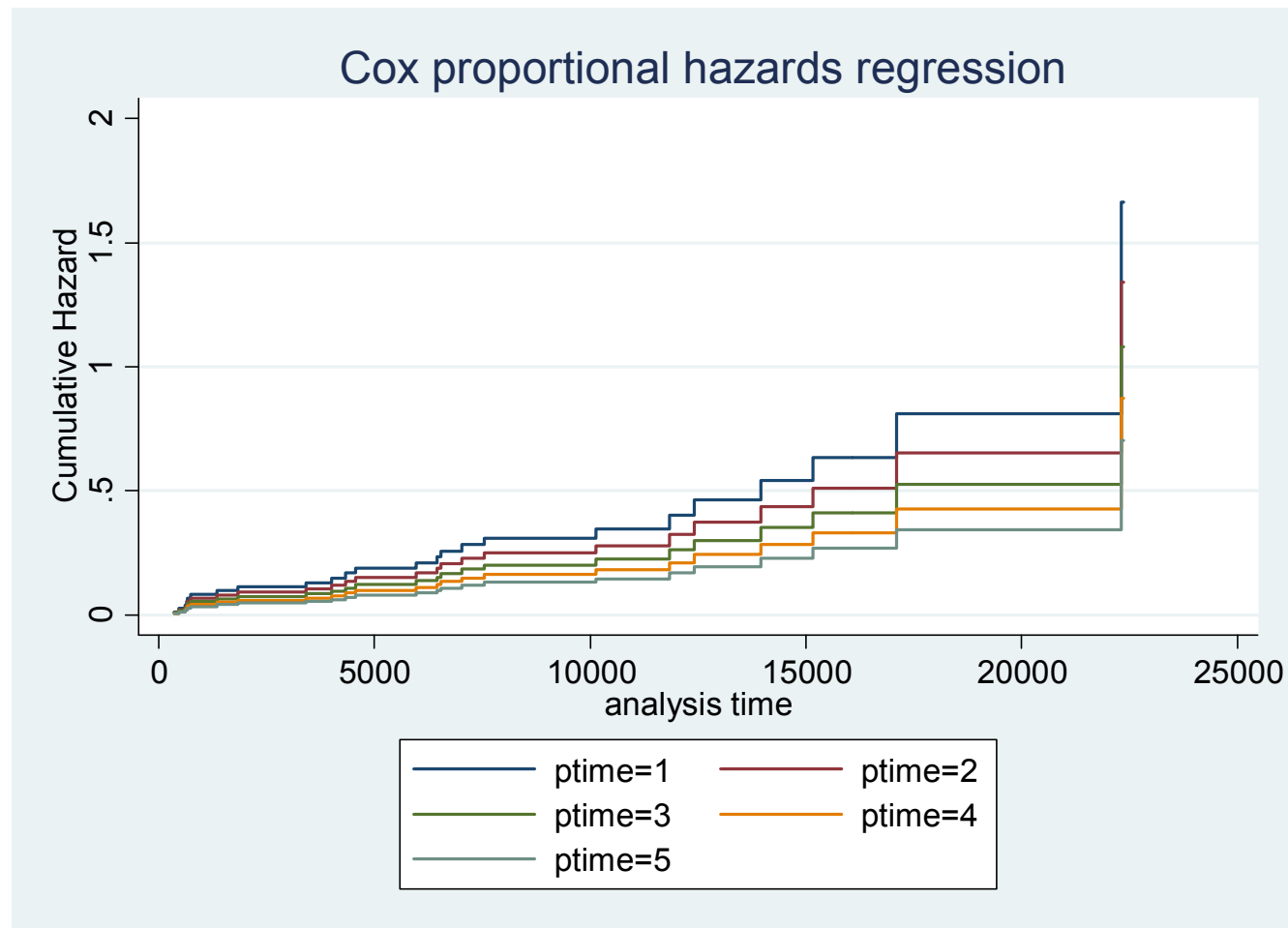
- Cumulative hazard Probabilities

Union=1 meaning unions established in quangos

Cox proportional hazards regression

Econ=1 meaning quangos under the economic departments
Econ=0 meaning quangos under the social departments

Presid meaning Presidential Administrations,
1= Young-Sam Kim, 2= Dae-Jung Kim, 3= Moo-Hyun Roh; 4= Myung-Bak Lee

Cox proportional hazards regression

Ptime meaning Presidential Time,
1= first year of the presidential term, 2= second year, 3= third year, 4= fourth year, 5= the fifth (last) year

- A Link test and a test based on Schoenfeld Residuals: the proportional-hazard assumption

- The Cumulative Hazard of Cox-Snell Residuals:
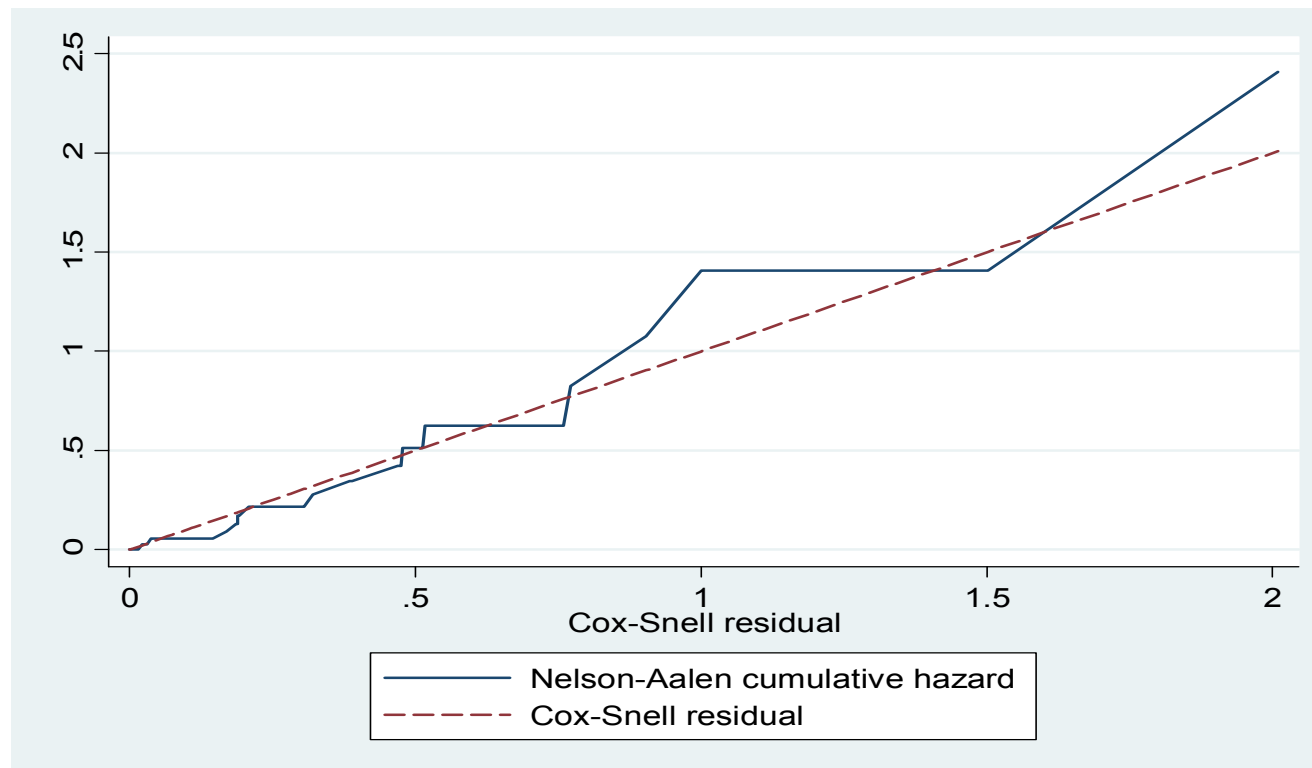the goodness-of-fit

Table 1 The Cox Regression Result – Breslow method for ties

Variables		Hazard Ratio (Exponentiated Coef.)	Robust Standard Errors
Internal Factors			
Chief executive turnover		.6710	.2881
Financial dependence		.9946	.0051
Total revenue		1	4.79e-08
Organizational age †		.9999	5.70e-06
Union		.9231	.4185
Economic department		.8790	.3448
Source of Origin	Delegated law	.3672	.2655
	General law	1.291	.5097
External Factors			
Presidential change		.5055	.4946
Presidential time		**.4148***	.2149
Presidential party members		**1.136***	.0857
Unemployment rate		.9762	.2944
Change of law		**19.587***	17.960
Corruption Perception Index		**2112.1***	4701.2
Presidents	Dae-Jung Kim	1.05e+11	.
	Moo-Hyun Roh	**6.29e+08***	1.31e+09
	Myung-Bak Lee	**1.09e+07***	3.99e+07
Model Specifications			
Number of observations		1060	
Number of subjects		100	
Number of terminations		39	
Log pseudo-likelihood		-97.052	
Wald Chi2(16)		6173.36	
Prob> Chi2		0.000	

Note) * P<0.10, ** p<0.05, *** p<0.01. Standard errors adjusted for clustering on quangos.

† Organizational age variable interacted with analysis time (_t).

Conclusion

- The decision to terminate quangos seems more contingent on political considerations rather than on their own organizational characteristics.

- Implications: the politics of termination; more comparative studies needed; the institutional choices that influence substantial policy issues

- Limitations: not address privatization separately from termination; excludes a substantial number of quangos

Thank you!

Any questions, comments, and suggestions are welcomed.

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