SOE PERFORMANCE EVALUATION IN ASIA

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It is well-known that state-owned enterprises (SOEs) have been a primary driving force to promote national economic growth in many countries in Asian region. SOEs are engaged in the provision of essential infrastructure, public goods and related services which are vital to the competitiveness of the economy (e.g. energy, electricity, gas, etc.). While it is impossible not to recognize significant contributions of SOEs to national economies, experts have been pointing out problems rising from complexity and uncertainty of their supervision and responsibility structure. In an effort to overcome this, an increasing number of Asian countries have started to measure performance of SOEs and formalize performance evaluation systems in SOEs. SOE performance evaluation and management is becoming a meaningful policy tool to maximize value and economic contribution of SOEs through enhancing performance and management efficiency of SOEs.

According to the survey findings from the 2015 OECD Asian Network project presented in the Global Network Meeting of Corporate Governance of State-Owned Enterprises in Mexico City in June 2016, most countries in Asian region have performance evaluation systems for SOEs in place although their level of sophistication varies across the region. Nine out of 11 surveyed countries have adopted SOE performance evaluation and monitoring systems. Some countries including Bhutan, India, the Philippines and Korea have been managing performance evaluation systems by making use of performance contracts or memorandum of understanding. Many countries in Asia have also adopted structured systems of performance evaluation and in some cases have determined individual executive remuneration and incentives based on the level of performance of the SOE that he or she runs. Among the countries that have established performance evaluation systems, all of them evaluate financial performance through quantitative indicators, while some of them also use qualitative indicators to measure financial performance. There are also many countries that use a range of indicators to measure SOEs' non-financial performance, especially in countries where SOEs have public policy objectives (Table 1).

In the early stage of economic development, business objectives can be reached thanks to rather clear definition of main responsibilities of SOEs and young vitality of organisations. However, as the economy matures and organisations become larger, a country needs an SOE monitoring system that can prevent and reduce organizational inertia and inefficiency. From this perspective, for advanced and developing countries alike, establishing an SOE performance evaluation and management system can be a valuable policy tool that could enhance competitiveness of national economies as well as public confidence, in line with the philosophy of the OECD Guidelines on Corporate Governance of State-Owned Enterprises. Despite such an institutional advantage, there has been a lot of discussion regarding issues and limits of SOE performance management and evaluation system.

Establishing a sophisticated institutional system could be a good starting point. However, it is equally important to mobilize efforts to avoid prejudicial decisions and errors that could occur in the management processes of such institutional systems. Also, in order to increase public acceptance of evaluation results and maximize SOE's efforts for management improvement, objectivity and fairness of evaluation process need not be distorted. For this, it is necessary to strengthen professionalism of the evaluation system and come up with a tailored evaluation system that reflects characteristics of each SOE.

Also, evaluating all SOEs with a single standard can compromise accuracy of evaluations by denying differences in the regulatory environment that they are faced with and the characteristics of industry that the companies belong to. At micro level, policy makers could also face technical problems such as establishing an evaluation cycle. An annual performance

Table 1. Examples of performance evaluation indicators used in Asia

	Quantitative	Qualitative
Financial	• Net interest margin (Bhutan) • Economic value added (China) • Net profit (India) • Financial ratios (Indonesia) • Labour productivity (Korea) • Return on investment (Philippines)	• "Policy directed activities" (Bhutan) • Quality of risk management (Indonesia) • Transparency of budgetary practices (Korea)
Non-financial	• Customer satisfaction index (Bhutan) • Number of new products (China) • Project cost overrun (India) • Number of corporate events (India) • Achievement of "core business targets" (Korea) • Percentage of beneficiaries served (Philippines)	• Quality of corporate governance (Bhutan) • Commitment to corporate social responsibility (India) • Timely submission of reports to regulators (Indonesia) • Development of a gender equality policy (Korea) • Certifications indicating compliance with international standards (Philippines)

Source: State-Owned Enterprises in Asia: National Practices for Performance Evaluation and Management, OECD Publishing, Paris, https://www.oecd.org/corporate/SOEs-Asia-Performance-Evaluation-Management.pdf. The table draws on the 2016 OECD Questionnaire responses from contributing countries. Note: Singapore reportedly uses performance evaluation indicators in all of the above areas but did not provide specific examples to include in the table.

evaluation and management system which has been the most popular form – has problems of placing a greater focus on short-term outcomes instead of mid and long-term strategy and vision.

Despite extensive discussions on the various limits and issues of performance management systems that are being observed, it is difficult to deny that there is no clear cut solution for these problems. Also, often, information asymmetry between SOEs and state ownership entities lower the quality of performance evaluation and management system. Despite all this, a performance evaluation and management system is still a very valuable institutional system.

In order to establish an effective performance evaluation and management system and enhance competitiveness and performance of SOEs, autonomy of SOEs need to be strengthened through i) construction of a sophisticated institutional system; ii) management that fits institutional objectives; and iii) enhanced validity of institutional system. The reinforcement of evaluation of SOEs must be conducted in conjunction with expansion of autonomy. Otherwise, the governing agency cannot hold SOEs accountable for evaluation results and SOEs do not accept unilateral measures for strengthened control.

Above all, what is most important is that while SOE performance evaluation and management is a policy tool to strengthen competitiveness of SOEs and generate better results, it should ultimately be conducted in parallel with reform of governance structure as well as management of public institutions according to the OECD Guidelines. SOEs should be allowed to make voluntary decisions on management and their relevant responsibility could be emphasized through performance evaluation and management. Otherwise, the ownership entity cannot hold SOEs accountable for the evaluation results even in that case of being identified as low performing ones.

As the 2015 OECD survey results indicate, while Asian governments evaluate the performance of SOEs and public institutions in diverse ways, they show similarities in that the governments supervise SOEs and such institutions by directly evaluating their performances. This is different from many European countries where SOEs and public institutions are managed and supervised through an evaluation of board of directors rather than performance evaluation of SOEs and public institutions directly conducted by governments and ownership entities. An increasing number of governments from emerging economies and developing countries where SOEs and public institutions are playing an important role are becoming interested in adopting a performance management system that has been proven to be useful by the governments that have an extensive management experience with SOEs and public institutions. However, when building or adopting an SOE performance management system, social conditions of the country including domestic political environment and the government's ideological orientation need to be given careful consideration.

The most common response from those unwilling to introduce overseas cases is that international cases do not fit domestic circumstances. It is indeed very risky to blindly follow and adopt systems of other countries and simply transpose them onto the domestic environment. No single country experiences an identical situation with another. In this regard, the purpose of studying overseas cases is to find any referential elements out of their diverse aspects and to adapt such references to accommodate the situation of each country (Park, J. et. al., 2013).