

## **About the NongHyup Economic Research Institute, Korea**

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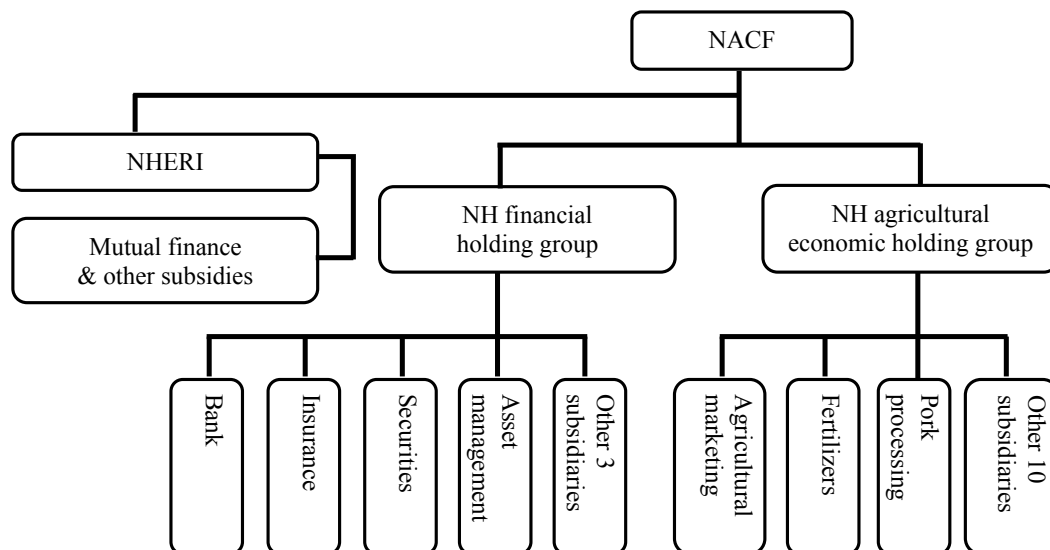
*NongHyup Economic Research Institute, Seoul, Korea*

### **Historical background**

The Nonghyup Economic Research Institute (here after NHERI) has long been recognized as a unique research institution that is able to perform comprehensive research works in the field of agricultural industry in Korea. As a subsidiary of the National Agricultural Cooperative Federation (here after NACF), the NHERI has covered various research areas in agriculture, comprising production and marketing, policy, educational support, and banking and finance. The NHERI, established by the NACF in 2006, has played an important role as a think tank in broadening a perspective on the agricultural cooperative in Korea, helping to coordinate key agricultural policies in the way these support regional farmers and Korean agriculture as a whole.

With regard to the historical background, the NHERI, starting from an in-house research department of the NACF, has about 50 years of research experiences in management strategies in connection to Korean agriculture, gradually empowering research potential through the process of organizational changes. Originally, the in-house research department was founded in 1961 to support the management strategies of the NACF by conducting intensive researches on agricultural cooperatives, such as improving the agricultural system of production and marketing and providing financial support for farmers. In particular, at the time when the national research agency (Korean Rural Economic Institute), established in 1976, was not available, the in-house research department of the NACF played an important role as a think tank in supporting government's agricultural policies. The specific works done by this research department were to formulate policies on such issues as agriculture, rural development, and international agricultural trade negotiations. However, as waves of the trade liberalization in the agricultural industry (i.e., DDA, FTA) intensified the price competition across the countries, the range of researches performed by the internal research unit were extended into various fields, including agricultural policies, policy finance, and sophisticated researches on economics and finance. To reinforce such aspects of the research potentials coupled with a higher demand for applied research, the NACF decided to expand the existing in-house research function into a professional economic research institution in 2006. Since then, the NHERI, a subsidiary of the NACF, has provided the wide range of research support for NACF and its subsidiaries, regional cooperative associations, and Korean agriculture, as shown in the table below.

<NHERI under the governance system of NACF>



The establishment of the NHERI was closely related to Korean agriculture experiencing the paradigm shifts in terms of the three categories: rising economic burden for farmers, changes in management environment of the NACF, and coping with such changes with professional research competence. First, trade liberalization has served as a means to push down the relative price of domestic agricultural products by intensifying the competition across the markets in the domestic markets. As a result, most of the Korean farmers have been exposed to unexpected consequences, such as worsening income levels with rising household debts, widening income inequality between city and rural areas, and the unused or abandoned farming areas. Second, for a recent decade, the changing dynamics of competitive structure in the agricultural marketing and banking business have served as an obstacle to preserve a sustainable growth of the NACF, casting serious doubt on the current role of banking business (NH Financial Group) as cash cow providing financial support for the agricultural farming. Third, some megatrends in agriculture, such as environmentally-friendly growth (green growth), demographic transitions (population aging), and IT convergence (i.e., bio agriculture) have emphasized the broadening perspectives on the research spectrum in the field of Korean agriculture. In an attempt to cope with such paradigm changes underlying the Korean agriculture, the NACF established the NHERI in 2006 with a long-term plan to develop her as a nationally-recognized think tank. The NHERI was nationally recognized as one of the top tier research institutions in 2012, as ranked 32nd among about 10,000 research institutions in Korea. More importantly, the NHERI has long maintained the research position as a leading institution especially in the field of agriculture.

## Overview of the NHERI

*Vision and mission:* NHERI's vision is to 'broaden knowledge community for agriculture' to suggest the development direction for agriculture, to provide management strategies for the NACF, and to take an essential role as a think tank in Korean agriculture. The mission required to achieve such a vision is to contribute to 'the sustainable growth of agriculture, farmers, and agricultural cooperatives by coordinating environmental changes with creative knowledge.' The direction for the research guiding these vision and mission is described as 'the research that is creative, applied, cooperative, and proactive'.

Organizational structure with corresponding research fields: With regard to the organizational structure, the NHERI has the ‘2 departments-7 research units system’ under which each research unit deals with a corresponding research field, respectively. About 45 professional researchers work in this institution.

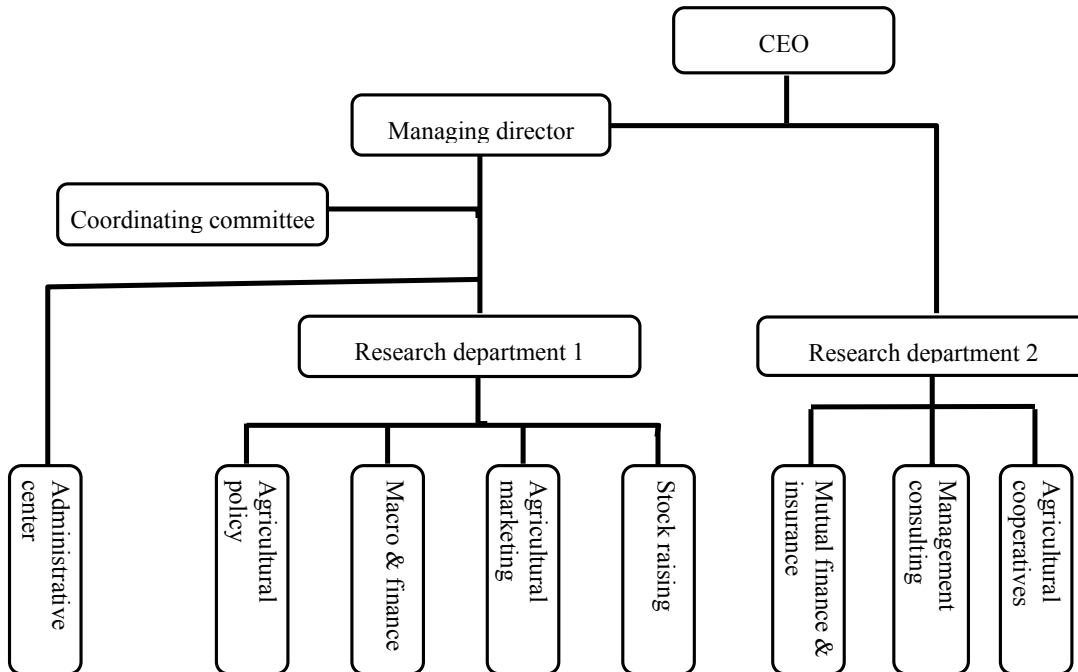
Research department 1 consists of 4 individual research units: *an agricultural policy, a macro-financial research unit, an agricultural marketing unit, and the stock raising research unit.* *An agricultural policy unit* performs research work in various policy issues on agriculture and farmers. Specifically, this research unit focuses mainly on overall agricultural policies, including the rice industry policy, educational services for the regional cooperative associations and their member farmers, management strategies and management innovation researches, household income policies and agricultural economy and welfares. Recently, one of the main duties performed by this research unit is to prepare for the possible impacts which the bilateral FTAs among countries may have on the agricultural industry and farmers in Korea. To cope with such changes in farming environment, the agricultural policy unit has performed a comprehensive research works, including analyzing trade conditions, estimating possible consequences, and proposing plans for policy reactions coupled with negotiation strategies.

*The macro-financial research unit* provides a wide range of financial research services in the field of finance and economics. The main task is to develop management strategies for the NH financial holding group, which possess the set of subsidiaries comprising banking services, credit cards, insurance, investment banking, financial asset management, and savings and loans. Specifically, the management strategies include asset and risk management, policy finance, financial services and customer management, and the analyses of the financial industry.

*An agricultural marketing unit* is closely linked to the production-side of economy since the main research work involve a sequence of marketing process (i.e., farming, wholesales, and retails, group purchases). This research unit develops various marketing strategies in the way these works support sales activities of the NACF and enhance farmers’ incomes. For example, the agricultural marketing research unit currently engages in important strategic researches, which helps to improve the efficiency in the marketing process and to establish core competence in the internet marketing.

*The stock raising research unit* has expert knowledge on developing policy issues on animal products from a producer’s perspective, thereby serving as a main policy channel through which producers deliver their voices to policy makers. The main task is to perform key strategic researches on the animal product markets in terms of the analyses of demand and supply, price stability, and export and import policies.

<Organizational Structure of the NHERI>



As shown in the upper figure, research department 2 contains 3 individual research units: *a mutual finance and insurance research unit, a management consulting unit, and an agricultural cooperative research unit.*

*The mutual finance and insurance research unit performs similar research works to the macro-financial research unit but differs widely in that this research unit conducts financial research works only for regional cooperative associations. Specifically, this unit proposes management strategies for regional cooperative associations and provides educational services for their member farmers.*

*The management consulting unit provides specialized consulting services with regional cooperative associations, which have engaged in two different lines of businesses (i.e., banking business and agricultural marketing). Considering the diversity of business activities undertaken by regional cooperative associations, this research unit should have capabilities to deliver a wide range of management consulting and research services.*

Finally, *the agricultural cooperative research unit is designed to establish the identity of agricultural cooperatives by developing the model of an agricultural cooperative that shapes the NACF. The important role played by the agricultural cooperative would be reestablished by this research unit through the process of testing such an identity theoretically and empirically.*

### **Research structure and performance evaluation**

Research Structure: With regard to the research structure, the NHERI is supposed to perform research tasks, which are classified mainly into 3 categories: a) basic research, b) strategic research, and c) management research on current issues. First, the basic research is defined as

personal research conducted under the individual domain in that a researcher is able to engage in a wide range of research works on the scholastic-applied continuum. The basic research is further divided into the three sub-categories (i.e., *CEO Focus*, *NHERI Report*, and *NHERI Weekly Review*). Specifically, the ‘*CEO Focus*’ is designed to provide valuable management information for a group of decision-makers in the NACF, while the ‘NHERI Report’ is close to scholastic research works done by individual researchers. On the other hand, the ‘*NHERI Weekly Review*’ is a specialized magazine published on the weekly basis, providing a brief summary about various issues currently discussed domestically and globally. This weekly brief deals with a variety of fields comprising agricultural policy, economic and financial issues, and management strategies.

The second category of the NHERI research, the ‘strategic research’, is considered as a customized research for the management in that its purpose is to develop the specific management strategies required to preserve a sustainable growth of the NACF. This strategic research is viewed as a one-year project used purely for the internal purpose since it often involves highly critical and confidential issues that may not be open to public.

Finally, the ‘management research on current issues’ category can be characterized as a spot research support for the NACF management since it provides immediate management support upon request. From the management perspective, when the NACF is not able to engage in the decision-making process due to the complexity of the issues being discussed, the ‘management research on current issues’ can be valuable reservoir to obtain an analytic support from the NHERI.

#### Research outputs produced during the period of 2012

Types of research		Publication	Key Research Works
Basic Research	CEO focus	15	<ul style="list-style-type: none"> <li>◦ A diagnosis of the rice farming market &amp; implications</li> <li>◦ An impact of the change in the global monetary policy on Korean economy</li> </ul>
	NHERI report	46	<ul style="list-style-type: none"> <li>◦ A population aging problem in the Korean agricultural industry and policy implication</li> <li>◦ The current status of returning farm in Korea and its supporting policies</li> </ul>
	NHERI weekly review	43	<ul style="list-style-type: none"> <li>◦ Improving the reverse mortgage system for farmers</li> <li>◦ An analysis of the post crisis deleveraging cycle</li> <li>◦ Household debt problems in Korean agriculture</li> </ul>
	Sub-total	104	
Strategic research & research on current issues		21	<ul style="list-style-type: none"> <li>◦ A study on the cooperative shipping system in Korea</li> <li>◦ A strategy of the mutual finance in managing asset and debt to cope with the introduction of the Basel III</li> </ul>
Other research businesses		19	<ul style="list-style-type: none"> <li>◦ Improving the government subsidy policy for the investment in agricultural facilities and fixed assets.</li> <li>◦ A developmental strategy for the Korean seeds industry</li> </ul>
Total		144	

***Performance Evaluation:*** The NACF as a parent company conducts the performance evaluation for the NHERI at the end of each year, using the quality and quantity measures of research works completed during the given year as the evaluation criterion. Such a performance evaluation is closely related to the compensation scheme both at the firm level and at the individual level. Specifically, research outputs are linked not only to the amount of budget the NACF assigns to the NHERI each year, but to the compensation scheme for the

individual researchers as well.

### **Future research agenda**

The NHERI currently encounters the second stage of developmental trajectory after it conducted the structural break of the business, which divides the existing business entity into two separate lines of businesses: the financial and agricultural economic businesses. Specifically, under the governance of the NACF, the financial holding company controls all of the financial subsidiaries, and the agricultural economic holding company comprises the non-financial business activities. Thus, the role of the NHERI and the direction for its future research should be repositioned under this business umbrella. To effectively pursue such research goals, the NHERI needs to empower research potentials through specialization, sophistication, and professionalism.

The NHERI will reinforce research competence in the area of the management innovation strategy by suggesting the developmental model specific to the post structural breaks of the NACF. The primary research agenda in this field is to establish the management strategy in line with the separation of business structure. More importantly, the NHERI needs to derive the developmental strategies differentially appropriate to both the NH financial group and the NH agricultural business group. As an aside, the NHERI also needs to consider the long-term developmental strategy that not only maximizes the synergic effects existing between the financial and agricultural businesses, but minimizes the de-synergic effects from such a business separation as well.

Another research agenda the NHERI pursues is to provide research support for regional cooperatives, which have long served as a means to preserve a sound growth in agricultural farming in Korea. As business conditions surrounding these regional cooperatives get worse over time, they are losing the competitive edges both in the agricultural business and in the banking business. In this respect, the research on the regional cooperatives should be focused on developing growth strategies applicable to them under the rapidly changing business environment.

Finally, the recent trade liberalization in agriculture has worked as a systemic risk that leads the entire agricultural farming in Korea to intense competition, thus pushing down the prices of agricultural products below the production costs. To cope with such unprecedented paradigm changes, the impacts that trade liberalization (i.e., FTA, DDA) may have on farmers and agricultural farming should be taken as an essential part of the research agenda. From a perspective of farmers, agriculture, and agricultural cooperatives, the NHERI will take an important role in examining, developing, and proposing agricultural policies.

### **<CEO profiles, NHERI>**

- YeonHwan Cho (October 2006)
  - Former Minister of the Korea Forest Service
  
- SeokDong Kim (September 2009)
  - Former Chairman of the Financial Services Commission
  
- SooHwa Lee (February 2011)

- Former Administrator of the Rural Development Administration

▪ YuTae Kim (February 2013 ~ present)

- Former Regional Chief Executive Officer, KyungPook Province Regional Division

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