

The Impacts of Liberalization and Privatization in Taiwanese Electric Industry

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Abstract: Taiwanese electric industry with liberalization has been a rapid change in the management style and the working environment. The change of the working environment has made a notable impact on the working conditions and the job security of the employees. This paper presents a brief literature review of the influences of liberalization and privatization on workers attitudes and proposes six overarching factors of importance to workers. These factors are: (1) the safeguarding of workers' rights and interests (2) compensation of potential loss (3) communication (4) leadership trusts and employee consultation (5) participation of employees and the labor union (6) encouragement to learn and to cultivate a second specialty. These factors are developed as a framework which could serve to help decision-makers and leaders with useful strategies in the privatization process.

I. Introduction

Liberalization is occurring very quickly in many countries throughout the world. In contrast to decades ago, when privatization was discussed but only a few industrialized countries were actively promoting the concept of privatization, the rationale for privatization is now widely accepted. It is perceived that State-owned enterprises (SOEs) have not met consumers' needs well and the records of SOEs have become worse and worse [18].

Privatization, in short, is the process of transferring productive operations and assets from the public sector to the private sector. Broadly defined in this fashion, privatization is much more than merely selling an enterprise to the private highest bidder. Privatization includes a wide range of approaches like contracting out, leasing, private sector financing of infrastructure projects, liquidation, and mass privatization [22].

Taiwan Power Company (TPC) face the great impacts and organizational change (OC) brought by privatization, liberalization and globalization. Privatization inevitably entails significant changes in the management style and the working environment and hence has a masked impact on the working conditions and job security of the employees. Clearly, privatization policy has many social and economic impacts. Thus, even though privatization of SOEs has become the major trend of development for many countries in the world, the promotion of privatization can easily incur strong resistance.

In Taiwan, in view of the great changes in the domestic

economic environment, the policy goals of the government's privatization efforts have been reset to put emphasis on building competition across all industries and promoting the allocation efficiency of social resources. Despite the slow progress of privatization in its first several years, the government has set privatization as one essential part of its current deregulation drive, and there is no doubt that the government will fulfill its privatization commitment and introduce competition into all markets [3].

Although the strategic policy of privatization is clear, it is to beneficial to everyone involved that the process can be undertaken without disruption and disharmony.

II. Liberalization and its Problems

II.1 Delay in Deregulation

Liberalization and privatization in industrialized countries has generally centered on denationalization or privatization in a narrow sense. In the UK privatization and deregulation has occurred more widely, linked to broad micro-economic reform. Generally in the developing world and in East Asia privatization has made very slow progress.

This does not mean that deregulation is not necessary in other countries or that the regulated part of the economy is small in other countries. It is said that 40.9 percent of all industries in Japan were regulated by the Government in 1993, while in the USA sectors subject to regulation were reduced from 28.9 percent in 1980 to 23.3 percent in 1992 in terms of their contributions to total gross domestic product [10].

There are number factors that can give impetus to deregulation. First, conditions for the Government to take leadership for deregulation must be present. For example, deregulation must be made an issue of policy during elections. Second, managers in regulated industries must change their dependence on government regulation and be encouraged to do business on their own account. They must recognize that this is for their own interest in the long run, that there will be expansion of business under deregulation. Third, there must be a deregulation principle law to give a legal basis to the idea or principle of deregulation and to prevent its mutilation in implementation.

For a long time, TPC has been operating in a bureaucratic fashion and workers' rights could be considered to have been overprotected and generous compared to other parts of society. When facing the impacts of privatization, employees feel that their working capability is threatened and thus reject organizational reform. They do not believe in the commitments of the owner [1]. A management crisis is

precipitated by privatization of SOEs.

Reflecting the public consensus reached at the National Development Conference (NDC) held at the end of 1996, the Taiwanese government vowed to expedite the privatization of SOEs. Accordingly, the CEPD completed a review of the timetable set for 47 SOEs to be privatized by 2003, and steered through modifications of the regulatory legislation to facilitate the privatization process. However, the government has encountered some delays in the course of privatization due to: (1) Legislative logjam (2) Labor opposition (3) Resistance from Taiwan's Provincial Governments.

There are four main reasons why the privatization program of Taiwanese public enterprise is often behind schedule [3].

1. Workers and labor union resistance change.
2. Political interference in the privatization process.
3. Legal restrictions on business scope.
4. Financial restrictions in public enterprises.

In Taiwan, privatization cannot be viewed as a pure economic policy or a policy option [3]. Instead, it contains substantial social meanings and consequences.

II. 2 Effects of Liberalization

As has already been mentioned, privatization has meant a change in management style and working conditions. The distinctions are summarized under six headings, and it is in terms of changes in these characteristics that privatization or quasi-privatization can be expected to impact on performance [14]. The six characteristics are: goals, management, labor, communications and reporting systems, organizational structure and nature and location of the business. The change of the working environment has made a notable impact on the working conditions and job security of the employees.

The Taiwanese experience has several practical and theoretical implications. First, there should be clear policy objectives of what privatization is expected to achieve. Given Taiwanese economic and technological context, liberalization and privatization were implemented to prepare SOEs for global competition and technological challenges, and to stimulate the stock market. In other countries privatization may be carried out due to fiscal and efficiency considerations. As in general it is important that efficiency improvements should be the primary goal of privatization [7].

Second, the approach to privatization should reflect the policy objectives of the state. In Taiwanese case, there was a well-planned, phased approach which involved gradual liberalization, as well as increased regulation to ensure high levels of quality and service, within an approach described as "managed competition" [16]. In other contexts, "shock-treatment" and further deregulation may be desirable.

Third, the Taiwanese experience is consistent with the proposition that privatization is more successful if it is carried out within a well-developed institutional and regulatory context. Privatization of both competitive and

noncompetitive SOEs is easier to launch and more likely to yield financial and economic benefits in countries that encourage entry and free trade, offer a stable climate for investment, and have a relatively well-developed regulatory and institutional capacity [7]. The existence of such a context in Taiwanese has aided SOE's privatization and subsequent performance.

Fourth, the state should give its full commitment to the privatization process within a well-planned framework for action. Political authorities gave their complete commitment and support to the privatization effort, ensured the integrity of the process, maximised transparency and reduced discretionary decision making by individuals involved, all of which are deemed as key success factors in privatization programmes [4].

Fifth, the SOE should receive prior preparation for privatization. The means to do so vary, and should depend on the industry context and the state of the enterprise. In Taiwan, for example, the gradual introduction of "managed competition" was deemed necessary, while in other contexts efficiency improvement measures may be warranted, such as bringing in private managers who should be given autonomy as well as held closely accountable for performance [4].

Finally, the dominant view that government ownership leads to inefficiency should be reconsidered, in the light of the Taiwanese experience. Clear government policies relating to the pursuit of globally competitive standards of quality and service, a civil service recognised for its efficiency, meritocracy and pragmatism [5], as well as clear competitive strategies and focus on efficiency at the SOE level have led Taiwanese SOEs to world-class performance.

It can be argued that the Taiwanese context is not typical of other countries' situations. Taiwan is a small, resource-lacking island-country, but has exhibited clear long-term development strategies at the national level as well as an efficient civil service and a highly skilled workforce. Taiwanese experience with SOEs, however, does indicate that it is possible to achieve world-class performance under government ownership, given certain contextual conditions. The gradual privatization and liberalisation processes, coupled with "managed competition" used in SOEs, moreover, have significant practical implications for the implementation of privatization programmes which may be useful in a variety of contexts.

Government's sales policy in stock market

In the UK, the Government gave favorable treatment to buyers of shares and assets which were state-owned. Consumers buying BT shares in 1984 were offered a choice between vouchers to reduce their telephone bills or one bonus share for every ten still held by the end of November 1987, three years later [15]. The Housing Act of 1980 in the UK gave people who live in state-owned houses the right to buy them at a radical discount. But in Japan there was no favorable treatment to buyers at all. The Government thought it unfair to treat buyers of shares of privatized assets favorably because the assets were national property

originally. The telecommunication market in Germany, there is no special rights for the government as stockholder, no "golden share".

In Japan privatized enterprises did not give any favorable treatment to their shareholders, while in the UK, for example, BT shareholders were given bonus shares or reduced telephone charges, as mentioned above. The Nippon Telegraph and Telephone Corporation (NTT) shareholders were given 0.02 bonus share for every one in November 1995, but this is far from favorable treatment because of the small quota and a severe slump in the stock price [18]. There has been no reduction of the telephone bills for shareholders.

In the UK, privatization led to a high degree of worker participation and workers have obtained shares at a discount or with the assistance of interest-free loans [19]. The same can be seen in social denationalization in West Germany in 1959-65 [8]. But in Japan employee loyalty is high, so there seemed no need to try to enhance it with employee share schemes.

Employee Resistance Organizational Change

When facing changes to the *status quo*, some people perceive that the proposed is against their vested interests, others are afraid of the uncertain consequences; both groups will therefore resist the reform. Employees' psychological reaction and attitude depend on their understandings of the reform, their experience and their current social relations. Although likely to be more complicated in reality, reference [17] categorized responses to change into three categories:

- Aggressive support,
- Neutral observation and
- Resistance.

It is the latter of these responses that is the focus of the work in this portfolio, although doubtless their some mutual dependence among them. Reference [11] had noted that resistance is commonplace, thus workers' attitude is one of the keys for organizational reform. In [17], define resistance as the actions taken by members of an organization to reject the objective or policy of the organization. Members refuse to achieve the objective, or try to avoid carrying out requests from the organization. Reference [1] believes that it is vital to find out why workers resist against organizational reform during the process of privatization. On the basis of research he concludes that workers usually resist against organizational change for the following reasons:

1. Potential economic loss.
2. Potential social loss.
3. Adjustment.
4. Lack of Respect.
5. Misunderstanding

Reducing Resistance from Workers

Guidance for the implementation of change comes from many sources. Reference [2] found that the following approaches can reduce resistance against reform:

- the initial introduction of small-scale, modest reform,
- the extensive use of education and demonstration,
- the planning and implementation of staff participation.

In an overlapping set of suggestions, which importantly identifies specific attention to dealing with the emotional status of participants, Reference [20] suggested:

1. When participants of reform are familiar with the values and ideals of the plan of reform;
2. Allowing affected personnel to participate in the plan of reform;
3. Full support from the high-level managers;
4. When participants of reform believe that the reform can reduce their workload;
5. When participants are interested in the plan of reform;
6. When participants of reform do not need to worry about their independence and security;
7. When participants have consensus towards the importance of reform;
8. Let participants act together;
9. Understand the feelings of the participants and reduce unnecessary fear;
10. Full communication and question clarification;
11. Establish mutual trust among participants and
12. Increase usefulness by public discussion.

A condensed but wide ranging set of practices was also suggested by [9]. These approaches to resistance reduction should be used concurrently and intelligently. That is, managers should use various strategies; understand the advantages and limitations of each method and to communicate according to the actual situation.

(1) Communication

Consultation has various functions that include emotional relief, advice, reassurance, negotiation, clarification, and re-education. Communication can help to let workers understand the necessity of reform and to reduce their resistance. Leaders can use one-on-one discussion, group briefing, education and training to communicate with workers and to publicize the notion of reform. Participants in organizational reform should inform as early and as clearly as possible about what is involved. Effective communication allows workers to receive relevant information, and also gives them opportunity to raise questions and receive satisfactory answers. A feedback system is thus established.

(2) Participation and Involvement

The involvement of potential rejecters in decision-making can not only reduce potential resistance but also increase the quality of policies. In [21], also holds that in organizational reform, participation of workers is vital for the morale and for the relations between workers and the management. Moreover, participation is a form of communication, by which workers can understand why reform is needed. Reference [13] believes that recognition, emotion and action are the three important features of participation that can

create active reaction for observation and judgment. Through participation in the decision-making process, workers feel that their comments are respected and hence their resistance to organizational reform can be reduced. Participation and involvement can take many forms and may include the use of team and group process to involve worker at all levels in planning the future. As well, reward schemes for positive suggestions about improved processes can work.

(3) Facilitation and Support

Reform promoters should use various supportive activities to reduce resistance from workers. When employees feel worried or anxious, leaders can use employee consultation, psychological consultation and new skill training to assist workers adapt to the new situation.

(4) Negotiation and Agreement

Certain rewards are needed to reduce resistance, such as to include certain employees who have influence.

(5) Manipulation and Cooperation

Manipulation means to reduce the impacts of reform, to twist the resistance and to set up a favorable environment. Cooperation refers to comprehensive strategy and multiple military tactics, which is related to controls and participation. By giving the leader of the resistance party an important role to play, members who reject reform would participate in the decision-making process and thus are involved.

(6) Explicit and Implicit Coercion

Put pressure on the rejecters to force them to accept the decision.

The above-mentioned six methods should be used simultaneously and intelligently to ensure successful reform of the organization.

In summary, six dimensions emerge a crucial to the privatization change process. Briefly again, a number of studies have suggested that *safeguard of workers' rights and interests* have a significant impact on workers in privatization [1] [15]. Also studies have indicated that *compensation of potential loss* have positive effects on workers' commitment [1]. In relation to *communication*, it has been found that the effects of workers were positively correlated with successful organizational change [1] [9] [21]. In most previous studies, measuring effects of change on *leadership, trust and employee consultation* has been used [1] [9] [13] [21]. Previous studies have all related *participation of employees and the labor union* with successful privatization [1] [13] [21]. The relationship between reducing workers' resistance and *encouraging the learning of a second specialty* has been examined by [1] [9] [13] [21].

Notably, the research which provides the foundations for the establishment of these six dimensions to managing resistance is drawn from research down in western societies and it is not clear how these relate to the situation which exists in modern day Taiwan which has a Chinese but also

has important Japanese and American influences as the result of occupation and strategic alliances. The intent of the remainder of this paper is to develop an instrument which effectively taps these dimensions within a Taiwanese organizational context in which the threat of privatization is real.

III. Research Methodology

A survey instrument encompassing the six dimensions described above was developed. This contained 30 items taken from various appropriate sources. Twelve items on workers interests were drawn from a survey instrument developed by the Taiwan Power Company. Thirteen questions were drawn from a privatization questionnaire developed by the Taiwan Council for Economic Planning and Development (CEPD). The remaining five items addressed the regulation of workers' rights.

Each item required a response on 5 point Lickert scale from strongly disagree to strongly agree.

The instrument was trialed with workers and representatives of a labor union of a large scale SOE in Taiwanese electric industry. Of the total 490 questionnaires mailed or e-mailed, 251 were completed and usable responses returned, yielding a 51.2 per cent response rate. The demographic sample characteristics of respondents are shown in Table I.

TABLE I
Sample Characteristics

Item	Variety	Sample (N)	Sample (%)
Gender	Male	222	88.4
	Female	29	11.6
Age	25 below	2	0.8
	25-34	25	10.0
	35-44	81	32.3
	45-55	110	43.8
	55 above	33	13.1
Level of education	Junior school	4	1.6
	Senior school	30	12.0
	Polytechnic Diploma	105	41.8
	University	93	37.0
	Post graduate above	19	7.6
Level of position	Top manager	1	0.4
	Mid manager	8	3.2
	Grass-roots cadre	90	35.9
	Worker	152	60.6
Years of experience	5 below	5	2.0
	5-15	29	11.6
	15-20	74	29.5
	20 above	143	57.0

Analysis of item responses consisted of factor analysis and the application of the Cronbach's alpha statistic to ascertain factor, reliability and validity. Factor analysis is a statistical technique, which is used to condense many variables into a few underlying constructs [6]. It reduces a large number of attributes by combining them into meaningful groups or factors. Before factors analysis can be used as a data reduction method, it must satisfy the underlying assumption of sampling adequacy [12].

IV. Results

The reliability of the scale was tested using Cronbach's alpha coefficient. Each construct was tested for unidimensionality, reliability and convergent validity using Cronbach's alpha coefficient.

Factor analysis suggested six factors. These have been labeled: Safeguard of workers' rights and interests (factor 1); compensation of potential loss (factor 2); Communication (factor 3); Leadership trust and Employee Consultation (factor 4); Participation of employees and the labor union (factor 5); Encourage the employees to learn and to cultivate a second specialty (factor 6). The Cronbach alpha coefficients for the six factors (see Table II) were between 0.78 and 0.93. The analysis for each factor is presented below.

TABLE II
Cronbach's alpha reliability estimates of six factors

Factors (six constructs)	Eigenvalue	Alpha
Safeguard of workers' rights and interests (factor 1)	16.93	0.93
Compensation of potential loss (factor 2)	2.72	0.89
Communication (factor 3)	2.12	0.85
Leadership trust and Employee Consultation (factor 4)	1.71	0.78
Participation of employees and the labor union (factor 5)	1.46	0.88
Encourage the employees to learn and to cultivate a second specialty (factor 6)	1.28	0.79

V. Discussions and Conclusions

At the outset of this study it was unclear what might be the dominant issues perceived to be affecting workers during the process of privatization of State owned enterprises in Taiwan. Taiwan has a mixed history of Spanish, conquest, Japanese occupation, the Chinese revolution and still ensuing friction with the mainland, a defensive reliance on the United States, and so on. Until recently, Taiwan has been much more prosperous than mainland China and more 'western' oriented. Yet Taiwanese society is still very Chinese. Traditional ceremonies and holidays are still marked. So it was reasonable to establish what factors were perceived important by workers faced with privatization and to understand whether these were effectively the same in research conducted in the west. As it turned out, the factor groupings effectively mirrored the findings from research in the west with the following labels given to the factors identified:

- (1) Safeguard of workers' rights and interests;
- (2) Compensation of potential loss;
- (3) Communication;
- (4) Leadership trust and Employee Consultation;
- (5) Participation of employees and the labor union and

- (6) Encourage the employees to learn and to cultivate a second specialty.

The immediate practical implication of this validation process is to provide general guidance to the Taiwanese government in terms of what it needs to do to hasten its privatization reform process. The findings obviously fall short of being specific as to what actions the government might take. However, the message that better communication is required is obvious and that each the factors identified need attention in practical terms.

The approach taken to data collection was via survey and subsequent factor analysis of responses. The findings are relatively clear cut. However, and without detracting from the findings presented, it is recognized that a different and more qualitative approach may have been used to collect data. Such approaches would have meant that the responses of participants would not have been constrained, or bounded, by the items in front of them on the survey form. These approaches, such as interviews or focus groups, might also have allowed the gathering of data which provided understanding into the value bases of the responses.

There are many factors that might influence support or resistance to privatization of Taiwanese electric industry. Some of these will relate to efficiency arguments with the prevailing pedagogy predominantly being that public enterprises are less efficient than privatized ones. This, of course, is disputable but the tide of opinion is currently against SOEs. It is not known how much this belief has taken root in individual SOE workers and hence the importance of efficiency arguments in relation to resistance to privatization has yet to clarify.

Likewise, it is generally argued that TPC has not met consumers' needs well, with the operational and service performance record of SOEs becoming worse and worse over time. This may be because Taiwan is experiencing a period of rapid and important social and economic change. Accession to the World Trade Organisation, democratic reforms and the general processes of globalisation are bringing about great changes in the domestic economic environment. In Taiwan, the policy goals of the government's privatization efforts have thus been changed to put emphasis on building competition across all industries and promoting the allocate efficiency of social resources. Despite the slow progress of privatization in its first several years, the government has marked privatization as one essential part of the current deregulation drive. There seems little doubt that the government will fulfill its privatization commitment and introduce competition into all markets [3]. The important role of SOEs and former SOEs (after privatization) are closely related to the life and social welfare of the general public. In Taiwan, most basic services are provided by SOEs or former SOEs. The success or failure of the Taiwan economy and society is thus linked with the success of these organisations and it is thus extremely important, among many other factors, to cultivate leadership ability of managers in advance in order to

successfully promote privatization. Development of a deeper understanding of the factors described in this study is a starting point.

Some further research is suggested. In the following papers of this portfolio, the effects on workers in the privatization process in Taiwanese electric industry will be explored. Of interest is the relationship of these variables with workers commitment on six factors, such as gender, age, salary, level of education, level of position and years of experience.

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