

**POLITICAL DEMOCRACY AND PUBLIC ENTERPRISE MANAGEMENT:
A STUDY OF TAIWAN'S STATE-OWNED ENTERPRISES**

CHENG-CHIU PU

**A THESIS SUBMITTED IN FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE
OF DOCTOR OF PHILOSOPHY OF PUBLIC SECTOR MANAGEMENT
FACULTY OF BUSINESS AND GOVERNMENT
THE UNIVERSITY OF CANBERRA, AUSTRALIA**

DECEMBER 2007

**Political Democracy and Public Enterprise Management:
A Study of Taiwan's State-owned Enterprises**

Cheng-Chiu Pu

**A thesis submitted in fulfilment of the requirements for the degree
of Doctor of Philosophy of Public Sector Management**

University of Canberra

December 2007

Abstract

This thesis is a study of why and how an authority model of managing state-owned enterprises has remained popular in Taiwan through the past two decades. The subject was chosen because it has to date, been a neglected subject in the literature on Taiwan, even though it is significant to any serious examination of Taiwan's continuing political development and the government's approach to governance. Taiwan has experienced three major milestones of political democratisation over the period, each greatly enhancing the democratic characteristics of the state and also reflecting a degree of absorption of global political and economic pressures. Taiwan's political democratisation has been widely discussed in recent years, but not much attention has been paid to the effect of the political changes on its public sector management. The discussions have simply speculated that the Taiwanese government no longer uses the authoritarian way of governing the country, in keeping with its promotion of democratic development.

However, this research clearly indicates that the change of political regime from the previous Kuomintang (KMT) to the Democratic Progressive Party (DPP) has not meant any significant change in the way state-owned enterprises are managed. The approach of the DPP government resembles that of the KMT government in that it continues with an authoritarian way of managing state-owned enterprises, despite the party's long established commitment to a democratic way. In other words, this huge change has not meant state-owned enterprises are any better placed than they were previously in terms of having a greater degree of enterprise management autonomy.

This research also shows that Taiwanese governments, regardless of which of the two parties is in power, manipulate state-owned enterprise management using the enterprises as a major means of achieving multiple political objectives. In particular, it has become almost endemic in Taiwan's politics that the ruling party manipulates state-owned enterprise management in order to win political elections and protect its political position. In this sense, it has become evident that the democratic way of governance has still not been used within this part of the government yet.

Dedication

This thesis is memory of my grandmother and parents who first taught me to find happiness in learning and understanding. It is dedicated to my wife Julie who believed in the value of public sector management knowledge and faithfully encouraged me to explore it.

Acknowledgements

In accomplishing this thesis, I am truly grateful to those who have helped me in conducting the research and this thesis. In particular, I would like to express my sincere thank to my supervisor Professor Roger Wettenhall. His constant encouragement and invaluable guidance not only assisted me academically but also assisted me overcome many obstacles throughout my study period at University of Canberra. I also wish to express my special thanks to Dr Douglas Davies, Dr John Laver, Dr Christopher Aulich and Dr Anni Dugdale for their great academic support throughout the same period.

My thanks is also given to other supporting staff at the University of Canberra for their friendly dealing with my constant requests for help, especially to Ms Elizabeth Barber for her excellent editing assistance on my thesis, and also to Ms Cath Raby, Ms Amanda Rombouts, Ms Antoinette Nash, Ms Sheila Wood, Ms Maria Tatarow and Ms Alison Langley for their administrative and other support.

This research has been conducted with the help of other people also. In particular, eighteen key persons working in Taiwan's relevant Ministries, state-owned enterprises and the associated trade unions and either in charge of managing state-owned enterprises or involved in the decision-making processes related to state-owned enterprises, were invited to be interviewed and, through their participation, they have significantly contributed to its completion. I must say my sincere thanks to them for their assistance because they provided a huge amount of significant material and information for this research. I was particularly impressed with their willingness, hospitality and patience which all helped me accomplish my studies in this field in Taiwan.

It is very clear that without all the assistance and support from the persons mentioned above, that I would never have accomplished the research and written this thesis.

Publication List from this Thesis

1. Cheng-Chiu Pu (2005). Ownership and Management Issues in Taiwanese Public Enterprises. *The Asia Pacific Journal of Public Administration*, Volume 27, Number 2, pp: 163-180, The Department of Politics and Public Administration, University of Hong Kong.
2. Cheng-Chiu Pu (2006). Public Enterprise Management in Taiwan: Has the Change of Government Made Much Difference? *The Asia Pacific Journal of Public Administration*, Volume 28, Number 2, pp: 143-169, The Department of Politics and Public Administration, University of Hong Kong.

Contents

	Page
Abstract	ii
Certificate of Authorship of Thesis	iii
Dedication	iv
Acknowledgements	v
Publication List from this Thesis	vi
Figures	xii
Tables	xiii
Abbreviations	xiv
1. Introduction	1
1.1 Taiwan's Recent Political Changes	1
1.2 The Significance of Public Enterprises in Taiwan	5
1.3 Research Question and Objectives	9
1.4 Thesis Plan	13
Notes for Chapter 1	17
2. Methodology	18
2.1 Public Enterprises as a Field of Study	18
2.2 Research Strategy	21
2.3 Selection of Case Firms	23
2.4 Data Collection	26
2.5 Analytical Method: A Normative Approach	30
Notes for Chapter 2	34
3. Overview of Taiwan's Public Enterprise Management	35
3.1 The Five-branch Governance System	35
3.2 The Definition and Classifications of Public Enterprises	38
3.3 The Place of Public Enterprises in the Governance System	42

3.4 The Labour Laws	45
3.5 Summary	49
Notes for Chapter 3	50
4. Literature Review and Development of an Analytical Framework	51
4.1 Public Enterprise and Its Political Environment	51
4.1.1 <i>Reasons for establishing public enterprises</i>	
4.1.2 <i>Enterprise's significance varied by political environment</i>	
4.2 The Control Mechanisms	57
4.2.1 <i>Rationale for exercising control</i>	
4.2.2 <i>Who controls? and What is controlled?</i>	
4.2.3 <i>Organisation form and its control context</i>	
4.3 The Government-Enterprise Relationship	63
4.3.1 <i>Effect of organisational form on government-enterprise relationship</i>	
4.3.2 <i>A theoretical 'arm's length' relationship</i>	
4.3.3 <i>Difficulty of balancing control and autonomy</i>	
4.4 The Impact of Industrial Relations	70
4.4.1 <i>The good and/or model employer</i>	
4.4.2 <i>Collective bargaining distorted as political exchange</i>	
4.4.3 <i>Political contingency affects management strategy</i>	
4.5 The Implications of Reform and Privatisation	76
4.5.1 <i>Demands for reform</i>	
4.5.2 <i>Strategies and their practical effects</i>	
4.6 Conclusion: The Normative Framework	82
Note for Chapter 4	84
5. The Control Mechanisms	85
5.1 The KMT Governance and the Use of the Mechanisms	85
5.1.1 <i>An Executive Yuan-dominated system</i>	
5.1.2 <i>Limited effect of earlier political democratisation on the mechanisms</i>	
5.2 Practices of the Mechanisms under the DPP Governance	92
5.2.1 <i>The DPP government keeps the mechanisms intact</i>	
5.2.2 <i>A weapon used by the opposition alliance</i>	
5.3 State-owned Enterprises under More and Growing Pressures	97

5.3.1	<i>A previous 'one-line and top-down' type</i>	
5.3.2	<i>The current 'multi-directions' type</i>	
5.4	Concluding Remarks	101
	Notes for Chapter 5	104
6.	The Government–Enterprise Relationship	105
6.1	Effects of the KMT governance on Corporate Autonomy	105
6.1.1	<i>Top-level positions applied as training base or political reward</i>	
6.1.2	<i>Decision-making process under strict scrutiny</i>	
6.2	Has the DPP Government Improved Corporate Autonomy?	111
6.2.1	<i>Appointment of top-level positions decided with different considerations</i>	
6.2.2	<i>Decision-making with political contingency</i>	
6.3	An Authority Model Relationship Remains Unchanged	118
6.3.1	<i>Rationale of retaining such an authority model</i>	
6.3.2	<i>Some features of the relationship have varied</i>	
6.4	Concluding Remarks	123
	Notes for Chapter 6	124
7.	The Pattern of Industrial Relations	126
7.1	The KMT Control over the Unions during Martial-law Period	126
7.1.1	<i>Rationale for exercising control</i>	
7.1.2	<i>An administrative arm of the ruling party</i>	
7.2	Development of Autonomous Unions after Martial Law	131
7.2.1	<i>A new environment towards trade unions</i>	
7.2.2	<i>Increased autonomy of trade unions</i>	
7.2.3	<i>A new arena of political combat</i>	
7.3	Industrial Relations during the DPP Period	138
7.3.1	<i>Industrial democracy and union autonomy</i>	
7.3.2	<i>Limited significance of collective bargaining and conflicts</i>	
7.3.3	<i>Continuous commitment to political participation</i>	
7.4	Concluding Remarks	145
	Note for Chapter 7	147

8. The Practice of Reform and Privatisation	148
8.1 State-owned Enterprise Performance and its Link with Reform	148
8.1.1 <i>A review of performance</i>	
8.1.2 <i>The KMT conducted reforms even during martial-law period</i>	
8.2 The KMT's Reforms during the Post-martial-law Period	152
8.2.1 <i>The KMT's new challenges</i>	
8.2.2 <i>The application of large-scale reform measures</i>	
8.3 The DPP Government Continues Reform	159
8.3.1 <i>The approaches used by the KMT government have continued</i>	
8.3.2 <i>Has the DPP government made any difference?</i>	
8.4 Rhetoric and Reality of Reform and Privatisation	162
8.4.1 <i>The control mechanisms have never been on the agenda of reform</i>	
8.4.2 <i>Rethinking some of the political consequences of privatisation</i>	
8.5 Concluding Remarks	166
Notes for Chapter 8	168
9. The Human Dimension of State-owned Enterprise	
Activities and Changes.....	170
9.1 The Executive Yuan Politicians.....	171
9.1.1 <i>Role of the Premier and minister in the control mechanisms</i>	
9.1.2 <i>Motivations of abusing the control mechanisms</i>	
9.1.3 <i>Rationale of continuously exercising control over former SOEs</i>	
9.2 The Legislative Yuan Members	174
9.2.1 <i>Role of the legislators on the control mechanisms</i>	
9.2.2 <i>More obscure behaviours among the legislators</i>	
9.2.3 <i>Paradoxical attitude of the legislators towards the privatisation</i>	
9.3 The State Bureaucracy	177
9.3.1 <i>State bureaucracy's role in the control mechanisms</i>	
9.3.2 <i>Bureaucracy featured obedience and other conservative characteristics</i>	
9.3.3 <i>Diverse viewpoints of state bureaucracy towards the privatisation</i>	
9.4 The State-owned Enterprise Boards	180
9.4.1 <i>Role of SOE board in the governance process</i>	
9.4.2 <i>SOE board's dilemmas in the governance process</i>	
9.4.3 <i>SOE board's contribution to the implementation of the privatisation</i>	

9.5 The Trade Union Leaders	183
9.5.1 <i>Changing role of trade unions in SOE activities</i>	
9.5.2 <i>Trade union's strategy against the implementation of the privatisation</i>	
9.6 Concluding Remarks	188
10. Conclusions and Suggestions	190
10.1 Major Findings	190
10.2 Suggestions for Further Research.....	194
Appendix	200
1. Letter of Introduction	200
2. Informed Consent Form	202
3. Participant Information Form	203
4. Persons Interviewed in Taiwan	209
5. Interview Questionnaire	210
6. Ethics Permission	212
Bibliography	213

Figures

	Page
3-1: The Context and Control Mechanisms for Taiwan's State-owned enterprises	44
4-1: Government's Attitude and Relationship Model for Public Enterprises	69
4-2: Context of Political Exchange in Public Enterprise Industrial Relations	74
4-3: The Effect of Different Reforms on Public Enterprise Objectives	81
4-4: A Framework for Analysing Public Enterprise Management	83
5-1: Changing Characteristics of Government's Control Over Taiwan's State-owned Enterprises.....	102
6-1: The Relationship Model between Government and State-owned Enterprises in Taiwan	119

Tables

	Page
3-1: Types and Categories of Taiwanese Public Enterprises	40
3-2: Classification of Taiwanese State-owned Enterprises by Legal Form and by Ownership Type	41
6-1: Four Taiwanese State-owned Enterprise Boards	108
6-2: List of CPC Chairpersons during the DPP Period	112
6-3: List of TPC Chairpersons during the DPP Period	112
6-4: List of CHT Chairpersons during the DPP Period	113
6-5: List of CHP Chairpersons during the DPP Period	113
6-6: List of TRA Director-generals during the DPP Period	114
7-1: Major State-owned Enterprise Industrial Conflicts Occurring during the DPP Period	142
8-1: Taiwan's State-owned Enterprise Corporatisations in 1990s	156
8-2: Taiwan's Liberalisations and Deregulations in 1980s and 1990s	157
8-3: Taiwan's Public Enterprise Privatisations in 1990s	158
8-4: Taiwan's State-owned Enterprise Corporatisations during the DPP Period	160
8-5: Taiwan's State-owned Enterprise Privatisations during the DPP Period	160
8-6: Employee Variations in Five State-owned Enterprises (1995-2004)	164
8-7: Privatisation's Contribution to Government Budget Revenues (1996-2005)	165

Abbreviations

AIDC	Aerospace Industrial Development Corporation
BNHI	Bureau of National Health Insurance
CAL	Collective Agreement Law
CBC	Central Bank of China
CCP	Chinese Communist Party
CEPD	Council for Economic Planning and Development
CHT	Chunghwa Telecom Corporation
CHP	Chunghwa Post Corporation
CLA	Council of Labour Affairs
CNC	Commission of National Corporations, MOEA
CPA	Central Personnel Administration
CPC	Chinese Petroleum Corporation
CPWU	Chunghwa Postal Workers' Union
CTWU	Chunghwa Telecom Workers' Union
DGBAS	Directorate General of Budget, Accounting and Statistics
DPP	Democratic Progressive Party
GIO	Government Information Office
IPP	Independent Power Provider
ISO	The International Organization of Standardization
KMT	Kuomintang (or called the Chinese Nationalist Party)
LSL	Labour Standards Law
LUL	Labour Union Law
MBO	Management by Objectives
MOEA	Ministry of Economic Affairs
MOF	Ministry of Finance
MOTC	Ministry of Transportation and Communication
NAO	National Audit Office
PCC	Public Construction Commission
PPF	People First Party

QMC	Quality Management Circle
RCS	Responsibility Centre System
RDEC	Research, Development and Evaluation Commission
ROC	Republic of China (the official nation-name of Taiwan)
SLDL	The Settlement of Labour Disputes Law
SOEs	State-owned Enterprises (note: the public enterprises owned by relevant ministries of the Taiwanese central government)
TPC	Taiwan Power Company
TPLU	Taiwan Power Labour Union
TPG	Taiwan Provincial Government
TPWU	Taiwan Petroleum Workers' Union
TRA	Taiwan Railway Administration
TTL	Taiwan Tobacco and Liquor Corporation