

# The Prospects of Employee Participation in State-Owned Enterprises: Lessons from the Case of Chunghwa Telecom Company in Taiwan

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## Abstract

*One of the major factors in building a successful system of employee participation is the involvement of unions and government. In this article, the limitations of system of employee participation in Taiwan are examined. The article begins with a brief overview of Taiwanese industrial relations. It then focuses on the development of Employee Participation in Taiwan, before exploring the impacts of privatisation on the state-owned enterprises in Taiwan, with reference to Chunghwa Telecom Company.*

## Introduction

The political and social change in Taiwan following the abolition of martial law after 1987 has led to a noticeable change in the industrial relations environment. In the past, industrial relations institutions in Taiwan were commonly controlled by the ruling government and party. Along with industrialisation, Taiwan experienced democratisation and

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globalisation in the 1980s and 1990s. These developments had a huge impact on the practice industrial relations in Taiwan. Globalisation forced the government to revise labour law and industrial relations policy in response to increasing international competition. Democratisation and the promise of increased prosperity meant that workers did not only expect improved economic benefits; they expressed a desire for increased opportunities to become involved in management decisions through Employee Participation schemes.

In this article, Employee Participation is used as a comprehensive term that includes the provision of information, consultation, co-decision, and workers' control. Notably, we cannot regard Employee Participation as a unitary concept. According to Michael Salamon (1992: 340-342), there are three approaches to the concept of Employee Participation: as a sociopolitical concept, a generic term to encompass all processes and institutions of employee effect within the organisation, and a discrete term to denote a nebulous but distinct evolutionary development of the traditional joint regulatory processes. Scholars generally define the concept of Employee Participation in two different ways. One emphasises the directness of that participation, while the other emphasises the extent of the impact that employees have on organisational decisions (Deery et al 1997: 113). The latter is adopted here.

## **The Industrial Relations System in Taiwan**

The Taiwanese government has maintained political stability and economic development since 1949 by using a 'powerful state' governing strategy. Many scholars of industrial relations have discussed the impact of the powerful state on Taiwan's political economy (Pan 1998: 45). State intervention has been one of the substantial factors determining the processes and outcomes of Taiwanese industrial relations since the government of the Kuomintang. Clientelism has also been important in controlling the organisations and resources of civil society. Some scholars entirely overlook the impact of clientelism in Taiwan, while others claim there is little evidence to investigate concerning the relationship between the clients and the regime (Wang 1994: 182). The complementary processes of 'powerful state' government and clientelism have ensured that Taiwanese trade unions have long been seen as supplementary institutions and administrative tools of the government. Since Kuomintang policies gave responsibility to the state to organise workers, workers who wished to organise did so with the aid of different departments of the Kuomintang.

The restructuring of Taiwan's political economy has transformed the

regime of labour relations. On the one hand, the State has been restructured in a more democratic form. On the other, the economic structure has become more separated and companies with divergent degrees of technology are selecting different kinds of strategies to change employment relations. In recent decades, two major changes have reshaped Taiwanese industrial relations. One is the passing of the Labour Standards Laws in 1984. The swift promulgation of the Labour Standards Laws revealed that some Kuomintang legislators were promoting the interests of the labour within the parliamentary system (Chu 1993: 183). The laws introduced wide-ranging and enforceable labour standards, which some industrial scholars claimed made it difficult for collective bargaining mechanisms to work (Kleingartner and Peng 1990). The other major change was the lifting of martial law in 1987. Taiwan's labour movement, like other social movements, suddenly became tremendously active, and the number of labour unions – including officially-sanctioned unions and independent 'friendship organisations' and 'brotherhood alliances' – increased (Chiao 2000: 12). As a result of these changes, the union movement became markedly more independent (Chen 1998: 185). The contemporary era of development of the movement can be described as an 'escalation' in both quality and quantity.

In the politicised climate of the late 1980s, the Taiwanese labour movement gained momentum. Some scholars argue that the impact of political liberalisation on the labour movement had two main aspects. Firstly, it motivated the growth of independent unionism, which required a renewal of the old union system, focusing on union autonomy. Secondly, a coalition between politicians, independent unionists and intellectuals brought about the establishment of a labour party (Chu 1993: 179). According to research conducted by Hsiao (1992), a total of eighty-eight major workers' unions organised collective action between 1990 and 1991. Their actions were significantly different from campaigns undertaken before 1988, because the government recognised unions' legitimacy and permitted the use of strikes as a bargaining tool under changes in legislation. It is important to note that this new-found militancy remains essentially instrumentalist and money-oriented in nature (Chu 2001).

## **The Development of Employee Participation in Taiwan**

Initial stages of Employee Participation in Taiwan were based on the Factory Act of 1929. The Factory Act was constructed to regulate establishments whose production process stemmed from machine operations. In 1984, the factory council was replaced by a "Labour- Management

Committee" under the Labour Standards Laws. In addition to collective bargaining, the Labour Standards Laws (Article 83) permit employees to take part in management processes. According to Article 83, a business entity shall convene a labour-management committee to coordinate the relationship and elevate cooperation between employees and employers to improve the efficiency of the workplace.

In the past, factory councils were responsible for the investigation and promotion of work efficiency, the enforcement of factory rules, the mediation and improvement of labour-management relations, the mapping out plans for the workers' welfare, and the refinement of processes in factories and workshops. In contrast, Labour-Management Committees are organised within all business entities with at least 30 employees, including business branches. The Labour-Management Committees are formal, mandatory institutions that aim to put Employee Participation mechanisms or labour-management joint consultation into practice. Labour-Management Committees are comprised of an identical number of representatives of employees and employers. They meet monthly with the purpose of discussing and reporting the relevant matters of labour-management relations.

Most of the enterprises in Taiwan are non-unionised small and medium sized businesses. Although Taiwanese workers are well educated, statistics indicate that only 1,296 Labour-Management Committees were established by 1999 (CLA 2000: 75). In addition, just 0.36% of businesses are regulated by the Labour Standards Laws. Why is there such a low number of Labour-Management Committees? Some scholars claim that there are no sanctions for companies that do not obey the regulations (Wei 2001: 17). Other researchers argue that the committees tend to be prejudiced against blue-collar workers' interests because they have fewer factory workers than white-collar representatives (Frenkel 1995: 204-205).

The function of the Labour Management Committee is similar to those in the German model. They operate at three levels. The lowest level is information disclosure. At this stage, both employees and employers report to the meeting about employee activities, production plans, and labour turnover. The second level is consultation. Both parties can consult with each other on any matter relating to the business and employees. The highest level is decision making. Both parties can make decisions on cooperation, productivity, and labour welfare (Pan 1999: 133). Nevertheless, Taiwanese Labour-Management Committees have only been able to achieve the consultation level of participation, according to the degree or depth of employee involvement in the real workplace. In other words, it is very difficult to achieve the highest level of

Employee Participation for Taiwanese workers.

## **The Impact of Privatisation on Taiwanese State-Owned Enterprises**

Privatisation is one of the most modern forms of restructuring in the recent history of economic development in both industrialised and developing countries. The rationale commonly offered for the adoption of privatisation strategies is that privatisation will create competition in the open market, increase the share of enterprise ownership, raise funds and diminish borrowings to improve the effective economic management of governments (Hossain 1998: 2). The fundamental ideology of almost all privatisation is neo-liberalism, which assumes that free market capitalism is the best way to promote economic growth and prosperity. Many commentators challenge the assumption that the model of neo-liberalism is sufficient to produce long-term economic interests for the greater number of people (Chu 1998: 2). With respect to the effects of privatisation on the labour relations system, some scholars argue privatisation is used as a strategy for demolishing existing working arrangements and eradicating workplace trade union infrastructure (Whitfield 1983: 55). The first wave of privatisation in Taiwan occurred in the early 1950s, when a brief program was launched as part of the land reform plan. However, the major privatisation campaigns in Taiwan occurred in May 1994, when 15 State-owned firms were privatised by asset trade sales, selling shares or private placements (Chang 1998: 3).

State-Owned Enterprises, which have historically played an important role in the Taiwanese economy, have been an important focus for privatisation. Industries affected include petroleum, railways, electricity and telecommunications. Several changes could be observed after the privatisation of the State-Owned Enterprises. The financial strategies of the firms have become more aggressive, the process for making an investment decision is abbreviated, and Chief Executive Officers have more freedom and responsibility to make decisions. Labour productivity also improved after a reduction in employment (of various degrees, 5% to 30%) in the first stage of privatisation (Chang 1998: 8).

The issue of Employee Participation became significant in privatised State-Owned Enterprises. Workers did not have the legal right to negotiate their working conditions with their employers when they were within in public sector; however, privatisation made it difficult for trade unions to protect the interests of their members. Workers need to find effective strategies to establish an effective system of Employee Participation in order to provide a new channel for union involvement in the face of the

huge impact of privatisation on workers' organisations.

The introduction of an Employee Participation scheme permitted unions to be a continuing influence on management decisions (Chu 2000: 5). In this situation, unions had to devote more energy, time and limited resources to consultative meetings and dispute settlements in those areas. Although management can reduce unnecessary manpower in privatised companies, according to the relevant clauses of the Law, there had been few dismissals or redundancies for these employees of Taiwanese State-Owned Enterprises to date.

Finally, there was a crucial amendment to the State-Owned Enterprises Management Law on 30 June 2000. Under this Revision, a minimum of twenty percent of government-appointed members of the board of directors of state-run businesses must be labour representatives. The presence of workers' representatives on the board of directors will encourage a communicative model of co-decision. Co-decision means that the employees will participate with their employers in decision-making. Wei (2001) claimed that this revised regulation of Employee Participation is a huge success for the industrial democracy in Taiwan's employment relations. Employees have been active in the election of union representatives, who then take part in management decisions.

Union concern over the employees' interests in the process of privatisation of State-Owned Enterprises has also set a good example for Employee Participation. However, some scholars argue that the board of directors of state-run enterprises has to be a representative of labour, and that a union election was not suitable way to choose that representative. They claim that as the major task of the union is to struggle for the employment interests of their members, their purpose is different from the purpose of management – namely, to focus on the business operations of the enterprise for the benefit of the management. Most important of all, they argue, the union can easily change the labour representatives on the board.

### **The Chunghwa Telecom Company Case**

Taiwan's telecommunications regulatory structure, infrastructure, and technological bases are affected by three external influences: the Ch'ing Dynasty (China), Japan and the United States. These three substantial powers have dominated Taiwan's economy, history, culture, and security over the last two hundred years. Most recently, the United States put heavy pressure on the World Bank, GATT and the World Trade Organisation to urge privatisation and liberalisation within developing countries (Bian 2000). Under the US-sponsored trend towards international

trade liberalisation, Taiwan's telecommunications industry needed to face international competition and alter the status of State-Owned Enterprises, fully controlled by the Kuomintang government.

The Kuomintang government played a substantial role in Taiwan's telecommunications development from the 1960s to the 1980s. However, the Democratic Progress Party, Taiwan's first opposition party, began criticising the unusual relations between State-Owned Enterprises and the Kuomintang in the late 1980s. The Democratic Progress Party also pushed the state sector privatisation of the Kuomintang government to detach the interlinking relationship between the state sector and the Kuomintang (Bian 2001: 288). The compromise bill drafted by the Democratic Progress Party was passed in 1996 as the Telecommunications Laws.

The new Telecommunications Laws created a framework for telecommunications reform, as part of which the Directorate General of Telecommunications was to act as an independent regulator overseeing the administrative supervision and commercial operation in the telecommunications industry. The Directorate General of Telecommunications' business unit was privatised as the Chunghwa Telecom Company in 1996. Yet, due to a major compromise among political parties to pacify the activist union members in Directorate General of Telecommunications, the amended Telecommunications Laws provide that Chunghwa Telecom Company will be a State-Owned Enterprise (Chang 2001: 55-56). In other words, unless the Legislative Yuan gathers adequate political support to modify the Telecommunications Laws in the near future, Chunghwa Telecom Company will continue to be majority-owned by the public sector.

The labour unions in the Chunghwa Telecom Company suffered adverse consequences in the process of telecommunications reform. The Kuomintang government found negotiating with the Directorate General of Telecommunication's union members noticeably more difficult and elaborate than coping with consumers, especially with the rise of the Democratic Progress Party as a political force. With respect to privatisation, the employees of the Chunghwa Telecom Company started to worry about four major problems, including the identification of changing employment conditions, job security, working hours and leave entitlements, and employees' vocational training (Lam 2000: 4). As a result of privatisation, all employees of the Chunghwa Telecom Company lost their status as government employees, even though most of the employees in the Chunghwa Telecom Company have passed the public service examination. Chunghwa Telecom Workers' Union (CTWU) has submitted several suggestions to the Ministry of Transportation and Communi-



cations in Taiwan's government to restore their right to public servant employment status. Job security is another major concern of all employees in the Chunghwa Telecom Company. The major problem stemmed from the anxiety of being made redundant which was usually caused by downsizing and incessant reorganisation.

Although the Labour-Management Committee theoretically gives labour equal status with their employers in some privatised companies, Labour-Management Committees generally just play the role of empty shell according to some union officials (Huang 1996: 55). However, this situation did not develop at the Chunghwa Telecom Company, where the Labour Management Committee has a practical function. According a report published by Chunghwa Telecom Company in 2002 (Chunghwa Telecom Company 2002), the union and management have achieved consensus through the Labour-Management Committee, such that employment conditions appear in the content of a collective agreement and the notice is given to unions before management carries out workforce redundancies. At Chunghwa Telecom Company, the operation of the Labour-Management Committee has become important for the formation of a strong union.

While the union at Chunghwa Telecom Company opposed the policy of privatisation before its implementation, now management and the union have developed good cooperative mechanisms for handling the impacts of privatisation on the enterprise and its workers. This is reflected in statements by union officials in the Chunghwa Telecom Company:

With respect to privatisation, the union has adopted conditional support for the privatisation of government policy... The Chunghwa Telecom Workers' Union (CTWU) has won the game by responding to the contest of privatisation with the management. In practice, the CTWU can struggle for the working conditions of employees with management relying on the effective system of Employee Participation. If any decisive conclusion achieves the agreement with management in every Labour-Management Committee, the important consensus will put in the content of Collective Agreement (Hsing-Chu, Chen 12/10/02).

In addition to the views of unions, we can observe the response of management in the Chunghwa Telecom Company to the operation of Employee Participation. According to one senior staff member in the Chunghwa Telecom Company:

Labour-Management Committee meetings are held once a month. In each committee meeting, the representatives of management and



unions are elected by their organisations. The number of participants is nine. On the management side, each director of a department is the confirmed member of the Labour-Management Committee, such as the directors of the human resource management department, the occupational health department, the network management department, and the business and marketing department. The Labour-Management Committee has given a lot of practical benefits to the Chunghwa Telecom Company, such as understanding the reality requirements of employees as well as reducing unnecessary industrial disputes (Jen-Lang, Huang 07/01/03).

The Chunghwa Telecom Company case demonstrates that although the government has tried to dampen union enthusiasm by sponsoring alternative forms of Employee Participation, in some State-Owned Enterprises, employees have been able to effectively utilise this to achieve their own goals.

## **Conclusion**

In Taiwan, privatisation has brought a change in employment status for the employees of State-Owned Enterprise, which has mobilised workers to support union action rather than de-unionise them. Although Labour-Management Committees were activated in the name of Employee Participation as an attack on the union movement, the Chunghwa Telecom Company case suggests that this has not always been successful. Developments at Chunghwa Telecom Company demonstrate how union endeavours to protect the interests of their members can be channelled through involvement in the Labour-Management Committee. At the same time, the management in the Chunghwa Telecom Company can achieve their human resource management goals and reduce the frequency of industrial disputes by means of the effective operation of Employee Participation. However, it remains to be seen if the system of Employee Participation, as it operates at Chunghwa Telecom Company, will gain institutional and legislative support from the State.

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