RESTRUCTURING OF PUBLIC ENTERPRISES AND ITS PROSPECTS

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Process of Privatization and Management Innovation

More than a year has passed since the government announced the first and second phases of privatization and management innovation of public enterprises.[1] Time is now appropriate for a mid-term evaluation of restructuring programs and what the future may hold for state enterprises. Since the inception of IMF bailout program, public, corporate, financial sectors and labor market have been going through restructuring process. In particular, public enterprises are the kernel of public-sector restructuring.

Restructuring of public enterprises are bisected into privatization and management innovation. Four firms have been privatized through selling; the government is selling its equity holdings in Korea Telecom and Pohang Iron & Steel Co. (POSCO) to the public including foreign investors, and its shares in Korea Electric Power abroad by issuing depositary receipts (DRs).

Downsizing is showing the most visible result in management innovation efforts. In total, 41,269 are planned to leave their workplace by 2000; 75.3% of the targeted number is met by dismissing 31,111 as of the end of June 1999. Labor costs of 900 billion won are expected to be cut down this year.

In tandem with organizational slimming down, management style of private companies is being introduced. To enforce transparency in management, management evaluation is announced to the public from December 1998.

Table 1. Current Status of Privatization

Category	State-Run Enterprises	Time	Price
Privatized	Namhae Chemical Co.	Sep. 30, 1998	300 Bil. Won
	National Text Book	Nov. 5, 1998	44.7 Bil. Won
	Korea Technology Banking Co.	Jan. 21, 1999	9.3 Bil. Won
	Chongyol (Subsidiary of Korea Gas Co.)	Mar. 27, 1999	1.3 Bil. Won
Issuing DRs Abroad	POSCO	Dec. 11, 1998 Jul. 14, 1999	$350 Mil. $10.1 Bil.
	Korea Electric Power	Mar. 26, 1999	$750 Mil.
	Korea Telecom	May 26, 1999	$24.9 Bil.

Source: Ministry of Planning and Budget

1) The first phase was announce on July 3, 1999 and the second on August 4.

Until now, public enterprises lagged behind their private counterparts in customer satisfaction; on a regular basis, customers' level of satisfaction is surveyed and Customers' Charter has been drawn in May 1999 to improve the quality of service. In a bid to boost managerial efficiency, the management are appointed on a contract basis and receive annual salary. Starting from July 1999, "management contract system" is applied to President/CEO and executive directors, under which they would receive performance-based incentives. Before the year-end of 1999, top-tier employees will also receive annual salaries. To keep an efficient corporate structure, subsidiaries are also being restructured: there are four cases in process of merging a mother company with its subsidiaries or merging subsidiaries, and one case of liquidating an unnecessary subsidiary.

Laws and regulations which act as the framework of basic operating system for state-run enterprises have been revised. Dissolving the government board of directors and deregulating budget-related rules have increased the managerial autonomy of public corporations. Concurrently, "responsibility management" has been reinforced by introducing board of non-executive directors and holding executive directors and auditors responsible for damages. Also, instead of elected by recommendation committee, which has been a source of disputes, the top management will be elected in a more objective and impartial manner. The government will no longer be able to continue its unilateral managerial practices as the majority shareholder. The participation of minority shareholders in management will restrain the government's unilateral managerial practices as the majority shareholder.

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To enhance pubic enterprises' profitability, information and technology will be accumulated systematically to create high value-added; in this respect, blueprints are drawn up for knowledge management system to begin from October 1999 and economic value-added (EVA) system from January 2000.

Delayed Schedule Jitters Labor-Management Relationship

Privatization marked some achievements. Securing foreign investment, which was the foremost goal in privatizing public enterprises, is reaping fruit; the government acquired $4.6 billion by issuing DRs abroad. Fully-privatized public enterprises are showing notably better business performance compared to the previously privatizated cases.

Nevertheless, there are still more shortcomings than achievements. First, the privatization process is not corresponding with the original schedule. Giving managerial autonomy to large state-owned enterprises, which will have far-reaching effects on the economy, is being delayed and only small-sized state firms have been privatized. Korea Electric Power Co. planned to split off its power generation units within this year, but actual asset sales will not take place until next year. Korea Heavy Industries and Construction Corp. has postponed its public bidding in February 1999 to sometime in the second half of the year. Initially the government was going to issue DRs worth 25% of its stakes in Korea Tobacco and Ginseng Corp. (KTGC) in the first quarter of 1999 but the plan has been adjusted to selling off 15% of the government's equity in the fourth quarter. One of the root causes of these irregularities is the self-serving attitude of ministries in chief control of the state-owned enterprises. Privatization policy has failed a number of times in the past because of this sort of self-seeking motives of public servants.

Some experts think that the possibility of labor dispute in the public enterprises may be another reason for the delay. Regardless of the relevancy of this allegation, it is at least circumstantially evident that labor unions in the public enterprises may face an important turning point when privatization actually occures. The third-term of the tripartite committee, a consultative body made up by the government, management and labor unions set up in February 1998 to solve labor disputes following the nation's currency crisis, is unable to begin; this delay may pose as a burden to the economy on the whole. Although a large amount of public fund has been injected to public financial enterprises, they are faced with too many conflicts and thus stalled. Some have pointed out that the Ministry of Budget and Planning is not the proper agency to take charge of the privatization of state-owned financial institutions and that is dragging the sales of Seoul Bank and Korea First Bank.

Public Enterprise Policy from a Macroscopic Viewpoint

Management innovation measures such as downsizing and management strategy shift will carry on as planned, but privatization process is expected to be adjusted by economic circumstances both at home and abroad. There are many variables that can delay the time of overseas sales of public enterprises: sovereign ratings may be upgraded or downgraded, depending on the outcome of Daewoo's restructuring; the foreign exchange of dollar/won may rise or fall; and domestic stock and bond markets may calm down or roller-coaster.

Based on what has been achieved until now, an interim policy reinforcing body with competent authority should be set up to function until restructuring process is completed, so as to make privatization and restructuring process effective. Such a body will be able to speed up the restructuring process behind schedule and to peacefully resolve potential conflicts between the management and labor unions in state-owned enterprises. It will also facilitate early introduction and execution of systems which will drive privatization effectively. An alternative may be to give the Ministry of Planning and Budget a preferential right to execute policies until restructuring is concluded.

Ultimately, restructuring of state-owned enterprises should move beyond the immediate antidotes, i.e. improving their efficiency or increasing more foreign investment, to a macroscopic vision deliberating industrial policies. The raison d'etre of state-owned enterprises in Korea used to lie more in functioning as a means to execute policies than generating profits. That is to say, as seen in the cases of their key sectors of business including electric power, telecommunications, steel and the like, the top priority in operation was in step with the policy to control the price and quantity of the nation's key industries. Therefore, privatization and restructuring policy direction should depend on the continuance of such policy-reflecting nature. Enterprises which are deemed to have lost that policy-fulfilling nature or to be no longer necessary should be privatized; those which still need to remain as policy measures should maximize that function and operate in step with the nation's industrial policy. VIP

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