

CPC Privatization

as the Means to Managerial Autonomy

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Outline

Why Privatization

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- **Aspect of Finance & Management**
- **Empirical Study**

Oil Industry in Taiwan

- **Supply-demand Status**
- **Market Share**
- **Financial Burden (CPC)**
- **Future Challenges on CPC**

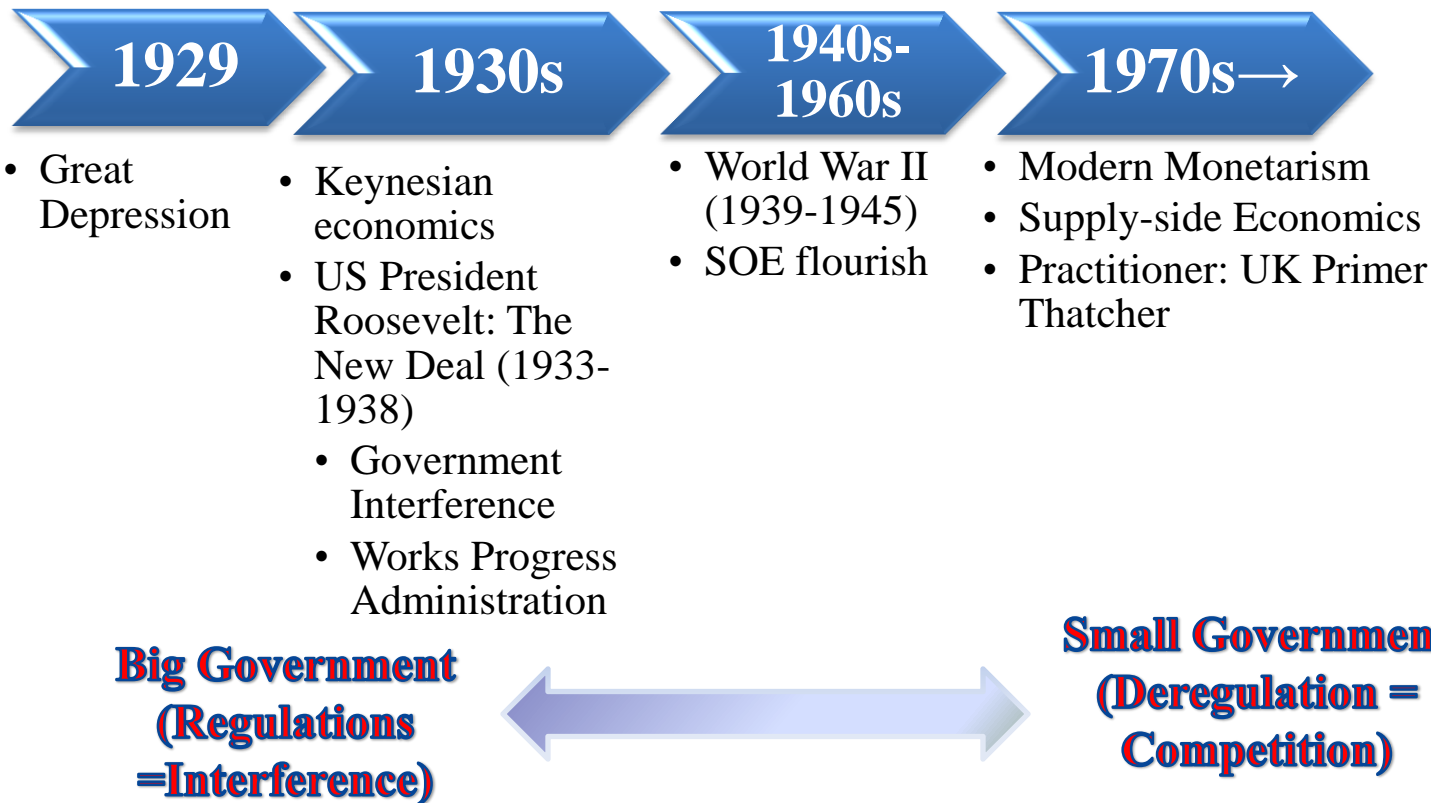
Managerial Empowerment for CPC

- **Institutional Dilemmas**
- **Managerial Dilemmas**
- **Hydra-headed Regulations**

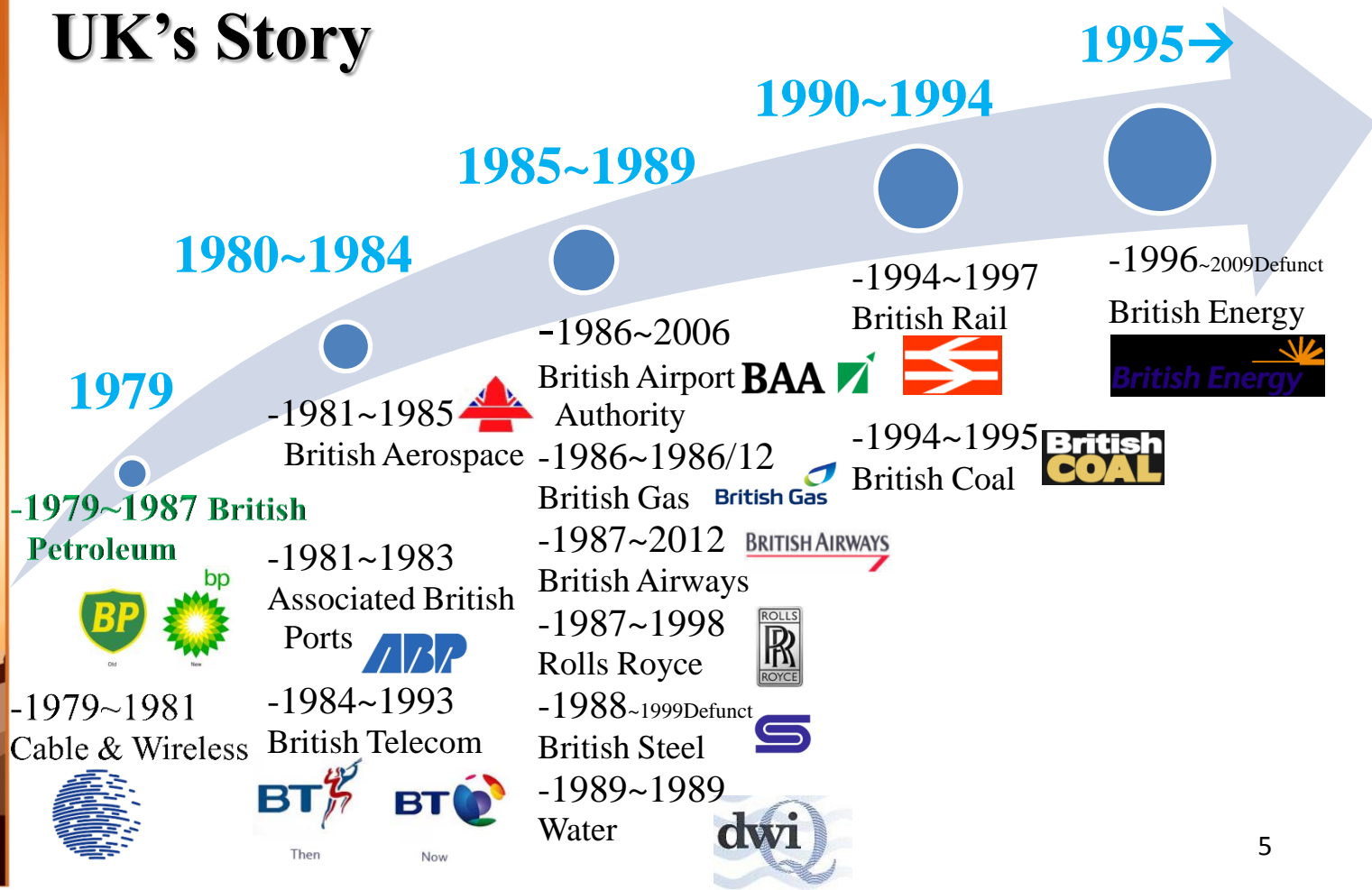
Why Privatization



Evolution



UK's Story



Aspects of Finance & Management

Aspect of Finance

Privatization is seen as a way to **raise finance** through stock markets and **decrease financial burden**.

Aspect of Management

- The removal of **government interference**.
- Privatization drives **competition** and improves productivity and **managerial efficiency**.



Empirical Study

Scope

- Share-issued privatizations in 28 different NOCs
- 20 different countries
- Covering period from 1977 to 2004

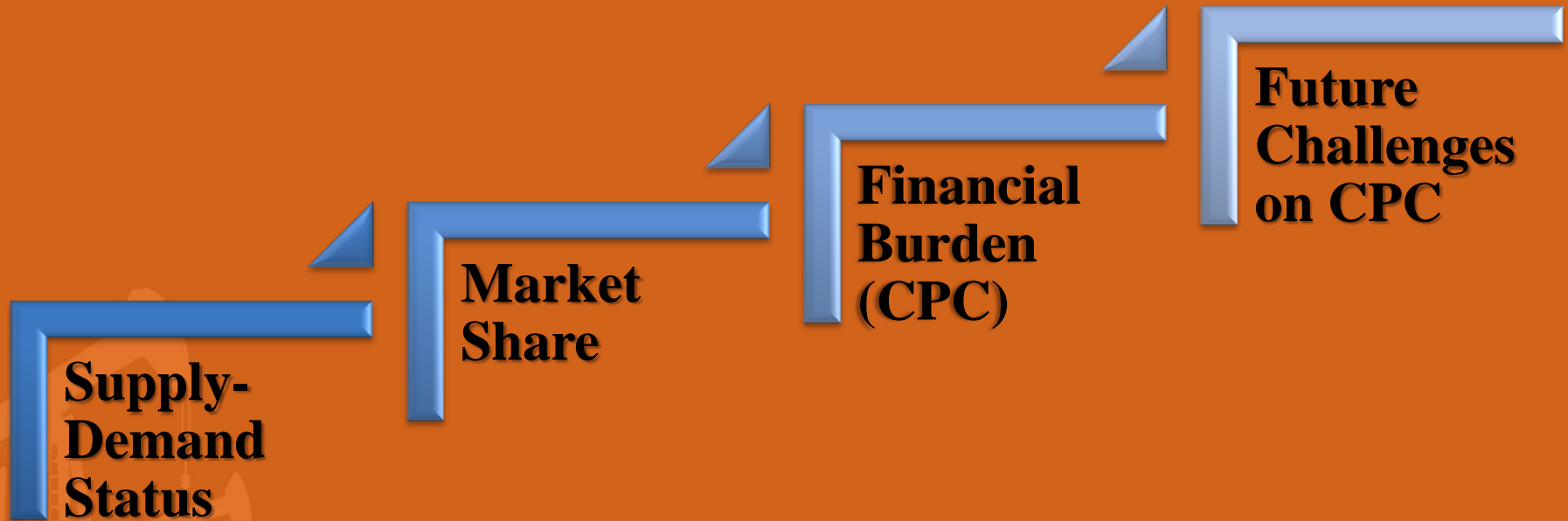
Results

- Aspect of **finance**:
 - ✓ Lower financial leverage
 - ✓ Higher capital investment
- Aspect of **management**:
 - ✓ Higher commercial efficiency
 - ✓ Higher performance (e.g. output, profitability & dividend payments)
 - ✓ Lower employment

Source: Wolf and Pollitt, 2008.

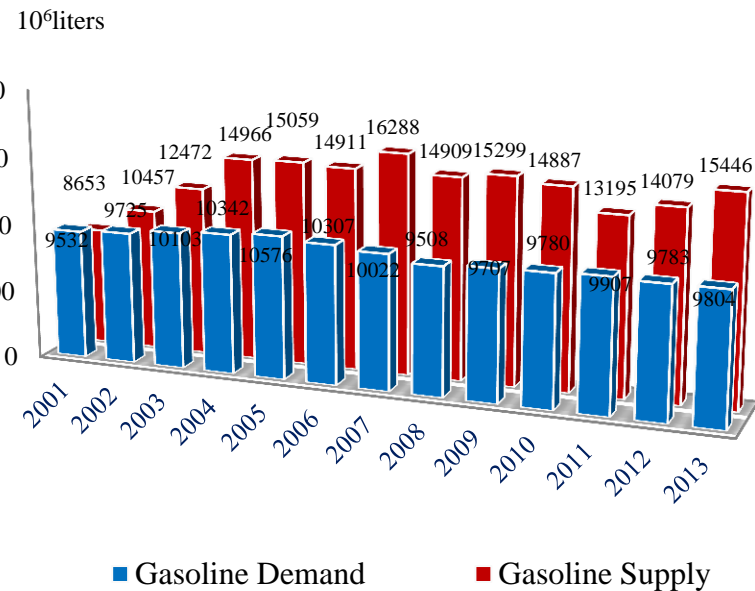
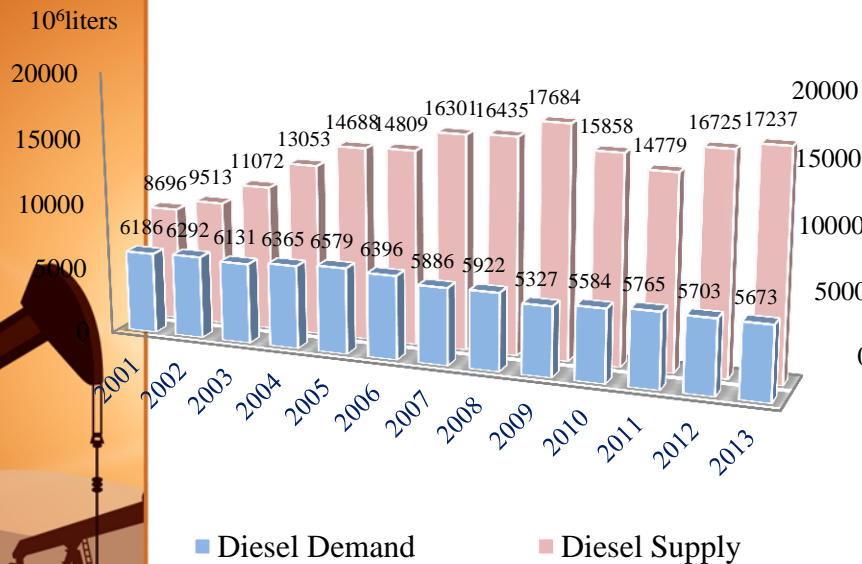


Oil Industry in Taiwan



Supply-Demand Status

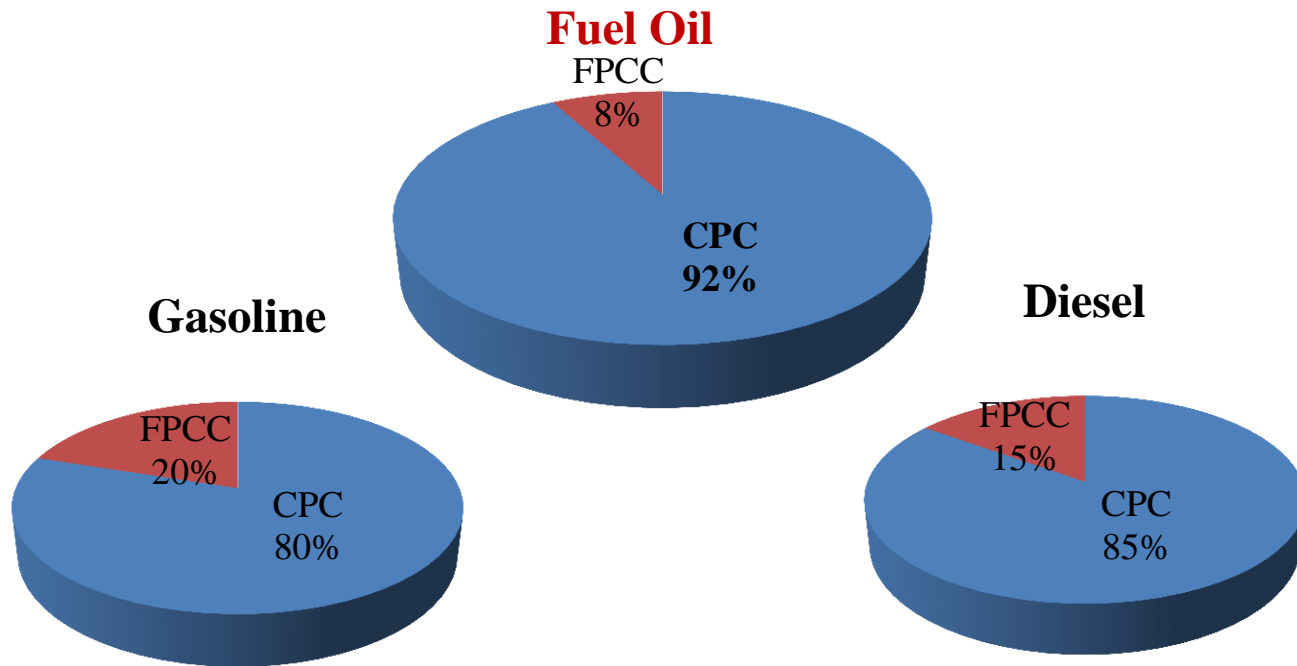
- Supply exceeds demand since 2002Y



Source: CPC Corp., 2014.

Market Share — Social Responsibilities

- In 2013, CPC's market share of **fuel oil**, low-margin, was 92%.
(gasoline 80%, diesel 85%)

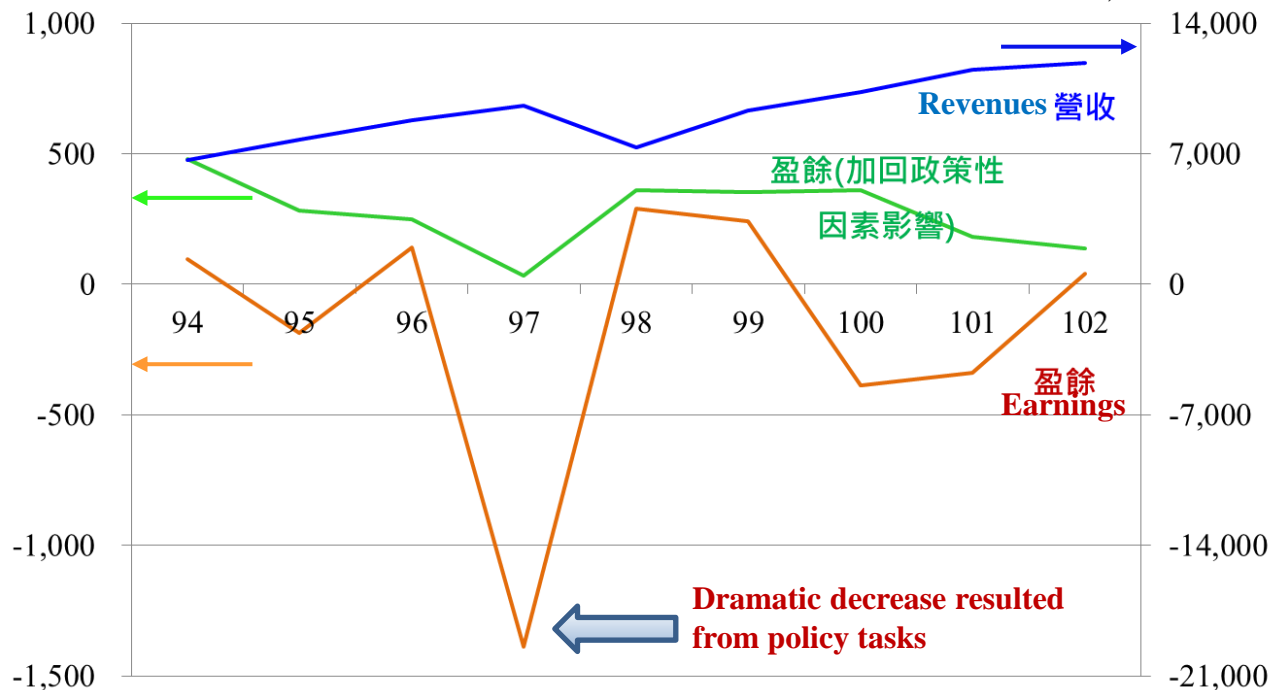


Financial Burden (CPC) — Policy Tasks(2/2)

- Policy tasks cut down CPC's earnings.

Earnings, 10⁸ NT Dollar

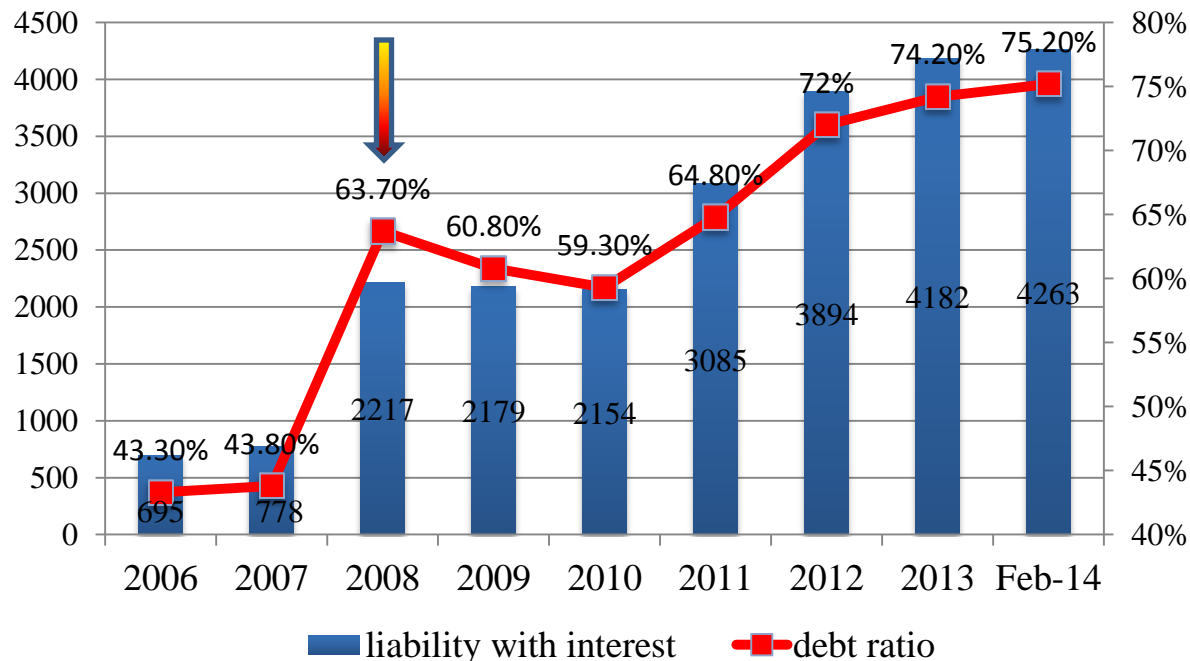
Revenues, 10⁸ NT Dollar



Source: CPC Corp., 2014.

Financial Burden (CPC) — Policy Tasks(1/2)

- Since 2008, CPC had increasing debt resulted from policy tasks.



Source: CPC Corp., 2014.

Future Challenges on CPC

Domestic challenges

- CPC undertakes social responsibilities and **policy tasks**.
- **Corporate culture**
- **Environmental & investment restrictions**
→ Internationalization.

International challenges

- Competing pressure: That comes from **international oil companies** & world-wide talents.
- Capacity: Refining will increase of about 2.3 million barrels/day in Asian region in the next two years.
- CPC faces **tight competitions**.



Future Challenges on CPC — Global Petrochemical Industry

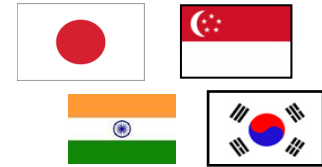
- International petrochemical plants invest in China.

- -Competition of petrochemical products came from *increased capacity* and improved chemical processing of coal in China.

- ME petrochemical plants have cost advantages and focus on quality to seize global petrochemical markets.

- ECFA goods trading negotiation → tariff reduction on 654 petrochemical products.

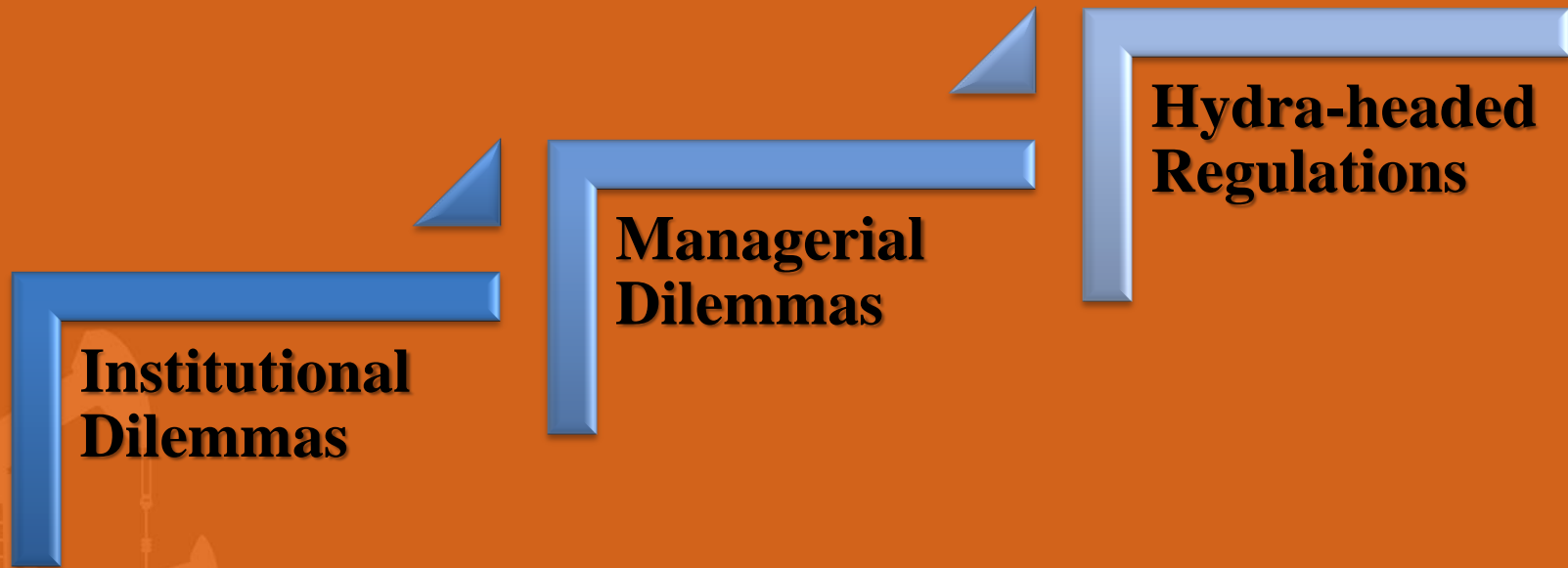
- U.S. petrochemical raw materials created by shale gas impact global ethylene derivatives market (cost advantage).



- Japan merged petrochemical plants;
- S. Korea signed FTA with many countries;
- India and Malaysia built plants for pyrolysis process and affect supply and demand;
- Products sold to the ASEAN have tariff barriers since Taiwan is non-member.



Managerial Empowerment for CPC



Institutional Dilemmas

Operation is affected by **over-intendance** on decision making systems.

- Over-intendance causes **long decision-making processes**, high communicating costs, rigid and inefficient institution.
- e.g. :
Long decision-making processes and interference
→ **lost profit**.



Managerial Dilemmas

Budgets

Budgets are considered on an administrative agency. → It affects CPC's empowerment.

Investments

Investments should be audited by various authorities (Ministry of Economic Affairs & the Legislative Yuan).

Earnings

Earnings should be turn over to the state.

•e.g. :

Long investing approvals cause **managerial inefficiency**;
Profit payback impacts investing capital and managerial
motivation. → **Innovation & Competition**



Hydra-headed Regulations

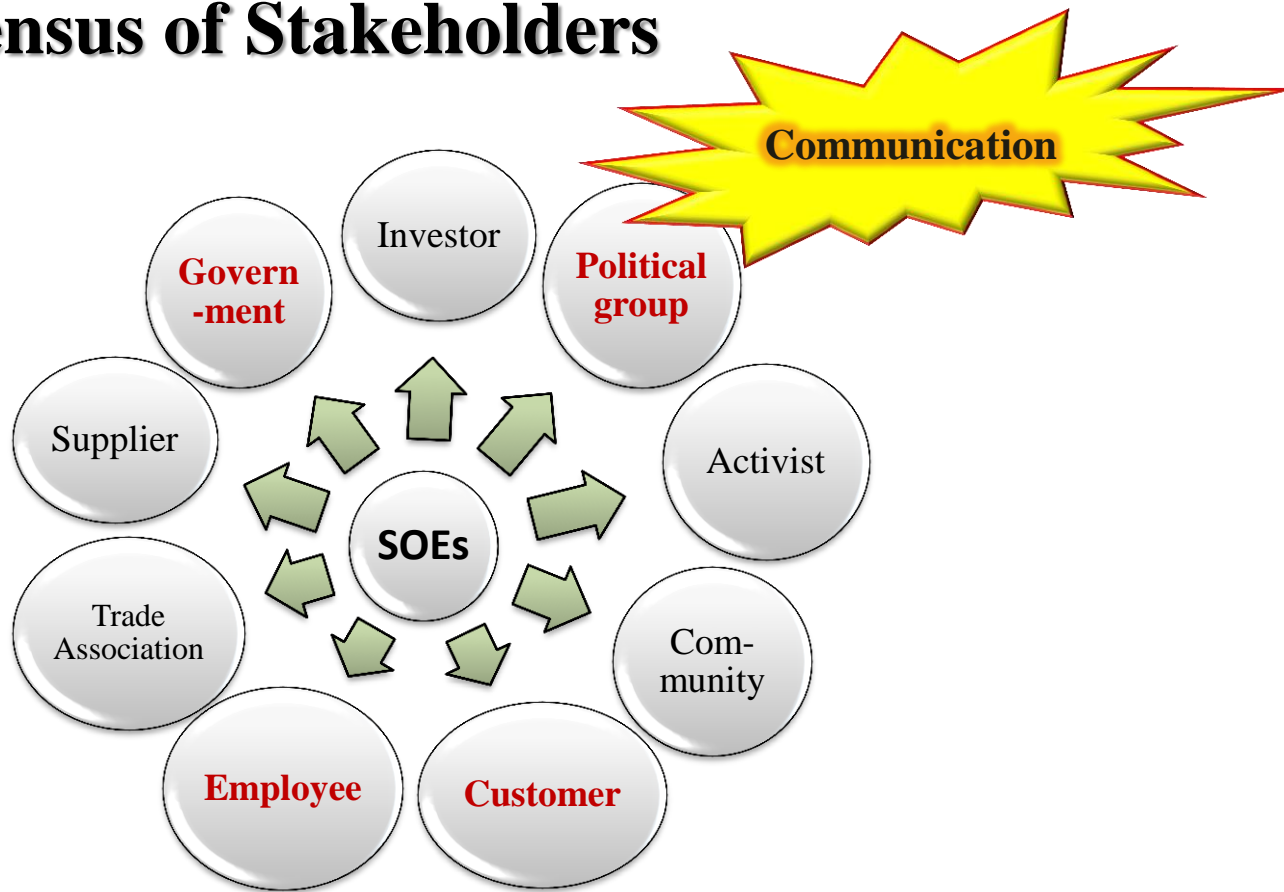
CPC is supervised by the Ministry of Economic Affairs, the Legislative Yuan and it complies with **hydra-headed regulations**, such as:

- Audit Law;
- Budget Law;
- Government Procurement Act;
- Act Governing the Management of SOEs & related regulations.
- e.g. :
For supervisory audit, a budget of joint venture shall be planned prior to two years. → **managerial inefficiency & lost opportunity.**



- The UK's former Prime Minister, Mrs. Thatcher, believed that the **private sector** was **more efficient** because the private sector had a **profit motive** and pursued greater efficiency than government owned industries.
- Mrs. Thatcher also recognized that privatization of SOEs was not perfect, but **SOEs were certainly ineffective**.

Consensus of Stakeholders



A way is never too far away as long as you can find it.
只要找對路，就不怕路遠。

Privatization



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2014 Managerial Empowerment in the NOCs

**THANK YOU FOR YOUR
KIND ATTENTION**

