Global remedies for local needs- Corporate governance and public sector reforms in Fiji.

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ABSTRACT
This paper examines the public sector reforms in Fiji, especially the restructuring of the economy insisted upon by international financial agencies. The tension between profit seeking and provision of public service is explicated. The case study method is employed. The empirical evidence is interpreted using institutional theory. Empirical evidence from two public sector organisations in Fiji that underwent structural reforms is used to illustrate the difficulties of transformation; and how the local needs were not met for the purpose for which the organisations were established. In the telecommunication organisation, for example, the early stage of corporatisation was resisted by employees owing to cultural and political issues specific to Fiji. Such cultural and political influences may not be so pertinent in Western industrialised countries, but are prevalent in developing countries.

Key words: Globalisation, national culture, organisational transformations, accountability, corporate governance, resisting change.

INTRODUCTION
International financial organisations have become an important aspect of the institutional environment of Fijian society, and encourage in Fiji, as they have elsewhere (Hoque & Hopper, 1994, 1997), the implementation of private sector concepts in public sector organisations. The prescriptions by the international financial agencies to overcome poor economic performance were predictably deregulation, corporatisation and privatisation of state assets. This study focuses on the public sector reform insisted upon by international finance agencies. Uddin and Hopper (2003) have raised questions in the context of developing countries as to whether privatisation of state controlled operations improves enterprise performance, facilitates development goals, induces effective controls, accountability and transparency, and improves equity. These issues are discussed in relation to the Fijian experience, where local factors, such as political and cultural influences, are important in understanding the transformation of the public sector.

The paper aims to report on the public sector reforms in Fiji, especially the restructuring of the economy insisted upon by international finance agencies. The paper draws on two case studies of the Housing Authority of Fiji and Telecom Fiji Limited to explicate how the implementation of the private business techniques through the public sector reforms may not have been in the best interest of the Fijian people.
Prior studies on Fiji’s public sector reform have been carried out by McMaster (2001). However, his study relied on secondary sources of data. Our intention is to extend the literature on public sector reform in Fiji by an empirical study of two public sector organisations in Fiji that have been restructured due to the government’s public sector reform policy.

**THEORETICAL BASIS**

Institutional theory (DiMaggio & Powell, 1983, 1991) is drawn upon to explicate changes in the public sector. The theory underscores the importance of environmental pressure upon organisations. The institutional perspective within organisational theory focuses on how organisations, through the process of adaptation conform to the norms and values incorporated in their environment (DiMaggio & Powell, 1983, 1991; Meyer & Rowan, 1977). Institutional theory assumes that organisations are embedded in institutional environments that provide organisations with support and legitimacy, affecting their structure, practices and processes (Scott & Meyer, 1991). Institutional theorists attempted to study institutionalisation as a process of isomorphism (DiMaggio & Powell, 1983, 1991; Lounsbury, 2008).

Isomorphism relates to the adaptation of an institutional practice that is in force in another organisation. DiMaggio and Powell (1983, 1991) argue that organisations have to appear legitimate to their broader constituencies and stakeholders to secure resources they need for continued survival. Three classifications of institutional isomorphism have been proposed: coercive, mimetic and normative (DiMaggio & Powell, 1983, 1991). Coercive isomorphism results from both formal and informal pressure imposed on an organisation by another party upon which it is dependent and by expectations of society within which it operates. Coercive pressures are relevant to understand radical change (DiMaggio & Powell, 1983, 1991) and are usually imposed by the authority of state or parent organisations which by exercising their legitimate powers to formulate and force laws, regulations and standards are able to regulate relationships with organisations (Scott, 1994). Mimetic isomorphism occurs when there is uncertainty faced by the organisation that engenders organisations to model themselves after other organisations that they perceive to be legitimate. Mimicking others may act as a cost effective way of getting legitimacy (DiMaggio & Powell, 1983, 1991; Mizruchi & Fein, 1999).
Normative isomorphism is where the norms of society and professional bodies influence the practice of organisations.

More recently, institutional theorists have tended to focus on understanding agency and processes of organisational change. For example, Seo and Creed (2002) have made an effort to reconcile institutional embeddedness and transformational agency in institutional change. During transformations, current structures and interpretive schemes lose their legitimacy and new forms and different patterns of structural arrangements may emerge (Hinings & Greenwood, 1988).

In brief, institutional theory can be utilised as a framework to assist interpretation of how, and the extent to which, environmental constituencies shape the behaviour of individuals within the organisations studied. The next section discusses the research method for the study.

**RESEARCH METHOD**

The approach is to undertake qualitative research which focuses on a case study strategy (see Yin, 1981, 1994; Scapens, 1990). A triangulation of methods (Jick, 1979; Modell, 2005) has been used to gather field data for this study. Firstly, a documentary study was carried out which included a study of new corporate plans, memos and other internal proprietary documents and a review of annual reports of the Housing Authority (HA) and Telecom Fiji Limited (TFL). Secondly, a series of semi-structured interviews was conducted with staff at the HA head office in Valelevu and head office of TFL in Suva.

The interview proceedings were tape-recorded and back-up notes were made. The tapes were transcribed immediately after the interview, and interview transcripts were fed back to the participants to obtain a clear understanding of the issues involved. The data were gathered over a period of two years during 2004-2006. The research consisted of 20 interviews. The interviewees were selected from the two organisations: 10 interviews were conducted at TFL and the other 10 at HA. The interviewees were selected from different hierarchical levels of all three organisations. The topics selected for interviews were mainly on the institution of new managerial techniques and their impact after the public sector reforms.
The interviews varied in duration between an hour to an hour and half and took place in mostly formal surroundings, that is, office space of interviewees. Most questions were asked in an open-ended manner to encourage interviewees to respond in their own ways. The aim was to generate a rich source of field evidence.

The evidence gathered from interviews and document studies were analysed for themes and patterns (see Ansari & Euske, 1987). These themes and patterns were then classified together to build the descriptions and interpretations presented in the empirical findings section later. Seeing patterns and developing theory is an emergent process in field research. Here the researcher iterates between insights and field material. The research portrays depth through case studies in which patterns and theory emerge from a holistic portrayal of context, change and consequences (Collier, 2001). The next section presents background information on the public sector in Fiji. This will then be followed by empirical evidence from the two case organisations.

BACKGROUND OF PUBLIC SECTOR REFORM IN FIJI

The pressure from international donor agencies and the government’s reform policies led to delegitimation of old bureaucratic practices and institutionalisation of a commercial orientation which contributed to radical change in these organisations. Fiji’s public sector and its reform are discussed in the ensuing section.

Public Sector and its reforms

Like other post-colonial societies, Fiji relied on its public sector for nation building and socio economic development. Public enterprises offered essential products and services to Fiji such as water, electricity, telephone facilities and ports of entry. It was in 1980’s that the Fiji government on the advice of international financial agencies of the World Bank, Asian Development Bank and International Monetary Fund, began to dismantle state control in line with their public sector reform policy. The government was committed, through the reform programme, to partially sell its interests in a number of public enterprises, with the proceeds used to repay debt.

The Public Enterprises Act (1996) provided the basis for a radically different governance structure of state-owned enterprises (SOEs). While the government remained the owner, its position was clearly established as a governance relationship. But as a shareholder, the government appointed
a commercial board of directors, which were given the responsibility for strategic direction and commercial performance; with incentives based on commercial performance indicators.

The government’s policy perspective is that it considers commercialisation and corporatisation as an interim measures. When the companies become commercially viable, these will be sold to private investors (Department of Public Enterprises, 1998). With privatisation, the government is expected to retain at least 51% of the shares in companies targeted for privatisation, especially where the activities of the company are considered to be of national importance (Ministry of Public Enterprises, 2002). The government allows Government Commercial Companies at least three years to operate as a commercial business before a decision is taken to privatise them. Privatisation results in the companies being listed on the South Pacific Stock Exchange- Fiji’s stock market. The financial market places further coercive pressure on these companies for good governance procedures. The next section examines the managerial techniques introduced at the two organisations and their implications on the Fijian people.

HOUSING AUTHORITY OF FIJI

The Housing Authority of Fiji was established under the Housing Act of 1955 as a statutory body to provide housing accommodation, especially as urban drift from rural areas impacted on living conditions in the cities (HA Corporate Plan, 1996-2005). The primary purpose of HA was to assist low income citizens obtain affordable housing. The HA was charged with producing affordable serviced sites (houses) for sale; servicing residential mortgages and building and administering rental housing. The HA annual report (1996, p.2) reports its purpose:

“…our purpose is to provide shelter for middle to low income workers and to keep searching for better and more affordable ways to serve their housing needs.”

HA’s operations, despite government assistance in the form of grants, according to ADB report (1989), were in crisis in 1980s: facing losses, operational and financial difficulties. It had increasing net losses, operational and financial difficulties. For example, the net deficit for 1987 was F$7,702,000 while for 1988 was F$5,497,000 (HA annual report, 1988). The losses were attributed to rental estates where expenditure for rental operations exceeded income.
HA raised F$52.6m from the World Bank and ADB in 1990 resulting in 51% of HA’s total borrowings. Before granting loans, ADB and World Bank consultants undertook a feasibility study of HA operations and laid some preconditions which HA management had to fulfil. The donor agencies ensured that their principal would be repaid with sufficient interest through the achievement of established and explicit preconditions. A manager commented:

“the ADB and World Bank consultants studied housing sector problems and made many recommendations for action. They said loans will only be given if these recommendations are actioned.”

The consultant re-stated HA’s objectives as:

“providing affordable housing to the low-income group through a revitalised HA which should be institutionally sound, operationally strong and financially viable without depending on government subsidies.”

(ADB report, 1989, p.6).

The World Bank and ADB stipulated the following covenants to be observed by HA:

“that for each of its fiscal years after year ending 31 December 1990, HA will earn an annual return on its equity of at least five percent.”

(ADB Report, 1989, p.24)

The return on equity of at least five percent was achieved in subsequent years. The annual reports were also to be submitted to World Bank on annual basis. These covenants and the preparation of annual reports were examples of coercive isomorphism imposed by the World Bank on HA. The rental estates were separated form HA on the advice of the World Bank consultants.

The rental estates were separated from the HA in 1989. The ADB and the World Bank consultants insisted that rental estates be separated from HA to save the latter from bankruptcy. HA’s rental program had been identified as a factor adversely affecting HA’s declining financial viability. A HA manager’s comment is worthy of note:

“If the HA was to obtain the World Bank loans, PRB had to be separated or else the World Bank’s policies and procedures would disallow loans to HA.”

A Public Rental Board (PRB) manager commented:
“the HA was able to achieve what they set out to achieve with the separation. They were making losses but these losses were minimised and in later years, they started showing profits in their annual accounts.”

The Lending Division was also separated from the Finance Division as the Fiji government realised that apart from selling houses, the other central function of HA entailed its lending function. The Lending Division lends money to customers while the Finance Division oversees the accounting aspects of HA and borrows funds for the Lending Division. The Lending Division function encompasses advancing loans to customers for the purpose of building a house, to buy completed houses and to renovate or alter houses.

It was an ADB lending advisor that advised HA management to separate the two divisions of Lending and Finance. The separation of division rights would enhance commercial viability of HA and increase its profitability position. The Lending Division became HA’s profit centre; the other profit centre was the Property division. The Lending Division earns revenue based on interest from mortgages along with fees generated as part of the mortgaging process.

There were also new board appointments made to people with successful business experience and qualifications. More accountants were employed from the private sector. A Financial Controller with professional qualification was also hired from private sector. The Financial Controller brought in commercial accounting practices such as accrual accounting and the strategies of profit orientation. A Chief Executive appointment was made to a person who was a chartered accountant.

Such extensive changes in professional demography and power relations were encouraged by new organisational policies where investment decisions had to be based on commercial and financial measures, not on engineering excellence (Erakovic & Wilson, 2005). Strategies were developed to create a new corporate culture by changing management decision-making processes, staff attitudes and performance measurement.

It was the Chief Executive who introduced the Total Quality Management (TQM) practice at HA. Under the TQM program, problems were identified and solutions sought in line with new procedures. After the introduction of TQM practices, some seventeen quality teams operated at HA to address the problem of enhancing customer satisfaction (HA annual report, 2003). Despite the new
managerial technologies introduced at HA, the homeless continued to increase. Mohanty (2005) notes that by 2005 there were 182 squatter settlements in Fiji with 13,725 families and a population of 82,350.

Due to commercialisation, HA management and employees had to achieve performance targets in relation to revenue generation. The Lending Manager informed that out of the F$143m outstanding in 2006, some F$20m is doubtful in nature and is non-performing. The HA annual report (2003) echoes that 21% of loan portfolio (F$32.7m) was non-performing in 2002. A manager informed that around 300 to 400 properties were advertised annually as mortgagee sales. A manager informed:

“we sold 10% of mortgagee sale property last year. That is a clear signal to others with debt that we mean business; and they ought to repay their debt.”

In the new commercialised environment, customer satisfaction was not to extend to those who could not pay the increasing housing prices. This is evidenced by increasing squatter settlement in Fiji, and the increasing incidence of mortgagee sales of HA houses. The next section examines the case study of Telecom Fiji Limited.

TELECOM FIJI LIMITED

Telecom Fiji Limited (TFL) is the sole provider of local and national (trunk) telephone services. The company owns the only publicly switched telephone network in Fiji. The TFL network constitutes 55 telephone exchanges throughout Fiji, connecting more than 101,000 customers (Telecom Fiji website, www.telecomfiji.com.fj, 2004). TFL initially was a government department and was corporatised in 1990 and privatised in 1998.

Before corporatisation telecommunication services were considered a public service. Money, costs and profits were not the prime concerns and appeared to play a minimal role in determining the purpose and meaning of daily activity. A new board of directors was appointed in 1992 to invoke commercial orientation within TFL. However, in its effort to introduce commercial language, the board met extensive resistance from the then Managing Director, N.¹ N was an engineer by profession and had been the permanent secretary for Posts and Telecommunication Department since

¹ For the anonymity of the Managing Director, we call him N.
1982, and was appointed Managing Director when the government department was corporatised in 1990. The new Board invited overseas based Andersen consultants to undertake a study of TFL to enhance commercial values. One of the consultant’s recommendations was to provide overseas training to N as he may not be able to lead the company into corporate status. When he (N) was told by the newly appointed board to take overseas training, he refused. N personified the internal contradiction in which profit-oriented ways of thinking conflicted with a long-standing public sector ethos. He was holding back the change process at TFL.

Uncertainties existed for both management and workers. There were tensions at the highest level, and those involved social, political and cultural factors specific to Fiji. When N was sacked by the chairman of the Board for holding back the change process at TFL, the Minister for telecommunications reacted and asked the chairman of the Board to resign unless N was reinstated. Cultural influences played a pivotal role at TFL. The telecommunications Minister who gave an ultimatum to the chairman of Board was from the same Naitasiri province as N and did not want the Managing Director to lose his position. It appeared from the local press (The Review, 1992, p.10) that only when Rabuka, the then Prime Minister, encouraged the Board chairman to stay on did the Board decide instead to sack Mr Singh, the influential general manager who like N, opposed change.

The introduction of commercial norms was subjected to resistance as it met socio-cultural influences and challenged the traditional interests of the labour movement as well as a public-service ethos opposed to profit-seeking from essential services. Powell (1991) points out that effort to change shared expectations, (in this case civil service ethos and engineering norms) are often resisted as they threaten individuals’ sense of security and disrupt routines.

The telecommunications Minister then threatened the then Prime Minister, Rabuka, that unless N was reinstated, his and N’s Naitasiri province would withdraw its support for Prime Minister’s party. The then Prime minister, fearful of the loss of support as his party was new gave in to N’s reinstatement (The Review, 1992). The consequent unhealthy working relationship between the board and its management director led to the Board stepping down.

The cultural and political context of Fiji is a complicating factor in institutional change on TFL. People have close relationships; they appear to associate themselves closely with others from
the same province or tribe, as was the case with N and the minister, and factors such as profitability are secondary.

A new board was appointed in 1993. The new chairman ensured there was a better communication and education of employees to dissipate the fear of change. There was a massive training program: change management consultants were brought from overseas to educate workers. Additional accountants were hired as well as a financial controller from private sector to introduce commercial culture at TFL.

With the greater education and training, people’s attitude towards commercial norms slowly began to be accepted. One interviewee commented:

“After corporatisation, our culture had to change. We were to be more customer focused and to change our attitude. Before it used to be 8:00 to 4:30 p.m work. Now even after 4:30 p.m, service is still given. The aim is to finish work. At the end of the day, it is the customers that matters.”

It took some four to five years after corporatisation for commercial business norms to be assimilated by TFL actors. With privatisation the line rental of telecommunication services increased and rural areas still lacked telephone services with a ratio of 0.6 per 100 inhabitants. The telephone penetration for the urban areas was 20 per 100 population (The Fiji Times, December 14, 2005). The Fiji Times (December 14, 2005) reports that the provision of telephone services in rural areas was amongst the lowest in lower middle-income economies for fixed as well as mobile phones. There was one shared phone per village.

**DISCUSSION/CONCLUSION**

It is evident that the approach to public enterprise reforms in Fiji has been predicated on the new public management model (Hood, 1991, 1995; Parker & Guthrie, 1993). The reform has received international support from international donor agencies like the World Bank, the International Monetary Fund and ADB, all of which added impetus to the government to embark on public enterprise reforms (Reddy, 1997). The Fiji government’s coercive efforts resulted in de-
institutionalisation of bureaucratic norms and institutionalisation of new norms of corporate
behaviour.

The reform of public enterprise was driven by coercive pressure from the Fiji government in
form of Public Enterprise Act and achieved by the Ministry of Public Enterprises. Before the
beginning of the transitional period, all enterprises were traditional government departments. Several
developments disabled the old organisational practices and supported a radical shift by employing
from mainly technical professionals to marketing and financial experts and introduction of new
governance structures. The financial experts brought in concepts of private business techniques in the
reformed entities (normative and mimetic isomorphism).

At both organisations, the Board changed with private business personalities and more
accountants being hired. At HA, the irony is that all the change that took place, though technically
sound, removed HA from its original purpose of assisting those underprivileged people with housing
needs. They were locked out of the market place.

With TFL case study, we found that cultural and political influences can have an impact on
management and employees assimilation of commercial routines. Here the institutionalised public
sector rules and routines were challenged by the need for radical change, referred by Giddens (1991)
as “system contradiction.” Inside TFL, the changes were not quickly or universally accepted. The
monopoly status of TFL contradicted the market model on which reforms were based. Also political
and cultural issues specific to Fiji were pivotal in explaining resistance to change. Communitarian
values and tribal obligations in the form of personal relationships at the top management level
triggered resistance and it was years before the Fiji government could stabilise the company through
the appointment of a new board which introduced new business routines. The case studies
demonstrate the isomorphic tendencies of globalising influences which were inappropriate for local
needs. There was evidence of resistance to this isomorphic tendencies.

The accounting literature has portrayed changes as occurring on an ongoing basis without
much resistance (Busco et al., 2006; Soin et al., 2002). However, change at TFL took much longer
and were affected by cultural and political factors specific to Fiji. The TFL case study is unique in
that cultural and political influences were pivotal in creating resistance to change in a developing country context. Such influences may not be so pertinent in western industrialised society.

The private sector technologies have been adopted as solutions to poor economic performance in many less developed countries. It appears that in the case of Fiji, a large proportion of population, those living at or below the poverty level have been disadvantaged by the reforms, and the reforms have been met with considerable resistance. There is a need for more studies to assess the full impact, on changes both in wealth and inequality, in less developed countries.

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