Fiji Pine Limited: A Case Study of Long Term Privatization and Stakeholder Conflict

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Abstract

Fiji Pine, Ltd. (FPL), a former government managed asset (state owned enterprise), was incorporated in 1990 in order to privatize the forests, ultimately transferring ownership back into the hands of the private citizens of Fiji, the owners of the forests. FPL management has to balance the demands of a variety of stakeholders, including the government (the majority shareholder), the forest landowners, the extension (leased) forest owners, managers, employees, contract labor, the union, village communities, and external funding agencies, all with conflicting needs and expectations. A similar but conflicting organization, Fijian Hardwood Corporation (FHC), granted Sustainable Forests Industries Ltd. of Fiji the concession to harvest rights for the mahogany products, producing further dissatisfaction among FPL stakeholders.
Introduction

The Fiji Islands are comprised of approximately 300-350 islands (depending on high tide) in the South Pacific, of which approximately 200 are inhabited. The total land area is 7,056 square miles, roughly the size of the state of New Jersey, USA. It is located northeast of Australia and New Zealand while slightly southwest of Hawaii in the Oceania region. The economy is based upon tourism, sugar, copra, apparel, gold, fishing, and lumber. The tropical climate is temperate year round, and the Fiji Islands have primarily developed their land in the old custom of ‘nothing taller than a coconut tree’ (Van Deusen, 2005). In 1874, the ruling Fijian chief, Cakobau, ceded the Fiji Islands to the British Crown in a political maneuver designed to quell opposition between European settlers and village tribes (Lotherington, 1998). This move changed the ethnic make-up of Fiji in that the British colonial government recruited indentured laborers from the Indian subcontinent to do the hard work in the sugar cane fields. In 1970, Fiji achieved independence although the citizens of Fiji still welcome the royal family from England. However, the almost century of colonial rule changed the islands from a network of feuding tribal villages into a multiracial nation. Still the village system is firmly entrenched in the Fijian society today. The Ratu (village chief) and Vanua (land owning villagers with a common ancestor) are the focus of hereditary authority and decision-making (Tuimaleali’ifano, 2000).

By most standards, Fiji is one of the most successful of the Pacific Island nations. The literacy rate is over 92% although it was not until 1956 that Fijians other than the village chiefs were provided with secondary education. As of 1986, over 95% of the teachers were trained reflecting the Fijian government’s efforts to professionalize its teaching force (Tavola, 1991). Fiji has been called one of the most promising economies in the South Pacific (Frank, 2000: A-10), although recent political unrest has led to concerns about current foreign direct investment in the country. Like most developing nations, the government of the Fiji Islands is working towards privatization of most of its government, state-owned enterprises. As such, Fiji Pine Ltd. (FPL) is a public company created in 1990 to manage the assets, liabilities, and obligations of the Fiji Pine Commission following its incorporation. The company’s primary activity is growing and selling wood. Mature trees are sold to the majority owned subsidiary, Tropik Wood Ltd. (Tropic), which is responsible for the processing and marketing of wood products. FPL has committed most of its forest resources to Tropik through a long-term strategic alliance that expires in 2008. Their products are sold domestically and exported internationally with Japan as the predominant purchaser of the woodchips and Australia as the major purchaser of sawn timbers, the more valuable of the products. The ratio of sawn timber to woodchips is approximately 30%/70% which is problematic since the initial goals and strategies were based on a projected ratio of 55%/45% respectively. This deviation from the projection has affected profits and, ultimately, stakeholder relations, creating conflict between managers, stockholders, and land owners.
In 1997, FPL sold an estimated 428,000 tons of logs to Tropik. To maximize FPL output, trees should be harvested at approximately 22 years of age. Given the existing capacity of Tropik’s processing plant, the trees are being harvested early at 17 years of age, a practice which fails to maximize their potential yield for shareholders and landowners alike. Ultimately, FPL should provide 450,000 tons within a decade, but, in the short term, repeated cyclones (hurricanes) and bad fire years have cut the yield to well below expectations, thus requiring reduction of the planned rotation age. The reduction of the planned rotation age affects the earnings of contract laborers and extension forest owners and leads to other stakeholder conflict. Given these unexpected events, FPL undertook cultural reengineering to increase the overall effectiveness of the organization as it works towards privatization and its other community oriented goals. The ongoing challenge is to balance the social role of providing employment with the economic role of providing an adequate return to the landowners of the forests and the shareholders.

The vision of FPL is to be the country’s leading forestry company, achieving commercial excellence in managing an efficient forest industry. In 1991, the incorporation affirmed three roles for the organization: social, economic, and commercial. The stakeholders involved in this design include government, forest land owners, extension forest owners, villagers, managers, employees, and the union. They all have conflicting needs and demands. Some of the varying expectations are identified in Table 1.

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<th>Government</th>
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<th>Extension Forest Owners</th>
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FPL is targeted to remain in existence until 2025 when ownership of the company will be passed on to the landowners. Until then, the interests of stakeholders are to be balanced. The rate of return and profits will determine the actual handover date when the company will become privately held by the landowners. The organizational structure of FPL includes three divisions comprised of 80 salaried staff (75 local and 5 expatriates), 90 hourly wage staff, and approximately 80 “permanent temporary” workers. In keeping with their goals of developing local expertise, FPL has weaned its reliance on expatriate managers. Also, an estimated 370 contract laborers have responsibilities for establishment (nursery, planting and weeding) activities. The wages the contract laborers earn help fund community projects such as churches, water supply systems, village electrification schemes, and reconstruction after hurricanes and cyclones. Both men and women participate as contract laborers with women handling the nursery activities and the men conducting the planting and weeding operations. These funds provide the basis for capital improvements in the villages. Fiji’s cultural heritage is as a collectivist society. Unlike most individualistic societies, wages are contributed to the communal fund, rather than taken home as private earnings. Implementing the privatization of FPL is more of a challenge in this cultural framework than it would be in a more individualistic culture.

Prior to 1992 the employees of FPL had been members of a union. Since they wanted to continue the union affiliation, the company voluntarily recognized an in-house trade union in 1992 rather than face a new certification election. Thus, company-union relations are fairly cordial with amicably negotiated pay and benefits increases.

Training of workers has focused on forest protection, project planning, defensive driving to minimize accidents, and occupational health and safety training. In terms of stakeholder relations, corporate planners continue to have focus meetings with landowners, extension forest owners and the government to maintain solid relations. However, with conflicting goals, as identified in the next section, it is extremely difficult to balance the wide variety of long-term and short-term needs.

Goals and Objectives of FPL

FPL is expected to work towards several goals within the country of Fiji. The government and the citizenry expect FPL to address social, political and environmental issues associated with the industry and at the same time to maintain a commercial focus (1997 10-K: 14). FPL’s ultimate goal is to prepare and deliver the forests into the hands of the mataqalis (landowner villagers). One major objective towards achieving this goal is the education and development of landowner expertise so that landowners learn to manage their assets wisely. Landowner development is an integral function of the company (1997 10k: 31). Since landowners will eventually become the majority owners of the company,
they must be prepared to participate fully at all levels within the industry so as to maximize the benefits flowing to them while maintaining responsible management and environmental practices.

Children of landowners are given priority to receive college scholarships overseas, particularly in the areas of commercial management of forestry operations. However, many of the children have remained overseas after receiving their university degrees and have not returned to work at the company. Too, many pursue degrees in other fields. The ongoing dilemma is that many children of landowners are provided with college educations overseas, only to change into non-forestry majors or to remain overseas after graduation. The investment of time and money may then be shifted to benefit the country of Fiji in other ways, as in remittances sent back to families from children working abroad, but on a more individualistic basis rather than on a community-oriented basis where the entire village community would benefit.

Balancing the commercial and developmental objectives is an ongoing dilemma for the firm. Landowners believe their short-term needs (i.e., higher ROI) should come first over the longer-term developmental and commercialization needs. Consequently, the landowners have expressed dissatisfaction with the way management decisions are made. One of the forests had to be sold in late 1997, much earlier than planned, back to landowners who demanded to take over ownership and management of the forests, as they were not satisfied with the company’s management. There is strong speculation that the village in fact was negotiating with an American consortium of forestry firms wishing to harvest the hardwood timber, mahogany. Fijians call them ‘white people’s trees’ because the mahogany plantations covering 80,000 acres were started by the British in the early 1900s when Fiji was a British colony. These are believed to be the world’s largest mahogany farms (Frank, 2000), adequate to supply two-thirds of the world’s mahogany needs. To date, FPL has not received any payment for this transaction. This uncertain turn of events is discussed later in the paper.

In order to attain the objective of having the landowners ultimately manage their assets as a privatized organization, FPL is working to create an efficient and effective company. Having operated fifteen years as a government commission, the company has a workforce that is unprepared to operate in a commercial, for profit, environment. Therefore, the culture of the organization has to be changed to ensure the long-term viability of the firm.

FPL is expected by the government and the citizenry to have a positive socio-economic impact on the rural sectors of Fiji. This goal involves providing jobs and funds for villagers and landowners for which there is no hope for alternative employment. Approximately 10,000 landowners in the rural sector have limited employment opportunities. Creating commercial awareness and developing sustainable business objectives, skills, and management expertise is
the main thrust for the development of these landowners (1997 10-K: 31). Another goal is to further utilize the extensive lower productivity lands for which there are not many alternative uses. Lastly, FPL’s forestry scheme also protects the soils and downstream areas from soil erosion and sedimentation, which further increases land productivity.

Another goal of FPL is to provide business for a trucking company in which FPL is a major stockholder. The growth of Tropic Wood will provide increased opportunities for low-level involvement by landowners, thereby furthering the objective of increasing low-level commercial involvement by landowners and increased employment opportunities.

Financially, FPL’s shareholders expect a long term 3% rate of return. Although this rate may appear low, it is realistic given the potential for natural disasters such as fires, cyclones, and droughts. However, many shareholders are dissatisfied and demand a higher rate of return. This was a major source of contention that led to the sale of the Nadroga forest back to the villagers much earlier than planned, thereby endangering the long-term sustainability of the area. In addition, the Fijian dollar was devalued about 20% in 1997 to remain competitive given the economic downturn in the Asia Pacific region. Given the variety in time orientations of the abovementioned goals, it has been a challenge for the top management team to address the varied needs of the stakeholders.

**FPL Community Relations**

FPL operates in a unique and sensitive business environment that requires the company to maintain an open and intensive two-way communication policy. The company plays a vital role in the lives of the community by providing jobs, economic opportunities, and educational activities. Company people continuously interact with all of the local communities via participation in community projects, sponsorship of charitable, educational, and recreational events, provision of recreational facilities in the forests, participation in disaster relief efforts, and organization of life saving activities. FPL maintains a high profile image through publication of annual reports, newsletters, and regular news releases in the newspapers. Its CEO and other executive committee members are highly visible in their communities.

A major irritant to the extension owners’ stakeholder group is that FPL company leases have not always been accurately surveyed and this is causing disputes about ownership of maturing timber. The extension owners entered into long term leases on forest land that they own with FPL. FPL has managed and developed these forests for future harvesting. In some cases, double leases exist or the landowners argue that they never gave their initial consent, and therefore, they do not acknowledge, FPL's ownership of the timber. This
uncertainty must be addressed as a top priority as it is causing extreme alienation between management and citizens. However, forest products are being harvested even while ownership remains unclear.

Fire Protection

In an average year, FPL fire crews fight about 150 plantation forest fires, about 50 wild fires, and about 1000 controlled burns. The primary causes of fires are “spill-over” from the burning of sugar cane (the other major use of land within Fiji) and grazing land, careless hunting fires, and some arson. Landowner relations are especially critical because of the high propensity of disgruntled landowners to commit arson. The landowners fail to realize the damage they are doing to the community as a whole as well as to FPL, by burning down the forests. This increases the company’s costs and ultimately reduces the profits to the landowners as it translates to a need to establish aggressive fire protection measures. These include improving road access and fire breaks, upgrading fire equipment, and increasing controlled burning. Programs to improve relations with the landowners include supplying seedlings at subsidized rates, giving advice on planting and managing forests, and coordinating the sale of forest products. The extension forests are especially vulnerable to fire as they have minimal fire fighting capabilities due to their remote locations.

In 1997, a total of $1 million had to be written off due to fire damage. In addition, $1.7M was written off due to cyclone damage. FPL needs to reexamine its strategies to reduce risks to plantations, as the earlier strategies focusing on fire suppression measures were not effective. Increased commitment by landowners based on fostering a sense of ownership and increasing public awareness may help. A long-term educational awareness effort is underway.

Political Environment

The political environment in Fiji is extremely challenging for fully and partially owned government companies. Ministers, (e.g., Health, International Investment and Trade, Education, Forestry) are appointed by the Prime Minister. Similarly, the Board of Directors and the Managing Director of FPL are politically driven appointments. Many board members represent the landowners’ interests from the villages which ultimately will take over the management of their forest assets. This imbalance of power strongly influences decision making by the leaders of FPL. If the government, as majority shareholder, prefers different strategies, they can ultimately replace the Managing Director and board members. With this constant threat, it becomes very difficult for top management to formulate and implement a long-term strategic plan.
In 1998, there was a change in the Managing Director. At the time, the chief in the Nadroga province was pushing to regain control of their forest so that it could be sold to an American consortium of forestry firms. After a bidding war between a British firm and an American firm, the higher bid came from the Americans. However, the government awarded the contract to the British firm, even though there were public protests. The award was probably based on the historical ties between the UK and Fiji, although Fiji became independent from the UK in 1970. Fiji still celebrates the birthday of the Queen and entertains her heirs as royalty during their occasional visits to the island (For added details on culture, see http://www.hobotraveler.com/colony.php).

Dissatisfied landowners also gain power by expressing their unhappiness to their elected Parliamentary officials. These officials, in turn, voice their questions and concerns to the appropriate Minister. Pressure is then applied to the board and the top management team. George Speight, a USA educated MBA, became the acting director of FPL after the long-term managing director was ousted politically in 1998. (Speight led a coup against the government in May, 2000. Backed by a 100-man private army, Speight stormed parliament, taking members hostage. He was then arrested and charged with treason.

The senior management team is trying to address all of these concerns. They decided to modify the existing organizational culture to become a more profit-oriented, efficient and effective organization, but many obstacles remain from the days of public ownership.

Reengineering the Culture

According to Mr. Leonard Newell (retired) of the Pacific Southwest Region of the U.S. Forest Service, the USFS has a long history of international cooperation and has an active program to combat world deforestation. Since 1990, the USFS has provided assistance to South Pacific countries and the affiliated islands in Micronesia and Samoa. More recently, in 1995, the Department for International Development (DFID) extended an earlier project where the government of Fiji began planting pine into degraded grasslands in the 1950s to avoid land erosion and to rehabilitate the lands. The areas that were planted were leased from the native land owning groups exercising collective control (http://odi.org/uk/tropics/projects/2268/htm).

One international study found that within the Pacific Island nations, their greatest need was for managerial development and training. FPL recognized that it needed help in shifting from a largely bureaucratic, government department to a commercial enterprise competing in the global marketplace. The company developed a Total Quality Management (TQM) program, with 18 quality
teams, five facilitator teams and a steering committee. The teams primarily focus on strategic areas with the next areas targeted including standardization of processes and benchmarking. The company believes that TQM has had a marked effect on morale and job satisfaction. At the end of 1997, although sales were down, profits were up and ROE was also up 2% (1997, 10-k). Regardless, in early 1998, the Managing Director was asked to resign his political appointment, as it later turned out, so that the future rebel leader, George Speight, could be given control of the firm.

In 1998, Price Waterhouse (now Pricewaterhouse Coopers) was hired by the government to search for a foreign logging partner. The list was narrowed to two finalists including Timber Resource Management (TRM), a 65% US owned firm, with the remainder owned by various Australian and New Zealand timber companies. The other finalist was Commonwealth Development Corporation (CDC), owned by the British government. Ultimately, Pricewaterhouse Coopers recommended CDC due to its being a more established company with greater direct benefits to Fiji. The government challenged the results and terminated Pricewaterhouse’s involvement. George Speight attacked the CDC’s proposal saying it did not meet the requirements outlined by the government. Unknown to most, Mr. Speight had received two wired payments from a subsidiary of TRM in the spring of 1999 (Frank, 2000). Speight acknowledged receipt of the payments, but said it was for a pine-logging contract that was later cancelled (the Nadroga forest that was removed from FPL ownership). Mr. Speight was removed from his position as FPL’s Managing Director in the spring of 1999 when a new government was put into place. Mr. Chaudhry, then Prime Minister, proceeded with negotiations with CDC. Yet his negotiations were not made public.

Meanwhile TRM flew four ministers to New York to promote their bid. The Foreign Corrupt Practices Act (FCPA) prevented US firms from paying for the trip, but the US Trade and Development Agency agreed to fund the $25,000 trip for the ministers. Months afterward, TRM learned of the then Fijian government’s commitment to CDC and the wasted time, effort, and US taxpayer’s dollars in hosting the trip. As of that date, TRM had filed nine lawsuits in Fiji, including two against the government, four against consultants and equity holders, and three against newspapers for libelous and false reports about the TRM bid. More recently, the Fijian villagers staged protests to take back the mahogany forests on their land, currently leased by the government. New competitors from Europe and Canada emerged to compete with TRM and CDC who vowed to continue negotiations. The outcome was that Sustainable Forests Incorporate (SFI) received the concession harvesting rights which were granted from Fijian Hardwood Corporation (FHC), a sister state-owned enterprise to FPL (http://www.fijimahogany.com/bout-sfi.htm).
Questions for Discussion

1. Identify the internal and external stakeholders in the change process.
2. What are the three roles that FPL plays in Fiji?
3. Identify the short term and long term goals of FPL and contrast these with the goals of the various stakeholders.
4. Develop retention strategies for young, university educated managers and children of landowners who receive university scholarships.
5. What ethical issues do US and other international companies face when doing business with a recently privatized company in a politically fragile country like Fiji?
References


