New Public Management and employee share ownership plan in Fiji's public sector

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Abstract

This article provides insights into the implementation of new public management (NPM) practices in Fiji Telecom and whether the use of the employee share ownership scheme was helpful in the organisational change process. The NPM practices were influenced by the World Bank and International Monetary Fund who were the lenders to Fiji government. The adoption of NPM practices was part of a political, economic and public sector reforms introduced after 1989. The paper discusses the background and obstacles of the reform and how the employee share ownership scheme practice at a privatised Telecom Company assists employees to assimilate commercial business norms. The authors finally make recommendations for policy-makers in Fiji and other developing nations.

Key Words: New Public Management, Employee share ownership scheme, commercial business routines, Fiji.

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I. Introduction

Privatisation of public entities and the introduction to such entities of new managerial models, referred to as New Public Management, has been used in many developing countries, such as Indonesia (Harun and Robinson, 2010; Harun, An and Kahar, 2013), Malaysia (Saleh, 2007), and Fiji (Sharma and Lawrence, 2008, 2009; Sharma, 2009; Shailer and Vatuloka, 2000). However, academics seem to have focused on developed countries (Crompton and Jupe, 2003; Cole and Cooper, 2006; Colin *et al.,* 2004; Broadbent and Guthrie, 2008; Ogden, 1995; Ogden and Clarke, 2005; Harun, An and Kahar, 2013). Our paper provides insights into the implementation of New Public Management (NPM) practices in a developing country, Fiji. The study uses a case study of Fiji Telecom to examine the obstacles to the implementation of NPM practices and whether the employee share ownership scheme aids Telecom management and employees to accept the NPM practices.

Following the military coups in 1987, economic growth of Fiji declined by 6.4 percent in 1987 and stagnated in 1988 (Reserve Bank of Fiji, 1989). In these circumstances, structural adjustment policies, such as the public sector reform, have to be invoked in an attempt to ease the economic problems. Such policies are often seen as a consequence of involvement of international creditor institutions and donor agencies, such as the World Bank and Asian Development Bank, since these organizations promoted new public management (NPM) reforms in developing countries (Sharma and Lawrence, 2005). As to the case of Fiji, its reform requires new laws and greater regulations to supplant existing government reporting systems. We discuss these issues in the ensuing sections. This paper, firstly, contributes to discussion on NPM in less developed countries which has received relatively less attention in the mainstream accounting literature. Secondly, the focus is on how employee share ownership practice overcomes obstacles to NPM reforms in less developed countries. Policy makers, while introducing NPM reforms, may intend to implement the employee share ownership plan so that workers can readily assimilate commercial business routines rather than seeing the new commercial business routines as an obstacle to their day-to-day routines.
The remainder of the paper is organised as follows: section 2 explores public sector reforms in Fiji, section 3 presents the case study of Telecom Fiji, and section 4 presents the research method. Section 5 examines the privatisation of the case company. This is followed by

section 6 on the implementation of the employee share ownership scheme. The paper finally brings the narrative together and concludes the paper in section 7.

2. Public sector reform in Fiji

It was during the 1980s that the Fiji government began to dismantle state controls through a public sector reform policy. The Fiji government was committed, through the reform programme, to selling part of its interests in a number of public enterprises, with the proceeds used to repay debts. The stated rationale behind the reform was that many costly and loss-making organisations, if reorganised and commercially focused, would appear to be in a position to give Fiji government and the people of Fiji a better reward for the public funds invested in them (Department of Public Enterprises, 1998). Sarkar and Pathak (2003, p.55) report that the Fijian government has reformed most of its enterprises with the objective of enhancing "profitability, efficiency and accountability." The Fiji government used the Department of Public Enterprises (that has lately become the Ministry of Public Enterprises and Public Sector Reform) to invoke reform policies. The next subsection discusses the function of the Ministry of Public Enterprises and Public Sector Reform.

2.1 Ministry of Public Enterprises and Public Sector Reform

The Ministry of Public Enterprises was set up in Fiji to monitor activity in public sector enterprises and to encourage public enterprises to adopt commercial practices. The Department was established under the Public Enterprise Act of 1996 that governed the role and responsibilities of the Ministry and provided the structure of its operations.

At the moment, the ministry is monitoring 10 government commercial companies and 5 commercial statutory authorities. One of the senior economists at the Ministry of Public Enterprises and Public Sector Reform elaborated on the monitoring process of public enterprises as:

> We consider return on assets, return on shareholder funds, return on equity and debt to equity ratio. If public enterprises are not performing then we discuss these with the boards in order to bring in measures to improve their performance.

The following documents are required by the Ministry of Public Enterprises for monitoring purposes:

- Annual corporate plan;
- Statement of corporate intent;
- Annual report;
- Half yearly report
- Accounts- unaudited and audited and
- Reporting to parliament.

2.2 Public Enterprise Act (1996)

The Public Enterprise Act (1996) provided the basis for a radically different governance structure of state-owned enterprises. While the government remained the owner, its role was clearly established as part of a governance relationship. As a shareholder, the Fiji government appointed a commercial board of directors. Boards were given responsibility for strategic direction and commercial orientation with incentives based on commercial performance indicators.

The Public Enterprise Act was passed by the House of Representatives and the senate in 1996 (Department of Public Enterprises, 1998). This Act provides a comprehensive legal framework for implementing the public sector reform programme. The Public Enterprise Act (1996) provide for:

- The reorganisation and corporatisation of nominated government entities
- The establishment of the principal objectives of Government commercial companies to be purely commercial
- The regulation of the structure, and relationship with the Government, of Government commercial companies, and
- The regulation of the reporting and accountability of Government commercial companies and Commercial Statutory Authorities

(Public Enterprise Act, 1996, p.1049).

The Public Enterprise Act (1996) stipulates that each government commercial company or commercial statutory authority needs to have a statement of corporate intent for each financial year. The statement of corporate intent constitutes the financial and non-financial performance targets for the activities of government commercial companies and commercial statutory authorities.

The paper now provides an illustration of reform of one government business entity of Telecom Fiji, the obstacles to the reform and how it was overcome through the use of employee share ownership scheme practice.

3. Case study of Telecom Fiji

Telecom Fiji emerged from a government department, the Department of Posts and Telecommunications. The department's operations were corporatized in 1990 as Fiji Posts and Telecommunications Limited and privatisation followed in 1998. Telecom Fiji is listed in the South Pacific Stock Exchange through its parent company of Amalgamated Telecom Holdings Limited which holds 100% of Telecom Fiji shares.

Telecom Fiji is a sole provider of local and national (trunk) telephone services in Fiji. It owns the only publicly-switched telephone network in the country. In 2004, the network comprised 55 telephone exchanges throughout Fiji, connecting more than 101,000 customers (Telecom Fiji Limited, 2004).

Telecom Fiji describes its vision as "Telecom Fiji bringing the best of telecommunications to the Pacific" (Telecom Fiji Limited, 2004). The mission of the company is to:

- Provide telecommunication products and services that our customers value;
- Strive for excellence in everything we do; develop a capable workforce by rewarding superior performance, and
- Grow shareholder value

(Telecom Fiji Limited, 2004).

The next section delineates the research method for the study.

4. Research Method

The approach is to undertake qualitative research which focuses on a case study strategy (see Yin, 1994; Scapens, 1990). The case study was conducted over a three-year period between

2010 and 2012. We used multiple sources for data collection including: publicly available information such as Telecom Fiji annual reports, internal proprietary documents such as documents on the employee share ownership scheme, and semi-structured interviews. Compared with a single source of data, these multiple data sources facilitated a more comprehensive and valid portrayal of the phenomenon (Modell, 2005; Perera *et al.,* 2003).

Fifteen semi-structured interviews were conducted at Telecom Fiji, each lasting from 1 to 2 hours. Ten staff were interviewed at head office in Suva and its branches in Nadi, Lautoka, Ba and Tavua. Some five repeat interviews were done with the Human Resource and Customer Services Managers to get better clarity of information. The interviewees were representatives of the following sections of Telecom Fiji: Finance, Human Resources, Customer Services, Public Relation and Engineering divisions. Most of the interviews were tape-recorded, and were subsequently transcribed.

We analysed our data by preparing tables listing issues frequently raised in interviews. Several themes such as reform, resistance to change and employees share ownership scheme were drawn from these responses. The data representing the themes were clustered at this stage (Tsamenyi *et al.,* 2006; Sharma *et al.,* 2010).

5. Corporatisation and privatisation of Telecom Fiji

5.1 Intervention of World Bank and International Monetary Fund (IMF)

The World Bank provides assistance by way of funding for the development projects in Fiji and operates an office at the Reserve Bank of Fiji in connection with the United Nations Development Programme. The International Monetary Fund (IMF) is a provider of funds or assistance in a like manner if the balance of payment is in deficit.

So, the involvement of international financial organisations is an important aspect of the institutional environment for Fijian society. They have insisted on the implementation of private sector concepts in public sector organisations, as has been the experience in other countries (e.g. Hoque & Hopper, 1994). The World Bank and IMF seem to agree on one point: the need to reduce, cut or pare back the role of the state in the economy (Biersteker, 1990; Nellis and Kikeri, 1989).

According to Lawrence and Wynne (2009), the international financial institutions and aid agencies (led by the IMF and the World Bank) maintain close control over the public financial reforms. Most public financial management report which are funded by the World Bank loans have originated from a World Bank report. The World Bank employs public financial management advisors in Fiji who provide a range of initiatives for management.

Although lending is a key activity of the World Bank, its technical activities are different from other lenders:

> ...the competitive advantage of the bank came to lie in its in-house expertise; it was a specialist institution that focused on development. This means that with its increasing number of specialist staff, the bank was able to provide advice far beyond the capacity of the traditional banking sector (Jones, 1992, p.18).

The technical assistance involves not only advice on how to design and implement a specific project, but also more general advice on how to run one's economy such as corporatizing operations of state owned enterprises. As a World Bank document states, one of its key functions is in recommending "improvements in the government's economic and financial processes in order to facilitate and encourage further development" (quoted in Jones, 1992, p.20).

Corporatisation of the Fiji government's department of Posts and Telecommunications was recommended by the World Bank and Asian Development Bank as part of loans they advanced of F$5,241,125 (Fiji Posts and Telecommunication, 1991).[1] The World Bank loan was to restructure the Posts and Telecommunication Department from a government department into a government owned company. The loan was to assist company's development program which included required investments in computerised information system and to expand the telecommunications network (World Bank report, 1997).

The World Bank engaged consultants through the Department of Public Enterprises towards privatisation of Telecom Fiji Limited (TFL). According to the World Bank (1997), the Bank was also engaged in monitoring performance of TFL and had considered the progress of the

[1] Fiji $1 = US$0.52

project for which they lended money as highly satisfactory. In addition to F$5,241,125, the World Bank also funded US$60,000 to TFL which included a managerial development programme. There was a twinning arrangement with a developed communication company to enhance TFL's managerial and technical capability. According to the World Bank (1997), the training of 12 middle and senior managers for couple of months was completed with this funding. The training arrangement was with the Singapore Telecom International. The World Bank (1997) report states that the training with the Singapore Telecom International had been successful as the learned managerial skills were applied in the organisational restructuring programs, with all trained personnel being retained on staff. The World Bank also gave covenant targets to TFL such as annual rate of return (on average net fixed assets) covenant for the project to be at least 9%. This was accomplished by TFL on an ongoing basis. The annual reports of TFL were also submitted to the World Bank on an annual basis.

The economic capital of World Bank and its lending activity provided it with ability to coerce TFL with commercial business practices. The World Bank encourages borrower countries to tailor their projects to satisfy the perceived need of the World Bank. Diffusion in this case eventuated because of the financial needs of Fiji.

On one level, we observe the implanting of "first world" financial techniques into the telecom sector in Fiji. Through the introduction of a financial reporting along with detailed accounting techniques (e.g. monthly bank reconciliation, variance analysis and external auditing), the World Bank sought to change the way TFL was managed. The covenants, preparation of annual reports were examples of disturbances imposed by the World Bank on TFL.

The World Bank tend to finance development projects as has been the case with TFL reforms once their recommended suggestions have been implemented. The World Bank is expected to make loans only where there are reasonable prospects of repayment. The loans given out by the Bank have to be expended for productive purposes only. In effect, the only requirement that the Bank imposes is that, before it grants loans, there shall be a clear agreement on how the proceeds of the loan are to be expended and on what the loan is expected to achieve.

There are pros and cons of privatisation and questions can be raised whether privatisation improves enterprise performance. The World Bank's focus is on the narrow criteria of profitability. In TFL's case, after privatisation cost of services increased and increasingly customers were locked out of the market place. In rural areas of Fiji, for example, the connection charges could be between F$3,000 and F$10,000 making it virtually impossible for most rural inhabitants to obtain a telephone line. The total population that live in urban areas is 424,846. Approximately 412,425 people live in rural areas (Fiji Islands Bureau of Statistics, 2011). In 2005, telephone services in rural areas often amounted to one shared phone per village, as reflected in the ratio of 0.6 telephones per 100 inhabitants (Fiji Times, 2005, December 14). This is among the lowest in the world in lower middle income economies for fixed as well as mobile phones. It compares with telephone penetration of Fiji's urban area of 20 per 100 population (The Fiji Times, 2005, December 14).

Over the past decades, Fiji has experienced debt crises and coups, and on top of that the externally imposed neo-liberal reforms from the World Bank and IMF. Empirical evidence suggests that the reforms have not been geared in the interests of local population. The people who live in the rural areas have actually been deprived of telecommunication services. In the case of Telecom Fiji, the donor agency of the World Bank tried to ensure that their loans would be repaid with interests. Corporatisation was seen as an ideal approach to ensuring this, and so the Bank pressurised the Fiji government to adopt this approach.

5.2 Corporatisation

Before corporatisation, the department of Post and Telecommunication's permanent secretary since 1982 had been Naqova who was an engineer by profession. As a government department, money, costs and profits were not the prime concern and appeared to play a minimal role in determining the purpose and meaning of daily activity. Workers were used to being paid for input hours worked rather than measurable output produced. When the department of Post and Telecommunication was corporatized, Naqova was appointed Managing Director. The Fiji government decided that he would be responsible for the board of directors, which would be charged with instilling a commercial orientation within the organisation.

A new board appointment in 1992 invited overseas-based consultants to study the organisation in order to instil and enhance commercial values. One of the consultant's recommendations was to provide Naqova with overseas training in order that he might be able to lead the company in a more corporate way.

Naqova, initially refused to take overseas training and was subsequently sacked by the board of directors. However, because Naqova belonged to the same tribe as the Minister of Telecommunications, he was subsequently reinstated to the position. The Minister in turn removed the board of directors because of ongoing conflict of public service norms with commercial ways of doing things at the organisation.

A new board was appointed in 1993. However, a fear of change arose from the new board's appointment, and so the new chairman ensured that there should be a better communication and education of employees in an effort to dissipate this fear. Change management consultants were brought from overseas and there was massive education programme put in place to educate workers. Despite corporatisation, political favours were still prevalent and supporters of the Minister would get priority in telephone connection while others could be waiting for a long time. According to a TFL customer, telecommunication services were installed in some areas after technicians were given celebratory food and bribes. Customers did this because telephone connections came after years of waiting. With the greater education and training, people's attitudes began to change and were more receptive to commercial business norms. Workers were provided with total quality management practice training which eventually made them customer conscious. A total quality management division was also created by the Managing Director. The idea of total quality management was to reduce the tension of public service norms and to shape managers and employees to be commercially oriented in the form of "managing for results." One of the other techniques that were used as an incentive to enrol employees in commercial business routines was the offer of employee share ownership scheme to workers. The ensuing section examines how employee share ownership scheme was used to enrol employees into commercial business routines.

6. Employee share ownership scheme

One particular initiative in the process of privatisation has been the introduction of employee share ownership scheme. This had been anticipated to some extent by the Fiji government when it argued that one of the benefits of the privatisation would be the wider ownership of shares among employees and that employees will be more likely involved with the business through the ownership of shares.

The idea behind employee share ownership plan was to promote an understanding of how and why organisational priorities had now changed. A manager of Telecom Fiji stated:

> A lot of our employees were public servants and profit hasn't really entered their thinking. Some still believe that providing service is important and costs don't matter. We try to make our managers think a little broader about our company which is measured by profits.

The idea of employee share ownership scheme for Telecom workers was initiated in 2002. The Fiji government asked Telecom Fiji's parent company Amalgamated Telecom Holdings Limited (ATH) to issue shares to Telecom employees. According to the CEO of ATH, during the initial purchase offer of ATH, the employee shares were bought by ATH management and set aside for the employees. The CEO stated:

> Share ownership scheme works on the basis that options are given to employees to purchase. In order to qualify for the option, the employees need to have worked more than a year for Telecom.

At Telecom, 90 percent of the employees applied for the free offer of options. The employee share ownership scheme was established in accordance with the Inland Revenue's regulations so that the employees benefitted from the tax relief. The rule of the scheme was that 1/6 of the employees' salary worth of options will be given to the employees, and the shares will be put in the trust for a minimum of five years, and the employees can then purchase the shares at a discounted price of F$1.06 per share which was the initial share offer price. However, during these five years employees would still receive dividends from the options without paying for the share purchases. "We want the employees to get used to the system", claimed a senior manager.

The company's newsletter claimed that this was a means to recognise employees' contribution to its success by the grant to them of shares in business. The measure of company's success was explicitly focused on the achievement of the profit target forecast in the prospectus for the company's flotation.

According to a manager, the employees are generally happy with the share ownership scheme and have been receiving dividends regularly. The company pays two dividends in a year: interim and a final dividend. The retention of workers is there as workers need to stay longer in the company to get the options. A manager commented on the share ownership scheme as:

> There is some sort of recognition by the company.

Employees see themselves as new owners of the company through the employee share scheme. A manager noted that "we empower our employees through this scheme and try to make them more shareholder focused."

An operations worker at Telecom praised the share ownership scheme as:

> Employee share ownership scheme is very good. It gives us ownership of the company. We feel connected to the company. The scheme provides us with 2 dividends annually and has a long way to go.

A manager informed that most workers are happy with the scheme which helps them to be more shareholder focused. The sense of ownership of the company is extended to them through the employee share ownership scheme.

A senior financial manager described employee share ownership scheme as:

> A way of providing ownership in the company...the thinking behind it was clear that profit sharing fitted the organisation's ethos...It was announced at a time when profits was announced. We made the point that it is to do with profit... In the prospectus we said we would be aiming for the profit; therefore we made this profit scheme available to workers.

He through the employee share ownership scheme communicated other messages as act of sharing. He described employee share ownership scheme as holding people together, and providing a sense of belonging at a fundamental level. The interviews suggest that employee share ownership scheme was seen as a means of encouraging employee identification with the company's new objective of profitability and a means of removing previous public sector norms which the employees were so accustomed to. The employee share ownership scheme enabled Telecom Fiji employees to be shareholder focused. The employees knew that if the company did not make profit, then no dividends will be paid to them. They realised that shareholding focus is an essential ingredient of the business. The employee share ownership scheme was designed to win employee support for the reforms (see Ogden, 1995). It was believed capable of helping to change corporate culture away from the previous commitment to ethos of public service characteristic of the Telecom's public sector past to the new business priorities essential to the company's private sector future.

Senior managers argued through the employee share ownership scheme that profit had to be earned for shareholders, and that employees must work harder and more efficiently to achieve it. As Ogden (1995, p.34) put it: "the scheme allowed profit to be represented as a deserved reward as something to be shared among everyone who worked for the company as opposed to it being appropriated for the exclusive benefits of those who owned it." The next section provides the summary and recommendations for policy-makers.

7. Summary and recommendations for policy-makers

The adoption of NPM practices was part of a political and public sector reforms introduced after 1989 by the Fiji government. The paper discussed the background and obstacles of reform and how the use of employee share ownership scheme practices at Telecom Fiji assisted employees to assimilate commercial business norms.

Privatisation of public entities and the introduction of such entities of new managerial models, referred to as New Public Management, has been used in many developing countries, for example Indonesia (Harun, An and Kahar, 2013), Malaysia (Saleh, 2007) and Fiji (Sharma and Lawrence, 2008, 2009). However, academics seem to have focused on OECD countries (Colin *et al.*, 2004; Harun, An and Kahar, 2013; Ogden, 1995; Ogden and Clarke, 2005).

The Fiji government used the Ministry of Public Enterprises to invoke reform policies. The Fiji government was influenced by donor agencies of the World Bank and IMF to reform state owned enterprises. The donor agencies played an instrumental role in Fiji's economy after economic decline following the military coups of 1987. The idea was for donor agencies to ensure that their debt was paid with interest. There was little consideration given to the local needs of the people. The reforms of TFL had a detrimental effect on the provision of telephone services to Fiji's rural population. The cost had significantly increased and the rural people had on average 0.6 telephones for every 100 inhabitants. The World Bank and aid agencies were given the power through aid conditionality to influence the privatisation of telecom sector. The Public Enterprise Act (1996) provides the governance structure of reformed state owned enterprises.

Some resistance came from change to commercial business routines from Naqova, the Managing director and other employees. However, with better communication and employment of change consultants, the resistance was eased. Total Quality management practice was implemented to make employees customer centred and be "result oriented". The offer of employee share ownership scheme practice appealed to managers in terms of its symbolic value for signalling the new private sector status of Telecom. The implementation of employee share ownership scheme enabled workers to be shareholder focused and receive dividends for accomplishment of this goal. The workers had a sense of belonging to the company and were empowered by the management.

Fiji and other developing economies attempting to reform public enterprises may receive some obstacles to achieving that. It is essential to understand the local cultural and political context before introducing the NPM which may not be universally applicable. As Lawrence and Wynne (2009) point out that we need to have a clear understanding of a country's culture and the elements which local financial managers are best able to understand. We then have to consider carefully how existing systems may be re-built, improved and refined in the light of local experience, informed, as appropriate, by the lessons and experiences of other countries. In this article, we argue that profit sharing practices such as the employee share ownership scheme should be put in place so that workers can readily assimilate commercial business routines rather than seeing the new commercial business routines as an obstacle to their day-to-day routines.

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