

## Impact of Landowner Mistrust on Reform of a Public Enterprise

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### Abstract

*This paper describes and analyses the resource constrained situation of a reformed public enterprise, the Fiji Hardwood Corporation Limited, given the mistrust between the various entities. The paper uses the Resource Dependence theory to explain and analyse the performance of this company until 2011. It concludes that the landowners on whose land the lucrative resource of mahogany is planted have been wary of benefits to them from the processing of this resource. This generated significant mistrust thereby affecting the company's performance. The paper highlights the significant role which resource providers play in performance of enterprises which rely on these resources.*

### Introduction

Public Enterprise Reform (PER) is no new phenomenon. PER programmes first began in the UK in the late 1970s. Since then, state intervention in the market has been increasingly challenged. Such a challenge acquired a more ideological form with the rise of the ultra-conservative governments in the UK as well as the USA. Not limited to the developed world, PER has become the hallmark of public policy making throughout the world, including the underdeveloped nations (Narayan, 2005).

Public/state enterprises have generally been criticised because they are, supposedly, often subsidised by their governments, operate in losses ultimately borne by taxpayers, provide inferior goods and services, restrict choice of consumers, and remain static (Yaqub, et al., 2011). Accordingly, the proponents of reforms recommend that public enterprises be placed on a full commercial footing independent of political directives, be fully compensated for community service obligations and be exposed to competition with strict budget constraints and full accountability (Anere, 2009). According to the ADB, public enterprises can be successfully

reformed if subjected to the discipline practiced in the private sector (Jaine, 2011). Agencies such as ADB and the World Bank often extend loans with reform related conditions requiring the debtor countries to reform and obtain returns from their public enterprises. As such, reforms have been undertaken worldwide to enhance performances of public enterprises.

However, over the years PER has attracted both commendation as well as condemnation. Whereas efficiency, effectiveness and efficacy became the catchphrases justifying reforms, over the years considerable debate emerged between the reform critics and the advocates over reform issues and effects. As countries began to implement reforms, a large part of such debate was fuelled by the outcomes of reforms and, in many cases, by the evidence of failed experiments (Narayan, 2005).

Radical critics of reforms argue that reforms have not resulted in what was promised. Reforms have either led to no improvement at all or have proved to be socially costly. Those in favour of state created enterprises defend the state. Kumar (2010), for example, argues that while the key arguments of inefficiency, corruption and liability of public enterprises are true to some extent, such ills also plague the private sector. He expresses that public enterprises are not problematic but potentially important players in economies. He argues that during the most recent global financial crisis, it was the public money and the governmental agencies that came forward to salvage the collapsing economies. He states that these are the very economies that stood guided by monopoly capitalism and neoliberal ideology and asserts that the recent defeat of the neoliberal experiments has put public enterprises and their contributions towards societal welfare on the spotlight. Thus, a strong case is made for governments to keep some industries under their ownership; these can also provide automatic checks on the private sector and provide safeguards against private sector exploitation (Yaqub, et al., 2011).

At the other end, PER advocates label the above as state capitalism. Schuman (2011) highlights the case of Russia claiming it to be a state capitalist, strangling its economy. He explains that government spending as well as the size of civil service is increasing in Russia, crowding out the private sector, with private capital taking flight out of Russia since it is becoming harder to do business in that economy. He argues that even though it is true that free capitalism has fallen on hard times, a better system has not yet emerged. State capitalism is not the solution (2011: 2).

Overall, literature on PER points out that, encouraged and financed by donor agencies, developing countries have undertaken reforms of their public enterprises aimed at improving their performances. Literature also

provides clear evidence that reforms have not corrected the ills of all public enterprises the world across, giving rise to the question - why is it that reforms fare well in certain public enterprises while others remain plagued. This research has been undertaken against this backdrop.

Like other countries, Fiji has also tried to reform its public enterprises. Governments of Fiji since the 1980's, except the Fiji Labour Party-led Government (May 1999-May 2000), have been pro-World Bank reforms. The PER process in Fiji was initiated by the Rabuka-led Soqosoqo Vakavulewa ni Taukei (SVT) Government after the 1987 coups. The process of reforms commenced in the mid-1980s but was delayed due to the uncertainty created in the economy following the two 1987 military coups. Since then, except for the brief May 1999-May 2000 period, the PER mantra has been a part of government policy making.

Since then, the number of studies done on PER has also been rising. Thus far, research has been done for the following: Airports Fiji Limited (Snell, 2000; McMaster 2001; Singh, 2002), Customs and Excise Department (Chand, 1999), Fiji Pine Limited (Reddy, 1997, 1998), Fiji Post and Telecommunications Limited (Reddy, 1997, 1998), Fiji Sugar Corporation (Reddy, 2003; Lal and Rita, 2005; Reddy and Kumari, 2007; Kumari, 2007), Government Shipyard and Public Slipways (McMaster 2001; Narayan, 2005, 2008), Housing Authority (Nath, 2000; Sharma and Hoque, 2002), Inland Revenue Department (Chand, 1999), National Bank of Fiji (Reddy, 1998; Chandra et al., 2004; Lodhia and Burritt, 2004), Ports Authority of Fiji (Singh, 2002) and Public Rental Board (Sharma and Lawrence, 2005). Most of these studies have focused on reform implementation and their aftermath. But wider studies have also been done. Chand (1999, on Inland Revenue Department and Customs and Excise Department), and Nath (2000, on Housing Authority), for example, focused on performance management systems in the public sector.

Whereas the findings and recommendations of the studies done so far are worth noting, many of these studies remain weak in certain respects. Many are broad-based (Appana (2003), Sarker and Pathak (2003), Appana (2005), Amosa (2010) and Narayan (2010g)). Many are also silent or weak on theoretical explanations which are needed to put empirical studies into perspective (Reddy, 1997, 1998, 2003; Snell, 2000; McMaster, 2001; Sarker and Pathak, 2003; McMaster and Nowak, 2005; Narayan, 2008, 2009a, 2009b, 2010a, 2010b, 2010c, 2010d, 2010f, 2010g, 2011; Narayan and Reddy, 2009; and Karan, 2010). Some notable exceptions, however, are Chand (1999), who used socio-cultural perspectives; Sharma and Hoque (2002), who used institutional theory; Sharma and Lawrence (2005), who used the new institutional sociology and the

technical-rational perspectives; Amosa (2010), who used the principal-agent theory, and Narayan (2010e), who used the theoretical debate between agency and structure.

This paper uses the Resource Dependence theory to examine the data on a poor performing reformed public enterprise, the Fiji Hardwood Corporation Limited. The study provides evidence that the reform efforts have not resulted in better performance but enraged and created doubts in the minds of the resource owners, a key stakeholder.

This paper also responds to previous calls for more empirical work on PER in developing country contexts (Sharma and Lawrence, 2005: 3), and answers calls for careful reviews of public sector management practices in such economies to further substantiate the claim of failures of New Public Management (Lodhia and Burritt, 2004). Given the reform related transformations currently underway in Fiji's public enterprises, studies such as these have policy implications. While progress with restructuring of public enterprises has been limited in recent years, Fiji is preparing several of these enterprises for greater private sector involvement and is also looking into corporatisation of some government functions (ADB, 2011). This study can thus, provide practitioners, policy makers as well as donors with insights on the various factors that affect performances of public enterprises.

The performances of public enterprises as assessed by the Fiji Government and the ADB particularly centres on economic and/or financial indicators without elaborate explanations on why individual reformed public enterprises underperform and, specifically on the links of the enterprises with key resource providers. It is argued that financial data alone is just hard quantitative data which cannot capture the reasons behind performances (Lusthaus et al., 2002). This research examines the performance of the Fiji Harwood Corporation Limited (FHCL), a corporatised public enterprise. At the time of the research (2013) the FHCL was riddled with numerous problems, operated in losses or generated insignificant profits and was unable to pay dividends to the government.

Upon corporatisation, a public enterprise gets termed in Fiji as a Government Commercial Company (GCC), becoming a wholly government-owned corporatised enterprise. It is generally financed through government equity and/or debt.

A number of public sector researchers (such as Dufour, 1991; Hadi and McBride, 2000; Sharma and Hoque, 2002; Erakovic and Wilson, 2006; Guerreiro et al., 2006; Amosa, 2010; Narayan, 2010e) have applied the Resource Dependence theory. This paper examines the FCLH in light of the key premises of the Resource Dependence theory.

## Methodology

This research used qualitative research methods. Data was gathered through in-depth face-to-face interviews, and relevant primary and secondary data. It used purposive sampling. This sampling began with a purpose in mind with a specific and pre-defined group. The researcher interviewed a key senior official at the Ministry of Public Enterprises, Tourism and Communications (MPETC) three times. FHCL related reports; plans and ministerial correspondences, memorandums, brochures and magazines that were available were examined to formulate certain FHCL-specific questions for interviews and to cross-check on interviewee responses and documents. Cabinet decisions, ministerial speeches, legislation and parliamentary reports were also sought. Secondary sources used were journal articles, textbooks, conference proceedings, theses and dissertations, newspapers and the internet. Both, published as well as the unpublished sources were referred to.

The investigation began with publicly available sources which were analysed before the face-to-face interview sessions. The second process was the actual interview process. The name of interviewee is not disclosed in this paper for ethical reasons, to ensure anonymity and for employment security of the interviewee. After the interviews, information disclosed by the interviewee was rephrased in a summative manner. This was done to correct inaccuracies and to ensure that the receiving, understanding and interpretation of information was the same as expressed by the interviewee. It is acknowledged that certain information would have been withheld during the interviews due to job security reasons and because of confidentiality reasons. Thus, information was thoroughly cross-referenced between interviewee responses and various reports, papers and studies for data authenticity.

The paper used Gillham's (2001) analytical framework for recording, verification and analysis of data whereby substantive relevant information was highlighted while irrelevant materials were put aside from the collected data. The data set was revisited to highlight substantive statements that might have been missed out in the first reading. Data analysis is based on content analysis.

Resource Dependence theory is one of the many theories of Organisational Studies. This theory is sometimes referred to as a political economy model of organisational behaviour, given its emphasis on political behaviour and the role of power (Greenwood, 2008). The theory was formalised in the 1970s with the publication of Pfeffer and Salancik's book *The External Control of Organisations: A Resource Dependence*

*Perspective* (1978).

Johnson (1995) states that this theory has its roots in social science, and gives credit to Emerson (1962) and Blau (1964) on their early work which highlighted the notion of power whereby social actor 'A' will depend on actor 'B' to the extent 'B' controls some resource 'A' values and, to the extent 'A' is unable to obtain this resource from anyone else.

While many names have been associated with the development of the Resource Dependence theory (such as Zald, 1970; Hasenfeld, 1972; Jacobs, 1974; Benson, 1975; Pfeffer and Salancik, 1978, and Johnson, 1995), the work of Thompson (1967) is one of the earliest attempt to examine this matter (Johnson, 1995). Thompson (1967) examined the inflow of resources into organisations and explained the effects of uncertainty associated with this in-flow of resources.

Overall, a key assumption of the Resource Dependence theory is that the subject organisation will respond to and become dependent on other organisations (resource providers) that control its critical resources (Johnson, 1995). Resource Dependence theorists argue that the other organisations that provide critical resources to the subject organisations have direct or indirect power over these subject organisations (Katz et al., 2002). This theory shows how critical resources needed by the dependent organisation can affect its survival and function (Johnson, 1995). Bretherton and Chaston (2005) discuss the link between this theory and performance of organisations and conclude that inadequate level of critical resources and capital can lead to organisational underperformance while adequate levels of critical resources can lead to sustainable competitive advantage and superior performance.

The key assumption of the Resource Dependence theory can be clearly linked to a public enterprise's performance. For instance, the organisation that provides key resources will be more powerful than the dependent organisation given that as a supplier it owns and controls the critical resources. In the case of a public enterprise, if the critical resources are raw materials or inputs to the production process, then the production process of the public enterprises will be adversely affected in situations of short supply, delayed supply, irregular supply or no supply.

This assumption will be examined using the empirical evidence of this research.<sup>1</sup>

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<sup>1</sup> The quality of management and the institutional and governance environments are always key factors in organisational performances. This is true for FHCL as well. However, this paper does not examine these factors. The objective here is to examine one unique dimension of performance, which is resource dependency.

### **Fiji Hardwood Corporation Limited (FHCL)**

The Ministry of Forests was responsible for the development and maintenance of mahogany plantations between the 1960s and 1997 (MPETC, 2012). In the 1980s and 1990s, government decided to reform its public enterprises. Accordingly in 1996, a study was carried out to ascertain the viability of establishing a hardwood plantation corporation based on the successful transition of the softwood plantations into Fiji Pine Limited. The study recommended corporatisation (FAO, 2002).

In March 1998, FHCL was established as a GCC to administer the commercialisation of the mahogany resource. In early 1999, FHCL sought listing on the local stock exchange to go public. During the same period, it also sought a strategic partner to acquire its 40 percent shares. Digitaki (1999: 27) established that the decision was to be endorsed by the cabinet in early February 1999 but landowners were not convinced and were uncomfortable in handing over their land to FHCL. The FHCL held 104 leases with 215 *mataqalis* (customary family groups). Seven of these leases were held with the state (MPETC 2012). Landowner reluctance led to a new proposal which offered shares to individual *mataqali* members at highly discounted prices from the 10 percent shares that was to be offered to the public. This enabled the *mataqali* members to buy shares through a holding company. The 10 percent shares were later gifted to the *mataqali* members through the holding company.

The interest in Fiji's mahogany plantations travelled far given the belief that Fiji holds the world's largest mahogany plantations. Holding up a mahogany sapling, a fifty-two year old prawn farmer's wife exclaimed, 'this is what everyone is fighting over... we never knew these trees were worth so much money' (Frank, 2000). Logging companies call this species the 'king mahogany' because this species can be used to process a wider variety of products ranging from boardroom panelling to yacht decks to furniture. As many became aware of the value of mahogany, fights over claiming and/or making use of it, soared. One such event is related to the bidding competition of mahogany timber rights. On 13 September 2000, a Wall Street Journal article (by Robert Frank) surprised many people when it revealed the link between the pre-2000 coup mahogany negotiations and the May 2000 coup. At one time, the 2000 coup instigator was the chairman of the FHCL board. The May 2000 coup set off waves of unrest throughout the region. According to ABC Radio National (2004), 'mahogany had a part to play in the many complex factors and forces behind the coup, including the personal opportunism of coup leader'.

Another ongoing issue for FHCL was land insecurity. Land is central to any development of forest plantations. In Fiji, management of mahogany has repercussions on the development of hardwood plantations since land as well as its ownership forms an important part of the Fijian society. Notably, tenure in Fiji does not necessarily imply land security. In addition, while the sound set up of legal and government systems in Fiji provide investors with a good level of comfort, the political upsets of 1987, 2000 and 2006 do otherwise. Land security is tied to national stability. This is a condition through which the landowners and the lease holders or land tenants can be given a surety by the government and the other associated organisations that the terms of their rights will be complied with (FAO, 2002). FHCL leased forty-eight acres of an eighty-six acre land mass (The Fiji Times, 22 Dec. 2006).

The Native Land Trust Board (NLTB) is the party that is capable of assuring the rights of lessees (the lease holders). The NLTB was established by the British colonial government in the 1940s. As a custodian for all indigenous land in Fiji, NLTB is responsible for leasing out *mataqali* land and keeps records of owners and the land they act for (FAO, 2002). The assurance of rights, however, must be supported by Fiji's legal system. NLTB is the independent third party that comes between the investor/lease holders and the landowners. It is mandated to manage leased land, hence holds the institutional memory on what has been agreed to. These agreements outline the individuals involved.

The key challenge for the industry have been the protesting landowners. Landowners often stage protests to take back the trees which occupy their land even when the subject land is leased by the government (Frank, 2000). The second CEO of FHCL explained the FHCL-landowner problems when interviewed by Tabureguci (2004) as FHCL being unable to access these plantations. Access gets limited because of unresolved issues over crop ownership. Plantations are also not accessible when landowners become sceptical about revenue distribution after harvest. Then there are doubts on the legality of certain leases which makes it difficult for FHCL to access land for harvesting. Landowners also lack understanding and need to be educated on what exactly the tenant-landlord relationship should be.

The inability to deal directly with the landowners is another problem. The involvement of NLTB in the transactions has not been of much help since landowners do not directly see the money so paid at times when the tenant pays the money to the NLTB.

Landowners have also always been wary of government's decision to privatise the hardwood industry. In 1998, the people of Vusena (near

Navua) sued the government on its decision to privatise the hardwood industry (Digitaki, 1998). Feeling unfairly compensated, a villager explained: 'we took care of these trees all our lives... now we want something in return' (Frank, 2000). A chief of the Naimasimasi village explained their situation to Feizkhah (2001) as follows: at first there was work (clearing the forest and planting) for the villagers but the situation changed after a while; at that time the villagers did not give much thought to the forest but in the mid 1990s when they came to know about the value of mahogany, they 'resolved to get a share of the treasure'. The chief justified: 'its for our young people... They should have something for the future' (Feizkhah, 2001: 21).

The landowners have also staged a few roadblocks. For instance, two landowning units of Tailevu (in Viti Levu) organised roadblocks to claim compensation. The Mataqali Rara of Naimasimasi Village in Tailevu also demanded back their thirty-eight acre land leased to FHCL on which mahogany was planted. They justified that this land was reserved for them by their forefathers, arguing that the company planted mahogany without their permission.

Some landowners have even taken the government to court. For example, the chief of the Nukurua clan took a legal action against the government. It claimed that the government failed to honour the terms of the deal. Nukurua holds the largest and oldest of the fourteen mahogany plantations. The clans of Nukurua stood divided. ABC Radio National (2004) elaborated on the relationship between landowners and government as follows. Unlike another clan, one clan cooperated with the government. This clan operates a small logging company. Not discouraged by the court case event, the leader of this clan went ahead to sign up on the government's new mahogany plan. In return, they were promised better rent, a percentage of money from log sales as well as other benefits. Since then, this clan has been involved with the mahogany industry in terms of harvest. The clan leader explained that they had to start somewhere. In his view, the only way to start somewhere was to give their land for harvest and commercial trials. The clan-operated company rose from humble beginnings. The once simple company which used to work with outdated equipment and poorly skilled workers now possesses an expensive heavy machine (a skidder) to extract logs from the forest.

There is yet another clan that sought compensation from the government as well as from the NLTB. This clan's multi-million dollar court case sought compensation for loss of indigenous timber and the suspected adverse effects on the environment such as discolouring of streams. In addition, the clan claimed that the government failed to honour the under-

standing that landowners would have the right to buy back the trees on maturity. In a reaction before the hearing of the case, the government and FHCL organised roadshows in rural areas. During these roadshows, they not only explained the plans for mahogany but also indicated how these would benefit the landowners. The roadshows did get most of the landowners back on their side.

Apart from land rental, landowners also worry about income relating to working on plantations. FAO (2002) describes landowner fears relating to income as follows. What complicates matters related to land tenure is landowner expectations. It took ten to fifteen years to establish mahogany plantations. To the local rural community, this meant a major source of income with a rise in living standards. The rural community soon grew to rely on the plantation establishment but there was yet another ten to twenty year waiting period for the completion of the establishment period. During this period, there was little employment on forest plantations, which resulted in a fall in income. This created worries and job insecurities for the local rural communities. A Joint Australia/Fiji Review Team (1986) also highlighted landowner income related issues as a key matter - income received from harvesting timber was hardly more than moderate; it was also irregular and only received during harvesting times. The team noted that even this was not the case because harvesting jobs were specialised in nature and required skilled workers and capital intensive harvesting plants given the topography and soil conditions on plantations; the latter displaced manual labour. One cable hauler unit, for example, would be adequate for all steeper areas of a plantation, eliminating the need for a number of workers.

Clearly, there were no instant riches in this industry. ABC Radio National (2004) understood this and stated that waiting for decades for the reward of big money promised in return for using their land has driven landowners restless. This in turn adversely affected their direct participation in economic activities. Landowners were thus pushing for concepts such as a 'trust'. They needed to be told that they 'have a greater position than what they really have' (ABC Radio National, 2004). According to a timber executive and a former Fijian diplomat, 'we have this asset that people learn has tremendous value... I'm afraid that unless we get a solution that's agreeable to Fijians, it's going to create more instability' (as cited in Frank, 2000).

In 2001, NLTB had designs on mahogany, hoping to buy back leases on all plantations. Feizkhah (2001) noted that the NLTB wanted to look for its own investment partner to cut and market timber. The then NLTB General Manager justified this: 'it's all for the landowners. We are

fighting for them' (as cited in Feizkhah, 2001: 22). He complained that it is hard to understand why certain landowner groups 'seem to say we are against them. They need the board's protection more than ever... With the troubles at the moment, there are a lot of sharks about'. However, with complains of inefficiency, secretiveness and indifference to landowner issues, many landowners prefer to 'swim with sharks then trust their official godfather' (as cited in Feizkhah, 2001: 22).

Landowners often raised concerns about the way the NLTB distributed incomes from leased lands. The NLTB took out 20 percent for its administration fee and then paid the remaining to the landowners with 25 percent of this going to the Chief, and others getting smaller shares. Ordinary clan members numbering sixty or more ended up with a pittance. A high chief complained that, 'most of the top chairs, they just want to fill their pockets... That's why we decided to kick out those people and go with the American company ourselves' (as cited in Feizkhah, 2001: 22). Landowners do hold the trump card. Feizkhah noted that with a grin, the high chief explained: 'we will just block the road to the plantation. Without an agreement with us, nobody will be able to get in to cut the mahogany – unless they have helicopters' (2001: 22).

FHCL is said to be the most controversial of all GCCs. Marred with landowner and political interference, and the 2000 coup after-effects, FHCL was never entirely left on its own to function commercially from the outset. It was never really given a commercial environment to work in. A number of CEOs left the company out of frustration; the enterprise did not have sufficient control over its activities. Every now and then, managements have had to consult and seek approvals from the key stakeholder – the landowners - and this was never easy. The entity also was not without continuous government and other forms of political interferences. The government did not receive any dividend from FHCL. FHCL remained dependent on government funding and/or guarantees.

Nonetheless, the lucrative resource of mahogany is recognised by all stakeholders. The Government has started a new reform. Under this, the role of the FHCL will be confined to that of a forest manager - it will only be engaged in planting and maintenance of plantations until maturity. But the planting and maintenance functions will be contracted out to the landowners. The industry will operate under a new licensing regime whereby the processing and marketing aspects of the industry will be handled by new license holders who would be forestry experts. A number of stakeholders, including FHCL, expressed their reluctance towards the new set up. However, the choice for them has been limited given the environment.

In terms of financial performance, from its inception until 2003, FHCL remained dependent on government funding. It was a disappointing performer as it did not show any financial progress since its inception in 1998 until 2007 (MPETC, 2009c). As in 2003, in 2006, FHCL was again technically insolvent. Returns did not flow in as expected. FHCL reported fluctuating losses, losses being the highest in 2007. It only reported profits twice between 2008 and 2010. 2008 was the first year of profits for FHCL, largely a result of putting in place financial controls, introducing internal restructure, and identifying key targets. As at 31 January 2011, debts of FHCL totalled about \$26 million. Out of this, about \$16.8 million was guaranteed by government (Nasiko, 2011). FHCL was also behind in its loan repayments (to the Fiji National Provident Fund). Because FHCL is about 80 to 90 percent export based even when it is yet to fully develop its export market, global crisis also has an adverse impact on it. Table 1 shows key financial ratios for the year 2009.

**Table 1: Financial Ratios (2009)**

<b>Asset Utilisation</b>	<b>Liabilities:Total Assets</b>	<b>Cash Ratio</b>	<b>Average ROA FY2002-2009</b>
9%	15%	0.20	-1.30%

(Source: ADB, 2011)

Asset utilisation ratio measures management effectiveness in using a company's assets in its daily operations. The higher the ratio, the better. FHCL's asset utilisation ratio in 2009 was at a low 9 percent. This means it earned just 9 cents for each dollar of asset held.

Liabilities : total assets ratio reflects at the portion of a company's assets financed through debt. The higher the ratio, the higher the risk. FHCL's liabilities : total assets ratio in 2009 was 15 percent but this was because most of FHCL's borrowing was sourced from government or government owned enterprises.

Cash ratio is a measure of a company's liquidity. The cash ratio of FHCL in 2009 was at the lower side - below 1. While a cash ratio below 1 is not necessarily bad, holding smaller amounts of cash may reflect ineffective asset utilisation, in FHCL's case its asset utilisation is also poor.

Return on Assets (ROA) indicates the efficiency of the management in using its company's assets in generating earnings. The higher the ROA, the better. For FCHL, however, instead of earning, it lost 1.3 cents for each dollar invested in assets.

Table 2 presents the net profit and revenue figures of FHCL for the years 1999-2011.

**Table 2: Revenue and Net Profit after Tax (FJD,000)**

Year	Revenue	Net Profit
1999	5	-3,982
2000	57	-2,938
2001	13	-2,972
2002	361	-1,842
2003	3,371	-3,669
2004	6,017	-2,354
2005	14,445	-2,065
2006	14,284	-6,792
2007	13,433	-25,860
2008	19,658	1,171
2009	15,903	-3,001
2010	25,300	1,634
2011	na	-164

(na – not available at the time of research )

(Source: MPETC, 2012)

The table shows that the FHCL continued to report losses except in 2008 and 2010. The table also shows fluctuations in revenue with periods of improvement between 2002 and 2005. Naturally the company could not pay any dividend to the government during the period.

Sectoral performance can shed some light on how the industry, within which the FHCL operates, performed in recent years. The key sectoral performance data is the sectors contribution to GDP. The overall forestry sector's contribution declined in 2009 but improved in 2010 (Ministry of Finance, 2011).

### Major Findings

FHCL was riddled with numerous problems to the date of this research. It operated in losses/generated insignificant profits and was not in any position to pay dividends to the government. The major issue that plagued FHCL was heavy dependence on the most powerful stakeholders - the owners of resources from whom cooperation was continuously sought but without much success. Other issues included dependence on natural resources which are susceptible to natural disasters and pests, financial dependence on the government, the lack of extensive and creative marketing, and lack of forethought on diversification. The above led to

little to no improvement in FHCL's performance, at times even leading to worsened situations. While there were little improvements such as small profits in recent years, the persistent problems overshadowed such small gains.

The key assumption of the Resource Dependence theory of organisations responding to and becoming dependent on those organisations which control and provide it with its critical resources, make much sense in FHCL's case. Empirical evidence confirms that FHCL is entirely dependent on its key resource providers who are the landlords of the critical resource on which mahogany is planted.

Without casting any judgment on the merits of the landowners actions, the fact remains that mahogany landowners blocking the roads to plantations and taking legal actions directly impact the processing company. During the period, landowners often staged protests to take back the trees which occupied their land, even though the Government had leases over the same. The second CEO of FHCL explained that FHCL was often unable to access the plantations because of unresolved issues over crop ownership. Such situations make not only the FHCL weak, but also strengthen the position of the resource providers

### Concluding Remarks

This study confirms the validity of Resource Dependence theory for the mahogany industry in Fiji. The Resource Dependence theory points out that the organisation which provides key resources will be more powerful than the dependent organisation given that as a supplier it owns and controls the critical resources. When the critical resources are raw materials or inputs to the production process, the production process of the dependent organisation will be affected adversely in situations of irregular or no supply leading to a waste of production time and/or lower production levels. These in turn can lead the dependent organisation not being able to meet customer demand, losing out on sales and thus profits. This implies that a given organisation's performance very much depends on the organisation that provides it with its critical resource. In short, the dependent organisation is at the mercy of the powerful supplier of critical resources. This was clearly the case at FHCL.

The entire set of activities and the motivations underpinning these need to be clearly understood and addressed to every stakeholder's satisfaction in such circumstances. In this, a number of strategies need to be utilised. Purely a legalistic approach may not produce the desired result in the setting in which the mahogany industry exists in the country.

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