

When Contracting-out Doesn't Work: A Case of a GCC in the Pacific Islands

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Abstract

This paper investigates contracting out activities carried out by a Fijian Government Commercial Company, Airports Fiji Limited. It provides case based evidence of situations where contracting out or outsourcing activity does not work. The paper argues that ill thought-out contracting out activity can not benefit a public enterprise despite the promises of Public Enterprise Reforms. It also argues that hostile contracting out endeavours are detrimental to public enterprises.

Introduction

The concept of Public Enterprise Reform (PER) is undoubtedly no new phenomenon. The often assumed purpose of PER is corporatisation, commercialisation, and privatisation of state owned enterprises. This approach to PER first began in the UK in the late 1970s. In particular, it gained grounds when Margaret Thatcher got elected as Prime Minister in 1979. This brand of PER has its origins in her market-led economic policies. Britain started privatising the entire state-owned manufacturing industry sector, then moved onto telecommunications in 1984, public bus transport in 1985, gas in 1986, water and electricity in 1990, railways in 1996 and nuclear power in 1997. Since then, state intervention in the market has been increasingly challenged. Such a challenge acquired a more ideological form with the rise of ultra-conservative governments in the UK and USA. With the 1980 election of Ronald Reagan and the American President, PER gained political and policy momentum. Both doctrines ('Thatcherite' and 'Reganomics') significantly elevated the role

of the market in resource allocation. Not limited to the developed world, largely pushed by multilateral financial institutions, PER has become the hallmark of public policy making throughout the world (Narayan, 2005).

Privatisation involves denationalisation (selling public assets), deregulation (introducing competition) and contracting out, i.e. creating contracts with private firms for certain tasks (Kay and Thompson, 1986: 18). Contracting out is also known as outsourcing.

Public enterprises were criticised because they were often subsidised by governments/owners; they often operated in losses ultimately borne by the governments (tax payers); they provided inferior goods and services; they restricted consumer choices, and they remain static (Yaqub et al., 2011). Proponents of PER recommended that public enterprises be placed on 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).

This paper examines one aspect of PER: outsourcing/contracting out. The paper discusses the promises of PER, and of outsourcing in particular, and examines these in light of the outsourcing activities in one case study from Fiji.

Basis of Out-Sourcing

PER promises a rise in efficiency and effectiveness of an economy by reducing the size of government and increasing the size of its private sector. This promise has been the subject of significant research over the years. Whereas efficiency, effectiveness and efficacy have become the catchphrases justifying reforms over the years, considerable debate has emerged between reform-critics and reform-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 evidences 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 costly. Those in favour of state created enterprises defend the state. For example, Kumar (2010) 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. In addition, reforms may result in increased inefficiencies, for example, by politicians who may resort to unproductive behaviours such as interference, sabotage and corruption to regain their lost political control (Tambulasi, 2007). Reform-

advocates, on the other hand, criticise state capitalism. Schuman (2011), for example, highlights the case of Russia which he says is state capitalist and one that is strangling its economy.

By and large, encouraged and financed by the donor agencies, developing countries have undertaken reforms of their public enterprises to improve their performances. Critically though, literature provides clear evidence that reforms have not corrected the ills of all public enterprises across the world. In an attempt to reform the public sector, most governments worldwide tried 'to privatise everything that moves, corporatise everything that is standing still, and streamline what is left' (Wiltshire, 1991: 3).

Privatisation refers to the transfer of ownership of public enterprises to the private sector. Contracting out, on the other hand, involves retaining ownership and overall control of the entity but employing a private sector operator to deliver some or all services and products (Johnston and Seidenstat, 2007). Involving the private sector in the provision of services is an important element in governmental reforms with the aims of controlling costs, increasing productivity, or improving quality (Johnston and Seidenstat, 2007). Johnston and Seidenstat (2007) elaborate that while there are choices as to what form of privatisation could be employed, contracting out is the dominant form.

Outsourcing is not only commonplace in today's businesses (Kremic et al., 2006), it is one of the fastest growing and arguably the most important areas of business activity (Burnes and Anastasiadis, 2003). Like Johnston and Seidenstat (2007), Amirkhanyan et al. (2007) also state that one of the most common mechanisms of privatisation is contracting out. They inform that understanding its trends and rigorously analysing its implications are salient issues for public management research.

Contracting out is often justified on the principle that competition can lead to efficiency in services as governments contract out part of their responsibilities to private agents (Awortwi, 2012). Parry et al. (2006) propose that contracting out reduces cost whilst enhances service. Other authors state that the benefits accrued are not only cost reduction and better services. For instance, according to Beaumont and Sohal (2004), contracting out or outsourcing activities are not only undertaken to save costs and to improve performance, but also to access skills and resources unavailable in-house.

However, as Awortwi (2012) rightly argues, governments can face problems of agent opportunism when working with contractors. According to Moeller (2010), any lack of partner compatibility and goal incongruence can result in conflict and opportunistic behaviour. Moeller (2010)

suggests partner selection as a management control mechanism to control the behaviour and network performance of business partners to minimise such opportunistic behaviour. According to Beaumont and Sohal (2004), key impediments to outsourcing is ascertaining relevant costs, and formulating and quantifying requirements.

Woodall et al. (2009) investigated outsourcing of Human Resources (HR). They argue that while cost considerations were dominant in large organisations, other factors such as organisational history and context were equally important for HR outsourcing activities. Very often senior managers from outside the HR function are very influential in contracting out the HR function to external parties. In essence Woodall et al. (2009) found that for most organisations, the decision to outsource was not made on the basis of a thorough analysis of costs. This affected the quality of HR service offered as well as the career paths and skill sets required from HR staff. Sheehan and Cooper (2011), who also examined outsourcing of HR, confirm that organisations can benefit when an elevated strategic Human Resource management (HRM) role is combined with the decision to develop in-house HRM activities rather than externalising these responsibilities. The benefits flowed mainly through a positive relationship between strategic HR involvement and organisational effectiveness. The relationship between HRM outsourcing and financial performance was positive for smaller firms and negative for larger firms (Sheehan and Cooper, 2011). While their study did not confirm the expected relationship between smaller organisational size and increased outsourcing, it did indicate a positive relationship between HRM strategic involvement and the decision to outsource (Sheehan and Cooper, 2011).

Employee attitudes towards the company contracting out and the contractor may be influenced by how employees interpret the reasons behind changed HRM practices (Fontinha et al., 2012). Fontinha et al., confirm that commitment-focused HR attributes are positively related to the commitment of the client organisation while and control-focused HR attributes are negatively related. If an employee interprets HR practices as part of a commitment-focused strategy of the outsourcing company, then it has clear attitudinal benefits (Fontinha et al., 2012).

Dekkers' (2011) study on outsourcing in the manufacturing industry showed that companies perform poorly when activities are outsourced. This happens because the manufacturing strategy remains disconnected from the outsourcing practices and hardly contributes to competitive advantage. Dekkers (2011) affirms that management of outsourced manufacturing activities should not be rushed into; rushed decision on outsourcing has adverse effects. According to Perunović et al. (2012), ven-

dors who seek to advance in the industry's value chain need to expand their portfolio of competencies and adapt their deployment strategies to new, more dynamic and volatile environments. They suggest relationship management as an important capability to be considered when studying and practicing manufacturing outsourcing (Perunović et al., 2012). In addition, an outsourcing relationship requires a richer and more developed communication and ordering pattern than the one commonly assumed (Boulaksil and Fransoo, 2010). As such, there appears to be some discrepancies between many of the prescriptive outsourcing models in the literature and the processes observed in practice (De Boer et al., 2006).

Größler et al. (2013) compared international outsourcing with domestic outsourcing. They found that companies differ in terms of focus. Companies that outsource internationally focus on achieving cost benefits while companies that outsource domestically focus on achieving capacity flexibility. However, whether the firms are located in developed or in emerging market economies, decisions of firms to outsource do not differ much (Größler et al., 2013). According to Liu et al (2008), identifying the right offshore location is critical for firms that actively seek opportunities in global markets. They suggest rigorous and careful analysis involving a set of qualitative and quantitative factors during the selection process.

A lot of studies focus on US for-profit organisations but remain largely 'theoretical', discussing potential benefits, risks and motivations (Kremic et al., 2006). Furthermore, literature on contracting out contains little evidence of research on holistic issues of impact at systems levels beyond the firm, notably across sectors and nations (Harland et al. 2005). Holistic view is very much needed, linking local and organisational issues with sectoral and national level actions and outcomes (Harland et al. 2005). Harland et al. (2005) elaborate that in this way, aggregate risks and benefits can be assessed at different systems levels. They highlight the little research evidence in assessing whether outsourcing is a mechanism against failure to solve internal problems, and moving responsibility and risks out of the firm. Additionally, most of the outsourcing research has concentrated on an activity either being 'in' or 'out'; the circumstances in which mixed models might be appropriate has not been explored to a large extent (Harland et al. 2005).

More work needs to be done in order to establish what constitutes accountability since accountability is spoken of but not necessarily achieved (Blasi, 2002). Also, research is scarce on outsourcing practices of non-profit organizations, where objectives for outsourcing are typically politically driven (Kremic et al., 2006). This scholarly gap needs to be filled given that government agencies are increasingly pursuing contract-

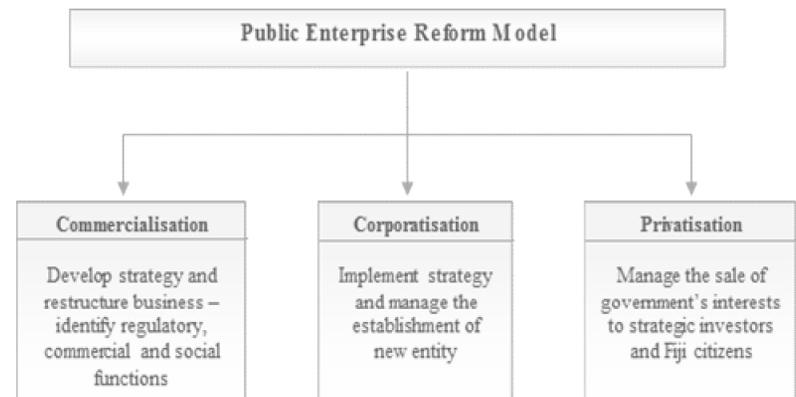
ing out for delivery of public goods and services because of the two expected outcomes of reduced costs and quality improvements (Van Slyke, 2002). Given the professed benefits of contracting out, during the past decade, there has also been an increase in government contracting third party service providers. Literature on the outcomes of such outsourcing is not present.

Political goals and behaviours do influence the outsourcing decision process (Marshall et al., 2015). It is accepted that neither the private sector nor the public sector has a monopoly on good practice; the private sector could benefit from the public sector's more structured approach while the public sector could benefit from the more strategic orientation of the private sector (Burnes and Anastasiadis, 2003). Outsourcing is thus, not only common in profit seeking organisations, there is considerable outsourcing effort in governmental as well as non-profit organizations (Kremic et al., 2006).

PER in Fiji

Corporatisation, commercialisation and privatisation are the three ingredients of PER. There is no golden rule on the order of the first two components. Fiji's Department of Public Enterprises (1998) placed commercialisation as preceding corporatisation.

Fig. 1: Public Enterprise Reform Model



(Source: Department of Public Enterprise, 1998)

In this approach, departments are commercialised first, and then corporatised. Commercialisation involves restructuring the department to levy commercial charges, separating regulatory and commercial functions, and identifying social functions for either dropping these or for separate funding, often in the form of government subsidy. This would be followed by Corporatisation and then privatisation. There is no strict order. Likewise, while it has not happened in Fiji so far, the entire assets of a Government Department could be sold outright leaving the new owner to organise the assets as a corporate entity and commercialise its operations.

Like other countries across the world, Fiji also went on the road of reform of its public enterprises. The process of reforms commenced in the mid-1980s (Narayan, 2008). Almost all governments, except the Fiji Labour Party-led Government (May 1999-May 2000), have been pro-reform (Narayan, 2013). The PER process began with the military regime coming to power after the 1987 coup. It continued with the Rabuka-led *Sogosoqo Vakavulewa ni Taukei* (SVT) Government (1992-1997).¹ The very first reforms were implemented in the following four government departments/entities between 1990 and 1992: Post and Telecommunications Department, Ika Corporation, Fiji Pine Commission, and the National Marketing Authority.

The Post and Telecommunications Department was corporatised as the Fiji Post and Telecommunications Limited in January 1990; later, in 1996, the company was separated into two companies namely, Telecom Fiji Limited and Post Fiji Limited. Following this, shares in the former were sold to the private sector through international bidding. The Ika Corporation became Ika Corporation Limited in January 1990. The Fiji Pine Commission was incorporated as Fiji Pine Limited in September 1990 with final transfer of assets and liabilities done in January 1991. The National Marketing Authority became National Trading Corporation Limited in 1992 (Reddy, 1997).

Thus far, quite a few studies have been carried out on PER in Fiji. The following public enterprises have been studied: Airports Fiji Limited (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; 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; 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. Chand (1999, on Inland Revenue Department and Customs and Excise Department) and Nath (2000, on Housing Authority) focused on Performance Management Systems (PMS) in the public sector.

One particular PER activity needs mention; this is the case of the national bank. Fiji established a savings bank, called Post Office Savings Bank (POSB) in 1907. From this, allegedly a poor performing government owned bank, it was made into a successful privatised bank called the National Bank of Fiji (Grynberg et al., 2002). However, during the late 1980's, after the first military coup, and in the 1990's the bank descended into a series of financial problems leading to its collapse by 1998. Mismanagement and abuse resulted in massive bad and doubtful debts, and a state of insolvency. In 1998, the Government, as the owner, split the Bank into a 'bad bank' which took over the non-performing loans, and a 'good bank' (Grynberg et al., 2002). In 1999, 51% of the 'good bank' was sold to Colonial Limited, a financial services provider. It renamed the banks Colonial National Bank (CNB). In 2000, Colonial Limited merged with the Commonwealth Bank, an Australian Bank. On 27 January 2006, the Commonwealth Bank acquired the remaining 49% stake in CNB from the Fiji Government making it fully private, and completing the privatisation process of the state owned national bank. In December 2009, Papua New Guinea's Bank of the South Pacific (BSP) purchased CNB from the Commonwealth Bank and re-branded it as Bank of South Pacific (Grynberg et al., 2002, Waqailitu 2009). The gains from privatisation were reflected in better financial results in 2013, reporting an increase in net profit after tax. The corporate area also performed strongly with a portfolio growth of 34% (BSP, 2013). There, however, is no study on comparisons between the operations prior to the reforms and those now. It, thus, is not clear if the new entity is relying on contracting out as a tool.

Thus, none of the studies listed above have specifically looked into contracting out as a component of PER. There is little evidence of successful outsourcing activities in Fiji. There are, however some examples of public enterprises that have undertaken contracting out/outsourcing initiatives. One recent example includes the Fiji Roads Authority which con-

¹ Fiji has been a coup-ridden country, with the first military coup taking place in May 1987. Since then, coups took place in September 1987, May 2000, July 2000, and December 2006 (Narayan, 2013).

tracts out road construction, repair and maintenance works as well as management and engineering works. However, the effectiveness of this endeavour is yet to be evaluated given that the projects are still under way.

This paper examines one Government Commercial Company (GCC) which has experienced corporatisation: Airports Fiji Limited (AFL). A GCC is a wholly government-owned corporatised enterprise. It is generally financed through government equity and/or debt. The Fiji Government instituted structural changes of commercialisation and corporatisation in its quest to improve the financial performance of GCCs. According to the ADB (2011), Fiji has been the leader in public-private partnerships and contracting out.

This research specifically investigates contracting out activity carried out by this entity and tries to find out if this activity has been beneficial as should be the case for public enterprises.

The research used quantitative and qualitative research methods; data was gathered through in-depth face-to-face interviews as well as from relevant primary and secondary sources. A case study research approach has been adopted in the study with 'interview' as a major tool for investigation. Since this research is qualitative in nature, it used purposive sampling and included specific predefined groups of the enterprise. In addition, this research used snowball sampling. Researchers first interviewed a key senior official at the Ministry of Public Enterprises, Tourism and Communications (MPETC) who recommended names of key contact personnel at the enterprise. Its annual reports, corporate plans and union, GCC and ministerial correspondences, memorandums, brochures and magazines that were available were examined to formulate certain enterprise-specific questions for interviews and to cross-check on interviewee responses. Cabinet decisions, ministerial speeches, legislation and parliamentary reports were also sought.

Altogether, eight in-depth interviews were conducted.² The interview questionnaire acted as guidelines. The questions evolved around the situation prior to, during and after the reform process; forces behind reforms; the benefits and problems confronted with during the process, and the aftermath of the process. This research called for a flexible and unrestricted questionnaire structure. Questions were thus asked in an open-

² Interviewee names are withheld given political sensitivities and job security concerns. In Fiji, individuals particularly government employees are wary of information they release. Interviewees were advised of the nature of this study and on confidentiality undertakings.

ended manner to allow for sufficient flexibility so that interviewees could respond in their own way. This also helped generate a rich source of field data and allowed for further probing of responses.

Information gathered from interviews were cross-checked with various responses and documents for validity and reliability. For validity, this research used the criteria for validity of qualitative research which involves credibility, transferability, dependability and confirmability (Guba and Lincoln quoted in Trochim, 2006). The researcher assured credibility of this research by verifying interviewee responses. Statements were cross-referenced between interviewees' responses' and with documents such as previous research articles, company and ministry documents, published interviews in reputable magazines and newspaper articles. Dissimilar statements were marked as queries and after an interval of a few days, queries were clarified through quick repeat interviews, emails or telephone inquiries. In terms of transferability, the results of this research can be tested in other settings of public enterprises. However, as Trochim (2006) explains, other researchers wishing to do the transfer of results to another context are responsible for deciding how sensible the transfer will be. Dependability emphasises that the researcher account for the changes in the research context. In qualitative method it is the researcher's responsibility to describe such changes and to explain how these changes affect the way the research is done. As Neuman (2006) explains, in a qualitative research, the researchers measure during the data collection process and, re-examine and reflect on data and concepts simultaneously and interactively. Since this research used the case study approach, the logic of analytic instead of enumerative induction was preferred. Qualitative research makes it possible to uncover individual/institutional perceptions and motivations. However, there are obvious limitations in respect of statistical generalisation.

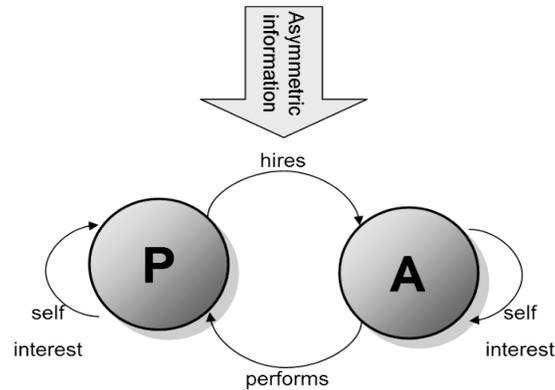
Theoretical Perspective: The Agency Theory

The origins of the Agency Theory dates back to the 1960s and early 1970s as economists explored and described risk-sharing among individuals and groups (example Wilson, 1968; Arrow, 1971 cited in Eisenhardt, 1989; Eisenhardt, 1989). Eisenhardt recognises Ross (1973) and Jensen and Meckling (1976) as those who broadened the risk-sharing literature to agency problem that emerges between cooperating parties with different goals and division of labour. According to Mitnick (2006), Stephen Ross and Barry Mitnick were the earliest scholars to clearly suggest the Theory of Agency. Mitnick introduced the viewpoint that institu-

tions form around agency and evolve to deal with agency while Ross initiated the Economic Theory of Agency (Mitnick, 2006).

The key actors in the Agency Theory are the principal and the agent. Figure 2 illustrates the basic idea behind Agency Theory.

Figure 2: Principal-Agent Problem



(P: Principal, A: Agent)
(Source: Klein, 2009)

Principal is the party that pays the agent for either the agent to act on behalf of the principal or the agent to provide some service to the principal (International Energy Agency-IEA, 2007). For instance, an owner or employer (principal) pays an employee (agent) to act on his or its behalf. The employee is required to provide a service such as production of goods for sale (IEA, 2007).

Central to this theory is the assumption that the agent may optimise its profits/gains at the expense of the principal. This is called agent opportunism. In this way, Agency Theory reminds us that much of the organisational life is based on self-interest, particularly of the agents (Eisenhardt, 1989). The agent may optimise its profits at the expense of the principal as it may not share the principal's goals (Hadi and McBride 2000). Any lack of partner compatibility and goal incongruence can result in conflict and opportunistic behaviour (Moeller, 2010). The principal

thus needs to guard against such agent opportunism or agent's 'sub-optimal behaviour'.

Agency Theory suggests that while economic inefficiency cannot be avoided in principal-agent relationships, there are ways in which relationships between these two key parties can be made efficient (IEA, 2007). The principal can, for example, control the agent by creating incentives to persuade and encourage the agent to efficiently perform the principal's wishes (Hadi and McBride, 2000).

Another assumption of Agency Theory is that the principal tries to guard against agent opportunism by investing in information systems to control agent opportunism and to get enough information on agency activities such as investing in monitoring systems (Eisenhardt, 1989). The Theory suggests that the board of directors represent the key internal control mechanism for the principal that can be used to align the divergent interests of the managers (agents) to that of the shareholders (principal). One of the other assumptions of Agency Theory is that independent outside directors in a board can lessen insider opportunism as well as lessen insider (management/employees) influence over the board.

This paper employs Agency Theory to explain findings given that this theory makes most sense in contracting out situations. Governments can face problems of agent opportunism when working with contractors (Awortwi, 2012).

Airports Fiji Limited

Airports Fiji Limited (AFL) is one of the eleven GCCs created in Fiji after PERs. Being Fiji's only airport management company, it operates fifteen airports/airstrips which include the Nadi and Nausori International airports and thirteen domestic airstrips located on islands scattered over Fiji (Narayan, 2013). Nadi is located on the west side of Fiji's main island, Viti Levu while Nausori is situated on the eastern side of this island. The thirteen smaller airports and strips on the outer islands of Fiji are situated in Labasa, Savusavu, Taveuni, Rotuma, Koro, Gau, Bureta, Vanuabalavu, Lakeba, Cicia, Moala and Kadavu. The domestic airstrips are operated under the non-commercial obligation of AFL. In addition, AFL provides Air Traffic Management (ATM) services which include the air spaces of Tuvalu, New Caledonia, Kiribati and Vanuatu. The core business of AFL are provision of world class airport facilities and its safe and efficient operation; provision of air navigation services in the Nadi Flight Information Region, and management of commercial activities through the development of its assets (AFL Annual Report, 2010). The

core function is air traffic control while support activities are telecommunications, electrical, building services, finance and human resources.

The airport handles 98 per cent of incoming international visitors, of which 80 per cent are tourists. It also handles freight activities and airline services. It serves twenty-eight airlines, connecting Fiji to eighteen cities internationally. In 2010, the Nadi International Airport passed 1,412,499 international passengers and 581,393 domestic passengers. For both international and domestic travellers, this airport also provides shopping and dining experience (AFL Website, 2011).

Pre-Reform Stage

AFL was formally known as Civil Aviation Authority of Fiji (CAAF). CAAF was a statutory body established by legislation (Civil Aviation Authority of Fiji Act 1979). Prior to this, its functions were carried out by the Department of Civil Aviation. Singh (2002) argues that the restructure of CAAF was not triggered by poor financial performance; rather it was part of a broader public enterprise restructuring programme adopted by the then post-coup Rabuka Government in the 1990s. She explains that CAAF neither had outstanding debts nor incurred any losses ever since it was declared an Authority, with operating profits before-tax of about \$6.22 million in 1997 and \$7,829,114 in 1998.

The then Government, in particular its Minister for Public Enterprises took a chance on reorganisation in the face of opposition from some cabinet members who suggested that the reorganisation be deferred till after the 1999 elections. A few cabinet members cautioned that the Minister 'was putting the party and its coalition partners at risk' (The Review, 1999: 18). But most cabinet members somewhat took it for granted that the same government will return for a third term. Singh (2002) claims that AFL's restructuring may also have been further influenced by the then New Zealand Finance Minister who at that time was visiting Fiji. Snell (2000) argues that the CAAF restructure had more to do with undermining the influence of the powerful union - the Fiji Public Service Association's (FPSA) - on airport operations.

AFL's technological achievement included it being the first in the world to implement the Global Positioning System (GPS) which gave it the cutting edge in global aviation technology. Two thirds of its revenue was generated from non-core activities. However, 'even when CAAF was operating profitably, there were anomalies' (Interview with a long-serving employee). According to a long-serving employee, profitability was not an issue. He explains:

The problems were those which are normally inherent in a public enterprise such as the laidback, lax work habits where drinking of 'grog' was a regular event. In addition, there were no proper controls and no accountability. CAAF was not really run like a business but was still generating profits because of its monopoly status. This explains why its return on assets was just 5 per cent against the expected 10 per cent even when CAAF generated a profit (after interest and tax) of \$5.8 million at that time. (Interview record)

Interviews reveal that even if CAAF tried to get commercial, it felt restricted because of too much control over it by the government. For instance, CAAF submitted a draft legislation seeking approval to charge the public for using its car park. It kept waiting and was told that it has no right to charge the public. In addition, it was claimed that CAAF was carrying a much higher burden of employees than what was needed. When compared with the Auckland International, the Nadi Airport handled ten times less traffic and freight but employed twice as many employees (*The Review*, 1999). However, the organisation's CEO in office in 2003 justified this saying that unlike the Auckland International, the Nadi Airport oversees fourteen other airstrips.

The reorganisation initiative at CAAF was effected in 1997. CAAF's reorganisation charter was formerly endorsed in January 1998 by the Ministries of Finance, Civil Aviation and Public Enterprises.

Reform and Post-Reform Stage

A 1990 study by the International Civil Aviation Organisation (ICAO) advised against a second authority and privatisation. It recommended structural changes within CAAF instead. While the CEO of CAAF and Fiji Public Service Association (FPSA) were in agreement with this view, the government proceeded with its consultants work, who actually did not pay heed to the ICAO report in the early stages of reorganisation (Singh, 2002). AFL was established as a GCC on 3 June 1998 under the Public Enterprises Act 1996. This was done to make it more efficient, productive, profitable, accountable, better organised and commercially oriented (Loanakadavu, 2003b). While AFL was declared a GCC on 3 June 1998, it formally began operating as a GCC from 12 April 1999 as the enabling legislation, the Civil Aviation Reform Act, was enacted over seven months later, on 18 February 1999 (Singh, 2002).

The CAAF restructure saw a split of CAAF into two separate companies - the Civil Aviation Authority of Fiji Islands (CAAFI) and AFL. CAAFI was charged with the regulatory aspects of Fiji's aviation industry while AFL took over the commercial operations of all airports and airstrips. The separation was seen as important for checks and controls since AFL would be a monopoly (Singh, 2002). From 1999, it was emphasised that AFL 'think business-like' and become 'customer oriented'.

Prior to the reforms, the then Minister of Commerce, Industry, Co-operative and Public Enterprises made a presentation to unions and selected staff. Staff members were told that the change will come in effect after the Public Enterprise Act 1996, which was a tool to assist the process of reform. However, the CEO and senior management at that time were not comfortable with the restructure concept. They were not thoroughly consulted with on the process. 'Continued lobbying by [the CEO] to retain the ICAO recommended structural status quo with the SVT government, may have been a catalyst in his departure from CAAF later in 1999' (Snell, 2002: 47). Government proceeded with the reforms and CAAF circulated notices to employees indicating that CAAFI will assume regulatory aspects while AFL will handle the commercial functions (Singh, 2002).

A senior employee who has been with AFL since the time of restructuring, revealed the following on staff resistance towards CAAF restructure. In the early stages of CAAF restructure, the GCC was faced with staff outrage and fear because staff lacked full understanding and appreciation of the reorganisation process and the consequences of this process. Some staff were of the view that such an action was a political move to garner support for the then ruling party and that such a move will eventually be diffused by the opposition in parliament. Overall, staff stood divided in their views towards restructuring. Three options were proposed. One was that employees could set up their own companies, submit tenders and receive preference for contract work with AFL. If successful as bidders, these employees were to resign from CAAF. Another option was that those unsuccessful in securing jobs with AFL or CAAFI were to be given redundancy packages. The third option was that all employees needed to reapply for open ended individual agreements with annual reviews for bonus payments. Government proposed that all collective agreements were to be terminated. At that time, FPSA represented most of CAAF's multi-ethnic workforce within one collective agreement (Singh, 2002).

A long serving employee revealed the following:

majority of the FPSA members objected to the extent of changes proposed. Employee resistance was obvious since the company officials as well as the then government failed to properly educate the staff on the changes and the resulting outcomes. No form of reorientation training or rehabilitation programs were implemented. Employees just had to accept change. In the absence of necessary information on the changes, employees turned to their unions. The major union, FPSA questioned the restructuring move. It argued that because satisfactory social safety net did not exist in Fiji, the redundancy package will not be of much help in the medium to long-term. Later in 2006, AFL ran training on stress management and customer focus since a few workers were rumoured to have died from stress earlier.

Unlike the other unions, FPSA stood opposed to the restructuring idea, taking its concerns to AFL, the Parliament and the courts but to no avail. Each time AFL's response was that FPSA would be contacted at the appropriate time (Singh, 2002). The then government promised that service contracts will be awarded to the new companies established by the ex-staff of CAAF.

Most of the FPSA union members rejected CAAF's redundancy package and staged a strike. While FPSA was not dead against the restructure or reform idea, it stood strongly opposed to the idea of individual contracts and the way the restructure was being executed: 'the CAAF/FPSA collective agreement had been at the very heart of the conflict from the onset of the restructuring exercise' (Singh, 2002: 74). Individual contracts, compared to collective agreements, weaken a union, strengthen management and threaten the long-term existence of a union (Singh, 2002).

Snell (2000) establishes that CAAF/AFL sought to unilaterally impose individual contracts and promote an enterprise or a non-unionised workforce. FPSA took this as management undermining its power. Singh (2002) informs that FPSA wished to continue with its previous agreements even after restructuring. Singh (2002) has documented the details. Supporters of the reform argued that FPSA's agreements were restrictive, inflexible, disregarded the need for multi-skilling, blocked redeployment and constrained development. On 11 April 1999, CAAF highlighted that 500 employees neither accepted the redundancy packages nor were offered positions in the new companies, thus risked losing their jobs. A day after, AFL decided to lay off 358 employees who either refused or were

not offered the package at the Nadi Airport. Three hundred and twenty employees opted for the package and were paid on 21 April 1999. Also, during the restructuring phase, the landowners on whose land the airports were built, demanded the return of their land. As a consequence, in May 1999, the Rabuka cabinet granted 15 per cent equity in AFL to the land-owning unit to solve the landowner issues. On 12 May 1999, workers were told to either accept the individual contracts or stay with the union. Since majority of the employees did not understand what was happening, they remained with the union feeling protected and comfortable being union members. In total, thirty-five FPSA members accepted the redundancy package.

Government argued that FPSA was politically motivated and wanted to strike back at the ruling government. The Secretary-General of the FPSA was the leader of the Fiji Labour Party which promised workers return of their jobs if the Labour Party came to power in the 1999 elections (The Review, 1999). According to a senior employee, certain other union leaders also exploited the situation for personal gains; they did so by becoming the principal officers of companies formed by the ex-staff. A leader of one of the management supported unions used his position to become the GM of the company formed by the ex-staff. In such positions, these leaders took advantage of the lack of knowledge, unquestionable trust and loyalty of their members as they made use of member funds to their advantage. On the political front, the restructuring move also proved disastrous for the then ruling party in that it lost its backing and dominant status during the 1999 elections.

The current staff roll is almost equal to the staff number common at the time of CAAF operations before the restructure (Interview with a long serving employee). Ironically, overstaffing was one of the reasons behind the CAAF restructure. Before the CAAF split, staff roll was 754, comprising 449 salaried staff, 302 wage earners and three expatriate staff (The Review, 1999). After the split, forty-two staff members were taken in by CAAFI, ninety-eight by AFL, fifty-five were employed by Fire Control Fiji Limited (FCFL), 100 by Strategic Air Traffic Control Company (SASL), fifty-five by Airport Maintenance and Technical Services (AMATS) and sixty-eight by security services, leaving 343 out of job. Of this 343, a few took up jobs elsewhere (The Review, 1999: 18). In 2010, there were a few new recruitments to strengthen the skills and knowledge base of AFL (AFL Annual Report, 2010). While the restructure brought down the staff roll, in 2000 staff roll was higher as the newly elected Labour Government in 1999 instructed AFL to rehire the redundant and striking employees (The Review, 2004). CAAFI took back sixty-five

workers while AFL took back the remaining and four more (The Review, 1999: 18).

Contracting out to ex-employees

Not surprisingly, Fiji Air Traffic Controllers Association (FATCOA) and Civil Aviation Workers Association (CAWA) lent their support towards reforms when their companies, Airport Maintenance and Technical Services (AMATS), Fire Control Fiji Limited (FCFL), and Strategic Air Traffic Control Company (SASL) were given service contracts. FCFL's contract was later cancelled given their inadequate manpower situation while AMATS was wound up in 2000. During April 1999, CAWA and FATCOA demanded the removal of the then expatriate CEO. This CEO was alleged to be creating a rift between the unions with the way he awarded contract work. Consequently, the CEO was relieved of his duties within a week of such developments (Singh, 2002).

At AFL, CEOs kept rapidly changing. Of particular interest is the political involvement in the recruitment and the dismissal of CEOs. A former CEO of 1998 was a British expatriate with background in banking and international finance. He stated that 'it is not altogether surprising that commercial decisions which might have been taken more quickly in a commercial environment have not been taken' given AFL's past civil service environment (as quoted by Keith-Reid, 1998: 22). He admitted to being pressured into awarding contracts to those companies which were formed by ex-CAAF staff (The Review, 1999). According to Snell (2000), he was appointed to ensure that the new employment regime of individual contracts was swiftly implemented given his experience with the New Zealand model. When he resigned, his predecessor was reappointed as the CEO in 2001 (Pareti, 2003a). This reappointed CEO's earlier dismissal resulted from his refusal in renewing the SASL contract even after the then board's and government's insistence on the renewal (Pareti, 2003b). The 2003 appointed CEO, AFL's fifth CEO in five years was an economics graduate. Prior to being appointed as the CEO, he was a Senior Economic Advisor and the Head of the Policy Analysis Unit to the then Prime Minister, having worked for the Fiji Government for fourteen years (Pareti, 2003b; The Review, 2004). He also felt pressured by the board into awarding the airspace management contract to SASL.

What is also worth noting is that the board chairman of SASL was an experienced government economist who was the key strategist of the Qarase-led political party (Pareti, 2003b: 4) which came to power in April 2001. The Qarase-led Government's Public Sector Reform Minister ex-

pressed, in written, his displeasure over the public statements made by this CEO. In his public statements, the CEO often implied that the AFL/SASL agreement was a 'lose agreement'. After Qarase was deposed in a coup in December 2006, this CEO alleged that the military began threatening to physically remove him from AFL because he was not abiding by their demands (Fiji Today, 2010). This event is similar to Tambulasi's (2007) finding, of politicians resorting to unproductive behaviours such as interference, sabotage and corruption to regain their lost political control.

Another critical fact is that contracts awarded to companies created by ex-staff during the reforms had a number of illegalities. The then Attorney General (1999) labelled the AFL/SASL deal unlawful and dubious; he informed the nation that SASL was paid \$1 million more than what it was actually owed, and that contracts were awarded before tenders were being advertised (The Review, 1999). SASL was contracted by AFL to provide airspace management (Keith-Reid, 2003). It was established by about eighty local air traffic controllers, all being former employees of CAAF, as part of its reorganization process.

Contracting out air traffic control and cleaning services were amongst the key changes after the restructure. This reduced the number of employees and overtime costs for AFL. But then AFL had to pay for the services as per the outsourcing contracts.³

For some time there was a tussle between AFL and SASL because AFL also had designs for its own airspace management. It later decided to focus on its core business of airport development. Amid this tussle, AFL lost the Tonga and Samoa airspace management to Airways New Zealand, costing AFL \$3.5 million in lost revenue every year (Keith-Reid, 2003). In 2003, AFL employees themselves expressed their anxiety to the newly appointed CEO over the ten year term of the AFL/SASL contract. They argued that SASL was a private enterprise and could later be sold to foreigners while AFL is a public enterprise.

A senior industry official of Vanuatu at that time also expressed concerns. He mentioned that island countries were uncomfortable with the AFL/SASL deal since their understanding was that they were dealing with a government agency (Pareti, 2003b). In addition, SASL management was accused of mismanagement. While all employees were urged to contribute \$5000 towards the establishment of the company, only two senior employees of the management team were listed as shareholders (Singh, 2002). As noted above, the then expatriate CEO admitted to being

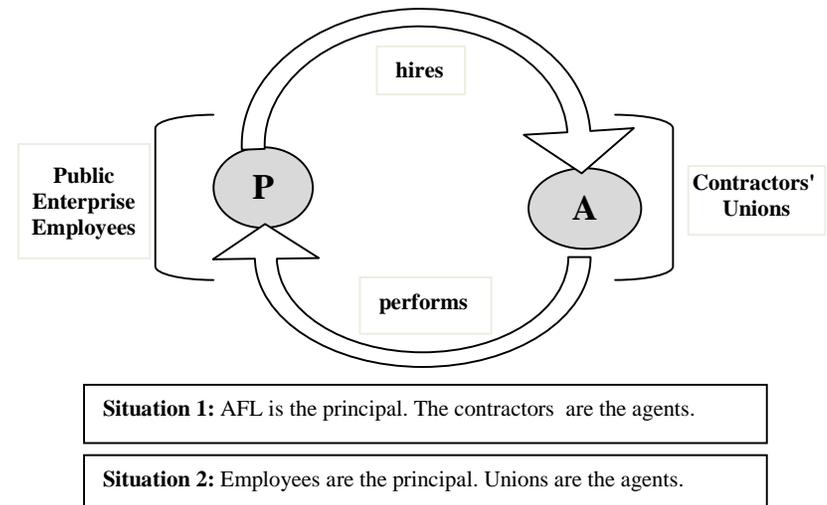
pressured into awarding contracts to SASL and other companies formed by ex-CAAF staff. FCFL was awarded a three year contract worth \$6.617 million even when other companies placed tenders at little over \$1 million only (The Review, 1999). FCFL's contract was cancelled in 1999 (Singh, 2002).

In mid-2006, the ongoing AFL/SASL tussle led to major fallout between the two. A large part of this was because of SASL's poor management. The core business of SASL, which is airspace management, is critical as well as the major revenue earner for AFL. SASL's poor management and strained relationship with AFL made the SASL staff unhappy, affecting their performance and adversely affecting the image of AFL. AFL could not let this situation continue and realised that bringing back SASL employees and this core business to itself is the better option than contracting out this service to SASL.

Discussion

The case study provides evidence of a few opportunist parties during the reform process of AFL. Figure 3 shows the Agency Theory model in the context of the AFL case study. There are two principal-agent situations.

Figure 3: Agency Theory model in the context of AFL



³ Attempts to view the comparative cost analysis done by AFL were not successful.

Situation 1

Under this, AFL is the principal; the contractors (SASL, etc) are the agents and the AFL Board is the monitoring mechanism.

SASL was contracted out by AFL for airspace management. While AFL is the principal and the contractors (SASL) were the agents, there was interference from the board and government. CEOs felt pressured by the board into awarding the airspace management contract to SASL. The board and government insisted on SASL contract renewal. CEOs refusing renewals were dismissed.

Agency Theory asserts that independent outside directors in the board can lessen insider opportunism as well as lessen insider influence over the board. The case proves that while a board is established to oversee management and to control agent opportunism, the board as well as government ministers can practice agent opportunism themselves. In the case study, they became party to opportunism.

The study shows that boards at times may not be the best control mechanisms. Other control mechanisms, such as an independent audit, is a better mechanism, unless the auditors are corrupt themselves. Audits can even expose the doings of a board as well as ministers. Moreover, if opportunism is substantial and remains undetected, the benefits that should accrue to the public enterprise, fill the pockets of the favoured contractors, impacting adversely on the public enterprise's performance.

The greater the opportunism, the greater the adverse impact on the public enterprise and those who oppose opportunism, like the CEOs who were dismissed for refusing to renew SASL contracts. The impact can be more serious if opportunism remains undetected. Even when detected, it can still be problematic if the public enterprise is unable to recover what it had lost. This is in line with Awortwi's (2012) argument that governments can face problems of agent opportunism when working with contractors.

Situation 2: Employees are the Principal; Unions are the Agents

The Secretary-General of the FPSA was the leader of the Fiji Labour Party. This party promised workers return of their jobs were it to come to power in the 1999 elections. FPSA wanted jobs back for its members. Its interest and the promise of the political party coincided. In this situation, CAAF employees who were FPSA members were the principal and FPSA was the agent.

Other union leaders also exploited the situation for their advantage by becoming the principal officers of companies formed by the ex-staff. A leader of one of the unions used his position to become the GM of the company formed by the ex-staff. In such positions, these union leaders took advantage of the lack of knowledge, unquestionable trust, and loyalty of their members as they made use of member funds to their advantage. In such cases, the unions, namely Fiji Air Traffic Controllers Association (FATCOA) and Civil Aviation Workers Association (CAWA), were the agents and AFL employees who were their members were the principals. As Moeller (2010) indicates, any lack of partner compatibility and goal incongruence can result in conflict and opportunistic behaviour.

Concluding Remarks

Governments should look thoroughly into contracting out activities of government commercial companies, particularly ensuring that contracting out is done in a transparent manner, not just for the sake of providing for the livelihoods of ex-employees. In this respect, whichever company is able to carry out a given activity better and in a cost effective manner compared to the public enterprise need and interests, should be referred. All tenders should be given due consideration and the best party should be engaged for the given activity. Just contracting out for the sake of reforms without proper assessments on the possible outcome, defeats the purpose of contracting out/outsourcing.

In addition, if audits reveal board and government ministers involvement, they should also be held accountable. Here the general public is the principal and the government is the agent. The public expects the government to act in their best interest not the best interest of selected parties. GCCs are supposed to operate at arm's length, with the CEO's handling day to day affairs of the enterprise. While contracting out is not easy for managers who are exploring outsourcing opportunities for the very first time (Kremic et al., 2006), years of experience do provide important lessons. CEOs should have the final say on awarding or renewal of contracts. While Fiji may be the leader in public-private partnerships and contracting out amongst the small island nations as noted by ADB (2011), it does need to carefully look at its contracting out activities for success in this area.

If properly managed contracting out can, as Johnston and Seidenstat (2007) argued, be a strong force for greater efficiency and effectiveness. But they advise that several important factors must be present for optimi-

sation of benefits through contracting out activities. In their case study of airline security, they emphasised that low bid contracting without careful specification of service quality can lead to poor service. Interestingly in AFL's case, however, the bidders which were awarded the contracts for service were the highest bidders, not the lowest bidders. Quality of service was not a factor at all in the award of the contracts.

This study also confirms the views of Moeller (2010) who emphasises that partner selection is a very important managerial control task within business networks since appropriate selection marks the threshold condition for a successful business network.

The study shows that while the bid prices for the services outsourced were high, the quality of services were also low, and that there emerged a general lack of confidence in the stability of the relationship between the enterprise and the outsourced parties. The implication from this is that a proper portfolio management and risk analysis needs to be conducted prior to, during and post outsourcing/contracting out. Prior due diligence will ensure minimal chances of project failure, while risk analysis undertaken during the process can mitigate the risk factors using appropriate strategies. Ongoing analysis and evaluations of the outsourcing outcomes will also add value to the project.

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