

Dr Roderick Deane turned 60 on April 8 but this unremitting corporate leader shows no signs of slowing down. He talks to DEBORAH CODDINGTON about duelling with Muldoon, steering Fletchers and the love of his life.

# Dr Roderick Deane

DEBORAH CODDINGTON IS A NORTH & SOUTH SENIOR WRITER. PHOTOGRAPHY: NICOLA DOVE.

**N**o wonder Roderick Deane is always in the papers, pictured addressing board meetings, commenting on the folly of government monopolies, explaining the reasons for his recent restructuring of the Fletcher Challenge behemoth. He's chairman of Telecom, Fletcher Challenge, eVentures; director of ANZ Banking Group; chairman of Te Papa, deputy chairman of the New Zealand Business Roundtable and joint patron of the IHC. And that's just a sampling of his commitments.

Though I'd been warned this extraordinarily busy person is often late for appointments, he bounces out of his 10th floor Wellington office right on time — white hair, owlish glasses, quiet suit and buttercup tie. Face to face Deane's much smaller than the loud pinstripe-suited image portrayed in the business press.

He's intense; confesses to slight nervousness about the interview, but relaxes to the extent he tells the *North & South* photographer he's often asked to be the official photographer at the weddings of friends' children.

But it's in the New Zealand corporate world, where high quality company directors are much sought after, that someone of Deane's intellect is a prized member of any board.

In 1986 he was the scourge of the Public Service Association

— the union for government employees — and earned the moniker Dr Death for his sharply focussed restructuring and streamlining of the country's inefficient government bureaucracy.

Undeterred, Deane continued to make himself unpopular when he took on Telecom Corporation in 1993, as chief executive. While Telecom became New Zealand's best performing public company, as measured by investors' wealth creation, thousands of jobs in the company were axed creating a bitterness that still lingers today.

And there's more to Roderick Deane than corporate problem-solving. He's an enthusiastic supporter of the arts in New Zealand — pottery, painting, orchestra and opera — and a fervent advocate for government funding of such.

His only child, Kristen, died in 1996 aged 27 of Rett syndrome, a rare degenerative neurological disorder. With wife, Gillian, Deane has campaigned fiercely for the rights of the intellectually and physically disabled to be accepted into mainstream society.

This multi-faceted, acutely brainy man has influenced the lives of many New Zealanders. And having recently turned 60, instead of slowing down, he's at it even harder — turning the under-performing conglomerate Fletcher Challenge into several stand-alone companies to be either shipped out, or shaped up.



## Face To Face

**NORTH & SOUTH:** You've described yourself as from small-town New Zealand — which town?

**RODERICK DEANE:** I was born in Auckland but only lived there a short time. When my Dad came back from the Second World War we moved. He worked for electricity departments, for a long time in the Pukekohe Electricity Department. When we moved to Masterton he was general manager of the Wairarapa Electric Power Board.

**N&S:** Your career seems to have been very focussed — while you did your economics degree at Victoria University you worked for the Union Steam Ship Company, then the Reserve Bank where you became Deputy Governor, on to chief executive of the Electricity Corporation, then Telecom and now chairman of Fletcher Challenge. Have you deliberately set your sights on those positions?

**DEANE:** Not in the slightest. All I've wanted out of life was stimulating, interesting jobs with challenging tasks and fun people to work with. I get considerable satisfaction out of delivering on a major restructuring — be that the public service, Electricity Corporation, Telecom and now Fletchers. But my involvement with Telecom and Fletchers is now non-executive of course.

So I didn't plan all of that. My career is partly attributable to my wife Gillian, I guess. She's an amazing person in her own right,

much more interesting than I am — very well-read and with wide-ranging interests. Gillian has always been great at having people over for dinner — including, when I was young, people senior to me. She's never been intimidated by authority. So they ended up being people who asked if I would be interested in these jobs. I never had to make any overtures to people — all of the jobs have come to me via people who asked if I'd give them a hand.


But more important than this wonderful array of things is my long association with the NZ IHC [Intellectually Handicapped Children's Society]. This has been a great joy, hugely satisfying.

**N&S:** You talk about your enjoyment of restructuring. Do you have a rare ability to see the big picture?

**DEANE:** I would not claim that — restructuring just happens to be something I do well.

**N&S:** Let me rephrase that then — do you commonly see that ability in other people?

**DEANE:** If you asked me what talent is in the shortest supply in the corporate world — and also in the public sector — then I'd say it's high quality business managers. People who can take a business and cope with the intellectual dilemma of putting strategies together, and the dimension of choosing people appropriate to the jobs, plus be able to work with and lead them as a team. And the element which I always think is the hardest,



“The views around the Roundtable are as different as the views across New Zealand society.”

is the delivery; getting it done. I don't think New Zealand's over-supplied with people who've got that mix of abilities.

I have no idea why I like doing it, I just find it very stimulating, challenging and satisfying to get together with a team and work together. So it is with the reorganisation of Fletchers.

**N&S:** When you became a director in 1994 concerns were already being voiced about the company's performance so why weren't these changes made then?

**DEANE:** Fletchers originally had this wonderful vision for a New Zealand-based conglomerate stretching across a span of activities and countries. But we lacked discipline in terms of some of our investments that didn't carry the cost of capital, nor were we prepared to rationalise. I found it at times quite a frustrating board. I was in a different space from quite a number of the other directors so it was some years before the board and management changed to facilitate some of the things that I thought needed to be done.

**N&S:** There were four executive directors on the board plus the chief executive Hugh Fletcher. Was that wise given that in general it is difficult for managers to oppose chief executives?

**DEANE:** Yes, that used to be the case. An important part of the changes of the last two or three years — and I'm choosing my words carefully — is that there is now only one executive director and that's the CEO [Michael Andrews].

**N&S:** So was there dissension on the board?

**DEANE:** There was definitely some difference of view about some investments that had been undertaken, but many of those problem areas pre-dated my joining the board. I guess there were also differing views on how to address those problems — how tough we could be on the operational side and how to exit some of the poorer investments.

**N&S:** You gave a speech to the Auckland Chamber of Commerce in November 2000 on corporate leadership, in which you criticised New Zealand businessmen's lack of discipline,

particularly when buying assets. You said they found it hard to abandon the chase and often bought assets when the price had gone well beyond its upper limit. Given Fletcher Challenge's acquisition history — Forestry Corporation, assets in Peru, Bolivia, even India — was this a direct criticism of a company you now chaired?

**DEANE:** No, you'll find other companies that have done the same — Carter Holt for instance. They had to sell a stake under pressure to [large American forestry corporation] International Paper; Brierleys had complications with Thistle, so several of the major companies had problems, not just Fletcher Challenge.

**N&S:** Is it nevertheless a valid criticism that Fletcher Challenge overspent and overborrowed in the years Hugh Fletcher was chief executive?

**DEANE:** I don't want to personalise it to Hugh because the whole board is responsible and for a number of those years I was a member of that board. But yes, in my view we were neither tough enough in concentrating on the growth of shareholder value, nor in improving or exiting operations not covering the cost of capital.

In some cases we asked management to look at exiting paper, particularly from Canada and the UK, but for various reasons that did not happen until we got a new chief executive in Michael Andrews. In 1999 we began exiting paper and fortunately in 2000 we made a lot more progress. We just have to face the reality that the paper business didn't cover its cost of capital in any single year in the past decade. I think that was partly because neither board nor management was resolved enough to address the issue. That's not to say there weren't directors who wanted it resolved but one way or another we didn't get our collective act together soon enough.

As far as debt goes, the company was over-exposed in the early 1990s but Hugh Fletcher did a great job at that time of rationalising the business. Fletchers had to sell a number of assets and they did that very effectively.

I think Fletchers is a mixed story. It's in very tough industries — commodity based industries — many people in the paper industry have trouble covering the cost of capital. The energy industry, oil and so on, is tough too, especially if you're small scale like us. You've got to have lots of wells to increase the probabilities of actually striking when you're drilling.

Fletchers did well with some acquisitions, particularly domestic ones like Methanex and the Rural Bank, which were outstanding in value delivery to shareholders. But they made several very large, offshore investments which created grave dilemmas and huge losses. Those were particularly UK paper and the Canadian paper operation. And they lost over half a billion dollars when they bought Jennings [house building company] in Australia.

**N&S:** I roughly worked out the total figure in terms of destruction of Fletchers shareholder wealth in the past decade is around \$5 billion — is that a fair estimate?

**DEANE:** I can't remember the precise figure for the past decade but it would certainly be in that order. It's been very large.

**N&S:** Has it been difficult to reform the culture of Fletcher Challenge?

**DEANE:** No. Fletcher Challenge in this past year, with a board half the size, has been a remarkable turnaround story. Look, we've exited the paper business, at an 83 per cent gain for our shareholders relative to the previous year average share price, and that was a business, as I said, where we never covered the cost of capital in a decade. It took a lot of guts to make that decision and a lot of skill to execute it. Then we sold the energy business for a premium of well over 60 per cent. If the premium had been less we wouldn't have sold it, we would have run it a lot better.

We didn't sell Fletcher Building because we didn't get a big enough offer to recommend selling to shareholders. We do have a strategic plan put together for growing value in that business. We recapitalised Fletcher Forests which was unpopular. We knew it would be unpopular and we had to go through fire in order to do that. We did it successfully and that will now grow in value. This has been a board that's delivered more corporate change, collectively, than probably any other board in New Zealand in several decades. It's the biggest corporate restructure ever. So why are the analysts so negative about it? Because I think they still think of it in terms of the past culture and haven't really caught up with the fact we're in the middle of this vast change. This is a board that has proven it can change. People might be dubious about Hugh Fletcher but I think Hugh has been fantastic as a non-executive director, frankly, and I say that unreservedly. He's been hugely brainy in some of the talent he's brought to the board table — strongly commercial people. It's a different balance to what we had before in a significant way.

**N&S:** Okay, let's move on. You completed your PhD thesis in 1967 on foreign investment in New Zealand, at a time when prominent economists like Dr Bill Sutch were deeply opposed to foreign investment. Do you think New Zealand has changed much and come around to your position?

**DEANE:** That's the wrong way of casting it. I'm in favour of open markets because I think markets are better than bureaucrats at making decisions. I'm talking from experience here — I've had a lot of experience of bureaucrats so I'm not just criticising people that I don't know about. The same principle of open markets applies to capital flows and labour flows. This is such a tiny country and the thought that we can survive alone with a whole lot of barriers has never made any sense to me. I didn't have to learn economics to believe that; when I was a youngster I intuitively thought we had to consider our place in the world. We've had a decade or so where we actually did that. I'm in favour of as much free flow of capital as possible, so equally I favour allowing New Zealanders to invest abroad. It makes us a wealthier country.

However, I do think it's important you get the rules and regulations right. I wouldn't be a big fan of special tax

concessions for foreigners relative to domestic residents. I don't see any reason to cross-subsidise foreign investment but I do see a strong case for openness and welcoming it because that's the way we minimise the cost of capital.

**N&S:** Do we welcome foreign investment?

**DEANE:** Yes I think we are relatively open. It's pretty straightforward for foreigners to invest in New Zealand; there are minimal barriers to that today. That's true under the Labour government as well as National.

**N&S:** But what about foreign ownership — Telecom's a good example. Many New Zealanders have a negative attitude to profits going offshore?

**DEANE:** Well, yes the profits go offshore but that flow of dividends offshore is really only the net present value, in economic terms, of the investment made by the offshore persons buying the shares that day. So the only real issue is: does the acquisition actually add some value that benefits both the offshore person and the local residents? In Telecom's case, if you look at the improvements in the quality of customer care for instance, the benefits to New Zealanders are hugely demonstrable over the past decade. There's a whole series of numbers I could show you in our annual report each year to prove that.

Telecom's got the largest capital expenditure programme of any New Zealand company but we never have to call on the taxpayer to fund it, which is what we used to have to do. So there's just no question in my mind that foreign investment is beneficial to us. It's also been beneficial to the foreigner, sure. That has to happen for them to invest here. But Ameritech and Bell Atlantic brought a lot of expertise, drive and focus on shareholder value to Telecom which benefited New Zealand shareholders and, even more particularly, New Zealand customers.

**N&S:** Isn't this profits-offshore phobia analogous to an Auckland based company like The Warehouse investing money in opening stores in places like Whakatane and Gisborne? That will stimulate money flow, employment and consumer benefits locally and sure, the net profits go back to Auckland but won't the company invest back in these provinces?

**DEANE:** Absolutely. It's equally important New Zealanders have the opportunity to invest abroad and spread their own portfolios to reduce risk. This country is only the tiniest proportion of the world stock exchange index, so the idea you should have all your investments in New Zealand makes no sense. I also think we should be more supportive of people immigrating to New Zealand because I think that would invigorate our society — give us more diversity and make it much less closed than it is at times.

**N&S:** Do you see a great new crop of CEOs coming up in New Zealand or are we going to lose them to overseas?

**DEANE:** I think there are wonderful opportunities in this country. I think we're altogether too self-deprecating and too self-flagellating. We're too insular and we fret about things. The wonderful irony of New Zealand is that when there's a problem many people ask what the government's going to do about it. And then of course when the poor government turns its mind to trying to address a problem, everybody criticises it and nobody's satisfied.

Our society's never made up its mind. It's got itself on to a bit of a dependency syndrome. I'm not talking just about social welfare, but this generalised view that if there's a difficulty we think it's the government's problem to solve. I don't think life's like that. The government's got some responsibilities and the rest of us as individuals have a whole stack of responsibilities.

**N&S:** Did the ministerial inquiry into telecommunications worry you; that here we were on the top of the slippery slope back to tight regulation of the markets?

**DEANE:** Oh yes. I, the Telecom board and my colleagues in senior management were very reserved about the inquiry. We were concerned it would lead to more regulation and it might unduly concentrate on problems of the past rather than future



challenges. These days the industry is fast-moving. The margins are declining with great rapidity all over the world, and the internet has helped competition. Deregulation has helped consumers — we've got stacks of competitors in most areas except residential local access, although cable is coming and there's cellular, which is becoming more competitive with fixed line. But we do have the kiwi share which regulates and means the local calls are free after you've paid the rental. That's not all that straightforward to compete with.

So our preference would have been that the inquiry was not held. We didn't see it as necessary. However I think that at the end of the day Paul Swain [Minister of Communications] and Helen Clark, both of whom took quite an interest in the final outcome, tried to be commercially sensible. The outcomes were much less negative than we thought and I think Swain and Clark can take quite a bit of credit for that. The amount of interaction might have surprised some in the business community. Some people have felt the government hasn't listened, hasn't communicated.

**N&S:** Many of the companies you're involved with are vulnerable to government interference. Is that why you personally seem to have a talent for not publicly battling government policy?

**DEANE:** Ask Muldoon about that, he might say something different...

**N&S:** To be sure... is it a case of once bitten..?

**DEANE:** No, actually I didn't make our battles public. He did. I was quite constrained in my ability to respond to him. [In a now famous exchange, during the currency crisis of 1984, then Prime

Minister Muldoon refused to devalue the New Zealand dollar.] But I got quite a bit of defence from newspapers who favour the underdog — at that stage I was the underdog.

But I've had good relationships with senior ministers in a variety of governments over time and I think the trick is, if you have confrontation you're going to turn anybody off, whether they're as tough as our present prime minister about people who confront her in public or whether they're more permissive, as some prime ministers have been. Prime ministers, ministers of finance, communications and so on are not going to be endeared to you if you do battles in public. The best way to communicate with people is to sit down and talk with them.

That's what life's all about. I actually think the government and commerce are in the same game. We both want growth for New Zealand and too often there appears to be conflict. Why can't the country play the team game? We talk about teams in all different elements of life, whether it be rugby, at Telecom or Fletcher Challenge, but the government and commerce has to be a team. Too often it's not like that and I think that's crazy.

**N&S:** That's all very well but as chairman of Telecom and Fletcher, and as a director of many other companies, your responsibilities lie in delivering the best value to shareholders. Doesn't that preclude standing on principles?

**DEANE:** Yes, but people have to understand each other's point of view. We didn't wish the government to go down the regulatory path in telecommunications but we accepted they'd made it clear before the election they were going to. When they got elected there was no point in trying to talk them out of it completely. It was much better to sit down and say: "Here's the reality. This is how it's going to affect us." I think the outcome is less regulatory than Hugh Fletcher's report [chairman of the inquiry] would have liked. But there are a lot of sensible elements in the outcome that will not be unhelpful to the industry.

**N&S:** Labour has adopted the controversial Takeovers Code, and now Paul Swain is promoting further regulations *vis a vis* insider trading — is there a problem with the New Zealand stockmarket?

**DEANE:** On insider trading there have actually been very few cases that have been a problem. In the case of Kerry Hoggard [former chairman of Fletcher Challenge currently being sued privately by two shareholders for his trading of company shares in November 1999] we had that sorted faster than anybody in government, and a thousand years faster than any court would have sorted it, so I don't think there's a need for further regulation. People don't seem to realise that companies deal with these things immediately. Kerry went within 38 hours [of the board's being notified] — would a government have acted so swiftly?

I still don't think there was a need to tighten our takeover laws. Takeovers are a very healthy mechanism for keeping the corporate sector on its toes. If you're not delivering value to shareholders, and somebody else can take you over and do so, I think they should be free to. The new regulations will actually be inimical to takeover activity in some respects, and will be protective of managements. That's one reason why some managements actually think it's a good idea. That's the irony, and the very reason why the government should be saying, "well hang on, are we getting this right?"

**N&S:** What's your opinion of the Labour government nearly midway through its first term?

**DEANE:** I think it's less onerous than some people in the business community might have feared. They have done some things the business community would have preferred them not to do, such as changes in labour laws and some of the changes proposed with respect to takeovers and commerce, and increasing tax rates. None of those would be regarded as pro-business. On the other hand they'd flagged all those things before the election and that's democracy. So the business community has to accept that Labour was elected, it's their right to do the things they said they were

going to do and then we have to work with them as best we can.

**N&S:** What about the National party's performance in opposition?

**DEANE:** Opposition? Has it been sturdy enough you mean? Look, I'm not an expert on politics and... I'm just not an expert.

**N&S:** That's a most evasive answer.

**DEANE:** Well, how do you make judgements around this? If you spoke with the opposition they'd say it's hard to get good media coverage, and they do better in some circumstances than others. I think they might benefit from stronger strategies and co-ordinated public relations programmes that really advance their strategies. The issue is can they get it together? We have yet to see.

**N&S:** You're chairman of Te Papa, an institution largely funded by taxpayers. How does that sit with being deputy chairman of the Business Roundtable which advocates for, among other things, taxation relief?

**DEANE:** I don't have any difficulty in reconciling those things but whether I can persuade you is another thing. The Roundtable is a collection of chief executives and other associates, who get together from time to time and talk productively about policies. It's a stimulating and fun exchange. The views around the Roundtable are as different as the views across New Zealand society.

Being Te Papa chairman is not something I sought or wanted. I did receive an overture from the National government when Sir Ron Trotter was retiring in June 1999 but I declined. Then Helen Clark approached me early in 2000. I initially said no; so we talked and it turned out we were both very interested in harnessing the spaces in Te Papa devoted to visual arts, and other improvements.

So I decided to give it a run and I've enjoyed it immensely. I talked with Dame Cheryl Sotheran about charging admission but I'm convinced the trick is to get as many people coming to Te Papa as possible, not feeling intimidated but welcomed.

One of the really wonderful things about Te Papa is that the people visiting are very representative of the population in terms of age groups and ethnic distribution, much more so than a conventional art gallery. I think that's because it's not intimidating, they've made art fun. Not everybody approves of that.

**N&S:** Do you think there should be more corporate sponsorship of the arts in New Zealand, to take pressure off the taxpayers?

**DEANE:** My short answer would be yes but these things only work if they're two-way partnerships. A corporation can only spend shareholders' money on supporting the Symphony Orchestra, the America's Cup or rugby if it feels there is some payback for shareholders. That can be either boosting customer demand for a product, or improving the way the community feels about a company which reflects back on its market share. So companies like Telecom do a huge amount of analysis around corporate sponsorship to be satisfied it's part of the marketing programme.

**N&S:** What about corporates being more community and environmentally conscious?

**DEANE:** There are lots of Roundtable members who believe just as fervently in community involvement as members of the New Zealand Business Council for Sustainable Development.

**N&S:** Two prominent members of that organisation are Stephen Tindall and Dick Hubbard. Leaving aside Hubbard, who runs a private company and can do what he likes with his profits, let's look at Tindall. He belongs to an organisation which appears to be diametrically opposed to Roundtable philosophy — if there is such a thing — yet you could argue his company has benefited hugely from the reforms that the Roundtable, and others like Sir Roger Douglas, fought hard for.

**DEANE:** Probably no other business has benefited more from the reforms.

**N&S:** Doesn't that dispel some of these myths you refer to that surround the Roundtable? Its policies actually benefit people who shop for bargains at The Warehouse?

**DEANE:** Yes, The Warehouse has been a great beneficiary of the deregulated environment and I think Stephen would say the same

as I say: we've got to be tough on running successful commercial businesses but we've got to be empathetic, live within our communities and support community activities. He has given quite a lot of emphasis to that in his own activities. The idea that other people don't support that view is a nonsense. You've only got to look at companies like Tower — James Boonzaier is one of the greatest supporters of the arts in New Zealand. Same as Peter Hubscher of Montana — it's just they don't make as much noise about it as some others. But they would certainly be equally enthusiastic about community involvement.

**N&S:** A huge part of you and your wife's life was spent in looking after your daughter Kristen who died five years ago. Do you regret not being able to have more children? Is that why you're so driven?

**DEANE:** I think I was driven before I had children. I say no to regrets because I don't really count many regrets in my life. I just see life as this huge opportunity to interact with people, to do stimulating things. If one's lucky enough to add a bit of value here and there to one's community, shareholders or customers then that's great. But I don't spend a lot of time looking back.

Kristen was a joy in our lives. It was pretty tough but we wouldn't have had it any differently. You speak to anyone who's got a handicapped kid and they'll tell you the same. She was at home the whole time and in the last dozen years was bedridden. She had a whole raft of caregivers who were amazing at helping her. It was a very moving experience in that she taught me a huge amount about the true value of life — enjoying each day, getting on with it, not looking back. Kristen was the first young woman in New Zealand diagnosed with Rett syndrome when she was 16.

**N&S:** So how long had you battled along not knowing what was wrong with her?

**N&S:** 16 years — tough, eh? We knew it was something degenerative and neurological but it was only then that we really understood how it fitted together. Now they've discovered a gene that affects it and there's a whole lot of research work under way to try and understand what the process really is. Some of that research is at Otago University and some at Auckland University.

**N&S:** Have you contributed financially to that research?

**DEANE:** Yes, quite substantially.

**N&S:** Are you an optimist then?

**DEANE:** What do you reckon after this interview? Of *course* I'm an optimist. I think lots of things can be achieved. Look at Fletchers — people said this company can't be fixed and there's still a lot of criticism. But we've made huge changes and we'll continue to do so until we get it back on track with the projects we've launched. Yeah, I'm a great optimist. I do worry about New Zealand being too insular in its mindset at times, and not pushing to be part of the world, but I'm probably not as negative as some of my colleagues.

I think I was in the public service long enough to accept that governments come and go and you can't expect the same policies to prevail all the time. You've got to accept a democracy and live within the environment. I'm a great advocate for more open market and less regulation but I don't feel any need to personally get stuck into people who have different views to mine.

**N&S:** You turned 60 in April. Is retirement looming?

**DEANE:** I'm still on the IHC board of governors; Gillian and I are joint patrons of the IHC and I love that involvement. I'm devoted to that cause. Then there's Te Papa and I'm on the boards of a variety of companies and enjoy that mixed portfolio. But even if I had none of those things, I have so many other interests in the arts and music, reading, travelling, being with friends, that filling in time would be no difficulty whatsoever. So I'm quite relaxed about retirement. I'll just back off activities when I feel inclined. I know I'm 60 but I feel pretty young.

**N&S:** What makes you happy?

**DEANE:** My wife. She's just amazing. Gillian is the joy of my life. I love her to bits. ■