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BUSINESS DAY

# Roderick Deane: Architect and demolisher

By CATHERINE HARRIS - The Dominion Post    Last updated 05:00 25/03/2010

A building analogy works well for Roderick Deane. Over the past 25 years, he has been responsible for building giant companies up and tearing them down.

One of the architects of the state-owned enterprises, he is the man who broke up ECNZ, slashed the public service in the late 1980s, steered Telecom after privatisation, merged the ANZ and National Banks and, of course, oversaw the dismantling of Fletcher Challenge.

He also has a unique place in our economic history. As a deputy governor of the Reserve Bank, he and then-governor Spencer Russell were the men who temporarily stopped the currency international trading during a constitutional crisis in 1984.

At that time, speculation that the incoming Lange government would devalue the currency led to the Reserve Bank defending the then-fixed currency in the markets, leading to huge losses. The defeated prime minister, Sir Robert Muldoon, refused to devalue but when the exchange reopened, millions of dollars more left the country. Sir Robert was forced to relent.

Dr Deane still stands surprised at the way banks have lent to New Zealand during the recession despite its huge deficit and debt, but is glad they have that confidence.

He has been chairman of Fletcher Building since its relisting in 2001 and it has done very well. Fletcher Building now has the biggest building materials company in Australasia and its market cap has grown from 17th on the Stock Exchange to No1, usurping Telecom.

Dr Deane is justifiably proud. "It's been a fantastic journey in a commercial sense but also I think in a personal sense, the way in which the teams have worked together has been really great because, you know, we really went through a real crisis in the 90s."

He says breaking up Fletcher Challenge, the country's then-largest corporation, was a reluctant task.

"I was sad about the breakup, in the sense that I thought it was a splendid vision to have a large international company based in New Zealand, commercially successful ... diversified across a range of industries and markets."

But Fletcher Challenge's share price and return on equity had been lagging for much of the 1990s.

"The company was under a lot of stress and we had to take huge decisions. I mean when we exited [Fletcher] Paper, that was a $5 billion transaction and when we exited Energy it was a $4.6b transaction. They were the largest transactions ever done at that time.

"It took a lot of courage to unwind a group that had taken so much time and effort to build, but we really did decide there were strong reasons why those industries were not the right industries for us to be in."

Fletcher Building became the umbrella for a range of interests including aluminium, steel, wood products, concrete, the Placemakers hardware chain and construction.

"Construction is actually quite a small proportion of our total earnings, in contrast to what most people think, because most people associate us with buildings."

He puts the group's success down to strong management, a disciplined board, a strong economic tailwind, and most of all, disciplined acquisitions, particularly in Australia.

But what about Formica, the global laminate brand that Fletcher Building bought for US$700 million just before the recession bit?

Dr Deane agrees Fletcher did pay more than it would have liked, but still believes Formica and Fletcher's Laminex business are a good fit.

"We had the misfortune to buy Formica just as the global financial crisis was emerging, and so, with the benefit of hindsight, we paid more for it than we should have.

"But putting that to one side, the business has been improving, despite the fact that economic conditions are still pretty demanding in the US, and [in] most of our markets, the recession's either flattened out or we've got slight improvements."

While Europe remains tough, Formica's prospects in Asia, particularly China, are looking rosy, and Dr Deane says Fletcher Building has come through the recession in fundamentally good shape.

He is confident he is leaving the chairmanship in safe hands, those of former chief executive Ralph Waters. "He's a really superb manager, a class act. If you ask most of the business community, most of them would rank him one of the leading CEOs in New Zealand in the last decade."

Many of Rod Deane's views on the world appear largely unchanged in the last 25 years. He favours pruning the public service again, in line with his own actions as state services commissioner 23 years ago.

"People used to cry out for better management of the public service ... and the media gave us a pretty hard time, but then it was voted as one of the most popular set of reforms by Labour pre-the 1987 election and Labour got in with an increased majority."

He blames over-regulation for stifling business, but also inconsistent regulation. He tells the story of a small concrete producer that agreed to sell to Fletcher Building but was turned down by the Commerce Commission. When the company was on its knees several years later, the commission changed its mind.

"It's just all that agony. Climate change has been another case. I mean, the carbon tax, which is what Labour proposed before the present emissions trading scheme, was under negotiation for three years and we spent [millions], because we do have steel plants and concrete plants so we've been very active in trying to reduce our emissions ...

"At the end of the day, they realised the problems that we were pointing to were so immense that they abandoned the proposal."

Dr Deane is being interviewed in the gentlemanly environs of the Wellington Club. Always polite, he apologises that he no longer has an office in Wellington. He speaks with a kind of precision that is rarely heard. Last year he rang The Dominion Post to offer comment in place of an ill friend to save him the trouble.

He still lives in Kelburn, and has a large tract of land at Peka Peka, on the Kapiti Coast, where he manages about six hectares of wetlands. Although he scaled back most of his involvements in 2006, he frequently travels to Auckland and Sydney, where he is a director of Woolworths and a small Australian merchant bank.

He has given up teaching at Victoria University, but still speaks regularly through his company Independent Economics. A former chairman of Te Papa, he spends much of his time in philanthropic work aimed at young people and the arts.

The arts are a passion he shares with his wife, Gillian, who is also involved in the NZ Organisation for Rare Disorders. Their daughter Kristen, who had Rett Syndrome, died at 26.

Ask him what job he found most satisfying and he has always said his involvement in the IHC. The Deanes are patrons and Dr Deane a former president.

After living for a time in Washington in the 1970s, when Dr Deane was alternate executive director of the International Monetary Fund, the Deanes saw what could be done for children with special needs.

Within the IHC, they lobbied strongly on their return to get intellectually handicapped people out of institutions and into communities.

"We nearly went bankrupt in 1990-91, the government pulled the plug on us, money that was committed to us, so we had to cut staff, we had to cut wages. It was horrible. And I said, we will never do this again."

Instead, Dr Deane scraped together $40m from banks and the government and went out and bought community houses. The IHC now has 900 of them.

Seeing people who had previously been "locked away" in institutions living in the community is a personal highlight, but Dr Deane says he has been lucky in all of his jobs.

He was intrigued by the workings of Electricorp, which built the HDVC line and automated its hydro stations during his tenure. He watched the rise of the internet and mobile phones during his tenure as chief executive and chairman of

Telecom.

He says his resignation when the government announced it was unbundling Telecom's infrastructure was not at odds with his free-market ideals. "I had no problems about interconnection on commercial terms, I only had problems about us being forced to cross-subsidise these huge international companies who were entering the market."

He maintains the government did a U-turn on unbundling after Telecom unleashed a wave of investment. "When they did decide to unbundle it was a total surprise to us."

While he has presided over other company break-ups, Dr Deane thinks the forced splitting of Telecom into three different companies will simply be "a huge complication".

"I would have thought the break-up that they're going through at the moment, the deadlines they're running to and the penalties if they fail to meet the deadlines – all of that must be a huge distraction for the business.

"And today what's the share price? Just over $2 – when I left it was over $5 and it's less than half, so the value of the company's been decimated. And property rights of the company have really been annihilated ...

"And I don't actually think there've been any great gains for New Zealand consumers anyway."

The breakup of ECNZ was a different beast, he says. He would privatise the state-owned generation assets, but acknowledges this Government will not.

He concedes the electricity market "hasn't been working as well as people hoped", and says part of the reason is the "regulatory and political hindrance" that prevented Transpower from upgrading the network, particularly to Auckland.

Another reason, he says, is the Government owns so much of the sector – all of the high-voltage transmission and 70 per cent of generation "but it owns them in different vehicles and so you get this mix of politics and regulation and commercial ownership and it must be very difficult to get clarity around those".

Ask what will solve our unproductive economy, and to Dr Deane the answer is clear.

"I think the only way to get economic growth going again is the same way we got it going from the late 80s and early 90s which is about reducing the size of government, getting taxes down, allowing space for the private sector to grow more, getting the regulatory stuff into shape that actually means things can happen more quickly rather than everything taking so long."