MANAGEMENT STRATEGIES AND EMPLOYMENT RELATIONS: OUTSOURCING IN AUSTRALIAN AND NEW ZEALAND TELECOMMUNICATIONS

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Abstract

This paper examines two former state-owned telecommunications companies (TelCos) —Telecom Corporation of New Zealand (TCNZ) and Telstra. They were obliged to change as their governments deregulated telecommunications. We compare TCNZ's and Telstra's changing approaches to employment relations (ER) following corporatisation and full or partial privatisation. It discusses influences on TCNZ and Telstra's changing strategies, including: ownership, ER legislation and relative union strength. Transaction costs economics (TCE) theory is used to assist in this analysis. The paper suggests that TCE may help to explain the behaviour of 'rational organisations', however, it shows that firms do not always behave rationally. Managerial strategies are also influenced by shorter-term considerations.

Keywords: employment relations, unions, HRM, transaction costs economics, downsizing.

Introduction

Others have used TCE theory to examine the make/buy decisions of firms (Williamson 1991, 1996; Carroll & Teece 1999). The TCE-based hierarchy versus market model of the firm suggests that outsourcing may generate associated transaction costs related to opportunism and bounded rationality — for example, the potential loss of firm-specific knowledge to a competitor. The full cost of outsourcing a service or production to the market will include the specified market price plus any associated transaction costs. These costs may increase the total price of a market transaction to the point where it is more economical to produce in-house rather than outsource to the market. Thus TCE can assist in analysing why TCNZ and Telstra maintained certain processes and services in-house, while outsourcing other transactions

According to TCE, firms undertaking restructuring would retain employees with firm-specific skills. TCE links downsizing processes to the asset-specificity of labour. Workers with firm-specific skills and a subsequent high degree of asset-specificity will tend to be retained, whereas the skills of more generic workers will be purchased from the market. TCE theory suggests that, other things being equal, such strategies minimise potential transaction costs associated with make/buy decisions.

We apply the TCE model to two firms — TCNZ and Telstra — whose ER strategies were influenced by external circumstances that impacted on the transaction costs associated with outsourcing. For example policies by governments in New Zealand (NZ) and Australia towards deregulating their labour markets during the 1990s reduced the transaction costs associated with outsourcing and influenced subsequent management practices at both firms. We examine the contexts in [3]

which TCNZ and Telstra operated and how these influenced their organisational restructuring and ER decisions.

Outsourcing arrangements raise ER issues. For example, first, firms can use people's intellectual capital and skills even if the firms do not employ the people directly. This allows firms to make use of skills that they do not currently possess. Workers from joint ventures or strategic alliance partners may give the firm access to new skills. This may reduce the need to train their own workers. Alternatively, firms may decide to place parent-company workers into a joint venture and/or strategic alliance where they can be trained by the partner firm. These new skills could then be transferred back to the parent company.

Workers who are transferred into subsidiaries and joint ventures become employed at 'arms length' from the parent firm

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In some instances the parent company may no longer have a legal obligation to these workers. Because employment terms and conditions may be specified by collective agreements that relate only to the parent firm, transferred workers may be employed by the new entity under different terms and conditions. Subsidiaries and joint ventures may also employ workers from the external labour market who do not belong to or identify with the unions that cover workers at the parent firm.

Therefore, as firms increase their use of agreements with external firms — or in the TCE parlance, internalise 'intermediate markets' (Dunning 1995:12) — workers operating outside of parent companies will increasingly generate more of the parent companies' future revenues. This suggests that increases in revenues and profits may be associated with declining or static employee numbers in the parent company.

Deregulation

Telecommunications deregulation was implemented more rapidly in NZ than Australia ICNZ began trading as a corporate entity in 1987; two years later the telecommunications sector was opened to competition. In 1990, ICNZ was sold and began trading as a private enterprise. Within four years ICNZ had changed from being a state-owned monopoly, in the Post Office, to being a privatised firm in a deregulated market. This gave ICNZ managers the freedom to operate as an independent commercial entity. ICNZ's strategies were subsequently directed towards increasing shareholder value, with an emphasis on short-term profits.

The Australian Postmaster General's Department (PMG) was split in 1975. However, for the next 14 years Telstra was still a government-owned commission. It did not operate as a commercial entity. Telstra was not corporatised until 1989, two years after TCNZ was corporatised. Following its merger with the Overseas Telecommunications Commission (OTC), Telstra was partially privatised in 1997. TCNZ, then, had operated as a privatised firm for seven years before Telstra was partially privatised.

Because Telstra remained under majority government ownership, its strategic decisions were still greatly influenced by the changing policies of successive federal governments, for they were its majority shareholder. Although the post-1996 Australian government favoured privatisation of Telstra, by 2004 it had still not been able to implement full privatisation. This reflected, first the post-1996 conservative Liberal-National Party coalition government's lack of a majority in the Senate (the upper house) and, second, divisions in the coalition with regard to telecommunications policy. Many members of the rural-based coalition partner, the National Party, were cautious about privatisation. They feared that it would be difficult for the government to maintain strong universal service obligations in Australia's extensive rural communities. Rural people already tended to feel neglected by Telstra; they thought that if it were privatised then they would then have less scope to seek safeguards via political action. Such political considerations surrounding Telstra meant that it had less autonomy than TCNZ.

Employment Legislation

NZ and Australia pioneered centralised arbitral ER processes. Unions were afforded a significant role in this centralised

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bargaining process and they maintained relatively high membership density rates. Until the mid-1980s, the two ER systems continued to exhibit many similarities. However, their ER systems diverged when NZ started to deregulate its labour market. The NZ National Party continued this process by introducing the Employment Contracts Act (ECA) 1991

The ECA removed the previous award system and severely checked the former institutional power of the unions. The ECA enabled ICNZ to enter into individual contracts with its workers and to restrict union access to workplaces. This assisted ICNZ to shift away from collective agreements and take a more aggressive approach to ER.

After the conservative coalition won the Australian federal election in 1996 it ER policies were to an extent similar to those of the NZ National Party. The Australian federal coalition partners were conservative parties whose election platform included workplace reform. The introduction of the Workplace Relations Act (WRA) 1996 promoted the ability of firms to introduce individual employment contracts — Australian Workplace Agreements (AWAs). However, the Australian changes were more modest than the ECA. This reflected different approaches to ER reform, as Australia decentralised it ER system within the existing institutional framework. For example, while the scope for Australian federal awards were reduced, they were not abolished. However, in NZ the institutional framework was removed (Wailes 1999:1009).

Outsourcing and Downsizing

In the late 1980s Telstra employed more than 84,000 permanent employees, compared to TCNZ's 25,000 employees. TCNZ and Telstra subsequently engaged in downsizing. Both TelCos engaged in outsourcing, the introduction of new technologies and natural attrition. Downsizing was accompanied by changing work practices in an attempt to increase labour productivity. In both firms downsizing strategies seemed to induce a degree of 'restructuring fatigue' and a 'survivor syndrome' amongst the remaining workers.

In percentage terms TCNZ reduced its workforce to a greater extent than Telstra. By 2002, TCNZ had cut the size of its 1987 workforce by 78 per cent, to around 5,500 permanent employees. During a similar period Telstra cut its workforce by 45 per cent, to approximately 45,000 permanent employees. While much of the downsizing at TCNZ took place between 1987 and 1995, the greatest job cuts at Telstra were implemented in the post-1995 period. Telstra accelerated it downsizing after 1997, following its partial privatisation.

Despite the differing timeframes, ICNZ and Telstra engaged in similar phases of downsizing. During the first phase TCNZ and Telstra managers had little experience in downsizing. The initial downsizing phases lacked a strategic focus, with downsizing targets largely achieved through voluntary redundancies. TCNZ and Telstra spent huge amounts of money on redundancy payments. This was necessary as they both confronted relatively strong unions, which would agree only to voluntary redundancies. Hence many workers self-selected themselves for redundancy payments, which did not accord with a TCE analysis, so TCNZ and Telstra lost workers that had a high degree of firm-specific skills.

Managers at TCNZ and Telstra learnt from these early experiences and began to adopt more selective approaches to downsizing In their second downsizing phases, TCNZ and Telstra managers tried to select particular workers and/or specific sectors for redundancy. TCNZ and Telstra targeted generic work for outsourcing, including tradespersons in non-core areas,

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pit and pipe work, property and fleet management. In 1991 Telstra also shifted much of its advertising work to its joint venture, Pacific Access. Targeting generic workers for redundancy fitted a TCE analysis. These workers have fewer firm-specific skills, and so outsourcing such work creates fewer associated transaction costs. Outsourcing decisions are then based on whether the external market can supply the good or service cheaper than the firm.

TCNZ and Telstra's next downsizing phase included outsourcing semi-skilled operator services work and higher-skilled IT and technical work. Both firms encountered quality control problems when they outsourced operator services, leading to customer complaints. These problems were caused by the relatively large number of new, inexperienced operators, who were then performing this work for sub-contracted call centres. TCNZ and Telstra managers maintained that these quality control issues were resolved as the managers and operators at these call centres gained better skills and knowledge. Despite these initial problems a TCE analysis provides support for the targeting of semi-skilled work for outsourcing, as the nature of the work implies that employees can be trained to the required skill levels relatively quickly. However, any short-term cost-saving would need to be balanced against potential transaction costs, such as the quality issues.

Union officials alleged that high labour-turnover rates at such call centres meant that these firms continued to employ a relatively large proportion of inexperienced operators. The unions claimed that the quality of service being provided remained below the levels previously provided by TCNZ and Telstra operators. However, outsourcing operator services allowed TCNZ and Telstra to bypass the higher levels of wages and conditions previously enjoyed by their own operators. The employment arrangements introduced by the call centres enabled them to perform operator service work at a lower cost than if it were in-house. Union officials further claimed that TCNZ and Telstra were prepared to accept some trade-offs in the quality of service — i.e. increased transaction costs — in exchange for lower operating costs.

TCNZ and Telstra also reduced costs by outsourcing their IT support services. Both firms outsourced their more generic IT support work and retained some of their higher-skilled IT workers. The retention of these workers with greater firm-specific IT skills accords with a TCE analysis. TCNZ and Telstra managers said that external providers could provide IT support services better and more economically. TCNZ managers commented that TCNZ did not have a history as a an IT creator and therefore it made sense for TCNZ to outsource this work to firms that had more such expertise. In contrast, Telstra had a history of research and development (R & D) in telecommunications-related IT systems. However, its IT support system became a problem because it was too specific to Telstra Telstra could not buy upgrades off-the-shelf and instead had to engage in costly firm-specific R & D whenever it wanted to upgrade its IT system. Despite Telstra's IT expertise, it was cheaper for it to outsource this work to an external firm that could change its IT support system into a more generic format. This seems to contradict TCE theory, which suggests that firm-specific skills assist firms in gaining competitive advantage.

TCNZ and Telstra managers claimed that the ownership of their public networks remained one of their biggest competitive advantages. However, they no longer considered it necessary to employ all the workers that built and maintained the network. Rather, they sought to create contestable engineering markets that could reduce prices through competitive

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bidding. TCNZ shifted nearly all its technicians out of the core firm, while Telstra retained some in-house technical capability. TCE theory does not support TCNZ and Telstra's decision to transfer skilled technicians out of the core firms into subsidiaries. These workers had gained high degrees of firm-specific skills in the building and maintenance of TCNZ and Telstra's public networks

TCNZ and Telstra's outsourcing and redundancy strategies reduced their short-term costs, but from a TCE perspective they had the potential to generate longer-term transaction costs. These costs include the loss of firm-specific skills, such as the skills specific to the building and maintaining of the networks, and possible future skills shortages that could drive-up future labour costs. TCNZ maintains that it can ensure the quality of this outsourced work by drafting comprehensive contracts. Nevertheless, it is difficult and expensive to devise contracts which anticipate every eventuality. These contracts also open the door for potential litigation costs with external subcontractors. TCNZ has further been required to include incentive payments for subcontractors that can reduce fault rates - a further transaction cost.

Management's Employment Relations Strategies

A unitarist approach suggests that workers have allegiance to only one authority: management. Any allegiance by workers to a union or other parties is seen as detracting from workers' commitment to the firm. This approach confers legitimacy to the authority of management, with unions viewed as unnecessary third parties whose presence upsets 'the natural order' of the firm (Fox 1974). During the 1990s, ICNZ and Telstra managers moved closer towards such an ER perspective as they tried to distance themselves from union involvement. This approach was observed earlier at TCNZ, which reflected the earlier privatisation and more radical dismantling of the central labour-market institutions there than in Australia. TCNZ and Telstra's workforce restructuring and ER strategies were accompanied a shift away from collective bargaining

Before deregulation, TCNZ and Telstra were public-sector bureaucracies with high union density rates. Union influence extended to tripartite public-sector tribunals. Managers could deal directly with union representatives to settle ER issues and tended to take a reactive approach to ER. Nevertheless, following deregulation, TCNZ and Telstra managers took more initiatives as they sought to mould their ER policies to suit more competitive telecommunications markets and a different political context. TCNZ and Telstra's corporate human resource management (HRM) directorates concentrated on developing ER strategies that were in accord with corporate strategic objectives, while day-to-day ER responsibilities were delegated to line management

This approach fits in with elements of an SHRM paradigm (Nankervis *et al* 1996). However, other elements of TCNZ and Telstra's ER strategies did not fit a SHRM and/or TCE approach. For example, there was little evidence to suggest that ICNZ and Telstra were attempting to train their workers into valuable, rare, nonsubstitutable and difficult — or costly — to maintain skilled staff that provided the firm with a sustainable competitive advantage (Gannon, *et al.* 1999:42) Rather, TCNZ and Telstra's ER strategies emphasised short-term cost reductions.

In the first half of the 1990s, TCNZ managers introduced 'hard forms' of HRM that emphasised the assertion of

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managerial prerogatives (Kamoche 1991:4). In contrast, Telstra responded to a series of industrial disputes in the early 1990s by introducing what it called a participative approach, which emphasised mutual commitment. This approach had similarities to 'soft forms' of HRM (Gardner & Palmer 1997:588-89). This engagement between Telstra and the unions under the participative approach, then, was in stark contrast to TCNZ's tougher ER strategies. The different strategies reflected the differing ownership and political contexts on either side of the Tasman sea.

Nevertheless, the election of a conservative Australian federal coalition government and Telstra's appointment of a new HR director in the mid-1990s signalled the end of the participative approach. The new HR director was opposed to union influence so Telstra's ER strategies were then changed to be more like those of TCNZ. These similarities increased following Telstra's partial privatisation in 1997 By 2002, TCNZ and Telstra managers had generally restricted their relationship with the unions to the minimum response dictated by their respective ER legislation.

Union officials complained that ICNZ and Telstra managers frequently tested the limits of ER legislation. For example, the Engineering, Printing and Manufacturers' Union (EPMU) had to go to the NZ Employment Court to gain a ruling on its right of entry into TCNZ workplaces. Similarly, officials at the Communications, Electrical and Plumbers Union (CEPU) said that Telstra managers would tell them that if the CEPU did not like a Telstra decision then the CEPU could take Telstra to court. This led to the two TelCos increasingly using the courts to interpret and challenge ER legislation. ICNZ took a more combative approach to the unions than Telstra.

TCNZ's organisational restructuring was also associated with anti-union policies. By the late 1990s technicians remained the last unionised group in TCNZ. By shifting these workers into its former subsidiary ConnecTel — or simply making them redundant — TCNZ removed much of the remaining union influence in TCNZ. Thus political and management ideology helped to shape TCNZ's outsourcing decisions. This is in contrast to a TCE approach, which would have emphasised the firm-specific skills of these technical workers. Former Telstra managers also alleged that union members were targeted for redundancies.

Collective Bargaining versus Individual Contracts

Following corporatisation, bargaining arrangements at TCNZ and Telstra came to more closely resemble those in the private sector. In the 1980s, TCNZ engaged in collective bargaining. This resulted in a national collective agreement, which was renegotiated in 1987 and 1990. Following privatisation in 1990, TCNZ initially continued with this collective agreement, which then covered around 90 per cent of its workers. However, in the early 1990s TCNZ shifted its emphasis towards individual employment contracts with their workers. This strategy was facilitated by the provisions of the ECA, which lowered the relative transaction costs associated with this strategy. TCNZ reduced the size and scope of its collective agreements, while it moved more workers to individual contracts. By 1999 all TCNZ's collective contracts had expired and were not renewed: TCNZ had ceased to engage in collective bargaining.

Telstra management adopted a rather more mixed approach to collective bargaining Until 1998 Telstra continued to renegotiate a single enterprise bargaining agreement (EBA) with the unions. However, in the late

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1990s Telstra changed its collective bargaining strategy and split the single enterprise agreement into separate EBAs. These strategies were similar to TCNZ's decision to fragment its collective agreements and workforce

Telstra also entered into individual employment contracts with its employees; by 2004, individual AWAs covered approximately 30 per cent of Telstra's workforce. While this was significant development, the percentage of Telstra workers on individual employment contracts was unlikely to increase to the same level as in TCNZ—at least in the short term. What explains this difference in the role of unions between the two firms? Unions at Telstra remained some strength and continued to try to oppose the individual agreements, while the WRA provided some support for collective bargaining. Telstra managers also appeared less ideologically committed to individual contracts than their TCNZ counterparts. While Telstra targeted managers and administrative staff for AWAs, other staff and field workers were generally not targeted and remained under collective agreements.

Both firms initially offered monetary or other incentives to entice workers to shift to individual contracts. This had the potential to raise labour costs—at least in the short term. However, TCNZ and Telstra tended to reduce other allowances and/or conditions TCNZ and Telstra policy-makers argued that individual employment contracts enhanced the direct relationship between managers and their workers. They claimed that 'individualising' the employment relationship with their workers 'improved communications'. These strategies also aimed to marginalise unions. After signing individual employment contracts many TCNZ and Telstra workers left their unions. If there were industrial disputes, TCNZ and Telstra were then able to use such workers as strike-breakers. This made industrial action less effective and further fragmented the workforce. Splitting the workforce among different employment agreements also helped to reduce worker solidarity. Meanwhile, individual employment contracts were more labour intensive and, therefore, more costly for unions to service. This reduced union influence gave TCNZ and Telstra managers greater scope to restructure and introduce more 'flexible' ER agreements.

'Flexible' ER Agreements

During the 1990s, TCNZ and Telstra introduced new employment agreements that contained longer spans of hours, fewer allowances — or allowances incorporated into normal pay — and greater functional flexibility. TCNZ also increased its numerical flexibility through the use of contractors. These ER strategies aimed to improve productivity and reduce demarcation issues. TCNZ and Telstra were assisted in this process by the legislative provisions (the ECA and WRA). TCNZ and Telstra's individual employment contracts were usually relatively short documents, with employment conditions incorporating the firm's ER policies. ICNZ and Telstra management could then unilaterally alter these policies, without having to engage in negotiations with workers and/or their unions. Managers at both firms asserted that these more 'flexible' agreements were necessary for the firms to compete successfully with new entrants into their markets. However, unions complained that, in practice,

'flexibility' meant work intensification More flexible employment terms and conditions were also introduced via TCNZ and Telstra's subsidiaries and joint ventures. This strategy was more obvious at Telstra, as it enabled Telstra to bypass some of the constraints of its majority government ownership. This gave Telstra more freedom to implement new ER practices into these external firms. From a TCE perspective, the relative transaction costs associated with setting up new employment terms and conditions in these new enterprises were less than the alternative of attempting to change ER practices in the core firm. For example, Telstra's call centre joint venture, Stellar, negotiated new employment agreements with its operators that had different conditions from those enjoyed by Telstra operators. Many Telstra technicians were transferred to its subsidiary, Network Design and Construction (NDC), where they were also covered by a new collective agreement. Similarly, former TCNZ technicians were covered by different employment contracts when they were shifted to a new subsidiary, ConnecTel. A more commercial orientation was further reflected in TCNZ and Telstra's changing approaches to training.

Training

Following deregulation TCNZ and Telstra changed their approach to training and skills development. Their predecessor were public sector entities that engaged in a great deal of general training. This included comprehensive technical training and apprenticeships. Some apprenticeships were for generic skills not directly associated with telecommunications, such as motor mechanics and wood machinists. The NZ and Australian governments supported this system, which allowed public-sector entities to train apprentices for their wider labour markets.

Such training was expensive and did not fit with TCNZ and Telstra's subsequent cost-reduction strategies. Following deregulation and the advent of competition, TCNZ and Telstra ceased much of their technical and generic training and outsourced much of this work. TCNZ and Telstra then relied on the external market to provide many of these skills. New workers at TCNZ and Telstra were provided with the minimum amount of training required to operate certain pieces of machinery and/or provide particular services. On-the-job training then was focused on what it could deliver for the firm in the short term.

This shorter-term approach to training was linked to changes of custom at TCNZ and Telstra. Before deregulation many workers at both firms assumed that they had 'a job for life'. A stable workforce meant that the skills gained by workers through on-the-job training remained in that firm. However, deregulation precipitated downsizing and reduced job security. TCNZ and Telstra then had higher levels of labour turnover. Thus there was little point in engaging in general (expensive) training if workers were likely to leave. In this environment it was cheaper to engage in short-term training that allowed workers to perform only the immediate job. New technology also rendered some of the former technical skills obsolete. This deskilling of technical work arguably made it easier to train new workers. Wireless application protocols (WAP) also have the potential to reduce the importance of the public networks.

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Because of the reduction in technical training, ICNZ and Telstra placed a greater reliance on the current cohort of technicians that had been trained before deregulation. Much of this work was specific to the building and maintaining of their public networks. In both countries the average age of technicians increased in the 1990s, as there were fewer trainees to replace those that retired and/or left. Many of the firms that were subcontracted to perform this work did not engage in much technical training. Instead they employed former TCNZ and Telstra technicians. A recurring theme from managers and union officials in NZ and Australia was concern about future skill shortages. This suggests that TCNZ and Telstra's short term cost-cutting strategies may cause future long-term transaction costs in the form of increased labour costs for technicians.

While TCNZ and Telstra decreased technical training they increased training in areas such as relationship management. Staff with public-sector backgrounds had little experience in managing work performed by external firms, such as, subcontractors. Therefore TCNZ and Telstra found they had to improve the skills of their managers to enable them to manage outsourcing contracts effectively. TCE suggests that outsourcing leads to transaction costs associated with asymmetric information, such as shirking and quality control. To help overcome these problems TCNZ and Telstra employed managers with prior project management experience to help train their workers to implement better outsourcing processes and safeguards.

Union Strategies

Unions at TCNZ and Telstra began the 1990s in apparently strong positions. They enjoyed recognition from these employers, high unionisation rates and seemingly loyal membership bases. The unions had long histories with these firms and their officials were used to having some involvement in management decisions. Many union officials had developed links with managers, and ER problems were often settled informally. These linkages reflected that before deregulation many TCNZ and Telstra supervisors and middle managers were union members; some of them had been lay officials in the past...

The CEWU and the EPMU in NZ, and the CEPU and Community and Public Sector Union (CPSU) in Australia, were the result of union amalgamations that had been implemented in both countries since the 1980s. Proponents of these mergers had argued that such amalgamations would strengthen these unions by providing broader membership bases and greater financial resources. The amalgamations also had the potential to deliver reduced costs through the rationalisation of their operations. Nonetheless, despite these strategies, by 2003 there was very little union involvement at TCNZ, while union membership at Telstra had declined significantly.

What were the reasons for this decline in union fortunes? The introduction of the ECA led to fundamental changes to the NZ ER system and union density declined in most NZ industries. Against this background the CEWU underestimated the effects of the ECA and continued to offer similar services to all it members, whether they were on collective or individual contracts. This was despite individual contracts being more labour-intensive and costly to service. The CEWU also failed to rationalise its operations and reduce costs. These problems were compounded by TCNZ's anti-union approach. While the CEWU was successful in negotiating a number of collective contracts, it was unable to prevent TCNZ from breaking up the

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former single collective contract. Many CEWU organisers had previously dealt with the NZ Post Office and had little experience in dealing with an aggressive privatised employer. Against this background, the CEWU collapsed and went into liquidation; its demise was also associated with its own inadequate operational and financial strategies.

In contrast, the CEPU and CPSU were able to survive the more incremental changes to Australia's ER legislation. In the first half of the 1990s these changes occurred under the mantle of a union-friendly Australian Labor Party (ALP) government that was also Telstra's owner and regulator. When the CEPU and CPSU engaged in industrial disputes with Telstra in the early 1990s, they did not face the same tough anti-union tactics that were seen at TCNZ. Thus in the mid-1990s union membership at Telstra remained high, while the CEPU and CPSU retained some influence in Telstra.

After the demise of the CEWU, the EPMU recruited many of its former members. The EPMU was one of the few NZ unions to survive the 1990s relatively well. It was a pragmatic union that had been successful in negotiating collective agreements under the ECA. The EPMU was a relatively large union, which increased its power to negotiate with NZ firms. However, TCNZ was one of NZ's biggest firms and could more than match the EPMU's resources.

Following the collapse of the CEWU, TCNZ management decided to remove the payroll deduction facility for union dues. This made it more difficult for the EPMU to retain members. Meanwhile TCNZ's strategies of outsourcing, downsizing and moving workers to individual contracts led to falling union membership. The EPMU was unable to prevent TCNZ from further fragmenting the collective contracts. In 2000 TCNZ sold its subsidiary, ConnecTel, which had performed much of TCNZ's technical work. Many TCNZ technicians had formerly been seconded to perform work for ConnecTel. When the subsidiary was sold most of these technicians were either shifted to ConnecTel on new individual contracts or were made redundant. This then removed one of the last unionised elements within TCNZ. By 2002 the EPMU had little active involvement with TCNZ.

Union influence at Telstra after the mid-1990s diminished, but not to the extent that occurred at TCNZ. While many Telstra middle managers discontinued union membership, a large percentage of non-managerial workers retained their membership. Following Telstra's shift to a more unitarist approach and the advent of the WRA, the two Australian unions faced a tougher employer. But several factors helped the CEPU and CPSU to maintain a greater presence at Telstra than their counterparts at TCNZ. First, Telstra was a bigger firm than TCNZ, which gave the CEPU and CPSU a larger potential membership base — in 2002 Telstra still employed approximately 44,000 workers. When Telstra engaged in outsourcing and downsizing programs in the late 1990s the CEPU's income from its members was greatly reduced. However, enough union members remained in Telstra for the CEPU to continue to be a financially viable, albeit smaller union. Meanwhile the white-collar CPSU had a diverse membership base outside of Telstra; this gave it a buffer against losing members from one particular firm, Telstra.

On the other hand, once a NZ unions fell below a 'critical mass' of members, it became very difficult for to it to continue to operate as an effective collectivity. By the mid-1990s TCNZ had halved its permanent workforce to around 10,000

workers. This potential union membership base was further reduced by the introduction of individual contracts. Therefore the CEWU found its membership numbers and revenues depleted to the extent that it became increasingly difficult for it to provide adequate services and remain financially viable.

Union density rates in Telstra remained higher than was the case at TCNZ. This can in part be attributed to the institutional context, which was more favourable to unionism than that in NZ and the ability of the CEPU and CPSU to continue to gain relatively good pay increases for their members through collective agreements. These unions were also able to gain some favourable decisions in the Australian Industrial Relations Commission. While the provisions of the WRA were less favourable to the CEPU and CPSU than earlier Australian ER legislation, in practice the WRA was less of a threat to union activity than was NZ's ECA Managers at Telstra were still more accepting of union officials than their TCNZ counterparts. This was especially apparent with long-term Telstra managers who had been with the firm since it was a public-sector entity. In contrast, many TCNZ managers had been more recently appointed on individual contracts. The advent of Employment Relations Act (ERA) in 2000 by NZ's Labour Government made little apparent difference to TCNZ's ER policy, in part because the ERA still allowed for individual contracts. The prevailing managerial attitudes in ICNZ and Telstra are likely to converge as Telstra follows TCNZ in increasing the percentage of its managers employed on individual contracts.

Despite the two Australian telecomm unions surviving better than their NZ equivalents, their future is not guaranteed. Senior Telstra managers have been getting less sympathetic to the unions and there will be further job cuts. This will reduce the number of union members at Telstra. Especially if it wins the next election, the federal coalition government has foreshadowed more changes to ER legislation. These are likely to further deregulate the labour market and make it easier for firms to 'individualise' employment relationships. The coalition government also remained committed to selling its remaining shares in Telstra, when it could win a vote in the Senate and the markets are favourable for such a sale. As a fully privatised firm, Telstra could be expected to implement ER strategies that more closely match those undertaken at TCNZ.

Conclusions

We have used TCE concepts to analyse restructuring by TCNZ and Telstra. However, firms implement decisions in a changing context. This may alter the relative transaction costs associated with different organisational restructuring and ER strategies.

Despite Australia and NZ having close economic ties, differences in TCNZ and Telstra's strategies are attributable to differing political and institutional ER contexts and constraints on either side of the Tasman Sea (Katz & Darbishire 2000:8) We, therefore, highlight the important role that nationally-specific factors can play in the implementation of corporate strategies and that they have scope for strategic choice. TCE theory implies that firms will act logically when considering make/buy decisions. TCE may help to explain the behaviour of 'rational organisations' if they engage in downsizing of outsourcing. In practice, however, such companies may not behave as predicted by TCE. In most companies the implementation of strategies is significantly influenced also by such considerations as: image, territory (or turf wars), egos

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personal ambition, politics and ideology. Further for various reasons corporate leaders may attempts to maximise profit: and share prices in the short-term rather than in the longer-term.

TCNZ and Telstra are political organisations. Downsizing and outsourcing decisions did not always accord with TCE logic. This suggests that while TCE may help to predict broad trends in 'rational organisations', it is less effective in explaining the behaviour of politically and ideologically-driven organisations that aim for short-term profits and share-price maximisation. Despite these limitations ICE may helps to predict the kinds of future problems and associated transaction costs that such firms may face. These include the potential loss of corporate knowledge to competitors and future shortages of workers with the required firm-specific skills. This suggests that an over emphasis on short-term profits may lead to future long-term transaction costs.

There were similarities in TCNZ and Telstra's strategies, for example, with regard to their organisational models and ER policies. Some practices, such as cuts to technical training, raised questions about the long-term sustainability of these policies. TCNZ's behaviour may also serve as an indicator of the types of ER policies that a fully privatised Telstra would be likely to introduce. These would probably include a further disengagement from unions and an increased emphasis on individual employment contracts. With governments in many countries either engaged in, or contemplating, the privatisation of their telecommunications sectors, a study of TCNZ and Telstra has implications for other TelCos facing similar changes (cf. Katz 1997). Further research would be worthwhile to refine the concepts that would assist in analysing changing ER management strategies in deregulated TelCos.

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Asset-specifity may be defined as the ease by which an asset may be transferred to its next best alternative use.

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- Telstra had several earlier names including Telecom, but to simplify the discussion, we generally refer to it as Telstra.
- We interviewed past and present managers and union representatives at TCNZ and Telstra We supplemented these data by: studying company reports; union documents; others' research; and publicly available sources.
- An award is an 'award of the (industrial) court or commission'. This was a legally binding document that specified, minimum rates of pay and conditions for <u>all</u> workers covered by the award's application clause, whether or not they were union members. Therefore awards provided 'blanket' coverage for workers.
 - Australian Workplace Agreements (AWAs) were a feature of the Workplace Relations Act (WRA) 1996.