

# **HIERARCHY VERSUS THE MARKET: DOWNSIZING, OUTSOURCING AND EMPLOYMENT RELATIONS AT TELSTRA AND THE TELECOM CORPORATION OF NEW ZEALAND**

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## **Abstract**

This paper examines the relationship between downsizing, outsourcing and employment relations (ER) in the Australian and New Zealand telecommunications sectors following deregulation. It uses transaction cost economics (TCE), strategic management and institutional economics theories to analyse and compare the organisational restructuring and ER strategies of the two incumbent firms — Telstra and the Telecom Corporation of New Zealand (TCNZ) — as they reacted to this changing external context. It further considers and contrasts union responses to these strategies, focusing on the decade from 1990 to 2000. Management strategies at both firms aimed to reduce costs. However firms do not operate in a vacuum. Rather, management strategies at Telstra and TCNZ were influenced by external operating environments that impacted on the relative transaction costs associated with outsourcing production and the introduction of new ER practices. External variables that influenced Telstra and TCNZ's changing strategies, included: ownership, ER legislation and relative union strength. The paper discusses the usefulness of TCE theory in explaining management strategies. This research suggests that TCE may help explain the behaviour of 'rational organisations' if they engage in strategic downsizing or outsourcing. In practice, however, it shows that firms are political organisations that do not always behave rationally. Managerial strategies are further influenced by market-driven short-term profit considerations that may lead to strategies that do not accord with a TCE analysis. However TCE predicts some of the longer-term costs that these strategies may incur. These include the loss of firm-specific skills and the associated potential loss of core knowledge to competitors and quality control. Therefore firms shifting from hierarchical to market based subcontracting arrangements need to balance short-term profit considerations against the longer-term sustainability of such strategies.

## **Introduction**

TCNZ and Telstra were former publicly-owned monopolies that were required to compete in partially deregulated environments. Analysis of these firms reveals how TCNZ and Telstra reacted to this changing external context. This helps to explain why subsequent decisions were made and how they were implemented. This includes an analysis of TCNZ and Telstra's organisational and workforce restructuring strategies, which aimed to reduce costs. These strategies led to an increase in 'relationship management', as TCNZ and Telstra work was increasingly shifted outside of the core firm. This paper considers the implications of these organisational changes for ER. It uses transaction costs economic (TCE) theories as a point of departure. The paper analyses union responses to this changing context. It concludes with a discussion on the usefulness of TCE theory in explaining management strategies that focuses on the following research questions:

1. How useful is TCE theory in explaining the organisational and workforce restructuring strategies undertaken by TCNZ and Telstra?

2. How useful is TCE theory in explaining the similarities and differences in these firms' strategies?
3. To what extent were the strategies of these firms influenced and/or constrained by changing relative transaction costs associated with changing external constraints?
4. What were the ER implications of TCNZ and Telstra's organisational and workforce restructuring strategies?
5. How useful is TCE theory in explaining TCNZ and Telstra's changing ER strategies following the deregulation of their respective telecommunications sectors?

### **Research Methods**

Qualitative methods may enable researchers to investigate perspectives that can be beyond the reach of quantitative methods. For example, as Gillham writes (2000:11):

- To explore complexities that are beyond the scope of more controlled approaches;
- To get under the skin of a group or organisation to find out what really happens — the informal reality which can only be perceived from the inside; and
- To view the case from the inside out: to see it from the perspective of those involved.

The data analysed in this paper was collected from a range of sources during the period 1996 to 2004. During the course of this research more than 40 semi-structured interviews were conducted across a broad range of stakeholders associated with TCNZ and Telstra. Interviewees included past and present managers and employees at TCNZ and Telstra, as well as managers of associated firms and subsidiaries. During interviews, particular attention was focused on decisions made by management in relation to organisational restructuring, downsizing, outsourcing and training. Many of the people interviewed were involved to some degree in the planning and/or implementation of these decisions.

When discussing interviews as a research technique Gillham points out that what people say may not be what they actually do (2000:13). Interviewees have their own personal beliefs and prejudices, which influence their perceptions of events and issues. Company loyalty may also induce managers to promote company doctrine and policies, while concerns over job security may limit their ability to speak freely. For example, former TCNZ and Telstra managers tended to be more critical of the policies of these firms than current employees. Because of this potential for bias, information from TCNZ and Telstra managers was compared and contrasted with that provided by union representatives. In relation to TCNZ these included interviews with past officials of the former Communications and Electrical Workers Union (CEWU); officials of the Engineering, Printing and Manufacturers' Union (EPMU); and discussions with executive members of the New Zealand Council of Trade Unions (CTU). The CTU helped to provide a macro perspective on events at TCNZ. With regard to Telstra, interviews were conducted with officials of the Communications, Electrical and Plumbers Union (CEPU) and the Community and Public Sector Union (CPSU). This strategy of interviewing both managers and union representatives was designed to balance the predisposition that each group had towards TCNZ and Telstra's strategies and issues. Interviews with different stakeholder groups also elicited additional explanations for strategies and events. Thus the interview data was compared and analysed across a broad range of participants. The interview data were supported by observations; company reports; union documents; other research on TCNZ and Telstra; and publicly available sources.

### Transaction costs economics (TCE) downsizing and strategic management

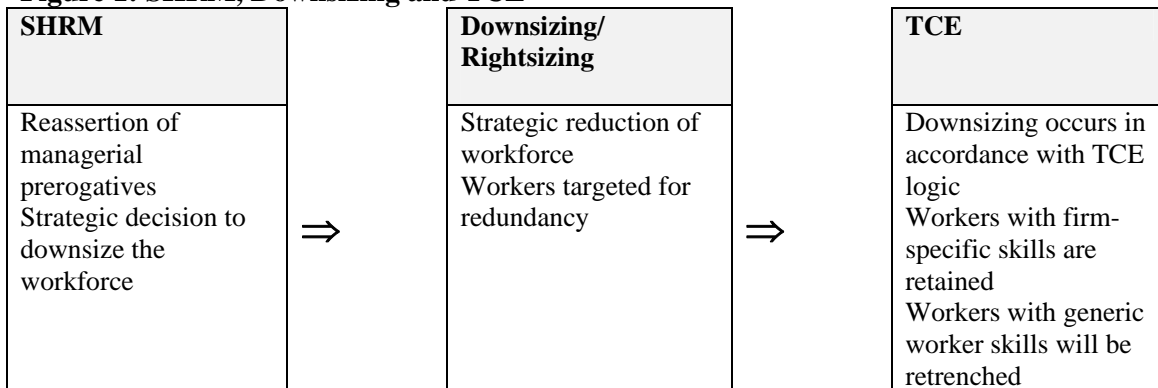
The privatisation of former state owned TelCos has been linked to downsizing strategies that aim to cut labour costs (Katz 1997; Ross 2003). However, while downsizing strategies may cut short term costs these may be offset by other potential longer term transaction costs. For example, simple across the board job cuts may lead to the loss of experienced employees with firm-specific skills (Reve 1990). In considering the social and financial costs of downsizing, Gerhart and Trevor state:

high employment variability, particularly in the context of the decision to lay off employees, pits substantial and known short term cost savings against the potential long term costs associated with hiring, training, employee attraction, and diminished survivor trust and commitment (1996:1693).

Downsizing is also linked to the outsourcing of the production of goods and services. 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, quality control issues and/or the potential loss of firm-specific knowledge to a competitor. Thus 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.

Transaction costs economics (TCE) suggests that firms may reduce these costs by acting strategically and restructuring their workforces based on the ‘asset specificity’ of their employees — with asset-specificity defined as the ease by which an asset may be transferred to its next best alternative use. 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.

**Figure 1: SHRM, Downsizing and TCE**



*Source:* Developed from Reve (1990); Martell & Carroll (1995), Kane (1998).

Figure 1 outlines how strategic human resource management (SHRM) and TCE theories may assist in explaining the decision making process of ‘rational’ firms engaging in workforce downsizing/rightsizing. To begin with, firms make a strategic decision to reduce labour costs through downsizing. Strategic downsizing and/or rightsizing strategies will target specific job classifications rather than simply engaging in across the board redundancies (Kane 1998). TCE theory then provides firms with a strategy to help them decide on which workers to retain and which to target for redundancy. Under this scenario, a strategic reduction of the firm’s workforce would occur in accordance with TCE logic. Thus TCE can assist in

analysing why TCNZ and Telstra maintained certain processes and services in-house, while outsourcing other transactions.

However firms do not make their decisions in a vacuum. Rather, firms make their decisions within country specific systems that provide positive and/or negative opportunities for management strategies (Hoskisson et al 2000:252-53). Changes to this external and institutional context alter the relative transaction costs associated with different organisational restructuring and ER strategies, which in turn influence the strategic decisions undertaken by firms. The ability of TCNZ and Telstra to engage in strategic downsizing — including the use of TCE concepts — was therefore linked to their ability to exercise strategic choice. For example policies by governments in New Zealand 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. External variables and/or institutions considered by this paper include: 1) ownership structure; 2) political/ideological environment; 3) legal environment; 4) relative union strength; 5) technology; and 6) the geographical environment. Thus we examine the contexts in which TCNZ and Telstra operated and how these influenced their organisational restructuring and ER decisions.

### *Relationship Management*

A study of *Fortune 500* companies found that by the late 1990s more than half of these firms had outsourced large parts of their business processes (Gannon, Flood & Paauwe 1999:43). TCNZ and Telstra managers used the term 'relationship management' to describe the shift from managing work being performed by their own employees to managing work being performed by subcontractors, subsidiaries, joint ventures and strategic partners (Interviews with TCNZ & Telstra). In some instances such cooperative arrangements with other firms may generate relational rents that are greater than either markets or hierarchy (see Hennart 1988; Dunning 1995; Yeom 1996; Dyer & Singh 1998; Kale, Singh & Perlmutter 2000; Tsang 2000).

Yeom develops the theory of the firm beyond the dualism of organisations and markets and sees networks as offering an efficient alternative (1996). Networks can offer loose boundaries and open transparent relations between member firms of the group. Such interaction may include information exchanges and problem solving between group members. Long term reciprocal transactions between group members will limit short term opportunism and lead to long run equilibrium. In such an environment networks of firms can operate more efficiently and cost effectively than individuals in the market (1996:92). Networks may also share the risk and reduce investment costs for individual firms. Dunning discusses these issues under the guise of 'alliance capitalism'<sup>1</sup> (1995). He suggests that cooperative networks of firms will lead towards:

a flattening out of the organisational structure of decision making of business enterprises, with a pyramidal chain of command being increasingly replaced by a more heterarchical inter-play between participants in decision making (1995:20).

This quote is a fairly apt description of the kinds of organisational changes that occurred at Telstra and TCNZ. Dunning accepts the principle that issues such as bounded rationality, information asymmetries and opportunism are factors that assist in the make/buy decisions of firms. However, if firms are facing high market transaction costs, rather than retreating from the market place entirely — and internalising all such transactions — a cooperative alliance

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<sup>1</sup> 'Alliance Capitalism' – 'portrays the organisation of production and transactions as involving both cooperation and competition between the leading wealth creating agents' (Dunning 1995:7)

may be a legitimate alternative. Dunning puts this in terms of firms adapting to marketplace conditions rather than simply exiting from the market (1995:6). By engaging in strategic alliances firms need not necessarily lose complete control over a production process or service, just because it is not produced in-house. Therefore firms may be able to reduce the costs associated with 'arm's length' market based transactions, while at the same time accessing the skills, assets and intellectual capital of partner firms (1995:7). Such cooperative arrangements between firms may then mitigate against transactions costs such as opportunism. Dunning see such arrangements as complementary to single firm hierarchies, rather than as a replacement to them.

From a TCE perspective this type of arrangement internalises 'intermediate markets' between two or more firms (Dunning 1995:12). This is in contrast to internalising a production process within one firm. Japanese *Keiretsu* groups and their supplier networks provide some evidence of the ability of firms to create and sustain such interfirm cooperative arrangements. However, extensive networks between firms are more unusual in the western context and in some instances would run foul of local anti-monopoly laws. The Australian Consumer and Competition Commission (ACCC) keeps a close watch on suspected 'collusive' agreements between firms.

Alliances between firms may also be undermined if both parties engage in a 'learning race', where the 'partners engage in opportunistic attempts to outlearn each other' (Kale et al 2000:217). This strategy then becomes an attempt to simply gain the intellectual property of another firm before dissolving the alliance. Therefore researchers stress the importance of creating relational capital through building interpersonal ties that foster greater trust between the alliance partners (Dyer & Singh 1998; Kale et al 2000). Such relational capital may reduce potential transaction costs associated with market behaviour.

TCE suggests that opportunistic behaviour may be reduced via the asset-specificity of the good or service being contracted out. Should the firm be able to convince a subcontractor and/or alliance partner to invest in asset-specific equipment pertaining to the goods or services being produced, then the subcontractor and/or alliance partner will be more likely to continue with the relationship. Inducing supplier firms to invest in co-specific assets creates high sunk costs within these firms, which in turn help to create effective 'non-legal enforcement mechanisms' that bind the firms together (Argyres & Liebeskind 1998:51). Because the firm will find it difficult to find alternative subcontractors and/or alliance partners willing to make these large investments in asset-specific equipment it is in the interests of both parties to form long and flexible relationships (Williamson 1979:237-40). In his discussion on credible commitments, Williamson refers to these kinds of arrangements as 'hostage taking' (1983).

Relationship management and associated outsourcing arrangements raise a number of employment relations (ER) issues. For example, firms can use the intellectual capital and skills of workers that they do not employ directly. This allows firms to make use of skills that they do not currently possess, which 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. 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.

### **Telecommunications Deregulation in Australia & New Zealand**

Telecommunications deregulation was implemented more rapidly in New Zealand than Australia (see Table 1). This in part reflected New Zealand’s centralised unicameral system of government, which allowed majority governments to introduce rapid legislative change.<sup>2</sup> TCNZ began trading as a corporate entity in 1987; two years later the telecommunications sector was opened to competition. In 1990, TCNZ was sold and began trading as a private enterprise. Within four years TCNZ had changed from being a state-owned monopoly, in the Post Office, to being a privatised firm in a deregulated market. This gave TCNZ managers the freedom to operate as an independent commercial entity. TCNZ’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 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. In the 2004 federal election the conservative coalition won a majority of seats in both the House of Representatives (lower house) and the Senate, enabling it to pass legislation in both houses of parliament. The full privatisation of Telstra is expected to follow, although

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<sup>2</sup> The ability of a New Zealand political party to gain a majority government in its own right became more difficult following the introduction of a proportional voting system in the mid-1990s.

the National Party remains concerned about a potential backlash from their traditional rural constituents.

**Table 1: Deregulation of New Zealand and Australian Telecommunication sectors**

Year	New Zealand	Australia
1880	Post Office merged with Telegraph Department	
1901		PMG <sup>1</sup> established
1946		OTC <sup>2</sup> established
1975		PMG divided into: 1. Telecom Australia 2. Australia Post
1981		Aussat <sup>3</sup> established
1987	Post Office divided into three corporatised SOEs: <sup>5</sup> 1. TCNZ 2. New Zealand Post 3. Postbank	
1989	Deregulation of New Zealand telecommunications sector	Telecom corporatised
1990	TCNZ 100% privatised	
1992		1. Telecom merged with OTC to become the AOTC <sup>4</sup> 2. Introduction of limited competition: Optus Communications
1993		AOTC renamed Telstra
1997		1. Deregulation of Australian telecommunications sector 2. First float of Telstra shares: remained 66.5% government owned
1999		Second float of Telstra shares: remained 51.1% government owned
2002		Still under majority government ownership

*Note:* 1. Postmaster General's Department (PMG).  
2. Overseas Telecommunications Commission (OTC).  
3. Aussat operated the Australian domestic satellite system.  
4. Australian and Overseas Telecommunications Corporation (AOTC).  
5. SOE = state owned enterprise.  
6. Telstra continued to trade domestically under the name 'Telecom Australia' until 1995.

*Source:* TCNZ and Telstra reports.

### *Employment Legislation*

NZ and Australia pioneered centralised arbitral ER processes. Unions were afforded a significant role in this centralised bargaining process and they maintained relatively high membership density rates. Until the mid-1980s, the two ER systems continued to exhibit many similarities (see Table 2). However, their ER systems diverged when New Zealand started to deregulate its labour market. The New Zealand National Party continued this process by introducing the Employment Contracts Act (ECA) 1991. The ECA removed the

previous award<sup>3</sup> system and severely checked the former institutional power of the unions. The ECA enabled TCNZ to enter into individual contracts with its workers and to restrict union access to workplaces. TCNZ used the provisions of the ECA to shift away from collective agreements and take a more aggressive approach to ER.

**Table 2: New Zealand and Australian ER Legislation**

Year	New Zealand	Australia
1894	Industrial Conciliation and Arbitration Act (IC&A) Act	
1904		Industrial Conciliation and Arbitration Act (IC&A) Act
1974	Industrial Relations Act (IRA)	
1987	Labour Relations Act (LRA)	
1988		Industrial Relations Act (IRA)
1991	Employment Contracts Act (ECA)	
1993		Industrial Relations Reform Act
1996		Workplace Relations Act (WRA)
2000	Employment Relations Act (ERA)	

Sources: Geare & Stablein (1995); Davis & Lansbury (1998); Rasmussen & Lamm (2000).

After the conservative coalition won the Australian federal election in 1996 its ER policies were to an extent similar to those of the New Zealand 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 its ER system within the existing institutional framework. For example, while the scope for Australian federal awards were reduced, they were not abolished. In contrast, in New Zealand the institutional framework was removed (Wailes 1999:1009). However, following its election victory in 2004 the re-elected federal conservative coalition signalled its intention to introduce more workplace reforms that will further deregulate the Australian labour market (Walters & Norington 2004).

### Changing Organisational Structures

The restructuring and reorganisation strategies that occurred at TCNZ and Telstra reflected the deregulation of telecommunications and labour markets in New Zealand and Australia. Figure 2 shows the changing nature of TCNZ and Telstra's organisational structures. Following deregulation TCNZ and Telstra moved from being relatively large, stand-alone firms, to become leaner organisations with flatter management structures. Smaller core firms were then supported by subcontractor and strategic alliance networks.

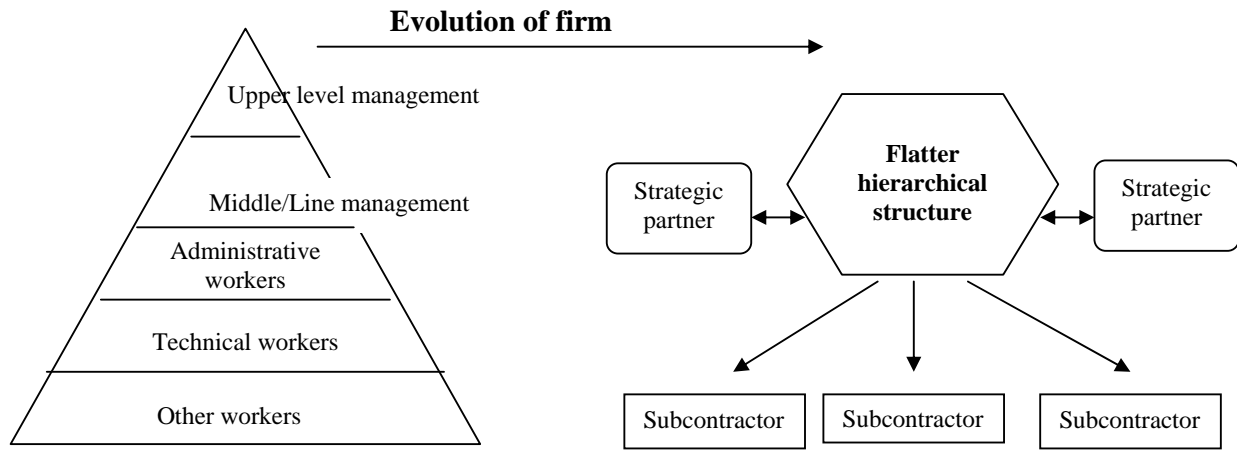
These strategies were related to changing make/buy decisions and outsourcing arrangements. Subsidiaries and joint ventures were joined to TCNZ and Telstra through equity investments. However, subcontractor agreements, management contracts and strategic alliances often generally involved some form of written legal contract. TCE suggests that legal contracts are associated with current and potential transaction costs, such as the costs involved in having

<sup>3</sup> 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 all workers covered by the award's application clause, whether or not they were union members. Therefore awards provided 'blanket' coverage for workers.



contracts drawn up. Disputes over the interpretation of contracts may also lead to potential future litigation expenses.

**Figure 2: Organisational restructuring: TCNZ and Telstra**



Source: Ross (2003); TCNZ & Telstra company reports.

TCNZ placed a greater reliance than Telstra on management contracts for its outsourcing needs. For example, in 2000 TCNZ entered into a contract with Ericsson to manage its mobile telephone network. Where TCNZ did take equity interests in external firms these tended to be relatively low, such as TCNZ's 10 per cent shareholding in the IT joint venture, EDS New Zealand Ltd. In contrast Telstra demonstrated a preference for gaining substantial equity interests in external entities. Telstra took a controlling interest in the former joint ventures such as Pacific Access<sup>4</sup>, Advantra and On Australia, and held 50 per cent equity in its joint venture Stellar.

A number of factors help to explain these different approaches. To begin with, Telstra is a larger firm than TCNZ, with greater financial resources. This gave it more scope to be the dominant partner in joint venture negotiations. Secondly, Telstra remained majority owned by the federal government. By shifting work into subsidiaries and joint ventures in which it had a significant and/or majority interest Telstra could control these firms at arm's length from federal government constraints. It could then gain the services of these external workers under new, more commercially oriented ER terms and conditions. From a TCE perspective a high degree of control in its joint venture partnerships also helped Telstra avoid problems associated with asymmetric information. Unions criticised these strategies by arguing that Telstra's private sector subsidiaries and joint ventures were simply privatisation by stealth (Interviews with CEPU).

TCNZ did not have these government ownership constraints. Because they operated within a privatised firm, TCNZ management had more scope to introduce similar ER strategies and processes within the core firm, as they could in their subsidiaries. Outsourcing decisions then became a simple matter of whether the external market could provide the service cheaper and/or better, rather than whether the creation of a new subsidiary and/or joint venture could be used to implement new ER conditions and processes.

<sup>4</sup> In 2002 'Pacific Access' was renamed 'Sensis'.

Table 3 outlines the types of services that TCNZ and Telstra outsourced to subsidiaries, joint ventures and contractors. These included property and fleet maintenance, operator services, IT support work and the maintenance of their public telecommunications networks. TCE theory suggests that outsourcing arrangements are more likely to succeed if the different firms to the transaction invest in co-specific assets that create high sunk costs. Argyres & Liebeskind term these as ‘non-legal enforcement mechanisms’ that bind firms together (Argyres & Liebeskind 1998:51). The outsourcing of TCNZ and Telstra’s IT support work provides some support for this TCE perspective. EDS and IBM made large equity investments in their IT joint ventures with TCNZ and Telstra. Because these were both 10 year contracts it was in the interests of EDS and IBM to help ensure they succeeded. Such long term contracts also help build trust, or so-called ‘relational capital’ between the firms, that helps to minimise transaction costs (Kale et al 2000; Dyer & Singh 1998).

**Table 3: Outsourcing Arrangements: TCNZ & Telstra**

Service provided	TCNZ	Telstra
Property & Fleet management	Various management contracts	Various management contracts
Operator services	SITEL (Management Contract)	Stellar (Joint Venture: 50% equity)
Advertising: including White and Yellow pages	N/A	Sensis: formerly ‘Pacific Access’ (Subsidiary)
IT support	EDS (Joint Venture: 10% equity )	IBMGSA (Joint Venture: 22.6 % equity)
Building and maintenance of the public network	ConnecTel (Former subsidiary)	NDC <sup>1</sup> (Subsidiary)

*Source:* TCNZ & Telstra reports & interviews

*Note:* In 2003 Telstra absorbed NDC back into the core company.

TCNZ and Telstra’s strategies went beyond outsourcing the above business processes that had previously been conducted within the firm. Both firms created new external entities and entered into agreements with external firms that allowed them to access the skills and knowledge of outside firms that would complement their existing skills, infrastructure and knowledge bases. This helped TCNZ and Telstra develop new services and enter new product markets. For example, TCNZ entered into a strategic alliance with EDS and Microsoft to help develop its ecommerce section, esolutions.

The strategic alliance with EDS and Microsoft was interesting in that it involved no legal written contract. Rather, it was an informal memorandum of understanding between the three firms whereby they worked together to use their complementary skills and infrastructure to achieve mutually beneficial aims. This suggests an alternative mechanism for firms wishing to engage in strategic alliances, albeit one that requires a high degree of trust between the parties. TCNZ also entered into a separate agreement with Microsoft to provide content for its internet portal, Telecom Xtra. Similarly Telstra took equity interests in firms such as Computershare, Solution 6 and Keycorp, that could provide content for its internet and ecommerce related services. Telstra also entered into the cable television joint venture, Foxtel. The joint ventures partners to the Foxtel agreement provided content for Telstra’s fibre optic cable network. Because these latter types of joint ventures and alliances were engaged in developing new products and services they had a fairly neutral effect on existing employment levels within TCNZ and Telstra’s core firms. However, these agreements

allowed TCNZ and Telstra to enter new markets without increasing the size of their core workforces.

TCNZ and Telstra also embarked on overseas ventures. These strategies were related to the relatively small size of TCNZ and Telstra's local markets, combined with increased competition. TCNZ targeted the Australian market for expansion through its purchase of AAPT. Telstra in turn targeted a number of countries in the Asia-Pacific including New Zealand and the People's Republic of China (PRC). However, TCNZ and Telstra struggled to make these overseas ventures profitable. This demonstrated the difficulties faced by former telecommunications monopolists as they attempted to move out of the 'comfort zone' of their home markets, where they had the advantages of brand recognition and the ownership of the public network.

### **Outsourcing and Downsizing**

In the late 1980s Telstra employed more than 84,000 permanent employees, compared to TCNZ's 25,000 employees. One former Telstra manager likened changing the organisational culture at Telstra at this time as being akin to trying to turn around the Queen Mary. The implication was that dealing with a relatively large workforce and associated bureaucracy made it more difficult to introduce organisational and cultural changes. 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 its downsizing after 1997, following its partial privatisation.

Despite the differing timeframes, TCNZ 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. This process did not accord with a TCE analysis, as 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, pit and pipe work, property and fleet management. In 1991 Telstra also shifted much of its advertising work — including its Yellow pages division — 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. 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. In 2004 Telstra's main competitor, Optus, announced plans to shift some of its Australian call centre work off-shore to India (Dwyer 2004a). This will place further competitive pressures on Telstra to reduce its call centre 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 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. Anecdotal evidence further suggests that Telstra did not always gain the cost savings that they had envisaged through this strategic alliance (Interviews with Telstra). This in part related to the high prices charged by their strategic IT partner, IBM, for any extra services that were not explicitly outlined in their original contract. This again points to the difficulties involved in drawing up legal contracts and associated potential transaction costs.

The ability to transfer digitised information quickly and relatively cheaply around much of the world has made it easier for firms to shift their IT requirements offshore. Thus the

location of a firm's IT workers has become less relevant. In 2004 Telstra announced that its IT outsourcing partner, IBM, would shift a significant portion of its Telstra IT work to India in order to access the subcontinent's relatively cheaper IT labour costs; about 450 IBM Australia workers were expected to lose their jobs (Crowe & Conners 2004:3). Telstra has also formed direct links with a number of Indian IT firms including the Bangalore based Satyam Computer Services, which set up a Telstra branded internal unit that will employ around 120 workers (CEPU 2004:11). From a TCE perspective, firms outsourcing their IT work to India would need to balance up front cost savings against possible transaction costs such as quality control and the potential loss of core knowledge.

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 bidding. TCNZ shifted nearly all its technicians out of the core firm, while Telstra retained some in-house technical capability. Unions claim that Telstra further reduced costs by allocating weekend maintenance work to subcontractors and paying them at normal single time rates. Telstra then avoided paying overtime rates to its own technicians (Dwyer 2004). 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 (ER) 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, TCNZ 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 by 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 TCNZ 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 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 TCNZ and Telstra managers frequently tested the limits of ER legislation. For example, the Engineering, Printing and Manufacturers' Union (EPMU) had to go to the New Zealand 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. TCNZ 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 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<sup>5</sup> covered approximately 30 per cent of Telstra's workforce. While this was a 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 retained 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

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<sup>5</sup> Australian Workplace Agreements (AWAs) were a feature of the Workplace Relations Act (WRA) 1996.

usually relatively short documents, with many employment conditions being shifted into company policy manuals. TCNZ 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 New Zealand 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 in the implicit job contract 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. In 2000 Telstra's CEO advised that this process, 'allowed employees to think more expansively about their future' (Switkowski 2000); a comment that foreshadowed further job cuts. 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, particularly in the area of voice transmission.

Because of the reduction in technical training, TCNZ 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 New Zealand 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. Despite this training interviews suggest that the management of external projects remained an ongoing problem at Telstra.

### **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 New Zealand, 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 New Zealand ER system and union density declined in most New Zealand industries. Against this background the CEWU underestimated the effects of the ECA and continued to offer similar services to all its 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 former single collective contract. Many CEWU organisers had previously dealt with the New Zealand 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 New Zealand 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 New Zealand firms. However, TCNZ was one of New Zealand'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 New Zealand unions fell below a 'critical mass' of members, it became very difficult for it to continue to operate effectively. 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 New Zealand 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 New Zealand'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 New Zealand'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 TCNZ 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 telecom unions surviving better than their New Zealand 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. The federal coalition government has foreshadowed more changes to ER legislation that 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 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.

## **Discussion**

This paper introduced five specific questions that guided this research. This section reintroduces these questions to assist in the discussion and analysis of the research findings.

1. *How useful is TCE theory in explaining the organisational and workforce restructuring strategies undertaken by TCNZ and Telstra?*
2. *How useful is TCE theory in explaining the similarities and differences in TCNZ and Telstra's strategies?*

The first two research questions consider the usefulness of TCE theory in explaining and comparing the organisational and workforce restructuring strategies undertaken by TCNZ and Telstra. According to the TCE literature, firms undertaking organisational and workforce restructuring would retain employees with firm-specific skills. Employees with less firm-specific and/or generic skills would be shifted out of the core firm as their work was outsourced to contractors in the external market (see Reve 1990:138). TCE theory suggested that such strategies minimise potential transaction costs associated with make/buy decisions, all other things being equal.

TCNZ and Telstra's initial downsizing strategies were relatively unstructured and did not accord with a TCE analysis. Rather, they involved untargeted voluntary redundancies. The firm-specific skills of these workers were not taken into account and a large amount of corporate knowledge exited from TCNZ and Telstra. These initial strategies probably reflected a lack of managerial experience in downsizing processes and the relative strength of unions, who opposed involuntary redundancies. Despite these early problems, an analysis of TCNZ and Telstra's later downsizing and outsourcing strategies found that TCE provided a more plausible explanation for their decisions, as TCNZ and Telstra began to outsource generic and semi-skilled work.

TCE also provided some support for TCNZ and Telstra outsourcing their higher skilled IT work because this generally involved more generic IT support services. TCNZ was not a technology creator and preferred to outsource such activities to an IT specialist firm. Telstra used this outsourcing strategy to change its IT systems from a firm-specific to a more generic format. This was contrary to a TCE analysis that suggests that firm-specific skills help firms to create a competitive advantage. However, Telstra considered its firm-specific IT system to be competitive disadvantage because of the costs involved in having to continually redesign and update an idiosyncratic system. The ability to send digitised information around the world further supported the outsourcing of Telstra IT work to India, although issues such as quality control and the potential loss of core knowledge remain.

TCNZ and Telstra engaged in other outsourcing strategies that did not accord with a TCE analysis. This included outsourcing firm-specific work associated with the building and maintenance of their public networks. Many of these subcontractors continued to perform the majority of their work for TCNZ and Telstra, which helped to reduce the loss of core knowledge to competitor firms — a potential transaction cost. The reliance of subcontractors on TCNZ and Telstra work, reflected the dominant position that the former monopolists maintained across most sectors of their telecommunications markets. TCNZ and Telstra's continued ownership of their domestic public networks was one reason for this continued market dominance.

TCNZ and Telstra entered into joint ventures with external firms. The TCE literature suggested that capital investments in co-specific assets by joint venture partners may lessen transaction costs associated with short term opportunism (see Williamson 1983; Argyres & Liebeskind 1998:51). Long term relationships between firms also help to build relational capital that may further reduce short term opportunism (Dyer & Singh 1998; Kale et al 2000). The joint ventures and strategic alliances undertaken by the TCNZ and Telstra exhibited some evidence of these cooperative arrangements and investments in cospecific assets. For example, Microsoft invested in TCNZ shares and IBM invested a considerable amount into its Australian joint venture IBMGSA. TCNZ and Telstra also entered into long term contracts with external firms that would help build relational capital. These included 10 year contracts with EDS and IBMGSA to provide corporate IT support services.

TCNZ and Telstra expanded on the above outsourcing strategies by engaging in strategic alliances that complemented rather than replaced existing services. For example, both firms entered into agreements with external firms to provide content for their internet networks, while Telstra's pay-TV joint venture partners provided content for Telstra's fibre optic cable network. These agreements allowed TCNZ and Telstra to use external expertise and to cut research and development (R&D) costs. New products and services also helped TCNZ and Telstra to better utilise their fixed line infrastructure and associated networks. These

agreements with external firms accord with aspects of alliance capitalism, which suggests that cooperative networks of firms will replace older style self-contained pyramid style organisational structures.

TCNZ and Telstra managers advised that they were aware of some of the transaction costs involved with managing work performed by other firms. These included quality control issues and ensuring that strategic partners and subcontractors performed the specified work. TCNZ developed comprehensive written contracts to assist in this regard, but these are associated with potential future transaction costs. Drafting legal documents can be an expensive and time consuming process, while their subsequent interpretation may still lead to litigation. TCNZ and Telstra also employed managers with prior project management experience and implemented staff training programs to better administer outsourcing arrangements.

*3. To what extent were TCNZ and Telstra's strategies influenced and/or constrained by changing relative transaction costs associated with changing external constraints?*

This paper considered some of the main external constraints that changed relative transaction costs associated with TCNZ and Telstra's strategies. These constraints included the ownership structures of the two firms. Until 1997, Telstra remained 100 per cent owned by the Australian federal government. The impact of federal government ownership was demonstrated by Telstra's changing strategies under Labor and conservative coalition federal governments. Under the former government, Telstra continued its dialogue with the unions and limited its outsourcing and downsizing strategies. Under the latter government Telstra distanced itself from the unions and accelerated its outsourcing and downsizing programs. In contrast, TCNZ as a private firm maintained similar strategies throughout the 1990s, as it aimed to increase shareholder value. After partial privatisation in 1997 Telstra had similar obligations to its minority private shareholders. TCNZ and Telstra's strategies were also linked to the relative geographical size of their markets. In 2001 political concerns from its federal government owner led Telstra to create a strategic business unit 'Telstra Country Wide' to specifically service regional areas. In comparison, New Zealand's smaller geographical area meant that TCNZ's service obligations were less onerous; there was no similar business unit at TCNZ.

The introduction of competition reduced the percentage of profits that TCNZ and Telstra received from traditional revenue bases, such as, local and long distance calls. Within this changing environment these services were increasingly seen as lower value-added services. Therefore TCNZ and Telstra shifted their emphasis towards newer technologies, including mobile communications, internet and ecommerce related products and services. This changed emphasis towards new products and services led to corresponding changes to TCNZ and Telstra's definitions of core and non-core work. What had formerly been considered core work for a public sector telecommunications utility was increasingly outsourced to the market.

These outsourcing strategies were constrained by the relative power of unions at each firm. The differences in the ability of unions to influence TCNZ and Telstra's decisions were partly the result of different employment legislation. While the Workplace Relations Act (WRA) 1996 further deregulated the Australian labour market, it was not as radical as the New Zealand Employment Contracts Act (ECA) 1991. Thus the ECA gave TCNZ greater scope to exclude unions from the decision making process.

4. *What were the ER implications of TCNZ and Telstra's organisational and workforce restructuring strategies?*
5. *How useful is TCE theory in explaining TCNZ and Telstra's changing ER strategies following the deregulation of their respective telecommunications sectors?*

In the mid to late 1990s Telstra's ER strategies came to more closely resemble the unitarist policies that had been introduced at TCNZ. These strategies aimed to marginalise union activity and increase the numerical and functional flexibility of their workers. TCNZ and Telstra used the provisions of the ECA and WRA to individualise the employment relationship through the introduction of individual employment contracts. Workers who were shifted into subsidiaries and/or joint ventures became covered by new employment agreements that contained more 'flexible' working conditions.

Training at TCNZ and Telstra became more focused on short term returns. Both firms reduced their broad technical training, which could lead to transaction costs in the form of potential future skill shortages and associated higher labour costs. Changing technologies also influenced training strategies, as new processes and equipment replaced work that had formerly required a high degree of firm-specific skills. TCNZ and Telstra managers maintained that it had become easier to train new workers and/or outsource this deskilled work. Workers who had performed this work subsequently became less valuable to both firms. The rapidly changing nature of some new technologies also mitigated against long term contracts within the same firm. Rather, it became cheaper to employ some employees on short term contracts to perform work on a project by project basis.

The unions at TCNZ and Telstra found it more difficult to function effectively within this changing environment. At the macro level, conservative New Zealand and Australian governments introduced ER legislation that led to more deregulated labour markets. At the micro, or firm level, unions faced changing management ideologies and strategies. For example, union officials claimed that TCNZ and Telstra managers began to target union members for redundancy. The size and resources of TCNZ and Telstra further limited union activity. TCNZ is one of New Zealand's biggest firms and had the resources to engage in protracted and expensive litigation. During much of the 1990s TCNZ was backed by the resources of two US based multinational corporation (MNC) owners. The CEWU and EPMU simply did not have the resources to match TCNZ. Similarly, Telstra is a large firm that also demonstrated its preparedness to engage in litigation with the unions. Consequently, the CEPU and CPSU limited their litigation expenses by prioritising ER disputes.

The unions that responded best to this new environment were those that exhibited a flexible and pragmatic approach. This approach was typified by the CEPU, which rationalised its operations and cut costs. Its ability to gain good pay increases through collective bargaining processes helped the CEPU to retain its members at Telstra. In contrast the CEWU could only achieve modest pay increases for its members. Despite falling membership and revenues, the CEWU attempted to maintain its former strategies and spending patterns and did not survive the new environment.

From a TCE perspective, reducing union power lowered the relative transaction costs associated with TCNZ and Telstra's outsourcing and downsizing strategies. For example, the almost complete removal of union members from TCNZ meant that coordinated industrial action was unlikely. However, in 2002 Telstra continued to face higher potential transaction

costs in the form of industrial action and litigation, as the majority of its workers remained union members.

## Conclusion

This paper highlighted the important role that nationally specific factors<sup>6</sup> play in the strategies of firms, because they have the potential to alter relative transaction costs. Despite Australia and New Zealand having similar historical and cultural backgrounds, and close economic ties, differences in TCNZ and Telstra's strategies were often attributable to different external constraints. By linking TCE theory to this explicit external context this paper constructed a possible framework for the future analysis of former public sector enterprises that are induced to compete in deregulated environments.

TCE theory implies that firms will act logically when considering make/buy decisions. But in practice the implementation of strategies in most firms are also significantly influenced by such considerations as: image, territory (or turf wars), egos, personal ambition, politics and ideology. Further for various reasons corporate leaders may attempt to maximise profits and share prices in the short-term rather than in the longer-term. This research showed that TCNZ and Telstra were political organisations. Managers and union officials from both firms advised that redundancy decisions were not always made on a rational basis. For example, some workers were laid off because of union affiliations, while others were laid off simply because of personal dislikes. Thus downsizing and outsourcing decisions did not always accord with TCE logic. This research 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 TCE helps to predict the kinds of future problems and associated transaction costs that such organisations 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). This paper is part of ongoing research into telecommunications deregulation that will further refine the concepts that would assist in analysing changing ER management strategies in deregulated TelCos.

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<sup>6</sup> For a further discussion on the issue of nationally specific factors see Dore (1973), Fucini & Fucini (1990) and Platt (1999:168).

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