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Deregulation, Downsizing and Outsourcing at Telecom New Zealand and Telstra: Towards an explanation of employment relations strategies in terms of transaction costs economics

Peter K. Ross & Greg J. Bamber

INTRODUCTION

Researchers have examined the deregulation of the telecommunications sector in many industrialised market economies (IMES) in the 1980s and 1990s and its subsequent effects on employment relations (Bolton et al., 1993; Katz, 1997; Ross & Bamber, 1998). This increasingly competitive environment was accompanied by changes in product markets. New technologies, including, advances in digital technologies, mobile telephones, the internet and email, began to compete with conventional telephone services. Many former monopolies are also required to balance traditional social obligations with increasing demands from shareholders for increased dividends – both TCNZ and Telstra retain universal service obligations. Within this changing context, many TelCos restructured their organisations as they strove to become more competitive.

During the 1990s restructuring amongst large firms was often accompanied by staff reductions under the euphemisms of ‘downsizing’ or ‘rightsizing’, with such practices being linked to increased profitability in an increasingly competitive global environment (see Cascio, 1993; Gerhart & Trevor, 1996; Cascio et al., 1997; Littler et al., 1997; & Kane, 1998). While Telstra in the late 1990s appeared to be entering a new downsizing cycle, at TCNZ the rate had begun to level off – much of the restructuring in New Zealand had begun earlier than in Australia (Littler et al. 1997: 69-75). While mass layoffs in previous decades were often the last resort of firms in financial trouble, in the 1990s such actions were increasingly seen on the stock markets as indicative of strong decisive management. In a bizarre twist, the share prices generally rose in response to announcements by firms that they would be laying off workers.

Proponents of downsizing claim benefits, such as; lower overheads; less bureaucracy; faster decision making (including, moves towards flat level management); smoother communications; greater entrepreneurship and increased productivity (Kane, 1998: 48). Despite such claims, Kane’s research suggests that these expected benefits were often not achieved. Repeated downsizing can be a major contributing factor towards a ‘survivor syndrome’, whereby repeated layoffs lead to lower worker commitment and morale, amid fears of job security (Littler et al., 1997). Layoffs may also cause the loss of experienced workers with firm-specific skills. Firms may be forced to hire back such workers as ‘consultants’; sometimes on higher rates than they were previously paid. By outsourcing jobs...
previously performed in-house, firms also began to redraw their boundaries, as they change make-buy decisions. In the process core competencies could be lost.

Downsizing and outsourcing has been a feature of management strategies at TCNZ and Telstra in the 1990s. With the boundaries of the firms becoming more fluid, this paper seeks to use transaction costs economics (TCE) theory to assist in analysing their changing organisational structures and ER strategies.

**TRANSACTION COSTS ECONOMICS**

In his early seminal work, Coase begs the question as to why finns exist, and may expand into large organisations, in a system that according to conventional neo-classical economics, largely consists of contracts determined by the price mechanism (Coase, 1937: 388). Under such a neo-classical approach, firms could contract out, or outsource, all their production to individual agents. Coase sees the existence and growth of firms as proof that in some instances firms may offer more cost-effective methods of organising the production of goods and services than the alternative of contracting out such functions to the marketplace. Firms, therefore, become a ‘supersession of the price mechanism’ (Coase, 1937: 389).

Carrying the argument further, a rational firm should always be able to carry out internalised transactions at a lower cost than the market place, for if these costs rise it has the alternative of outsourcing these functions. But the market price may not cover associated transaction costs, such as, lower quality goods and services, and the possible loss of intellectual property rights to competing firms. Outsourcing in this situation may put at risk the ‘core competencies’ built up by a firm and thus risk its competitive advantage.

The decision to outsource production or produce in-house differs between firms and between like industries in different countries, as firms differ in organisation, governance structures and strategies. As they strive to compete and outperform one another in the marketplace, there may be a causal link between their organisational structures and performance (see Kogut, 1991; Burack et al., 1994; Beer, 1997). To better explain why firms choose to organise as they do, Williamson (1979, 1985, 1996) expanded on Coase’s work by taking a TCE approach to the problem.

Williamson sees managers (principals) as having less information about shopfloor activities than the workers and/or sub-contractors (agents) who are contracted to perform these tasks. When coordinating these activities managers suffer typical principal-agent problems including bounded rationality and asymmetric information. This in turn leads to problems of shirking and opportunism on the part of agents in areas including quality control and the safeguarding of intellectual property rights. As outsourcing tends to lessen a firm’s control over the production process – a common complaint in licensing agreements – an agent’s activities may be more effectively controlled when the production process is performed in-house. In TCE terms, it becomes cheaper to internalise the transaction than to externalise it.

Williamson also suggests that as outsourcing involves a legal contract it may lead to increased transaction costs in the form of legal fees and the costs of possible future litigation. As the future is uncertain, conditions under which contracts are originally made may change. Pressures in reinterpreting and rewriting contracts can lead to breakdowns in the relationship between principals and agents. Finding replacement agents are added costs.

A proviso here is the asset specificity of the good or service being contracted out. Should the firm be able to convince the subcontractor to invest in asset-specific capital goods pertaining to the goods or services being produced, the subcontractor will be more likely to continue with the relationship. Likewise, the firm will also find it difficult to find an alternative subcontractor willing to make the investment in the asset-specific capital goods the firm requires. It is then in the interests of both parties to form long and flexible partnerships (Williamson, 1979: 237-240).

While such bilateral relationships may prove useful, factors such as the loss of core competencies; difficulties associated with legal contracts; and issues of control, mitigate against their widespread use. Therefore, firms are induced to outsource those functions that have low asset-specificity and keep in-house those functions that have a high degree of asset specificity. Pitelis (1996: 4954) states that ‘the co-existence of asset specificity, bounded rationality and opportunism creates a situation where transaction costs can be so high that it is advantageous to supercede the market and organise resource allocation within the firm’. Thus, when firms make decisions concerning outsourcing, production costs form only part of the equation. To economise a firm must minimise the sum of production and associated transaction costs (Williamson, 1979: 245).

The decision to outsource may also be affected by short- and long-term considerations. Firms may choose to sell off and/or outsource core competencies for short-term shareholder gain or for political reasons. In this situation the actions of the firm may not always follow the path suggested by TCE, however, the theory is helpful in trying to explain the possible long-term detrimental effects of such polices. Howard argues that the drive for increased short-term profits by many firms in the UK during the 1990s may have long-term negative effects, as firms mistake cost-cutting for efficiency (1996: 66-67).

**IMPLICATIONS OF TCE FOR EMPLOYMENT RELATIONS (ER)**

When a firm restructures and downsizes its workforce, management must decide on which staff to target for
redundancy? A firm wishing to reduce its staffing level by 10 per cent may achieve this by across-the-board redundancies, but may also lose some talented employees who have received a high degree of in-house training. In other words, there has been a high degree of investment in human-capital in these employees that is firm-specific (Williamson, 1979: 240). Given the costs associated with this investment, thoughtful managers should be loath to lose such employees in this way. A more rational decision is for firms to target for redundancy those employees with little training and few in-house skills – that is, those employees with a low degree of asset-specificity. Williamson goes so far as to say:

‘The efficiency benefits of collective organisation are negligible for non-specific labour. Accordingly, such labour will be organised late, often only with the assistance of the political process’ (1979: 260).

Work requiring employees with generic skills can usually be accessed through out-sourcing, sub-contracting or the part-time labour market.

This argument has similarities with the core-peripheral analysis of work organisations, whereby large companies develop internal labour markets, with long-term job security and seniority-based promotions for a relatively small ‘core’ workforce. These regular employees are valuable to the company because of the high investment it has made in education and training. ‘Peripheral’ employees may be employed either by small firms or on an atypical basis by larger firms and generally have to accept lower wages and/or conditions than ‘core’ employees (Atkinson, 1987). Some researchers imply that this scenario leads large firms to use smaller subcontracting firms as buffers to help offset their own internal labour costs (Chalmers, 1987; Dedoussis, 1991).

Dynamic factors also affect a firm’s ER strategies. For example, a firm shifting its business strategy from a production orientation to a customer orientation, may target workers with apparent firm-specific skills in sectors of the firm that it no longer considers a core competency. Restructuring may cause these sectors either to disappear or be substantially reduced.

Government decisions and regulations also impinge on ER decisions. The provision of adequate telecommunications services to remote areas has been an important political issue for successive Australian federal governments. This in turn puts pressure on Telstra to maintain technical staff and services at uneconomical levels in such areas to avoid possible higher transaction costs in the form of new government legislation and regulation in the telecommunications sector.

Within such environmental constraints, TCE suggests that the ER strategies of firms will broadly reflect the following concepts:

• employees with firm-specific skills will tend to be retained;
• employees with less firm-specific skills may be moved to contractors;
• employees with generic skills may be moved towards atypical employment;
• firms will become a function of their strategic core and their strategic alliances (Reve 1990: 138).

Such concepts may have important implications for workers at TCNZ and Telstra as both firms restructure their organisations to compete in deregulated telecommunications markets.

RESEARCH METHODOLOGY

The following analysis of TCNZ and Telstra forms part of a larger longitudinal and comparative study of the two firms. The data was collected from a broad range of sources during the period 1996 to 1999.

Interviews were conducted with past and present senior managers at TCNZ and Telstra to examine the changing nature of their workforces in the face of deregulation and privatisation. During interviews particular attention was focused on decisions made by management in relation to downsizing, outsourcing and training. Most of the people interviewed were involved to some degree in the planning and/or implementation of these decisions.

These discussions with management were supplemented by interviews with union representatives involved with TCNZ and Telstra. In the case of TCNZ these included discussions with past officials of the former Communications and Electrical Workers Union (CEWU) and senior officials of the Engineering, Printing and Manufacturers’ Union (EPMU). In relation to Telstra, interviews were conducted with senior officials of the Communications, Electrical and Plumbers Union (CEPU) and the Community and Public Sector Union (CPSU).

The above primary sources were supported by data collected from: (a) internal company reports supplied by management; (b) government reports – such as, the Australian Senate Environment, Recreation Communications and the Arts References Committee (SERCARC) reports; (c) company annual reports; (d) information supplied by the above unions; (e) and various other sources.

TELECOM CORPORATION OF NEW ZEALAND (TCNZ)

Telecommunications in New Zealand until the 1980s were controlled by a government monopoly, the New Zealand Post Office. In line with the large-scale reforms instituted by the government in the 1980s, the post office was
broken up and a state owned enterprise (SOE), the Telecom Corporation of New Zealand, was formed in 1987. In 1990 TCNZ was fully privatised with the major shareholders, Bell Atlantic and Ameritech, both US owned companies (TCNZ, 1997). In 1991 31 percent of TCNZ’s equity was sold to private investors. Following almost a decade of substantial profits and increasing share prices, Bell Atlantic and Ameritech, divested their shares in TCNZ in 1998 – it had been a profitable investment for both companies.

There has been substantial downsizing at TCNZ since the late 1980s. Between 1987 and 1990, when TCNZ operated as a SOE, employee numbers were reduced from 24 500 to 16 000 (TCNZ annual reports). After privatisation, in 1990, employee numbers were again reduced. The total number of TCNZ employees in 1999 was less than 8000 (TCNZ internal reports). The firm was assisted in its ability to implement such large scale restructuring by the introduction of the Employment Contracts Act (ECA) in 1991. This Act radically changed the industrial relations system that had been based on centrally determined award rates of pay and conditions. This was replaced with a decentralised system of individual or collective contracts. Many New Zealand unions, long experienced in a centralised system, found it difficult to operate in this new environment. In 1995 the Communications and Electrical Workers Union (CEWU), the former major union at TCNZ, went into liquidation.

ORGANISATIONAL STRUCTURE AND STRATEGIES

TCNZ and its subsidiaries operate as the ‘Telecom New Zealand Group’. The nature of the group’s organisational structure has been quite fluid. New functional divisions and subsidiaries have been formed, while other sections have been sold or reabsorbed back into the group. The dynamic nature of this structure provides some difficulties in creating an up-to-date model of the firm, but its general features may still be analysed. Figure 1 draws on information obtained from TCNZ management, New Zealand union officials; and other data obtained by the researchers. It shows a functional divisional structure linked to subsidiaries. TCNZ is divided into two main groups, Telecom Networks and Telecom services. These two groups contain business units, which administer the operating capacity and service requirements of the group. TCNZ also owns the functional subsidiaries, ConnecTel and Telecom Directories.

After privatisation, management engaged in cost cutting through the introduction of new technologies and
widespread downsizing. In the process the company moved from a technical to a more service based orientation. There have been employee redundancies in most sections of the company, with the full-time workforce at TCNZ in 1999 numbering less than one third of the workforce prior to privatisation. Such large-scale workforce reductions make it more difficult to determine if specific areas and/or functions were targeted for redundancies. While much generic and unskilled work was outsourced, many skilled technicians were also offered relatively attractive redundancy pay. An analysis of management strategies since privatisation, however, suggests a number of factors guided their actions.

Firstly, much semi-skilled work, including operator services was outsourced. This included directory assistance, national and international assistance calls. While the work of operator services can be quite demanding, workers can generally be trained to perform these functions relatively quickly. In 1998 the company negotiated an agreement with SITEL Lend Lease to outsource all such work throughout New Zealand. Telecom Xtra, which provides internet services, is also considering outsourcing its ‘help desk’ customer service operations (TCNZ Annual report, 1998).

Secondly, much of the work tendered within the group is internally and externally contestable. This fosters a more competitive environment, which drives prices down. For example, ConnecTel is a wholly owned subsidiary providing technical support services in the telecommunications sector, but it is not guaranteed TCNZ work. ConnecTel is also expected to bid for other work within the New Zealand telecommunications sector. Telecom Systems has also been created as a semi-autonomous business unit so that it competes more directly with the market (TCNZ Annual report, 1998). Thus, different entities may bid against each other for work and/or compete directly with bids from the external market. This has similarities to Motorola’s ‘warring tribes’ culture, where internal competition between divisions is encouraged (Elegant, 1998).

Thirdly, functional divisions and subsidiaries are kept ‘lean’ and operate with relatively low overheads. Managers are expected to benchmark the performance of their sections and reduce costs. This is in part achieved through low workforce numbers and the increased use of outsourcing and subcontracting. Until the mid-1990s TCNZ appeared to retain relatively small numbers of skilled technicians within these entities to keep prices down. Rather than subcontracting all technical work to the marketplace, these entities retained enough technicians to bid for perhaps 25 to 50 per cent of such work from TCNZ. A combination of low overheads and aggressive bidding meant that these TCNZ entities could offer competitive bids to help drive down the prices of external sub-contractors. Thus, while the TCNZ Group no longer had the capacity, or desire, to perform all its technical work, its various entities retained the ability to affect market prices through competitive tendering. But in the late 1990s TCNZ seemed to move away from this policy, as further downsizing led to more technical work being outsourced. This change in strategy may have been influenced by the increase in the number of external contractors bidding for TCNZ work – the creation of such a highly contestable market has put a downward pressure on prices.

Fourthly, there appears to be a de-emphasis on technical training. While TCNZ was formerly New Zealand’s largest trainers of technicians, most such training has now been left to the marketplace. This strategy has cut costs, with many former TCNZ technicians subsequently employed by contractors. But the strategy raises concerns about the capacity of the New Zealand labour market to continue to supply skilled technicians in the medium- to long-term.

TCNZ managers have also made no secret of their desire to move employees away from collective employment contracts. Internal reports state that TCNZ ‘has a strategic objective to move towards individual contracts with all employees’ (TCNZ, 1995: 4). This strategy was made possible by the introduction of the ECA 1991. TCNZ argues that it wishes to forge better relationships with its employees through direct negotiations, but we infer from interviews and other data that senior management have an ideological predisposition towards removing ‘third parties’ (i.e. unions) from the workplace.

In short, management at TCNZ have been committed to extensive restructuring and corporate downsizing, while internally and externally contestable markets have maintained pressure on TCNZ functional groups to reduce costs.

**TELSTRA**

As in New Zealand, telecommunications had long been a government-owned monopoly in Australia, being part of the Postmaster Generals Department (PMG). In 1975 Telecom Australia was formed, following the break up of the PMG. Telecom Australia was corporatised in 1989 and then merged with the Overseas Telecommunications Corporation (OTC) in 1992, to become the Australian and Overseas Telecommunications Corporation (AOTC). It was renamed Telstra in 1993. The federal government moved to increase competition in the Australian telecommunications sector by allowing the introduction of a direct competitor to Telstra, Optus, which began operations in 1992. Optus was a joint venture between Cable and Wireless (UK), Bell South (USA), Australian Mutual Provident Society, National Mutual and Mayne Nickless. This move to a more competitive environment accelerated moves by Telstra to reduce its costs in an attempt to compete with Optus, and other potential competitors. The Telstra and Optus duopoly was phased out on 1 July 1997 and replaced by a more competitive deregulated market. Other competitors in the Australian telecommunications sector in the late 1990s include AAPT, Vodaphone and Hutchinson Ltd.

In 1996 a conservative coalition government was elected with a commitment to privatise one third of Telstra. So successful was the share float in 1997 – it raised A$14.3 billion for the federal government (SERCARC, 1999) – that full privatisation was immediately mooted. The government promised to continue the privatisation process and went to the 1998 federal election with a commitment to sell a further 16 per cent of Telstra. It was envisaged that
full privatisation of the company would follow after an independent enquiry was satisfied that concerns over universal service obligations were adequately addressed. Returned to power in the House of Representatives, the government failed to gain a majority in the Senate. In mid-1999 the Senate agreed to the sale of a further 16 per cent of Teistra, but remained opposed to any sale of the remaining 51 per cent of the firm. The conservative government also moved to further deregulate the labour market with the Workplace Relations Act (WRA) in 1996. This Act sought to devolve bargaining to the level of the enterprise, but unlike the New Zealand ECA, it retained the national award system as a safety net for workers. However, federal awards were limited in the number of issues they could now address. The new Act also reduced the role of the Australian Industrial Relations Commission.

**ORGANISATIONAL STRUCTURE AND STRATEGIES**

Telstra’s organisational structure has also changed several times in the transition from a public sector agency to a partially privatised corporation run on commercial lines. Figure 2 is based on Teistra’s 1998 Annual Report and interviews by the researchers. It shows the company divided into five strategic functional business groups and three corporate centre support groups. These are linked to functional subsidiaries and joint ventures. Full-time staff levels have been reduced significantly since deregulation, from 96 000 in 1986 to less than 50 000 in 1999 (Telstra annual reports).  

Telstra management responded to the prospect of partial privatisation in 1996 by proposing strategies to restructure the company. This included an internal program, ‘Project Mercury’, that examined ways to reduce workforce numbers. The program targeted non-core functions for redundancies and outsourcing, and recommended that approximately 24 000 jobs be made redundant over a two year period. The objective was ‘to ensure that staff without necessary skills and experience are exited from the company in an effective and timely manner’ (SERCARC, 1996). Such reductions in staff numbers were seen as necessary for Telstra to be more attractive to potential shareholders and to achieve world best practice. The benchmarking assessment criteria that Telstra used to support this stance suggested that the company was performing at around 30 per cent below world best practice standards. Management then concluded that this equated to a need to reduce staff numbers by around the same level – 30 percent. Not surprisingly, the Communications, Electrical and Plumbers Union (CEPU)
disputed the criteria used to achieve such benchmarking results and conclusions.

Sections considered by Telstra to be non-core included Operator Services, Fleet Services, Electronic Products and Services, and Vision Stream. The number of full-time jobs targeted for redundancy and the time scale appears to have been reassessed in 1997. In its 1998 annual report Telstra announced that staff levels were being reduced by approximately 27,500 over a five year period, beginning in fiscal 1997. During the 1997/98 financial year, labour costs were reduced by 7.8 per cent, while total revenue increased by 8.3 per cent (Annual Report, 1998).

Which workers are being targeted for redundancy? While comprehensive data to answer this question is difficult to obtain – this is a sensitive area – we infer from interviews that four factors are helping to guide Telstra’s approach. Firstly, highly skilled staff are being retained, but their work locations are being centralised. Telstra management appears to consider this to be a more cost-effective way of managing such workers. Such restructuring has become more feasible with the advent of new technologies. This kind of centralisation has important implications for remote areas that are already a political concern for the federal government.

Secondly, much of the work performed by less skilled staff is being outsourced. As with TCNZ, a particular target has been operator services. Telstra operators have traditionally received higher remuneration than those in similar jobs in the private sector so management has been quick to identify this as an area for outsourcing. Permanent staff in some instances have also been made ‘redundant’ and then replaced with casual staff from labour hire companies.

Thirdly, Telstra workers have been moved into subsidiaries and joint ventures to foster a more competitive environment for first and second tier suppliers (e.g. those providing directory services). In 1999 a new subsidiary, Network, Design and Construction (ND&C) was created. Its responsibilities include the planning, design and construction of telecommunications networks. Around 7000 workers were engaged in this area within the former Telstra strategic business unit. Of these workers, approximately 2000 accepted redundancy payments and 5000 moved to the new subsidiary. While ND&C will initially receive most of Telstra’s work, over time it will be expected to compete with other emerging competitors in a market that is estimated to be worth A$1.5 billion per year (interview, 1999). Such competition generally drives prices down. Small business systems work, such as, PABX systems, has also been shifted out of the Telstra core. This work has been moved into a joint venture company, PLESTEL, jointly owned by Plessey.

Fourthly, Telstra workers have been moved into joint ventures and strategic alliances as a way to gain knowledge of new technologies. In 1997 approximately 2,100 former Telstra staff and contractors were moved to the joint venture company, IBM Global Services Australia (IBMGS). In 1998 another 300 staff were moved to the network services joint venture, Advantra – formed to support the activities of IBMGS (Telstra Annual Report, 1998).

Telstra has also sought to increase workforce flexibility through the introduction of Australian Workplace Agreements (AWAs) on an individual contract basis. AWAs were a feature of the WRA 1996 and allow for individual or collective contracts between employees and employers. Unions may become involved in negotiating AWAs only if employees authorise them to act as their bargaining agent. By mid-1999 AWAs covered just under 10 per cent of workers at Telstra, with management planning to offer them to another 4000 workers by the end of 1999. Many of these individual contracts were directed at middle managers. Of particular interest is the ‘re-assignment’ clause contained in many of the AWAs being offered by Telstra. It advises that upon signing the agreement a worker may be reassigned within Telstra, its related bodies or other specified entities. It specifies that such reassignment will not constitute a termination of the agreement or the worker’s employment. In the event of Telstra setting up a new subsidiary, joint venture and/or strategic alliance, such workers can be seconded to the new entity as ‘Telstra experts’ under the same employment conditions.

In short, while Telstra management are committed to downsizing, this is not aimed equally at all elements of the firm. Rather, the targeting of workers for redundancy and reassignment appears to be shaped by particular management goals. These include such goals as operation mercury and the outsourcing of functions no longer considered to be ‘core business’.

**DISCUSSION**

The management strategies at TCNZ and Telstra since deregulation show some similarities. Both firms responded to the increasingly deregulated and competitive environment with downsizing strategies. This was augmented by increases in outsourcing and a greater reliance on subcontractors. Workers at both firms were shifted to subsidiaries and/or re-employed by subcontractors. In this regard the organisational structure of each firm has changed to more closely resemble Reve’s notion of firms being functions of their ‘core work’ supported by strategic alliances (1990: 138). Downsizing in this context has a more strategic focus than the simple layoff of workers (see Band & Tustin, 1995).

Lower skilled generic work has been targeted for outsourcing. This is particularly evident in the operator services section of both firms. This accords quite well with the TCE notion that employees with less firm-specific skills are likely to be targeted for redundancy, with their work outsourced. Both firms also moved towards the casualisation of lower skilled generic work.

But redundancies at TCNZ also involved many technicians with a high degree of firm-specific skills. A possible explanation is the size of the New Zealand market and the market share that TCNZ has retained. With a population of just under 4 million, New Zealand does not provide the economies of scale that new entrants require to make the large scale investments – and associated sunk costs – necessary to seriously challenge TCNZ’s market dominance.
New Zealand also lacks a specific regulatory body to oversee the telecommunications sector. Instead it relies on general provisions under the Commerce Act. Attempts by competitors to use the Act to gain better access to the general network have led to protracted and expensive Court proceedings, yielding inconclusive results (Ahdar, 1995). After 10 years of deregulation, competitors in the New Zealand telecommunications market have tended to remain in relatively small niche areas. Thus, many former TCNZ technicians employed by subcontractors continue to perform TCNZ work. This lack of a major competitor helps to insulate TCNZ from the loss of core knowledge.

Another possible explanation for widespread redundancies at TCNZ is the time frame of its owners. The two major shareholders, Bell Atlantic and Ameritech, retained their control of TCNZ for 8 years. Most of the major cost-cutting and downsizing was implemented during this period. This in part helped to ensure high profits and large increases in the share price; a high proportion of the profit was repatriated. We are not suggesting that the restructure of TCNZ throughout the 1990s was entirely for short term financial gain, but the sudden exit of the two American firms raises questions about long term issues, such as, training and reinvestment in infrastructure.

In contrast, workforce reductions at Telstra appear to have been more targeted. For instance, its downsizing has been accompanied by strategies such as ‘Operation Mercury’ that have targeted specific areas and employee functions for redundancy.

TCNZ and Telstra have also sought to restructure their supplier chains. By shifting workers into subsidiaries, joint ventures and contractors they have attempted to create a more competitive environment that in turn will reduce supplier prices. While both firms have subsidiaries and joint ventures as part of their supplier chains, TCNZ has been more active in subcontracting work to the external marketplace (i.e. to firms in which it has no financial interest). Telstra has also shifted skilled workers into joint ventures such as IBMGSA to gain access to new knowledge in high tech industries.

From a TCE perspective these extended supply chain strategies are effective in the long term only if ‘core’ knowledge is not lost and if the total cost of administering these business relationships does not outweigh the lower negotiated price. As both firms have moved to varying extents from technical to service orientated cultures, it is possible that much of the work being reassigned to suppliers is no longer considered ‘core’ work. This negates many of the problems associated with the loss of ‘core knowledge’. Telstra has signalled its intention to move its core business into higher value added areas, such as, interactive telecommunications, as its general network becomes increasingly open to competition.

**CONCLUSION**

This paper discussed management strategies at TCNZ and Telstra following the deregulation of their respective telecommunication markets. These strategies were influenced by several factors including: their operating environments, including legal frameworks; the introduction of new technologies; market considerations, such as, staff-capital ratios considered acceptable to the market; and management ideologies.

The partial privatisation at Telstra in 1996 was accompanied by changes to its organisational structure. Moves towards outsourcing and strategic alliances saw the firm’s boundaries become increasingly blurred. Changing management attitudes towards ER and human resource planning are also leading to substantial changes in the composition of its workforce. Continued moves towards the further privatisation of Telstra are likely to accelerate these changes.

TCNZ operated as a fully privatised firm throughout most of the 1990s. Many of the changes currently being undertaken by Telstra have already occurred at TCNZ. In some respects the changes at TCNZ, such as, the two-thirds cut in its workforce, have been more radical than at Telstra.

TCE theory provided a framework to analyse and compare the activities of the two firms. Some of their ER strategies fit the traditional TCE analysis quite well, but other strategies undertaken by the firms may require alternative explanations than those of earlier TCE theorists. Certainly the ER strategies of the firms are more complex than the simple core-peripheral view of the workforce. This suggests the need to re-examine the ER implications of TCE to see whether a better model can be developed that will more closely fit the ER strategies of firms, such as, TCNZ and Telstra. In this regard we are continuing to examine ER in the former public monopolies of the Australian and New Zealand telecommunications sector.

**ENDNOTES**

i ‘core competencies refers to skills within the firm that competitors cannot easily match or imitate’ (Hamel & Prahalad, 1989)

ii Asymmetric information: a situation in which one side of an economic relationship has better information than the other (Katz & Rosen, 1991: 595).

iii Asset specificity may be defined as the ease to which an asset maybe transferred to its next best alternative use.

iv Non-standard work performed outside the scope of traditional ‘full-time’ employment, such as, casual and/or contract work.
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