

Towards “Relationship Management”: Organisational and Workforce Restructuring at the Telecom Corporation of New Zealand (TCNZ)

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This paper examines the former wholly government owned telecommunication company (TelCo), the Telecom Corporation of New Zealand (TCNZ), that was privatised in 1989 and induced to compete in a deregulated operating environment as the New Zealand government moved to open up its telecommunications' sector to competition. In broad terms this paper examines the organisational and workforce restructuring strategies that TCNZ undertook during this period and how these strategies affected its employment relations (ER) policies. It seeks to use transaction costs economics (TCE) and strategic alliance concepts to assist in explaining why the firm undertook these strategies. The analysis of TCNZ focuses on the period from 1990 to 2000, during which time much of the organisational restructuring and workforce reorganisation occurred.

Introduction

The telecommunications industry is a large and expanding sector with worldwide revenues in the late 1990s of USD 644 billion, employing approximately 5.4 million people worldwide (WTO 1998). Until the 1980s TelCos in many industrialised market economies (IMEs) were public-sector utilities enjoying “monopolies” in their home market. However, by the late 1980s governments in many IMEs had begun to strip away many of these regulations (Katz 1997; WTO 1998) — the New Zealand government privatised TCNZ in 1990. Thus many former monopolies had to adjust to more deregulated operating environments as they were induced to compete in the market place.

But governments differed in the extent to which they embarked on the privatisation process. New Zealand and the UK both engaged in a full privatisation process that saw their former TelCos, TCNZ and BT respectively, sold off as 100 percent owned private entities. Other countries, such as Singapore, Taiwan and Australia retained significant

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public ownership, though all three governments have mooted further privatisation (Wilhelm et al., 2000). As a 100 percent privatised entity TCNZ had arguably greater freedom to embark on restructuring programs than those TelCos that remained under majority government ownership.

Being a former monopoly gave TCNZ a number of initial advantages in the newly deregulated New Zealand telecommunications market. For example, it retained the ownership of most of the fixed line telecommunications infrastructure, had the most recognisable brand name and to an extent was able to rely on the forces of inertia to retain a customer support base — at least in the short- to medium-term. But TCNZ also began with a public sector culture that included long-term career paths for its workforce and the employment of workers in areas not directly related to telecommunications. The subsequent restructuring of TCNZ included a re-evaluation of core competencies as work previously performed in-house was outsourced to the external marketplace. HRM during this period began to take on a more strategic focus with popular restructuring strategies including downsizing, delayering and outsourcing. A consequence of these strategies was that TCNZ moved from being a relatively large stand-alone firm, to become a leaner organisation linked to subcontractor and strategic alliance networks.

Such strategies were accompanied by the deregulation of the New Zealand labour market with the introduction of the Employment Contracts Act (ECA) 1991. Researchers have noted how during the 1990s TCNZ management used the ECA to great effect when forming their ER strategies (Anderson 1992, 1994; Ross & Bamber 1998). Thus the concurrent deregulation of labour and telecommunication's markets allowed TCNZ to undertake ER strategies that would not have been available had deregulation occurred in the telecommunication sector only. For example, the ECA assisted management in its shift to a more unitarist approach to ER.

Strategic downsizing — a TCE perspective

Staff reductions — under the euphemism of “downsizing — have been seen as a way towards increased profitability in an increasingly competitive global environment (see Cascio, 1993, 1997; Gerhart, 1996; Littler, 1997; Kane, 1998). While mass layoffs in previous decades were often seen as the last resort of firms in financial trouble, by the 1990s such actions had begun to be seen by the markets as indicative of strong decisive management. The expected benefits of downsizing include: lower overheads; less bureaucracy; faster decision making (such as, moves towards flat level management); smoother communications; greater entrepreneurship and increases in productivity (Kane, 1998:48). Despite its obvious popularity, Kane's research suggests that many of these expected benefits are rarely achieved. While reduced worker commitment and morale — amid fears of job security — are often given as reasons for the failure of downsizing to live up to such expectations (cf. Littler et al., 1997), downsizing may also cause the loss of experienced employees with firm specific skills.

So how do firms entering a downsizing phase decide on which workers to keep and which to lay off? A possible explanation for these decisions is provided by transaction cost economics (TCE) which links the make/buy decisions of firms to the asset specificity of the good or service being produced (Hennart, 1988; Teece, 1982; Williamson, 1979, 1985, 1991, 1996). While simple across the board redundancies will assist a firm in reducing the size of its overall workforce, it also risks losing 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 it does not make economic sense for firms to lose such employees in this way. Therefore, 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. As Lepak and Snell state, “not all employees possess knowledge and skills that are of equal strategic importance” (1999:31). Therefore a more strategic approach to downsizing will seek to target specific groups of workers for redundancy, while retaining and further developing those workers with firm-specific skills.

In line with the above TCE suggests that the ER strategies of firms undergoing organisational restructuring should broadly reflect the following concepts:

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

As most firms both make and buy their human capital (Lepak & Snell, 1999:32), TCE provides a framework to assist them in deciding what functions to produce in-house and what functions to outsource to the market place.

This paper considers that the TCE approach need not be mutually exclusive from the strategic management and downsizing literature. Rather, it gives management a benchmark on which to base outsourcing and downsizing strategies. Thus TCE theory may provide us with a tool to better analyse why TCNZ embarked on downsizing strategies and what the possible long term repercussions of these strategies may be. However, a limitation of much of the traditional TCE literature is that its analysis has tended to concentrate on the simple dichotomy of markets and hierarchy. In the case of TCNZ an examination is also required of the effects of strategic alliances — and other forms of interfirm agreements — on ER.

Strategic alliances

When interviewing TCNZ managers the term “relationship management” was used to describe their increasing need to manage work being performed by workers outside of the immediate firm; for example sub-contractors and/or strategic partners (Interviews with TCNZ staff, 1999, 2000). This need came about through outsourcing and the creation of strategic alliances. While the above discussion on TCE theory suggests how firms may decide on make/buy decisions, researchers suggest that in some instances networks and strategic alliances may generate relational rents that are greater than either markets or hierarchy (Dunning, 1995; Dyer & Singh, 1998; Kale, Singh & Perlmutter, 2000; Hennart, 1988; Tsang, 2000).

Dunning discusses the idea of cooperative networks of firms under the guise of “alliance capitalism”, which he sees as leading 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 have been occurring at TCNZ. Dunning accepts that many of the issues outlined by TCE theory assist in the make/buy decisions of firms. However, if firms are facing high market transaction costs, he sees cooperative alliances as possible legitimate alternative to either markets or hierarchy. By engaging in strategic alliances firms need not necessarily lose complete control over a production process or service, just because it is not produced inhouse. Therefore firms may be able to reduce transaction costs associated with market based transactions — for example the loss of control over the quality of a product produced by a subcontractor — while at the same time accessing the skills, assets and human capital of partner firms (1995: 7). Such cooperative arrangements between firms may then provide a middle ground between markets and hierarchy.

But cooperative agreements between firms create a number of issues for ER. Firstly, firms no longer need to directly employ workers in order to utilise their intellectual capital and skills. This allows firms to make use of human resource skills that they do not possess. Thus there may be less need for firms to invest in training their own workers. If the joint project/venture is set down for a limited time frame workers may also be more easily placed on short term contracts. Alternatively, firms may decide to place their own workers into joint ventures, where they may be able to pick up skills which can then be transferred back into the parent company.

Therefore firms entering into strategic alliances, or other cooperative type interfirm agreements, have a number of staffing options. These include:

1. Transferring workers out of the parent company into these subsidiaries and/or alliances. Such workers may then be employed at “arms length from the parent company, often on different terms and conditions of employment — the parent company may no longer have a legal obligation to these workers.
2. Staffing a strategic alliance joint venture with workers from an alliance partner firm. This may give the firm access to new and complementary labour skills.
3. Setting up a “greenfield” site where the new entity employs most workers from the external labour market. This allows firms to set up new employment agreements that are less influenced by previous employment agreements at either parent company.
4. Utilising agencies and short term contract labour to staff new strategic alliances, joint venture and/or subsidiaries. Such an approach would generally be more suitable to joint venture projects with a limited/defined time span.
5. Firms may staff a subsidiary or joint venture with teleworkers or other atypical types of employment practices. Examples of this include the use by UK telecommunications’ firms of call centres based in India.

Therefore, as a firm expands into new markets and/or increases market share and revenues through interfirm cooperative agreements — or in the TCE parlance, internalises “intermediate markets” — workers operating outside of the core company will increasingly generate more of the firm’s future revenues. Thus increases in revenues and profits may be associated with declining or static staff numbers within the parent company.

Organisational and workforce restructuring at TCNZ

In the late 1980s TCNZ was perceived as being overstaffed and staff reductions were largely achieved through across the board redundancies (interviews with former CEWU officials and TCNZ management). While sections not directly related to telecommunications were disbanded, to a large extent employee redundancies do not appear to have been targeted at this time. Large reductions in employee numbers were achieved initially through relatively attractive redundancy payments, however, these were reduced in later years.

By the early 1990s TCNZ’s management saw its organisational structure as being too cumbersome and lacking the flexibility required to operate in the newly deregulated telecommunications environment. Therefore, management decided to decentralise the organisation and the firm was divided into a number of semiautonomous regional divisions. Cost reduction strategies included redundancies, outsourcing and the introduction of new technologies. To some degree this decentralised structure assisted management in its drive for individual contracts for workers. TCNZ refused to bargain

for one collective agreement to cover all workers, but instead agreed to bargain for smaller separate agreements in the decentralised regional divisions. Breaking up a large collective employment agreement made collective bargaining more difficult for the union and arguably made it easier for the firm to then begin shifting workers on to individual employment contracts.

The decentralised structure introduced the concept of TCNZ work being internally and externally contestable. Regional divisions could compete against each other for work being tendered by the TCNZ's head office, with much of this work also being contestable on the open market. This tended to foster a more competitive environment, which drove prices down. But it also placed a high degree of pressure on middle management within the regional divisions to benchmark the performance of their sections and reduce costs. Thus, areas within the firm were induced to become "leaner" and operate with lower overheads. This in turn increased the number of redundancies as sections strove to reduce short-term costs. Sections not performing to budget tended to disappear, with their role outsourced to an external party.

In the mid-1990s management decided that the decentralised regional structure was causing problems related to coordination and control. Therefore it was abandoned and TCNZ's organisational structure was again centralised. But in terms of worker numbers this was a far smaller firm than had begun the decade. By the mid-1990s the permanent workforce had been reduced to less than 8,500 employees — around a third of the 24,500 workers that had been employed by TCNZ prior to corporatisation in 1987 (TCNZ interviews and reports). But between 1995 and 1999 TCNZ continued to reduce the size its permanent workforce and by 2000 TCNZ employed less than 6000 permanent workers (TCNZ interviews and reports).

By the late 1990s TCNZ had a functional divisional structure supported by subsidiaries, subcontractors and strategic alliances. TCNZ was divided into two main groups, Telecom Networks and Telecom services. These two groups contained business units, which administered the operating capacity and service requirements of the group. TCNZ also owned the subsidiaries, ConneCTel — formally the functional division, Network, Design and Construction — and Telecom Directories.

Much of the technical support services work in the telecommunications sector was shifted to ConneCTel. Therefore many technical workers were no longer employed by TCNZ as they became ConneCTel employees. While this wholly owned subsidiary provided technical support services in the telecommunications sector, it was not guaranteed TCNZ work. Rather, it was also expected to bid for other work within the New Zealand telecommunications sector (interviews with ConneCTel management 1999). In 2000 TCNZ sold off ConneCTel as a stand-alone company, while the amount of technical work being tendered out to other firms steadily increased (TCNZ, 2000). Therefore the late 1990s saw large reductions in technical and engineering jobs at TCNZ. This area had become increasingly contestable with an associated increase in the use of subcontractors. This strategy of shifting technical work out of the core

company also led to a de-emphasis on technical training. While TCNZ was formerly New Zealand's largest trainers of technicians, most of this training has now been left to the marketplace.

During the 1990s redundancies at TCNZ appear to have become more targeted. 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 TCNZ negotiated an agreement with SITEL Lend Lease to outsource all such work throughout New Zealand. Other sections within TCNZ were also considering outsourcing areas such as "help desk" customer service operations (TCNZ, 1998).

TCNZ also outsourced its property management and car fleet management, while its purchasing functions were increasingly integrated into an ecommerce system. This led to a subsequent reduction in the number of permanent staff required for these roles. Recruitment of new staff was also outsourced to a number of "preferred" employment agencies, reducing the need for HRM personnel. Interestingly interviews with TCNZ management suggest that this strategy was not wholly successful, with the price of utilising such employment agencies tending to outweigh the benefits of not having to directly employ recruiting staff. Thus in 2000 TCNZ re-examined this issue with a view to reintegrating the recruitment function back into the firm. However, rather than bringing in more HR professionals TCNZ management were testing a computer software package that would process and "screen" and even in some cases select applicants (interviews with TCNZ management). While an analysis of the ability of computer programs to effectively carry out such work is well beyond the scope of this paper, it does highlight the cost cutting approach that has underlined many of TCNZ's HRM strategies.

The role of the corporate HRM section also changed during the 1990s with many traditional HRM functions delegated to line management. The corporate HRM section now sees its role as instituting and coordinating company policy and giving advice to line management. It does not generally seek to deal directly with TCNZ employees.

In 1999 TCNZ outsourced its own IT needs to the computing services firm, EDS — formally a New Zealand government owned computing services centre that was privatised in the 1990s. This affected about 600 former TCNZ workers who had the option of either moving to the new firm or resigning. Most of these workers did not have redundancy clauses included in their individual contracts (interviews with TCNZ 1999). Given the growing relationship between IT and the telecommunications sector and the subsequent loss of highly skilled staff that this move would entail, this may appear to be a somewhat curious decision. But interviews suggest that the decision was seen having the potential to deliver major cost cutting benefits — TCNZ also gained a 10 percent shareholding in EDS New Zealand Ltd (TCNZ, 2000a). While information technology (IT) and information services (IS) had been the only growth areas for

permanent employees during the latter part of the 1990s, the decision by TCNZ to outsource its IT requirements and sell off ConnecTel saw a further decrease in the overall numbers of permanent workers between 1999 and 2000 (TCNZ interviews and reports).

One criticism of the above downsizing strategies relates to their long-term sustainability. Given the extensive downsizing that occurred at TCNZ a salient question is to ask how the firm has continued to operate effectively with such a reduced workforce? While the introduction of new technologies and outsourcing have been major factors, there has also been an increase in the use of contract labour within the firm. While the permanent workforce was reduced between 1995 and 1999, the number of workers employed on a fixed-term contract basis continued to increase. The use of such contractors increased across all sections of TCNZ's workforce during this period — from 143 to 1929 workers — and by 1999 contractors made up more than 20 percent of TCNZ's workforce (TCNZ interviews and reports). For example, while the number of permanent sales and marketing workers decreased between 1995 and 1999, the total number of such workers employed by TCNZ increased by 20 percent during this period, due to the increased use of contractors (TCNZ interviews and reports). Many IT workers employed by TCNZ during this period were also employed on a contract basis. Thus, while the permanent workforce was reduced between 1995 and 1999, the total number of workers, including contractors, actually increased. Interestingly, the use of casual and temporary labour was not exploited to the same extent.

By 2000 the transmission of data flows and internet related applications had become one of TCNZ's largest growth areas. During interviews TCNZ management infer that this area is seen as playing a large part in TCNZ's future development. To accommodate this growth a TCNZ strategy has been to form strategic alliances with other firms in this area, rather than increase its permanent workforce. This has included the creation of "esolutions", which involved an alliance with Microsoft and EDS. TCNZ is also working with software giant, Cisco, to improve its delivery of data requirements and has taken a 10 percent stake in the internet firm INL (TCNZ, 2000). TCNZ management sees such strategies as a cost-effective way of giving the firm a greater stake in the converging "rich media" sectors of technology, information, multi-media and entertainment (TCNZ, 2000c). TCNZ has also moved into the Australian market by moving to take a majority share ownership in AAPT and through winning a large IT contract with the Commonwealth Bank of Australia (TCNZ, 2000b).

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. In a bid to reduce costs redundancies in the late 1980s and early 1990s appear to have been taken across all functional groups. But during the 1990s these redundancies appear to have become more targeted. While TCNZ began the 1990s as a relatively large stand-alone company, by 2000 it had evolved into a smaller core company supported by subcontractors, subsidiaries and strategic alliances.

Discussion

How well does the restructuring of the workforce at TCNZ during the 1990s fit the TCE model? The outsourcing of work performed by semi-skilled staff, such as, operator services, and the outsourcing of generic work, such as, property management and car fleet management, fits the TCE analysis quite well. Such work has a low degree of asset-specificity and the theory suggests that there are less costs involved in outsourcing this work to the market.

However, explaining the outsourcing of technical work and the shifting of technical workers into subsidiaries, joint ventures and stand-alone companies is more problematic. Many such workers have developed a high degree of skills specific to the New Zealand telecommunications sector. But a number of factors give a possible explanation here. Firstly, while the market has theoretically been open to competition for the last decade, TCNZ retains the ownership of most of the fixed line telephone network and still controls a large share of the New Zealand telecommunications sector. TCNZ has also been prepared to engage in protracted legal battles to restrict access to this network (see Ahdar, 1995), while the lack of a specific industry regulator has arguably helped TCNZ in this regard — for example there has been no specific legislation to force TCNZ to provide better access for competitors to its network. However, a government inquiry in 2000 led to the creation of a Telecommunications Commissioner, who is part of the Commerce Commission, and will be responsible for resolving industry disputes within the sector.

With a population of less than four million, New Zealand may also not provide the economies of scale that new entrants may require to make the large scale investments — and associated sunk costs — necessary to seriously challenge TCNZ's market dominance. Thus many former TCNZ technical workers that now work for subcontractors — i.e. that build and maintain the network — are still doing work for TCNZ. In this way the firm has retained the use of these firm-specific skills at a reduced price.

Another possible explanation for the outsourcing of technical work is the emphasis that modern markets tend to place on short-term profit maximisation. TCNZ's two former major shareholders, Bell Atlantic and Ameritech, were both US based MNCs that retained control of TCNZ from 1990 to 1998. Many of the major costcutting and downsizing strategies were implemented during this period. This in part helped to ensure high profits and large increases in the share price. Throughout the 1990s it was not uncommon for 90 percent or more of the profits to be repatriated back to the USA (TCNZ annual reports). While this paper is not suggesting that the restructure of TCNZ throughout the 1990s was entirely for short-term financial gain, the sudden exit of Ameritech in 1998 raises questions about long term issues, such as, training and reinvestment in infrastructure. Interestingly TCNZ's 2000 annual report states that future share dividends will be restricted to 50 percent of annual net earning, with the

remainder being reinvested back into the firm. This is a sharp variation from previous practices and compares with a share dividend for the year ending June 2000 that represented 98 percent of annual net earnings (TCNZ, 2000: 23).

The outsourcing of TCNZ's internal IT requirements in 1999 also does not seem to fit the traditional TCE model. Again, it could be surmised that such workers would have gained a high degree of firm-specific skills in TCNZ and as such should exhibit a relatively high degree of asset-specificity. The traditional TCE analysis would suggest that these workers should be retained. While, interviews suggest that an emphasis on short-term cost reductions was behind this strategy, it may also reflect the labour market for the IT industry in general, with TCNZ increasing its use of IT contractors during the period from 1995 to 1999. A general shortage of IT workers means they are often headhunted and hence tend to move between different employers depending on what salary package is being offered. The rapidly changing nature of the IT and the telecommunications industry also means that firms are constantly requiring new/updated skills. These factors tend to support an employment system within the industry that favours relatively short-term lucrative contracts, rather than the long-term development of skills within the same firm. This tends to mitigate against the TCE view that firms will retain such highly skilled workers with firm-specific skills.

The use of strategic alliances in the emerging ecommerce and internet sectors also has implications for TCNZ's ER practices. These are growth markets that are of increasing importance to its revenues, however, many of the workers producing this revenue will not be directly employed by TCNZ. Rather they will be employed by firms linked to TCNZ and/or will be employed as contractors. This also raises the issue of relationship management and the costs involved in principal-agent relationships, such as, shirking and quality control. TCE suggests that the success of such alliances is somewhat dependent on the investment that each member firm makes to the project. The higher the investment in equipment and/or services specific to the project, then the greater the desire of the member firm to ensure that the venture is a success. However as the earlier discussion on strategic alliances suggested, it also allows TCNZ to gain access to human capital and skills outside of the firm. Such workers also do not have to be employed under the same terms and conditions as TCNZ workers.

TCNZ's ER strategies have also included an aggressive push towards the use of individual contracts and the desire to exclude unions from the decision making process. In this regard they were assisted to a degree by a conservative government and the introduction of the Employment Contracts Act (1991). However, in 2000 a Labour government was elected that moved to quickly introduce the Employment Relations Act (2000). This change in the external operating environment has implications from a TCE analysis. With new labour legislation and a government that is more friendly to union objectives, the costs involved in continuing to induce workers away from collective contracts and onto individual contracts may become higher. In 2000 the Employment Tribunal fined TCNZ for failing to award performance pay rises to four technicians because they hadn't signed individual contracts (EPMU 2000).

Summary

As a privatised entity TCNZ became responsible to its shareholders, which led to an increased drive for greater profits. Throughout the 1990s its share price continued to increase. From an investors point of view this would seem a good result. These increased profits were often achieved through cost cutting. The consequences for ER included a large reduction in the number of fulltime workers now employed at TCNZ. But this workforce is now supported by a greater use of subcontractors. TCE provides some support for the TCNZ model, in particular the outsourcing of less skilled and generic work. But other actions undertaken by the firm, such as, moves towards shifting skilled workers into subsidiaries, joint ventures and stand-alone companies, require the consideration of other variables. These include the nature of the labour market for different groups of skilled workers; TCNZ's ownership of much of the fixed line telecommunications infrastructure; and the nature of new technologies and the rapidly changing telecommunications market.

New growth areas for TCNZ, such as, ecommerce and the internet, are being undertaken by strategic alliances with other firms, rather than by increasing the size of TCNZ's own workforce. Thus, while TCNZ may embrace and expand into these new markets, it will not necessarily lead to any increases in TCNZ's fulltime workforce. Rather, TCNZ has evolved into a relatively small "lean" operation, supported by links to other firms and contractors.

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