

# **Enterprise Boundaries and Employee Representation: Deutsche Telekom and NTT Compared †**

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**Submitted for consideration as RIETI Discussion Paper  
October 13, 2003**

† The authors thank Minako Akiba, Lutz Michael Buechner, Owen Darbershire, Howard Gospel, Nobuo Ikeda, Sho Inaba, Yuko Inamine, Norbert Kluge, Koji Nakae, Britta Rehder, Fujikazu Suzuki and Yukiko Yamazaki for their comments and practical assistance. All errors are our own.

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# **Enterprise Boundaries and Employee Representation: Deutsche Telekom and NTT Compared**

## **Abstract**

This paper investigates how employee representation affects, and is affected by, the way corporations structure themselves. In the analytical framework employed in the paper, the structure of the corporation and national labour institutions constitute key constraints on the goals of unions and management, but their strategic choices and interactions also alter and transform those structures. This perspective attempts to reconcile classical approaches to strategy (e.g. by Chandler) with institutional or systemic accounts (e.g. by Hall and Soskice) by examining industrial relations as structured interaction. The interaction between corporate strategy and labour strategy, for instance, may give rise to an outcome other than what is predicted on the basis of existing national institutional arrangements. Our approach is therefore a less deterministic version of institutionalism, allowing scope for strategy that is rooted in the contested nature of institutional and organisational boundaries.

Empirical analysis of the telecommunications sector - Deutsche Telekom in Germany and NTT in Japan -- reveals that such structured interaction has led to markedly different outcomes, despite a broadly similar corporate strategy of diversification. In particular, we find that a relatively centralised managerial structure within the DT Group is matched with a decentralised works council structure and a declining presence of the unions (Verdi and IG Metall) at the DT companies, leading to a great diversity of human resource systems within the corporate group. By contrast, in Japan, despite a relatively weak position of the holding company in the NTT Group, the presence of a highly centralised NTT Union resulted in the application of a uniform human resource system for the whole corporate group.

# **Enterprise Boundaries and Employee Representation: Deutsche Telekom and NTT Compared**

## **Introduction**

This paper investigates how employee representation affects, and is affected by, the way corporations structure themselves. In major global industries, mergers and acquisitions are consolidating industry structure. At the same time, corporate strategies involving diversification, spin-outs and outsourcing are creating smaller, decentralised operational units within, and across, the boundaries of a corporation. The fragmentation of organisations is associated with the individualisation and diversification of employment conditions. Labour has responded to such corporate strategy by defending a diminishing core of regular employees, surrounded by an expanding periphery of employees with less secure jobs.

This paper examines the interaction between corporate strategy and labour strategy in drawing the boundary of the firm and developing employee representation (through unions and works councils). The empirical case focuses on the two leading firms of the telecommunications sector in Germany and Japan—Deutsche Telekom and NTT. In international comparisons, Germany and Japan are often seen as broadly similar nonliberal co-ordinated economies that value long-term commitments to key stakeholders including employees. In both countries, industrial relations in large firms is considered highly co-operative and as promoting incremental negotiated adjustments in employment and human resource management (Thelen and Kume 2003). However, the telecommunications sector presents serious challenges to these national patterns, because it has been experiencing major corporate restructuring due to rapid technological and regulatory changes. This provides a good opportunity to examine how corporate strategy and labour strategy interact when redrawing the boundary of the firm. Although many telecommunications firms are undergoing rapid internationalisation, the paper concentrates the comparison on domestic patterns in order to examine the impact of different national institutions. The empirical evidence is based on interviews with management (HR & corporate planning) and labour (unions, and works councils in the case of Germany), and documents obtained during the interviews (company reports and presentations, collective agreements, and unions' policy documents).

The paper is structured as follows. Section 1 spells out the analytical framework to be employed in this paper, focused around the notion of (a) corporate strategy and structure, (b) labour strategy and structure, and (c) the interaction between the two sides. Our approach stresses the structure of the corporation and national labour institutions as key constraints on the goals of unions and management, but also how strategic interactions alter and transform those structures in unexpected ways. As such, our framework attempts to reconcile classical approaches to strategy (e.g. Chandlerian approaches) with institutional approaches found in the “varieties of capitalism” literature (e.g. Hall and Soskice) by examining industrial relations relationally as a structured interaction. Section 2 describes developments in Deutsche Telekom and activities of its works councils and relevant unions (mainly Verdi and IG Metall). Section 3 gives an account of the transformation of NTT and its union.

Section 4 compares the two companies in terms of corporate strategy and structure, as well as the evolution of union structure and shifting vertical centres of gravity within employee representation systems (e.g. DT works councils and NTT’s joint-consultation forums). We document marked differences in two key outcomes—employment adjustment and the diversity of HR practices within the corporate group. First, the difference in employment adjustment is consistent with national institutional differences such as the prevalence of occupational labour markets in Germany and internal labour markets in Japan: adjustment is more externalised in the case of DT Group than in the case of NTT Group. Second, the different degree of homogeneity or heterogeneity in human resource practices within the corporate group, is more surprising. We find that HR practices in DT Group are more heterogeneous than in NTT Group. The concluding section attempts to reconcile this surprising result by applying the framework developed in Section One.

Our main argument is as follows. DT and NTT developed broadly similar corporate strategies of diversification into new contiguous business areas, while restructuring their old fixed-line businesses. However, they have done so in different ways with regard to their strategy of labour management. DT has utilised external employment adjustment and allowed a greater diversity of HRM systems, whereas NTT utilised internal employment adjustment more exclusively and maintained much greater uniformity of group HRM. These differences can be explained by the interactions of corporate strategy and structure with labour—a perspective ignored by Chandler whose focus was solely on the corporate side of the story. We therefore argue

that institutional explanations rooted in the comparative “varieties of capitalism” (VoC) literature are important to understanding the HR dimension of corporate strategies (Hall and Soskice 2001). Here, emerging strategies are shaped by existing corporate and union structures.

However, these patterns only partially conform to predictions based on national institutional differences in labour structure (industrial vs. enterprise unions) as found in the VoC literature. Here, corporate restructuring involving spin-outs and de-mergers may force a previously unified enterprise union to undergo fragmentation into several enterprise unions each with its own working conditions, whereas industrial unions promote uniform conditions for the same occupations across firms facing similar restructuring. But there is an indeterminacy or gap between labour strategy and structure often missed by existing institutional theory (but see Sorge 1991; Jackson 2003). Here labour strategy (and perhaps strategic mistakes) plays an important role in explaining NTT-DT differences. Hence, by stressing the ongoing evolution and mutual adjustment of both corporate and labour strategies, our approach is a less deterministic version of institutionalism, allowing more scope for strategy that is rooted in the contested nature of institutional and organisational boundaries.

## 1. Analytical Framework: Strategy and Structure for Management and Labour

The analytical framework adopted in this study centres around the notion of interaction between corporate strategy and labour strategy (Sako 2003). The starting point for this study is therefore Chandlerian: how does strategy determine structure, and what are the various ways in which structure and strategy influence each other? Where we depart from the usual analysis in business strategy is the equal regard given to the strategy and structure of labour organisations.

Chandler (1962) defines strategy as the planning and carrying out of the growth of organisations, and structure as the organisational form devised to administer activities and resources (Chandler 1962, p.13). Simply put, business strategy influences corporate structure. As companies constantly reassess their commitment to business in specific product markets, they decide whether or not to enter new markets and withdraw from existing ones. The strategy of business diversification has led previously single-product firms to adopt the holding company structure (H-Form), a more

centralized functional structure (U-Form), and a multidivisional structure (M-Form). The related make-or-buy decisions affect another aspect of organisation structure, namely the extent of vertical integration. More generally, the nature of vertical control of subsidiaries by the parent company, or of operating companies by the holding company is an important dimension of structure. Corporate structure may, therefore, be understood to have two dimensions—the extent of horizontal diversification and the nature of vertical articulation (in the form of financial and strategic control) in the corporate hierarchy.

Chandler's framework has received numerous appraisals, some quite critical. One key criticism is that its reliance on transaction cost economics gave too much regard to rational planning followed by execution and profit maximisation as the objective of the corporation. The strategic management literature now distinguishes his classical perspective of strategy as rational planning for profit maximisation, from more processual and evolutionary perspectives (Whittington 2001). Here strategy is not 'the planning and carrying out of the growth of organisations' (Chandler 1962, p.13) but 'a set of broad commitments made by the firm that define and rationalise its objectives and how it intends to pursue them' (Nelson 1991, p.67). Likewise, structure is not 'the organisational form devised to administer activities and resources' (Chandler 1962, p.13), but 'how a firm is organised and governed, and how decisions actually are made and carried out' (Nelson 1991, p.67).<sup>1</sup> Strategy tends to define a desired firm structure in a general way, but does not dictate the details. Also, strategy and structure call forth and shape organisational capabilities, but what an organisation can do well has something of a life of its own (Nelson 1991). The current framework adopts this evolutionary perspective, in which the malleability in matching strategy and structure and the paths followed to develop organisational capabilities give rise to differences among firms in the same line of business facing identical market conditions.

Another criticism comes from the Varieties of Capitalism (VoC) literature that stresses the causation not from strategy to structure, but from structure to strategy (Hall and Soskice 2001). According to VoC, national institutions (e.g. industrial relations, financial systems, education systems and inter-firm co-ordination and competition) influence the ways in which corporate structures evolve.<sup>2</sup> It is those

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<sup>1</sup> Chandler (1992) himself has come to endorse a more evolutionary definition.

<sup>2</sup> For a review of various comparative institutional approaches to studying business

existing corporate structures that dictate corporate strategy, for instance specialising in sectors requiring radical technical change in liberal market economies and in sectors requiring incremental innovation in co-ordinated market economies. Diverse structures yield comparative institutional advantages for different types of economic activity. In highlighting the importance of institutional context in shaping business, strategic adjustment of firms is seen to exhibit a strong path dependence grounded in institutional opportunities and constraints. Moreover, firms exhibit strong institutional isomorphism within the bounds of discrete national business systems—these differences being stressed over sectoral or firm-level variation.

There is a labour version to linking strategy and structure, which is just as important as the corporate side in the current study. Traditionally, the academic discussion on the structure of labour organisations, and in particular unions, is divided into that on internal structure and external structure. The internal structure refers to the administrative governance of union organisations (Undy et al 1981, 1996). The external structure refers to specific forms unions may take, such as craft, industrial, enterprise and conglomerate unions. The boundary for unions is drawn with regard to such factors as the growth of markets (Commons 1909), the development of national labour markets (Ulman 1955), the vintage effect of technology (Clegg 1976), and social identity (Herrigel 1993). In our framework, labour strategy is formulated with a view to promoting the interest of workers with a specific identity, and such strategy determines the desirable union structure. At the same time, the pre-existing union structure has a momentum in giving rise to certain types of labour strategy. In fact, Streeck (1993) points to this two-way causation in linking identity, interest, organisation structure, and institution.

Just as in the case of corporate structure, two dimensions are important to thinking about the structure of employee representation. One is the horizontal scope – how broad or narrow the boundary of the union organisation is in relation to a corporate group or an industrial sector. Another is the degree of vertical articulation and the centre of gravity in that articulation, be it in the national-industrial-local levels or at different levels through a corporate hierarchy (in the case of works councils and Japanese enterprise unions). For example, how centralised or decentralised is the decision-making process of an employee organisation over pay bargaining or industrial

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systems, see Jackson 2003.



action, and what is the degree of autonomy of local units within it?

The analytical framework to be employed in this paper combines the insights from the above discussion (see Figure 1). First, corporate strategy and structure affect each other. Second, the strategy and structure of employee representation affect each other. Third, corporate strategy and labour strategy interact with each other in complex ways. This framework enables us to clarify some of these interactive mechanisms. For example, labour strategy influences not only union structure, but also corporate structure in both indirect and direct ways. Labour strategy leads to the choice of a certain union structure. In turn, management takes into account the way unions are structured when deciding on corporate structure. Labour strategy may also influence corporate structure more directly, for instance by being consulted on the creation of new subsidiaries or plans for hiving off internal divisions. Conversely, corporate strategy has both indirect and direct effects on union structure. Indirectly, changing corporate structure may motivate labour organisations to respond by changing their own structure. Directly, corporate strategy towards labour may attempt to influence union structure, for example, by fragmenting it to weaken union power.

A key insight from this framework is the contested nature of social boundaries (see Tilly 2003; Lamont and Molnár 2002). Boundaries are defined in relational terms—distinctive sets of relations on each side of the boundary, relationships across the boundary, and a shared representation of the zone itself. Corporate restructuring may involve the inscription of newly invented or borrowed organisational boundaries, the erasure of past boundaries or the displacement of persons or groups across existing boundaries. For example,

- corporate strategy may challenge established boundaries among employees. Mergers may involve the erasure of boundaries among employees, while hive-offs may involve the invention of new boundaries.
- Labour strategy may also challenge established corporate boundaries by extending collective agreements across firms or decentralising bargaining and representation rights to exploit firm- or occupation-specific assets.
- Not all strategies may be equally available to each side. National institutional settings may favour particular types of boundaries (e.g. due to labour law, competition and regulatory policy, etc.). Here existing corporate and labour structures may enable or constrain particular strategies. At the same time,

companies and unions may use political action to enhance bargaining power to implement a specific chosen strategy.

Such boundary shifts have strong consequences for managerial control, exploitation and mobilisation of collective action. Accordingly, while the boundaries of corporate structure may be taken for granted once they are set, they often become contested when attempts are made to change them. Whenever corporate and labour strategies attempt to shift boundaries, power play between the two sides may lead to a single negotiated boundary, or a boundary one party imposes on the other. Yet another possibility is for an organisation to have fuzzy boundaries, or multiple rings of who are in the inner core, who are semi-insiders, and who are outsiders. In sum, our framework introduces two modifications to existing approaches. We depart from Chandler (1962) by not focusing solely on the corporate side of the story, but by giving equal weights to labour and corporate strategies. We depart from the VofCap framework in seeing institutions not only as constraints, but involving strategic interactions that highlight the often contested nature of organisational and institutional boundaries.

## 2. Deutsche Telekom

This section begins by examining the corporate strategy and structure of DT from the pre-privatisation reforms of 1989 to present. We then review the union structure, as well as vertical articulation of employee representation through works councils within the DT group. The last part examines the interactions between corporate and union strategy by looking at processes and outcomes of collective bargaining and consultation within the DT group.

In principle, both management and unions have continued to favour a more-or-less homogeneous set of HRM practices for specific occupations within the DT group. However, actual employment conditions display considerable diversity. This diversity arose, at least partially, as an unintended consequence of structural changes on both the management and labour side, and also due to certain institutional characteristics in the German system of employee representation. Initially, labour conditions from the parent company were not imposed onto “new” group business units. This was largely due to the union typically not objecting to new business units offering conditions which were better than the minimum set by the parent company agreement.

It was also due to the decentralised nature of works councils, typically with weak voice at the corporate and holding company levels. Consequently, a number of strategic difficulties arose for both sides in coping with this de facto diversity. Both management and labour have made efforts to partially re-centralise and re-standardise certain parameters of HRM. Rather than reasserting the conditions from the parent company, innovations from the new units have been adapted and adopted within the core as part of strategic efforts to adapt to a changing business environment. The outcome of these negotiated co-ordination efforts is a compromise between the forces for integration and diversity of both sides.

### Corporate Strategy and Structure

Traditionally, telecommunications services were provided by the state as part of the Deutsche Bundespost (DBP). Under Germany's Basic Law, the DBP was an administrative section of the Ministry of Posts and Telecommunications. The DBP was governed by informal corporatist arrangements involving tri-partite negotiations between the Ministry, the union and various equipment suppliers. The issue of privatisation emerged after a substantial push from the EU starting around 1984. EU countries increasingly feared U.S. technological leadership, and wanted to promote private investment in telecommunications. Britain had an important influence, both ideologically by the rise of Thatcherism and through the rapid privatisation of British Telecom in 1979. The 1987 EU Green Paper marks a key watershed that sparked reforms in Germany (Kress 1997).

A series of major reforms were initiated to transform the organisational structure of the DBP. Following preparations by the liberal coalition government (CDU/FDP) in 1985, the Post Reform I (Poststrukturgesetz) in 1989 separated the DBP into three separate operations—telecommunications, postal services and the postal banking. A key aim was to separate regulatory and operative decision-making. The DBP nonetheless continued under the mandate of providing public services and basic infrastructure. A monopoly was retained on voice telecommunication, while competition was introduced in the areas of mobile and satellite communications.<sup>3</sup>

The Post Reform II (Postneuordnungsgesetz) went further to privatise the

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<sup>3</sup> Mannesmann Mobilfunk GmbH (D2) received the first license for a competing mobile communications network in December 1989.

telecommunications business in January 1995. The Deutsche Telekom AG (DT) was created as private corporation with 100% state-ownership. Privatisation weakened political influence on corporate strategy, and freed DT from subsidising other DBP businesses, as well as from restrictions on international joint ventures. Importantly, DT was given the right to directly employ civil servants—who made up roughly half of those employed. However, newly employed persons could no longer be given civil servant status. DT subsequently made an IPO on 18 November 1996, selling 26% of the stock to private investors. A further stake was subsequently sold to a state-owned bank, the Kreditanstalt fuer Wiederaufbau. During the mergers with VoiceStream and Powertel, new shares were issued that diluted state ownership from 59.6% in 2000 to 43% in 2001.

The Post Reform II was implemented through a reorganisation plan “Telekom-Kontakt”, developed in conjunction with McKinsey & Co.. The operations were divisionalised, and the traditional regionally-based full-service branches were reorganised into separate regional branches for 1) business customers, 2) private customers, and 3) technical and network services. The reorganisation also aimed to decentralise decision-making and business responsibility to these operating units. These structures soon proved problematic due to strong rivalry and unclear boundaries between the business and private customer branches. These two areas were reintegrated in the late 1990s, and a large proportion of their employees now work in the large call centres responsible for customer contact. Meanwhile, the network services branches were faced with the most severe personnel restructuring. Due to the digitalisation of the telephone network, investment in this area declined roughly 50% and a large proportion of service technicians (Fernmeldehandwerker) became redundant (Kalkowski et al. 2001). In 1999, the number of branches was drastically reduced from 39 to 13.

The Post Reform II aimed to prepare DT for liberalisation of the fixed-line market through the Post Reform III in 1998. The Telekommunikationsgesetzes (TKG) of 1996 created the independent Regulatory Authority for Telecommunications and Posts (RegTP). The RegTP started operations in 1998 as part of the Ministry of Economics, thereby replacing the Ministry of Posts and Telecommunications (BMPT) and Federal Office for Post and Telecommunication (BAPT).

Parallel to these reforms, DT embarked on a new strategy of horizontal business diversification and reorganisation toward its present multidivisional structure.

This strategy was prompted by the absence of organic growth in the fixed line business, coupled with expansion into technologically new areas and international markets through acquisition. The resulting structure includes four divisions (see Figure 2):<sup>4</sup>

- T-Com (fixed line network, accounting for 47% of Group sales but 70% of Group employment),
- T-Mobile (mobile communications, with 34% of sales and 5% of employment ),
- T-Systems (IT and communications systems, 15% of sales and 24% of employment) and
- T-Online (internet services, 3% of sales and 1% of employment).

T-Com division is not a separate legal entity, such that the fixed-line operations remain directly within the parent company. The division itself cuts across the firm boundaries to include several foreign telephone networks acquired by DT AG. The other divisions constitute more or less “new” business fields. Here the basic strategy was to either hive-off or newly create a domestic business subsidiary.

T-Mobile was created as a hive-off of the domestic mobile business. A digital mobile communications network TD1 was established in July 1992, alongside the analogue C-Netz that operated since 1985. Deutsche Telekom Mobilfunk GmbH overtook all mobile operations in June 1993. At the end of that year, they had 3,200 employees. Subsequently, a number of international acquisitions were bundled under T-Mobile International AG (1999)

T-Systems bundles together a wide array of businesses providing communication networks and IT systems solutions. In 1992, business lines were separated according to the type of customer, e.g. TSystems CSM GmbH (est. Sep. 9, 1992). But customers faced growing problems of lateral division of labour, so the small and large business customers were reintegrated. Eventually, DeTeSystem was formed in 1997 bundling through various parts of these businesses, plus adding a substantial number of external recruits. Debis Systemhaus was purchased from the DaimlerChrysler group in 2000. Also in 2000, TSystems International GmbH was formed as an international management holding to co-ordinate this division.

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<sup>4</sup> In addition, Kabel Deutschland GmbH is a cable television company spun-off from the parent in 1998 and is presently being sold.

T-Online began in 1995 as a brand name for new email and internet services. Its predecessor was Btx email system, as well as videotext services from the 1980s. After the advent of the internet, T-Online was seen as needing great flexibility in the market. In June 1996, an independent company T-Online Pro Dienste GmbH & Co KG was created. A very low percentage of the workforce came from the parent company. The name was changed to T-Online International in January 2000. An IPO was made on the Neuer Markt on April 17, 2000 to give T-Online an independent acquisition currency for M&A. DT retains 71.9% of the shares. The business operations increasingly involve the programming and preparation of content for the internet.

How interdependent are these various group companies? First, the operational links between group companies varies quite a bit. T-Systems is responsible for all IT delivery within the DT group, as well as selling T-Com products to outside customers as part of network technologies. T-Online has developed the software used for billing services throughout the entire group, as well as buying network capacity at market prices from T-Com. The latter is required by regulation that forbids T-Com to discriminate against competitors. Second, the percentage of employees coming from the parent company also differs substantially between divisions and even among various subsidiaries within T-Systems. Whereas some divisions have a substantial legacy as an internal division of DT, other companies were more or less grown up as independent companies outside the parent. As will be discussed below, this growth strategy has a strong impact on the HRM systems within the DT group.

The vertical articulation of management within the DT group is also complex. German corporate law mandates two-tier corporate boards with a separate Supervisory and Management Board. In principle, corporate management is controlled by the Supervisory Board, and likewise subsidiary management is controlled by its own Supervisory Board (perhaps with members from the parent Management Board). For example, T-Online has a 5-person management board. The Chair Thomas Holtrop was recruited externally from Deutsche Bank 24. Meanwhile, the labour director Veronika Altmeyer is a former union official of the Deutsche Postgewerkschaft, and was previously labour director at T-Nova. 6 out of 10 Supervisory Board seats from the owners bench were delegates from DT, including 2 management board members. Furthermore, 2 bank representatives and one Finance Ministry representative hold seats.

The DT management board is responsible for group strategy, while power for operational decision-making has been increasingly decentralised. Following 1995, group companies enjoyed considerable autonomy for several years. But DT management later sought to reassert greater strategic control in the affairs of subsidiary companies, leading to some tensions between group companies. In late 2002, the management board was reshuffled to improve bottom-up involvement into the central strategy.

Apart from the boards, the central strategy department also has direct links to the divisional strategy departments. In the area of personnel, the DT group created an internal employers' association (Arbeitgeberverband Telekom - AGV-T). The association is organised across three levels:

- A Group Management Circle consists of the personnel directors from the DT divisions and individual subsidiaries, and is the supreme decision-making body reporting to the DT AG personnel director.
- two Strategy Circles regarding employment conditions and senior management are working groups that co-ordinate and prepare decisions.
- a General Assembly meeting twice a year to discuss the association itself and collective bargaining strategy.

The association was created as DT recognised the need to co-ordinate group HRM strategy, but continuing to allow the divisions responsibility for detailed development and implementation. The present philosophy of DT management is to maintain one homogeneous system of HRM within the group regarding the terms of employment—working time, annual leave, company pensions, etc. However, management does not consider basic wage levels and performance-related pay as part of the basic system. Hence, wage levels are oriented toward the respective business areas and market positions of the individual group companies.

Management perceives synergy effects in dealing with some issues in a group-wide fashion, and these play an important role in the strategic goal of maintaining some uniformity of group employment systems—including issues related to civil servants. Facilitating the continued mobility of employees within the DT group remains a major goal in this regard. The AGV-T performs a number of key functions. The association participates in collective bargaining alongside the subsidiaries'

management, thus giving some continuity and co-ordination to the employer's side in the collective bargaining process. Externally, the association is a focus of lobbying efforts within the Federation of German Employers' Associations (BDA) and at the EU. And the association performs information-gathering services regarding labour law issues.

In sum, a few features of the DT group management can be noted. First, the horizontal diversity within the DT group has increased rapidly since privatisation in 1995. Old core operations now constitute roughly 50% of group-wide business with a considerable portion now coming from new IT related businesses. Moreover, much of this growth has taken place externally, by large-scale M&A and new recruitment at established subsidiaries. This diversification entails strong centrifugal forces to increasing the autonomy of group companies as they cope with the different sectoral business environments.

Second, management strategy nonetheless remains quite centralised. Despite decentralising operational management, DT clearly intends for important strategic parameters to remain centralised in the head office. A balance between co-ordination and control vs. autonomy remains very difficult to achieve, and has driven DT to nearly perpetual organisational restructuring. An early honeymoon stage of rapid growth and high autonomy for group companies has been followed by attempts to reassert a more centralised strategic vision. This trend has been confirmed by the contributions required from group companies to the overall debt reduction of the group—which has involved the sale of business units and reduction of personnel even at profitable businesses.

Third, several reasons can be cited for the continued efforts at centralised co-ordination and control. One aspect is that intra-group business remains moderately high. TOnline represents the most independent division, partially due to regulatory barriers. But for the other divisions, joint business strategy still provides a significant rationale for centralised decision-making. Another key reason is that group-wide personnel practices remain an important concern for management. This relates, in part, to the employment of (on-leave) civil servants throughout various group companies. This demand for intra-group mobility must be understood in the context of employment adjustment and the corporate strategy of cost cutting.



## Employee Representation -- Strategy and Structure within Germany's Dual System

The structure of employee representation at DT follows the German “dual” pattern of collective bargaining by unions and legally mandated codetermination rights given to works councils and through seats on corporate Supervisory Boards.

Today, four unions operate within the DT group. German unions are structured according to industrial sectors, which means that only one union is responsible for each sector's employees and companies. Furthermore, one union negotiates a collective agreement for each sector. The growth of telecommunications and IT has undermined the sectoral demarcations between German unions, because companies in 'traditional' sectors have expanded into these new growth markets. Four major unions organised firms were present in communications by the year 2000, although two of these now fall under Verdi. In the IT sector, seven major unions were present and often with considerable overlap within the same firm.<sup>5</sup> In particular, many of firms organised by the Metalworkers union have diversified into these new technology fields.

The largest union within DT is the Unified Service Sector Union (Vereinte Dienstleistungsgewerkschaft, Verdi), which was formed in June 2001 through a mega-merger between 5 major unions.<sup>6</sup> Verdi boasts a membership of over 3 million members. DT workers are a powerful voice within this union, constituting 95% of union members within the telecommunications division and 6% of the total union. Prior to Verdi, DT was organised by the Deutsche Postgewerkschaft (DPG) that operated essentially as an enterprise union. The DPG had a history of very close relationships with both Telekom works councils and management. In fact, a high proportion of DT group labour directors are former DPG members. The reorganisation of the DPG into a conglomerate union, Verdi, took substantial organisational resources and drained efforts from union organising.

Alongside Verdi, two minority unions also have a lasting presence. The Kommunikationsgewerkschaft DPV was formed in 1997 as an independent union

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<sup>5</sup> For the union representation in various firms, see <http://www.eurofound.ie/2000/12/feature/DE0012297F.html>

<sup>6</sup> These five unions are: Deutschen Angestellten-Gewerkschaft, Deutschen Postgewerkschaft, Gewerkschaft Handel, Banken und Versicherungen, Industriegewerkschaft Medien and Gewerkschaft Öffentliche Dienste, Transport und Verkehr.

primarily representing the civil servants. DPV Kom is the successor of the long-standing Deutsche Postverbandes (DPV) and member of the civil servants association. The Christliche Gewerkschaft Post und Telekommunikation (CGPT) also has a long history as part of the Christian union movement in Germany. These unions together receive about 10% of votes in works councils elections, and sign extensions to the main collective agreements with Verdi.

The fourth union, the Metalworkers' Trade Union (Industriegewerkschaft Metall, IGM) organises a significant number of employees within the T-Systems division. T-Systems formed by bringing together the internal telecommunications and IT service division (DeTeSystem) and debis Systemhaus—a service division bought from DaimlerChrysler in March 2000. Debis was organised by IGM, and have been covered by a supplementary collective agreement with IGM agreement since 1998. When Debis was created in 1990, the original 2,400 workers from Daimler were covered under the sectoral agreement of IG Metall. However, management refused to apply these conditions to new hires as the company expanded to over 10,000 employees. The debis agreement supplements the sectoral-level metal workers' agreement with innovative elements regarding working time and performance-related pay.<sup>7</sup> Meanwhile, the DeTeSystem was organised by DGP and now Verdi. The group works council (KBR) has members from unions, although Verdi aspires to have sole responsibility for T-Systems.

In November 2000, the German Federation of Trade Unions (Deutscher Gewerkschaftsbund, DGB) issued guidelines in order to clarify the responsibility for organising given these changes of sectoral boundaries, on one hand, and the mergers among union, on the other. The union federation remains committed to avoiding union competition, and maintaining a principle of one union per company in the event that multiple unions have responsibilities within the sector. The guidelines, put simply, give IGM responsibility for hardware production in both telecommunications and IT, whereas Verdi is responsible for service-related elements. Despite these efforts, severe union competition continues to exist within T-Systems. The result has been a patchwork of different collective agreements and very heterogeneous standards within the T-Systems division.

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<sup>7</sup> The new Debis agreement was formally concluded on behalf of the employers' association and was thus intended to be a model for other IT firms. See <http://www.eiro.eurofound.ie/1998/03/feature/DE9803257F.html> for details.

Several substantive issues stand behind the union cleavage: First, Verdi sets stricter limits of performance-related pay at about 10% of total salary, whereas the debis agreement accepts higher proportions. Second, Verdi stresses more labour involvement in evaluating target setting for performance-related pay, whereas IGM has left more discretion to management. Last, the debis agreement places less restrictions on working hours than at DT. Many debis employees work under so-called discretionary working time (*Vertrauensarbeitszeit*), whereas Verdi favours stricter mandatory limits to working hours to avoid self-exploitation and burn-out among high-tech workers. However, at a more basic level, these unions may be seen in a rather zero-sum competition for members in an emerging sector that is badly needed to offset declining membership in other sectors. This conflict also has strong implications for the boundaries of the corporation itself. Merging T-System with ITS (formerly debis) has been delayed by a court petition placed by IG Metall and the works council, claiming that a fusion would infringe on the existing collective agreement that it perceives as more favourable.

The second channel of employee representation within DT is the system of works councils.<sup>8</sup> Works councils are arranged hierarchically into three or four levels. At the establishment level, works councils (*Betriebsrat* – BR) are directly elected by the local employees and responsible for local working conditions. A corporate-level works council (*Gesamtbetriebsrat* – GBR) is formed at each company by delegates from the various establishment-level works councils. For example, the DT AG has 80 local BRs and T-Mobile 43 BRs covered by their GBR (see Figure 4 for a schematic representation). The GBR is a key actor, since they have access to top management and are central in the flow of information. They have the strongest legal rights, and have an economic affairs committee that consults with management about the financial results and business plan.

A group company-level works council (*Konzernbetriebsrat* – KBR) was created in 1996. The KBR has 30 members, half from the GBR of the parent DT AG and half from the GBRs (or BR in the case of single-establishment companies within a GBR) of 15 different subsidiary companies. This constitutes all majority-owned group companies located in Germany. The case of T-Systems is special in that over 20 GBRs exist within TSI group. Hence, they have chosen to form their own KBR for TSI alone, as well as being members of the overall KBR. The legal standing of the KBR is less clearly defined

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<sup>8</sup> Prior to privatisation, DT fell under the *Bundespersonalvertretungsgesetz*, a law that stipulated a different model codetermination rights for civil servants.

than the GBR, and many of the arrangements at DT must be viewed as contractual extensions and modifications of the formal law. Foremost, the KBR is a voluntary institution and needs the support of both the GBR and management to be created.

The KBR serves as a long-arm of the GBRs in getting access to decision-making at the group level. Its domain relates only to group-wide affairs, and KBR negotiates agreements that are then implemented by the various GBRs. At DT, issues for such agreements have been gender equality, travel regulations, and hiring practices. Recently, two key issues have been employment adjustment and conditions for employees outside collective agreements. Over time, a shift can be observed such that an increasing number of issues are being regulated at the group-level. Often these agreements have had unexpected consequences for individual firms and their GBRs, and proven hard for the GBRs to adapt to local conditions. Hence, a very high demand for consensus and information exchange is necessary for the KBR to operate effectively. This evolution toward a stronger KBR has resulted to a significant extent as a response to management strategy, which reasserted stronger control from the centre and has attempted to “use” the KBR increasingly as an effective tool.

How have these structures influenced the strategies of unions and works councils? Labour strategies have allowed considerable de facto diversity of employment conditions to emerge within the DT group. Collective bargaining within DT has basically taken place company-by-company. Union demands for percentage wage increases have been basically identical for each company.<sup>9</sup> But some DT group companies such as T-Online are not covered by any collective agreement. This is quite unusual in Germany, where industrial unions usually negotiate sectoral agreements. As new companies were created or hived-off, employees from the parent company were covered by transitional agreements that guaranteed their basic monthly wage. However, they were no longer covered under the old agreement regarding future wage hikes and various workplace rules. Meanwhile, newly hired employees at the group companies were often initially not covered under any collective agreement. As the emerging HR practices became formalised within new collective agreements, considerable diversity existed in basic levels of pay, the number of job categories and working hours

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<sup>9</sup> The DPG made uniform wage demands at the three companies post, post bank and DT in the 1997, 1999 and 2000 negotiations. The outcomes were basically identical before 2000, when DT deviated from the others in introducing the performance-related pay (NBBS) system. Sometimes joint collective agreements have been signed as well, such as the 1998 agreement of DT AG and T-Mobil regarding the conditions for tele-workers.

arrangements (See Table 1).

T-Mobile provides a good case. After the initial creation, the central DT management left T-Mobile alone. Salaries for new hires were more or less negotiated on an individual basis for several years. This changed in 1996. On the management side, DT management intervened and attempted to re-integrate HRM practices to a much greater extent. On the labour side, the corporate level works council signed an agreement that established a basic system of job classifications—the first time for a DT group company to officially introduce a new scale. Individual negotiations over salaries had introduced much variation within the company, so both sides saw a need to systematise HRM practices and standardise pay for similar work within the firm. The first collective bargaining agreement with the DPG followed in 1997. Performance-related pay was officially introduced and set at 10% of total salary. This agreement was signed with strong involvement of the parent DT management. The case set a precedent for other group companies, whereby a comparable system would be established but actual wages were allowed to differ.

A crucial question emerges, particularly in contrast to NTT, as to why labour was uninterested or unable to enforce a uniform system of HR practices for the whole DT Group. One obvious reason is that different unions were present across the divisions, and also that union organisation rates were drastically different. Whereas about 70% of parent company employees are union members, these figures drop to around 25% at TSI, 15% at T-Mobile and just 5% at TOnline. Moreover, the DBP underwent its own massive reorganisation and integration into Verdi, which may have caused a period of neglect in union organising and co-operation with the newly forming works councils. A second reason is that the employment conditions for new employees in new business units were generally better than the conditions prevailing in the existing parent fixed line business units. Given the cyclical developments in IT and communications, going rates in the external labour market were quite favourable and unions felt little need to intervene immediately. Works councils, decentralised with their centre of gravity at the establishment level, have little incentive to behave in a solidaristic fashion when promoting uniformity may lead to perceived reductions in benefits. Perhaps even more compelling was the fact that subsidiaries had to match or better the parent company conditions to induce employees to transfer. Given restrictions on dismissal at the parent company, transfers have been a necessary part of the employment adjustment process to be discussed later in detail. A third reason may also lie in the perceived

inappropriateness in applying the old DT HRM system to new businesses. Evidence for this is provided by the long-planning process and implementation of a new HRM system at DT. By this time, innovations among group companies then became a template for reforming the parent company itself.

In July 2001, DT AG introduced a new pay system (Neue Bewertungs und Bezahlungssystem – NBBS) to emulate some elements initially introduced at T-Mobile in 1997. This agreement represents a drastic departure from the previous collective agreements, which set wages according to the principles of the civil service. By contrast, the NBBS stresses individual achievement and job function as primary determinants of the basic salary. Applying the new scheme has proven exceptionally difficult, and led to over 20,000 complaints about individual salaries. Given these implementation problems, management and labour have both abandoned the idea of an identical wage system throughout the DT group, preferring a more open approach to co-ordination. The NBBS is applied to civil servants on-leave, but does not directly apply to civil servants. Here some elements are carried over with consent of the Minister of the Interior.

### Corporate Restructuring

DT strategy of restructuring has avoided outright dismissals and utilised a variety of benevolent adjustment measures to reduce and reallocate employment within the group (see Darbishire 1997). Under German legislation, employment protection law is quite strict and gives considerable rights to works councils in the negotiation of employment adjustment. In addition, the special legal rights of civil servants and similar rights given contractually to senior employees increase the level of employment security. In 1995, the DPG negotiated the key job protection agreement. The essence was to allow substantial personnel reduction through very generous adjustment programs. Between 1995 and 2000, around 90,000 employees left DT under these programs. Available statistics on 70,000 employees from 1995-1998 show the following distribution:

- 33% left through natural fluctuation, including invalidity pensions. The latter mechanism was used increasingly in 1999 and 2000.
- 30% left through early retirement programs.
- 29% were induced to leave voluntarily through severance pay.
- 7% received job switching bonuses paid to civil servants.

The first three categories can only be understood in relation to the German welfare state. These external measures of adjustment operate by inducing people to leave employment through a sharing of burdens between the company and the social welfare system. While a complete description of these programs can be found elsewhere, these schemes operate through a combination of transitory payments made as by the company, qualification for unemployment insurance and then qualification for state pensions at an early age as long-term unemployed. Invalidity pensions operate similarly by allowing qualified persons to receive special pensions. By 2003, only 2,000 of 160,000 T-Com employees were over age 60. Thus, DT can be seen as an extreme example of the German “externalisation regime” (Rosenau and Naschold 1994) in facilitating co-operative employment adjustment in large firms by placing growing burdens on the German welfare state.

In addition to outright personnel reduction, nearly 24,000 people were transferred to group companies from the parent. Transfers were operated under the Personnel Management Services (PMS) as an internal clearing house for matching people and jobs within the DT group. The union feels unable to actually influence the overall number of employee transfers through codetermination or collective agreement, but does aim to influence the conditions of transfer. Consistent with their co-management role, works councils have paid particular attention to not just the quantity, but also the quality of jobs. Works councils play a key role in upholding strong occupational labour markets in Germany by monitoring the deployment and use of individual qualifications. Given this occupation-centred tradition, works councils have not favoured collective transfers between group companies, as the presumption here is that such a move undermines the occupational integrity of individual employees. Moreover, individual labour rights in Germany more or less prohibit forced transfers to other companies—particularly the civil servants, who must choose to voluntarily go on leave from their civil servant status (Darbishire 1997). Thus, movement is on an individual basis wherein the PMS plays a role as a clearing-house in the group-internal labour market. This strategy coincided with the interests of subsidiary management, who favoured autonomy in hiring from the external labour market rather than being forced to find work for redundant T-Com employees and particularly civil servants. The strongest movements were thus from T-Com to T-Systems. Here employees share the same occupational qualifications, the main difference being different target customers. Also many T-Com telephone operators were moved to call centres at T-Mobile and T-Online.

The latest wave of employment adjustment is conceived as a group-wide process involving 55,000 employees worldwide by 2005. Here about 30,000 employees are from the parent company, plus around 3,000 from T-Systems, 1,000 from T-Mobile and around 12,000 foreign employees. The decision over reductions was taken unilaterally by management, but implemented in consultation with labour. The adjustment process has strict parameters—none of the civil servants can be dismissed under German law and other DT AG employees enjoy protection from redundancies through the year 2004. The announcement genuinely shocked both unions and works councils, leading to widespread demonstrations by employees. However, if the target is not met, DT threatened not to renew the job protection agreement in 2004 and would resort for the first time to involuntary dismissals. Hence, the union felt little alternative but to co-operate in the employment adjustment process—although many remain sceptical whether they will succeed.

To cope with these restrictions, the Personnel Services Agency (PSA) was established by collective agreement with Verdi. The PSA plays an intermediate role as a temporary step to qualify workers from the parent company with further training, as well as place them with temporary or permanent jobs at other firms or public agencies (in the case of civil servants). People are selected for the PSA by a clearing procedure involving defined individual characteristics, as well as the reorganisation of work processes. The novel feature of the PSA is the increased emphasis on external employment adjustment.

Meanwhile, these recent measures renewed debate about the boundary of employment security within the group. Unlike the parent, employees at the three other divisions have not enjoyed guaranteed job security. Now for the first time, market growth is slowing and exposing some over-capacity.<sup>10</sup> These subsidiaries will thus resort to more traditional measures of “benevolent” employment reduction through natural fluctuation, part-time work, early retirement, etc. However, subsidiaries fear that given the protections of parent company employees and civil servants, subsidiary employees may be even more at risk. Hence, negotiations renewed about establishing job protection agreements at various group companies at the time of writing.

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<sup>10</sup> For example, during the rapid growth of mobile telephones, call centres were highly staffed to assure a quick service level. Now market saturation has reduced demand.



### 3. NTT

This section begins by describing the transformation in NTT's corporate form, giving particular attention to the period between privatisation in 1985 and the adoption of the holding company structure in 1999. The development of the enterprise union at NTT – Zendentsu, changing its name to NWJ in 1998 – is then discussed, before we turn to a discussion of the nature of interaction between corporate strategy and union strategy. The analysis focuses on bargaining and consultation that took place over a major corporate restructuring plan introduced in mid-2002.

Both NTT management and the union were fiercely opposed to breaking up the corporation. But over time, NTT management began to acquiesce to regulatory pressures for hiving off divisions as the corporation's business diversified. The union has entertained the security of employment for its members as a top priority objective. Because of this, the union remained unified as NTT Corporation disintegrated horizontally. One key union strategy to extend its boundary to the NTT Group as a whole was to negotiate the extension of the central collective agreement not only to existing members but also to new recruits at hive-off companies. Ultimately, labour strategy, rather than corporate strategy, was binding in maintaining a homogeneous set of human resource practices for the whole NTT Group. Nevertheless, the union has begun to allow for slow managed decentralisation in bargaining and consultation, leading to the prospect of greater diversity in HR practices in the future.

#### Transformation in Corporate Form: From Public to Private, from Unitary to a Holding Company Structure

From 1946, telecommunications was under the jurisdiction of the Ministry of Communications that also had authority over the postal service. The origin of NTT Corporation today can be traced back to 1949 when the Ministry of Communications was split into the Ministry of Posts and Ministry of Telecommunications. In 1952, the Ministry of Telecommunications was turned into a public corporation, Nippon Telephone and Telegraph Public Corporation,<sup>11</sup> modelled after Tennessee Valley Authority with

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<sup>11</sup> Employees of public corporations are governed by the Public Corporations Labour Law (koroho), and have a different status from national and local civil servants. Here lies the difference with the Deutsche Telekom that employs civil servants. Public

much backing from the New Dealers amongst the SCAP forces. At the same time, the Ministry of Posts was renamed the Ministry of Post and Telecommunications (MPT) to oversee the NTT Public Corporation. From the 1950s into the 1980s, MPT's top bureaucrats always came from the postal side of the business, not experienced in telecom issues, whilst MPT's telecommunications section was manned by officials on secondment from NTT. In effect, NTT supervised itself (Anchordoguy 2001).

This set up of a powerful public corporation having an upper hand over the government ministry was disturbed in 1982, when the Nakasone Cabinet recommended the privatisation of publicly owned utilities as part of its administrative reform (known as *rincho*). The Ministry of Post and Telecommunications grabbed this opportunity to recommend the break-up of NTT Public Corporation, American-style. On the whole, neither NTT nor its union, Zendentsu, was against privatisation per se. But both were united in its opposition to the idea of a break-up. Mr Shinto, the powerful head of the NTT Public Corporation at the time, was able to quell internal opposition to privatisation led by the deputy head, Mr Kitahara. Mr Yamagishi, the Zendentsu union leader at the time, had the political clout to negotiate directly with Mr Kanemaru of the Liberal Democratic Party to push for privatisation without divestiture. This episode makes clear that in this regulated industry, politics is at least as important as corporate strategy in understanding the emergence of a particular corporate structure.

In 1985, Japan became the second country after the United States to end the monopoly status of the telephone company. NTT Corporation managed to prevent a break-up by emphasising the importance of a nationally unified telephone network to deliver a universal service, and of preserving NTT's R&D capability for international competitiveness. Nevertheless, the government treated the 1985 privatisation and liberalisation (enabling the entry of new common carriers) as unfinished business. For the government, the break-up of NTT was considered an essential piece in completing the task of enforcing open and fair competition in the telecoms market. Thus, the Ministry of Post and Telecommunication (and the Liberal Democrats) deliberated at their respective committees, on how to reform NTT further – always centred around the emotive issue of the break up of the company -- in 1990, 1995 and 1996.

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corporation employees in Japan have the right to organize and collectively bargain, but do not have the right to strike. The same law prohibits union shop agreements at public corporations.

NTT Public Corporation had essentially a functional organisation at the head office with a large network of regional telephone exchanges and sales offices. After privatisation, but gradually before privatisation also, NTT began to adopt a multidivisional structure as it diversified into areas other than the building and servicing of fixed-line telephones. In part to pre-empt the divestiture pressures, NTT Corporation decided to hive off the following internal divisions (see Figure 3):

- (a) NTT Data, created in 1988 by hiving off the Data Communications Bureau (established in 1967);
- (b) NTT DoCoMo, created in 1992 by hiving off the Mobile Division;
- (c) NTT Facilities, established also in 1992 by hiving off the Architectural Division; and
- (d) NTT Comware, created in 1997 by hiving off the Communications Software Division (established in 1991).

At NTT Data and NTT DoCoMo, employees in the internal division were transferred permanently (*tenseki*) to the newly created companies at the time of the hive-off. This clear separation was considered necessary to meet the regulatory requirement of fair competition, as the two companies' client base was in the open market. By contrast, employees at NTT Facilities and NTT Comware remained on temporary transfer (*shukko*) from NTT Corporation until April 2002, as both are largely dependent on NTT fixed line business.<sup>12</sup>

By 1996, Prime Minister Hashimoto returned from the G8 summit in Lyon, determined to force a settlement in the decade-long warfare between NTT and MPT. There was a feeling that this warfare had left Japan behind in the increasingly globalizing market, symbolised by the merger between British Telecom and MCI International, US's Number 2 long distance carrier. Thus, Hashimoto put the internationalisation of NTT operations high on the agenda. In response, the MPT proposed the break-up of the NTT Corporation into two regional companies and one company for long-distance and international operations. What made the MPT proposal palatable to the NTT management (and the union) was the additional elements: to create a pure holding company, not yet legalised at the time of this proposal (not until 1997), so as to make the 'break up' not really a 'break-up', and to allow corporate

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<sup>12</sup> At NTT, there are three distinct modes of transferring workers between group companies. *Shukko* refers to temporary transfers, whilst *tenseki* refers to permanent transfers. There are two types of *shukko*, one with a fixed term and another that is indefinite. The latter differs from *tenseki* to the extent that the 'domicile', as it were, remains with the sending company in the former but moves to the receiving company in the latter.

taxation on consolidated accounts (which was not the norm in Japan until 2002). The MPT officials worked on the Liberal Democratic Party Committee on Telecommunication Issues to include these two enticing elements in the policy package (Sakuma 1995 p.17).

Thus, in July 1999, NTT became the second company after Daiei (the department store) to adopt the holding company structure, overseeing not only the three newly created companies (NTT East, NTT West and NTT Communications), but also the four companies that were hived off earlier. The slim and agile holding company, employing only 300 staff in key functions such as corporate planning, finance, and personnel, also suited those who wanted to ride the wave of corporate governance reform, in this case, transforming a company run by Tokyo university graduates with a public servant mindset into a private sector company that took shareholders and stock market discipline seriously. Nevertheless, it is important to remember that the holding company is relatively weak due to its origin as a face-saving political compromise between those who wanted to retain NTT as a single company and those in favour of a break-up. One manifestation of such weakness is the complaints by various operating companies that the holding company has not exercised clear leadership in adjudicating over head-to-head competition and cannibalisation of business domains among NTT group companies. This problem is likely to grow as every group company looks to business expansion away from fixed line telephones towards ISP and broadband.

The largest shareholder of NTT is still the Japanese government, which owns 46% of total shares. The NTT Group consists of 8 core companies including the holding company, although if every single subsidiary and affiliates are counted, there are 438 as of mid-2002. These group companies are classified into one of four types: Type 1 (regulation companies), namely NTT East and NTT West; Type 2 (competition companies), namely NTT Communications, NTT Data, and NTT DoCoMo; Type 3 (companies that provide managerial resources to Type 1 and Type 2 companies), namely NTT Facilities, NTT Comware, and outsourcing companies created in May 2002; and Type 4 (companies in new business), such as NTT-Broadband and NTT Electronics. Of the eight core companies, all excepting two are fully owned subsidiaries of the NTT holding company (NTT HC). The exceptions are NTT Data, which had an IPO in 1995, with 54% shareholding by the NTT HC, and NTT DoCoMo, which had an IPO in 1998, with 64% shareholding by NTT HC.

The links between the holding company board and the board of directors at the operating companies are weak. Typically, one non-director manager from the holding company sits on the board of the operating company. There is a Group Management Council of the eight core companies at various levels, from company presidents down to functional heads including personnel managers. The eight company presidents get together every quarter to inform each other of their respective business plans. The eight personnel managers gather to share information and co-ordinate their bargaining stance especially during the Shunto negotiation rounds.

At least three key factors underlie the cohesion of the eight companies, despite a weak holding company. First, each company was created as a hive-off of an internal division of significant size at NTT Corporation. For example, NTT Data, the first hive-off, involved taking on 6500 workers already employed in the NTT Data Communications division. At NTT Facilities, hived off in 1992, 80% of the 6000+ employees were still on temporary transfer (*shukko*) ten years later, in April 2002 when all Facilities employees were put on permanent transfer (*tenseki*). This hive-off process, in the context of the lifetime employment norm, has reinforced the need to implement a human resource management system at the hive-off that is identical to the originating parent company. Moreover, the majority of employees in the separate companies retain fresh memory of having worked as part of the same company, enhancing the social identity of the NTT Group. (An exception to this is NTT DoCoMo, where rapid expansion led to half of its 11,000 employees being less than 30 year old, with experience of working only for DoCoMo.)

Second, cohesion of the NTT Group is likely to remain as long as intra-Group trading patterns are dominant. Around 80-90% of the business at NTT Facilities and NTT Comware are for the NTT Group. Moreover, NTT Data, NTT DoCoMo, and NTT Communications, despite their dispersed client base, rely on NTT Group companies as suppliers of services.

Third, the NTT Group remains cohesive in so far as the core eight companies put together are treated as the organisational boundary of the union. In order to understand this boundary choice, we will now turn to the strategy and structure of Zendentsu and its successor, NWJ.

## Union Strategy and Structure

All NTT Workers Union of Japan (NWJ) is the largest enterprise union in Japan today, with a membership of 185,000. It can be traced back to 1950, when Zendentsu (Japanese Telecommunication Workers Union) was founded initially with about 43,000 members and a unionisation rate of 34%. Subsequently, despite an open shop agreement – the legacy of the legally prescribed practice for public corporations – Zendentsu and now NWJ have boasted a union density of over 99%.<sup>13</sup>

Over time, Zendentsu has developed two faces of unionism that underlie its strategy (JIL 1996). First, Zendentsu, as compared to private sector unions, had strong local units that exercised job control, in the face of technological change, particularly involving the shift from manual to automated telephone exchanges. Local job control was for the sake of employment security. But as the abolition and mergers of telephone exchanges led to negotiated movements of employees between geographical areas, employment security had to be defended not locally but in a nation-wide internal labour market. This gave Zendentsu an opportunity, in the 1960s, gradually to centralise the collective agreement for the whole NTT Public Corporation, harmonising differences in working conditions and personnel systems between regions. Zendentsu also negotiated a prior consultation system, in which management was required to consult the union over business plans and new technologies that affected employment at an early stage. Although it stops short of being a co-determination system as in Germany, this prior consultation system gives much greater power to the union than is typical in private industry in Japan.

Second, from the mid-1970s, Zendentsu developed a strategy for participation, not only in management, but also in government policy-making. Policy participation was quite common amongst industry federations of private sector unions such as in steel and automobiles at the time, as the post-1973 inflation led them to realise the vulnerability of bargaining only over nominal wages. What is peculiar for Zendentsu was that it was an enterprise union for a regulated public monopoly, and therefore had the same industry-wide organisational boundary as an industry federation. Policy participation led Zendentsu to accumulate experience in mobilising political resources, not just to support Socialist and Social Democratic opposition parties, but also to influence policy debate in government and Liberal Democratic party committees. Later,

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<sup>13</sup> Less than one percent of NTT Group workers are organised by minority unions, such as the Communist Party controlled Tsushin Roso and Dentsu Roso.

this neo-corporatist face paid off in giving Zendentsu power to influence NTT's corporate structure in a direct manner. As mentioned earlier, the 1985 privatisation without a break-up was largely due to Zendentsu working on NTT management, the Liberal Democratic Party, and the Ministry of Post and Telecommunications.

When NTT Corporation started hiving off divisions after privatisation, Zendentsu had a clear strategy to retain the living standards of existing members when they moved to the newly created companies. This translated into the establishment of a norm, that whenever an internal division was hived off, it remained covered by the existing collective agreement. Starting with NTT Data in 1988, and even in the case of NTT DoCoMo in 1992, neither management nor labour appeared to have questioned this norm; why change the working conditions of existing employees in an existing workplace when the only thing that has changed is the corporate form? By default, there was no notion of a transition agreement as at Deutsche Telekom, nor a distinction made between pre-existing employees and newly hired employees. The practice of extending an existing central collective agreement to group companies meant applying the agreements to all regular employees including new recruits. It also led Zendentsu to become, in effect, a union covering the whole NTT Group rather than individual operating companies.

More recently, in anticipation of the adoption of the holding company structure, Zendentsu restructured its own organisation in December 1998, from being a regionally based structure to a company-based structure. In particular, each of the eight core group companies was organised as a union branch. The union took this opportunity to rename itself All NTT Workers Union of Japan, or NWJ. Whilst the internal structure was reformed, the organisational boundary of the union was not changed. Thus, as management formed a corporate group, the union remained a single unified union, rejecting an alternative structure that was debated at the time, namely the federation of enterprise unions at the operating companies.

A consequence of this union decision is that the union is more centralised than corporate management. This asymmetry brings about what appears to be much duplication of efforts on both sides in bargaining and consultation. In collective bargaining, NWJ HQ retained the right to negotiate all terms, including both substantive and procedural issues, with each of the eight key group companies, with a view to arriving at an identical agreement for all. This meant that the union HQ

officials sat with each company management to bargain, to the exclusion of union representatives at the company-level branch.

From spring 2001, however, collective bargaining has been decentralised, giving the company-level union branch the right to bargain over all issues except basic work conditions (especially the wage levels, although there is considerable disagreements among union branches as to what else constitutes the basic conditions). This means that in effect, each company management has two bargaining levels, one with the union HQ and the other with the company-level union branch. For shorthand, these two may be called 'central' bargaining and 'company-level' bargaining, but 'central' implies the involvement of the union HQ, but not a group-wide NTT management representation (see Figure 5 for a schematic representation of this structure).

A similar two-level system exists for labour-management consultation. For example, NTT DoCoMo management consults with the union HQ over DoCoMo's business plan in the context of a corporate group-wide vision. In separate meetings, the same DoCoMo management team discusses DoCoMo-specific issues in greater detail with the DoCoMo union branch. Interestingly, the holding company management has precisely the same two-level consultation system, without the power to take up issues for the NTT Group as a whole. Thus, the union, by virtue of retaining a partially centralised system of bargaining and consultation, is acting like a holding company, in some sense more able to act on the basis of group-wide information than the holding company itself. The weak nature of the holding company is therefore reflected, not just in the vertical articulation of managerial decision making, but also in the system of employee representation and consultation.

To summarise on the employee representation system at NTT Group, three phases can be identified in the managed decentralisation of the system. First, at the time of privatisation in 1985, a single corporate entity, NTT Corporation, bargained and consulted with a single labour entity, Zendentsu. Second, from 1988 (with the first hive-off) until 2001, collective bargaining was centralised (i.e. the union HQ negotiated a single identical outcome with each of the group companies), whilst consultation took place at central and company levels. Third, from 2001, bargaining is partially decentralised, as company-level union branches were given the right to negotiate over all terms other than those concerning basic work conditions.



## Corporate Restructuring Negotiations in 2001/2

The 2002 restructuring of NTT Group provides a good occasion to understand how corporate strategy and union strategy interacted in redrawing the organisational boundaries. The restructuring involved not only changes in corporate structures – a subject for labour-management consultation – but also changes in basic working conditions (involving pay) that were subjected to central collective bargaining. In effect, the whole bargaining and consultation exercise involved concertation at the NTT Group level, from the spring of 2001 until December 2001. Proper procedures were followed in both channels of bargaining and consultation. But the unusually harsh mood that prevailed is testimony to a fundamental disagreement between management and labour. Management proposed the narrowing of the corporate boundaries, externalising a significant proportion of the existing organisation in the form of outsourcing companies. The union bargained for, and failed to attain, what had been the norm thus far, namely the maintenance of living standards for existing union members when corporate forms change.

The negotiated outcome involved a plan to reduce costs by 110 billion yen (of which 35 billion was to come from labour cost reduction) at NTT East and 155 billion yen (of which 65 billion due to labour cost reduction) at NTT West during the 2002/3 fiscal year. There were four instruments to reduce labour costs. First, various benefit systems (including retirement pension) were reviewed and some allowances (e.g. for cold climate) abolished with a view to introducing more performance-related elements. Second, 16,400 (6400 from East, 10,000 from West) were to be made to take early retirement, in addition to 9400 who had already retired by December 2001. Third, it was agreed that a total of 6500 would be transferred from East and West to other group companies. Fourth, and this absorbed the greatest part of hard bargaining between management and the union, around 100 outsourcing companies were established by NTT East and West, and nearly 60,000 employees were transferred to these companies in May 2002. Employees aged 50 or over were asked to take early retirement, then be re-employed by the new companies at a wage up to 30% lower than in their previous jobs. The union started by negotiating for no pay cut, but ended up agreeing to the 15-30% wage reduction, with some lump-sum payment at the point of transfer to ease the pain of adjustment.

These 60,000 or so employees are doing the same job (in sales, maintenance, etc.) as before, with the same work colleagues in the same workplace, but one day the

company name changes and the pay check declines by up to 30%. This is the cost of treating employment security as the top priority under all circumstances, as both management and labour shun the use of compulsory redundancy. Thus, the norm of income maintenance has been broken, but this is so as to defend the norm of 'lifetime employment'. Employees at the outsourcing companies retain union membership. So the outsourcing companies remain within the bounds of NWJ. But agreeing to wage reductions is the beginning of a thin wedge, providing a major challenge to cope with diverse workers within the same union.

#### 4. Comparisons of DT and NTT

This section directly compares the two telecommunications companies with a view to drawing out similarities and differences in the way corporate strategy and structure interacted with labour strategy and structure. Comparisons are made in terms of two outcomes, namely the degree of homogeneity in human resource practices within the corporate group, and the mechanisms chosen for making employment adjustment (for a summary, see Figure 8).

##### (a) Corporate Strategies and Structures Compared

In the last decade and a half, both DT and NTT engaged in a similar strategy of growth, diversifying from being primarily a fixed line telephone carrier with a U-Form structure, to a telecoms group engaged in data communications, mobile telephones, and internet service provision. Thus, by 2002, DT had a multi-divisional structure, whilst NTT adopted a holding company structure. The two companies were remarkably similar in the coverage of business, with the fixed line telephone business accounting for 47% of total group sales at DT Group and 48% of NTT Group sales turnover (see Figure 6). T-Com at DT corresponds to NTT East, NTT West and NTT Communications put together. Moreover, of the other half of sales turnover, mobile telephone service takes up a significant chunk, with T-Mobile accounting for 34% of total group sales and NTT DoCoMo accounting for 41% of total group sales.

Despite these similarities in the nature of business, the way in which the two companies diversified is different. In particular, DT adopted a policy to create new business with externally provided resources, whilst NTT adopted a policy of organic growth, hiving off existing divisions into independent companies. At NTT Group,

DoCoMo is exceptional in achieving rapid growth, resulting in about half of the 11,000 employees having been recruited by DoCoMo, with no work experience at NTT Corporation. At the other group companies, the divisions were of significant size at the time of their hive-off, and did not grow much, so that new recruits remain a small minority in each company's workforce. By contrast, DT Group contains significant chunks of employees who had never worked for DT AG. T-Online was a newly created business when it was founded in 1995. T-Mobile, like DoCoMo, was created out of hiving off an internal division with 3200 employees, but has now grown into over 9000 employees. At T-Systems, employees at the operations that used to be part of DT AG are now outnumbered by at least a factor of 2:1 by the acquisition of Debis Systemhaus from DaimlerChrysler in 2000.

The timing of the development of the corporate group is similar at DT and NTT, with new company formation concentrated in the 1990s. But due to the late timing of privatisation at DT in 1995, group formation at DT preceded privatisation, but it happened clearly after privatisation in the case of NTT.

A contrast can also be seen in the vertical articulation of the management structure within the two corporate groups. At DT, central management has maintained greater strategic control over the group as a whole. Despite the initial autonomy of subsidiaries during their creation, boundary disputes and post-merger integration of group business lines have prompted greater intervention from the central management. Subsidiary group management has been increasingly integrated within the group-wide management board, and extensive co-ordination exists across firms at lower levels of management, as discussed with regard to personnel departments. Meanwhile, the NTT holding company has a somewhat weaker role in NTT group strategy. Integration of the formal managerial hierarchy is considerably looser, and group-wide co-ordination is less formalised. This has led, for example, to intra-group competition in new areas of business such as Internet service provision within the NTT Group, in contrast to a more unified strategy at DT Group.

#### (b) Labour Strategies and Structures Compared

Next, labour strategies with respect to the structures of union organisation and employee representation were quite different at DT and NTT. In particular, the union at NTT retains a more centralised structure than the more decentralised collective bargaining and looser hierarchy of works councils within DT. At NTT, the NWJ union

decided to remain all encompassing in its horizontal boundary whilst maintaining a strong degree of vertical articulation by retaining the right to collectively bargain at the centre for all employees of the NTT Group. There is a sense in which NWJ as the enterprise union has to reflect the corporate structure to an extent. Thus, as a series of corporate hive-offs created a group of several distinct companies, the union could have adopted a mirror structure, in the form of a federation of enterprise unions. But NWJ has thus far resisted this move, cautious in effecting a slow process of decentralisation in bargaining and consultation.

By contrast, Verdi did not retain centralised collective bargaining when DT AG created new companies in systems, mobile and on-line businesses. This appears to be due to a combination of factors, including (i) the union officials' preoccupation with union mergers within Verdi, leaving less time to 'strategize' about organising the DT Group; (ii) jurisdictional dispute between Verdi and IG Metall in organising the IT sector; and (iii) the union's feeling that a blind extension of the agreement at DT AG with some outdated/undesirable terms was not beneficial to employees at the new companies. Works councils were also created at new establishments and new companies, as legally prescribed, in the early 1990s. But it was not until 1995 that a KBR was created at the group level. Even today, the centre of gravity in the hierarchy of works councils remains at the corporate level, and is only slowly shifting upwards, towards the DT Group-wide level, as both management and labour recognise the need to develop a group-wide human resource system. But unlike at NTT, centralised co-ordination must cope with considerable de facto diversity of employment conditions within the group.

#### (c ) Degree of Diversity in Human Resource Practices

As a result of both (a) and (b), there is greater variability in human resource practices within the DT Group than within the NTT Group. Within the DT Group, each of the four divisions is subjected to a different arrangement (see Table 1). T-Online has no agreement; T-Systems have multiple agreements, most notably the agreement with Verdi at those parts that used to be part of DT AG, and the agreement with IG Metall at Debis. T-Mobile has an agreement since 1996, whilst a new NBBS agreement was signed at DT AG. All major agreements now contain an element of performance related pay, but each is different on the proportion of monthly salary that is subjected to performance evaluation. By contrast, the NTT Group is remarkable in having a single human resource system for the whole group. The central collective agreement spells out all substantive terms and conditions of employment. The same performance related pay

system was centrally negotiated and introduced to all group companies at the same time, in 2001. The Shunto spring offensive settlements are highly co-ordinated, with the pay increases being identical for the eight group companies (see Table 2). A concession is made in varying the bonus settlements so as to reflect company-level performance, better at faster growing DoCoMo and Data than in other parts of the Group.

This means that although bonus levels vary slightly, a systems engineer of the same qualification and experience is on exactly the same wage package regardless of whether one works at the fast-growing NTT DoCoMo or at the loss-making NTT West. By contrast, a systems engineer would be paid differently within the DT Group, depending on whether one is at T-Systems or at T-Mobile. This situation deviates from the larger national institutional patterns—where Japan follows the logic of an internal labour market and Germany utilises largely occupational labour markets with equal pay for equal work for a specific occupation.

However, we would like to stress that these outcomes remain a moving target. It is possible that the reassertion of industrial unionism within the relatively new diversified telecoms sector may lead to industry-wide harmonisation of HR systems (if not standardisation of pay levels) in Germany. Also, it is possible that in Japan, pressures for diversity in HR systems within the NTT Group will grow stronger, resulting in further – slow and managed – decentralisation of bargaining. The trajectories are different, but DT and NTT may end up with a similar degree of diversity in employment provisions within a loosely co-ordinated and negotiated group-wide system.

#### (d) Internal and external employment adjustment instruments compared

Lastly, employment adjustment has been more internal at NTT Group than at DT Group. Both Groups have managed to more than halve their workforce since privatisation, although NTT had a head start by a decade, since 1985 as compared to 1995 for DT (see Figure 7). The reduction in total employment to 178,000 at DT Group and 143,000 at NTT Group by spring 2002 has been achieved by exits outnumbering recruits by a factor of 2:1 or 3:1 at various times. Apart from normal retirement, early retirement packages were used actively in waves at both DT and NTT.

The similarity in the instruments of employment adjustment lies in the utmost effort made to avoid outright compulsory redundancies, although this is a matter of an

explicit job protection agreement at DT, whilst NTT is governed by a less formal lifetime employment norm (though enforceable in courts by case law). In effect, at DT, it is possible for a worker to refuse to be reassigned, in which case one falls outside the job protection agreement and can be made redundant. Moreover, the disability-in-occupation certification enables employees to quit and obtain benefits from the state insurance fund. Thus, the presence of the welfare state, although eroding at the margin, has enabled DT to share the burden of shedding excess labour with the state. By contrast, the absence of such a welfare state, as well as the centralised employee representation system in NTT, led to greater internalisation of employment adjustment within the NTT Group.

Now that the possibility of further early retirement is exhausted, recent measures reveal more divergent practices. At DT, December 2002 saw the creation of PSA (Personnel Services Agency), an internal agency charged with the task of finding jobs, both internal to the DT Group and externally in the open labour market, for 55,000 excess workers by 2005. At NTT, the creation of 100 outsourcing companies to reassign 60,000 workers from NTT East and West in May 2002 is an adjustment of similar magnitude. DT's PSA contemplates employment adjustment external to the DT Group, whilst NTT's outsourcing companies involve internal adjustments only. This difference is in part due to the differential expectations of workers in an occupational labour market – not easily fulfilled when most occupations exist only within the ex-monopoly DT Group, and those in an internal labour market (specific to a particular firm or corporate group). However, it may also imply that employment security means different things at DT and NTT. At least for the moment, DT workers assigned to PSA have full income security but dislocated from their normal jobs using their skills, whereas NTT workers at the outsourcing companies have employment security involving doing the same job as before but at the expense of substantial pay cuts.

## 5. Conclusions

This paper applied an interactive strategy and structure framework to analyse the evolution of corporate structure and employee representation systems at Deutsche Telekom and NTT. The framework enables the interpretation of the evolving enterprise boundaries for management and labour, without a simple reading of structural characteristics off the national institutional arrangements.

In the German system of industrial relations, industrial unions engage in industry-wide bargaining. Works councils at establishment and corporate levels are legally empowered to be consulted on, and co-decide, key parameters in working conditions that result from corporate decisions. Particularly if the works councils are well controlled by the union, one would expect the maintenance of uniform work conditions for the whole industry as corporations restructure. By contrast, in the Japanese system, enterprise unions engage in decentralised – albeit co-ordinated – bargaining. The same unions engage in consultation at the enterprise level, but practices differ from company to company as the consultation system is not legally mandated. Given this system of employee representation, one would expect a quicker introduction of variations in human resource practices with local company-level arrangements.

Despite these broad expectations, what we find is that DT Group has more heterogeneous human resource systems despite the presence of industrial unions, than at NTT Group with its enterprise union. This result is therefore surprising at first glance, but ceases to be so once the essence of the analytical framework developed in this paper is understood.

It was shown empirically that NTT's corporate strategy is based more on hiving off existing internal divisions than DT's strategy that involved employing new resources through new hires and M&A. It was also shown that the system of employee representation remained more centralised at NTT than at DT. NWJ was in full control of extending the existing collective agreement to hived-off companies, whilst neither Verdi nor the newly created works councils at the DT Group insisted on maintaining the DT AG agreement for new companies.

What this episode shows, in relation to the analytical framework, is two-fold. First, labour strategy cannot be simply read off the existing union structure. It is not the case that a single strategy of industry-wide bargaining emerges from an industry union structure. There is a choice element in labour strategy, particularly when the emergence of new contiguous industries challenges the existing understanding of the boundary of an industry. Or, given an enterprise union structure, labour has a strategic choice in deciding whether or not to extend its boundary beyond the existing company. The exact strategy chosen depends, in part, on the existing union structures, but also on

resources, including political ones, that the union can command at the time. In this sense, labour strategy can have a significant direct impact on corporate structure as well as industry structure. Second, as a result, corporate boundaries, far from being determined primarily by corporate strategy, are often contested.



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## Appendix: List of Interviews Conducted

Semi-structured interviews were conducted with the following in Germany and Japan. Interview questions were sent prior to the meetings, in English for the German respondents, and translated into Japanese for the Japanese respondents.

### GERMANY

#### Management

Deutsche Telekom AG Investor Relations, 10 December 2002

DT AG HR Department, 11 December 2002

Group meeting with personnel managers from T-Com, T-Systems, T-On-line, 11 December 2002

T-Mobile HQ, 17 December 2002

#### Labour

DT KBR, 10 December 2002

T-Mobile GBR, 11 December 2002

DT GBR, 11 December 2002

Verdi, 14 January 2003

Labour consultant for DT, 17 January 2003

### JAPAN

#### Management

NTT Holding Company, 24 July 2002

NTT East, 24 January 2003

NTT West, 27 January 2003

NTT Communications, 23 January 2003

NTT Data, 24 January 2003

NTT DoCoMo, 23 January 2003

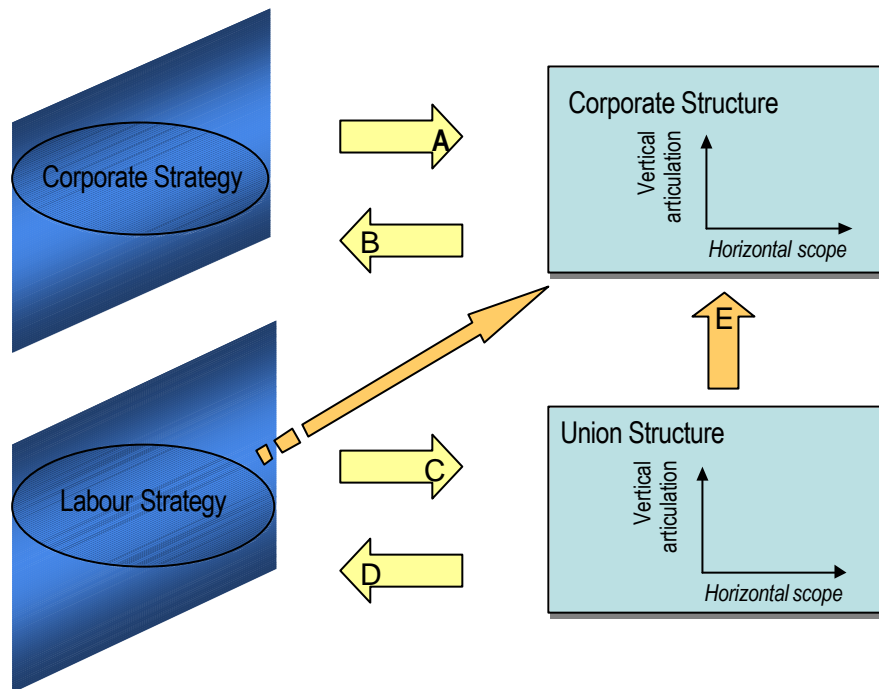
NTT Facilities, 24 January 2003

NTT Comware, 22 January 2003

#### Labour

NTT Union HQ, 24 July 2002  
NTT Union HQ, 14 January 2003  
NTT West Union Branch, 3 June 2003  
NTT Comware Union Branch, 4 June 2003  
NTT East Union Branch, 4 June 2003  
NTT Communications Union Branch, 4 June 2003  
NTT Data Union Branch, 5 June 2003  
NTT Holding Company Union Branch, 5 June 2003  
NTT Facilities Union Branch, 6 June 2003  
NTT DoCoMo Union Branch, 6 June 2003

**Figure 1: Strategic Choice Framework**



N.B. Not all the possible influences are shown by the arrows.

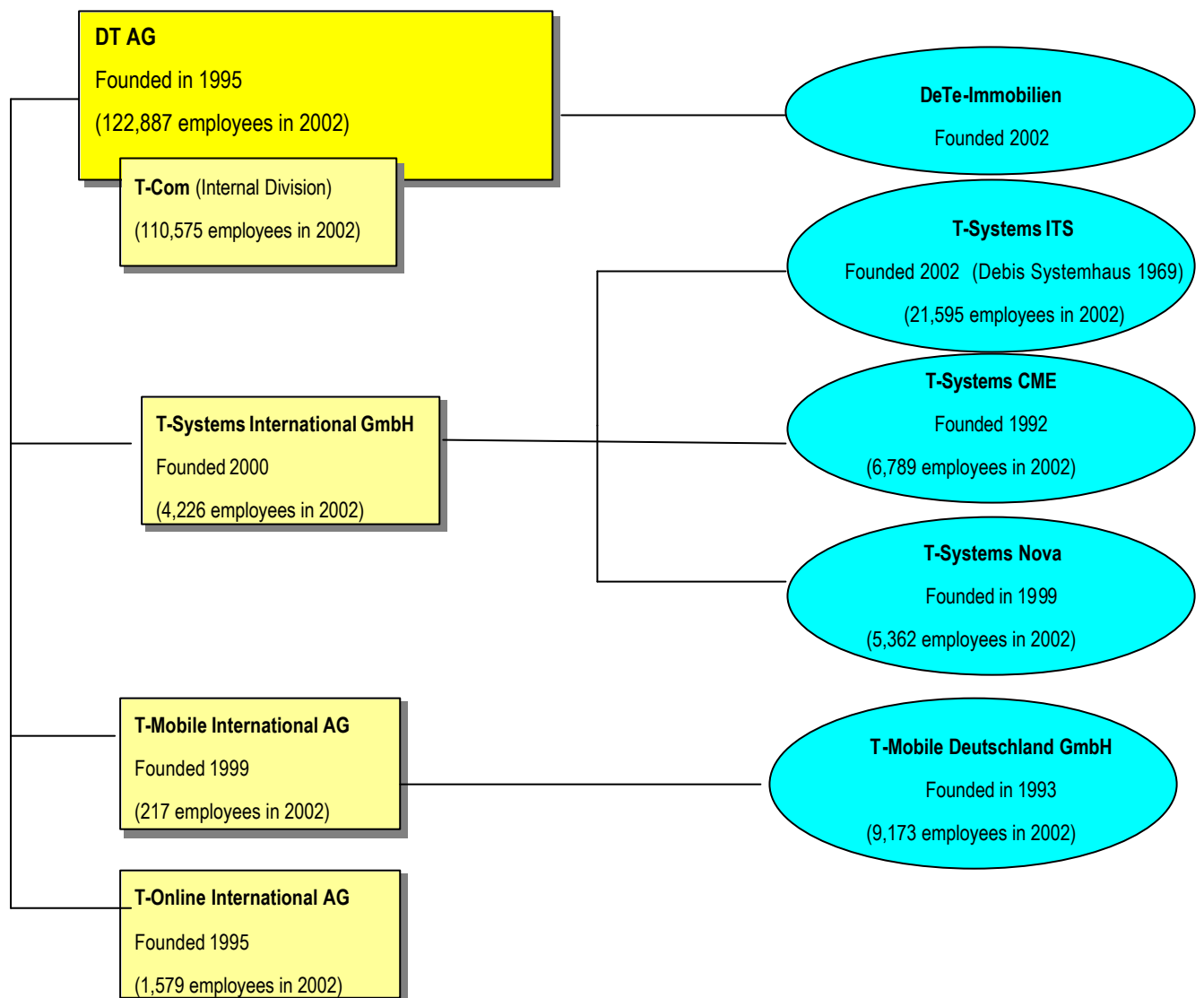
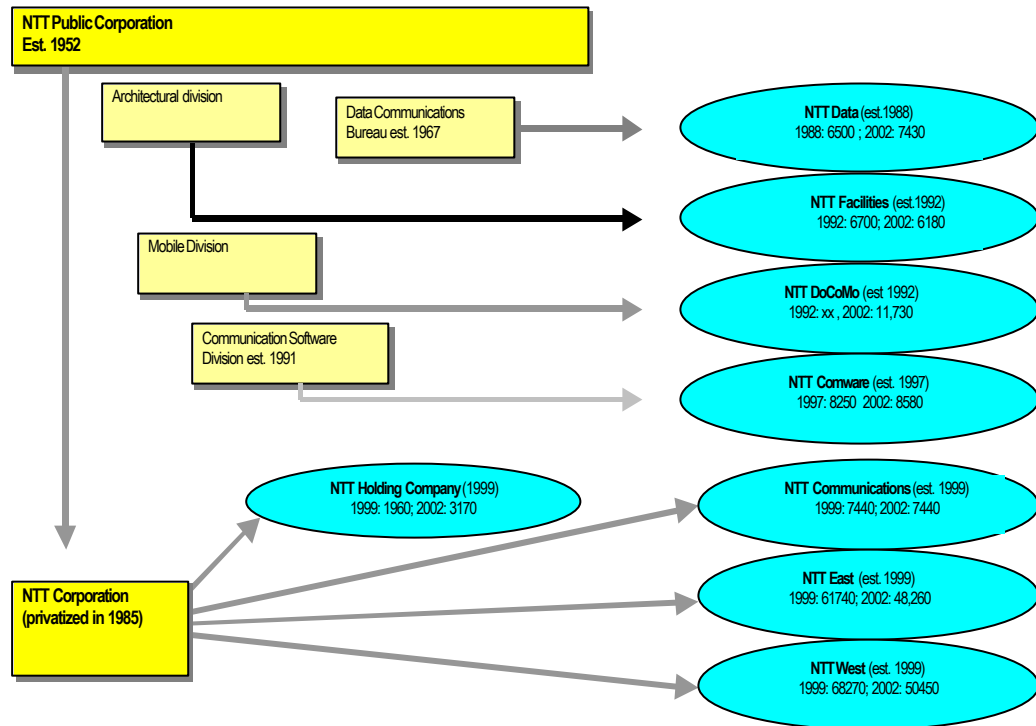


Figure 2: Deutsche Telekom Group: Main Domestic Operations in 2002



# NTT Group in 2003



10

Figure 3: NTT Group

Figure 4

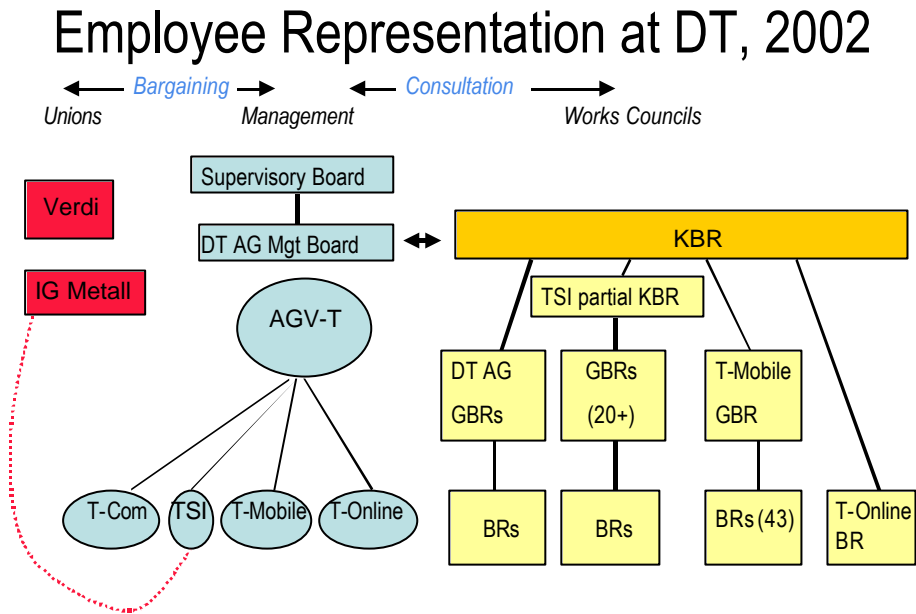


Figure 5

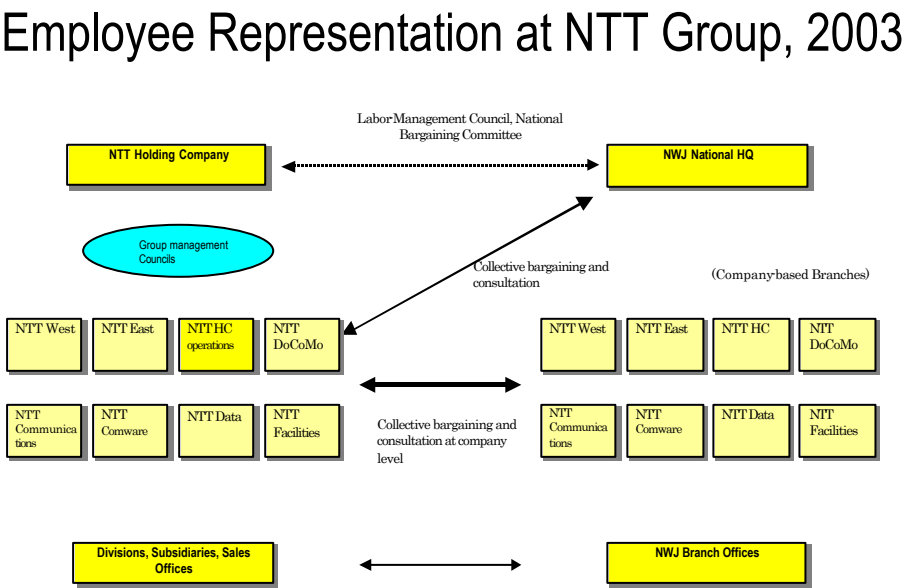


Figure 6

Both DT and NTT have 50% of sales in fixed line telephone business

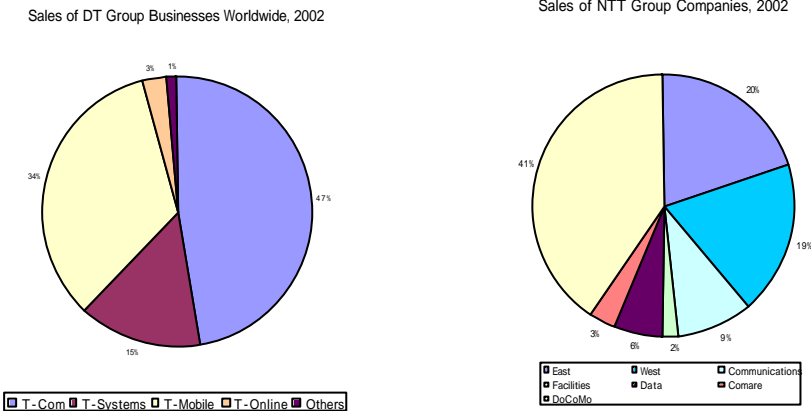


Figure 7

Employment declines after Privatization at both DT and NTT

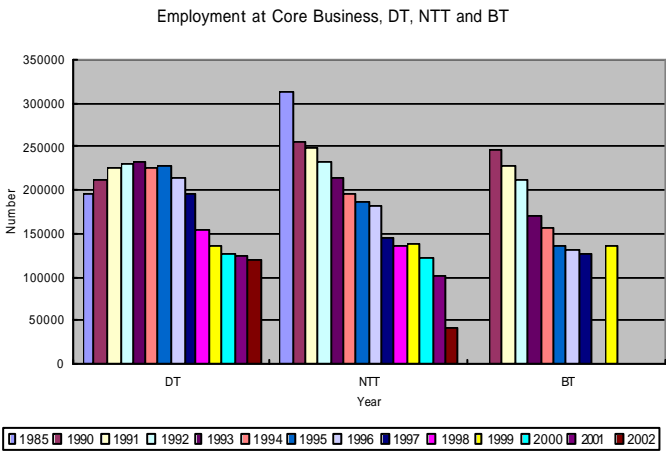


Figure 8

### Corporate Strategy and Structure

	Strategy	Structure
Deutsche Telekom	Diversification Growth through external resources	M-form Strong central management
NTT	Diversification Growth through internal resources	H-form Weak central management

### INTERACTIONS WITH

#### Labour Strategy and Structure

	Strategy	Structure
Deutsche Telekom	Conflicted strategy of occupational interests and group coordination.	Quasi-Enterprise to Industrial Union Weak central KBR, strong GBR
NTT	Group-wide solidarity, job security via internal adjustment	Enterprise Union Strong central HQ, weak corporation branches

### GIVE RISE TO

#### Diverse Employment Outcomes

	HRM	Employment Adjustment
Deutsche Telekom	Diverse	External
NTT	Homogeneous	Internal

Table 1 Collective Agreements within the DT Group,  
Selected Characteristics 2002

	Deutsche Telekom AG	T-Mobile	T-Systems International**	T-Online
Collective Agreement	Yes, NBBS.	Yes.	Yes, but multiple agreements for different subsidiaries.	No.
Basic Pay	Fixed monthly salary.	Fixed monthly salary.	Yearly salary. Stipulates minimum and maximum salary. Management discretion within corridor (ranging between 7.5% and 60.5% depending on job category).	
Performance Related Pay	6-12% of monthly salary given 100% performance. Weighting 2/3 individual/team performance, 1/3 corporate performance.	10% of monthly salary given 100% performance. Weighting 2/3 individual/team performance, 1/3 corporate performance.	Yes.	
Number of Wage Categories	10 categories, plus 6 categories for sales-related jobs.	8 categories.	10 categories.	
Working Time	38 hours		35 to 40 hours, depending upon age	
	Job Category T5  28,068 to 33,792 Euro per year.		Job Category 5  33,900 to 50,850 per year.	

\*\*Major subsidiaries of TSI have separate collective agreements that may deviate substantially from these parameters.

Table 2: Shunto Spring Offensive Bargaining Settlements at NTT Group Companies 1998-2003

Wage

	1998			1999			2000			2001			2002			2003		
Company Name	Base up	%	Demand	Base up	%	Demand	Base up	%	Demand	Base up	%	Demand	Base up	%	Demand	Base up	%	Demand
NTT	2,306	0.66	8800															
Holding Company				921	0.26	3200	0	0	1%	0	0	none	0	0	none	0	0	none
East				921	0.26	3200	0	0	1%	0	0	none	0	0	none	0	0	none
West				921	0.26	3200	0	0	1%	0	0	none	0	0	none	0	0	none
Communications				921	0.26	3200	0	0	1%	0	0	none	0	0	none	0	0	none
Facilities	2306	0.66	8800	921	0.26	3200	0	0	1%	0	0	none	0	0	none	0	0	none
Comware	2306	0.66	8800	921	0.26	3200	0	0	1%	0	0	none	0	0	none	0	0	none
Data	2306	0.66	8800	921	0.26	3200	0	0%	1%	PA Y500		none	PA Y500		none	0	0	none
DoCoMo	2306	0.66	8800	921	0.26	3200	0	0%	1%	PA Y1000		none	PA Y300		none	0	0	none

Bonus

	1998			1999			2000			2001			2002			2003		
Company Name	Settled	plus	Demand	Settled	plus	Demand	Settled	plus	Demand	Settled	plus	Demand	Settled	plus	Demand	Settled	plus	Demand
NTT	5.48	0.42		5.48	0.42		5.1			4.8			4.4					
Holding Company				5.48	0.42		5.1			4.8			4.4			4.3		4.6
East				5.48	0.42		5.1			4.8			4.4			4.3		4.6
West				5.48	0.42		5.1			4.8			4.4			4.3		4.6
Communications				5.48	0.42		5.1			4.8			4.4			4.15		
Facilities	5.48	0.42		5.48	0.42		5.1			4.8			4.4			4.3		4.4+x
Comware	5.48	0.42		5.48	0.42		5.1			4.8			4.4			4.3		
Data	5.48	0.47+50K		5.48	0.47+60K		5.82	50K		5.89	25K		5.48	166K		5.96		
DoCoMo	5.48	0.52+280K		5.48	0.57+220K		5.98	218K		5.98	233K		5.48	386K		5.48		