Employee Relations

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Unions' response to corporate restructuring in Telefónica: locked into collective bargaining?

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Abstract

Purpose – The purpose of this paper is to analyze the restructuring approach followed by the highly profitable Telefónica in its 2011 redundancy plan, and explores unions' response to management strategy.
Design/methodology/approach – The research follows a case study approach constructing a dataset with information from company reports, committee records, union documents, press releases, and other available sources such as specialized journals and newspapers.
Findings – Specifically this case study tries to show how massive job cuts have been implemented through a labour-mediated downsizing strategy that mitigates contestation and industrial conflict.
Originality/value – The paper tackles the relevant question of how unions respond to corporate restructuring (involving downsizing) in countries where industrial relations institutions remain relatively strongly embedded and proactive.
Keywords Industrial relations, Partnership, Organizational change, Collective bargaining, Downsizing, restructuring, Union strategies
Paper type Case study

1. Introduction

In the last three decades corporate restructuring has become a common occurrence in the corporate environment, raising a number of serious issues for national industrial relations systems. New pressures on firms and workers have called into question traditional notions of distributive gains and losses (Martínez Lucio and Stuart, 2005). Efficiency imperatives and constant change have catalysed a major transformation of the terms of the psychological contract that binds employees to their organizations. Cutting costs by reducing headcounts has come to be viewed as a logical business practice during hard times, and has become a part of the broader corporate culture. Increasing layoffs does not mean that an industry is in decline; rather it is often the result of production for profit (Massey and Meegan, 2013). Downsizing has been especially intensive in countries such as Spain, where it has led to the disruption of the system of permanent employment in former public enterprises such as Iberia and Telefónica. This paper studies Telefónica's, 2011 redundancy plan in terms of management strategies and unions' responses. Specifically it tries to understand how a partnership may implicate unions in management initiatives, thereby legitimizing restructuring in a profitable company. Literature on national models in employment relations links social market economies and cooperative approaches between labour and management (Hauptmeier, 2012). However, there are processes that can alter the regulated system of industrial relations to promote flexibility. Some authors have observed an overall trend towards concession bargaining even in coordinated economies. For instance, Greer

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(2008) notes that companies such as Ford have brought their American restructuring strategy to Europe. Institutional change frequently results from actors' interactions in terms of powers and strategies. For this reason, there is a need to explain why coordinated employment relations systems contribute to market-oriented "recipes" without political resistance from the unions. In this regard, we will highlight how labour-mediated restructuring and redundancy management can undermine unions' strategies to block corporate change. The case of Spain is especially interesting as it represents "a textbook example of the exploitation of mass anxiety in the face of unemployment for the purpose of a neoliberal restructuring of employment relations" (Köhler and Calleja, 2013, p. 16). The country has a dual system of industrial relations in which there is a core of relatively secure employees hired by large firms and a periphery of outsiders in insecure and precarious jobs. This employment system relies almost exclusively on external numerical flexibility to meet changes in demand (Muñoz de Bustillo and Antón Pérez, 2011). Over the last 15 years, union affiliation rates have stood at around 15 per cent. This low proportion of unionised workers, among the lowest in the OCDE, is explained in part because the outcomes from collective bargaining have been extended to the workforce as a whole (Jódar *et al.*, 2011). During the 1980s the severe economic crisis led to the dismantling of different industrial sectors (reconversion industrial). Viability plans caused massive job losses and a decline in union mobilization. In a context where unemployment has been dubbed the "Spanish labour market disease" (Dolado, 2012, p. 22), the free dismissal discourse has played a highly significant role in developing human resources policies (Fernández and Martínez Lucio, 2013).

Why has an iconic and profitable company such as Telefónica cut so many jobs? Why have unions made concessions involving a high level of risk in terms of organizational legitimacy? In the current landscape of economic uncertainty and recurrent restructuring in Spain, this research finds that the institutional role of unions has led them to focus on service provision "cushioning" the consequences of change. Early retirement has been used as a tool for employment adjustment. At the same time, the intensive use of subcontracting has transformed the post-Fordist bureaucracy of Telefónica into a boundaryless organization (MacKenzie, 2008). As Hamman and Martínez Lucio (2003) argue, the privatization of the telecommunications has not entailed a substantial rise in codetermination. Instead the new ownership has excluded labour from decision making. In the case of Telefónica, restructuring was carried out in a negotiated manner and the scant direct action was aimed at capturing the attention of the media. Unions have shifted strategies towards compensation as a measure of success in the face of the apparently inevitable outcome of redundancies.

The paper is structured as follows. In Section 2, I present a brief background on restructuring in the telecommunications industry and summarize a theoretical analysis of the interaction between corporate and unions' strategies in contexts of change. Section 3 analyzes the case of Telefónica, examining its evolution up to 2011. Section 4 focuses specifically on the 2011 Redundancy plan. Section 5 discusses the main findings of the study. Finally, the conclusions section tries to conceptualize the restructuring approach followed by Telefónica.

2. Restructuring in the telecommunications industry: change and strategies

2.1 The evolution of the telecommunication industry

Telecommunication services were traditionally provided through a legal monopoly regime (Herrera González and Castejón Marín, 2009). For decades, the industry operated in a relatively stable environment. The pioneering market deregulation introduced by the USA and UK governments in the 1980s marked the beginning of dramatic changes (Lal *et al.*, 2001). AT & T carried out massive layoffs (83,000 jobs) from 1981 through 1992 (Morris *et al.*, 1999). Between 1981 and 1988, 138,000 jobs, representing half the British Telecom workforce, disappeared (Ramírez *et al.*, 2007). During the 1990s, telecommunications companies faced a number of daunting challenges, such as privatization, deregulation and technological developments. Restructuring in the German, Australian and New Zealand telecommunication sectors also followed the patterns of downsizing and increased use of outsourcing (MacKenzie, 2010). There was a convergence towards a business model based on the separation of the provision of services from the running of the network infrastructure. In the beginning of the twenty-first century, the former State owned companies focused on new markets and businesses, trying to compete effectively as global players in a fast changing environment. A new set of competitors drawn from other industries became part of the value network, creating a matrix of complex relationships. The sector started to be ruled by stock market imperatives, and creating shareholder value was declared the main objective. The increasingly intense competition once again drove the companies to reduce employee headcounts. The need for growth and stock market pressures led firms to make huge technological investments, altering the cost structure of the business. Many companies accumulated a substantial debt burden due to overinvestment in third generation mobile networks (Van Kranemburg and Hagedoorn, 2008; Li and Whalley, 2002). This financial leverage compelled firms to streamline their businesses through refocusing or restructuring, following the examples set by USA and UK telecommunication incumbents. With all these changes, unions in the sector, which had previously had a secure position dealing with the public monopoly employers through institutional arrangements, were now forced to operate in a privatized and fragmented environment (MacKenzie, 2010).

2.2 Unions' strategies and responses to change

Researchers have devoted a great deal of effort to studying the causes, strategies and consequences of restructuring, but the phenomenon continues to lack a comprehensive theoretical formulation. Downsizing can be used as a workforce reduction strategy, an initiative born of work redesign or a tool for changing corporate culture and values (Cameron *et al.*, 1991). In all cases, workers' representatives can delineate alternatives and have the discretion to implement different options. Managers and unions make choices about the nature of their relationships considering the costs and benefits of cooperation. They enter into a collaborative relationship when they both perceive that their utilities would be maximized through such a relationship (Deery and Iverson, 2005). However, their strategies are conditioned by constraints imposed by the political context, alliances and interests (Hamman, 2001). Traditionally, literature has conceptualized unions' responses to strategies promoted by management as militant-oppositionalist or cooperative. This dichotomy between adversarialism and cooperation is an oversimplification, since there are different forms of engagement between management and unions in contexts of change (Frost, 2001 and Martínez Lucio *et al.*, 2000). These forms of engagement can be conceptualized as a continuum. Along this continuum there are union strategies which entail a greater degree of conflict with employers. For instance, "classic unionism" and "paper tiger unionism" (Boxall and Haynes, 1997) involve a certain degree of rivalry between labour and management. In the first case, unions challenge employers through activism and mobilization. In the second case, the union's strategy entails a formal adversarialism towards employers without a base of worker activism. Within the union's responses to restructuring, Frost (2001) also mentioned "obstructionist approaches" which are strategies that reject cooperation with management. These obstructionist approaches are characterized by a refusal of the union to accept changes imposed by management.

In addition to conflict strategies, unions can develop strategies of collaboration with the employers. "Consultancy unionism" (Boxall and Haynes, 1997), with its limited expressions of cooperation with employers through routine collective bargaining, is among them. The "partnership approach" represents a desire to move away from the perceived adversarial dynamic of industrial relations in the past to more enduring forms of labour-management cooperation. In this context unions can even have an "interventionist" strategy (Frost, 2001) characterized by the involvement of their representatives in the process of designing, selecting and implementing the new work organization. In this case, outcomes meet the needs of all stakeholders: management, workers and the local union. However, different forms of engagement in the strategic management of firms can produce different levels of risks for unions. According to Martínez Lucio and Stuart (2005), when cooperation is based on collective bargaining and corporate governance does not privilege shareholder value ("nurturing partnership") risks are shared between capital and labour. Sometimes partnerships are short term and focused on clearly delineated objectives around issues such as employability and restructuring ("transitional partnerships"). In this case, the level of risk is higher. Yet there are forms of forced cooperation in which risks are managed and mobilized by management as a way of enforcing compromise and a higher degree of union compliance ("coerced partnerships").

In the case of the telecommunication industry, two competing approaches to restructuring have been identified. The market-mediated or Anglo-Saxon approach, based on new applications of technology, reengineering and downsizing, is focused on economies of scale and cutting costs (Keefe and Batt, 1997). By contrast, the labour-mediated approach uses union and employee participation to redesign human resources practices. These cooperative employment relationships are typical of the coordinated market economies of continental Europe. While both approaches have tried to mitigate the harshness of layoffs (Katz, 1997), Anglo-Saxon restructuring has been more prone to use "push" strategies consisting of dismissals (Tomasko, 1991). "Pull" strategies design voluntary redundancy schemes involving financial inducement, with the aim of providing an alternative means of carrying out the restructuring process. During the 1990s, union strategies moved towards an enterprise level "partnership approach" when addressing challenges involving restructuring (Mackenzie, 2009). This approach tried to deal with increased uncertainty, avoiding the displacement experienced by telecommunications unions in some countries. This "new" partnership exchanged workplace flexibility for job stability for the "survivors" (Hamman and Martínez Lucio, 2003). As a result, telecom companies have been found to implement neoliberal restructuring policies in coordinated market economies. Unions have been reluctant to discourage concession bargaining in cases where jobs were at stake and union density was low (Greer, 2008; Shire *et al.*, 2009). Workers representatives have bargained extensively to avoid compulsory redundancies through resignations and employee transfers. But this could indicate that a "pragmatic approach" (Frost, 2001) has been adopted, where unions negotiate with management over the implications of changes in the workplace, but cannot alter the overall vector of the changes themselves. The risks for unions of engagement in this kind of partnership have led to calls in favour of more militant strategies (Mackenzie, 2009).

3. The case of Telefónica: change and restructuring

3.1 The evolution of Telefónica

Telefónica is a prominent telecommunications multinational with a presence in Europe, Latin America and Asia. Its emphasis on technological innovation, productivity and open relations with suppliers has made the Telecom provider one of the most effective examples of internationalization among the plain vanilla older telephone services (López, 2003). In 2011 it was the fifth largest operator by total customers in the world (Telefónica, 2011a). In Spain, where the company has its largest market share, Telefónica was the second biggest corporation and responsible for universal coverage and maintenance of the basic telephone system. Telefónica de España employed 27,935 workers which represented 0.18 per cent of the Spanish workforce (Telefónica, 2011a). Today the firm has great strategic importance due to its political connections and mediatic power.

The company was founded in 1924 as a foreign-owned and controlled private monopoly (Calvo, 2010). In 1945 Telefónica was nationalized, although it continued to have a mixed public-private ownership structure until its privatization in 1998. This distinctive feature had important consequences for the corporate management style, which reflected conflicts of interest between private shareholders and public service investments (Clifton and Díaz Fuentes, 2010). The historical role of the firm in the introduction of telephony in Spain and its contribution to technological development made it a national symbol and a "real power within the State" (Bustamante, 2000, p. 440). During the time of the state monopoly, characterized by the absence of business cycle fluctuations, the firm developed a strong bureaucratic culture in which all its employees had a job guaranteed for life and above average wages (Claver *et al.*, 2000). Telefónica was deemed to have "mother-like" characteristics, which were further strengthened its esprit de corps (*espíritu telefónico*) (Del Bono, 2002). Employees derived pride from providing a basic service to the population. The benefits of collective bargaining were the result of a long tradition of union activity and worker organization. For instance, in 1975 the democratic candidates won the last union elections without free unionism and promoted a strike and protests during 1976 (Comisiones Obreras, 2002). In the 1987-1992 period, there was also an intense dispute regarding the pension payment system (*Institución Telefónica de Prevision*). Paradoxically, unions' strategies under the state monopoly tended to be more conflictive than in the deregulated market. As Fernández and Martínez Lucio (2013) point out, since the 1980s the position of Spanish unions has been progressively weakened while big employers have been increasingly able to implement their restructuring agenda. In a context where there is fear of unemployment, management consistently demanded flexibility in order to respond to the rapid changes. During the 1990s, Telefónica initiated the modernization of its organization. The diversification of the fixed line telephone carrier led to the restructuring of the Telecom group into different divisions. Telefónica de España remained as the central core. Expansion and international alliances were considered an opportunity at a time when foreign markets were opening up. The company sought to exploit its linguistic and cultural advantage in the Latin American market. In 1996, Juan Villalonga, a former school-mate of the Spanish Prime Minister José María Aznar, was appointed CEO of the company.

His background and style was more influenced by management consultancy than that of his predecessors (Cairo, 2006). The firm started trading on the stock exchange in 1998. It represented an important landmark for the company and changed management incentives. Since then, the emphasis on shareholder value became a central element of Telefónica's policy, replacing a corporate culture associated with stable employment, decent wages, social status and paternalism. For instance, shareholder returns grew 807.7 per cent between 1991 and 2004 (Fernández, 2005) while an intense process of destaffing was being implemented. In the last decade Telefónica has focused on cost cutting, maintaining the lowest number of employees per fixed line among its peer group (Berstein Research, 2009). Corporate downsizing was used as a preventive strategy in anticipation of heightened competition. Many jobs became redundant and a significant number of employees were transferred to subsidiary companies dedicated to sales, maintenance and customer assistance. Outsourcing and the creation of subsidiaries have involved a renegotiation of employment, shifting many workers out of collective bargaining. As has been seen in other countries, the increase in contingent labour has been the result of a business strategy that encourages a focus on core activities and subcontracting as a response to market deregulation and privatization (Grimshaw and Miozzo, 2009). The vertical disintegration of the firm has affected industrial relations institutions, altering the work experiences of employees, who are subject to different human resources practices (Marchington *et al.*, 2011).

The new culture of Telefónica may seem to be the result of a market-driven restructuring approach based on labour shedding strategies (Katz, 1997). However, the restructuring plans have been coordinated by industrial relations agents inspired by the principle of avoiding layoffs. This option can be explained to a great extent by the peculiar characteristics of the Spanish labour system. The weakness of the main Spanish unions, the social democratic Unión General de Trabajadores (UGT) and the former communist Comisiones Obreras (CCOO)[1], in terms of affiliation has led to an "unionism of voters rather than of members" (Martínez Lucio, 1995). Under these circumstances, workers' representatives have been more prone to engage in institutional strategies and limit industrial conflict.

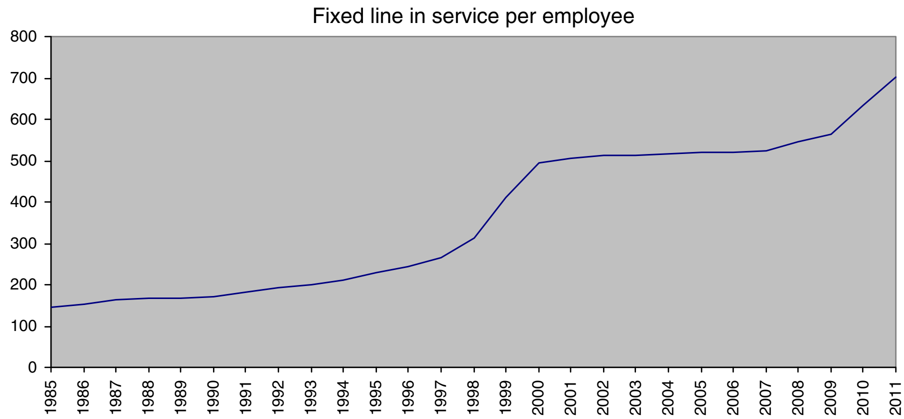
3.2 The transformation of Telefónica (1998-2011): shareholder value, "hyperefficiency" and the race to cut labour costs

After going public, the maximization of shareholder value was declared to be Telefónica's main objective. Shareholder value, as a discursive strategy, is underpinned by the belief that the primary purpose of corporations is to increase the stock prices for the benefit of their "true" owners, the shareholders. The use of stock prices as the primary measure of evaluating corporations symbolizes the ideal unity between property and control. However, this mission-driven cause has generated a complete divergence between what is perceived as the best interests of the corporation and the interest of most of its employees (Ho, 2009). In the case of Telefónica, the process of privatization was designed to promote an outsider system of corporate governance where ownership was dispersed across numerous shareholders with a small portion of the total equity. This reinforced managers' level of discretion in the running of the company (Bel and Trillas, 2005). Shareholder returns have been given special emphasis, as the statements of Mr Alierta[2], chairman of the company since 2000, reflect: "remuneration for shareholders can only go up. It will never go down" (*Financial Times*, 2011). Thus, the company has one of the highest dividend yields in the sector and the average annual shareholder return between 2008 and 2011 stood at 20 per cent (*Wall Street Journal*, 2011 and Telefónica, 2011a). In 2010, the board of directors held 0.148 per cent of Telefónica shares, which served as an incentive to deliver very short-term improvements in performance (Telefónica, 2010). Profit has been used to improve shareholder returns without reducing debt.

In recent years the Spanish Telecom has focused its management priorities on improving operational efficiency and strengthening its position in key markets. The ratio of productivity, measured as the number of fixed telephone lines per employee, has more than tripled between 1994 and 2011 (See Figure 1). This output measure, which is the yardstick of international efficiency within telecommunication firms, has created an incentive for job destruction, since efficiency can be improved by simply reducing the number of employees.

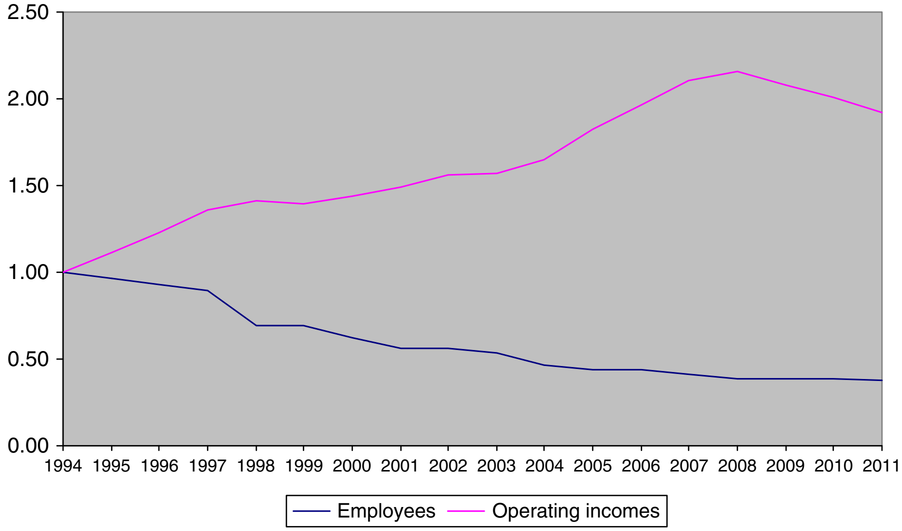
As we can see in Figure 2, the race to cut labour costs has involved a reduction of 62 per cent of the workforce of Telefónica de España in the 1994-2010 period. At the same time, operating incomes have had almost a 100 per cent increase. In this context of major labour shedding, the use of subcontracting altered the boundaries between the internal and external labour markets of the company.

Telefónica has presented itself as a union-friendly company. Downsizing plans, formally based on the principles of volunteering, universal application and non-discrimination between employees, have been aimed at improving the competitiveness of established businesses (Herrero de Egaña and Soria, 2012). The reduction of the size of the workforce has its origins in the early 1990s. Specifically, 1993 represented the end of employment growth at the company's headquarters and the first year of a sustained downsizing process accomplished mainly by voluntary layoffs. Although redundancy programmes have entailed a high cost, they have been considered acceptable to both employer and employees. As a general rule, buy-outs, pre-retirements and early retirement programmes were used as a means of adjusting the workforce. Usually, the company paid contributions for these workers whereas the unemployment benefit was assumed by the state. The generous severance packages led to a massive acceptation by employees. Due to the favourable exit conditions the redundancy plans have been positively perceived. In fact, Telefónica's ex workers have been labelled by



Note: The figures for 2003, 2005, 2006, 2008 and 2010 are estimations
Source: Annual Reports, SABI and Berstein Research (2009)

Figure 1. Evolution of the productivity 1985-2011 (fixed lines in service per employee)



Note: Operating income and employee data are standardized. The initial year takes the value 1
Source: SABI

Figure 2. Evolution of the workforce and operating income in Telefónica de España.

some media as the "aristocracy of the Spanish proletariat" (*El Mundo*, 2011). Table I summarizes the main job reduction plans during the 1990s:

As we have seen above HRM priorities have changed drastically since the mid 1990s. The different rounds of restructuring over a few year period do not reflect accurate planning. Negotiation was formally based on mutual gains and adjustment plans were accepted by the workforce and implemented quickly. In general terms, industrial conflict remained limited. Disputes were only intense in spin-offs from Telefónica, as in the case of Sintel. The former Telefónica employees responsible for the installation and maintenance of the network who accepted early retirements were

Table I. Main restructuring plans in Telefónica de España during the 1990s

Job reduction plan	Means	Job cuts
Collective agreement 1993-1995	Early retirement at 60	2,000
Strategic plan 1995-1999	Early retirement incentive programme at 60	13,600
	Pre-retirement at 58-59	
	Subsidized voluntary resignations at 57	
Collective agreement 1996	Early retirement incentive programme at 60	7,000
	Pre-retirement at 58-59	
	Buy outs at 56	
	Transfer to subsidiaries	
Collective agreement 1997	Pre-retirement at 55	3,000
Plan for the adjustment of the workforce 1998-2000	Pre-retirement at 58-59	20,000
	Voluntary leaving	
	Two and five years leave for managers	

Source: Based on Annual reports and Del Bono (2002) replaced by a considerable number of subcontracted workers. With the 1997-1998 Collective agreement, the company applied for the first time for the redundancy procedure regulated by Spanish legislation (Expediente de regulación de Empleo, ERE). The job reduction was implemented in 1999 eliminating 10,809 workers (ERE 26/99). The measures included pre-retirement at 52, voluntary buy-outs and relocation. The second application for layoffs, ERE 44/03, was initiated in 2003 and fixed the age for pre-retirement at 51. In both redundancy plans the workers in question received 70 per cent of their wages until retirement. In general terms, the evolution of industrial relations in Telefónica de España seems to reflect the emergence of a "supply-side" unionism with a highly structured and bureaucratic approach to redundancies and a limited role for mobilization (Martínez Lucio, 2011).

4. Accelerating proactive downsizing: the 2011 redundancy plan

4.1 The 2011 redundancy plan

In this section we analyze the 2011 redundancy plan because it is especially revealing in regard to unions' strategies. Although it has clear common characteristics with previous restructuring programmes (no conflict and the widespread use of early retirement schemes), the plan was implemented by a profitable company during a severe economic crisis in a country in which the bulk of the adjustment needed to counter the decline in effective demand took the form of job cuts. Telefónica considered the collective agreement linked to the plan as an example of the success of the employment relations dialogue within the company (Investment Weekly News, 2011). The firm's downsizing intentions for 2011 were first openly expressed at the April 2011 Investor Day. The head of the Spanish business announced the company's plan to buttress the unit's profitability by cutting the workforce by up to 20 per cent. After this, the 2010 Annual Report justified the need to resize the staff in order to adapt to the financial reality and the new demands of the telecommunications market. Making a comparison with its direct competitors in Spain, the corporate report said that it had "more than twice the number of employees than the combined total of all the other land line, ADSL and mobile operators" (Telefónica, 2010, p. 19). In May 2011, Telefónica eventually applied for another collective redundancy scheme, seeking to improve competitiveness in its domestic market. With the ERE 177/11 the Spanish carrier's initial intention was to eliminate about 8,500 of the company's 28,000 jobs. However, when the Spanish Cabinet warned that the company would have to assume the cost of unemployment benefits and social security payments of dismissed workers, management decided to scale back the figure to 6,500. Telefónica, which was not in immediate danger, presented the plan as a preventative measure aimed at ensuring the viability and competitiveness of the business in the future (Investment Weekly News, 2011).

4.2 Reasons for the redundancies

This section tries to explore company explanations for the 2011 job reduction plan. It poses the question of the social acceptability of layoffs in a highly profitable company during a severe economic crisis. In Spain, the reasons companies use to justify mass layoffs are not a matter of public record. This fact makes research into the the rationales for collectives redundancies a difficult task. In the case of Telefónica, staff cuts were publicly presented as crucial part of a corporate strategy aimed at revamping the Spanish Division hit by the euro-zone crisis. The specific reasons for the redundancy procedure can be found in the explanatory report and social plan agreed upon with the work council to compensate the dismissed employees. The company had five main reasons justifying the restructuring: falling sales, competition, pricing pressure, regulation and personnel expenses. Regarding the decline in sales, Telefónica, which had a significant presence in new markets with high revenue growth, pointed out that the decline in the Spanish housing sector, and weak private consumption had caused a reduction of 154,000 fixed lines in 2010. Emerging competition in the telecommunication sector was also considered a solid motive for job reduction. Despite the fact that Spain is one of the European countries in which the dominant operator has retained the highest market share (Bel and Trillas, 2005), the adjustment plan was blamed on the entry of low cost competitors. Pricing pressure was another reason used by Telefónica to justify the need for downsizing. Although Spain's broadband prices are the highest in the OCDE (2011), the company indicated that pricing competition has involved less revenue growth. Telefonica's complaints about the favourable regulatory framework for competitors were laid out in the explanatory report for the redundancy programme. The company argued that it was becoming a mere conveyor for the services of low cost competitors. According to corporate sources, in 2010 Telefónica had an average cost per employee of 72,000 euros (UGT, 2011b). Personnel expenses of the fixed business represented 20 per cent of the income generated. The Telecom said that its payroll was the main difference between its cost structure and those of the competitors. Nevertheless, the firm represents an exception in the European area where former Teleco monopolies place the bulk of their employees (Clifton and Díaz Fuentes, 2010).

4.3 Bargaining and outcomes

UGT and CCOO were informed of Telefónica's downsizing intentions in June 2010 (UGT, 2011a). The union elections of March 2011 were celebrated during a period of collective bargaining. In the negotiation process, UGT supported the idea that the terminated 23rd collective agreement should remain in force for several years to guarantee employment stability. Being more inflexible with a new job cuts plan was apparently beneficial for the socialist-leaning union, given that it won the elections in a company where the CCOO had been the main force for decades[3]. After the elections, UGT and CCOO, the most representative unions within the workers' committee, once again tried to link the workforce reduction plan to a new collective agreement for the 2011-2015 period. By negotiating the agreement and the redundancies at the same time, the unions attempted to obtain stability for the "survivors" over the next five years. UGT and CCOO adopted a pragmatic approach, accepting that early retirement with a generous compensation was a better alternative for older workers than unemployment. In fact, they were fully aware that some of Telefónica's employees were waiting for plan to be approved so they could retire. This is important in a country such as Spain where 41 per cent of union members are over 45 years old (Ministry of Employment and Social Security, 2010). Some general conditions were established to start the bargaining process. For instance, UGT, without questioning the restructuring, demanded that the plan be based on voluntary redundancies. CCOO also made it clear that the redundancy programme should not be supported with public money. Furthermore, they said that they would not sign a new agreement if redundant workers were not paid 70 per cent of their wages until retirement (Muñoz, 2011b). The two major unions had little incentive to assist minor unions fighting layoffs. The STC-UTS, Union Alternative and Base commissions (AST-Cobas) and CGT, which obtained 37 per cent of the votes in the union elections, had an adversarial attitude towards the restructuring plan, and believed that there were no economic reasons for it. The libertarian CGT warned that the law did not allow staff cuts aimed at improving profits. The agreement was reached "in extremis" before the expiration of the legal deadline (*El País*, 2011b). It was considered by CCOO as a "historical precedent" (Vesperinas, 2011). The new collective contract would be valid from 2011 to 2013. The arrangement stipulated that jobs would be cut using a mix of early retirement and outsourcing. Employees with at least 15 years of service aged between 53 and 60 years old were offered a monthly income equal to 68 per cent of the regular base salary up to the age of 61 and then 34 per cent until 65 (Telefónica, 2011c). The plan would cost to the company 2.7 billions euros before taxes (415,000 per employee). Telefónica also committed itself to create jobs amounting to 7 per cent of the workforce that left the company. The administrative approval of the redundancy plan was appealed by AST. However, in 2012, 70 per cent of the eligible workers had subscribed to the redundancy plan.

In general terms, it could be said that Telefónica has not followed the US market-driven restructuring approach since the workforce reductions have been negotiated and the state and unions have had major roles in shaping business-labour relations. Pay concessions have been used to convince employees to agree to change. Unions have not confronted the workforce reduction with formal strike actions. However, this labour-mediated downsizing reveals a shift in power relations. Unions have accepted management proposals without exerting disruptive power through mobilization. UGT and CCOO have been accused of practising an "official unionism" in one of the biggest Spanish multinationals.

5. Discussion

During the last decades, Telefónica's employment relations strategy in Spain has been based on large-scale downsizing and outsourcing. Job reductions through massive early retirements have been substantial and entailed the elimination of thousands of jobs in a country that has traditionally had higher unemployment rates than elsewhere in Europe. The operator also contracted out services through the creation of dense networks of subsidiaries and outsourcing companies. New forms of employment such as part time or freelance work have been introduced in these firms (Galdón, 2005). The outsourcing of work has represented an external segmentation of the employees (Grimshaw and Miozzo, 2009) and the configuration of the Telefónica as a network enterprise. With this externalization, workers have been shifted out of collective bargaining coverage to less costly individualized working conditions. Downsizing processes "have been implemented in a systematic way, making the company increase its resources, while reducing the size of different units to make them more flexible" (Herrero de Egaña and Soria, 2012, p. 84). The social impact has been to a large extent cushioned by the offering of incentives for voluntary resignations, early retirement and other measures (Eiro, 2005).

As happened with the restructuring of Deutsche Telekom in 2002, Telefónica de España has made use of welfare state provisions to externalize the cost of the job reduction. It appears that Telecom employers have taken advantage of the ability of the national systems in which they operate to provide collective goods. Some have viewed early retirement plans as a win-win situation for the employer and employees. While employers have been able to reduce the payroll without unpopular layoffs, employees willing to leave have obtained some additional cash. Social costs, in terms of loss of employment and decreased quality, have been considered acceptable. The role of unions in the process of restructuring has allowed them to limit some of the consequences of change by promoting social welfare in the downsizing process (Hamman and Martínez Lucio, 2003). Given this scenario, it is possible to say that Telefónica has followed a labour-mediated approach in the process of implementing an Anglo-Saxon restructuring. Paradoxically, industrial relations institutions have not lost their crucial position in regulating employment relationships; rather, restructuring has usually been implemented through collective bargaining. The Collective Agreement for the 2011-2013 period was presented as an example of "permanent social dialogue" (Telefónica, 2011c). A partnership unionism (Boxall and Haynes, 1997) has assisted individuals in a context of uncertainty but without seriously questioning changes imposed by management. This approach could collapse in future years as the state is less willing to assume the distributive and political risks of labour relations (Martínez Lucio and Stuart, 2005). The case of the 2011 redundancy plan at Telefónica shows how strategies can shape the process of employment relations in a coordinated market economy by engaging unions in intensive restructuring processes. Some studies have found similar results in different European countries. Greer (2008) notes that concessionary bargaining at large automakers has been a visible example of a major rollback of unions' gains. In a study on European call centres, Shire *et al.* (2009) concluded that for temporary work, employment relations in Europe are coming to resemble liberal market economies.

A second important point is that the corporate strategic option was not altered even though institutions shaped the way changes are implemented. In this regard, this study reveals that actors with market-oriented ideologies can introduce firm-level change and transformation within the framework of national institutions of industrial relations. To some extent, unions have accepted the inevitability of restructuring in the telecommunication sector, adopting a "better safe than sorry" policy. While changes in employment relations are frequently the result of conflict between corporate strategy and the strategy of organized labour (Sako and Jackson, 2006), the restructuring of Telefónica shows a situation where cooperation confirms the human resource system preferred by management. However, there are examples of Spanish firms in which unions have promoted adjustment mechanisms different than the job cuts made possible by regulations governing mass layoffs. For instance, in the automotive sector, short-term suspensions of working contracts and working time reductions have been used (Muñoz de Bustillo and Antón Pérez, 2011). The response to restructuring in Telefónica could be labelled as a reactive partnership or pragmatic approach (Frost, 2001). Redundancy management seems to be the "counter proposal" to restructuring.

The main unions have played a central institutional role in negotiating the levels of payments and post-redundancy assistance. But curiously, they have never really pushed for greater involvement in strategic issues, and have remained exclusively focused on questions of collective bargaining. Recurrent subcontracting has had a qualitative impact on job security, giving rise to challenges related to negotiating with dispersed supply firm networks (Grimshaw and Miozzo, 2009). CCOO and UGT considered the strategies of less representative unions as radical and symbolic (Vesperinas, 2011). Yet downsizing has altered the balance of power between employers and employees. The decreasing power of unions has made them unable to sustain a collective response to management strategy. In order to meet the challenge of managerial power and restructuring, unions need to find new power sources and develop strategic alternatives.

The perception that redundancy agreements have been successful has much to do with the peculiar characteristics of the Spanish labour market. Unions have bargained with an eye to maintaining living standards, sacrificing the objective of lifetime employment in specific spheres. The industrial relations institutions are more focused on short-term protection rather than on defining strategic alternatives. As a consequence they have a very limited impact on the content of the work itself.

The labour-mediated restructuring approach has been dominated by executives' strategic choices ever since managers started being interested in reducing headcounts. Although restructuring has been less severe than in other sectors, Telefónica has broken its commitment to employment security. To a certain degree, cash reserves have bought labour peace through generous severance packages. However, concessions have involved a deterioration in employment conditions. Believing that job cuts are inevitable, unions have made strategic decision to negotiate payments for members' welfare. The adjustment plan has generated a political "double-discourse" which officially criticizes job destruction while pragmatically supporting widespread mechanisms that encourage early retirement.

A final important aspect is that the nature of restructuring is not related to the current economic situation but to the future context. Corporate change is envisioned as endless[4] as the company is always deemed not competitive enough, and therefore needing further cuts. According to the chairman of Telefónica, "anticipation is in the DNA of the group" and the company would have gone bankrupt if the recurrent staff reductions had not been executed (*El País*, 2011a). The linkage to the future context is very important, since it supports the view that downsizing plans were inevitable. Restructuring is rationalized as part of the modernization project of the company. Yet reform plans cannot be attributed exclusively to weak demand or to the uncertainties of the global economy. They are part of a formal strategy to increase profits by implementing dramatic job cuts in advance. In this respect, organizational change and business strategy have an interrelated and mutually reinforcing relationship (Martínez Lucio *et al.*, 2000).

6. Conclusion

Telefónica, formerly "a jewel of the public patrimony" (Bustamante, 2000), and today a "Spanish global champion" (Berstein Research, 2009, p. 7), has responded to the challenge of competition and capital markets by undertaking a strategy of corporate change based on shareholder value, hyperefficiency and job cuts. In 2011, when it was the most profitable company in Spain (Lorenzo, 2011), it undertook an ambitious plan entailing proactive downsizing with the aim of ensuring profit growth in future years. The ERE 177/11 represented the first redundancy plan of a profitable company in Spain in which the cost of redundancies was not externalized to the state. It is a clear example of how labour management cooperation can help ease job cuts. The company promoted a "labour-mediated approach" to restructuring, and unions negotiated to maintain a certain level of jobs and wages. This partnership represents a more favourable option than "market mediated" strategies that involve forced layoffs and deskilling. However, the institutions of industrial relations have indirectly contributed to an Anglo-Saxon-style post-Fordist restructuring. In this vein, bargaining has resembled an "exchange deal" in which external flexibility was exchanged for exit conditions above the Spanish market average. Unions' insistence on defending labour market redundancy processes has assisted managerial discourses presenting them as "common sense" and as the only viable alternative (Fernández and Martínez Lucio, 2013). While management has been proactive, unions have been reactive with regard to core corporate strategies. When responding to organizational restructuring they had to choose between challenging corporate decisions or ensuring an orderly departure and beneficial arrangements for the workforce. This dilemma has altered the institutional equilibrium of employment relations, and weakened union's strategies. The soft compromising stance *vis-à-vis* job cuts could be interpreted as a "lack of imagination" in the arena of union renewal. Restructuring has been mediated by managerial discourses about the rigidity of the Spanish labour market and the opposition of local media and political establishment to unions' proactive agendas. Somehow trade unions have found themselves in a defensive position where they struggle to keep jobs rather than to improve working conditions. Under these circumstances mobilization has acquired a ritualistic character and its main function is to express solidarity (Greer, 2008). In sum, unions' strategies have evolved from combating layoffs to ameliorating their consequences. Yet the "remuneration" vision of restructuring leaves the unions open to accusations that they have collaborated and sold-out (Jacoby, 1983).

The shrinking of the core workforce has paralleled a rise in the use of subcontractors. As in other countries, the complex network of outsourcing contracts has blurred organizational boundaries generating new uncertainties for workers (Mackenzie, 2002). This represents a paradigmatic example of how even the most inclusive system of industrial relations offer the employers "exit options" from institutional arrangements, thereby facilitating the emergence of a low wage sector (Gautiè and Schmitt, 2010).

The case of Telefónica adds to the literature, showing that institutional variation across countries can be neutralized by post-Fordist restructuring. The paper also shows how the longstanding good working conditions of the telecommunication industry have been eroded due to the reinforcement of managerial prerogatives (Eiro, 2005) and the low influence of unions in shaping worker outcomes. This new situation makes it necessary to assess the risks derived from union's engagement with partnerships that increase restructuring through managing redundancies. This is a particularly relevant question, since early retirement incentive programmes represent a loss of institutional knowledge and a form of age discrimination that runs counter to society's needs. Under such circumstances, unions need to revitalize their strategies to challenge management restructuring agendas in the telecommunication sector.

Notes

1. According to the Spanish Law on Trade Union freedom, UGT and CCOO, as unions that have over the 10 per cent of workers delegates nationwide, have the right to enter in collective agreements and the right to representation in public institutions.
2. Mr Alierta was CEO of the Spanish Tobacco Company Tabacalera between 1996 and 1999. Under his direction the company was restructured and prepared for privatization.
3. UGT obtained 31.8 per cent of the vote, CCOO 30.2 per cent, Spanish Union of Communication Workers (STC) 13.7 per cent, Alternative Trade Union of workers (AST) 9.8 per cent and General Confederation of Labour (CGT) 9.6 per cent (Muñoz, 2011a). The role of minor trade unions represented in Telefónica must not be downplayed. STC defines itself as the main independent class union in the Spanish Telecommunication sector. AST arose in 1993 during the conflict with the internal pension payment system as results of a separation from main unions. CGT is the heir of the libertarian tradition based on self-management and direct action.

4. According to some collaborators of the CEO, Mr. Alierta "is always mulling over how to turn the company around" (Actualidad Económica, 2012).

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