Abstract: Large-scale Employee Share Ownership Plans (ESOPs) have been a distinctive characteristic of Irish public enterprise reform, with shareholdings of 14.9 per cent being allocated to employees as part of firm restructuring and privatisation programmes. This paper presents a case study analysis of a large-scale ESOP in Eircom, Ireland's former national telecommunications operator. We identify changes in labour productivity during the eight years before and after the establishment of the company's ESOP and use a framework based on Pierce et al. (2001, 1991) to explore the role played by the ESOP. The ESOP was found to play a key role in enabling firm-level reform through concession bargaining and changes in employee relations, and thereby indirectly affecting labour productivity. However, despite the substantial shareholding and influence of the ESOP, we find it has failed to create a sense of psychological ownership among employees, and thereby further impact on productivity.

Keywords: employee share-ownership; broad-based stock options, Employee Share-Ownership Plans (ESOPs); public sector reform; privatisation; labour productivity.

Introduction

Over the past two decades there has been considerable growth in the number of employee share-ownership (ESO) programmes established within the EU. The increase in the popularity of such programmes has been largely driven by the PEPPER reports and the introduction of government tax incentives (Perotin and Robinson 2003, Welz and Fernández Macías 2007). Financial participation of employees in the form of share ownership and profit sharing has been particularly prominent in Ireland, where the percentage of employees participating in share ownership schemes ranks as the highest in the EU27 and among the highest for profit sharing schemes (Welz and Fernández Macías 2007, Hashi and Woodward 2009).

The rationale underlying ESO schemes centres on promoting greater firm performance through creating a sense of ownership among employees. Existing research has therefore generally focused on examining the impact of ESO on labour and labour productivity. US research findings based on small privately-held firms has found a consistent positive relationship between ESO and labour productivity (Blasi, Kruse, Sesil and Kroumova 2003b). Predominantly, these ESO schemes were established to promote greater employee participation in firm governance and often involved a transfer of ownership in excess of 30 per cent. Such schemes create a sense of ownership among employees by providing significant stock contributions and by continually reinforcing employee ownership status through managerial recognition and greater employee participation in firm decision-making (Rosen 2007).

The extant literature has however failed to establish a similar consistent relationship between ESO and the productivity of large publicly-quoted firms (Rosen 2007). Employees in publicly-quoted firms often receive only a limited shareholding, frequently less than 10 per cent (Blasi et al. 2003b). As a result, ESO accounts for only a small proportion of total employee remuneration. Moreover, ESO in publicly-quoted firms is often used to pursue objectives other than securing improved labour productivity through greater participation. Instead, ESO schemes are often introduced with the aim of restructuring employee wages or to facilitate the privatisation of state-owned enterprises (Blasi, Kruse and Bernstein 2003a, Lowitzsch, Hashi and Woodward 2008). Such ESO schemes involve little change in firm governance or management, and therefore fail to establish a greater sense of ownership among employees.

Since the 1980s, a common feature of public sector reform programmes pursued in many Western European countries has been the preferential allocation of a small portion of shares to employees. Shares are generally offered to employees for free or at a discounted price in order to ensure their consent to firm restructuring and avoid opposition to privatisation (Jones, Megginson, Nash and Netter 1999). In this regard, the experience in Ireland was no different during the early years of its reform programme. However, beginning in 1998, a unique development in Irish public sector reform was the allocation of a sizeable firm shareholding to employees through the establishment of Employee Share Ownership Plans (ESOPs). These ESOPs generally grant employees a 14.9 per cent shareholding in return for a restructuring and rationalisation deal. The rationale underpinning their establishment has been both pragmatic and ideological. Pragmatically, ESOPs have been used ‘to neutralise union opposition to privatisation by means of the substitution of employee participation in companies at board level with financial participation’ (Sweeney 2004: 16). Ideologically, the government also views ESOPs as a means of improving labour productivity by aligning worker goals with those of the firm (Lowitzsch et al. 2008).

The establishment of such substantial ESOPs in Irish public sector enterprises provides a unique opportunity to investigate the impact such a stakeholder approach can have on the productivity of public sector enterprises undergoing reform. The paper adopts a case study approach, focusing on Ireland's former national telecommunications company, Eircom. This paper seeks to contribute to the literature on both ESO and public-sector reform by examining the role employee financial participation can play in altering the impact of public sector reform on employee attitudes and firm productivity.

The paper is structured as follows: the next section outlines a theoretical framework based on Pierce et al (2001, 1991) to examine how ESO schemes are expected to impact on labour productivity. The following section provides a contextual background by outlining the major developments in Eircom's internal and external environment over the period of analysis, before describing the methodology we adopt. The analysis section of the paper is divided in two, reflecting a need to first establish what changes in labour productivity have occurred within the period under examination, and the possible causes of such change, before moving on to examine the role of the ESOP in creating these changes. The paper concludes with a discussion of the findings and recommendations for policymakers.

Theoretical framework

The establishment of a substantial employee share-ownership scheme as part of a reform programme can be expected to have a significant impact on labour productivity. Pierce et al. (2001, 1991) propose that this can occur through both the formal ownership rights that share-ownership provides employees and their representatives with, and through psychologically experienced ownership and the resulting impact on employee attitudes and behaviour.

Existing research shows that the introduction of a formal ESO scheme is not by itself enough to influence employee attitudes and behaviour (Poole and Jenkins 1992). This has also been observed where ESO is introduced in the context of privatisation (see for example O'Connell Davidson 1993, Saunders and Harris 1994, Smith 2009). Instead, improved employee performance is observed only where ESO is associated with substantial performance-related returns and increased employee involvement in firm decision-making (Pendleton, Poutsma, Ommeren and Brewster 2001, Freeman, Kruse and Blasi 2004, Gittell, Von Nordenflycht and Kochan 2004, Kruse et al. 2004).

As a result, ESO should be viewed as a multi-dimensional phenomenon, consisting of both a formal element and a psychologically experienced element (Pierce, Rubenfeld and Morgan 1991). ESO grants employees numerous formal participation rights, including voting rights, access to information, and board-level representation. However, the psychologically experienced element of ESO, centring on equity possession, influence and information, can often have a greater impact on employee behaviour and attitudes (Pierce et al. 1991). Each of these elements can enable employees to develop a sense of psychological ownership towards their organisation or elements of their organisation, "…in which individuals feel as though the target of ownership (material or immaterial in nature) or a piece of it is "theirs" (i.e. "it is MINE!") (Pierce, Kostova and Dirks 2001: p.299). Such a sense of ownership can be expected to significantly alter employee attitudes and behaviour, and thereby labour productivity.

As outlined in Figure 1, Pierce (1991) identifies a number of preconditions for psychologically experienced ownership, including ownership expectations, perceptions of legitimacy, management philosophy, employee's financial orientation, and types of ownership and context of origin.

Figure 1: A model of employee ownership

[pic]

Source: Pierce et al. (1991, 2001)

ESO creates expectations among employees in terms of their influence over firm decision-making and their legal rights. Improved employee performance is facilitated where ESO is accompanied by information sharing with employees and effective employee participation in firm decision-making (Ben-Ner and Jones 1995, Pendleton, Wilson and Wright 1998). However, failure to meet such expectations can result in reduced employee sense of ownership and thus create reduced work effort and motivation. Similarly, were employees feel their ESO scheme is legitimate, fulfilling what they see as fair in terms of their ownership rights, one can expect a favourable outcome in terms of employees' sense of ownership.

A common aim of ESO is to help align the objectives of employees with those of firm management and allow employees to observe their individual contribution to firm performance through shared information and financial returns (Sesil, Kroumova, Blasi and Kruse 2002, Blasi et al. 2004). However, to fulfil this objective, it is important for managerial philosophy to demonstrate a commitment to employee participation. Management must be proactive in encouraging a sense of ownership among employees through the provision of information and the allocation of decision-making authority (Gianaris 1996, Blasi et al. 2003a, Kaarsemaker and Poutsma 2006). This requires management to identify the long-term gains of employee participation and improved firm industrial relations. However, management resistance to ESO can often stem from an unwillingness to empower employees and the assertion that ESO can overcomplicate firm decision-making.

The prism through which employees view the objectives and aims of ESO (financial orientation) is another significant factor in determining whether or not employees form a sense of ownership for element of the organisation. Where employees view ESO solely as a financial investment, as opposed to a return on individual performance, it can be expected that there will be a limited impact on employee sense of ownership (French 1987). The ability of ESO to provide employees with an effective financial incentive can be limited by their ability to identify an effort-return link, when the value they create individually has to be shared among all shareholders and factors other than their work effort influence share values (Conte and Kruse 1991, Ben-Ner and Jones 1995, Blasi, Conte and Kruse 1996).

The way in which employees view ESO will largely be determined by the context in which it is introduced. Where it is introduced as part of concession bargaining or to provide employees with a form of financial benefit, then the focus of employees and management will be on the financial compensation they receive (Pierce et al. 1991). On the other hand, where the aims of the ESO scheme are founded on a desire to create organisational advantages through employee participation in decision-making, a set of employee expectations based on information sharing and a shared burden can be expected.

Pierce (2001) proposes that the establishment of a sense of psychological ownership among employees can result in a number of behavioural changes. These can be categorised into 3 main areas. Firstly, a sense of ownership gives employees a set of expected rights and responsibilities. As employees develop a feeling of shared burden in the organisation, they can therefore develop a sense of responsibility for the success or failure of the organisation. On the other hand, employees can also be expected to develop a sense of entitlement to information and a say in decision-making, and be expected to become frustrated and uncooperative where these expectations are not meet. Secondly, a sense of ownership can affect the willingness of employees to accept and participate in organisational change. Where change is seen as self-initiated, evolutionary and additive, employees can be expected to support it. However, where change is imposed, revolutionary and subtractive, it can be expected to undermine employee performance. Finally, a sense of ownership can also have a number of psychological effects. ESO is beneficial where it results in employees monitoring their co-workers and applying peer pressure to perform (Blasi et al. 2004). On the other hand, it can also lead to unwillingness to share ownership of a target with others.

The above discussion highlights a need to examine the operational elements of ESO (e.g. voting rights, participation structures, financial returns), and the subsequent impact on employee attitudes. Furthermore, it highlights the importance of examining the context in which ESO develops and the expectation which employees acquire when entering such schemes. Therefore, before outlining our methodology and analysis, we will first outline the context in which ESO developed in Eircom, focusing on its objectives and role in firm governance and strategy.

The reform of Eircom and its ESOP

In evaluating the impact of ESO on labour productivity, it is important to remember 'that employee participation cannot and will not be divorced from other human resource practices and organisational strategies. The implication of this argument is that we need to look at the total set of organisational strategies and assess their effects on performance' (Kochan and Osterman 1994, p. 64). In the case of Eircom it is important to note that the establishment of the Eircom ESOP formed an integral part of the firm's restructuring and privatisation process and followed years of commercialisation. It is therefore important that we take into account the impact privatisation and commercialisation have had on firm strategy when evaluating changes in labour productivity.

In 1984, the control and operation of Ireland's national telecommunications service was transferred from the civil service to a newly established commercial publicly-owned enterprise, Bord Telecom Éireann. Following its incorporation, the firm went through a period of rapid commercialisation during the later half of the 1980s. However, during the 1990s the firm continued to face challenges arising from a rapidly changing external environment, characterised by increased competition, technological advances and wider consumer choice. As a result, the firm sought to become a customer-driven competitor and to further integrate with the global telecommunications market. Various initiatives were introduced to improve firm governance and customer service, and in 1996 the firm was part-privatised when a 20 per cent shareholding was sold as part of a strategic alliance with the Comsource consortium[1]. This helped to prepare the company for full market liberalisation, which occurred in 1998, and provided investment funds to reduce the firm's considerable debts. It also altered the firm's managerial and organisational structure, which was restructured around five market-based business units (Telecom-Éireann 1997a).

At this time, the firm undertook to significantly reduce employee costs and improve labour productivity through the negotiation of a radical restructuring plan, *The Telecom Partnership*. Under this agreement the firm established an internal labour market and a new management-union partnership structure. The agreement also entailed a number of changes to work practices and the introduction of cost-cutting measures aimed at saving €140 million per annum for five years (Telecom-Éireann 1997b). In exchange for accepting the concessions outlined in *The Telecom Partnership*, employees received a 14.9 per cent shareholding through the establishment of an ESOP in 1998.

The initial aims of the Eircom ESOP were to support the transformation of the firm in to a world-class telecommunications firm, provide employees with a strong collective influence on shareholder decisions, and to provide employees with financial compensation for concessions given.[2] The structure of the ESOP centres on a limited liability trust whose board of directors is dominated by trade union nominees. The trust received an initial five per cent ordinary shareholding in exchange for accepting the terms of *The Telecom Partnership*, and purchased a further 9.9 per cent at a discounted price (€241 million).[3]

In 1999 the Irish government took the decision to sell its entire remaining shareholding in Telecom Éireann by way of an initial public offer (IPO). The company was floated on the stock market in July 1999 under the new name Eircom. Less than a year after the IPO, Eircom experienced a significant decline in its share price due to a number of factors including a sharp downturn in the global telecommunications market. Under pressure from shareholders, the firm's mobile phone subsidiary, Eircell, was demerged and sold to Vodafone in May 2001 by means of a share-swap. Following the sale of Eircell, two rival consortia of investors, Valentia[4] and eIsland[5], bid for Eircom's remaining fixed-line business. After an intense bidding war, Eircom was purchased by Valentia as part of a highly leveraged buyout. The support of the ESOP ensured the Valentia consortium succeeded, even though the eIsland cash offer was higher. The ESOP trust felt that the Valentia deal, under which it secured a further 15 per cent shareholding, provided greater benefits and certainty to its participants.

Following the takeover, the Valentia consortium pursued a policy of extracting as much profit as possible from Eircom in as short a time as possible. This was facilitated by significant labour shedding (see table 1) and reductions in capital investment, as well as the restructuring of firm debt. The restructuring of Eircom's debt in 2003, which involved refinancing Eircom's entire debt of just over €2 billion, was immediately followed by the payment of a €446 million special dividend at a time when the company was loss-making.[6] The ESOP Trustee supported the decision to refinance Eircom's debt and received a total of €230 million, accounting for over half its original investment in Valentia and allowing it to make a distribution to participants (Eircom ESOP Trustee, 2003). The Valentia consortium and ESOP Trustee generated further returns on their investment when the decision was made to re-float Eircom on the stock market in 2004.

Since its re-flotation on the stock market in 2004, Eircom has experienced two further changes in ownership. In September 2006, the firm was once more delisted from the stock exchange after it was taken over by the Australian investment firm Babcock & Brown in another highly leveraged buyout. This takeover again substantially increased firm debt and failed to create increased investment in Eircom's infrastructure (Palcic and Reeves 2011). Similar to the Valentia takeover, the success of the Babcock & Brown takeover required the support of the ESOP, whose position was used to increase its shareholding to its current level of 35 per cent. In January 2010, Eircom was purchased by Singapore Technologies Telemedia (STT) for a mere €140 million, due to Eircom's massive debt burden of close to €4 billion. The considerable influence of the ESOP was again evident in STT's successful bid, as the support of the ESOP effectively eliminated all other interested parties from the bidding contest.

It is evident from the events described above that Eircom has gone through a period of enormous change in the past two decades, with the ESOP playing a significant role in the changes that have taken place since privatisation. Recognising the central role played by the ESOP in the strategic direction of Eircom, we move on to examine the impact the ESOP has had on driving labour productivity growth. The following section outlines our methodology before moving on to present the results of our analysis.

Methodology

Our analysis is based on data sourced from Eircom annual reports, reports from the Eircom ESOP

Trustee ltd. and from a survey of Eircom employees. The employee survey was conducted in February 2007, nine years after the establishment of the ESOP, when the company's workforce stood at just over seven thousand. The survey received the support of Eircom's management and trade union coalition. Using a representative sampling frame supplied by firm management, the survey was distributed among a thousand employees using an online survey provider. The final number of usable responses was 711, creating a response rate of just over 70 per cent.

Measures used

Changes in labour productivity: Using firm accounts data, labour productivity is calculated for the eight years before and after the establishment of the ESOP using a labour productivity index that relates changes in the quantity of output to changes in the quantity of labour input. The estimation of labour productivity requires a suitable measure of output which can be difficult to measure for the telecommunications industry. In this analysis output was measured using an index based on deflated revenues, as studies such as Martin and Parker (1997) and Foreman-Peck and Manning (1988) have shown it to be a better proxy for output in the telecommunications industry than indicators based on physical quantities such as number of telephone lines.[7] Labour input was measured as physical man hours per annum.[8]

Changes in the level of employee participation in firm decision-making: As one of the main elements in creating a sense of ownership among employees, it was important to measure how employees perceived changes in their level of influence in decision-making since the ESOP was established. In the survey, employees indicated changes in their level of participation in decisions affecting nine items since the introduction of the ESOP using a seven-point scale from 'much more say' to 'much less say'. Four items related to participation at the operational level and five items related to departmental /strategic-level issues.

Employee financial returns from the ESOP: the level of financial return and its relation to employee performance is also an important element in determining the impact on employee attitudes and behaviour. However, it was not possible to measure the return each individual employee earned from the Eircom ESOP. However, using data sourced from Eircom ESOP Trustee ltd, it was possible to measure the value of benefits accumulated by those employees who are full participants of the ESOP. A full participant refers to an employee who had given one year of continuous service to the firm prior to the establishment of the ESOP in 1998, and is thereby entitled to a full allocation of benefits under any given distribution. As this includes over 90 per cent of survey respondents, this paper uses the benefits accumulated by full participants as a proxy for returns earned by employees.

The analysis that follows is divided into two sections. The first section identifies changes in labour productivity growth during the eight years before and after the establishement of the Eircom ESOP in 1998. This section also briefly discusses the potential causes for these changes in labour productivity growth. The second section focuses on the role of the ESOP in altering labour productivity growth during the period under examination. More specifically, the analysis focuses on the development of employee psychological ownership through the receipt of financial returns and participation in firm decision-making.

Changes in labour productivity

The results from the labour productivity analysis (table 1) show that significant increases in labour productivity occurred in the eight-year period preceding the establishment of the Eircom ESOP (105.7 per cent increase). The substantial growth in real turnover during this period, in particular in the run up to privatisation, would indicate that this can be attributed to significant business growth and the commercialisation measures introduced.

Table 1: Eircom labour productivity (LP) pre- and post-ESOP

Pre-ESOP	Employees	Real Turnover	LP		Post-ESOP	Employees	Real Turnover	LP
1990	14,243	870,259	1.000		1998	11,497	1,549,305	1.000
1991	14,044	966,674	1.130		1999	11,323	1,746,752	1.148
1992	13,676	997,158	1.206		2000	11,689	1,879,780	1.177
1993	13,313	997,605	1.254		2001	11,593	2,192,583	1.340
1994	13,069	1,014,525	1.296		2002	10,338	2,099,262	1.505
1995	12,662	1,106,341	1.431		2003	9,129	2,058,664	1.742
1996	12,372	1,305,541	1.675		2004	8,306	1,895,016	1.836
1997	12,236	1,472,009	1.837		2005	7,595	1,862,375	2.098
1998	12,075	1,720,043	2.057		2006	7,249	1,906,714	2.321
90-98	-15.22%	+97.6%	+105.7%		98-06	-36.95%	+23.1%	+132.1%

Notes: (1) Post-ESOP the analysis only uses employee and revenue figures for the fixed-line business since the mobile division, Eircell, was sold in 2001. (2) Pre-ESOP the analysis is based on average employee and revenue figures for Eircom as a whole, however, given that the mobile division was a relatively minor activity during this period (by March 1998, Eircell employees accounted for just 2.7 per cent of total employment, while Eircell's revenue accounted for less than 1 per cent of total turnover), the pre-ESOP and post-ESOP labour productivity figures are directly comparable. (3) Turnover was deflated using the Irish Communications Price Index sourced from the Central Statistics Office (March 1998=1).

In the eight years after the establishment of the ESOP, labour productivity again increased significantly (by 132.1 per cent). However, much of this increase is arguably due to the significant labour shedding that occurred following the Valentia takeover in 2001, with relatively little growth in output recorded over the period (see columns labelled 'employees' and 'real turnover' in table 1).

It must be noted that the pre- and post-ESOP results presented above span a period where Eircom was going through enormous changes in both its internal and external environment. Externally, the company was operating in an increasingly competitive environment in the run up to, and following the full liberalisation of the telecommunications market in 1998. Eircom also became subject to price cap regulation in 1997. Internally, the commercialisation of the company from 1990 onwards and the various changes in ownership that occurred after 1999 all resulted in considerable internal organisational restructuring. Given the scale of the changes occurring in Eircom's product market and within the company itself, it is highly problematic to identify the exact drivers of productivity change over the period examined. Moreover, labour productivity is only a partial productivity measure that must be interpreted with caution since changes in output can be influenced by many other factors.

Many empirical studies on the drivers of productivity change in the European telecommunications industry have struggled with separating the impact of factors such as changes in competition, ownership and technology on company performance (see, for example, Bortolotti, D'Souza, Fantini and Megginson 2002, Daßler, Parker and Saal 2002). In the case of Eircom, Palcic and Reeves (2010) adopted a model of organisational change to disentangle the impact of privatisation from other factors that influenced the company's labour and total factor productivity from 1985-2001. They found no clear evidence that ownership change had a significant impact on productivity. Rather, improvements in productivity were found to be associated with increased competitive pressures and the impending deregulation of the market as well as considerable changes in the internal organisational structure of the firm.

While recognising these limitations, the results presented in table 1 nevertheless show a substantial increase in labour productivity since the introduction of the Eircom ESOP. It could be argued that the improvement in productivity reflects the continuation of a trend established prior to the ESOP. Furthermore, it could also have resulted from the substantial reductions in employee numbers and changes in work practices that have followed the implementation of *The Telecom Partnership* and the various changes in firm ownership. Although the ESOP played a key role in enabling many of these reforms, it is not possible to discern the proportion of increased labour productivity that is directly a result of decisions taken by the ESOP. Furthermore, it is not possible to discern what proportion can be attributed to the ability of ESO to align the objectives of employees and other shareholders. Therefore, in order to address this later point and gain some insight into the role of the ESOP, it is necessary to examine the impact the ESOP has had on individual employees in terms of both their financial participation and influence in firm decision making.

Role of the ESOP in creating a sense of psychological ownership

The level of impact ESO will have on employee attitudes and behaviour, and by extension productivity, is largely determined by the degree to which employees establish a sense of ownership through equity possession, influence in decision-making, and access to information (Pierce et al. 2001). As described earlier, the Eircom ESOP currently holds a 35 per cent shareholding in the firm and has significant influence over firm strategic decision-making. This section will now discuss the influence the ESOP has had on individual employees and the degree to which it has established a sense of ownership among employees. The discussion will first examine the level of employee financial participation and its ability to provide effective employee incentivisation. Secondly, the level of perceived participation in decision making among employees will be discussed.

To date, the Eircom ESOP has made thirteen separate distributions of financial benefits to its participants (table 2). Those employees who are full participants have received shares and cash benefits to the nominal value of approximately €80,179. Following the demerger and sale of Eircom's mobile operations to Vodafone in 2001, the ESOP held a large number of Vodafone shares. These Vodafone shares have been used to make three separate distributions to ESOP participants. Apart from a brief period between 2004 and 2006, Eircom shares have been delisted from the stock exchange and ESOP participants have been unable to realise the value of Eircom ordinary shares. For this reason, instead of distributing ordinary shares to participants the ESOP has used the proceeds from redeemable preference shares to make eight cash distributions to participants.

Table 2 ESOP distributions made to date

Date	Type of shares	No. of shares*	Cash value (€)
May 2002	Vodafone ordinary shares	7,270	11,904
Dec 2003	Redeemable preference shares	6,872	6,872
April 2004	Redeemable preference	6,872	6,872

	shares		
Dec 2004	Eircom ordinary shares	3,307	5,556†
Mar 2005	Eircom ordinary shares	3,307	6,614†
Dec 2005	Vodafone ordinary shares	2,688	4,781
Nov 2006	Redeemable preference shares	13,701	8,073
June 2007	Redeemable preference shares	13,714	8,080
Nov 2007	Redeemable preference shares	4,619	4,619
June 2008	Redeemable preference shares	13,748	7,022
Nov 2008	Redeemable preference shares	5,065	5,065
June 2009	Redeemable preference shares	3,916	2,000
Nov 2010	Vodafone ordinary shares	1,375	2,721
Total		-	80,179

Source: www.esop.eircom.ie
*figures represent distributions per employee with a full notional allocation
† Value based on share price on day of distribution

Although the ESOP has created substantial financial returns for its participants, it is questionable whether this has established a clear line of sight between employee productivity and the financial returns they receive. There are a number of reasons for this. Firstly, much of the variation in value of the ESOP's portfolio has been created by extenuating factors such as the sale of Eircom's mobile subsidiary and the numerous changes in firm ownership, and cannot be directly attributed to changes in employee productivity. Secondly, there have been only two distributions (December 2004 and March 2005) in which participants have had an opportunity to take a direct ownership stake in Eircom through receiving ordinary shares. Thirdly, under the terms of the ESOP agreement, employees who leave Eircom can continue to remain participants in the ESOP, thereby giving rise to a free-rider problem. Due to the considerable reductions in employment that have occurred since the ESOP was established, at present approximately 50 per cent of ESOP participants are no longer employees of the firm.

Table 3: Changes in employee participation (percentages)

	More say (1-3)	Neither (4)	Less say (5-7)	Chi-square ?^{2}
Operational level				
Manner in which they do their	20	34	46	236.75***
work	15	35	50	262.70***
Hours they work	18	23	59	136.26***
Pay/benefits they receive	12	30	58	241.39***
Level of training they receive	16	31	53	
Mean percentage 4 items				
Departmental/strategic level				
Hiring/dismissal of personnel	8	27	65	265.20***
Promotions/transfers of	8	26	66	252.66***
personnel	19	23	58	143.43***
Firm	18	18	64	152.28***
closures/mergers/takeovers	18	22	60	139.85***

Position/salary of senior Mgt	14	23	63		
Firm budget/finances					
Mean percentage 5 items					

Notes: employees presented with scale 1 (much more say) to 7 (much less say)
* Item scores have been reversed
***Significant at 0.001

Given the important role played by the ESOP in determining changes in firm ownership post-privatisation, one would expect a strong sense of participation in firm decision-making to have emerged among employees. Furthermore, the ESOP trust is also entitled to appoint three representatives to the firm's board of directors. However, results from the employee survey show that employees feel that the ESOP has not been associated with improved participation in decision-making (table 3). In fact, the majority of employees feel their level of participation has decreased since the introduction of the ESOP, at both the operational-level (53 per cent) and departmental/strategic-level (63 per cent).

There are a number of reasons why the ESOP has failed to create a greater sense of participation among employees. Firstly, as neither the members of the ESOP's board of directors nor the ESOP's representatives on Eircom's board of directors are appointed directly by employees, but are appointed by senior trade union officials, employees may feel they have little influence over the decisions the ESOP makes. Secondly, given that approximately 50 per cent of ESOP participants are no longer employed by Eircom, it can be expected that the focus of these participants will be on maximising short-term financial returns, as opposed to securing the long-term participation of employees in firm decision-making. Finally, the original aim of the Eircom ESOP was to facilitate restructuring and privatisation. As a result, many employees, trade unionists and managers may view the ESOP primarily as a financial benefit scheme and not as a means of promoting a culture of direct employee cooperation in decision-making within the firm.

Discussion

This paper set out to examine the important role ESO can play in determining labour productivity. In Ireland, the establishment of substantial ESOPs as part of the country's public sector reform programme has had a significant impact on the welfare of workers. These ESOPs have provided employees with sizeable monetary returns along with considerable corporate power and influence. Using the case of the Eircom ESOP, this paper examines the role these schemes have played in determining changes in labour productivity.

In relation to its financial objectives, findings show that the Eircom ESOP has met with considerable success. To date, it has made substantial distributions totalling approximately €800 million to its members, and has increased its shareholding from 14.9 to 35 per cent since 1998. Furthermore, the ESOP played a major role in determining the outcome of various changes in firm ownership, thereby significantly shaping firm strategy. However the ESOP's focus on maintaining and improving the value of its portfolio during these takeovers has arguably been at the expense of the firm's long-term future. The post-privatisation period has been marked by significant reductions in capital expenditure, which has severely hindered the rollout of high-speed broadband services in Ireland. As a result, Ireland is perennially ranked close to the bottom of every EU and OECD broadband scorecard, and the Irish government has had to directly invest in broadband infrastructure itself (see Palcic and Reeves, 2011). This, coupled with the significant level of debt currently owed by the firm, raises important questions about the role of the ESOP in the governance of the firm. In relation to the objectives pursued by such ESO schemes, it is important to remember that

> "…labour generally sees its goal as getting as big a share as it can for its workers, regardless of the long-term costs that may be imposed on their companies. After all, they reason, management has a short-term perspective as well, and there are no guarantees that labour savings will be used to enhance competitiveness. Indeed, they might just be used to add to shareholder dividends, increase management bonuses, or acquire other companies".
>
> (Rosen, Klein and Young 1985: p.5)

From a policy perspective, the original objective in establishing the Eircom ESOP was both to "to incentivise and motivate employees through giving them a shareholding in their company leading to improved productivity"[9], and to transfer wealth to employees and thereby reduce opposition to privatisation and firm restructuring. Of these two objectives the latter has taken priority. The findings in this paper show that the structure of ESO schemes such as the Eircom ESOP face limitations in promoting a culture of direct employee participation and enhanced employee behaviour. We find that although labour productivity growth was higher in the post-ESOP period, this cannot be attributed the creation of a sense of psychological ownership among employees. Indeed, many employees reported a marked decrease in their level of participation in the firm decision-making, perhaps reflecting disappointed expectations. Instead, the improvement in labour productivity has been created by large reductions in staff and substantial changes to firm work practices.

The primary function of ESOPs established as part of the privatisation process in Ireland appears to be the transfer, over a defined period of time and in a tax efficient manner, a certain proportion of firm wealth to employees. If the objective of policy makers is to transfer wealth and a direct ownership stake in the firm to employees, it is necessary to question if there is a more appropriate mechanism for achieving this (for example, offering individual employees free or discounted shares). As can be seen in the case of Eircom, a large transfer of ownership in a listed firm to an ESOP trust can allow that trust to become a key strategic decision-maker, particularly in relation to changes in firm ownership. Furthermore, instead of using this position to promote the long-term future of the firm and its workforce, the trust can act as a wealth-maximising investor with a focus on increasing the financial gains for its participants beyond what was originally envisaged by policy makers. These are issues that require serious consideration when establishing future ESO schemes as part of the restructuring and privatising of remaining state-owned enterprises.

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[1] The Comsource consortium consisted of the then national telecommunications operator of the Netherlands, PTT Telecom (later KPN NV), and the Swedish national telecommunications operator, Telia AB.

[2] Taken from *ESOP in Brief* , Available: www.esop.eircom.ie/pdf/booklets/esopinbrief.pdf

[3] The ESOP acquired the 9.9 per cent shareholding through a €127 million contribution from Eircom and a €114 million loan, which was secured on the ESOP's shareholding and repaid using revenue from a profit-sharing scheme and dividends.
[4] A consortium of private equity investors including Providence Equity Partners, Soros Private Equity Partners, Goldman Sachs and headed by Irish businessman Anthony O'Reilly.
[5]A consortium headed by Irish businessman Denis O'Brien.
[6] Eircom incurred a net loss of €531 million for the financial year ending in March 2004 as a result of the special dividend paid out (Eircom Annual Report 2004).
[7] Output measures based on deflated revenues are a better proxy for output since revenues reflect other aspects of output such as volume of call traffic, the type of call made and any other value-added services that physical measures of output such as number of telephone lines do not take account of.
[8] The average number of full-time employees per year was obtained from annual reports. The figures for hours worked per week were taken from the Central Statistics Office (CSO). Data was not available for the telecommunications industry itself so figures for industrial hours worked was used as a proxy.
[9] Minister for Public Enterprise, Mary O'Rourke, Dáil Éireann debate on "Employee Shareholding Schemes", 12 May, 1999.

Ownership form

Managerial philosophy

Operationalised (formal) ownership

Psychological ownership

Outcomes:
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jh=¢h:rS>*[pic]CJU[pic]aJh?lŒh:rS6?CJaJh?lŒh:rSCJaJh=¢h:rSCJaJ!jh=¢h:rS0JU[pic]aJ?
Expected rights and responsibilities
? Willingness to accept/participate in organisational change
? Psychological effects

? Ownership expectations
? Perceptions of legitimacy
? Employee's financial orientation
? Type of ownership and context of origin