

The impact of Privatisation and Employee Share-Ownership on Employee Commitment and Citizen Behaviour^[1]

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Abstract

Based on a survey of employees in a large telecommunications company, we examine the means through which privatisation, accompanied by an Employee Share-Ownership Plan (ESOP), impact on employee commitment and organisational citizenship behaviour. Findings show that although the ESOP has in some way moderated outcomes, privatisation has had negative consequences for commitment. Despite this, 50 percent of respondents report an increased level of citizenship behaviour. In determining changes in employee commitment and behaviour, it was found that an important role is played by how employees perceive changes in conditions of employment, involvement in workplace decision-making and management-union collaboration.

Introduction

In the mid-1990s, Ireland's state-owned telecommunications utility, Telecom Éireann, faced a host of challenges as a result of increased product market competition arising from EU directives on liberalisation and rapid technological developments. A strategic business review recommended a number of issues to be addressed in order to meet these challenges. These included reductions in operating costs and the level of debt, improvements in service quality, and international expansion through the formation of strategic alliances (Telecom-Éireann 1995). Among the significant measures adopted following this review was the formation of a strategic alliance with the Scandinavian consortium Comsource[2] in 1996. This paved the way for full privatisation, which was completed in July 1999 when the state's remaining shareholding was sold by way of an initial public offer, with the firm being subsequently renamed Eircom.

In the period before and after full privatisation, Eircom underwent significant internal adjustment, including the appointment of new senior management and the restructuring of the firm around five market-based business units. Unions and management negotiated and implemented a comprehensive reform plan, *The Telecom Partnership*, which introduced a new industrial relations partnership structure, reforms to current work practices, and a labour cost-cutting strategy. Employee and trade union support for these reforms was contingent upon the establishment of an Employee Share Ownership Plan (ESOP). Under the ESOP agreement employees secured 14.9 percent ownership of the firm, which in global terms was the largest ESOP in the context of privatisation to date.

The Eircom ESOP Trust, whose board of directors is made-up of mainly trade union appointees, was established to hold and administer the shares on behalf of employees and appoint representatives to Eircom's board of directors. The Trust's stated aims are to provide employees with financial compensation for supporting the implementation of firm reform and to provide more effective representative participation in firm decision-making. The voting right which accompanies its ordinary shareholding has allowed the ESOP to play a key role in two takeovers of Eircom, which occurred in 2001 and 2006. The support of the ESOP was necessary for the success of each takeover, and the ESOP has used this position to increase its ordinary shareholding to its current level of 35 percent and board-level representation to three directors.

In this paper we measure the impact of privatisation and the accompanying ESOP on employee commitment and citizen behaviour. To elaborate on how strategic changes such as privatisation influence these key indicators of performance, we use a large scale survey of Eircom's employees. Our data is used to examine how changes in employee commitment and

citizen behaviour are determined by perceived changes in conditions of employment, employee participation in firm decision making, and management-union collaboration.

Privatisation, performance and employee share ownership

The privatisation of state owned enterprises is generally expected to create a shift in firm objectives from those determined by political and social criteria to those aimed at shareholder-welfare and profit-maximisation. A number of writers (for example Boycko, et al. 1996; Vickers and Yarrow 1988), have adopted the principal-agent paradigm for the purpose of examining the nature and impact of such changes in firm objectives. Principal-agent theory views organisations as consisting of layers of principals and agents, whose relationship with one another is characterised by bounded rationality and information asymmetry. Such relationships are susceptible to problems of opportunism and moral hazard, as utility maximising agents pursue their own self-interests, and may take advantage of opportunities or circumstances with little regard for the interests of the principal (Williamson, et al. 1975).

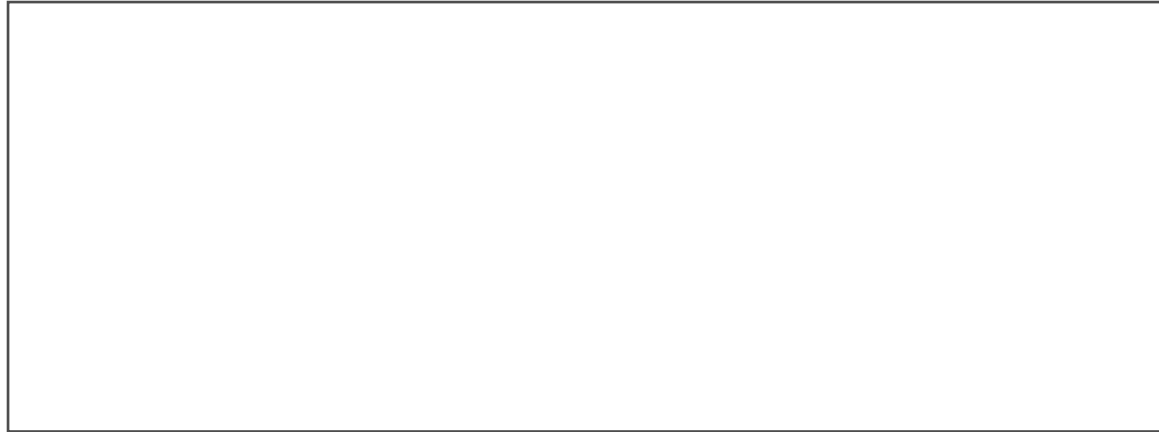
Agency costs arise due to both the inherent costs of delegating authority to an agent and the transaction costs associated with providing effective monitoring and incentive mechanisms. The key question that arises in the context of privatisation is whether the change in ownership, and the changes in the various incentives and monitoring mechanisms that accompany it, succeed in aligning the objectives of management and shareholders or otherwise curtailing opportunistic behaviour (Bos 1986, 1991; Kay and Thompson 1986; Martin and Parker 1997; Vickers and Yarrow 1989). Following privatisation, changes in managerial incentives and monitoring mechanisms can be divided into those that arise internally through shareholder control (e.g. performance related remuneration and share options), and those that arise externally through the market mechanism (e.g. product market competition and the threat of bankruptcy or takeover). To date, much of the existing empirical literature has focused on the impact these changes have on the principal-agent relationship between shareholders and management, and on outcomes such as firm performance. This empirical research has however failed to deliver conclusive findings, with the question of enterprise performance proving an elusive one that depends on a number of critical factors beyond just ownership such as product market competition and internal organisational structure (Dunsire, 1991). In this paper we focus on changes in the internal organisational structure, examining the relationship between changes that occur at the managerial level and those that occur at the operational level (Bishop and Thompson 1992; Kay 1991; Martin and Parker 1997).

While the importance of changes in firm strategy in determining the impact of privatisation on firm performance has been investigated (see for example Martin and Parker 1997; Shleifer 1998) the relationship between privatisation and the firm's work environment and employee attitudes and behaviour has received less attention (Haskel and Sanchis 1995;

Meggison and Netter 2001). Factors such as trust and reciprocity can play a significant role in the principal-agent relationships that exist within the firm. As agents, employees enter a firm with certain needs, and the ability of the firm and its management (the principal) to provide an environment in which they can satisfy these needs determines employee commitment and subsequent behaviour (Mowday, et al. 1982). Employee commitment can be seen as a psychological state that characterises employees' relationship with the organisation (Meyer and Allen 1997). It is dependent on whether employees share common goals with the firm (*organisational integration*), a sense of solidarity with the firm (*organisational involvement*) and loyalty to the firm (*organisational commitment*) (Long 1980). When employees feel that the firm is maintaining or improving their work environment, they perceive a moral obligation to reciprocate through greater levels of commitment and citizenship behaviour (e.g. increased work-effort and improved disposition to colleagues) (Coyle-Shapiro and Kessler 2000; 2002). On the other hand, where employees feel the firm has failed to provide a beneficial work environment in exchange for their work effort, it can be expected that employees will reduce their level of commitment and citizenship behaviour.

Figure 1 outlines the mechanism through which privatisation and employee share-ownership can be expected to impact on employee commitment and citizen behaviour. By focusing firm objectives on profitability and competitiveness, privatisation can have a significant impact on the strategies adopted by management. Changes in firm strategy can take the form of rationalisation aimed at reducing excess labour costs, changes in employee work-patterns aimed at improving labour performance, and changes in governance structures with the aim of improving supervision and organisational flexibility. In effect, this leads to a significant realignment of the employee relationship as features traditionally associated with public sector employment (e.g. job security, promotion based on length of tenure and a stable work environment) no longer prevail in the more commercial environment associated with private ownership. Such changes can be expected to increase employee turnover and have a negative impact on employee commitment and citizen behaviour.

Figure.1 Conceptual framework



An important feature of many divestitures is the allocation of significant shareholdings to employees. In the context of Irish privatisation, representative share-ownership of approximately 14.9 percent has been used to facilitate employee and trade union support for firm rationalisation and reform. Such significant share-ownership, as well as providing employees with a form of financial compensation for the adverse consequences of privatisation, can also be expected to provide employees with an effective financial incentive and a real sense of ownership and control in firm decision-making (Klein 1987). Therefore, where privatisation can be expected to have adverse affects on employee commitment and behaviour by increasing agency costs, share ownership can be expected to counterbalance these increased agency costs by aligning the objectives of employees with other shareholders and providing employees with a financial stake in the firm. This gives rise to the first hypothesis that will be examined in this paper:

Hypothesis 1: Perceptions of commitment and citizenship behaviour will be more positive when linked to the establishment of the ESOP than privatisation

In order to further explore the mechanism through which privatisation and employee share-ownership influence employee commitment and performance, it is necessary to examine their impact on employees' immediate work environment. In this paper, we focus on three aspects of the work environment, including conditions of employment, levels of employee participation in firm decision-making, and the level of management-union collaboration. Each of these aspects is influenced significantly by both privatisation and employee share-ownership, and each can also act as significant antecedents for employee commitment and behaviour.

Employment conditions, commitment and citizenship behaviour

Due to a lack of effective product market competition, high levels of unionisation, and political intervention, public sector enterprises are commonly associated with overstaffing and wage premiums (Boycko, et al. 1996; Florio 2004). In the period surrounding privatisation, firms

often create once-off or static efficiency gains through a reduction in this excess employment and earnings premium (see for example Brown, et al. 2006; Haskel and Szymanski 1991; La porta and Lopez-de-Silanes 1999; Parker and Martin 1996). Public sector firms are also associated with high levels of employment security, rigid wage structures, and the use of formal work procedures and practices. Following privatisation, with the aim of securing long-term efficiency and increased productivity, firms may significantly change employee work-patterns or introduce high performance work mechanisms (Ferner and Colling 1991). Resulting changes, such as increased workload and reduced job security, can have a direct and often negative impact on how employees perceive changes in their conditions of employment, especially where employees have made large non-diversifiable investments in their human capital.

The establishment of an ESOP, by creating employee shareholders, can be expected to align the objectives of employees and management, thereby facilitating greater employee understanding in relation to changes in conditions of employment. Where employees receive shares free of charge or at a discounted price, an ESOP can also be viewed as a form of financial compensation in light of these reforms. Furthermore, the ESOP may allow employees and their representatives to oppose adverse changes in conditions of employment. By providing employees and their representatives with ownership rights, including voting rights and board-level representation, an ESOP may place management under pressure to refrain from the introduction of measures that have a negative impact on employee welfare.

Conditions of employment, especially those that impact on an employee's immediate work environment (e.g. pay and hours worked), can have a significant impact on employee commitment and behaviour. Where employees feel management have allowed conditions to deteriorate as a result of privatisation, they can be expected to reciprocate through reduced commitment and performance (Coyle-Shapiro and Kessler 2000). However, where the ESOP has succeeded in opposing adverse reforms or has provided employees with sufficient financial compensation, reductions in commitment and performance may be significantly reduced. This leads us to our second hypothesis:

Hypothesis 2: Perceived improvements (deterioration) in working conditions will be associated with higher (lower) levels of commitment and citizen behaviour.

Employee participation, commitment and citizenship behaviour

Public sector firms are typically characterised by rigid pyramid-style managerial structures, functional department structures, and a centralised decision-making process. Privatisation often involves a reduction in the number of managerial layers, the decentralisation of decision-making authority, and the establishment of market-based business units (Erakovic and

Wilson 2006; O'Connell Davidson 1993). Such reforms, through the creation of more clearly defined and quantifiable performance targets, provide lower level managers with an incentive to more closely supervise and control employee decisions. This may result in reducing employees' sense of participation in decision-making, particularly at the workplace level. In the context of Irish privatisation, the removal of statutory public sector worker directors[3] can also be a significant factor in reducing employees' sense of participation post-privatisation. Privatisation also affects the ability of trade unions to provide an effective voice of employee opinion. Management can be expected to adopt a harder line with trade unions as they seek to implement firm restructuring during the privatisation process. The need to improve firm performance and protect market share also provides management with more effective bargaining tools, while reduced political involvement undermines the ability of unions to use their status as a political interest group to oppose reform (see for example Arrowsmith 2003; Ferner 1998; O'Connell Davidson 1993; Pendleton 1994, 1999).

Share-ownership, on the other hand, can be seen as a means of creating greater employee participation in firm decision-making. Much of the existing literature on employee share-ownership focuses on the instrumental satisfaction model, which emphasises the importance of share-ownership being accompanied by employees experiencing a genuine sense of ownership and control (see for example Ben-Ner and Jones 1995; Klein 1987; Pendleton, et al. 1998). Where an ESOP is representative in nature, increased levels of employee participation can be achieved through the use of employee ownership rights (i.e. right to vote and appoint directors), or by providing trade unions with a new role within the firm as the representatives of not only employees but shareholders. As a result, the establishment of an ESOP can be expected to counterbalance the loss of union bargaining strength associated with privatisation, and to provide employees with a greater sense of participation in firm decision-making, particularly at the firm-level.

Similar to changes in conditions of employment, perceived changes in employee participation in firm decision-making can be expected to have a positive relationship with employee commitment and citizenship behaviour. Furthermore, privatisation and employee-share ownership can be expected to have opposing influences on employees' sense of participation. This leads to hypothesis 3:

Hypothesis 3: Perceptions of increased (decreased) levels of employee participation will be associated with higher (lower) levels of commitment and citizenship behaviour.

Management-union collaboration, commitment and citizenship behaviour

The rigid governance structures that exist in many public sector firms can also be reflected in the firm's industrial relations structures, which are often characterised by centralised bargaining

and elaborate procedures (Pendleton 1997). As management seeks to introduce reforms and overcome union opposition, privatisation can be expected to result in the decentralisation of bargaining structures and the imposition of more flexible procedures. Yet in many cases of privatisation the research shows that contrary to expectations existing bargaining structures are often maintained following privatisation (see for example Arrowsmith 2003; Ferner 1998; O'Connell Davidson 1993; Pendleton 1999). This indicates that both trade unions and management adopt a more pragmatic approach. Management identify trade union cooperation as a means of securing employee acceptance for reform, and thus avoiding industrial conflict. Unions recognise the need to engage effectively with management in order to influence the outcome of reforms and minimise the adverse consequences for their members. A representative ESOP involves the exchange of financial information and the establishment of formal collaborative structures between management and the ESOP Trust, which is dominated by union appointees. Along with establishing such collaborative structures, by providing employees with a financial stake in the firm, ESOPs can also create a common ground upon which management and unions can engage with one another.

As effective management-union collaboration is an important mechanism for determining employee welfare and it can be expected that perceptions of management-union collaboration will be positively associated with commitment and citizenship behaviour (Gordon and Ladd 1990). This leads us to hypothesis 4.

Hypothesis 4: Perceptions of increased (decreased) management-union collaboration will be associated with higher (lower) levels of commitment and citizenship behaviour.

Methodology

In order to test these hypotheses, a survey was distributed among a representative sample of employees at Eircom. The survey, covering employee perceptions of the impact privatisation and the ESOP has on their work environment and performance, was distributed with the support of both firm management and trade unions. A stratified sampling approach was adopted, dividing employees by geographical region and business area. The survey was run in February of 2007, over seven years after full privatisation, and received a final response rate of close to 70 percent (n = 711). Specifically, the survey sought data in relation to the following variables.

Data

Independent/antecedent variables

As privatisation and the introduction of the ESOP occurred simultaneously, it was not possible to establish separate measures regarding their impact on each of the independent variables (see appendix 1 for a description of the independent variables). The data gathered in relation to the independent variables covered the following:

Perceived changes in conditions of employment (Cond): employees were presented with a list of nine conditions of employment. These included items relating to job security, working hours, remuneration, training, and work-patterns. Respondents indicated the degree of change since privatisation and the introduction of the ESOP on a seven-point scale from ‘increased significantly’ to ‘decreased significantly’.

Perceived changes in employee participation in firm decision-making: employees’ perceptions regarding changes in their influence over operational and departmental/strategic-level decision-making were both assessed. Respondents indicated their level of participation in decisions affecting nine items on a seven-point scale from ‘much more say’ to ‘much less say’. Four items related to participation at the operational level (OpPart), while five items related to departmental and strategic-level issues (StratPart).

Perceived changes in management-union collaboration (Collab): employees reported their level of agreement with eight statements relating to changes in management-union relations. Employees were presented with a seven-point scale from ‘strongly agree’ to ‘strongly disagree’.

Dependent variables

Changes in employee commitment since privatisation (PsnCom) and the introduction of the ESOP (ESOPCom): employees were presented with six statements referring to their attachment to, identification with, and involvement in the organisation. Of the six statements, three referred to changes since privatisation and three referred to changes since the introduction of the ESOP (see table 1).

Changes in employee organisational citizen behaviour since privatisation (PsnOCB) and the introduction of the ESOP (ESOPOCB): employees were presented with six statements referring to their willingness to help co-workers, work beyond assigned duties, and remain a member of the firm. Again, the six statements were divided into changes since privatisation and the establishment of the ESOP (see table 3). Each of the above measures was based on a seven-point scale from ‘strongly agree’ to ‘strongly disagree’.

The data was analysed using OLS regression and Appendix 2 shows descriptive statistics,

reliability measures, and a correlation matrix for each variable. The reliability of each measure was assessed using Cronbach's Alpha (?), with all measures having values above the recommended level of 0.7. The correlation matrix shows a significant level of correlation between the independent variables operational and strategic-level employee participation ($r = .60$). As a result, separate regression analyses were conducted using operational and strategic-level participation as predictor variables.

As prior research has demonstrated that attitudes and behaviour at work can be influenced by demographic characteristics, a number of control variables were included in the analysis to reduce the possibility of finding spurious relationships. Control variables were formed based on the business area in which employees work[4] (Retail and Other), employee gender (Gender), ESOP membership (ESOP), and the number of years employees have worked for Eircom (Tenure). It should be noted that only a limited number of respondents were not members of the ESOP, and as such results regarding this variable should be treated with caution[5].

Findings

Organisation commitment

Trends in employee commitment since privatisation and the establishment of the ESOP are reported in table 1. It appears that broadly similar questions elicit different responses depending on whether the context is privatisation or the ESOP. The findings in relation to privatisation are strikingly negative with a mean total (3 items combined) of 17 percent of respondents agreeing that commitment has increased since privatisation, while 66 percent disagree with this proposition. On the other hand, the ESOP has had a more positive, although not particularly strong impact on employee attitudes. On average (3 items combined) 42 percent of respondents indicated that commitment increased since the establishment of the ESOP, while 38 percent disagreed. In the context of general propositions in relation to ESOPs, it is somewhat surprising that, aside from the measure of loyalty, less than half of the sample reported positive changes in commitment. Although the ESOP does appear to have had a positive effect in terms of moderating the negative impact of privatisation on employee commitment, this moderating effect has been limited. These initial findings provide support for hypothesis 1, under which perceptions of commitment were expected to be more positive when linked to the establishment of the ESOP, as opposed to privatisation. This may be due to the ESOP being associated with greater improvements in employee welfare (e.g. financial returns, improved union and employee participation, and greater alignment of employee and shareholder interests) than privatisation, which is associated with reductions in employee welfare (e.g. reduced job security and pay, and increased supervision and workload).

Table 1: Changes in employee commitment

Items	Agree (1-3) %	Neither (4) %	Disagree (5-7) %
Since privatisation, employees feel...			
...there is a reduced gap between their welfare and that of Eircom*	10	16	74
...that they have become more important members of this firm	14	18	68
...less inclined to leave Eircom if offered a similar job elsewhere*	26	17	57
Mean 3 items	17	17	66
	44	17	39
Since the ESOP, employees feel...	27	19	54
...their welfare and that of Eircom are more closely linked	54	23	23
...they are more important members of Eircom	42	20	38
...greater loyalty/commitment to Eircom			
Mean 3 items			

Notes: employees presented with scale 1 (strongly agree) to 7 (strongly disagree)

* Item scores have been reversed

Next we examine the mediating factors through which privatisation and employee share-ownership influence changes in employee commitment. Table 2 presents the results of multivariate regressions used to examine the relationship between changes in employee commitment and perceived changes in working conditions, union management collaboration, and operational and strategic participation since privatisation and the introduction of the ESOP[6]. As the independent variables operational participation and strategic participation are highly correlated, regressions A and C include operational participation as an independent variable, while regressions B and D include strategic participation as an independent variable. Standardised regression coefficients (β) between the variables and the relevant t-statistics are reported. The R² was significant in each regression (p < .001).

Focusing first on changes in the context of privatisation, regressions A and B identify a significant positive relationship between commitment and changes in working conditions (S² = .248 & .327) and operational participation (S² = .232). Although relatively weaker, there is also a statistically significant relationship between commitment and union management collaboration (S² = .094 & .122). In regression B, strategic participation (S² = .090) is significant, but is much less significant than operational participation. In both regression models, a change in working conditions has the strongest impact on commitment. Overall the results indicate that employees who perceive an improvement in their immediate work environment, namely their conditions of employment and their level of say in workplace decisions, are more likely to report a greater level of commitment to the firm. Departmental/strategic level participation and management-union collaboration has a less significant impact on commitment. This may be due to the lack of a direct relationship with employees' immediate work environment.

Table 2 Determinants of changes in employee commitment [Standardised Beta coefficients (t-stat)]

	Commitment since Privatisation		Commitment since ESOP	
	Regression A	Regression B	Regression C	Regression D
Gender	-.022 (-0.566)	-.018 (-0.434)	.025 (0.692)	.032 (0.851)
Tenure	.055 (1.066)	.042 (0.798)	.115 (2.455)*	.092 (1.856)
Retail	-.069 (-1.700)	-.074 (-1.813)	-.063 (-1.728)	-.072 (-1.879)
Other	-.010 (-0.266)	-.009 (-0.240)	-.013 (-0.385)	-.011 (-0.304)
ESOP	-.011 (-0.227)	-.012 (-0.242)	.165 (3.790)***	.160 (3.453)**
Collab	.094 (2.049)*	.122 (2.609)**	.183 (4.395)***	.224 (5.154)***
Cond	.248 (5.843)***	.327 (8.126)***	.158 (4.119)***	.275 (7.325)***
OpPart	.232 (5.557)***	-	.366 (9.686)***	-
StratPart	-	.090 (2.335)*	-	.167 (4.651)***
R ²	.20	.17	.35	.27
F (df)	19.750 (8,639)***	15.993 (8,640)***	42.350 (8,639)***	30.311 (8,639)***

Dependent variables: changes in employee commitment since privatisation (PSNCom) and the introduction of the ESOP (ESOPCom), both ranging from 1 (strongly agree) to 7 (strongly disagree).

Note: *Significant at 0.05, **Significant at 0.01, ***Significant at 0.001

Changes in employee commitment since the introduction of the ESOP are examined in regressions C and D. Again changes in conditions of employment ($S^2 = .158$ & $.275$) and employee involvement in workplace decision-making ($S^2 = .366$) are statistically significant. However, this time the regressions also show that changes in the level of management-union collaboration ($S^2 = .183$ & $.224$) and employee participation in strategic-level decision-making ($S^2 = .167$) have an equally significant impact. This may be due to the representative nature of the ESOP which has prompted more formal cooperation between management and trade unions and greater union involvement in firm-level decision-making. As may be expected, it can also be seen that ESOP members are more inclined to report increased levels of commitment than those who do not participate ($S^2 = .165$ & $.160$).

Overall, it can be seen that perceived changes in conditions of employment and employee operational participation have the most significant impact on changes in employee commitment since both privatisation and the introduction of the ESOP. Respondents who perceive an improvement in conditions of employment and workplace involvement may perceive a moral obligation to reciprocate through great loyalty and commitment to the organisation. On the other hand, perceived deterioration in either of these variables can create significant reductions in employee commitment. In the context of privatisation, changes in management-union relations and employee participation at the strategic level appear to have a significant (at 5% level) but relatively weak impact on changes in employee commitment, with both measures recording higher and more significant beta coefficients when considered in light of the ESOP.

These results tend to confirm hypotheses 2 and 3, which state that a perceived increase (decrease) in working conditions or employee participation will be associated with increased (decreased) levels of commitment. Hypothesis 3 that perceived improvements (deterioration) in

levels of management-union collaboration will be associated with higher (lower) levels of commitment is also supported, particularly when associated with the introduction of the ESOP.

Organisation citizen behaviour

Organisational Citizen Behaviour (OCB) refers to an employee's willingness to put a great deal of effort into their work, perform duties outside those assigned to them, and use their skills and knowledge to help their co-workers (Meyer and Allen 1997). Table 3 reports employee responses regarding changes in OCB since privatisation and the introduction of the ESOP. Overall, a larger proportion of respondents report an increase rather than a decrease in OCB since privatisation and the introduction of the ESOP. On average, 50 percent of respondents agree that OCB has increased since privatisation, while 24 percent disagree. Similarly, 51 percent of respondents report an increase in OCB since the introduction of the ESOP, compared to 26 percent disagreeing. However, there are noteworthy differences on two of the items. A larger proportion of employees report an increased willingness to work beyond their assigned duties since the introduction of the ESOP (64 percent). This may reflect the ability of employee share-ownership to create a team culture in the workplace, encouraging employees to perform duties beyond contract. Alternatively over 63 percent of employees indicated that they felt more productive in their work since privatisation, compared to 44 per cent in the context of the ESOP. One possible explanation for this result is that employees may associate changes in their productivity levels with changes in their work patterns (e.g. workload, teamwork and supervision), which are measures introduced in preparing the firm for privatisation.

Table 3 Changes in employee citizen behaviour

	Agree (1-3) %	Neither (4) %	Disagree (5-7) %
Items			
Since privatisation, employees...			
...are willing to put more effort into their work	44	29	28
...are more willing to go beyond their assigned duties	43	30	27
... feel more productive in their work than they used to be*	64	20	16
Mean percentage 3 items	50	26	24
Since the ESOP, employees...			
...are more willing to put greater effort into their work	45	24	31
...are more willing to go beyond their assigned duties*	64	16	20
...feel more productive in their work than they used to be	44	29	28
Mean percentage 3 items	51	23	26

Notes: employees presented with scale 1 (strongly agree) to 7 (strongly disagree)

* Item scores have been reversed

Compared to our findings in relation to employee commitment, our results fail to indicate a clear difference between how employees perceive changes in their OCB following privatisation as opposed to the introduction of the ESOP. The results therefore fail to support hypothesis 1, under which it was expected that the ESOP would be associated with a larger increase in OCB than privatisation. Although on average both privatisation and employee share-ownership are associated with an increase in OCB, the data indicates these increases can be attributed to different factors. Privatisation creates an increase in OCB through changes in employee work patterns, along with an increase in individual employee workload arising from a reduction in employee numbers. However, this increase has not been accompanied by a greater level of employee commitment, which may have been expected if management had adopted a more human resource management (HRM) approach. On the other hand, employee share-ownership has been more successful in improving both employee commitment and OCB, which is reflected in an increased willingness for employees to work beyond their assigned duties.

Multivariate analysis is again used to examine the relationship between changes in management-union collaboration, working conditions, operational participation and strategic participation and changes in OCB[7]. Table 4 shows the results of the hierarchical regression analysis. Due to their high level of correlation, separate analyses were again conducted using operational participation and strategic participation as independent variables.

Table 4 Determinants of changes in employee OCB [Standardised Beta coefficients (t-stat)]

	OCB since privatisation		OCB since ESOP	
	Regression A	Regression B	Regression C	Regression D
Gender	.027 (0.723)	.031 (0.826)	.040 (1.141)	.045 (1.274)
Tenure	-.071 (-1.442)	-.073 (-1.466)	.021 (0.457)	.016 (0.348)
Retail	-.026 (-0.689)	-.030 (-0.791)	.008 (0.233)	.002 (0.063)
Other	-.016 (-0.460)	-.018 (-0.500)	.014 (0.438)	.012 (0.373)
ESOP	.036 (0.781)	.044 (0.959)	.204 (4.828)***	.215 (4.916)***
Collab	.223 (5.121)***	.243 (5.575)***	.259 (6.421)***	.288 (7.003)***
Cond	.268 (6.689)***	.334 (8.876)***	.199 (5.338)***	.291 (8.187)***
OpPart	.146 (3.708)***	-	.213 (5.799)***	-
StratPar	-	-.003 (-0.094)	-	.010 (0.284)
t				
R ²	.287	.271	.384	.352
F (df)	32.077 (8,639)***	29.767 (8,640)***	49.842 (8,639)***	43.372 (8,639)***

Dependent variables: Changes in employee citizen behaviour since privatisation (PSNOCB) and the introduction of the ESOP (ESOPOCB), both ranging from 1 (strongly agree) to 7 (strongly disagree).

Note: *Significant at 0.05, **Significant at 0.01, ***Significant at 0.001

Regressions A and B examine the determinants of changes in OCB in the context of the privatisation of Eircom. A significant positive relationship was found between OCB and both conditions of employment ($S^2 = .268$ & $.334$) and management-union collaboration ($S^2 = .223$ &

.243). Thus employees who perceive an improvement in management-union relations or conditions of employment are more likely to perceive an increase in employee OCB. There is also a positive and significant relationship between OCB and participation at the operational level in regression A ($S^2 = .146$). On the other hand, there is no statistically significant relationship between OCB and participation at the strategic level (regression B). These findings are consistent with those found in the case of employee commitment. However, a notable difference is that the level of collaboration between management and trade unions has a strong and significant association with an increase in OCB, even in the context of privatisation.

Regressions C and D examines the determinants of change in OCB since the introduction of the ESOP. The results again demonstrates significant and positive coefficients for management-union collaboration ($S^2 = .259$ & $.288$), working conditions ($S^2 = .199$ & $.291$) and operational participation ($S^2 = .213$). Therefore, similar to changes in OCB since privatisation, an improvement in management-union collaboration, conditions of employment or employee involvement in workplace decision-making are associated with increased levels of OCB since the introduction of the ESOP. Furthermore, regression B shows that there is again no statistically significant relationship between OCB and participation at the strategic level. It is therefore interesting to note that while changes in participation at the strategic level helps determine changes in employee commitment since the introduction of the ESOP, it has no significant impact on changes in employee OCB. Employee membership of the ESOP has no significant impact on changes in employee OCB since privatisation but it has a statistically significant and positive relationship with changes in OCB since the introduction of the ESOP ($S^2 = .204$).

These results provide support for hypotheses 2 and 3 that changes in working conditions and operational participation are positively associated with OCB. The significant and positive relationship between perceptions of management-union collaboration and OCB both in the context of privatization and the ESOP confirms hypothesis 4.

Conclusions

Extant privatisation literature has largely focused on examining changes in firm objectives and strategy, but has paid significantly less attention to changes that occur below the managerial-level. The purpose of this paper is to address this issue by exploring changes that occur at the operational-level. More specifically, it examines the mechanism through which privatisation and an ESOP affect employee commitment and citizenship behaviour. The changes associated with privatisation and employee share-ownership were expected to have opposing outcomes for employee attitudes and behaviour. Privatisation was predicted to increase agency costs and result in lower employee commitment and citizenship behaviour. Alternatively, the ESOP was expected to reduce agency costs and have a positive impact on employee commitment

and citizenship behaviour.

Four hypotheses were tested. The first predicted that employee's perceptions of commitment and citizenship behaviour would be more positive when linked to the establishment of the ESOP rather than privatisation. This was partially confirmed. Although there was not a marked increase in overall employee commitment, a larger proportion of employees reported increased levels of organisational integration, involvement, and commitment in the context of the ESOP rather than privatisation. In this regard it is worth noting that despite a 40 percent reduction in total employment in the six years after privatisation, this has not been accompanied by a marked increase in labour turnover. Our survey results indicate that average tenure of employment remains high at 26.4 years and 85.6 percent of respondents have remained with the firm since privatisation.

Results indicated a more significant increase in employee citizenship behaviour. However, when respondents were asked to distinguish between the impact of privatisation and the ESOP there was little difference in employee perceptions of change in citizenship behaviour. Three further hypotheses were tested to examine the role played by changes in employees' work environment as antecedents for commitment and citizenship behaviour. Perceived changes in working conditions, employee participation, and management-union collaboration were predicted to be positively associated with commitment and citizen behaviour. Results provided support for each of the hypotheses. In the case of Eircom, a perceived deterioration in working conditions has resulted in lower levels of commitment and citizenship behaviour, while an increased level of management-union collaboration has resulted in higher levels of commitment and citizenship behaviour. Findings also indicate that while employee participation at the operational level plays a significant role in determining commitment and citizenship behaviour, participation at the departmental or strategic level has a relatively limited impact. Although findings indicate that the ESOP had a positive effect in terms of moderating the largely negative impact of privatisation on employee commitment, this moderating effect was not strong. While a larger proportion of respondents reported an improvement in their level of commitment since the introduction of the ESOP compared to privatisation, the impact of share-ownership on overall employee commitment is limited.

These findings are broadly consistent with the available evidence concerning firm performance. For example, our findings of increased citizen behaviour following privatisation are consistent with Palcic (2008) who concludes that labour productivity grew by an impressive annual average of 7.8 percent between 2002 and 2005. Our findings however suggest that these improvements cannot be explained by increased levels of organisational commitment. Instead, improved productivity is attributable to reductions in the size of the labour force, increased workloads and more flexible work practices.

Overall, our findings lead us to the unexpected conclusion that the largest known ESOP in the context of privatisation worldwide has failed to significantly impact on employee attitudes and behaviour. The Eircom ESOP has provided a basis for workers to accrue financial returns in exchange for acceptance of changes to the employee relationship in the context of privatisation. However, it has failed to create a greater sense of ownership or control among employees. These findings are consistent with the findings from other studies on employee share-ownership (see for example Freeman, et al. 2004; Gittell, et al. 2004; Kruse, et al. 2004; Pendleton, et al. 1998). Although speculative we suggest two possible explanations for these findings. First, there is little evidence that the Eircom ESOP was introduced as a measure for promoting a culture of direct employee participation. In fact, the terms of the ESOP and its representative nature give employees little direct influence over decisions taken by the ESOP Trust on their behalf. Second, the Trust has played a controversial role in determining the outcome of two post-privatisation takeovers of Eircom which have led to a considerable deterioration in the financial structure of the company. In particular, the ESOT's support for the Valentia consortium's bid for the company in 2001, resulted in a highly-leveraged takeover of the company and a resultant exercise in value-extraction with investors accruing more than €0.5 billion in dividends. The company's level of debt increased from less than €0.5 billion before privatisation to €2.5 billion following this takeover. As a consequence the post-privatisation performance of the privatised utility has been characterised by significant underinvestment in Ireland's telecommunications infrastructure. Mounting debt levels have led to a massive fall in the value of the firm. In June 2009 the firm was the subject of intense takeover speculation with bids of approximately €100 million submitted. This compares with a market capitalisation of over €8 billion at the time of privatisation in 1999. One commentator has argued that the Trust's focus on maximising financial returns has been counter to the objectives of the trade-union movement and the longer term interests of its own members (Sweeney 2004). Such views are consistent with the findings of our study and offer a plausible explanation for the relatively weak impact of the ESOP on organisational commitment following privatisation.

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Appendix 1: Description of independent variables

Perceived changes in conditions of employment

Items	Incr. (1-3) %	Unch. (4) %	Decr. (5-7) %	Mean	S.D.
Security of employment	14.2	30.0	55.8	4.86	1.55
Hours worked per week	32.4	46.8	20.8	3.77	1.40
Availability of overtime	16.4	19.3	64.3	5.20	1.80
Flexibility in hours worked	28.4	37.0	34.7	4.22	1.63
Basic pay	12.2	27.4	60.5	5.19	1.60
Incentives/benefits received (excluding ESOP benefits)	15.5	21.0	63.5	5.18	1.63
Workload	78.6	13.4	8.0	2.46	1.45
Mobility between tasks	46.9	24.6	28.6	3.73	1.83
Level of teamwork	39.8	32.0	28.2	3.91	1.65
Level of training	13.6	26.2	60.2	5.12	1.56

Notes: employees presented with scale 1 (increased significantly) to 7 (decreased significantly)

Perceived changes in employee participation

Items	Incr. (1-3) %	Unch. (4) %	Decr. (5-7) %	Mean	S.D.
Manner in which assigned tasks are completed	20.0	33.9	46.1	4.63	1.60
Hours worked	15.4	34.5	50.4	4.76	1.47
Level of pay/benefits	17.7	23.0	59.3	5.00	1.67
Level of training	11.5	29.7	57.9	5.04	1.47
Hiring/dismissal of personnel	8.4	27.0	64.6	5.33	1.51
Promotion/transfer of personnel	7.9	26.4	65.7	5.38	1.47
Firm closures/acquisitions/mergers/takeovers	18.9	23.1	58.0	5.01	1.83
Position/salary of senior management	17.7	18.0	64.3	5.23	1.94
Firm budget/finances	17.7	22.3	60.0	5.13	1.81

Notes: employees presented with scale 1 (much more say) to 7 (much less say)

Perceived changes management-union collaboration

Items	Agree (1-3) %	Neith. (4) %	Disa. (5-7) %	Mean	S.D.
Since the establishment of the ESOP unions have been more willing to cooperate with management in solving the problems facing Eircom	87.6	6.3	6.0	2.10	1.32
Since privatisation unions have been less willing to cooperate with management in solving the problems facing Eircom	10.8	9.7	79.5	4.64	1.58

have seen cooperation with trade unions as vital in creating change within Eircom	73.4	10.0	16.7	2.75	1.74
Since privatisation management have put greater emphasis on cooperation with trade unions	46.2	20.2	33.6	3.76	1.80
Since the establishment of the ESOP union-management relations have improved significantly	66.9	16.6	16.5	3.02	1.62
Since privatisation union-management relations have deteriorated significantly	16.0	18.2	65.8	5.16	1.67

Notes: employees presented with scale 1 (strongly agree) to 7 (strongly disagree)

Appendix 2 Descriptive statistics and correlation between variables

Variables	M*	SD	1	2	3	4	5	6	7	8	9	10	11	12	1
Gender	-	-	-												
2 Tenure	26.4	10.2	-.36												
3 Retail	-	-	-.26	-.38											
4 Other	-	-	-.14	-.04	-.19										
5 ESOP	-	-	-.11	-.63	.28										
6 Collab	3.3	1.7	.86	-.12	-.52	.27	.09	.51							
7 OpPart	5.1	1.5	.89	.04	-.18	.08	.01	.22	.33						
8 StratPart	5.7	1.6	.88	.01	-.07	.05	-.03	.18	.17	.60					
9 Cond	4.6	1.1	.80	-.08	-.18	.12	-.01	.21	.37	.51	.31				
10 ESOP.Com	4.3	1.6	.71	.01	-.15	.04	.01	.28	.36	.51	.31	.42			
11 ESOP.OCB	3.8	1.6	.76	-.05	-.31	.16	.04	.41	.49	.44	.19	.44	.64		
12 PSN.Com	5.3	1.3	.70	-.03	-.06	-.01	.01	.09	.21	.37	.20	.38	.49	.36	
13 PSN.OCB	3.7	1.6	.78	-.06	.26	.11	.01	.27	.41	.37	.15	.44	.43	.67	.43

Note: N = 711, If r > .08, p < .05; r > .12, p < .01; r > .14, p < .001, *mean values, with the exception of tenure, are based on each measures original seven-point scale

[1] This research has been part-funded by the Irish Research Council for the Humanities and Social Sciences (IRCHSS).

[2] Comsource was a consortium of the privatised Dutch telecom KPN and the Swedish state-owned telecom Telia. It invested €232 million in Telecom Éireann, in exchange for a 20 percent shareholding and an option to increase

the stake by a further 15 percent

[3] Under the 1977 Worker Participation (State Enterprises) Act (reviewed in 1988), employees have the right to elect a third of all directors of state owned enterprises

[4] Eircom’s core business areas are Retail, Wholesale/Network, and Others. As Wholesale/Network accounts for the majority of respondents, it was used as the baseline in forming the dummy variables

[5] Of the 711 valid responses received, 44 were from employees who are not members of the ESOP.

[6] PSNCom = ? + ?1(Controls) + ?2(Collab) + ?3(Cond) + ?4(OpPart) + ?5(StratPart) + ? ESOPCom = ? + ?1(Controls) + ?2(Collab) + ?3(Cond) + ?4(OpPart) + ?5(StratPart) + ?

[7] PSNOCB = ? + ?1(Controls) + ?2(Collab) + ?3(Cond) + ?4(OpPart) + ?5(StratPart) + ?6(PSN.Com) + ?

ESOPOCB = ? + ?1(Controls) + ?2(Collab) + ?3(Cond) + ?4(OpPart) + ?5(StratPart) + ?6(PSN.ESOP) + ?