

# Changing the Rules of the Game: The Impact of Privatization on Firm Industrial Relations

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*This paper examines the impact of privatization on the relative bargaining strength of management and trade unions. Findings are based on a study of Ireland's largest telecoms provider, Eircom, which has been privatized since 1999. This privatization adopted a stakeholder approach, under which employee share-ownership and management-union partnership played an important role in firm restructuring. Findings show that despite this approach privatization has resulted in a significant decrease in the perceived bargaining strength of unions and an increase in the perceived bargaining strength of management.*

JEL Codes: J51, J58 and L33

## 1. Introduction

This paper examines the impact of privatization on the industrial relations environment of state-owned enterprises (SOEs), focusing on the relative bargaining strength of management and trade unions. To date, much of the empirical research in this area is based on individual cases in the UK (see for example Arrowsmith, 2003; Ferner, 1998; O'Connell Davidson, 1993; Pendleton, 1994, 1999). In general, findings show that privatization places management in a relatively strong bargaining position and can force trade unions to accept concessions such as reduced employee numbers. However, many of these changes were initiated while the firm was still under state ownership, reflecting a change in government policy in favour of commercializing SOEs. Market liberalization and increased competition are also important factors in determining the bargaining position of management and unions.

In the context of Irish privatization, employment relations are also influenced by the introduction of substantial Employee Share-Ownership Plans (ESOP) as part of the transfer to private ownership. In most cases the privatization of Irish SOEs has included a 14.9 per cent shareholding and representation on the firm's board of directors for employees. It can be argued that the establishment of these ESOPs reflects a stakeholder approach to privatization in Ireland. Furthermore the existence of a substantial employee shareholding can be expected to improve the relative bargaining strength of trade unions, thereby at least partly offsetting the adverse impact of privatization.

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To date, the most significant privatization to occur in Ireland has been that of the national telecommunications operator Eircom. Using data from a survey of employees this paper explores the restructuring and privatization of Eircom and the outcome for the industrial relations environment of the firm.

## **2. Background: Eircom's Industrial Relations Environment**

Prior to its privatization in 1999, relations between management and trade unions in Eircom were stable (Hastings, 2003b). However, industrial relations were relatively bureaucratic and involved a great deal of procedural formality. The firm's only major industrial dispute occurred in 1978 and was settled in favour of the firm's trade unions. This resulted in 'a shift in the balance of power in favour of the unions and left those in government unwilling to countenance a similar strike occurring again' (Hastings, 2003b, p.168). In the mid-1990s the Irish government adopted a number of measures aimed at commercializing Eircom. The firm made changes to senior management and was subsequently restructured around five market-based business units (Telecom-Éireann, 1997a). In 1996 Eircom entered into a strategic alliance when the government partly privatized the firm by selling a 20 per cent shareholding to the consortium Comsource<sup>1</sup>.

These changes in both government policy and managerial strategy placed pressure on management to take a harder line with the firm's trade unions. Management also sought to avoid industrial unrest through engaging with unions on the issue of reform. Eircom's trade unions saw privatization and firm restructuring as inevitable, and therefore recognized the need to engage with management in order to protecting the interests of their members (Hastings, 2003b). This collaborative approach resulted in the implementation of a substantial restructuring plan *The Telecom Partnership* in 1997. This entailed supplementing the existing collective bargaining structures with partnership structures at the national, business unit, and local levels. The partnership also created significant changes in work practices and introduced cost-cutting measures (Telecom-Éireann, 1997b). In exchange employees received a shareholding in the firm through the establishment of the Eircom ESOP, under which employees received a 14.9 per cent shareholding and the right to appoint two representatives to the firm's board of directors.

In 1999 the government floated its remaining shareholding in Eircom. Since the completion of its privatization Eircom has undergone a number of changes in ownership, including takeovers in 2001, 2006 and 2010. These changes in firm ownership have been accompanied by changes in management and the introduction of further measures aimed at reducing the firm's cost-base. This has had an adverse impact on the level of management-union collaboration and as a result significant weaknesses have arisen in the firm's partnership structures (Sheehan, 2007). Given its significant shareholding the ESOP has had a strong say in the outcome of each takeover. It has used this position to increase its shareholding to 35 per cent and board-level representation to three directors.

It may be expected that the establishment of such a substantial employee shareholding would have a significant impact on the firm's industrial relations. However there appears to be little appetite among either management or trade unions to allow share-ownership to influence existing collective bargaining and partnership structures (Hastings, 2002). In any case the three directors appointed from the ESOP have the same obligations as other company directors to promote the financial wellbeing of all shareholders, and thus cannot use their position to promote a trade union agenda. Nor have the trade unions used the significant shareholding held in the ESOP Trust to bolster their own bargaining position. Overall, the Eircom ESOP was not ostensibly established with the aim of promoting industrial democracy or the bargaining position of employees (McCarthy *et al.*, 2010). In practice it has provided employees with a form of compensation in return for firm restructuring and rationalisation and the firm's trade unions with some influence in decisions regarding firm ownership.

### **3. Model And Hypotheses**

The objectives pursued by SOEs are not only based on commercial criteria but also take account of political pressures and social concerns. Consequently industrial relations matters and industrial disputes often loom large in government policy considerations on SOEs. Government can influence a firm's industrial relations by controlling the appointment of managers and directors, influencing the policies and objectives that management pursue, and shaping the industrial relations structures of the firm (Ferner and Colling 1991; 1993). According to Ferner (1998) negotiations in the public sector are a triangulation between management, trade unions and the government. This can convey particular advantages on trade unions, which as an effective mobilising force in the political arena can have considerable influence on government decisions. Thus SOEs are often highly unionized and are characterized by the relatively strong bargaining position held by trade unions.

Alternatively the privatization of SOEs can be expected to 'depoliticize' management-union relations and to increase the relative bargaining strength of management (Earle *et al.*, 1996). Following privatization management are often provided with greater autonomy by private-sector shareholders. The withdrawal of political control and the focus of private shareholders on wealth creation can also provide management with clearly defined and quantifiable targets (Ferner and Colling, 1991; Pendleton, 1999). Where privatization is accompanied by market liberalization, economic regulation, or technological advancement the subsequent need to improve firm performance and protect market share also provides management with additional leverage in negotiating with trade unions (Ferner and Colling, 1993). This gives rise to the first research hypothesis:

*Hypothesis 1: Privatization will be associated with an increase in the relative bargaining strength of management.*

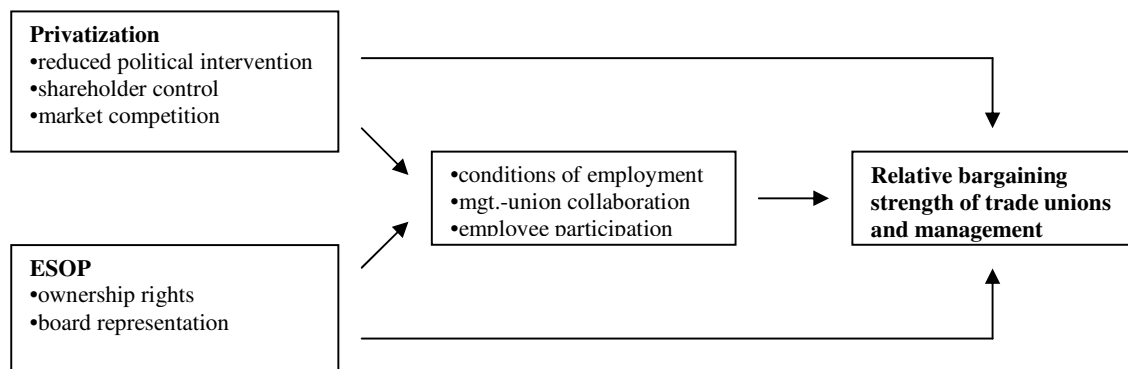
Employee share-ownership can also have a direct impact on the industrial relations environment of the firm. By providing voting rights, greater access to

financial information and representation on the firm's board of directors, employee share-ownership can be expected to maintain or enhance the bargaining strength of trade unions (Poole and Jenkins, 1990). Furthermore managers may also have greater difficulties in opposing the demands of trade unions in a firm with a substantial employee shareholding. In this way, the ESOP can be expected to counteract the adverse impact of privatization on the relative bargaining strength of unions. This gives rise to the second research hypothesis:

*Hypothesis 2: The ESOP will be associated with an increase in the relative bargaining strength of trade unions.*

In Figure 1 we model the effects of privatization and an ESOP on the perceived bargaining strength of trade unions and management. The way in which employees perceive changes in the relative bargaining strength of their unions and management is not only influenced by changes in the ownership structure of the firm created by privatization and an ESOP. It can also be influenced by changes in employee welfare that result from the internal adjustments made as a result of privatization.

**Figure 1: Impact of privatization/ESOP on the perceived bargaining strength of unions/management**



For many employees changes in their welfare reflect the relative bargaining strength of management and trade unions. Where employees feel there has been deterioration in their welfare, it is associated with a relative decrease in the bargaining strength of unions and an improvement in that of management. Three aspects of employee welfare on which privatization and employee share-ownership have a significant impact are included in the analysis: conditions of employment; management-union collaboration; and employee participation in firm decision-making. This gives rise to the final research hypothesis:

*Hypothesis 3: Perceived changes in the levels of employee welfare will be associated with either a relative decrease or increase in the perceived bargaining strength of management and trade unions.*

**Table 1: Description of independent variables**

<b>a) Perceived changes in conditions of employment</b>						
<b>What impact has privatization had on each of the following conditions of employment in Eircom?</b>		<b>Incr. (1-3) %</b>	<b>Unch. (4) %</b>	<b>Decr. (5-7) %</b>	<b>Mean</b>	<b>S.D.</b>
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
<b>b) Perceived changes in employee participation</b>						
<b>What impact has privatization had on the amount of say you have in decisions made with regard to the following?</b>		<b>More (1-3) %</b>	<b>Unch. (4) %</b>	<b>Less (5-7) %</b>	<b>Mean</b>	<b>S.D.</b>
Operational	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
Strategic/ departmental	Hiring/dismissal of personnel.	8.4	27.0	64.6	5.33	1.51
	Promotion/transfer of personnel.					
	Firm	7.9	26.4	65.7	5.38	1.47
	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
<b>c) Perceived changes management-union collaboration</b>						
<b>To what degree do you agree or disagree with each of the following statements?</b>		<b>Agree (1-3) %</b>	<b>Neith. (4) %</b>	<b>Disa. (5-7) %</b>	<b>Mean</b>	<b>S.D.</b>
Since 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 privatization 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
Since the ESOP management have seen cooperation with trade unions as vital in creating change.		73.4	10.0	16.7	2.75	1.74
Since privatization management have put greater emphasis on cooperation with trade unions.		46.2	20.2	33.6	3.76	1.80
Since the ESOP union-management relations have improved.		66.9	16.6	16.5	3.02	1.62
Since privatization union-management relations have deteriorated.		16.0	18.2	65.8	5.16	1.67

Note: Each measure used a scale from 1 to 7

## 4. Methodology

Data collection is based on an online survey of Eircom employees (n = 711). The survey was conducted in February 2007, eight years after privatization was completed.

Changes in the bargaining strength of management (MGTBar) and trade unions (TUBar) were measured using two items (see Table 2). Changes in conditions of employment (Cond) were measured using a list of ten work conditions (see Table 1a). Changes in employee participation were measured using a list of nine work related issues (see Table 1b). These nine items were divided into four items relating to operational issues (OpPart) and five items relating to departmental and strategic level decision-making (StratPart). Change in the level of management-union collaboration (Collab) was measured using six statements (see Table 1c).

The analysis also includes a number of control variables relating to respondents' gender (Gender), years of employment with Eircom (Tenure), union membership (Union), ESOP membership (ESOP), and area of occupation (Retail, Other). Descriptive statistics, reliability measures, and a correlation matrix of the variables are shown in Appendix 1.

## 5. Results

**Table 2: Changes in bargaining strength of management and trade unions**

Items	Increase (1-3) %	Neith. (4) %	Decrease (5-7) %
Changes in bargaining strength of management since privatization	76.6	17.0	6.4
Changes in bargaining strength of management since establishing ESOP	74.5	17.7	7.9
Changes in bargaining strength of trade unions since privatization	20.2	19.7	60.1
Changes in bargaining strength of trade unions since establishing ESOP	29.2	21.0	49.8

*Note:* employees presented with scale 1 (significant increase) to 7 (significant decrease)

Table 2 shows that the majority of employees reported a marked increase in the bargaining strength of management and a corresponding decrease in the bargaining strength of trade unions since privatization. A surprising aspect of these results is the similarity in employee opinion when addressing changes in the context of privatization and the ESOP. However the reduction in union bargaining strength is not as marked in the context of the ESOP and may reflect the perceived ability of the ESOP to provide some support for the bargaining position of unions post-privatization.

These findings provide support for hypotheses 1 that privatization will be associated with an improvement in the relative bargaining strength of management. However, they provide little support for hypothesis 2 that the ESOP will be associated with an improvement in the relative bargaining strength of unions. To a large extent the ESOP Trust is constrained from engaging in the operational activities of Eircom by a legal obligation to maintain and improve the value of its portfolio on behalf of participants. Representatives appointed to the firm's board of directors by the ESOP also have a legal obligation towards the shareholders of the firm. Consequently the ESOP Trust and its board-level representatives cannot use their position to directly pursue union objectives. Furthermore the ESOP is distinct from the firm's industrial relations structures and pay and conditions of employment continue to be determined through a combination of collective bargaining and partnership.

## 6. Determinants Of Changes In Bargaining Strength

Many of the above changes in the perceived bargaining strength of management and trade unions have arisen directly from the substitution of government ownership for that of private shareholders and the establishment of employee share-ownership rights under the ESOP. However internal organisational adjustment and resulting changes in employee welfare are also likely to impact on how employees perceive changes in the relative bargaining strength of unions and management.

**Table 3 Determinants of changes in the bargaining strength of management and trade unions**

	<i>Bargaining strength of trade unions</i>	<i>Bargaining strength of management</i>
Gender	.143 (3.235)**	-.039 (-0.829)
Tenure	.075 (1.269)	.006 (0.094)
Union	.013 (0.240)	-.019 (-0.322)
Retail	-.015 (-0.342)	.049 (1.030)
Other	-.049 (-1.175)	.065 (1.479)
ESOP	.029 (0.505)	.020 (0.323)
Cond	.238 (5.349)***	-.106 (-2.239)*
Collab	.001 (0.035)	.311 (7.163)***
OpPart	.300 (6.812)***	-.207 (-4.415)***
StratPart	-.084 (-2.032)	.116 (2.710)
R <sup>2</sup>	.256	.163
F	18.215(9,476)***	10.307(9,476)***

Note: Dependent variables: changes in bargaining strength of management (MgtBar) and trade unions (TUBar).  
\*Significant at 0.05, \*\*Significant at 0.01, \*\*\*Significant at 0.001

The regression analysis shown in Table 3 explores the impact that changes in conditions of employment, management-union collaboration, and employee participation in firm decision-making have in determining employee assessments of the relative bargaining strength of unions and management. The regression findings provide some support for hypothesis 3.

A majority of respondents reported deterioration in conditions of employment and operational participation since privatization (see Table 1). Employees are likely to place considerable importance on the ability of trade unions to protect

their work conditions and to act as their representatives with regards to workplace decision-making. Thus it is unsurprising to find that deterioration in employee welfare in relation to conditions and workplace participation is an important factor in reducing the perceived bargaining strength of the trade unions and improving the relative bargaining strength of management.

While a significant proportion of Eircom employees reported improved management-union collaboration, a majority also reported deterioration in employee participation at the strategic level (see Table 1). However, the regression results indicate that neither of these variables have a significant impact on the perceived bargaining strength of unions. This is surprising, given that it might be expected that closer management-union relations would have lead to an increase in the perceived bargaining strength of unions. A plausible interpretation is a belief that management-union collaboration has co-opted unions on to the management side. On the other hand, the results show that changes in the level of management-union collaboration has a significant and positive relationship with managerial bargaining strength. Therefore, many employees find improved management-union collaboration since Eircom's privatization has been an important factor in increasing managerial bargaining strength.

## **7. Conclusions**

Privatization can be expected to create significant changes in the industrial relations environment of enterprises that move from public to private ownership. In the case of Eircom, privatization was accompanied by the establishment of an ESOP that is unique in terms of its size and degree of influence in the governance of the enterprise. Consequently it provides a rich opportunity to examine industrial relations issues from the perspective of employees participating in the ESOP.

The particular concern of this paper is how these changes in Eircom affected the relative bargaining strength of management and trade unions. Our results indicate that employees believe that privatization has resulted in a substantial strengthening of the bargaining position of management despite employees' substantial shareholdings within the firm. Alternatively a perceived decrease in the relative bargaining strength of the trade unions is associated with deteriorations in conditions of employment and participation in workplace decision-making. Furthermore, increased collaboration between unions and management is associated with advantages to management rather than unions.

While employee perceptions of increased managerial bargaining strength is relatively unsurprising in the context of privatization, a perceived decrease in union bargaining strength is striking given that employees have a 35 per cent shareholding and board-level representation. We suggest three possible explanations for this. First, the ESOP was established as a financial scheme with benefits granted in return for accepting privatization and concessions regarding employment, pension contributions, and reduced benefits. The ESOP was not primarily intended as a vehicle to promote industrial democracy or encourage a

culture of cooperation in decision-making. Second, legal aspects of the ESOP constrain it being used to directly enhance union bargaining strength. Third, the ESOP has a limited life-span and rules concerning eligibility to participate have implications for trade union influence. The Eircom ESOP has a maximum life-span of 20 years and membership is confined to those who joined the firm prior to 2002, thus new employees are excluded from ESOP membership. These features of the ESOP tend to limit the possibility of the ESOP enhancing the employee voice role of the trade unions.

### **Endnotes**

<sup>1</sup> Comsource was a consortium of the privatized Dutch telecom KPN and the Swedish state-owned telecom Telia.

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## Appendix 1

### Descriptive statistics and correlation between variables

<i>Variables</i>	<i>M*</i>	<i>SD</i>	<i>α</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>	<i>11</i>
1 Gender	-	-	-											
2 Tenure	26.4	10.2	-	.36										
3 Union	-	-	-	.14	.59									
4 Retail	-	-	-	-.26	-.38	-.26								
5 Other	-	-	-	-.14	-.04	-.06	-.19							
6 ESOP	-	-	-	.11	.63	.65	-.28	-.03						
7 Collab	2.8	1.0	.71	-.04	-.15	-.02	.04	.05	-.05					
8OpPart	4.9	1.3	.85	.05	.07	.06	-.03	-.02	.10	.10				
9 StratPart	5.3	1.4	.90	.07	.12	.11	-.04	-.03	.08	.01	.65			
10 Cond	4.6	0.9	.75	.01	.07	.09	-.01	.01	.06	.15	.45	.31		
11 MgtBar	2.5	1.4	.77	-.09	-.12	-.08	.08	.08	-.09	.28	-.23	-.28	-.18	
12 TUBar	4.8	1.7	.85	.20	.16	.10	-.08	-.07	.09	.06	.42	.41	.41	-.46

Note: N = 711, If  $r \geq .08$ ,  $p < .05$ ;  $r \geq .12$ ,  $p < .01$ ;  $r \geq .14$ ,  $p < .001$ ,

\*mean values, with the exception of tenure, are based on each measure's original seven-point scale