HUMAN RESOURCE STRATEGIES AND PRACTICES

IN CRISIS TIMES

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CONTENTS

ACKNOWLEDGEMENTS .................................................................................................................. 1
ABSTRACT ..................................................................................................................................... 3

CHAPTER 1: INTRODUCTION ................................................................................................. 5
1.1 Introduction ............................................................................................................................ 7
1.2 Declining context ................................................................................................................... 8
1.3 SHRM in crisis times ............................................................................................................ 9
1.4 Research questions and contributions ............................................................................... 10
1.5 Dissertation outline ............................................................................................................ 13
References ................................................................................................................................... 14

CHAPTER 2: BRINGING THE STUDY OF ORGANIZATIONAL DECLINE AND TURNAROUND INTO
STRATEGIC HUMAN RESOURCE MANAGEMENT .................................................................. 17
2.1 Introduction ............................................................................................................................ 19
2.2 Decline and turnaround strategies ....................................................................................... 21
2.3 Building a contextual model of HR strategies and practices to deal with organizational decline
24
2.4 Some concluding comments and implications for SHRM ................................................. 41
References ................................................................................................................................... 45
Tables ........................................................................................................................................... 59

CHAPTER 3: LINKING SOURCES OF DECLINE, TURNAROUND STRATEGY AND HR STRATEGIES AND
PRACTICES: THE ANALYSIS OF IBERIA AIRLINES CASE ...................................................... 61
3.1 Introduction ............................................................................................................................ 63
3.2 Theoretical framework ......................................................................................................... 65
3.3 Methods/ data collection ....................................................................................................... 69
3.4 Data analysis and findings .................................................................................................... 73
3.5 Discussion of findings .......................................................................................................... 91
3.6 Conclusions .......................................................................................................................... 95
References ................................................................................................................................... 99
Tables ........................................................................................................................................... 108

CHAPTER 4: TURNAROUND STRATEGIES UNDER LIMITING EFFECT OF NATIONAL INSTITUTIONS: A
COMPARATIVE STUDY IN THE AIRLINE INDUSTRY ................................................................. 117
# CONTENTS

4.1 Introduction ..................................................................................................................... 119

4.2 Theoretical framework .................................................................................................... 121

4.2.1 Context and turnaround strategy .............................................................................. 121

4.2.2 Turnaround strategies, HRM and national institutions .................................................. 124

4.3 Methodology .................................................................................................................... 126

4.4 Empirical findings .......................................................................................................... 130

4.4.1 Sources of decline and turnaround strategies in British Airways and Iberia (2000-2015). 130

4.4.2 The influence of employee representation on turnaround strategies and HRM strategies and practices (2000-2015). .................................................................................................................. 135

4.5 Discussion ......................................................................................................................... 141

4.6 Conclusions and limitations ............................................................................................ 148

References ............................................................................................................................... 150

Tables .................................................................................................................................... 157

CHAPTER 5: CONCLUSIONS .................................................................................................. 165

5.1. Summary and conclusions .............................................................................................. 167

5.2. Contributions ................................................................................................................... 169

5.3. Limitations ....................................................................................................................... 172

References ................................................................................................................................... 175

APPENDIX: Example of interview outline ............................................................................ 179

WORKSHOPS AND SEMINARS .............................................................................................. 183

RESUMEN EN ESPAÑOL ............................................................................................................. 185

I. Introducción.......................................................................................................................... 187

II. El contexto de declive ......................................................................................................... 188

III. La gestión estratégica de los recursos humanos en tiempos de crisis ................................. 190

IV. Cuestiones de investigación y contribuciones .................................................................... 192

Bibliografía................................................................................................................................ 197
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To my family
To Teresa

“The opportunity that lies in every crisis…” R.J.J. SJ

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ABSTRACT

This dissertation examines from a contextual perspective the human resource (HR) strategies and practices adopted under organizational decline situations.

In order to study this research objective, the first theoretical study deeply analyzes the literature on organizational decline and turnaround strategies to better comprehend the internal and external sources of decline and the retrenchment and recovery turnaround strategies and the interrelations among them. Subsequently, we bring this rich analysis from the corporate strategy literature to the strategic human resources management (SHRM) field of study to propose a contextual model of HR strategies and practices in crisis times.

The second study specifically focuses on the relationship between internal sources of decline, turnaround strategy and SHRM. Through a case study analysis of an important legacy airline company that has been immersed in successive organizational decline periods, we aim to better comprehend this relationship and build theory. The results show that in situations of firm-based sources of decline, a HR strategy based on flexibility-oriented staffing, compensating, planning, and training practices will contribute to the demanded recovery strategy and, moreover adopted retrenchment measures have to be in line with this demanded recovery strategy to target firm-based sources of decline.

The third study aims to expand and build upon our understanding of the relationship between sources of decline, turnaround strategies, HR strategies and practices, and the limiting effect of national institutions. So, it is a further step on the comprehension of the pressures that impact on the companies in tough situations. This research incorporates the institutional pressures not in a single external-pressure label, but it separates external sources of decline from the institutional pressures. We elaborate a comparative study in two legacy
airlines companies set in two different institutional environments. Our results show that when national institutions grant a number of rights to employee representatives, an innovative HRM strategy will facilitate the demanded recovery strategy under internal sources of decline and when national institutions grant fewer rights to employee representatives, a deviant HRM strategy will contribute to the demanded recovery strategy under internal sources of decline. In addition, a conformist HRM strategy towards external-institutional pressures such as trade unions will delay the turnaround process.

This dissertation contributes to the organizational decline and turnaround strategy and the SHRM fields of research in several ways. Firstly, it contributes to the literature on strategic human resource management (SHRM) as it brings the rich analysis from the sources of the decline and turnaround strategies to the SHRM field of study. Secondly, it enriches the turnaround strategy with the incorporation of the efficient management of HR in this research field. Thirdly, it studies the HR strategies and practices in decline situations and it considers the recovery responses and not just the retrenchment or downsizing responses, as usual. Fourthly, it enriches the decline and turnaround literature as it considers the institutional context to explain the differences in turnaround decisions. The results of this dissertation could help managers to realize on the importance of detecting the causes of decline and the competitive position when proposing appropriate HR strategies and practices. Even if it may seem counterintuitive, SHRM in declining organizations is not just a matter of pay cuts, hiring freezes, layoffs, or reducing hours. HR professionals can increase their strategic value, and therefore the value of HR practices, by tailoring their response to the source of decline.
CHAPTER 1: INTRODUCTION

1.1. Introduction

1.2. Declining context

1.3. SHRM in crisis times

1.4. Research Questions and Contributions

1.5. Dissertation Outline

References
1.1 Introduction

The general objective of this dissertation is to propose a model of human resource (HR) strategies and practices in declining organizations and comprehend how this model works. To accomplish this target, this dissertation first reviews literature on organizational decline and turnaround, secondly it reviews literature on HR strategies and practices in tough situations and thirdly it uses the case study methodology to better understand this model and build theory. In the first case study, we study the relationship between internal or firm-based sources of decline, turnaround strategy and HR strategies and practices. With the second comparative case study, we expand our understanding of the previous relationship, but we incorporate the institutional pressure not just as a single external pressure but also as limiting factor that impact on turnaround decisions.

This dissertation combines the rich analysis from the decline and turnaround field of study into the strategic human resource management (SHRM) literature. Top managers need to acknowledge and address the root of the problem (Barker, 2005), and, in this sense, scholars have claimed that the turnaround responses have to be appropriate to the sources of decline (Arogyaswamy, Barker, & Yasai-Ardekani, 1995; Hofer, 1980; Ndofor, Vanevenhoven, & Barker, 2013). On the other hand, SHRM in declining organizations is monopolized by the downsizing strategy (Cascio, 2002; Chadwick, Hunter, & Walston, 2004; Luan, Tien, & Chi, 2013; Sheaffer, Carmeli, Steiner-Revivo, & Zionit, 2009; Trevor & Nyberg, 2008; Tsai & Yen, 2008; Zatzick, Marks, & Iverson, 2009). Downsizing literature adopts a universalistic assumption that there is a set of best human resources practices that can be extended to all crises. However, downsizing may not always be the appropriate strategy for improving firm performance (Chadwick et al., 2004; Luan et al., 2013; Muñoz-Bullón & Sanchez-Bueno, 2011). Consequently, a better integration of decline, turnaround and SHRM
research is needed in order to obtain better HRM responses to turnaround in organization decline situations.

In this introductory chapter, we explain the motivation of this study. In the section 2, we focus on the importance of bringing all aspects of the rich context in declining situations to the SHRM. In section 3, we gather current literature on SHRM in crisis times. Then, we present the research questions we aim to answer and the main contributions (section 4). To conclude this chapter we propose the dissertation outline (section 5).

1.2 Declining context

Reputed academicians have highlighted the importance of bringing the context into SHRM (Brewster, 1999; Paauwe, 2004; Boselie, 2010). Paauwe (2004) introduces a balance approach to SHRM considering the influence of the external context to the organization but also of the internal aspects towards the external context. Also, Boselie (2010) proposes a SHRM contextual model where HRM in an organization is shaped by the external general market context (macroeconomic and labor market), by the external population market context (competition, market, technology, product), the external general institutional context (legislation, norms and values), the external population institutional context (CBAs, trade unions, work council, other stakeholders), the internal organization context and the HR strategy adopted.

These contributions are extremely important for the SHRM field of study, as they bring from a balance approach the consideration of internal and external pressures to the SHRM research. However, these researches are not specifically designed for a declining context. And, on the other hand, corporate strategy scholars have study in-depth the internal and external pressures that cause the decline of a company (Datta, Basuil, & Pandey, 2010;
CHAPTER 1: Introduction

Mellahi & Wilkinson, 2004; Scherrer, 2003; Trahms, Ndofor, & Sirmon, 2013). Moreover, these strategy scholars have found interesting relationships between the sources of the decline and the turnaround strategy (Arogyaswamy et al., 1995; Hofer, 1980; Ndofor et al., 2013), which we aim to bring to the SHRM field of study.

Both contextual analysis, the one from the sources of the decline and the turnaround strategy and the other from the SHRM contextual model have to be integrated to better comprehend the relationship between sources of decline, turnaround strategy and HR strategy and practices. These perspectives are not exclusive but inclusive and they will enrich the SHRM field of study.

1.3 SHRM in crisis times

In crisis times, HRM is a mean to achieve competitive success (Pfeffer, 2005), for which business strategy and HR strategy have to be aligned (Boselie, 2009; Lengnick-Hall & Lengnick-Hall, 1988). Management has to take into account the role of the HR function in formulating and implementing strategic responses to decline (Arogyaswamy et al., 1995) and therefore considering the workforce as a source of strategic advantage, not just as a cost to be minimized or avoided (Pfeffer, 2005).

Schuler (1987) specifically proposed a relationship between turnaround (among other corporate strategies) and HRM practices. But he did not take into account the sources of decline and, their turnaround strategy was cutting-costs targeted. Wright and Snell (1998) proposed a model for exploring fit and flexibility in SHRM under unpredictable and changing demands; however, this model is not specifically focused on the turnaround literature.
CHAPTER 1: Introduction

When referring to SHRM in crisis times, Cascio deserves a special mention (Cascio, 1995, 2002). He coined the concept of responsible restructuring and made an important contribution in his “Guide to Responsible Restructuring” for the US Department of Labour. He proposed a set of several alternative approaches to restructuring and considered the responsible restructuring as a strategy that focuses on people as resources to be strengthened. This author stated that companies may adopt two choices when adopting HR responses in tough times: considering employees as costs to be reduced or as assets to be strengthened. These last companies are the responsible restructuring ones. These companies think on how they manage business in order to use more efficiently the human resources. Despite this crucial contribution to SHRM, this conceptualization does not consider the decline and turnaround literature either, and adopts a universal approach of HR practices.

Finally, the most recurrent strategy in uncertain times is the downsizing, usually associated with employment downsizing (Cascio, 2002), even if it also involves diverse measures such as physical or financial reductions (DeWitt, 1998). HR practices such as discourage promotions, pay cuts, hiring freeze, layoffs, early retirements, etc. (Cascio, 2002; Chadwick et al., 2004; Chu & Siu, 2001; Luan et al., 2013; Sheaffer et al., 2009; Trevor & Nyberg, 2008; Tsai & Yen, 2008; Zatzick et al., 2009) are the most popular in crisis times. They are a sort of best HR practices to be tailored to all crisis situations. This is a crucial difference with the model this dissertation will propose. We aim to consider the sources of decline and turnaround strategies when adopting HR responses to declining situations.

1.4 Research questions and contributions

This dissertation tries to answer the following general research question:
(1) What are the most suitable HR strategies and practices to turnaround the company decline in accordance with the sources of decline?

In order to respond to this question, this dissertation is composed of 3 studies. The first study consists of a theoretical review of the decline, turnaround and SHRM in crisis times’ literature. This review results in a theoretical model which identifies four basic HR strategies for organizations in decline, flexibility-oriented HR strategy, efficiency-oriented HR strategy, maintenance-oriented HR strategy and niche-oriented HR strategy, depending on the sources of the decline.

The second study analyzes the relationship between internal or firm-based sources of decline, turnaround strategy and SHRM. We have selected Iberia Airlines as their turnaround is lasting more than other airlines companies, these difficulties indicate that the decline has been intensified by firm-based or own internal sources of decline. The results show that in situations of internal or firm-based sources of decline, flexible-oriented staffing, compensating, planning, or training HR practices will contribute to the demanded recovery strategy and, furthermore, the adopted retrenchment strategies (in case of severity of the decline) must to be in line with this demanded recovery strategy.

Finally, our third research goes and step further on the comprehension of the turnaround strategy and the pressures affecting it by incorporating the institutional pressures, not just as a single external source of decline but as a limiting factor of the turnaround decisions. The aim of this study is to analyze the differences in the turnaround strategies and HR strategies and practices of two companies from the same industry that have faced similar external pressures, but are embedded in different institutional environments and internal pressures, British Airways and Iberia; specifically, we consider the influence of labor national institutions in managerial decisions. The result of this study highlights that when national
institutions grant a number of rights to employee representatives, an innovative HRM strategy will facilitate the demanded recovery strategy and when national institutions grant fewer rights to employee representatives, a deviant HRM strategy will contribute to the demanded recovery strategy. In addition, a conformist HRM strategy (towards external-institutional pressures such as trade unions) will delay the turnaround process.

Regarding to contributions, firstly, this dissertation contributes to the development of the decline, the turnaround and the strategic human resource management (SHRM) literature by contextualizing HR strategies and practices for declining organizations. This study enhances the turnaround literature by introducing the HRM in the turnaround strategy. Besides, this research enriches the SHRM literature with the analysis of the sources of the decline and the interrelation with the turnaround strategies, widely studied in the corporate strategy literature (Arogyaswamy et al., 1995; Hofer, 1980; Ndofor et al., 2013). This dissertation also contributes to the SHRM as it studies the HR strategies and practices in decline situations and it considers the recovery responses and not just the retrenchment or downsizing responses, as usual (Chadwick et al., 2004; Chu & Siu, 2001; Luan et al., 2013; Marks & De Meuse, 2005; Sheaffer et al., 2009; Trevor & Nyberg, 2008; Tsai & Yen, 2008; Zatzick et al., 2009). Furthermore, this dissertation contributes to the decline and turnaround literature as it considers the institutional context to explain the differences in turnaround decisions. Finally, this dissertation has implications for management in practice. The results of this dissertation highlighted the need for detecting the causes of decline and the competitive position when proposing appropriate HR strategies and practices. Although, it may seem counterintuitive, SHRM in tough times is not just a matter of pay cuts, hiring freezes, layoffs, or reducing hours. HR professionals can increase their strategic value, and therefore the value of HR practices, by tailoring their response to the source of decline.
CHAPTER 1: Introduction

1.5 Dissertation outline

This dissertation is structured as follows. In chapters 2, 3 and 4, we present the three studies that we have performed. The chapter 2 presents the study entitled “Bringing the study of organizational decline and turnaround into Strategic Human Resource Management”. In chapter 3, it is developed our second study entitled “Linking sources of decline, turnaround strategy and HR strategies and practices: the Iberia airlines case study”. In the chapter 4, we present the study entitled “Turnaround strategies under limiting effect of national institutions: A comparative study in the airline industry”. Each of these chapters includes different sections: an introduction, a theoretical framework, a description of the methodology, the findings, and the conclusions. Finally, the last chapter (chapter 5) provides a summary of this dissertation, describes the main contributions and conclusions, as well as identifies the limitations of this research and the future research avenues.
References


CHAPTER 2: BRINGING THE STUDY OF
ORGANIZATIONAL DECLINE AND TURNAROUND
INTO STRATEGIC HUMAN RESOURCE
MANAGEMENT

2.1 Introduction

2.2 Decline and turnaround strategies

2.3 Building a contextual model of HR strategies and practices to deal with organizational decline

2.4 Some concluding comments and implications for SHRM

References

Tables
2.1 Introduction

The recent business crisis has brought layoffs, hiring freezes, and temporary or permanent closures of business divisions. Iberia, Avon, and major financial institutions have announced severe layoffs. It seems that human resource cutbacks are becoming formulas for correcting organizational decline and maintaining firm competitiveness (Chu & Siu, 2001; Bragger, Kutcher, Menier, Sessa, & Sumner, 2014; Mohrman & Worley, 2009). This situation has renewed research interest in decline and turnaround (for a review see Trahms, Ndofor, & Sirmon, 2013). Evidence suggests that most if not all firms experience organizational decline at some time or another (Ndofor, Vanevenhoven, & Barker, 2013). Decline represents one of the most important and demanding challenges in the career of a manager (Barker & Duhaime, 1997), and involves managing diverse company resources, especially human resources.

Research into different ways of managing human resources during crises has also burgeoned in recent years, in part due to significant changes in the competitive environment obliging companies to rethink their people management strategy (Hom, Tsui, Wu, Lee, Zhang, Fu, & Li, 2009; Lepak & Shaw, 2008; Shaw, Gupta, & Delery, 2005; Shore, Coyle-Shapiro, Chen, & Tetrick, 2009). In difficult situations, companies have adopted various strategies for managing human resources, such as downsizing (Cascio, 2002; Chadwick, Hunter, & Walston, 2004; Luan, Tien, & Chi, 2013; Sheaffer, Carmeli, Steiner-Revivo, & Zionit, 2009; Trevor & Nyberg, 2008; Tsai & Yen, 2008; Zatzick, Marks, & Iverson, 2009), rightsizing (Chu & Siu, 2001; Hitt, Keats, Harback, & Nixon, 1994), or resizing (Marks & De Meuse, 2005), although downsizing is the most prevalent strategy. Of the 1,208 global executives interviewed for Bain & Company’s 14th Management Tools & Trends survey, 61% projected using downsizing as a management tool (Bain & Co, 2013). However,
downsizing may sometimes be an inappropriate way of enhancing company performance (Chadwick et al., 2004; Luan et al., 2013; Muñoz-Bullón & Sanchez-Bueno, 2011).

Consequently, these studies adopt a universalistic assumption which implies that there is a set of best human resources practices that can be extended to all types of crises. Some companies seem to be using downsizing practices on a regular basis, imitating those practices from other companies that have already adopted them (Datta, Guthrie, Basuil, & Pandey, 2010). However, the outcomes of these practices are not always satisfactory (Bragger et al., 2014; Hareli & Tzafrir, 2006; Luan et al., 2013; Muñoz-Bullón et al., 2011), and many companies embracing them face serious problems and often fail to recover. Against this background, we ask whether in a decline situation there are alternatives to turnaround other than reducing employee numbers and, moreover, what the most suitable HR strategies and practices are for different decline situations.

We believe that analyses of HR strategies and practices in declining organizations lack a contextual perspective (Brewster, 1999; Paauwe, 2004). The contextual approach provides a more extensive framework for the study of SHRM and reconsiders the importance of external factors (Martín-Alcázar, Romero-Fernández, & Sánchez-Gardey, 2005) such as regulatory or competency changes. In our contextual model of HR strategies and practices we aim to consider different environments and integrate the HR function within them.

We start from the assumption that there is no universally appropriate human resource response to crisis or business decline. Turnaround strategies should be adapted to the specific sources of decline (Walshe, Harvey, Hyde, & Pandit, 2004). What turnaround strategies do declining companies adopt? How do they affect SHRM? In this study, we distinguish between firm-based decline, where causes are internal, and industry contraction-based decline, where sources are external (Arogyaswamy, Barker, & Yasai-Ardekani, 1995), but we also consider the complex interaction between the two (Mellahi & Wilkinson, 2004). We
match these sources of decline (firm-based and industry contraction-based) with the turnaround strategies of retrenchment and recovery (Arogyaswamy, Barker, & Yasai-Ardekani, 1995), and build our recommendations for HR strategies and practices to deal with them accordingly. For practitioners, our model may enrich human resource management decisions with creative ways of keeping budgets in line with the causes of decline—approaches that have been called for in Bain and Company’s 14th Management Tools & Trends 2013 Survey (Bain & Co, 2013).

In the following sections, we first review the literature on organizational decline and inherently on turnaround, especially concerning the different sources of decline and the most salient turnaround strategies, namely, retrenchment and recovery. Second, we highlight the HR strategies and practices most frequently adopted by firms in decline. Third, we propose our contextual model of HR responses in the face of organizational decline, according to the sources of decline.

2.2 Decline and turnaround strategies

Traditionally, organizational decline has been described as the deterioration of a company’s performance due to a consistent decrease in its internal resources (see, e.g., Cameron, Kim, & Whetten, 1987; Carmeli & Schaubroeck, 2006; D’Aveni, 1989; Francis & Desai, 2005; Mckinley, Latham, & Braun, 2014; Musteen, Liang, & Barker, 2011); if not dealt with, decline may result in the company’s eventual disappearance (Francis & Desai, 2005). Authors have adopted different measures of decline depending on the characteristics of the firm: operating return on equity (ROE) (Chen & Hambrick, 2012), environmental jolts (Bradley, Aldrich, Shepard, & Wiklund, 2011), hospital bed occupancy rate (Ketchen & Palmer, 1999),
or return on assets (ROA) (Ndofor et al., 2013). Thus, there is no agreement on how to measure decline, as it will depend on the characteristics of the target firms; however, the literature seems to consider the ROE or ROA tendency for the previous two or three years as a reasonable measure.

In addition to the measure of decline, its sources are an important aspect in the organizational decline literature. Management needs to acknowledge and address the root of the problem (Barker, 2005). The difficulty in perceiving decline factors arises as a result of their multiple sources, both external and internal. External or industry contraction-based decline conditions will lead to a reduction in the prospects of companies competing in specific industries if they do not adapt to new external dynamics (Whetten, 1987). In contrast, internal or firm-based causes may be behind the poor performance of a company operating in a growing industry (Cameron, Whetten, & Kim, 1987).

Industry contraction-based (or external) decline is related to economic, technological, competition, legal, political or cultural and social changes (Datta et al., 2010; Mellahi & Wilkinson, 2004; Scherrer, 2003; Trahms et al., 2013). Firm-based (or internal) decline is related to financial problems, structural characteristics of an organization (size or operating procedures), operational deficiencies, governance (board characteristics, ownership structure), HR policies and employees’ attributes (Datta et al., 2010; Scherrer, 2003; Trahms et al., 2013).

The concept of turnaround is inherent to organizational decline. Turnaround is described as the recovery of a company’s performance after a serious decline (Balgonin & Pandit, 2001). The literature mentions two main turnaround strategies: retrenchment and recovery (Pearce & Robbins, 1993; Robbins & Pearce, 1992). Retrenchment strategies, also known as operating actions, are aimed to achieve cost and asset reductions (Michael & Robbins, 1998). Conversely, strategic recovery strategies are implemented to alter or adjust the arenas within
which a company competes (Barker & Duhaime, 1997; Ndofor et al., 2013). Pearce and Robbins (1993) point to the universality of retrenchment in the turnaround process, without considering the nature of the underlying problems. These authors contend that fighting the particular causes of decline must wait until the recovery phase. In contrast, other scholars have claimed that the turnaround responses have to be appropriate to the sources of decline (Arogyaswamy et al., 1995; Hofer, 1980; Ndofor et al., 2013). If decline is due to a weak strategic posture, retrenchment will not solve the problem (Ndofor et al., 2013) and will worsen employee performance (Datta et al., 2010) when the company is most vulnerable to failure. In this vein, we share the position of these latter authors in considering that turnaround strategies should be linked to the sources of decline.

Firm-based decline will benefit most from recovery strategies (Ndofor et al., 2013), and industry contraction-based decline will require more retrenchment strategies (Arogyaswamy et al., 1995), as the industry shrinks. Moreover, in the most dramatic situations with both sources of decline affecting firm performance, the interaction of retrenchment and recovery allows turnaround firms to consolidate turnaround performance (Schmitt & Raisch, 2013).

In addition, Arogyaswamy and colleagues (1995) stated that the adequate management of human resources could be advantageous in the turnaround strategy; we agree with these authors and we consider a turnaround response from the human resource management side. Specifically, we build a contextual model of HR strategies and practices in the face of organizational decline, based on the most effective recovery turnaround responses proposed by Arogyaswamy and colleagues (1995).
2.3 Building a contextual model of HR strategies and practices to deal with organizational decline

Before proposing our contextual model of HR strategies and practices to deal with organizational decline, we will review the human resource strategies and practices most commonly used to trigger turnaround.

In difficult times, human resource management is a more powerful tool than other ways of achieving competitive success (Pfeffer, 2005), for which business strategy and HR strategy have to be aligned (Boselie, 2009; Lengnick-Hall & Lengnick-Hall, 1988). Considering the turnaround strategies (retrenchment and recovery) as the corporate strategies selected to cope with organizational decline, the HR strategy most often mentioned is downsizing—usually referred as employment downsizing (Cascio, 2002). Downsizing is described as actions taken by companies seeking to adapt to external factors, solve management problems, and improve efficiency to increase productivity and competitiveness (Tsai & Yen, 2008). However, the literature reveals that downsizing may reduce organizational slack or cut the company down to an inadequate size (Luan et al., 2013). Downsizing continues to attract the attention of numerous researchers (Bragger et al., 2014; Datta et al., 2010; Luan et al., 2013; Mellahi & Wilkinson, 2010; Muñoz-Bullón & Sanchez-Bueno, 2011), although it is not a new topic, as reflected in a special issue on Organization Science (1993, volume 4, issue 1).

Table 1 summarizes some of the human resource practices for company restructuring (Cascio, 2002; Chadwick et al., 2004; Chu & Siu, 2001; Hitt et al., 1994; Luan et al., 2013; Marks & De Meuse, 2005; Sheaffer et al., 2009; Trevor & Nyberg, 2008; Tsai & Yen, 2008; Zatzick et al., 2009) combining staffing, planning, development and training, appraising or compensating choices in accordance with Schuler and Jackson’s (1987) human resource management (HRM) practice menu.
It is important to note that none of these recommendations is tailored to the cause of the crisis. Rather, they are simply a guide to the best HR practices in declining organizations. This is a crucial difference from our contextual model, which takes into account the source of the organizational decline in order to propose HR practices to deal with it. In what follows we develop the contextual model of HR strategies and practices according to the sources of decline and the turnaround strategies.

We consider two main variables to construct our contextual model, —firm-based decline and industry contraction-based decline— which yields three main scenarios for the source of the company’s decline: firm-based decline, industry contraction-based decline and the two types of decline taken together. For each of the three categories, we analyze in depth the causes of decline and identify which turnaround strategies and distinctive HR strategies and practices companies are adopting in each of these three scenarios.

Type 1 decline: Firm-based decline
As mentioned above, firm-based decline shows a below-average performance in a growing industry (Arogyaswamy et al., 1995; Cameron et al., 1987). This decline can be aggravated from managers’ failure to adjust to changes in the industry (Whetten, 1987; Zammuto & Cameron, 1985). After alterations in industry structure, previously strong strategic positions may no longer be appropriate as customers prefer outcome with different characteristics and/or other competitors are better situated to serve them (Arogyaswamy et al., 1995). The inability to adapt to these changes will lead to reduced performance. For example, companies such as IBM have suffered this type of decline (Balgobin & Pandit, 2001) as managers have not been able to react appropriately to technological changes.
Firms suffering from firm-based decline will benefit most from strategy changes or recovery strategies (see, e.g., Barker & Duhaime, 1997; Ndofor et al., 2013). Ndofor and colleagues (2013) found that recovery strategies had a positive influence on turnarounds and, conversely, retrenchment actions had a negative influence on firms’ performance recovery, in a situation of firm-based decline. Indeed, these firms require significant changes in strategy and organizational structure to develop or redevelop resources and capabilities (Arogyaswamy et al., 1995). With the absence of such strategic reorientation, the firm will lack the resources and capabilities to compete effectively, and its decline will continue (Ndofor et al., 2013). Managers can adapt resources and alter the firm’s capability (Morrow, Sirmon, Hitt, & Holcomb, 2007) by recombining resources and capabilities or by accessing new external ones (Morrow et al., 2007). Which HR strategies and practices can contribute to recombine existing resources and capabilities or to acquire new resources externally to change strategy?

To recombine existing resources and capabilities, or enhance existing potential through hiring new staff, firms must have flexible resources and the capabilities to accept new challenges to cope with the strategic orientation that the company needs. The capacity to change and answer to changes are crucial to promote the adequate use of resources (Pattel & Cardon, 2010). For instance, part of IBM’s gains is due to the existence of a flexible workforce capable of reacting in an effective manner to customers’ needs (Morris & Calamai, 2009). Flexible work contributes to various economic outcomes, such as higher financial performance (Whyman, Baimbridge, Buraimo & Petrescu, 2014). Having a flexible workforce therefore improves the firm’s chances of recovering.

In order to achieve strategic actions in response to firm-based decline, we propose a flexibility-oriented HR strategy to obtain flexible responses. According to Wright and Snell
flexibility-oriented HR schemes enhance the development of existing human resources and encourage their engagement in diverse tasks and behaviors.

Proposition 1: In a situation of firm-based decline, the recovery strategy will required a flexibility-oriented HR strategy.

In a situation of firm-based decline, a flexibility-oriented HR strategy aims to recombine existing resources and capabilities, or acquire or access new resources externally that are then bundled with existing resources into new capabilities to obtain a strategic response to decline in the form of, new products or services. Indeed human resource practices can encourage employee flexibility (Beltran-Martin & Roca-Puig, 2013; Beltran-Martin, Escrig-Tena, Bou-Llusar, & Roca-Puig, 2013). Ketkar and Sett (2009) identified various HR practices in the manufacturing and service industries, which they denominate “flexibility inducing HR practices” (FIHRP), that promote the achievement of resource flexibility in line with external factors.

Van der Meer and Ringdal (2009) classify flexibility into numerical and functional. Numerical flexibility refers to the capacity to easily alter the number of workers to face changes in the market. Functional flexibility involves that employees develop distinct functions or jobs as needed. However, numerical flexibility has its disadvantages (Van der Meer & Ringdal, 2009) as demotivates employees and employers from investing time or money in these relationships. When the company’s competitive position is robust, a flexibility oriented HR strategy should focus on functional flexibility instead of numerical flexibility, although in a dramatic financial situation numerical flexibility is obviously a recurrent alternative. In what follows we describe some strategic-oriented training, staffing, planning and compensation choices within this flexibility-oriented HR strategy.
CHAPTER 2: Bringing the study of organizational decline and turnaround into SHRM

A company can use training and development practices to exploit its resources and capabilities by identifying and protecting core competencies (such as customers and innovation), empowering key individuals to obtain higher sales and communicate customers’ demands, promoting intellectual agility (Hitt et al., 1994), and fostering collaboration to encourage flexible HR. Comprehensive training programs enhance organizational flexibility by building a wider set of employees’ skills and behaviors (Youndt, Snell, Dean, & Lepak, 1996; Guthrie, 2001; Collins & Clark, 2003; Collins & Smith, 2006). Also, general and extensive training on customer oriented positions improves employees’ ability to effectively respond to changing customer demands (Shafer, Dyer, Kilty, Amos, & Ericksen, 2001). For instance, IBM or Iberia Airlines introduced self-initiated professional development learning programs for every employee (IBMer Report, 2013; Iberia Airlines Report, 2009).

**Proposition 1a: In a situation of firm-based decline, a flexible-oriented HR strategy will use extensive training to emphasize new skills and learning abilities to respond to changing markets.**

Firms will also achieve market responsiveness by using compensatory HR practices. Compensation and rewards/incentive schemes contribute to organizational flexibility (Beltran-Martín & Roca-Puig, 2013) enhancing employee skills, discretionary behaviors and team working among employees (Arthur & Jeff, 1999; Delaney & Huselid, 1996; Murray & Gerhart, 1998; Shaw, Gupta, & Delery, 2001). Compensation schemes using multiple indicators such as the employee’s ability to face problems, responsiveness to different circumstances, or collaboration enhance flexibility within the organization (Foss & Laursen, 2005). Furthermore, group-based pay contributes to obtain coordinated responses to environmental demands (Dyer & Ericksen, 2005).
CHAPTER 2: Bringing the study of organizational decline and turnaround into SHRM

**Proposition 1b: In a situation of firm-based decline, a flexible-oriented HR strategy will use skill-based pay and reward schemes based on multiple parameters like problem-solving abilities, responsiveness to situational demands, and team work.**

Job enrichment contributes to employees’ flexibility (Beltran-Marin & Roca-Puig, 2013) as it affects to their intrinsic motivation (Wood & Wall, 2007). Job rotation and widely designed jobs contribute to expand employees’ knowledge, thus enabling firms to effectively respond to changes in the marketplace (Jansen, Van Den Bosch, & Volberda, 2005). In the case of IBM, the company makes an effort in developing employees to solve customer problems and not simply to sell products or services (Harreld, O’Reilly, & Tushman, 2007). Furthermore, employee participation develops customer competencies, as employees focus on discovering the best way of meeting customers’ needs (Díaz-Fernandez, López-Cabrales, & Valle-Cabrera, 2013).

**Proposition 1c: In a situation of firm-based decline, a flexible-oriented HR strategy will use strategically planned job rotation and job enrichment to increase intrinsic motivation.**

As regards staffing choices, the firm can enhance its human capital repertoire with internal (career movement) or external selective hiring of core employees (Boyne & Meier, 2009; Hitt et al., 1994) who possess key innovation, technical or customer competencies given that the recruitment of new organization members influences the stock of competencies (Jackson, Hitt, & DeNisi, 2003). Firms can recognize, protect, and mentor key individuals within the organization (Hitt et al., 1994) and promote them to positions in other departments.
Furthermore, employee selection based on cognitive skills and learning abilities rather than on narrow functional skills required by current jobs is associated with flexible employee skills and behaviors (Youndt et al., 1996; Stevens & Campion, 1999). In this regard, the firm could employ and grow in the most demanded areas (Hitt el al., 1994), products or services, in order to achieve market responsiveness. This selection process is feasible when the company has a strong competitive position or possesses slack resources to invest in human resources. IBM considers that it is crucial for the company to hire, support and retain key employees (IBMer Report, 2013) especially in client-facing and managerial roles. Also, Iberia Airlines considers that the employees’ talent is a competitive factor (Iberia Report, 2009). However, the company’s complementary workforce is employed under part-time or limited-term employment arrangement to face concrete peaks (IBM 2001 Report; Iberia Report, 2014). In this sense, interim work reduces costs and enhances flexible productivity but impedes employees’ involvement and integration (Dolado, García-Serrano, & Jimeno, 2002). The numerical flexibility option should be used in non-priority areas only.

**Proposition 1d: In a situation of firm-based decline, a flexible-oriented HR strategy will use employee selection emphasizing cognitive skills and learning abilities in priority areas or part-time and limited-term employment arrangements in complementary areas.**

**Type 2 decline: Industry-contraction based decline**

Industry contraction-based decline takes place when a company’s industry reduces in size (Arogyaswamy et al., 1995), performance deteriorates and many companies do not survive (Whetten, 1987). Examples of this type of decline are in industries such as cigar manufacturing (Arogyaswamy et al., 1995) or shipbuilding.
The turnaround strategies of firms suffering from industry contraction-based decline—, but not firm-based decline, and which thus have a strong competitive position (e.g., East Asian shipbuilding firms)— are most successful when they concentrate on expanding the firm’s market power (Harrigan, 1980). For example through incremental strategy changes using the existing resources and capabilities to serve the remaining viable customer segments (Arogyaswamy et al., 1995) and purchasing weak competitors or helping them exit from the declining industry (Harrigan, 1980).

In a contracting industry, the companies most efficient at using the limited resources have more chances to survive (Zammuto & Cameron, 1985). The search for efficiency becomes an important factor in expanding the industry position at a time when the industry is shrinking. Therefore, in a situation of industry contraction-based decline and strong competitive position, efficiency may enhance the expansion of the industry position. The expanding companies have a successful competitive position and they can take the opportunity to gain the market as well as compete more efficiently. The literature has also referred to the concept of exploitation as the improvement of a firm’s existing knowledge base (March, 1991). Researchers have suggested that exploitation within the firm improves existing market possibilities and contributes to obtain the returns on current capabilities (Benner & Tushman, 2003; Danneels, 2002). Expanding companies in industry contraction-based decline will benefit from the exploitation of their resources and capabilities. For the purpose of this research we will consider the appropriate exploitation of the resources and capabilities as a way of obtaining efficiency.

Human resources influence the production efficiency and sales in the industry and related industries (Hsieh & Chien, 2011) and contribute to the successful implementation of an efficiency-oriented strategy. Which HR strategy and practices enhance the efficiency required in situations of industry contraction-based decline? We propose an efficiency-
CHAPTER 2: Bringing the study of organizational decline and turnaround into SHRM

oriented HR strategy that aim to obtain efficient responses in order to expand the industry position in situations of industry contraction-based decline. For instance, the East Asian Shipbuilding industry had numerous, economical and trained workforce that contributed to its increased productivity and to its product development (Poulsen & Sornn-Friese, 2011). East Asian Shipbuilders quickly understood that they had to work efficiently and offer the vessels clients were demanding.

*Proposition 2: In a situation of industry contraction-based decline, the recovery strategy will required an efficiency-oriented HR strategy.*

A well-educated and experienced workforce is crucial to an efficiency-oriented strategy, grounded on the idea of cost controlling and production efficiency (Hsieh & Chien, 2011). Efficient behaviors are influenced by employees with strong aptitudes and motivation that work quicker and brighter and are usually more productive (Yukl, 2008). Therefore, compensating and training choices become very important for an efficient-oriented HR strategy. Which HR practices, especially compensating and training choices, should be adopted in an efficient-oriented HR strategy?

Regarding training practices, employers may offer competency-based training (Jackson et al., 2003). In order to exploit existing resources and capabilities, some studies propose intensive training to improve current job-related skills (Bae & Lawler, 2000; Guthrie, 2001). In a situation of industry contraction-based decline and strong competitive position, the most recommended training objectives are specific training targeted to obtain technical expertise in labor intensive departments, and market-driven orientation for the most highly qualified positions. According to Diaz-Fernandez et al. (2013), employees with technical expertise orientation may develop opportunities and correctly use the knowledge obtained,
whereas employees with a customer-orientation search for customer’s demands and the best manner of serving them.

**Proposition 2a: In a situation of industry contraction-based decline, an efficiency-oriented HR strategy will use specific and intensive training.**

As regards compensating practices, a proper reward system is important to ensure that a firm’s financing in its employees is handled effectively and it enhances production and reduce cost (Hsieh & Chien, 2011). Incentive systems that target on individuals’ performance are recommended to exploit existing resources and capabilities (Kang and Snell, 2009). Concrete reward practices that foster cost reduction and control, responsibility, and authority are related to greater perceived performance (Allen & Helms, 2002). It is possible to enhance production and reduce cost by offering extrinsic rewards, such as performance-based incentives, or profit sharing systems in manufacture, production or sales positions (Hsieh & Chien, 2011).

**Proposition 2b: In a situation of industry contraction-based decline, an efficiency-oriented HR strategy will use extrinsic rewards tied to employee output and specific reward systems that encourage cost reduction, and control, responsibility, and authority.**

We have already explained why compensating and training choices are crucial for an efficiency-oriented HR strategy. However, we briefly highlight planning and staffing choices too. For instance, narrow job designs and recruitment based on the fit between people and jobs contribute to exploit existing resources and capabilities (Kang & Snell, 2009). According
Proposition 2c: In a situation of industry contraction-based decline, an efficiency-oriented HR strategy will use narrow job designs to exploit existing resources and capabilities.

Proposition 2d: In a situation of industry contraction-based decline, an efficiency-oriented HR strategy will use recruitment and selection based on the fit between individuals’ current competence and job requirements.

Type 3 decline: Industry contraction-based and firm-based decline

Arogyaswamy and colleagues (1995) suggested two recovery strategies for firms with industry contraction-based decline and poor competitive positions, depending on whether the decline is long-term or cyclical respectively: scaling back to customer segments, and holding industry position. We now explain each of these turnaround responses.

Scaling back to customer segments

Although this is often difficult, a reasonable strategy consists of finding a niche in the industry that offers good possibilities and that is free or taken by even weaker competitors. Firms try to offer something valuable for their customers to differentiate from each other (Hsieh & Chen, 2011), either through price, product, marketing, distribution or service (Linneman & Stanton, 1991). For instance, as from the second half of the twentieth century,
the Japanese understood the new shipbuilding realities while the European shipbuilders were not able to sufficiently differentiate themselves from Asian shipbuilders, and adopted wrong decisions about where and how to compete (Poulsen & Søren-Fries, 2011).

How have some firms with both firm-based decline and long-term industry contraction-based decline managed to remain competitive? According to Arogyaswamy and colleagues (1995), firms have to search for a niche where their existing resources and capabilities are advantageous. By scaling back to valuable segments, employees further develop their skills to better match customers’ needs (Batt, 2000). Also, the outcomes of innovators and fast followers in a niche continuously exclude others from the game, but they need to continuously differentiate themselves from others (Tallman & Atchison, 1996). The differentiation strategy focuses on product development and early entry (Hsieh & Chen, 2011). We consider that the most appropriate HR strategy to succeed in a certain niche is the niche-oriented HR strategy. Through this strategy, the firm could develop and enhance differentiation of their human capital pool in situations of both firm-based and industry contraction-based decline.

However, it can also be possible that the employees do not possess the demanded competencies to compete in this segment. In this section, we explain the situation where the resources and capabilities have got the needed competencies to compete in the niche, and the situation where the company does not account for those demanded competencies, but it possess slack resources to develop them. But, firms targeting a niche may also apply retrenchment strategies to tackle the industry contraction-based decline, as they target a concrete and reduced customer segment and they probably do not retain all their employees. In this study we deal with the question of staffing practices to reduce the number of employees in a separate section entitled Responsible HR strategy, as workforce reduction should be managed responsibly (Cascio, 2002). Although workforce reduction is needed to
compete in a new niche it is not the only choice, and HR practices linked to recovery strategies should be most utilized to scale back to customer segments (Arogyaswamy et al., 1995).

In a niche, organizations struggle to be different from their competitors (Hsieh & Chen, 2011). Their employees adopt new ideas and accept risks. This behavior is also related to exploration, and the firm’s ability to look for new market opportunities and rejuvenate its capabilities in changing circumstances (Kang & Snell, 2009). A niche-oriented HR strategy will benefit from HR practices designed to detect new market opportunities.

**Proposition 3.1:** In a situation of both firm-based and long-term industry contraction-based decline, the recovery strategy to scale back to viable customer segments will require a niche-oriented HR strategy.

Following we analyze HR choices within this niching HR strategy. In order to target viable segments, general training based on future skills demands is a suitable strategy (Kang & Snell, 2009). General development practices such as cross-training are indicated for searching new opportunities (Kang & Snell, 2009; Sun & Pan, 2011). The idea is to encourage new knowledge or skills beyond employees’ present duties (Guthrie, 2001). Also, as employees start working with more value-added customers in a niche, they obtain more aptitudes and chances to accept responsibility (Batt, 2002). As employees gain better skills, experience, and knowledge, they become more valuable to the organization (Kang & Snell, 2009).

**Proposition 3.1a:** In a situation of firm-based and long-term industry contraction-based decline, a niche-oriented HR strategy will use extensive training and general development experiences to focus on future skills requirements.
In relation to compensation choices, an organization must reward employees with distinctive competencies, to attract and promote superior employees to obtain differentiation (Hsieh & Chen, 2011). Kang and Snell (2009) propose compensating systems based on employees’ knowledge or skills that stimulate them to learn and share new ideas. According to Hsieh and Chen (2011) organizations that want to encourage the innovation potential of their research and development or, professional employees should offer intrinsic rewards in addition to regular salaries, including flexibility and autonomy, significant recognition and feedback or, opportunity for development. By emphasizing intrinsic rewards, a firm can encourage professionals with distinctive knowledge, skills, and creativity to research and design unique products and services.

**Proposition 3.1b: In a situation of firm-based and long-term industry contraction-based decline, a niche-oriented HR strategy will use intrinsic rewards including autonomy of work, recognition and feedback, opportunity for personal growth and development and, human capital-based pay schemes to attract and foster superior employees.**

Firms can make choices in planning by designing work to encourage the individual discretion (Batt, 2002), or introducing job rotations to foster the employees’ knowledge (Jansen et al., 2005). Job rotations or formal and broad-defined job designs enlarge the choices and motivation for employees to develop different assignments (Lepak & Snell, 1999; Kang & Snell, 2009) and obtain opportunities for employees’ discretion in a niche.
CHAPTER 2: Bringing the study of organizational decline and turnaround into SHRM

**Proposition 3.1c:** In a situation of firm-based and long-term industry-contraction based decline, a niche-oriented HR strategy will use work design to provide opportunities for individual discretion or job rotations to expand workers’ knowledge base.

On the other hand, in the case of slack resources, one appropriate staffing choice is replacing non-core staff, and recruiting greater quality employees (Batt, 2002; Boyne & Meier, 2009) thus following a selection process based on employees’ potential aptitudes (Kang & Snell, 2009). Firms will retain and enhance employees’ adaptability and innovation to cope with changing environments (Hsieh & Chien, 2011). Employees with innovation orientation competencies recognize opportunities or problems and react to them. Employees with an adaptability orientation adjust to different circumstances and easily deal with diverse people (Diaz-Fernandez et al., 2013). Adaptability and innovation-oriented competencies are the most demanded competencies in order to differentiate in a niche, because they contribute to the development of service quality or product or process innovation which are important sources of differentiation.

**Proposition 3.1d:** In a situation of firm-based and long-term industry contraction-based decline, a niche-oriented HR strategy will follow selection process based on employees’ potential.

**Holding industry position**

If the company cannot find a niche or expand its position, a transitory option is to maintain employees (Arogyaswamy et al., 1995) while fixing human resource costs. We talk about a situation with a cyclical industry-contraction based decline and weak position, thus an
option can be to hold the industry position till the recovery of the industry. For instance, Spanish auto manufacturer groups have used these measures widely to bridge the gap until customer demand picks up again. Therefore, a maintenance-oriented HR strategy involves HR practices aiming to hold on to the firm’s industry position temporarily.

**Proposition 3.2:** In a situation of both firm-based and cyclical industry contraction-based decline, the recovery strategy to hold on to its industry position will require a maintenance-oriented HR strategy.

Common cost-cutting measures include reducing working hours (Cameron, 1994), mandatory short weeks, restricting overtime (Chu & Siu, 2001), sabbatical leaves (Cascio & Wynn, 2004), or transfers to part time (Cameron, 1994). In noncore areas, firms can rely on natural attrition (Cameron, 1994; Zatzick et al., 2009) or impose hiring freezes (Cascio, 2002; Zatzick et al., 2009). In a crisis, other practices include pay cuts (Chu & Siu, 2001) or unpaid vacations (Cascio, 2002). These downsizing measures can be applied for a certain period of time, but they cannot be continued long without affecting employee morale (Mellahi & Wilkinson, 2010). Firms have to find the right-mix between cost-cutting measures and capability development (Mohrman & Worley, 2009).

**Proposition 3.2a:** In a situation of firm-based and cyclical industry contraction-based decline, a maintenance-oriented HR strategy will use temporary pay cuts.

**Proposition 3.2b:** In a situation of firm-based and cyclical industry contraction-based decline, a maintenance-oriented HR strategy will use reduced working hours, mandatory short weeks, overtime restrictions, sabbatical leaves, and transfer to part time.
CHAPTER 2: Bringing the study of organizational decline and turnaround into SHRM

Proposition 3.2 c: In a situation of firm-based and cyclical industry contraction-based decline, a maintenance-oriented HR strategy will use natural attrition or hiring freeze for non-priority areas.

Responsible HR practices

When the selected response is to reduce the scope of firm activities or simply the human resources are not valuable, many employees in non-core areas who cannot be retrained will lose their jobs. This workforce reduction will depend not on the source of decline, but on the perception of the severity of the decline that has weakened the competitive position (Hofer, 1980; Robbins & Pearce, 1992; Musteen et al., 2011; Trahms et al., 2013). Cascio’s (2002) valuable contribution to the downsizing literature on a responsible restructuring strategy focuses on “people as assets to be developed”, arguing that even if a company has to reduce headcounts, it should be done responsibly. Responsible downsizing (Cascio, 2002) means offering employees in non-core businesses early retirement packages, providing outplacement services and sufficient notice of layoffs, communicating clearly and inclusively about the layoff criteria (Zatzick et al., 2009) and offering a voluntary resignation program in non-core areas with a reasonable severance package (Cascio & Wynn, 2004). However, it is not advisable to run voluntary resignation programs with large benefit packages for all employees, as the offer may be taken up by essential employees, leaving the organization without some of its own key staff (Mirabal & DeYoung, 2005).
2.4 Some concluding comments and implications for SHRM

This chapter presents a contextual model of HR strategies and practices in declining organizations based on the complex interaction between internal and external causes of decline. We match sources of decline—firm based decline and industry contraction based decline—with turnaround strategies, retrenchment and recovery, with an emphasis on recovery choices in line with Arogyaswamy and colleagues (1995).

--- Insert Table 2 about here ---

The above insight contributes to develop SHRM and HRM interventions in the face of organizational decline. We propose a range of HR strategies and practices depending on these sources of decline and turnaround strategies. Table 2 summarizes our proposals for HR responses in declining organizations. This study identifies four suitable HR strategies in relation to the sources of decline. Firstly, in a situation of firm-based decline, a flexibility-oriented HR strategy aims to obtain flexible responses to the market to develop new product or service offerings. Secondly, in a situation of industry contraction-based decline, an efficiently-oriented HR strategy aims to obtain efficient responses in order to expand the firm’s position in the industry. Thirdly, in a situation of both firm-based decline and long-term industry contraction-based decline, to scale back to customer segments, a niche-oriented HR strategy reinforces differentiation of human resources to search for new opportunities in a niche. Fourthly, to hold the industry position, a maintenance-oriented HR strategy can retain human resources temporarily. In the case of all sources of decline, if the alternative is workforce reduction, it should be conducted responsibly, in line with the Responsible Downsizing Strategy (Cascio, 2002).
CHAPTER 2: Bringing the study of organizational decline and turnaround into SHRM

Our aim is not to propose an exhaustive list of HRM practices, but a bundle of HRM choices that firms may adopt in declining organizations as alternatives to workforce reduction. Although for the sake of clarity in the model we classify HRM practices according to training, staffing, planning or compensating choices, the bundling consideration is important (Bello-Pintado, 2015) as employees are exposed to multiple practices simultaneously (Huselid, 1995; Jiang, Lepak, Han, Hong, Kim, & Winkler, 2012).

Furthermore, due to the complexity of the sources of decline, companies may adopt a combination of these HR strategies, although companies are likely to be more successful in turning around the decline if they choose the most suitable alternative. In this sense, managers respond according to their insight of the decline and not to the real cause of the decline (Ford, 1985; Ford & Baucus, 1987), and it is therefore likely that companies will change their strategy as the cause of the decline becomes more evident. Managers often initially attribute the decline to external factors (Nystrom & Starbuck, 1984), and react accordingly by trying to hold the industry position through a maintenance-oriented HR strategy. However, once they realize the problem is mainly internal, they start applying more strategic responses, such as flexibility-oriented HR strategies, since when top managers attribute decline to internal sources as opposed to external sources they are more likely to show greater levels of strategic reorientation in response to declining performance (Barker & Barr, 2002). Hence, as organizational decline involves complex interactions between the causes and the competitive position, in situations of organizational decline HR strategies and practices evolve in line with management’s reactions to it.

As stated in the justification of the proposals, the company’s competitive position plays a moderating role in choosing the best strategy for each situation of decline (Arogyaswamy et al., 1995). Hence, turnaround strategies and consequent HR strategies and practices should be intensified when the company lacks the required resources and skills and is therefore in a
weak competitive position. Both slack resources and a strong competitive position provide the company with some leeway to adopt turnaround strategies of retrenchment or recovery. But the situation of decline forces the firm to take initiatives in the field of human resources and other areas, as several authors have referred to inaction as the worst choice in a crisis (Hambrick & D’ Aveni, 1988; Mone, McKinley, & Barker, 1998).

Following the contextual approach, this model considers political, legal, competition, economic and cultural/social changes, as well as internal aspects from the organizational decline literature (Datta et al., 2010; Scherrer, 2003; Trahms et al., 2013). It therefore provides an initial framework for future research, to analyze in depth international or local HR practices in declining organizations. The literature on SHRM in declining companies might be enriched by research analyzing, for example, the HRM practices companies adopt in situations of firm-based decline in various geographical areas, with different employee regulations or, studying the use of an individual HRM practice such as training, in situations of either firm-based or industry contraction-based decline across different countries. Furthermore, considering alternative options to prevent workforce reduction will benefit society by deliberately not adding to the unemployment figures; this is also an example of how firms interact with their environment. Moreover, this contextual model of HR in declining organizations offers a framework for the study of HRM during acquisitions and strategic alliances in situations of firm-based decline, when there is a need to find strategic responses to the market.

The framework suggested here can be used to conduct research that takes a contextual perspective on applying HR responses in declining organizations. We believe that the proposed model provides a challenging basis for future research on SHRM and that it may enrich the existing literature. As Jackson and colleagues (2014) have pointed out, little
attention has been paid to the internal or external factors, and the relationship between those influences and the HRM system.

Our propositions are congruous with appeals for models that include the complexity and changeability of strategy and HRM (Boswell, 2006; Bowen & Ostroff, 2004; Colbert, 2004; Guest, 2011; Paauwe, 2009; Wang, Hutchins, & Garavan, 2009).

For HR practitioners, our model stresses on the importance of detecting the causes of decline and the competitive position when proposing appropriate HR strategies and practices. SHRM in declining organizations is not just a matter of pay cuts, hiring freezes, layoffs, or reducing hours. HR professionals can increase their strategic value, and therefore the value of HR practices, by tailoring their response to the source of decline.
CHAPTER 2: Bringing the study of organizational decline and turnaround into SHRM

References


CHAPTER 2: Bringing the study of organizational decline and turnaround into SHRM


CHAPTER 2: Bringing the study of organizational decline and turnaround into SHRM


CHAPTER 2: Bringing the study of organizational decline and turnaround into SHRM


CHAPTER 2: Bringing the study of organizational decline and turnaround into SHRM


CHAPTER 2: Bringing the study of organizational decline and turnaround into SHRM


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CHAPTER 2: Bringing the study of organizational decline and turnaround into SHRM


CHAPTER 2: Bringing the study of organizational decline and turnaround into SHRM


58
### Tables

#### Staffing

<table>
<thead>
<tr>
<th>a)</th>
<th>Layoffs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>b)</td>
<td>Early retirements.</td>
</tr>
<tr>
<td>c)</td>
<td>Golden parachutes.</td>
</tr>
<tr>
<td>d)</td>
<td>Early resignation and buy-out package.</td>
</tr>
<tr>
<td>e)</td>
<td>Advance notice of layoffs.</td>
</tr>
<tr>
<td>f)</td>
<td>Hiring freeze.</td>
</tr>
<tr>
<td>g)</td>
<td>Natural attrition.</td>
</tr>
<tr>
<td>h)</td>
<td>Transfer to part time.</td>
</tr>
<tr>
<td>i)</td>
<td>Outplacement.</td>
</tr>
<tr>
<td>j)</td>
<td>Continue hiring and growing in priority areas.</td>
</tr>
<tr>
<td>k)</td>
<td>Reduce or stop the intake of staff.</td>
</tr>
</tbody>
</table>

#### Planning

<table>
<thead>
<tr>
<th>a)</th>
<th>Restricted overtime.</th>
</tr>
</thead>
<tbody>
<tr>
<td>b)</td>
<td>Sabbatical leave.</td>
</tr>
<tr>
<td>c)</td>
<td>Unpaid vacations.</td>
</tr>
<tr>
<td>d)</td>
<td>Mandatory short weeks.</td>
</tr>
<tr>
<td>e)</td>
<td>Redesign tasks.</td>
</tr>
<tr>
<td>f)</td>
<td>Organizational redesign: Eliminate functions, layers or positions.</td>
</tr>
</tbody>
</table>

#### Training and Development

<table>
<thead>
<tr>
<th>a)</th>
<th>Identify, protect, and mentor individuals with strong management/leadership talent in the organization.</th>
</tr>
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<tbody>
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<td>b)</td>
<td>Protect and promote educational programs in the organization (promote intellectual agility).</td>
</tr>
<tr>
<td>c)</td>
<td>Emphasize leadership (in particular, strategic leadership).</td>
</tr>
<tr>
<td>d)</td>
<td>Decentralize the organization, empowering key individuals (the survivors).</td>
</tr>
<tr>
<td>e)</td>
<td>Cut funding for staff development.</td>
</tr>
<tr>
<td>f)</td>
<td>Emphasize team over individual effort and team building among the various remaining units.</td>
</tr>
<tr>
<td>g)</td>
<td>Identify and protect core competencies.</td>
</tr>
<tr>
<td>h)</td>
<td>Implement practices that foster the morale and welfare of (survivors) employees.</td>
</tr>
<tr>
<td>i)</td>
<td>Continue developing priority areas.</td>
</tr>
</tbody>
</table>

#### Appraising

<table>
<thead>
<tr>
<th>a)</th>
<th>Discourage promotions.</th>
</tr>
</thead>
<tbody>
<tr>
<td>b)</td>
<td>Communicate clearly, candidly, and inclusively.</td>
</tr>
</tbody>
</table>

#### Compensating

| c) | Pay cuts(%) |

---

**Table 1. HR practices in declining organizations**
## Building HR strategies and practices in the face of organizational decline

<table>
<thead>
<tr>
<th>SOURCES OF DECLINE</th>
<th>TURNAROUND STRATEGY</th>
<th>HR STRATEGY</th>
<th>HR PRACTICES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>TRAINING</td>
<td>COMPENSATORY</td>
</tr>
<tr>
<td><strong>FIRM-BASED DECLINE</strong></td>
<td>RECOVERY STRATEGY</td>
<td>FLEXIBILITY ORIENTED HR STRATEGY</td>
<td>Extensive</td>
</tr>
<tr>
<td></td>
<td>To build or rebuild resources and capabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>INDUSTRY CONTRACTION-BASED DECLINE</strong></td>
<td>RECOVERY STRATEGY</td>
<td>EFFICIENCY ORIENTED HR STRATEGY</td>
<td>Specific and intensive</td>
</tr>
<tr>
<td></td>
<td>To gain efficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BOTH FIRM-BASED DECLINE AND INDUSTRY CONTRACTION-BASED DECLINE</strong></td>
<td>RECOVERY STRATEGY</td>
<td>NICHE ORIENTED HR STRATEGY</td>
<td>Focus on future skills</td>
</tr>
<tr>
<td></td>
<td>Recovery (long-term industry contraction-based decline)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Recovery (cyclical industry contraction-based decline)</td>
<td>MAINTENANCE ORIENTED HR STRATEGY</td>
<td>Pay cuts</td>
</tr>
<tr>
<td><strong>ANY SOURCE OF DECLINE</strong> (High severity of decline)</td>
<td>RETRENCHMENT STRATEGY</td>
<td>Retrenchment (To reduce headcounts)</td>
<td>RESPONSIBLE HR STRATEGY</td>
</tr>
</tbody>
</table>

Table 2: Contextual model of HR strategies and practices in declining organizations
CHAPTER 3: LINKING SOURCES OF DECLINE, TURNAROUND STRATEGY AND HR STRATEGIES AND PRACTICES: THE ANALYSIS OF IBERIA AIRLINES CASE

3.1 Introduction

3.2 Theoretical framework

3.3 Methods/ data collection

3.4 Data analysis and findings

3.5 Discussion of findings

3.6 Conclusions

References

Tables
3.1 Introduction

The European aviation industry has been immersed in an important transformation, since the mid-1990s. It is a worldwide sector in which traditional legacy carriers face similar challenges, particularly the competition from low cost companies (Lange, Geppert, Saka-Helmhout & Becker-Ritterspach, 2015). This situation has led many traditional airline companies to face tough moments, including periods of organizational decline (Lawton, Rajwani, & O’Conor, 2011). To turnaround this situation, the legacy airlines are adopting some characteristics of the low-cost companies (Bamber, Gittell, Kochan, & von Nordenflycht, 2009). They have done so by reducing fares on routes where they encounter direct pressure from new competitors, reducing staffing or modifying compensating structures, among other characteristics (Barry & Nienhueser, 2010). Thus, it seem that a major problem for legacy carriers companies have been their obsolete structural characteristics, market rules have now changed, now it is “a matter of carrying passengers and not of managing airplanes” (Humanes & Alba, 2002, p. 40). The way in which companies react to similar challenges such as competition or rigid structural costs, depends on their internal organization to respond and, thus the human resources management (HRM) turns to be strategic to turnaround the situation.

Literature has appealed to the importance of the HRM in the turnaround process (Arogyaswamy, Barker, & Yasai-Ardekani, 1995). However, there is a lack of integrative studies analyzing the relationship between the influence of firm-based sources of decline, the turnaround strategy and the HR strategies and practices. Researches cover part of these three elements but not this entire link (Schuler, 1987;
CHAPTER 3:

Linking sources of decline, turnaround strategies and HR: Iberia Airlines

Wight & Snell, 1998; Cascio, 2002). Consequently, this study aims to cover this research gap and builds a contextual model that explores this relationship.

Iberia airlines is an interesting case study as their turnaround is lasting more than other airlines companies such as British Airways or Lufthansa according to the analysis of the ROA ratio used to measure the decline (Ndofor, Vanevenhoven, & Barker, 2013). This Iberia’s difficulty to turnaround indicates that its decline has been intensified by firm-based or own internal sources of decline (Airlines Business, 2015; Humanes & Alba, 2002). Furthermore, Iberia is a major company listed in the stock exchange that has faced important strategic challenges included changes derived from the liberalization of the airline sector and privatization. Due to these important facts, IBERIA has been immersed in a delicate and massive HRM restructuring process that we will study in depth as it contributes to explain our research problem.

The results of this study are important for the turnaround literature as they introduce explicitly the role of the HRM in the turnaround strategies of declining companies, because firms adopt numerous human resource choices in this situation but they do not consider a clear match with the turnaround strategy (Cascio & Wynn, 2004; Chu & Siu, 2001; Tsai & Yen, 2008). Furthermore, our results are also relevant for the SHRM literature, as there is a lack of studies that analyze the HRM considering all aspects of the turnaround strategy and not only the retrenchment aspects.

In the remainder of this chapter, we first present the tenets of organizational decline and turnaround literature and HR strategy and practices in relation to this research. Second, we explain the case-study empirical evidence of relations of firm-based decline, turnaround strategy and HR strategy and practices. Finally, we describe our main findings, conclusions and implications for future research.
CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

3.2 Theoretical framework

Organizational decline has been defined as the deterioration of a company’s performance due to a consistent decrease in its internal resources (see, e.g., Cameron, Kim, & Whetten, 1987; Carmeli & Schaubroeck, 2006; D’Aveni, 1989; Francis & Desai, 2005; Mckinley, Latham, & Braun, 2014; Musteen, Liang, & Barker, 2011); if not dealt with, decline may result in the company’s eventual disappearance (Francis and Desai, 2005).

The sources of decline are a crucial aspect of the decline as determine the company response (Ford, 1985). Organizations enter in this state when they are unable to recognize or adapt to the external or internal factors that affect the firm's long-term survival (Weitzel & Jonsson, 1989). The difficulty in perceiving decline factors arises as a result of their multiple sources, both external and internal. External or industry contraction-based sources of decline will lead to a reduction in the prospects of companies competing in specific industries if they do not adapt to new external dynamics (Whetten, 1987). In contrast, internal or firm-based problems could be the cause of the poor performance of a company operating in a growing industry (Cameron, Whetten, & Kim, 1987).

Industry contraction-based (or external) decline is related to economic, technological, competition, legal, political or cultural and social changes (Datta, Guthrie, Basuil, & Pandey, 2010; Mellahi and Wilkinson, 2004; Scherrer, 2003; Trahms, Ndofor, & Sirmon, 2013). Firm-based (or internal) decline is related to financial problems, structural characteristics of an organization (size or operating procedures), operational deficiencies, governance (board characteristics, ownership
CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

structure), HR policies and employees’ attributes (Datta et al., 2010; Scherrer, 2003; Trahms et al., 2013). However, the internal or the external sources of decline involve a complex interaction between the two (Mellahi & Wilkinson, 2004). To discover the sources of decline, management needs to acknowledge and address the root of the problem (Barker, 2005). Moreover, some scholars have pointed out that firm-based factors such as management inability to react to decline are the biggest causes of the decline (Balgobin & Pandit, 2001; Scherrer, 2003).

On the other hand, turnaround consists of diverse actions adopted to recover the company’s performance after a serious decline (Balgobin & Pandit, 2001), and quite often turnaround strategy is aimed to avoid bankruptcy (Clapham, Schwenk, and Caldwell, 2005). Literature refers to two main turnaround strategies: retrenchment and recovery (Pearce & Robbins, 1993; Robbins & Pearce, 1992). Retrenchment strategies, also known as operating actions, are aimed to achieve cost and asset reductions (Michael and Robbins, 1998). Conversely, strategic recovery strategies are implemented to alter or adjust the arenas within which a company competes (Barker and Duhaime, 1997; Ndofor et al., 2013). Pearce and Robbins (1993) point to the universality of retrenchment in the turnaround process, without considering the nature of the underlying problems. These authors contend that fighting the particular causes of decline must wait until the recovery phase. In contrast, other scholars have claimed that the turnaround responses have to be appropriate to the sources of decline (Arogyaswamy et al., 1995; Hofer, 1980; Ndofor et al., 2013). If decline is due to a weak strategic posture, retrenchment will not solve the problem (Ndofor et al., 2013) and will worsen employee performance (Datta et al., 2010) when the company is most
CHAPTER 3:

Linking sources of decline, turnaround strategies and HR: Iberia Airlines

vulnerable to failure. In this vein, we share the position of these latter authors in
considering that turnaround strategies should be linked to the sources of decline.

Firm-based decline benefits most from recovery strategies (Ndofor et al., 2013)
and industry-contraction based decline implies more retrenchment strategies, as the
industry reduces its size, but the need for retrenchment or recovery strategies is
moderated by the strong or weak competitive position of the company and the severity
of the decline (Arogyaswamy et al., 1995). However, in most dramatic situations with
both sources of decline affecting to the firm performance, the interaction of
retrenchment and recovery responses allows turnaround firms to consolidate turnaround
performance (Schmitt & Raisch, 2013).

In addition, Arogyaswamy and colleagues (1995) stated the adequate
management of human resources could be advantageous in the turnaround strategy. We
agree with these authors and we consider turnaround responses from the human
resource management side in this study. Although, turnaround literature have studied
the relationship between sources of decline and turnaround strategy, as we have already
explained (Arogyaswamy et al., 1995; Hofer, 1980; Ndofor et al., 2013), it does not
exist literature analyzing sources of decline, turnaround strategy and SHRM. Schuler
(1987) proposed a turnaround strategy aiming to cut costs, but he did not take into
account the sources of decline. Wright and Snell (1998) explored a model of fit and
flexibility in SHRM under unpredictable and changing demands. They insist on the
importance of developing a flexible organization. There are least two ways to create
flexibility (Van der Meer and Ringdal, 2009). The numerical flexibility is the capacity
to adapt the amount of workers in response to market alterations. The functional
flexibility consists of letting the same employees fulfill diverse kind of tasks or jobs as
CHAPTER 3:

Linking sources of decline, turnaround strategies and HR: Iberia Airlines

needed. Despite the crucial contribution of this fit and flexible SHRM model, this model is not specifically focused on the turnaround literature. However, we consider that the fit and flexible constructs are very interesting for our research.

Furthermore, the HR strategy most often mentioned is downsizing—usually referred as employment downsizing (Cascio, 2002), even if it also involves diverse measures such as physical or financial reductions (DeWitt, 1998). Tsai & Yen (2008) redefine downsizing as a set of managerial actions taken by companies seeking to adapt to external factors, solve management problems, and improve efficiency to increase productivity and competitiveness. On the contrary, the literature reveals that downsizing may reduce organizational slack or cut the company down to an inadequate size (Luan et al., 2013). This employment downsizing strategy does not take into account the sources of decline (firm based or industry contraction) or the turnaround strategies, and we consider that it is important to enrich the SHRM field with the incorporation of the analysis of the sources of decline and the turnaround strategies. Interestingly, most often, businesses fail because of firm-based factors (Francis & Desai, 2005; Scherrer, 2003). In accordance with Schuler and Jackson’s (1987) practice menu classification, we aim to investigate what training and development, planning, staffing, or compensating choices are most needed to cope with firm-based decline.

As we have previously mentioned, there is a gap in the literature linking sources of decline, turnaround strategy and SHRM. Due to this lack of theoretical research, we need to elaborate theory to explain the relationship between these three elements through a case study research. Concretely, we focus on firm-based sources of decline, as according some authors these are the main causes of decline (Balgobin & Pandit, 2001; Scherrer, 2003). To elaborate theory we use the case study methodology (Eisenhardt,
CHAPTER 3: Linking sources of decline, turnaround strategies and HR: Iberia Airlines

1989), as scholars have used case studies to develop theory about diverse topics (Eisenhardt & Graebner, 2007).

This study therefore seeks to expand and build upon our understanding of the sources of decline, turnaround strategies and HRM strategies and practices, by exploring the central research question: What HRM strategies and practices contribute to the turnaround under firm-based decline?

3.3 Methods/ data collection

As we aim to build theory of HRM systems in declining organizations, we will conduct a case study (Yin, 1994; Eisenhardt, 1989). We analyze the case study of IBERIA to investigate HR strategies and practices adopted by this company to turnaround. Analyzing in-depth data since Iberia’s first moments of privatization (1999) allows us to generate novel insights into the relationship between sources of decline, turnaround strategy and HRM strategies and practices in this case study.

Research context and case selection

There are at least three important reasons for studying the IBERIA case.

First, Iberia, as the largest Spanish airline company (IAG, 2014), has had sufficiently formal HRM to allow as investigating in depth the relations among firm-based decline, turnaround strategy and HRM strategies and practices. Moreover, Iberia employs around 16,177 people, and had revenues of € 4,567 million in 2015.

Second, according to company’s financial reports, the company had to cope with important strategic challenges such as financial problems due to failure to adapt to the
CHAPTER 3:

Linking sources of decline, turnaround strategies and HR: Iberia Airlines

economic situation and fierce competition, labor unrest as from the deregulation, high costs and low productivity. Others causes of decline were higher fuel costs, weaker European markets, landing fees and security charges. So, Iberia has been affected by deep internal causes of decline (financial problems, labor unrest, rigid structural costs or, low productivity) that has worsened its position to tackle external problems. It seems that industry-contraction based decline is not the biggest problem in the airline sector, as low-cost carriers showed growth and profitability (Barry & Nienhueser, 2010) and, this growth occurred despite a series of airline crises including September 11, SARS and sustained high oil prices (Fageda, Jimenez, & Perdiguero, 2011). Also, Gulf carriers, such as Emirates Airline, Etihad Airways, and Qatar Airways, have expanded aggressively, creating a wide global network (Dresner, Eroglu, Hofer, Mendez, & Tan, 2015). Despite the opportunity for growth, Iberia had the potential to win in the market but had failed to take advantage of the opportunity, due to failure to internally adapt to such changes.

And third, other European legacy carriers such as British Airways or Lufthansa turnaround much earlier than Iberia (Table 1); Iberia’s initial initiatives did not end in a sustainable recovery, as it happened in other airlines, and only recently, the company has managed to turnaround (IAG, 2015). Consequently, it is interesting to study why these initiatives failed, especially the human resource related initiatives and the reasons that lead to the recent success.

- - - - - Insert Table 1 about here - - - - -

In summary, Iberia is a major company listed in the stock exchange that has faced important strategic challenges included changes derived from the privatization.
CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

Due to these important facts, major company, strategic challenges and privatization, IBERIA has been immersed in a delicate and massive HRM restructuring process that we aim to study in depth as it fits our research problem. With the beginning of liberalization of the European airline sector in the late 1990s (Fageda, 2006), airline firms were privatized with the target of assuring their competitive position. In this regard, we have considered IBERIA situation as from 1999, a crucial moment for the company due to its privatization ended in April 2001 when its shares were listed for the first time on the stock exchange.

Data collection

Case studies require a great amount of information about the company, in our case, from two different sources, archival information or secondary data and interviews which are common in this type of research (Yin, 1994; Eisenhardt, 1989).

We collected secondary data in the form of annual reports (Iberia, 1999-2015) and industry analysis (CAPA, Center for Aviation Analysis, 2014; The truth of Iberia, 2013; Flightglobal), exhaustive documentation of collective layoffs (3 main Redundancy Plans\(^1\) – 72/2001, 35/2005 and, 187/2014 –, with different extensions, more than 50 legal documents about the collective dismissal process with information about the HR practices adopted by the firm to turnaround the company), collective bargaining

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\(^1\) Labor redundancy plan or its Spanish term “Expediente de regulación de Empleo (ERE)”: It’s a collective layoff procedure which has to be complied with when in a 90-day period, the lay-off affects at least: (i) 10 workers in companies that employ less than 100 workers; (ii) 10% of the number of workers in a company employing between 100 and 300 workers; and (iii) 30 workers in companies that employ more than 300 workers. It shall be based on economic, productive, technical or organisational reasons. In this case, a consultation period with the workers’ legal representatives must take place. Likewise, the employer must comply with certain information requirements such as providing documentation to the Labour Authorities as well as to the workers’ legal representatives.
agreements (7 for Ground Staff, 2 for Flight Engineers, 5 for Cabin Crews and 3 for Pilots), a mediation agreement in 2013 and, specialized magazines, allowed us to triangulate our understanding of sources of decline, turnaround strategy and, HR strategy and practices.

Concerning to primary source of information, we have interviewed informants at various levels in the company and in the industry, including (1) the Management Team, (2) the HR Management Team, (3) trade union representatives, and (4) other industry experts and staff. We have first interviewed an executive to enrich our understanding of the root of the problem and the corporate responses. Immediately, we interviewed 3 unionists (ground staff) that had been at the negotiations, to get their insights about management decisions and their role in this process, and we conducted online interviews through Skype with two HR executives from Iberia and Iberia Express, then we talked to one unionist representing the flight personnel (TU/IB/4) and we also met with the mediator, in the most recent labor conflict, who proposed the Mediation Agreement in 2013 (E/IB/1). Finally, we attended an academic conference with Iberia CEO, Luis Gallego, and we also interviewed through Skype to the Iberia HR Manager (See table 2 for a list of conducted interviewed). Interviews have lasted between 45 minutes and two hour and half. Guided by extant research, we have started with structured interviewing to understand the company strategic context, turnaround responses and HR strategies and practices. We have asked informants to describe Iberia’s challenges, responses and, especially HR strategies and practices. We have adopted a “courtroom” style of interviewing (Eisenhardt & Graebner, 2007). We have recorded the interviews, but also took extensive notes in order to obtain accuracy (Miller, Cardinal, & Glick, 1997).
3.4 Data analysis and findings

We describe four stages allowing us to obtain theoretical interpretations from data (Gioia, Corley, & Hamilton, 2013; Smith, 2014). We develop a detailed case study about Iberia, we identify key issues between decline, plans and HRM, we detect patterns of sources of decline, selected turnaround strategy and selected HR strategy and practices, and we incorporate findings to build theory. However, the process will be iterative to improve insights and generalizability (Locke, Golden-Biddle, & Feldman, 2008).

Stage I: Develop thick description about Iberia

Iberia Líneas Aéreas de España (Iberia) was founded in 1927, and it’s a subsidiary of International Airlines Group (IAG). It has been affected by the European aviation deregulation process started on 1987 and ended late in the 90s which facilitated the entrance of low-cost competitors. Parallel to this liberalization, Iberia’s privatization process ended in April 2001, when shares were listed on the stock exchange (Iberia, 2001).

The company has got four business divisions, including passenger transport, aircraft maintenance, airport handling services and cargo. Iberia is the traditional Spanish legacy carrier, it is headquartered in Madrid, and employed around 6,656 females –ground 4,085 and flight 2,571- and 10,721 males – ground 8,581 and flight 2,140- (Iberia, 2015). Iberia's passenger transport division is the company’s core business, together with its wholly-owned Iberia Express unit and its franchise partner
CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

Air Nostrum. According to Iberia web page, the company serves more than 120 destinations across 46 countries in North America, Europe, Africa and the Middle East, operating more than 600 flights per day. It also provides transportation services with 8,500 flights per day through code-sharing. Therefore, Iberia operates through a large network serving three major markets: Spain, Europe and the Americas. Also, Iberia is a fully-fledged member of the Oneworld megacarrier, one of the largest airline groups in the world.

The company's aircraft maintenance division inspects, maintains and repairs airframes, aircraft engines and parts of the Iberia and others companies’ fleet. Iberia's airport handling services division offers aircraft, passenger, baggage and freight handling services. The company offers handling services in around 41 Spanish airports and two international airports. The company's cargo division manages Iberia's cargo terminals and handles cargo carried by Iberia and around another 60 customer airlines. It has freight terminals in Madrid, Barcelona, Tenerife, Gran Canaria, Bogota, Caracas, Havana and Mexico City.

According to 2014 Iberia’s Annual Report, Iberia’s return amounted €391M in 2014, but returns were negative in the 3 previous years. Revenues from operations increased €18M (to €4,122), mostly due to handling services. In relation to the traffic statistics, Iberia Group’s capacity was up to 3,6%, while demand grew by 2,9% in 2014. Iberia is recognized as a company with a leading position in the Europe and Latin America markets. However, it encountered serious problems when competing in the European market due to the intense rivalry of new, low-cost competitors which were growing fast in the Spanish market. Nowadays, Iberia has got a leadership position
CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

across the Atlantic, but it still has to build a stronger profitability position intra-Europe.
In order to deeply analyzed Iberia case study, we consider it is interesting to remind some key historic moments within the company as from 1999, the starting point of this airline company’s privatization. See main events timeline in table 3.

--- Insert Table 3 about here ---

**Stage II. Identify key issues: decline, plans and HRM measures**

Decline

Decline literature states that a decreasing return on assets (ROA) tendency for a period of 2 or 3 years is a valid measure of the decline (Ndofor et al., 2013; Winn, 1997; Greve, 2011), although a firm can be in decline earlier than the performance decrease is visible (Hambrick & D’Aveni, 1988). We observe Iberia’s ROA performance and we conclude that the company has suffered a decline in certain moments, from 1999 to 2001, and most dramatically from 2007 to 2009 and 2010 to 2012 (See table 4). In 2014, “Iberia showed six successive years of losses and accumulated more than EUR 1.1 billion of operating losses since 2008” (CAPA, 2014). Moreover, comparing Iberia’s ROA with other European Legacy carriers’ ROA, Iberia shows the most dramatic situation according to the ROA ratio. Although, all European legacy carriers face difficult moments, companies such as British Airways or Lufthansa are recovering before Iberia (See previous table 1).

--- Insert Table 4 about here ---

We have analyzed Iberia’s main facts and wording within the reports, news and interviews related to decline, we especially scan for words such as “crisis”, “problems”,

75
“affect”, “conflict”, “decrease”, “reduce”, “looses”, among other words and, generated a list of sources of decline. Consequently, salient major causes of decline are: labor conflicts, low-cost carrier competition, high and rigid structural costs, low productivity, fall in operating revenues, significant loss, drop in earnings, European air traffic congestion crisis, wars, terrorist attacks, fuel prices, drop in demand, insurance costs, or world economic slowdown. Nevertheless, Luis Gallego, Iberia’s CEO, clearly expressed the characteristic of the company decline when he declared that “the main challenge when he arrived, in March 2013, lay in winning the unions over IAG’s plan” and he added that “they had a big gap in their costs with their competitors” (Airline Business, 2015; p.22).

Company plans

In order to tackle of these problems, different strategic plans were adopted by the company. The first of them, the Master Plan 1997-1999 set objectives for the reduction of costs and an increase in productivity (Iberia, 1999). The second, the Master Plan 2000-2003, proposed creating value through three objectives: profitable growth, increased productivity and development of alliances (Iberia, 2001). However, during this period, the drop in demand following the September 11 attacks together with the problems caused to Iberia by the pilot’s labour union (SEPLA) led management to elaborate a Contingency Plan in 2001 aiming to reduce flights or, discontinue routes (Iberia, 2001)

Following, the pressure from low-cost airlines and the excess capacity in Europe forced Iberia to adopt the Master Plan 2003 - 2005 for cost-cutting measures and productivity enhancement (Iberia, 2003). Later, the Master Plan 2006-2008 set three
priorities: growing selectively restructuring its network, improving productivity and enhancing the service quality for customers (Iberia, 2005).

In 2009, in view of the repercussions of the crisis, Fernando Conte and later next chairman Antonio Vázquez implemented a Contingency Plan, intended to maintain the company financial position, cut costs and defend its revenues on the principal market (Iberia, 2009). Afterward, the new strategic plan, Plan 2012, aimed to recover profitability in the core business of air transport, to guarantee the company’s viability (Iberia, 2012). In this regard, the company’s organization was restructured to bring it in line with its strategy: Iberia Air Transport (Commercial & Customers Production), Iberia Maintenance, Iberia Airport Services.

In January 2011, under Chairman Vazquez’s mandate, Iberia and British Airways merged into IAG. The integration aimed to place the group in a better strategic position within an extremely competitive industry (Iberia, 2011) and, search of efficiencies, for example, in procurements, fleet orders, airport operations, or handling, among others objectives (Airline Business, 2005; IAG, 2011; M/IB/1). A few months before the arrival of Luis Gallego, the Transformation Plan was developed in order to stop the drop of Iberia’s operating cash flows and obtain a competitive cost level. This plan was replaced by Future Plan to “build a sustainable and profitable future” (IAG, 2014;p.19).

The implementation of different strategic plans, combined with the development of several contingency plans, highlight the company’s difficulties to face the reiterative crisis situations for Iberia. However, measures adopted have led to the company’s recovery. As Luis Gallego claimed “the turnaround in Iberia has been truly fantastic” (IAG, 2014;p.7), providing it with robust finance from which to renew its aircrafts and
CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

launch new routes (IAG 2014). The review of these strategic responses will be very valuable for our analysis of stage III, aiming to detect patterns of turnaround strategies.

HRM measures

We show Iberia headcounts (See table 5), in order to have an overview of the company in terms of personnel during our period of analysis from privatization to nowadays. Obviously, the number of employees seems to have dramatically decreased closely to the 40%.

- - - - - Insert Table 5 about here - - - - -

According to the different annual reports, Iberia has submitted three different labor force redundancy plans, redundancy proceeding 72/2001, continuously extended till 2015, proceeding 35/2005, and proceeding 187/2014. In 2001, the Spanish Government partially approved the Labor Force Reduction Plan (72/2001) submitted by IBERIA, affecting 2,515 employees of all categories (207 pilots, 520 cabin crew members, 13 flight technicians and 1,775 ground employees). For instance, this plan was applied to flight engineers as a result of the removal of the B-747 fleet. It was impossible to reach this agreement in 2001 with the pilots, and all the redundancies were voluntary. Also, during the 2003-2005 Master Plan implementations, a Rejuvenation Plan was enhanced using voluntary retirements. Furthermore, the proceeding 35/2005 authorized the end of 1,074 contracts of ground staff working at Spanish airports. Interestingly, ground staff (handling and maintenance) was
CHAPTER 3: Linking sources of decline, turnaround strategies and HR: Iberia Airlines

dramatically affected by the liberalization as others companies entered into the market, where previously Iberia has been with no competitors (TU/IB/1 & 4).

Most recently, in July 2014, a new Redundancy Plan was signed with the unions that allows 1,427 exits additional to the 3,141 exits from the March 2013 Mediation Agreement. Thus, the overall personnel reduction summed up to 5,471 employees of which 71 per cent were accomplished during 2014 (IAG, 2014). Through this Mediation Agreement, salary cuts between 14% and 7% were approved.

In relation to collective bargaining, since the company’s privatization (as from 1999), Iberia’s management team launched negotiations to achieve long-term structural agreements with the labor unions extended every year depending on the business unit (Flight Staff – flight engineers, cabin crew, cockpit – and Ground Staff). Iberia has signed several collective bargaining agreements: 7 for Ground Staff, 2 for Flight Engineers, 5 for Cabin Crews and 3 for Pilots. The Negotiating Committee of the 15th Collective Agreement for Ground Staff signed in 2001 agreed to carry out a series of flexibility or productivity measures in order to make production more agile and to provide a service adapted to the needs of the airline, affecting the Group of Aircraft Maintenance Technicians, based on the redistribution of the working day, the giving up of public holidays and the implementation of maintenance by requirement. In relation to Flight Staff, after implementing the new Paid on Board Service in the 1st of March 2004 which demanded less headcount, an agreement was reach with the workers’ representatives that enabled a reduction in the number of Cabin Attendants per aircraft.

With respect to other collectives, the most recent structural agreement for pilots and cabin crew was reached in February 2014, aiming to increase flexibility and ensure a high productivity level. These difficult conversations, due to pilots oppositions,
CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

included actions to increase crews’ productivity to market standards, new salary tables, removal of current constraints to growth in the shorthaul through Iberia and Iberia Express under a competitive cost base, and measures to increase the competitiveness and profitability of the handling and maintenance businesses (TU/IB/1; TU/IB/2; TU/IB/3).

With respect to ground collective, the Negotiating Committee of the 15th Collective Agreement for Ground Staff agreed to carry out a series of flexibility or productivity measures in order to make production more agile and to provide a service adapted to the needs of the airline, affecting the Group of Aircraft Maintenance Technicians, based on the redistribution of the working day, the giving up of public holidays and the implementation of maintenance by requirement. In relation to Flight Staff, after implementing the new Paid on Board Service in the 1st of March 2004 which demanded less headcount, an agreement was reach with the workers’ representatives that enabled a reduction in the number of Cabin Attendants per aircraft. These are examples on how Iberia manages HR from a strategic perspective considering the employees’ value (See table 6 for an overview of Iberia’s plans and main objectives)

- - - - - Insert Table 6 about here - - - - -

Stage III. Identify patterns of sources of decline, turnaround strategy and HRM strategies and practices

Sources of decline

We have already explained how important is for management to perceive and understand the causes of decline (Barker, 2005), whether they are firm-based or industry-based decline (Arogyaswamy et al., 1995). From the interviews and financial reports’ information, detected problems such as labor conflicts, fall in operating
CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

revenues, significant losses, low productivity, high internal costs or drop in earnings are internal or firm-based sources of decline (Datta et al., 2010; Scherrer, 2003; Trahms et al., 2013). And problems such as European air traffic congestion crisis, wars, fuel prices, security costs or low-cost carriers’ competition are industry-based or external sources of decline (Datta et al., 2010; Mellahi & Wilkinson, 2004; Scherrer, 2003; Trahms et al., 2013).

Iberia’s structural problems have to do with internal problems, a lack of competitiveness caused by high costs and low productivity, among other things (The truth of Iberia, 2013). Indeed, high internal costs were the most recurrent detected source of decline among interviewees. In the early stages of the merger, IAG’s diagnosis of Iberia’s problems was poor labor productivity and uncompetitive salary levels (CAPA, 2014). Therefore, Iberia resulted in a performance gap to their competitors and financial losses since year 2008, due mainly to Iberia’s own structural issues and the changing economy (IAG, 2014; TU/IB/1). However, for many years, management considered that external factors were the main company’s problems, specially increasing competence and the unfavorable context (Iberia, 2001-2005-2008).

Nevertheless, the root of the IBERIA’s decline was firm-based related. The cause of the decline was not industry-contraction based, as number of passengers was growing more and more and companies such as Ryanair or Etihad are performing successfully (Dresner et al., 2015). Obviously external factors such as regulations, terrorist attacks, competition from other airlines and fast trains or, fuel costs have had an impact, as Iberia interacts with the environment, but the root of decline was merely internal.
CHAPTER 3:

Linking sources of decline, turnaround strategies and HR: Iberia Airlines

Turnaround strategy

According to the two kinds of strategies to produce turnaround, retrenchment and recovery (Pearce & Robbins, 1993; Robbins & Pearce, 1992), we classify Iberia’s strategic decisions into these two categories. From the analysis of the different strategic plans from 1997-2014 gathered in the company’s annual reports, we obtain a list of retrenchment strategies such as reduction of personnel, capacity or costs, reduction of flights (i.e. with Balearic and Canary Islands in 2002; Madrid-Barcelona in 2009 due to the competition from the fast train –AVE–), discontinuation of routes (i.e.: Tel Aviv or Cairo), suspension of routes (i.e. Tokyo), sale of its holding in Iber Swiss Catering or Touroperator Viva Tours, both in 2003 or, sale of Binter Canarias Airlines in July 2002. All these retrenchment measure were adopted after the most dramatic periods for Iberia which were 2001, 2009 and 2012 after September 11, financial crisis and merger into IAG. We also list Iberia’s main recovery strategies such as the need for strategic orientation, growth, consolidation of their leadership in core markets as the European-Latin American market, privatization of the company, definition of the new policy for alliances and reconfiguration of the business portfolio, improve marketing, quality, management of assets and connections at Barajas, redefinition of the service model or implementation of flexibility measures. The major recovery strategy adopted was the merger between BA and Iberia (into IAG) in January 2011, both companies were members of the Oneworld Alliance and started the common operations long before, thus the merger was just the end of previous agreements (IAG, 2011). Interestingly, the first intention of Iberia after the merger was to sell the less profitable businesses, handling and maintenance (Vanguardia, 2013; TU/IB/1-2 & 3), this fact is an example of retrenchment strategy. But the strong opposition from unions, refusing to dismantle
Iberia, successfully maintained these businesses, conversely unions accepted hard labour conditions (TU/IB/1-2-3 & 4; M/IB/1; E/IB/1). One unionist admitted that these last labour conditions should have been adopted as from the moment of the privatization, and the company would have be situated in a better position nowadays (TU/IB/4). Also, the creation of Iberia Express in 2012 represented a major strategic decision as it targeted to cover the short and medium haul (IAG, 2012; M/IB/1). Iberia needs to feed the Madrid hub with passengers from other destinations in order to feed airplanes flying to South America (TU/IB/4; M/IB/1).

Therefore, according to Iberia’s annual reports, most important recovery strategies were adopted after the financial crisis of 2008. Previous to that date recovery strategies were not drastic enough, for instance, fleet or network planning, member of Oneworld. Although, the Iberia Group Board discussed the need for a strategic orientation and the company developed mechanisms to respond to the period of crisis (Iberia, 2001), adopted measures were merely retrenchment oriented without a clear strategic orientation to target the company’s recovery.

HRM strategies and practices

Once we have defined sources of decline and turnaround strategies patterns. We aim to identify HRM strategies and practices patterns. We classify HR practices according to the practice menu choice proposed by Schuler and Jackson (1987), staffing, compensating, training, and planning.

In relation to staffing choices, important retrenchment measures were adopted through the different labor force reduction plans in 2001 (continuously extended till 2013), 2005 (specifically for ground staff) and 2014 (as a result of a mediation
agreement) such as early retirements, voluntary redundancies, deferred rehiring (termination of the employment contract for a minimum period of one year and maximum of two years, with the guarantee that the employee can rejoin the labor force thereafter), novation of contract to a stable employment contract (i.e. a temporary reduction of working hours to the 25 or 40% of the shift) or, rejuvenate the staff. These staffing choices are a clear example of numerical flexibility (deferred rehiring or temporary reduction of working hours.) Interestingly, as a result of the rejuvenation plan, new selected employees were hired under worst conditions not only in terms of salaries, but also in terms of duration, for instance, new employees were contracted for just one day (TU/IB/1-2 & 3), especially among ground staff. Furthermore, the search for flexible employees capable of performing multiple tasks was an objective of hiring processes within the company (TU/IB/1-2 & 3). Iberia also gives much importance to physical selection tests within the selection process, based on health criteria for instance (TU/IB/4). In addition, employees who arise with any disability as a consequence of the job were immediately relocated in other safer position; this is conflictive to accept by management, but it’s something that unions have won (TU/IB/4).

With respect to compensating choices, the company uses several forms of incentive through different variable pay items added to the salary and profit sharing system regulated by CBA and rewarding employee productivity (i.e. bonuses for attendance or shiftwork). The link between compensating choices and productivity is an example of strategic orientation of the HR practices targeting to obtain increase in productivity. Conversely, the salary cuts of 14% and 7% for flight and ground staff, respectively and proportionally to their salaries, and a salary freeze until end of 2015, as well as a further salary cut of 4% if an agreement is not reached on improvements in
CHAPTER 3: Linking sources of decline, turnaround strategies and HR: Iberia Airlines

productivity (Iberia, 2014; TU/IB/1-2, 3 & 4; E/IB/1) represented an example of retrenchment measures to turnaround. These negotiations were very conflictive resulting in cancelation of more than 415 flights (La Vanguardia, 2013) and the end of conversations between Spanish Government and the company, the first put pressure on Iberia for applying the new 2012 Labour Reform in a reasonable manner (El Mundo, 2015).

In relation to training choices during these tough periods, all employees have continued to attend courses (HR/IB/1). The contents are geared not only to developing skills associated with a particular job, but most focused on fostering future professional development and alignment with the company's strategic objectives. This need for not fitting to a particular job, but for fostering developing skills is an example of the search for flexible employees that can fit to different tasks according to the changing demands. For instance, refreshment of technical expertise courses are followed by all technicians as the target is that they are capable of solving any incident. An interviewee mentioned “nowadays Iberia repairs a seat breakdown with just 1 maintenance technician; in the past, the company had 4 technicians to repair a seat breakdown, thus these days the company invests on having flexible technicians” (HR/IB/1). Or customer service courses are on-line and are aimed for all employees in a search for employees able to adapt to changing demands (HR/IB/1). However, one unionist admitted that the company training is quite standard, targeted to obtain regular or standard employees and not talented people, thus talent courses are only for management; basically training aims to fulfill legal requirements (TU/IB/4).

In relation to planning choices, Iberia has redistributed the employees’ working days to adapt their hours to the flights schedule. For instance, ground staff (handling
and maintenance) schedule is adapted to airplane arrival or departures and high seasons, thus the company avoids having relaxed employees during working hours (TU/IB/1-2 & 3). This is a very important measure as well as complex in terms of organizing employees plan schedule; the former Iberia HR Manager has stayed at the company only 6 months. Colloquially, employees refer to this planning as Manhattan’s shape, because of the peaks the airplanes schedule suffers; but this Manhattan’s shape has to be accompanied by a hat for those situations in which there are delayed planes (TU/IB/4).

Furthermore, in 2014, the company increased the productivity, with an increase of job working hours from 214 to 228 for ground employees shift duties or, extending flight activity between the age of 60 and 65 years (TU/IB/2; CBA, 2014). In relation to the pilots negotiations have been more difficult, this is easy to understand if we consider the nature of this type of employees, many of them came from the military aviation (E/IB/1) and moreover, they have a huge a responsibility on their hands (TU/IB/1). However, some planning measures were applied to this collective such as less spare days non-productive or reduction in the number of pilots in long-haul (2 instead of 3, as others companies do); those salient pilots accepted voluntary retirements for instance. In summary, the need for fit and flexibility is a constant in Iberia.

Stage IV. Incorporate finding to build theory

Iberia’s restructuration is a long process caused by external and internal sources, but especially exacerbated for the persistent internal problems related to the lack of competitiveness caused by high costs and low productivity, aggravated by a most competitive environment due to the sector deregulation and the irruption of the low cost companies.
CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

In most Iberia’s recent history, there are two important moments, the Iberia’s privatization started in 1999 and ended in 2001 and the merger between BA and Iberia into IAG in 2011 (initiated in 2009 with the signature of a binding memorandum of understanding –MoU-) (Iberia, 2001; Iberia, 2011). These crucial events represent inflection points in the company evolution with significant consequences for the turnaround process. Therefore for research purposes, we analyze sources of decline, turnaround strategies and HRM strategies and practices in two different periods: 1999-2008 and 2009-2015.

Basically, from 1999 to 2008, the company was reacting in a defensive manner to external pressures such as liberalization (in the 90s), terrorist attacks (2001), financial crisis (2008). In this sense, according to the annual reports, the company adopts important retrenchment measures to respond to those external factors such as reduction of costs and capacity, reduction of flights, discontinuation or suspension of routes or, sale of its holding. These retrenchment strategies were in line with the HRM strategies and practices implemented. In that period, the labor reduction plans (proceeding 72/2001 and proceeding 35/2005 –only for ground staff-) and successive extensions dominated the human resource management within the company. This plan contemplated the following HRM practices: early retirements, voluntary redundancies, deferred rehiring, or novation of contracts. Initially, this proceeding 72/2001 targeted reduction of 2,515 employees of all categories and proceeding 35/2005 aimed reduction of 1,400 employees, but overall these labor reduction plans aimed to reduce 10,000 people in 10 years (TU/IB/2). The company reached this reduction figures, but at the same time that Iberia diminished staff, new employees were hired with worse labor conditions (TU/IB/2).
Managers often initially attribute the decline to external factors (Iberia, 2008), and they focus on tackle those problems. Therefore, from 1999 to 2008, the company responded drastically to external factors through retrenchment measures. With respect to internal or firm-based problems the company timidly admitted them, for instance lack of competitiveness, low productivity, or high costs (Humanes & Alba, 2002). But the company recovery response to these problems was not drastic enough, and literature states that internal problems need of recovery strategies more than retrenchment strategies (Ndofor et al., 2013). Recovery strategies that the company adopted on that period were the consolidation of leadership position in core markets, redefinition of the service model or fleet and network planning. HRM strategy to support this strategy was reflected in the collective bargaining agreements (CBA) signed with the different groups of employees including salary increase, conversion of temporary jobs to permanent ones, profit sharing system in order to enhance productivity. However, the recovery strategies and their related HRM strategies were not drastic enough to turnaround the situation.

In 2009, due to these light recovery strategies adopted, Iberia’s revenue dropped 19% with respect to previous year and the ROA ratio was - 8,62% (Iberia, 2009). Furthermore, according to the company’s annual reports, from 1999 to 2009, despite the number of employees decrease a 14.7%, the employee costs increased a 19% and thus, the unitarium employee cost increased a 39.6%. With this panorama, before the merger, Iberia maintained a weak financial position and deep labor conflicts, as the staff interpreted the merger as the sale of Iberia to the British (TU/IB/3; Mundo, 2015) and the labor reduction plan have affected the climate within the company (TU/IB/1-2&3; The Guardian, 2010).
CHAPTER 3:  
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

From 2009 to 2015, Iberia was affected by the same external or industry-contraction based problems as those in the previous period such as wars, threat of attacks, low-cost competition, or economic crisis, but now exacerbated by internal or firm-based sources of decline that were not adequately addressed in previous years such as high internal costs, low productivity, labor conflicts, drop in earnings or obsolete structural characteristics. In this last period, it’s when Iberia implemented the most serious recovery strategies: the merger into IAG in 2011 and the creation of the low-cost company Iberia Express in 2012. These strategies caused a great opposition from the different employees groups, especially from the pilots (Mundo, 2015; M/IB/1; TU/IB/1; TU/IB/4). They understood the adoption of these strategies as a clear signal for future collective dismissals and believed that represented the sale of Iberia to the British (TU/IB/1-2&3). But, on the contrary, BA and Iberia has maintained an independent management of their human resources, and this merger has partially affected the staff; for instance, the information system department and purchasing department have been moved to Krakow (Poland); Spanish employees from these areas have been relocated in other positions in Spain (TU/IB/2-3 & 4). On the other hand, the irruption of Iberia Express obtained many critics from Iberia staff, as Iberia Express aimed to cover the short and medium haul routes which means that these routes were not going to be covered by Iberia’s anymore. Iberia Express covered only the airlines business (not handling or maintenance, this was still provided by Iberia). This low-cost company hired new staff at lower costs than Iberia’s staff. This measure was specially conflicted for Iberia pilots and crews (TU/IB/1,2,3&4) as the same time that Iberia ended contracts, parallel Iberia Express hired other employees paying lower salaries.
In an attempt to be more competitive and productive and in line with the new recovery strategies implemented by the company, Iberia adopted different HRM practices. In April 2014, 3 new CBA were signed for ground staff, cabin crews and pilots, these agreements searched the company recovery and gathered a series of novel HRM practices within the company such as change of duties for flight attendants, redistribution of the working day in accordance with flight schedule for ground and flight staff, the giving up of public holidays, increase of job working hours from 214 to 228 for ground staff, extensive training to broaden competencies, broaden jobs competencies. An interviewee mentioned that nowadays Iberia airport administrative staff do the checking, the departures, the luggage incidence, etc. (TU/IB/1 & 4). The main focus in this recovery human resource strategy aiming to respond to internal problems was to obtain employee flexibility or polyvalence.

But as we have previously mentioned, the severe situation Iberia was suffering intensified as from 2008 (Airline Business, 2015; CAPA, 2014) obliged to adopt retrenchment strategies. These strategies will depend not only on the source of decline, but on the perception of the severity of the decline that has weakened the competitive position (Hofer, 1980; Robbins and Pearce, 1992; Musteen et al., 2011; Trahms et al., 2013). These retrenchment measures implied increase layoffs in 1,427 exits additional to the 3,141 exits, salary cuts of 14% and 7%, and a salary freeze, as well as a further salary cut of 4% if an agreement is not reached (Iberia, 2014). These cuts were as a result of a mediation agreement needed as the situation turned to be very conflictive (La Vanguardia, 2013; E/IB/1; TU/IB/4). Staff cuts were conducted in a responsible manner (Cascio, 2002), with early retirements, voluntary redundancies, deferred rehiring or novation of contract to a stable employment contract.
CHAPTER 3: Linking sources of decline, turnaround strategies and HR: Iberia Airlines

In the first period, 1999-2008, the company reacts to external pressures with retrenchment strategies and labor reduction plans, which turned to be ineffective and fruit of eternal negotiations. Recovery responses to tackled internal problems gathered through the CBAs were timid. As from 2009, internal problems were perfectly understood and assumed by management (Airline Business, 2015), and Iberia started adopting serious recovery strategies followed by a flexible oriented human resource. As usual when company does not react prompt to problems the decline turned severe and thus, retrenchment strategies are also needed with responsible cuts.

Hereafter, we link sources of decline, turnaround strategy and HR strategies and practices at Iberia Airlines (See Table 7).

- - - - - Tables 7 about here - - - - -

3.5 Discussion of findings

Throughout our empirical research we obtain some interesting findings. Firstly, we highlight the importance of integrating the retrenchment strategies in a well-designed recovery strategy (Arogyaswamy et al., 1995), and adjust HR strategies and practices to these turnaround strategies. In case of decline grounded on internal sources, the recovery strategies are crucial to turnaround (Ndofor et al., 2013), and the retrenchment strategies have to be orientated to this recovery strategy (Schmitt & Raisch, 2013). Secondly, decisions at all levels (recovery, retrenchment, or HR) should be drastic and persistent to target the company turnaround. In some occasions, time passes without addressing the sources of decline, and problems are intensified causing that all stakeholders finally accept the decline situation and collaborate to solve it. Although
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

other airlines companies (such as British Airways or Lufthansa) have managed the turnaround more rapidly. Thirdly, under firm-based decline the search for flexibility have to be a constant to achieve strategic or recovery responses. The most effective Iberia’s recovery strategies were supporting by a flexibility-oriented HR strategy aiming to obtain polyvalence and adaptability among employees to respond to internal problems. In line with these case study’s results, we define two general propositions:

**Proposition 1**: In a situation of firm-based decline, the success of the turnaround strategy depends on the fit between the recovery strategy, the retrenchment strategy, and the HR strategies and practices.

**Proposition 2**: In a situation of firm-based decline, the recovery strategy will required a flexibility-oriented HR strategy.

This flexibility-oriented HR strategy is supported by a set of human resources practices that could enhance employee flexibility in an organization by continuously renewing and readapting its human resources in tune with the demanded recovery strategy. In this sense, we predicted that certain staffing, compensating, training & development, and planning measures would be most indicated under this flexibility-oriented HR strategy.

Concerning to flexibility-oriented staffing choices, Iberia uses part-time and temporary contracts for non-core positions, hires or promotes skill and behavior flexibility and learning abilities to perform multiple tasks, extends the age to work in certain positions. For instance, at Iberia, hiring new employees at part-time contracts has turned to be quite effective for the company’s turnaround. In line with literature, the
CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

firm could enhance its human pool through career movement or external selective hiring of employees with key competencies (Boyne & Meier, 2009; Hitt, Keats, Harback, & Nixon, 1994). Furthermore, employee selection that emphasizes cognitive skills and learning abilities rather than narrow functional skills required by current jobs is associated with adaptable employee skills and behaviors (Youndt, Snell, Dean, & Lepak, 1996; Stevens & Campion, 1999). This selection process is feasible when the company has a strong competitive position or possesses slack resources to invest in human resources. Accordingly, we define the following proposition:

**Proposition 2a:** In a situation of firm-based decline, the success of the turnaround strategy will require the use of employee promotion and selection emphasizing skill and behavior flexibility and part-time and limited-term employment arrangements in complementary areas.

In relation to compensating choices, reward schemes targeting the firm’s internal deficiencies are a positive motivation that contributes to the recovery. In Iberia case, the company used pay items and profit sharing systems rewarding employee productivity, punctuality or profitability. Literature on compensating and rewarding systems has focused on skill-based pay or group-based incentives to enhance knowledge transfer, problem solving abilities, multi-skilling of employees or cooperation (Delaney & Huselid 1996; Shaw, Gupta, & Delery 2001; Foss & Laursen, 2005). However, in order to solve firm-based sources of decline and contribute to the demanded recovery strategy (Ndofor et al., 2013), compensating and rewarding systems are designed in tune with
these specific internal sources of decline, individually or in group. So, we define our next proposition:

**Proposition 2b: In a situation of firm-based decline, the success of the turnaround strategy will require the use of pay and reward schemes directly interrelated to the internal deficiencies to contribute to the firm recovery**

Flexible-oriented planning choices are redistribution of the working day, definition of broadly designed jobs, change of duties, or increase of job working hours. At Iberia, changes in the employees’ schedules to adapt to the flights timetables have been one of the most effective measures to turnaround. In situations of firm-based decline, planning choices are extremely important to pursue the demanded recovery strategy, as they are very much interrelated and contribute to solve the internal deficiencies in terms of gain of efficiency. According to the literature, job enrichment significantly affects the flexibility of employees (Beltran-Marin & Roca Puig, 2013). Job rotation and widely designed jobs contribute to expand employees’ knowledge, thus enabling firms to effectively respond to problems (Jansen, Van Den Bosch, & Volberda, 2005). So we define our next proposition:

**Proposition 2c: In a situation of firm-based decline, the success of the turnaround strategy will require the use of redistribution of the working day, broadly designed jobs, job rotation, and increase of job working hours**
CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

In Iberia case, in spite of the decline, employees receive general service quality training, standard training for crew technician and general course to update to new legal requirements within the job function. Literature on training choices highlight the necessity of comprehensive training programmes that put a premium on development of skills, learning abilities have been found to enhance organizational flexibility by building broader repertoires of skills and behaviors possessed by the employees (Youndt et al., 1996; Collins & Clark, 2003; Collins & Smith, 2006). Also, it refers to general and extensive training on customer oriented positions that is not limited to core knowledge employees’ current jobs improves their ability to respond more effectively to changing customer demands (Shafer, Dyer, Kilty, Amos, & Ericksen, 2001). However, in a firm-based decline situation, companies stabilize their investment on training as it’s usually a general training to provide employees with the basis to perform a wide range of job functions and update them with new regulation requirements. Accordingly, we define the following proposition:

Proposition 2d: In a situation of firm-based decline, the success of the turnaround strategy will require the use of extensive training to enhance polyvalence and update to new requirements

3.6 Conclusions

This study emphasizes the importance of HR in crisis situations. HRM turns to be crucial to turnaround a company decline. Most specifically, we consider a company decline exacerbated by internal-based sources of decline, while it’s true that in a decline
situation many sources impact on companies at the same time, it’s important for management to acknowledge the root of the problem.

Our propositions deal with the firm-based decline, and present a HR strategy based on flexibility-oriented measures as the response that can contribute to the recovery strategy. Furthermore, the possible adopted retrenchment measures have to be in line with this recovery strategy. At a first step, under firm-based decline, recovery strategies should be targeted and retrenchment strategies should come after, only when decline is more severe. Often management put the blame of the decline on industry-contraction based or external sources of decline (Nystrom & Starbuck, 1984) using retrenchment strategies. As company does not react prompt to internal problems the decline turned severe and thus, retrenchment strategies are also needed with responsible position or salary cuts, for example. These cuts will not depend as much on the source of decline, but on the perception of the severity of the decline that has weakened the competitive position (Hofer, 1980; Robbins & Pearce, 1992; Musteen et al., 2011; Trahms et al., 2013).

This study enriches the existed literature with several theoretical contributions. First, it links sources of decline, turnaround strategy and HRM literature, matching firm-based decline, strategic turnaround responses and HRM strategies based on flexibility-oriented practices. Therefore, our model offers a contextual perspective of the HR strategies and practices in decline based upon causes of decline. Commonly in the HR literature, the most recurrent HR strategy in tough moments is the downsizing, considering a set of best HR practices which can be extended to all crisis situations. Second, the SHRM literature is enriched by the turnaround analysis. Turnaround literature has widely studied the interrelations between sources of decline and
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

turnaround strategy, and the need to tackle internal sources of decline with recovery strategies, and thus we bring this rich analysis to the SHRM in crisis time literature. Furthermore, it creates new possibilities for future research, for instance the analysis of HR implementation or HR perceptions in declining organizations. In this sense, we could analyze the employees’ perception to the implementation of this flexible-oriented HR measures in comparison with other HR more restricted HR measures. For practitioners, this study remarks the importance of the detection of the sources of decline and proposes different HRM strategies and practices according to the cause of the decline. Managing HR in organizations in decline is not just a matter of dismissing people, hiring freeze or pay decrease. Through this research we have showed different and somehow creative HRM practices in declining organizations.

However, this study has some limitations. The context of this study raises questions about the model’s generalizability and posits possibilities for future research. First, additional research could extend these insights to a broader context beyond Iberia case study; we could incorporate different corporate contexts with firm-based decline to our study. Second, it was beyond the scope of this research to evaluate how much certain HRM practices will influence firm performance and efficiency, we just want to establish relationship among constructs, sources of decline, turnaround strategy and HRM strategy and practices. Future investigations can make a significant contribution by examining the actual outcomes associated with the implementation of our contextual model of HRM strategies and practices.

In increasingly complex environments and with increasing number of companies suffering decline at some point, this study appears to be relevant. The results in this study suggest one means of doing so. If these results survive further empirical testing,
they will enhance our understanding of managing HR in declining organizations. The present study contributes to build SHRM theory and invite future research on contextual HRM strategies and practices.
CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

References


CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines


CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines


CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines


CHAPTER 3:

Linking sources of decline, turnaround strategies and HR: Iberia Airlines


CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines


CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines


CHAPTER 3:

Linking sources of decline, turnaround strategies and HR: Iberia Airlines


CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

Tables

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Table 1: Compared ROA European Legacy carriers
## Table 2: Conducted interviews

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<td>CCOO/Iberia</td>
<td>23 Sept. 2015</td>
<td>150 min.; face to face. E-mail to our requests</td>
<td>Head of Transport Sector in Andalusia/Ground Staff</td>
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<td>Representative</td>
<td>CCOO/Iberia</td>
<td>23 Sept. 2015</td>
<td>150 min.; face to face</td>
<td>National Negotiator/ CBAs/Ground Staff</td>
<td>TU/IB/2</td>
</tr>
<tr>
<td>Trade union</td>
<td>Spain</td>
<td>Representative</td>
<td>CCOO/Iberia</td>
<td>23 Sept. 2015</td>
<td>150 min.; face to face</td>
<td>Head of Iberia representatives in Andalusia/Ground Staff</td>
<td>TU/IB/3</td>
</tr>
<tr>
<td>Company airline</td>
<td>Spain</td>
<td>Executive</td>
<td>Iberia</td>
<td>5 Nov. 2015</td>
<td>60 min.; telephone interview</td>
<td>Head of HR</td>
<td>HR/IB/1</td>
</tr>
<tr>
<td>Company Airline</td>
<td>Spain</td>
<td>Executive</td>
<td>Iberia Express</td>
<td>6 Nov 2015</td>
<td>20 min.; telephone interview and e-mail to requests</td>
<td>Head of HR</td>
<td>HR/IB/2</td>
</tr>
<tr>
<td>Trade union</td>
<td>Spain</td>
<td>Representative</td>
<td>CCOO/ Iberia</td>
<td>9 March 2016</td>
<td>120 min.; Skype interview</td>
<td>Head of National Flight Rep./Flight Staff</td>
<td>TU/IB/4</td>
</tr>
<tr>
<td>Trade Union</td>
<td>Spain</td>
<td>Representative</td>
<td>CCOO/Iberia/ Groundforce</td>
<td>31 March 2016</td>
<td>E-mail: response to our requests</td>
<td>Union delegate</td>
<td>TU/IB/5</td>
</tr>
<tr>
<td>Company Airline</td>
<td>Spain</td>
<td>Pilot</td>
<td>Air Europa/Eva Air/Spanair</td>
<td>31 March 2016</td>
<td>50 min.; telephone interview</td>
<td>Pilot</td>
<td>P/1</td>
</tr>
<tr>
<td>University</td>
<td>Spain</td>
<td>Labor Law Professor</td>
<td>UAM</td>
<td>8 April 2016</td>
<td>1 hour.; face to face. 30 min.; telephone conversation</td>
<td>Expert: Mediator in Iberia labor’s conflicts</td>
<td>E/1</td>
</tr>
<tr>
<td>Company Airline</td>
<td>Spain</td>
<td>Executive</td>
<td>Iberia IAG</td>
<td>8 April 2016</td>
<td>20 min.; academic conference</td>
<td>CEO Board of Directors</td>
<td>M/IB/2</td>
</tr>
<tr>
<td>Company airline</td>
<td>Spain</td>
<td>Executive</td>
<td>Iberia</td>
<td>18 May 2016</td>
<td>1 hour.; telephone conversation</td>
<td>HR Manager</td>
<td>HR/IB/3</td>
</tr>
</tbody>
</table>
CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

<table>
<thead>
<tr>
<th>Year</th>
<th>Main events</th>
</tr>
</thead>
</table>
| 1999 | - Absorption of AVIACO (airline) by Iberia.  
- Beginning of privatization process |
| 2001 | - Become a private company quoted on IBEX 35 |
| 2002 | - Sale of Binter Canarias to a consortium of Canary Islands investors |
| 2004 | - Iberia & British Airways agreement for the joint operation of routes between London, Madrid and Barcelona.  
- Authorized the acquisition by Gate Gourmet International of the 70% interest held by IBERIA in Iber-Swiss Catering, S.A. IBERIA and Gate Gourmet |
| 2005 | - The sale of shares in Amadeus (Iberia distribution system) and Savia |
| 2006 | - The company relocated all its Madrid flying operations to the new Terminal four complex at Madrid-Barajas airport |
| 2009 | - Clickair and Vueling merged into Vueling. Iberia holds a take of 45.8% in the merged company |
| 2009 | - Iberia and ST Aerospace opened Madrid Aerospace Services (MAeS), a company created jointly for the maintenance and repair of landing gears for Airbus |
| 2009 | - Iberia and BA’s board agreed a binding memorandum of understanding (MoU) of the merger |
| 2010 | - Joint business agreement signed by the company, American Airlines and British Airways, on transatlantic flights. |
- In 2012, creation a new shorthaul model, Iberia Express, with the right cost base, product and customer proposition to feed Madrid Barajas efficiently  
- The launch of Avios, a new shared currency for IAG ’s three loyalty brands, British Airways Executive Club, Iberia Plus and Avios (formerly Airmiles). |

Table 3: Timeline
CHAPTER 3:

Linking sources of decline, turnaround strategies and HR: Iberia Airlines

Table 4: Iberia ROA as a measure of decline
Table 5: Iberia’s headcounts
CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

<table>
<thead>
<tr>
<th>Plan</th>
<th>Motive</th>
<th>Main objective/s</th>
</tr>
</thead>
</table>
| **2000/03 Master Plan** | *Need for growth*                 | - To strengthen the Group’s leadership in its main markets, particularly in the Spain- Europe and Europe-Latin America markets. Prioritizing the European market.  
- To increase customer satisfaction  
- To lead the use of new technologies  
- To develop air transport alliances.  
- To give each business line autonomy in order to improve its competitiveness and development.  
- To reduce unit costs and increase the productivity of resources  
- To strengthen the competitiveness of employees.  
HR related objectives (flexibility and productivity):  
- XV Ground and XIV Cabin Crew CBAs |
| **Contingency Plan 2001** | *Extraordinary plan to respond more efficiently to the drop in demand (due to 9/11 attacks)* | - To restructure flight scheduling.  
- To reduce capacity by approximately 11%  
- To discontinue routes  
- To reduce supply on a selective basis.  
- To reduce the number of domestic flights (mainland routes and flights between the Spanish mainland and the Canary Islands)  
HR related objectives:  
- To implement a Labor Reduction Plan *(proceeding 72/2001)* extended till 2013: initially it affected to 2,515 employees. |
| **2003/05 Master Plan** | *Growth with flexibility and quality* | - To increase the Company’s routes and flights in order to maintain and strengthen its leading position at Madrid & Barcelona’s hubs  
- To endow the Company with operational and financial flexibility to enable it to adapt growth to market trends  
- To improve competitiveness through a substantial reduction of unit costs  
- To implement a new in-flight service model with leading price-service ratios for each customer segment  
- To enhance service quality and strengthen the Company’s relationship with high-value customers by improving punctuality  
- To maintain a portfolio approach in the management of the businesses.  
- To reduce financing costs by controlling operational and financial risks.  
- To bolster the competitiveness of the Company’s human resources.  
- To capitalize on the Company’s alliances to sharpen its competitive edge.  
Some specific measures:  
- Sale of Iber Swiss Catering, Viva Tours or Binter Canarias Airlines  
- Fleet renewal: New Airbus A340/600 aircrafts for long-haul and A320 for short and medium  
HR related objectives:  
- Labor reduction plan *(proceeding 35/2005)*: 1,074 ground staff exits (liberalization of handling services has impacted enormously on Iberia)  
- IX (2004) Flight Engineer CBA (Pay rise and profit sharing system) |
| **2006/08 Master Plan** | *Profitable growth*                | - To give priority to profitability over growth  
- To improve quality  
- To optimize the use of resources  
HR related objectives to optimize resources (flexibility and productivity)  
XV (2007) Cabin Crew CBA |
## CHAPTER 3:
Linking sources of decline, turnaround strategies and HR: Iberia Airlines

<table>
<thead>
<tr>
<th>Event/Plan</th>
<th>Description</th>
<th>Objectives/Remarks</th>
</tr>
</thead>
</table>
| **2009 Contingency Plan** | Extraordinary Plan to respond to the profound impact the economic crisis was having on earnings | - To maintain its financial strength  
- To cut costs  
- To defend revenues on the principal markets |
| **Plan 2012** (as from 2009) | Prepared company for the future | - To recover the level of profitability in the core air transport business to guarantee the company’s viability and return to a profit-making situation.  
- To maintain and even improve Iberia’s leadership position in its core markets.  
- To gradually cut capacity on its domestic and European routes (20% Madrid-Barcelona)  
- To eliminate non-profitability routes (i.e. Johannesburg)  
HR related objectives (flexibility and productivity)  
- VII (2009) Pilot CBA; the first signed CBA since 1999 |
| **Joint operation with AA & BA** | Prepared company for the future | - To cooperate on transatlantic flights from October 2010 |
| **Merger with British Airways into IAG in 2011** | Prepared company for the future (consolidation processes in the industry) | - To gain size and be competitive to compete worldwide  
- To obtain synergies among the two companies  
- To improve the planning of future capacity by optimising the network across its two hub airports |
| **Transformation Plan** | Prepared company for the future | - To introduce permanent structural change across all areas of the airline to stem financial losses and enable it to grow profitably in the future.  
- To restructure Iberia and return it to profitability.  
- Stop Iberia’s operating cash burn and achieve a competitive cost base.  
- Creation of Iberia Express |
| **Future Plan** | Prepared company for the future | - To build a sustainable and profitable future and a new company culture  
- To implement capacity reductions of 15 per cent and reducing its fleet by 23 aircraft.  
HR related objectives:  
- Labor Reduction Plan (proceeding 187/2014): 1,427 extra exits  
- Labor Mediation Agreement: 3,141 exits, salary decrease 7%-14%, contemplated also in Ground and Flight Staff CBAs  
- XX Ground, XVII Cabin Crew & VIII Pilot CBAs |

Table 6: Iberia’s Plans, strategic measures, and HRM measures from 2000 to 2015
## CHAPTER 3:

Linking sources of decline, turnaround strategies and HR: Iberia Airlines

<table>
<thead>
<tr>
<th>Year</th>
<th>Most influencing External sources</th>
<th>Internal sources</th>
<th>Retrenchment strategy</th>
<th>Recovery strategy</th>
<th>HR strategy</th>
<th>HR practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-2008</td>
<td>Terrorist attack (9/11), Wars, Low-cost Competition, Fuel &amp; security costs</td>
<td>High internal costs, Low productivity, Labor conflicts, Drop in earning, Obsolete structural characteristic</td>
<td>Contingency Plan in 2001: capacity reduction by 11% on at least profitable route, together with the reduction of other controllable costs</td>
<td>Commercial relations with BA, E-commerce strategy, New “a la carte” pay service in tourist class on all domestic</td>
<td>Labor reduction plan (ERE 72/2001 and extensions): 2,516 exits, ERE 35/2005, only for ground staff: 1,074, CBAs</td>
<td>FOCUS ON RESPONSIBLE RETRENCHMENT MEASURES THROUGH THE LABOR PLAN 72/01, Early retirements, Voluntary redundancies, Deferred rehiring, Novation of contract</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Most influencing External sources</th>
<th>Internal sources</th>
<th>Retrenchment strategy</th>
<th>Recovery strategy</th>
<th>HR strategy</th>
<th>HR practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-2015</td>
<td>Financial crisis, Low-cost Competition, Security costs, High speed rail connection</td>
<td>Persistent high internal costs, Persistent low productivity, Labor conflicts, Drop in earning, Obsolete structural characteristic</td>
<td>Contingency Plan in 2009: maintain its financial strength, cut costs and defend its revenues on the principal markets, Gradual capacity cuts on its domestic and European routes (20% Madrid- Barcelona), Elimination of routes (i.e. Johannesburg)</td>
<td>Mergers IAG, Iberia Express, Plan 2012, Re-open of routes (i.e. La Habana), Fleet and network planning REDESIGNING OF THE STRATEGY THROUGH: Transformation plan, Future Plan</td>
<td>Mediation agreement: 3.141 exits, Labor reduction plan (ERE 187/2014): 1.427 exits, CBAs</td>
<td>FOCUS ON RECOVERY MEASURES DESIGNED TO RESPOND TO INTERNAL DEFICIENCIES, Staffing: Part-time and temporary staff non core positions, Compensating: Pay and reward system link to internal deficiencies Planning: Increase of job working hours, Redistribution of the working day in line with flight activity, Force change of duties Training: Extensive training to obtain polyvalence DUE TO SEVERITY OF DECLINE: Salary cuts (14% to 7%), Reduction of pilots in long haul (2 instead of 3)</td>
</tr>
</tbody>
</table>

Tables 7: Linking sources of decline, turnaround strategy and HR Strategy and practices at Iberia Airlines
CHAPTER 4: TURNAROUND STRATEGIES UNDER LIMITING EFFECT OF NATIONAL INSTITUTIONS: A COMPARATIVE STUDY IN THE AIRLINE INDUSTRY

4.1. Introduction

4.2. Theoretical framework
   
   4.2.1 Context and turnaround strategy
   
   4.2.2 Turnaround strategies, HRM and national institutions

4.3 Methodology

4.4 Empirical Findings
   
   4.4.1 Comparison of the sources of decline and turnaround strategies of British Airways and Iberia in 2000-2015.
   
   4.4.2 The influence of employee representation on turnaround strategies and HRM strategies and practices.

4.5 Discussion

4.6 Conclusions and limitations

References

Tables
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

4.1 Introduction

The persistent weakening of the global economy, together with the threat of company decline and the inherent turnaround processes adopted make the study of organizational decline and turnaround strategies especially relevant in the field of strategic management (Trahms, Ndofo, & Sirmon, 2013).

Managers become of key importance in selecting the most successful turnaround strategies depending on the sources of decline they have to face. However, this managerial decision process may be constrained by national institutions, and this fact has been largely unexplored in the literature so far (Lange, Geppert, Saka-Helmhout, & Becker-Ritterspach, 2015). What we know, though, is that national institutions affect managerial discretion (Crossland & Hambrick, 2007, 2011; Lange et al., 2015), on the one hand. On the other, the literature shows that there are countries, like United Kingdom (UK), where institutional environments allow for more managerial discretion, whereas in other countries, like Spain, managers have considerably less discretion to adopt their decisions (Crossland & Hambrick, 2011). How this fact influences on turnaround strategies and subsequent recovery processes are issues that are yet to be explored.

In this paper, we analyze the internal and external pressures and the turnaround strategies with a special focus on human resource strategies (HRS) adopted to face those pressures in two European airline companies (Iberia and British Airways, or BA henceforth) in two different countries (Spain and United Kingdom). Also, we analyze the extent to which their turnaround responses are influenced by employee
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

representation as an important restricting institutional pressure. Thus, our analysis investigates the extent to which the position of employee representatives, which is potentially strengthened by institutions in the areas of collective bargaining, law and employment, has influenced the turnaround process.

To our knowledge, the interrelation between sources of decline, turnaround strategies, HRS, and the effect of national institutions and employee representatives’ power remain largely unexplored regarding the two leading airline companies under study here: Iberia and British Airways. Our study contributes to the decline and turnaround literature, as we take into consideration the relationship between the different levels of HR strategies and practices, and the institutional context to explain variation in the turnaround process. The results also contribute to the literature on strategic human resource management (SHRM), as we study the HR strategies and practices in decline situations, considering not only retrenchment or downsizing responses, but also recovery responses.

Our research concentrates on three main questions: to what extent are Iberia and BA affected by internal and external sources of decline? What turnaround strategies and HRS have Iberia and BA chosen to fight those pressures? To what extent employee representatives’ power coming from different institutional environments influence managerial discretion in the two companies under study?

The paper is structured as follows. First, we explore the literature on a) the relationship between decline context and turnaround strategies, b) strategic management in relation to the effect of national institutions on the strategic responses, and c) human
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

resource management (HRM) strategies when coping with institutional pressures. Second, we outline our methodological approach. Third, we present the findings of two case studies, Iberia and BA. Finally, we present a discussion based on the findings, and the main conclusions.

4.2 Theoretical framework

4.2.1 Context and turnaround strategy

Managerial options are influenced by many contextual factors (Boselie, 2009; Boxall & Purcell 2003; Paauwe 2004). Institutionalism theory (Di Maggio & Powell, 1983) provides the ground to understand institutional mechanisms (Paauwe, 2004), such as coercive pressures (labor legislation, trade union power or collective bargaining agreements, or CBAs), normative mechanisms (norms and values linked to employees’ professions), and mimetic mechanisms (general tendency or fashion) that shape employment relationships (Paauwe & Boselie 2003).

Institutionalism theory introduces contextual aspects into the HRM field of study in comparison with other HRM theories, such as the Resource Based View (RBV) theory (Barney, 1991), Ability-Motivation-Opportunity (AMO) theory (Bailey, 1993) or the Strategic Contingency Perspective (Porter, 1980). However, this focuses on institutional context and disregards the external market context or internal configuration aspects (Boselie, 2009).

In this sense, the Six-Component Model of SHRM (Boselie, 2010), proposes that HRM in an organization is shaped by: a) the external general market context
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

(macroeconomic and labor market), b) the external population market context (competition, market, technology, product), c) the external general institutional context (legislation, norms and values), d) the external population institutional context (CBAs, trade unions, work council, other stakeholders), e) the internal organization context, and f) the HR strategy adopted.

This interesting and broad model gathers multiple pressures that affect the company, and thus it allows us to better understand the factors affecting the organization in situations of decline. This model refers to the external general and external population market contexts which may include the external sources of decline. External sources of decline may involve economic, technological, competition, legal, political, cultural and/or social changes (Datta, Basuil, & Pandey, 2010; Mellahi & Wilkinson, 2004; Scherrer, 2003; Trahms et al., 2013). This model also refers to the internal organization context, which may include internal sources of decline. Internal sources of decline may involve financial problems, structural characteristics in an organization (size or operating procedures), operational deficiencies, governance (board characteristics, ownership structure), and HR policies and employees’ attributes or problems (Datta et al., 2010; Scherrer, 2003; Trahms et al., 2013).

Apart from the abovementioned pressures with an impact on organizations, it is worth turning our attention to research on decline, turnaround strategy and the two main responses to decline, retrenchment and recovery strategies (Pearce & Robbins, 1993; Robbins & Pearce, 1992), as we aim to understand the companies strategies in situations of crisis. Decline is the deterioration of a company’s performance due to persistent decrease in terms of internal resources (see, e.g., Cameron, Kim, & Whetten, 1987;
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

Carmeli & Schaubroeck, 2006; D’Aveni, 1989; Francis & Desai, 2005; McKinley, Latham, & Braun, 2014; Musteen, Liang, & Barker, 2011). When decline is not properly addressed, it may result in the company’s disappearance (Francis & Desai, 2005). Authors adopt different measures of decline depending on the characteristics of the firm (Bradley, Aldrich, Shepard, & Wiklund, 2011; Chen & Hambrick, 2012; Ketchen & Palmer, 1999; Ndofor et al., 2013), while there seems to be a general agreement in that the decreased tendency on the return of equity (ROE) or the return of assets (ROA) for two or three years are reasonable indicators of decline (Chen & Hambrick, 2012; Ndofor, Vanevenhoven, & Barker, 2013).

Turnaround is defined as the recovery of a company’s performance after serious decline (Balgobin & Pandit, 2001). Retrenchment strategies or operating responses are a set of organizational activities aiming to achieve cost and asset reductions (Michael & Robbins, 1998). On the other hand, strategic recovery strategies pursue to change or adjust a firm’s domains and how it competes within those domains (Barker & Duhaime, 1997).

Some scholars claim that the turnaround responses have to be consistent with the sources of decline (Arogyaswamy, Barker, & Yasai-Ardekani, 1995; Hofer, 1980; Ndofor et al., 2013). If decline is due to a weak strategic plan, retrenchment will not solve the problem (Ndofor et al., 2013) but it may worsen employee performance (Datta et al., 2010) while the company is bound to failure. In contrast, studies such as Pearce and Robbins’ (1993) consider that specific turnaround strategies can be applied without considering the nature of the underlying problems, and they point to the universality of retrenchment in the turnaround process. These authors contend that the particular causes
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

of decline can be addressed during the recovery phase. In this vein, we share the position of the former in considering that turnaround strategies depend upon the sources of decline.

4.2.2 Turnaround strategies, HRM and national institutions

National institutions may exert coercive pressure on turnaround strategies to such an extent that they may constraint or delay the turnaround process. Coercive pressure may come from the government or legislations, on which companies are dependent (DiMaggio & Powell, 1983). In relation to HRM, coercive pressures involve the effect of trade unions, labor legislation and the Government (Paauwe & Boselie, 2003).

Indeed, the restricting impact of formal and informal national institutions (individualism, tolerance to uncertainty, cultural lack of precision or weak norm enforcement, ownership dispersion, legal origin, or employer flexibility) on managerial discretion is largely unexplored in the literature to date (Crossland & Hambrick, 2011; Lange et al., 2015). Crossland and Hambrick (2007) compare firms in countries with differing institutional environments to conclude that national institutions restrict managerial discretion, thereby constraining the strategies that companies adopt. United Kingdom has institutional models that provide executives with high level of discretion, as they are entitled to be autonomous over collective decision-making in order to enhance shareholders wealth (Crossland & Hambrick, 2007-2011). In this context, the influence of trade unions is low, and management has more strategic leeway (Lange et al., 2015). Despite various consultation processes in UK, in liberal-market economies such as this one there is not a partnered relationship between management and unions (Bamber, Gittel, Kochan, & von Nordenflycht, 2009).
CHAPTER 4:
Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

On the contrary, in Spain, management has considerably less discretion. In Crossland and Hambrick’s (2011) study, Spain scored low in employer flexibility and ownership dispersion. In this sense, unionism is recognized as a fundamental right in the Spanish Constitution. Based on the civil-law tradition, Spanish management needs to adopt decisions considering all stakeholders’ interests (Crossland & Hambrick, 2011), such as employees’ representatives, societies or shareholders. The participation of trade unions in organizations is regulated by the Spanish labor laws in a variety of cases. An example would be when the management teams adopt changes in terms of labor conditions, such as massive layoffs or geographical transfers, which affect at least 10 workers (in firms with less than 100 employees) or 10% of company’s employees. Furthermore, based on cultural values of collectivism over individualism that are characteristic in Spain (Crossland & Hambrick, 2011), social protection has always been part of the modus operandi in Spain, and this involves constraints in terms of managerial discretion (Crossland & Hambrick, 2011).

In this context, finding the right degree of adaptation to institutional pressures can be a source of organizational success, even in a highly institutionalized context (Oliver, 1997). Paauwe (2004) proposed strategies for coping with institutional forces (e.g., lead, initiate and develop) that include using institutional requests and prospects in order to develop competitive advantage. According to Boon, Paauwe, Boselie, and Den Hartog (2009), there are three types of strategies for HRM to adjust to institutional pressures: deviant behavior as active resistance, conformist behavior as a passive or neutral response, and innovative behavior as active development.
CHAPTER 4:
Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

In order to expand and build upon our understanding of the relationship between sources of decline, turnaround strategies, HR strategies, and the limiting effect of national institutions, we elaborate a comparative case study (Eisenhardt, 1989) between BA and Iberia.

4.3 Methodology

We develop a comparative case study design to analyze Iberia’s and BA’s turnaround strategies and HRM responses when they are subject to sources of decline and national institutions’ influence. Particularly, we will focus on the extent to which the employee representatives’ position, which is enhanced by institutions in areas such as collective bargaining, law or employment, influences managerial strategies to cope with organizational decline. In line with previous studies that develop diverse theoretical research based on case studies, scholars have used case studies to develop theory about different topics (Eisenhardt, 1989; Eisenhardt & Graebner, 2007), we also aim to contribute to the growing body of literature on the topic under study here.

With this purpose in mind, the variables we aim to investigate are the following: 1) sources of decline (firm-based decline and industry contraction-based decline); 2) turnaround strategy (retrenchment and recovery strategies); 3) the role of employee representation on turnaround strategies (high or low); and 4) the response of HRM to institutional pressure (active resistance, passive or neutral response or active development of HRM) (See table 1). In relation to the influence of employee representation on the turnaround strategies, we analyze the degree to which employee
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

representatives’ actions change the final turnaround strategy adopted by the company. Employee representation is a potential constraint on strategic choice, which accounts for the differential in flexibility provided to firms (Fiss & Zajac, 2004)

- - - - - - Insert table 1 about here - - - - - -

As Wood (1999) and Paauwe (2004) suggested, competitive and institutional pressures usually go beyond a unique external pressure label, and in this sense it is important to differentiate external sources of decline from the national institutions’ high or low influence on managerial discretion, in decision-making processes (Crossland & Hambrick, 2011). Consequently, we also aim to understand how HRM reacts to these institutional pressures, which may be deviant, conformist or innovative (Boon et al., 2009).

The research context is the airline industry, given its globalized nature that involves similar challenges in different countries (Lange et al., 2015). This fact is ideal to understand how internal decisions from managers or employee representatives’ power shape the turnaround strategy. We have selected Iberia and BA as case studies because they are located in contrasting types of institutional environments and also they represent traditional European legacy carriers (both companies were the flag carriers in their respective countries before privatization and they still pride themselves for representing each country). Spain and UK represent different institutional environments with respect to labor market structures and degrees of employment protection (Francesconi & Garcia-Serrano, 2004), and therefore managerial discretion varies significantly (Crossland & Hambrick, 2011). Furthermore, both companies have a long-
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

standing relationship as partners, which ended up in a merger into IAG (International Airlines Group). The fact that both companies belong to IAG will broaden our comprehension of the case studies, as unionists and executives from each company not only informed us about their own company, but they also provided us with rich information about their partner.

We follow a systematic approach based on four stages that move from data to theoretical interpretations (Gioia, Corley, & Hamilton, 2013; Smith, 2014): 1) development of detailed description for each case; 2) identification of key issues; 3) selection of patterns; and 4) discussion of findings to build theory. The process will be iterative to gain insight (Locke, Golden-Biddle, & Feldman, 2008).

The data collection process used multiple sources to triangulate our understanding (Eisenhardt, 1989). We conducted interviews at various levels in the company, including (1) the Management Team, (2) the HR Management Team, (3) trade union representatives, and (4) other industry experts. We first focused on the management team to enrich our understanding of the root of the problems and the corporate responses, from their perspective. Afterwards, we talked to executives from the HR management team and also interviewed unionists that had been at the negotiations, in order to gain insights into management decisions and their role in this process. Also, we interviewed personnel from the experts’ sector, from UK and Spain (See table 2 for an overview of conducted interviews). Interviews lasted between 20 minutes and two hours and a half; some of them replied to questions by email. We started with structured interviewing to understand the context, turnaround responses, and HR strategies and practices. We asked informants to describe BA’s and Iberia’s
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

challenges and responses, with special emphasis on HR strategies and practices, as well as institutional pressures influencing them. We adopted a courtroom style of interviewing, pushing for specific examples to increase the data’s reliability and authenticity (Eisenhardt & Graebner, 2007). For the sake of accuracy, we recorded the interviews while taking extensive notes on site (Miller, Cardinal, & Glick, 1997).

- - - - - - Insert table 2 about here - - - - - -

Our data analysis was based on cross-case research. By means of contrast matrix, we categorized sentences and facts from the documentary sources and interviews, according to the elements we aim to analyze: sources of decline, turnaround strategies, employee representation’s power, and HRM responses. Then, we studied the matrix using a case-oriented approach (Miles & Huberman, 1994), observing differences and similarities between the two companies.

Finally, we collected archival information or secondary data through annual reports (Iberia, 2000-2015; BA, 2000-2015), exhaustive documentation of collective layoffs, collective bargaining agreements, newspaper articles, and comparative labor legislation. We collected this archival information from the year 2000 onwards, the previous year to a crucial moment with great impact on all airline companies: the well-known September 11 terrorist attacks in New York. All these secondary data allowed us to triangulate our understanding of sources of decline, turnaround strategy and HR strategy and practices, and how national institutions have an impact on managerial decision, together with HR responses.
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

4.4 Empirical findings

4.4.1 Sources of decline and turnaround strategies in British Airways and Iberia (2000-2015).

Sources of decline

BA and Iberia are both members of the International Airlines Group (IAG). Iberia was founded in 1927 and operates through four business divisions, including passenger transport (together with its low cost carrier, Iberia Express, and its franchise partner, Air Nostrum), aircraft maintenance, airport handling services, and cargo. The company operates in Spain and is headquartered in Madrid, with around 16,177 employees (Iberia, 2015).

According to Iberia’s ROA performance, Iberia Airlines faced successive organizational decline periods from 1999-2000 onwards, as in the period between 1999 and 2001, and most dramatically from 2007 to 2009 and from 2010 to 2012.

From the interviews and the information contained in financial reports, detected internal sources of decline were labor conflicts, high costs, low productivity in operating revenues, significant loss, and drop in earnings. External sources of decline were low cost carrier competition, European air traffic congestion crisis, wars, terrorist attacks, drop in demand, insurance costs and world economic slowdown. IAG’s diagnosis of Iberia’s problems was that “labor productivity was low and salary levels were uncompetitive” (CAPA, 2014). Also, Iberia’s own market is less profitable than
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

BA’s due to a number of reasons: the customers’ profile flying from Madrid to Latin-America is very different from the customers’ profile flying from the two main financial cities, London and New York (TU/IB/4). Furthermore, Iberia needs to feed the long-haul routes to Latin America with short-haul (TU/IB/4), while facing direct competition with Air Europa at its Madrid hub (TU/IB/4; E/1). Consequently, Iberia showed lower performance and weaker internal situation (see table 3) in comparison to their peers. Given “Iberia’s own structural issues and the challenging economic environment” (IAG, 2014), financial loss occurred from 2008 onwards.

- - - - - Insert table 3 about here - - - - - -

On the other hand, BA is UK’s largest international scheduled airline and it is part of IAG since 2011 together with Iberia, Vueling and Air Lingus (IAG, 2015). BA’s main location is in London. It employs around 43,550 employees (BA, 2015). Passenger transport and cargo are its core business (BA, 2010). Although BA has did not suffer a dramatic decline situation, it went through critical moments in 2002 and 2009, after September 11, 2001, and economic downturn respectively when its ROA performance declined. Obviously, BA also had to tackle decreased traffic levels, the increase of fuel costs, aircraft charges, high airlines structural costs, and labor unrest (BA, 2009). Nonetheless, BA has some strong points that contributed to its rapid recovery, such as the strengthening in the traffic between the two world-financial capitals, London and New York, or BA’s leadership position in its Heathrow hub (BA, 2012; TU/IB/4). BA’s strength is also based on its own market -seven domestic flights within UK-; the rest are long-haul flights that report high revenues (The truth of Iberia, 2013).
CHAPTER 4:
Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

Therefore, even though both companies were affected by environmental and firm-based sources of decline, Iberia shows the most dramatic situation. For an overview on BA’s and Iberia’s financial figures, see table 4.

Turnaround strategy

In 2001 and 2009 Iberia approved two Contingency Plans as a response to September 11th terrorist attack and the financial crisis respectively. These plans implied the reduction of domestic flights to the Balearic or Canary Islands, the fleet renewal to standardized aircraft models, the sale of Iber Swiss Catering, Viva Tours Agency or Binter Canarias Airlines, the elimination of non-profit long-haul routes such as Tokyo, or La Habana, and the centralization of Spanish domestic routes in Madrid hub (Iberia, 2002; TU/IB/4).

These plans mainly pursued to cut costs, implement flexibility measures and “maintain its financial strength” (Iberia, 2009; pg. 195). Thus, in 2009, when the airline sector was affected by the financial crisis and was involved in deep restrucrutation processes, Iberia still took pride in its financial strength. This fact could explain why before the merger into IAG in 2011, Iberia’s profit amounted to 1,283€ from 1999 to 2011 and BA tripled this amount with a profit of 3,952€. The creation of Iberia Express was one of the most strategic measures adopted in Iberia’s plans in 2011, in order to operate and be competitive in the short and medium term.

In November 2012, only a few months before the arrival of the CEO Luis Gallego, Iberia launched the “Transformation Plan” to cease Iberia’s operating cash
problems, achieve a competitive cost structure and focus on strategic activities in order to restructure and optimize the network (Iberia, 2012). Indeed, before this Transformation Plan, Iberia adopted decisions and implemented plans, but they were not deep enough to tackle the root of Iberia’s decline, which was sustained by high structural costs and low productivity (M/IB/2).

Nonetheless, the worsening of the economic situation and a series of labor problems resulting from a mediation process in 2013 forced the company to review this Transformation Plan. Iberia approved the so-called ‘Future Plan’, aiming to obtain a solid revenue basis, together with simplicity and flexibility, in order to reach a leading cost position, sustainable competitive positioning, profitable complementary businesses and a new company culture (Iberia, 2013). This plan allowed adjusting the fleet, its infrastructures and its labor force as a response to Iberia’s demands. It represented a revolutionary cultural change within the company, which started in the management of the new headquarters and allowed for a more fluid, transparent and frequent communication system with employees (HR/IB/3). They stated that “the implementation of the Future Plan of productivity and cost optimization measures have allowed to increase the competitiveness of handling and maintenance units. The improvements derived from the Future Plan allowed Iberia airport services to compete in the auction process for Spanish airports handling licenses, winning 17 out of the 20 licenses” (IAG, 2015; pg.24). With all these implemented turnaround strategies, in 2014 Iberia obtained, for the first time since 2008, profits for its operations (M/IB/2; HR/IB/3).
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

The situation for BA was different in some respects. Due to external pressures, such as terrorist attacks and the economic recession, among others, BA was involved in a deep restructuring process, not only to fight against those factors, but also to build the future steps of the company. Coinciding with the terrorist attacks, the company launched the “Future Size and Shape” Plan in 2002, which involved “comprehensive root and branch review of BA’s cost structure, including payroll, network operation, fleet complement, and business strategies” (British Airways, 2002; pg.2). Moreover, rooted in the second main problem, the financial crisis, the company launched “Fight for Survival” in 2009 (British Airways, 2009), pursuing not only to tackle the economic downturn but also to prepare the company for the merger.

In this sense, in the period running from 2001 to 2010, BA eliminated their regional operations, “BA connect”, which flew from regional airports in the UK and other regional airports in Europe and the UK (TU/BA/1). Likewise, the company also decided to do away with their checking activity in different regional areas, like Manchester, Glasgow and Birmingham, while concentrating their activity in Heathrow and Gatwick (TU/BA/1). Other changes comprised obtaining specific services, such as handling services, loading and unloading services, and check-in of passengers, from other companies such as Swissport. In other words, BA’s strategy implied to do without anything different from the two core business areas in Gatwick or Heathrow (TU/BA/1). With regards to continental flights, BA also stopped operating in the Concorde routes in 2003 (BA, 2003) and created a new subsidiary, Open Skies, in 2008, operating premium services from Paris and Amsterdam to New York (BA, 2009).
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

BA introduced these plans in the two years with financial loss, that is, they seized the two great periods of crisis to undergo deep restructuring, and this is precisely what the Spanish company failed to do. It is only recently, in 2014, that Iberia started a new turnaround strategy to fight against decline. All in all, while BA was involved in massive restructuring, not only to solve current problems but also to build the future of the company, Iberia only offered late and maybe inefficient responses. Hereafter, we present a list of turnaround strategies adopted by each company (See table 5).

- - - - - Insert table 5 about here - - - - -

4.4.2 The influence of employee representation on turnaround strategies and HRM strategies and practices (2000-2015).

Iberia is a highly unionized airline. Even though it is not mandatory to belong to a trade union, the last mediation agreement (MA) in 2013 was signed by 81% of Iberia staff, and it did not conform a higher percentage maybe because pilots decided not to sign. (E/1). The main trade unions are SEPLA (for pilots), STAVLA, SICLA, CTA flight, CCOO and UGT (for cabin crews), and CCOO, UGT y USO, ASETMA, CNT, CTA ground (for ground personnel) (E/1).

Iberia’s human resource strategy is captured through the different collective bargaining agreements adopted between the trade union representatives and the company to “guarantee industrial relations stability” (Iberia, 2002; pg. 2) and increase productivity. Iberia’s management team launched negotiations to achieve long-term structural agreements with the labor unions, extended every year depending on the
CHAPTER 4:
Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

business unit (flight Staff – flight engineers, cabin crew, pilots, and ground staff).
However, these agreements were not reached easily but involved very tough negotiations. Iberia signed several collective bargaining agreements since 2000: 7 for ground staff, 2 for flight engineers, 5 for cabin crews and 3 for pilots. Some characteristics of these agreements included pay rise that is consistent with the increase in the CPI (consumer price index), additional pay rise linked to improved results and to the company's earnings, temporary contracts replaced by permanent contracts, part-time contracts’ transformation into full-time contracts, and the reduction of turnover in temporary staff.

Together with the collective bargaining agreements, Iberia submitted three different labor force redundancy plans: the redundancy proceeding 72/2001, continuously extended until 2013, the proceeding 35/2005, and the proceeding 187/2014. The Labor Force Reduction Plan (72/2001) affected 2,515 employees of all categories (207 pilots, 520 cabin crew members, 13 flight technicians and 1,775 ground employees) (Iberia, 2001). However, SEPLA, the pilot association, put so much pressure on management decisions that it was impossible to reach this agreement in 2001, when it stipulated that all the redundancies had to be voluntary (Iberia, 2002). This redundancy negotiation turned to be very aggressive, resulting in various fierce strikes and in an arbitration process from the Spanish Transport Ministry (Iberia, 2001). The HR practices used under this proceeding 72/2001 were early retirements, voluntary redundancies, deferred rehiring, and contract novation (Iberia, 2002). Moreover, during the 2003-2005 Master Plan implementations, a Rejuvenation Plan was applied affecting headcounts, in an example of the search for flexibility. Also, the other redundancy plan,
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

35/2005, authorized the termination of 1,074 contracts of ground staff working at Spanish airports (Iberia, 2005).

In the era of Luis Gallego, the initial amount of 5,000 layoffs that Iberia wanted to implement as the earnings fell dramatically, and this led to the biggest strike that Iberia had ever witnessed. As a consequence of a mediation agreement (MA), though, this amount was reduced to 3,141 exits (E/1). More recently, in July 2014, a new Redundancy Plan was signed with the unions that allowed other 1,427 exits. Initially, since the merger into IAG took place, the company intention was to abandon handling and maintenance business, as the company wanted to focus on the core business (passengers), but the fierce strikes organized by ground employees’ unions (Vanguardia, 2013) contributed to maintain the four businesses (airline, cargo, handling and maintenance) (TU/IB/2). Employee representatives accepted, in return, some restrictions in their work conditions: a salary decrease of between 7 and 14% depending on the category, and profit-sharing freeze until 2016 (TU/IB/3). All these recent measures were implemented thanks to the new company’s culture, based on better communication between the management team and the unions, together with the negotiation of more creative HR practices that go beyond pay related issues (HR/IB/3).

As a result of all these HR practices, from 2001 to 2014 Iberia’s staff was reduced 38%, while the employee cost was only reduced 7%. Consequently, the unitarism employee cost underwent an increase of 40% (Iberia, 2001-2014).

In relation to BA, the main unions are Unite and GMB, where the latter competes with the former for terminal employees (Lange et al., 2015). BATUC, a
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

monthly consultative forum for the company’s senior managers and trade union representatives (BA, 2002), conducted periodical consultation processes with its employees (E/1), in order to start negotiations in the different areas (TU/BA/2): the pilots, (covered by the British Airline Pilots Association, or BALPA, an union that belongs to UNITE), the engineers, the cabin crew (linked to British Airlines Stewards and Stewardesses Association, BASSA, also part of UNITE), the ground support services (associated with UNITE), and the administration staff. These areas are autonomous in the agreements they reach, as well as in terms of pay, workload and the way they operate. All this implies that there are very few issues that go across the whole company and even pay is done in the different areas (TU/BA/2). As a result, when BA offers a pay rise, it is done in each different area where the negotiation takes place (TU/BA/2).

The HR policy involved some important collective bargaining agreements, such as the memorandum agreement between BA and BALPA, which included salary protection, loss of license protection, sick pay, and scope clauses. The “100 passengers” clause implied that all outbound flights from Heathrow and Gatwick have to be managed by BA pilots from a seniority list (TU/BA/1; Lange et al., 2015). However, there is no need to have formal and public registration of collective bargaining in UK (TU/BA/2). The company may reach to agreements at any point in time without deadlines; instead agreements will remain in effect until there is a new agreement (TU/BA/2).

Similar to Iberia, BA adopted specific reduction plans, such as a deep restructuration process in 2002 and 2009. In 2002, the Future Size and Shape Plan
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

(FSAS) plan included a headcount reduction of 13,000 employees (23% of total) in successive years (The truth of Iberia, 2013; BA, 2003). Restructuring measures implemented through the FSAS plan were considered as “a fairly decent approach of dealing with the crisis” (TU/BA/2) by unions. According to information gathered from TU/BA/2, the measures in response to the 9/11 attacks were taken in a very reasonable fashion, given that everybody realized that it was a critical event with a subsequent significant crisis. Indeed, as soon as BA realized costs were increasing with such speed, the company felt forced to sell part of to survive. Therefore, the restructuring process was conducted in a very conscientious way and through agreements (TU/BA/2). In general in this period, layoffs were conducted making use of natural wastage, with voluntary unpaid leave for periods between one month to two years, early retirement and voluntary severance only used in a very targeted way (BA, 2003).

In 2009, the new Fight for Survival plan received opposition from employees (TU/BA/2). The plan included a two-year pay freeze from 2010, and reduction of 1,700 cabin crew positions in long haul routes, among other measures (The Telegraph, 2009; The Truth of Iberia, 2013). The Unite complained that this measure would affect passenger services, as well as the earnings and careers of the cabin crew. Due to these reduction measures, BASSA went on strike, but BA took the unions to court and the High Court determined not to allow strikes for this reason. Afterwards, more than 80 cabin crew members were suspended and 13 were fired, mainly due to incidents related to the controversy (The Telegraph, 2009). According to the media, the issue started from pay conditions and staffing levels, but it gradually became an issue of restoration of the employees’ conditions and jobs.
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

More BA’s attempts to reduce costs through human resources focused on the termination of the seniority system of promotion, the restructuring of cabin crew operations and the assimilation of salary levels with those of competitors (Wilton, 2010). This led to a 22-day strike organized by BASSA in support of the cabin crew in 2010. As a result, BA and BASSA broke relations (The Times, 2009) and BASSA was only invited to compulsory health and safety meetings (Lange et al., 2015).

As a consequence of all these HR practices from 2001 to 2014, BA’s headcount was reduced 31%, but the employee cost increased 2%. This implied that the unitarism employee cost had increased 47% (British Airways, 2001-2014). These figures may indicate that downsizing is not the answer to reduce costs, as apparently fewer employees are more expensive, and it is very likely that the redundancy payments increased the employee cost figures.

It is worth mentioning that in 2005 BA presented the Industrial Relations Change Programme (IRCP), “to reduce communication barriers and improve understanding” (British Airways, 2006; pg.34). Nevertheless, it is hard to foster good relations with unions while continuing to implement staff-reduction measures (Bamber et al., 2009). It is, therefore, a common paradox in the HRM research in times of crisis. Hereafter, we present a table in which we gather the aspects we have analyzed so far for both airlines: sources of decline, turnaround strategies, HR responses, and national institutions (See tables 6 and 7).

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CHAPTER 4:
Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

4.5 Discussion

The aim of this study was to contribute to the turnaround strategy and SHRM by analyzing how sources of decline and national institutions’ pressures affect turnaround and HRM strategies. We studied a set of related concepts, such as sources of decline, turnaround strategies, national institutions’ influence through employee representation’s power, and HRM strategies, to observe potential differences in turnaround strategies and how these were linked to the impact of the national institutions’ on SHRM.

Both companies suffered similar external pressures, on the one hand, such as the terrorist attacks of September 11th, the financial crisis, and competition from the low cost carriers. On the other, common internal problems comprised high structural costs, labor unrest and low productivity. However, there are specific issues that explain why Iberia’s recovery period lasted longer than other airlines’: direct competition at Madrid airport from Air Europa, a less-profitable customer profile than BA, the need to feed the long-haul routes with short-haul ones (contrary to BA’s business, based on long-haul distances), and persistent low productivity.

In order to fight these external and internal pressures, both companies adopted different turnaround strategies from 2000 onwards. In 2001 and 2009 Iberia approved two Contingency Plans as a response to the terrorist attack of September 11th and the financial crisis respectively. Basically, Iberia reduced its capacity and personnel, discontinued routes, reduced supply, and reduced the number of domestic flights. These measures were retrenchment-oriented. It is at the end of 2009 that Iberia presented its new recovery plan (out of its ordinary master plans), called Plan 2012, aiming to
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

recover the level of profitability in the core air transport business to guarantee the company’s viability and return to a profit-making situation. Not until seven years after the approval of BA’s FSAS plan did Iberia really decide to start thinking about the future design of the company. Given that this proved to be both too late and ineffective, it is in 2012 and 2013 that two crucial recovery plans were launched after the merger, called Transformation Plan (2012) and Future Plan (2013). As part of the recovery strategy, the new low-cost carrier Iberia Express was launched in 2012.

In contrast to these gradual changes, BA used the two great periods of crisis to undergo in-depth restructuration altogether. In 2002, to respond to the terrorist attack of 2001, BA launched Future Size and Shape plan (FSAS), which combined retrenchment and recovery measures. Scholars argue that retrenchment measures are more suitable to respond to external sources of decline, while recovery strategies are rather indicated to face internal sources of decline (Arogyaswamy et al., 1995; Ndofor et al., 2013). In this sense, BA did not simply take retrenchment measures to respond to external sources of decline, but also realized of their internal weaknesses and took this opportunity to implement a huge restructuration process that would re-design the future of the company. Likewise, the Fight for Survival plan in 2009 was an opportunity not only to tackle the financial crisis but also to prepare the company for the merger. What all this shows is that, from 2001 to 2009, BA and Iberia followed very different strategies. While BA launched retrenchment measures to address critical external problems, and designed recovery measures to tackle internal deficiencies (i.e., they created the OpenSkies subsidiary in 2008, and operated premium services from Paris and Amsterdam to New York), Iberia responded softly to critical internal problems (mainly
CHAPTER 4:
Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

low productivity and high structural costs). The company fought against external problems through retrenchment measures (i.e., cutting costs) without taking deep strategic or recovery measures.

Inevitably, all these measures were based on decisions that involved HRM. We observe differences not only in terms of what HR strategies and practices each company implemented to straighten the situation, but also on how employee representation influenced on the measures taken and the HR strategies finally adopted. Furthermore, using the three types of HRM strategies (i.e., deviant, conformist and innovative) to respond to institutional pressures (such as employee representation) (Boon et al., 2009), HR response to unions can be explained.

Obviously, when analyzing Iberia’s employee representation, it is worth remembering that there are three main collectives: ground staff, pilots and cabin crew. Pilots have been historically the most conflictive ones (TU/IB/4). This is easy to understand if we consider that many of them have a military background and they have always enjoyed better salaries and timetables than other groups (TU/IB/4). Most recently, and mainly since 2009, ground personnel have been more belligerent (TU/IB/3; E/1), partly because handling activity is not core for the company. Consequently, their labor conditions were hardened (E/1).

In 2001, there was a huge labor dispute at Iberia with two strikes: one of them was a general one lasting ten days in March. It was against privatization in a collective bargaining agreement (El Mundo, 2001; HR/IB/3). The second one lasted three days (but was initially planned for ten days) in July mainly due to disagreements in the
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

pilots’ CBA’s negotiations. This one ended when the Spanish government proposed a mediation process to avoid further economic damage for the population (El Mundo, 2001). This was due to the fact that, even though the right to strike is regulated in the Spanish Constitution, this cannot clash the normal functioning of national economy according to the Constitutional Court (Cinco Días, 2001). Before this mediation process, the resignation of nearly one hundred pilots forced the company to announce a lockout that was rapidly stopped by the government (El Mundo, 2011; HR/IB/4). After all these negotiations, a labor reduction plan of 2,515 employees (10% of the staff) was also signed at the end of 2001.

Between 2009 and 2013, the relationship between Iberia and the unions became very tense (TU/IB/4; HR/IB/3). The financial situation at the company was so dramatic that both parties struggled to reach agreements. Iberia had to react, but there was no consensus with the unions to take many of the necessary flexibility measures; only ordinary CBA were signed to adjust to the new pay levels, but other flexibility measures urged. In 2013 the situation changed and a new management team arrived with clear lines marked by IAG. The employees needed to understand that changes urged; otherwise, the company might go bankrupt (Airlines Business, 2015). Iberia even wanted to withdraw handling services, but the company eventually did not (TU/IB/1-2-3). In 2013, the biggest Iberia strike ever took place due to intended layoffs of more than 5,000 employees. This strike ended in a mediation agreement with fewer layoffs and the application of flexibility measures, such as change of duties and an increase in the staff workload (MA) (E/1). This MA was not only a way of stabilization but it also implied a cultural change within the company, given that from that moment onwards
trade unions started meeting every two months (or sooner, if required) with the management team, and they are informed of confidential information that would be of their concern (TU/IB/4; HR/IB/4).

In summary, the influence of unions on the turnaround strategy and HR strategies and practices adopted was of key importance for Iberia. As a result, the company eventually did not withdraw the handling business, only voluntary redundancy plans were implemented, the final amount of redundancies were reduced in comparison with the initial measures the company had planned (i.e. more than 5,000 redundancies planned in 2013, later reduced to 3,141) and, most importantly, it was hard to implement flexible HR practices before 2013. Consequently, the employee-employer relationship was characterized by constant lack of consensus and management strategies that were too weak to confront the decline. All these facts prevented Iberia from taking timely measures that would help recovery. In sum, Iberia initially adopted a conformist response to unions’ strong pressures in the period running from 2000 to 2013, and it was not until 2013 that the company started adopting more innovative ways of approximation to the HRM strategies. Iberia faced strong institutional pressures with a new innovative culture and this fact clearly contributed to successful recovery.

Considering the above-mentioned theoretical and empirical considerations, the following propositions follow:

**Proposition 1:** Innovative HRM strategies will contribute to build the demanded recovery strategy under internal sources of decline when national institutions grant a number of rights to employee representatives
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

Proposition 2: Conformist HRM strategies will delay the demanded recovery strategy under internal sources of decline when national institutions grant a number of rights to employee representatives

In relation to BA, the most important collectives are the pilots and the cabin crew, as passenger transport is the core business for the company. BALPA and BASSA are the main unions (TU/BA/2). The FSAS plan in 2002 implied a headcount reduction of 13,000 employees (23% of the total) on a voluntary basis. This represented a dramatic measure but there was no significant labor dispute. Instead, all employees accepted these measures in a very contentious manner, and understood that the airline situation was in danger (TU/BA/2). BA’s management did not find significant opposition against these severe layoffs (TU/BA/2), which gave management strategic leeway to adopt turnaround strategies. Also, Spain and UK conform a very different scenario from each other: basically, it is much easier to lay off staff or to transfer people from business in UK (TU/BA/2). Unions’ influence was weakened by the significant event of 9/11, and management was able to channel the company targets. This submissive position of BA’s unions after the attacks allowed BA’s management to adopt some creative HR measures, such as transfer positions, unpaid leave periods between one month and two years, voluntary redundancies, or salary reductions to assimilate with competitors, in a relatively short span of time, in comparison with Iberia. In the 2001-09 period, BA’s deep restructuration in terms of strategy and culture implemented was understood by the unions (TU/BA/2), even when it implied 18,000 job losses only from 2001 to 2006 (Bamber et al., 2009). In 2009 BA launched its Fight for Survival Plan, which included reductions in pay conditions and cabin crew reduction
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

in the long haul routes, among other measures (The Telegraph, 2009; The Truth of Iberia, 2013), although the unions did not welcome it. As a consequence, BASSA was on 22-day strike action, but BA defeated the unions at court. After this, many employees were made redundant, and BA and BASSA broke relations. From this moment onwards, BASSA was only invited to mandatory health and safety meetings (Lange et al., 2015).

In the periods 2001-08 and 2009-15, BA’s unions did not constrain BA’s turnaround strategy very much. In the first period, unions were very contentious with the context, and in the second period, unions did not represent a strong national institutional pressure for management decisions. This non-partnered relationship between management and unions allowed BA to adopt more deviant HRM strategies to turnaround, while disregarding union values, norms, or requirements in many occasions. The focus of BA was to enhance investors’ wealth, so the company proposed measures that represented an active resistance to unions’ labor interests. BA made attempts to encourage employee engagement (BA, 2006-2009-2014), but there is not a really partnered relationship to develop measures (Bamber et al., 2009) as in the innovative HRM strategy. This leads to our third proposition:

Proposition 3: Deviant HRM strategies will contribute to build the demanded recovery strategy under internal sources of decline when national institutions grant fewer rights to employee representatives
4.6 Conclusions and limitations

This study aimed to provide an exploratory analysis on the national institutions effect on turnaround and SHRM in times of crisis, thereby contributing to the literature on the topic. Indeed, the main contribution of this study is based on the fact that the power of employee representation in institutional contexts can influence and act as an obstacle to turnaround strategies. In turn, obtaining the right degree of adaptation to institutional pressures could be a source of organizational success (Oliver, 1997; Boon et al., 2009). In this regard, when national institutions grant more rights to employee representatives, innovative HRM strategies will enable adopting recovery strategies when there are internal sources of decline. This innovative HRM will imply using a partnership style to elaborate HRM practices to turnaround together with unions. By adopting this innovative HRM strategy, companies will come to more solid agreements with unions than when complying with or resisting to this institutional pressure. On the other hand, when national institutions grant fewer rights to employee representatives, a deviant HRM strategy will contribute to build the demanded recovery strategy under internal sources of decline. This deviant HRM will imply questioning ordinary values and ways of working, without accepting every procedure already set per se. The fact that national institutions grant fewer rights to employee representatives allows these companies to show more resistance to norms and values already set.

Our results provide new insights into the decline and turnaround literature, mainly in terms of the relationship between the different levels of strategies and practices, and the institutional context, to explain differences in terms of business
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

decisions. The results also contribute to the literature on SHRM, and specifically on the study of HR strategies and practices in decline situations, as well as in relation to the recovery responses that go beyond the retrenchment or downsizing responses.

One of the main limitations of this study is that it only involves two companies; the introduction of other European legacy carriers such as Lufthansa or SAS would have made the results more robust for generalization. The study could have also included the perception of a higher number of experts, but it is also true that the interviews were conducted with those people who were directly involved in the negotiations, which strengthens the internal validity of this study. Finally, while there are many other institutional pressures that should be addressed in future research, focusing only on the limiting effect of national institutions represented through the employee representative’s power was necessary here to understand the evolution of the two companies under examination. Also, the analysis of this national institutions-employee representative relationship was necessary to fill a void in recent research, given that unions are embedded in a labor legislation framework elaborated by governments or parliaments.
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

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Turnaround strategies under limiting effect of national institutions:  
A comparative study in the airline industry


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CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

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CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry


153
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry


CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry


CHAPTER 4:  

Turnaround strategies under limiting effect of national institutions:  

A comparative study in the airline industry  


CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

Tables

<table>
<thead>
<tr>
<th>Sources of decline</th>
<th>Turnaround strategy</th>
<th>National Institutions’ effect on managerial discretion</th>
<th>Strategies for HRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal and external</td>
<td>Retrenchment and recovery</td>
<td>High and low</td>
<td>Deviant, conformist and innovative</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1: Variables to study
### CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

<table>
<thead>
<tr>
<th>Type of organization</th>
<th>Country</th>
<th>Position</th>
<th>Organization</th>
<th>Date</th>
<th>Length &amp; type of interview</th>
<th>Involvement/area of expertise</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Airline</td>
<td>Spain</td>
<td>Executive</td>
<td>Iberia Express</td>
<td>1 Sept. 2015</td>
<td>40 min.; Skype interview</td>
<td>Commercial Executive</td>
<td>M/IB/1</td>
</tr>
<tr>
<td>Trade union</td>
<td>Spain</td>
<td>Representative</td>
<td>CCOO/Iberia</td>
<td>23 Sept. 2015</td>
<td>150 min.; face to face, E-mail to our requests</td>
<td>Head of Transport Sector in Andalusia/Ground Staff</td>
<td>TU/IB/1</td>
</tr>
<tr>
<td>Trade union</td>
<td>Spain</td>
<td>Representative</td>
<td>CCOO/Iberia</td>
<td>23 Sept. 2015</td>
<td>150 min.; face to face</td>
<td>National Negotiator/ CBA/Ground Staff</td>
<td>TU/IB/2</td>
</tr>
<tr>
<td>Trade union</td>
<td>Spain</td>
<td>Representative</td>
<td>CCOO/Iberia</td>
<td>23 Sept. 2015</td>
<td>150 min.; face to face</td>
<td>Head of Iberia representatives in Andalusia/Ground Staff</td>
<td>TU/IB/3</td>
</tr>
<tr>
<td>Company Airline</td>
<td>Spain</td>
<td>Executive</td>
<td>Iberia</td>
<td>5 Nov. 2015</td>
<td>60 min.; telephone interview</td>
<td>HR</td>
<td>HR/IB/1</td>
</tr>
<tr>
<td>Company Airline</td>
<td>Spain</td>
<td>Executive</td>
<td>Iberia Express</td>
<td>6 Nov 2015</td>
<td>20 min.; telephone interview and e-mail to requests</td>
<td>HR</td>
<td>HR/IB/2</td>
</tr>
<tr>
<td>Trade union</td>
<td>Spain</td>
<td>Representative</td>
<td>CCOO/Iberia</td>
<td>9 March 2016</td>
<td>120 min.; Skype interview</td>
<td>Head of National Flight Rep./Flight Staff</td>
<td>TU/IB/4</td>
</tr>
<tr>
<td>Company Airline</td>
<td>UK</td>
<td>Executive</td>
<td>BA</td>
<td>Feb 2016</td>
<td>E-mail: response to our requests</td>
<td>Commercial Executive</td>
<td>M/BA/1</td>
</tr>
<tr>
<td>Trade union</td>
<td>UK</td>
<td>Representative</td>
<td>BALPA/BA</td>
<td>30 March 2016</td>
<td>E-mail: response to our requests</td>
<td>Responsible for Industrial Relations at BALPA</td>
<td>TU/BA/1</td>
</tr>
<tr>
<td>Trade Union</td>
<td>Spain</td>
<td>Representative</td>
<td>CCOO/Iberia/Groundforce</td>
<td>31 March 2016</td>
<td>E-mail: response to our requests</td>
<td>Union delegate</td>
<td>TU/IB/5</td>
</tr>
<tr>
<td>Company Airline</td>
<td>Spain</td>
<td>Pilot</td>
<td>Air Europa/Eva Air/Spanair</td>
<td>31 March 2016</td>
<td>50 min.; telephone interview</td>
<td>Pilot</td>
<td>P/1</td>
</tr>
<tr>
<td>University</td>
<td>Spain</td>
<td>Labor Law Professor</td>
<td>UAM</td>
<td>8 April 2016</td>
<td>1 hour; face to face, 30 min.; telephone conversation</td>
<td>Expert: Mediator in Iberia labor’s conflicts</td>
<td>E/1</td>
</tr>
<tr>
<td>Company Airline</td>
<td>Spain</td>
<td>Executive</td>
<td>Iberia IAG</td>
<td>8 April 2016</td>
<td>20 min.; academic conference</td>
<td>CEO Board of Directors</td>
<td>M/IB/2</td>
</tr>
<tr>
<td>Trade union</td>
<td>UK</td>
<td>Representative</td>
<td>UNITE/BA</td>
<td>28 April 2016</td>
<td>40 min.; telephone conversation</td>
<td>Head of UNITE Airline industry (include BALPA &amp; BASSA and ground)</td>
<td>TU/BA/2</td>
</tr>
<tr>
<td>University</td>
<td>UK</td>
<td>Industrial Relations Professor</td>
<td>Swansea University</td>
<td>4 May 2016</td>
<td>E-mail: contact by e-mail</td>
<td>Expert on Industrial Relations in the Airline Industry</td>
<td>E/2</td>
</tr>
<tr>
<td>Company Airline</td>
<td>Spain</td>
<td>Executive</td>
<td>Iberia</td>
<td>18 May 2016</td>
<td>1 hour.; telephone conversation</td>
<td>HR</td>
<td>HR/IB/3</td>
</tr>
</tbody>
</table>

Table 2: Conducted interviews
CHAPTER 4:

Turnaround strategies under limiting effect of national institutions:

A comparative study in the airline industry

Table 3: Compared ROA European Legacy carriers
CHAPTER 4:
Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

<table>
<thead>
<tr>
<th>Year</th>
<th>BA ROA</th>
<th>BA Assets</th>
<th>Iberia ROA</th>
<th>Iberia Assets</th>
<th>BA Profit/Loss</th>
<th>Iberia Profit/Loss</th>
<th>BA Revenues</th>
<th>Iberia Revenues</th>
<th>BA Employee Costs</th>
<th>Iberia Employee Costs</th>
<th>BA Employees</th>
<th>Iberia Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>2.30%</td>
<td>14,864.00</td>
<td>2.41%</td>
<td>14,128.00</td>
<td>337.50</td>
<td>154.00</td>
<td>13,388.00</td>
<td>3,660.00</td>
<td>3,534.00</td>
<td>1,262.00</td>
<td>63,779.00</td>
<td>27,000.00</td>
</tr>
<tr>
<td>2000</td>
<td>0.05%</td>
<td>16,847.34</td>
<td>0.81%</td>
<td>16,511.00</td>
<td>8.30</td>
<td>204.00</td>
<td>14,940.40</td>
<td>4,101.00</td>
<td>4,118.46</td>
<td>1,337.00</td>
<td>65,157.00</td>
<td>27,441.00</td>
</tr>
<tr>
<td>2001</td>
<td>1.40%</td>
<td>17,051.43</td>
<td>0.33%</td>
<td>17,632.00</td>
<td>241.50</td>
<td>53.00</td>
<td>14,937.58</td>
<td>4,334.00</td>
<td>3,825.36</td>
<td>1,361.00</td>
<td>62,175.00</td>
<td>27,057.00</td>
</tr>
<tr>
<td>2002</td>
<td>-1.90%</td>
<td>4.89%</td>
<td>17,051.43</td>
<td>4,849.00</td>
<td>-326.00</td>
<td>180.00</td>
<td>13,994.20</td>
<td>4,485.00</td>
<td>3,926.67</td>
<td>1,363.00</td>
<td>61,480.00</td>
<td>25,754.00</td>
</tr>
<tr>
<td>2003</td>
<td>1.40%</td>
<td>4.62%</td>
<td>14,492.20</td>
<td>4,968.00</td>
<td>105.75</td>
<td>148.00</td>
<td>11,147.80</td>
<td>4,402.00</td>
<td>3,066.15</td>
<td>1,402.00</td>
<td>57,014.00</td>
<td>24,748.00</td>
</tr>
<tr>
<td>2004</td>
<td>1.00%</td>
<td>4.62%</td>
<td>18,661.00</td>
<td>4,854.00</td>
<td>345.00</td>
<td>220.00</td>
<td>11,340.00</td>
<td>4,602.00</td>
<td>3,519.00</td>
<td>1,542.00</td>
<td>51,839.00</td>
<td>24,877.00</td>
</tr>
<tr>
<td>2005</td>
<td>4.40%</td>
<td>7.04%</td>
<td>16,922.95</td>
<td>5,544.00</td>
<td>743.85</td>
<td>398.00</td>
<td>11,269.40</td>
<td>4,759.00</td>
<td>3,240.75</td>
<td>1,733.00</td>
<td>49,490.00</td>
<td>24,348.00</td>
</tr>
<tr>
<td>2006</td>
<td>5.10%</td>
<td>2.73%</td>
<td>17,408.82</td>
<td>5,751.00</td>
<td>880.88</td>
<td>57.00</td>
<td>12,178.46</td>
<td>5,188.00</td>
<td>3,364.78</td>
<td>1,421.00</td>
<td>47,012.00</td>
<td>24,053.00</td>
</tr>
<tr>
<td>2007</td>
<td>5.40%</td>
<td>4.65%</td>
<td>16,681.56</td>
<td>6,017.00</td>
<td>988.17</td>
<td>328.00</td>
<td>12,483.24</td>
<td>5,305.00</td>
<td>3,347.19</td>
<td>1,444.00</td>
<td>43,501.00</td>
<td>22,515.00</td>
</tr>
<tr>
<td>2008</td>
<td>8.30%</td>
<td>0.64%</td>
<td>13,903.75</td>
<td>5,634.00</td>
<td>1,152.50</td>
<td>32.00</td>
<td>10,941.25</td>
<td>5,223.00</td>
<td>2,707.50</td>
<td>1,321.00</td>
<td>42,377.00</td>
<td>21,576.00</td>
</tr>
<tr>
<td>2009</td>
<td>-3.80%</td>
<td>-8.62%</td>
<td>11,327.04</td>
<td>5,046.00</td>
<td>-433.08</td>
<td>-273.00</td>
<td>9,711.36</td>
<td>4,231.00</td>
<td>2,368.44</td>
<td>1,348.00</td>
<td>42,094.00</td>
<td>20,671.00</td>
</tr>
<tr>
<td>2010</td>
<td>-0.30%</td>
<td>1.58%</td>
<td>11,947.04</td>
<td>5,013.00</td>
<td>-35.84</td>
<td>89.00</td>
<td>8,953.28</td>
<td>4,562.00</td>
<td>2,237.76</td>
<td>1,332.00</td>
<td>39,828.00</td>
<td>20,103.00</td>
</tr>
<tr>
<td>2011</td>
<td>8.00%</td>
<td>-0.80%</td>
<td>13,564.80</td>
<td>6,287.00</td>
<td>814.80</td>
<td>-27.00</td>
<td>11,984.00</td>
<td>4,432.00</td>
<td>2,580.60</td>
<td>1,237.00</td>
<td>40,252.00</td>
<td>20,081.00</td>
</tr>
<tr>
<td>2012</td>
<td>0.30%</td>
<td>-10.11%</td>
<td>14,558.51</td>
<td>5,837.00</td>
<td>50.43</td>
<td>-586.00</td>
<td>13,317.21</td>
<td>4,888.00</td>
<td>2,894.35</td>
<td>1,484.00</td>
<td>43,213.00</td>
<td>19,811.00</td>
</tr>
<tr>
<td>2013</td>
<td>2.50%</td>
<td>-9.19%</td>
<td>14,905.20</td>
<td>5,772.00</td>
<td>360.00</td>
<td>-493.00</td>
<td>13,705.20</td>
<td>4,104.00</td>
<td>2,894.40</td>
<td>1,568.00</td>
<td>41,857.00</td>
<td>19,254.00</td>
</tr>
<tr>
<td>2014</td>
<td>6.40%</td>
<td>2.78%</td>
<td>17,186.28</td>
<td>5,640.00</td>
<td>1,098.52</td>
<td>391.00</td>
<td>15,000.32</td>
<td>4,122.00</td>
<td>3,100.16</td>
<td>1,239.00</td>
<td>43,120.00</td>
<td>16,907.00</td>
</tr>
<tr>
<td>2015</td>
<td>17.10%</td>
<td>9.88%</td>
<td>20,757.60</td>
<td>6,035.00</td>
<td>3,547.80</td>
<td>472.00</td>
<td>15,299.55</td>
<td>4,567.00</td>
<td>3,329.10</td>
<td>949.00</td>
<td>43,550.00</td>
<td>16,177.00</td>
</tr>
</tbody>
</table>

Table 4: Iberia and BA main figures
CHAPTER 4:
Turnaround strategies under limiting effect of national institutions:
A comparative study in the airline industry

<table>
<thead>
<tr>
<th>Iberia</th>
<th>BA</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ 2000-2003 Master Plan: Need for growth: increase Europe-Latin America, Spain-Europe routes</td>
<td>▪ LCC Go sold in June 2001</td>
</tr>
<tr>
<td>▪ Contingency Plan (2001): Need for implementing flexibility</td>
<td>▪ Outsourcing in-flight catering operations and ground vehicle management in 2001</td>
</tr>
<tr>
<td>▪ Reduction of domestic flights to Balearic or Canary Islands.</td>
<td>▪ Centralization of accounting operations in the UK in 2001</td>
</tr>
<tr>
<td>▪ Sale of Iber Swiss Catering, Viva Tours or Binter Canarias Airlines</td>
<td>▪ Future Size and Shape Plan in 2002</td>
</tr>
<tr>
<td>▪ Fleet renewal: New Airbus A340/600 aircrafts for long-haul and A320 for short and medium</td>
<td>▪ BA Way philosophy: service that matters to people who value how they fly</td>
</tr>
<tr>
<td>▪ 2006-2008 Master Plan: Profitable growth</td>
<td>▪ Fleet and network strategy: The fleet and network strategy aims to match capacity more closely to demand, simplify the fleet and reduce exposure to unprofitable markets</td>
</tr>
<tr>
<td>▪ Plan 2012 (as from 2009): maintain and even improve Iberia’s leadership position in its core markets.</td>
<td>▪ Business Plan BP 2006-2008: competitive cost base, delivering world-class customer service, preparing to be ready for the move to Terminal 5 and to be fit for growth</td>
</tr>
<tr>
<td>▪ Gradual capacity cuts on its domestic and European routes (20% Madrid-Barcelona)</td>
<td>▪ BA consolidated UK operations in six regional airports, and transferred ground roles to third-party ground handlers in 2007</td>
</tr>
<tr>
<td>▪ Elimination of routes (i.e. Johannesburg)</td>
<td>▪ Compete 2012, a radical three-year change programme as from 2008: refresh BA’s culture and revolutionize the way BA works</td>
</tr>
<tr>
<td>▪ Merger with British Airways in 2011</td>
<td>▪ New subsidiary OpenSkies in 2008</td>
</tr>
<tr>
<td>▪ Transformation Plan (as from Nov. 2012): Stop Iberia’s operating cash burn and achieve a competitive cost base.</td>
<td>▪ BP 2008-2011</td>
</tr>
<tr>
<td>▪ Creation of Iberia Express</td>
<td>▪ Contingency Plan in 2009 (cut costs &amp; flexibility measures)</td>
</tr>
<tr>
<td>▪ Future Plan: build a sustainable and profitable future and a new company culture</td>
<td>▪ Fight for survival in 2009</td>
</tr>
<tr>
<td></td>
<td>▪ Merger into IAG in 2011</td>
</tr>
</tbody>
</table>

Table 5: Turnaround strategies in Iberia and BA
CHAPTER 4: 
Turnaround strategies under limiting effect of national institutions: 
A comparison of BA and Iberia Airlines cases

<table>
<thead>
<tr>
<th>Year</th>
<th>Most Influencing External sources</th>
<th>Internal sources</th>
<th>Retrenchment strategy</th>
<th>Recovery strategy</th>
<th>HR strategy</th>
<th>HR practices</th>
<th>National institutions (Employee representation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-2008</td>
<td>• Terrorist attack (9/11), Wars  • Low-cost Competition  • Fuel &amp; security costs</td>
<td>• High internal costs  • Low productivity  • Labor conflicts  • Drop in earning  • Obsolete structural characteristic</td>
<td>• Contingency Plan in 2001: capacity reduction by 11% on least profitable route, discontinuation of wet lease operations and postponement of new aircraft additions, together with the reduction of other controllable costs  • Reduction of domestic flights to Balearic or Canary Islands.  • Sale of Iberia Swiss Catering, Viva Tours or Binter Canarias Airlines</td>
<td>• Iberia Regional Air Nostrum covered low-density routes in the domestic market and continued to inaugurate new European routes  • Commercial relations with BA  • E-commerce strategy  • New “a la carte” pay service in tourist class on all domestic  • Fleet renewal: New Airbus A340/600 for long-haul and A320 for short and medium</td>
<td>• Labor reduction plan (ERE 72/2001 and extensions): 2,515 exits.  • ERE 35/2005, only for ground staff: 1,074 exits  • CBAs</td>
<td>• FOCUS ON RESPONSIBLE RETRENCHMENT MEASURES THROUGH THE LABOR PLAN 72/01  • Early retirements  • Voluntary redundancies  • Deferred rehiring  • Novation of contract</td>
<td>• Numerous strikes: 2001: 2 strikes in March and July of each 10 days, against privatization and CBA ended in a collective bargaining agreement through a mediation process 2006: 2 days-strike against Iberia’s participation on Catal (later Clickair), ended with the agreement to maintain pilots</td>
</tr>
<tr>
<td>2009-2015</td>
<td>• Financial crisis  • Low-cost Competition  • Security costs  • High speed rail connection</td>
<td>• Persistent high internal costs  • Persistent low productivity  • Labor conflicts  • Drop in earning  • Persistent obsolete structural characteristic</td>
<td>• Contingency Plan in 2009  • Gradual capacity cuts on its domestic and European routes (20% Madrid-Barcelona)  • Elimination of routes (i.e. Johannesburg)  • Transformation plan (partially based on cutting costs to obtain profitability)  • Future Plan (partially based on cutting costs to obtain profitability)</td>
<td>• Merger IAG  • Iberia Express  • Plan 2012: recover profitability in its core business  • Re-open of routes (i.e. La Habana)  • Fleet and network planning  • Emphasis on flexibility and designing of future strategy: Transformation plan  • Future Plan</td>
<td>• Mediation agreement: 3.141 exits.  • Labor reduction plan (ERE 187/2014): 1,427 exits.  • CBAs</td>
<td>• Increase of job working hours  • Redistribution of the working day in line with flight activity  • Force change of duties  • Part-time and temporary staff non core positions  • Pay and reward system link to internal differentiations  • Extensive training to obtain polyvalence  • Salary cuts (14% to 7%)  • Reduction of pilots in long haul (2 instead of 3)</td>
<td>• 2013: Biggest strike on Iberia ever, due to layoffs, ended in (the mediation agreement (MA))  • As from 2013, with the MA, employer-employee relationship stabilized  • Trade unions meet every two months (or before if it’s required) with management, they are informed of confidential information from the company</td>
</tr>
</tbody>
</table>

Table 6: Iberia variables relationships matrix

162
CHAPTER 4:
Turnaround strategies under limiting effect of national institutions:
A comparison of BA and Iberia Airlines cases

<table>
<thead>
<tr>
<th>Year</th>
<th>Most influencing External sources</th>
<th>Internal sources</th>
<th>Retrenchment strategy</th>
<th>Recovery strategy</th>
<th>HR strategy</th>
<th>HR practices</th>
<th>National institutions (Employee representation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-2008</td>
<td>• Terrorist attack (9/11),</td>
<td>• High airline</td>
<td>• Outsourcing in-flight catering, operations and ground vehicle management.</td>
<td>• Merger of the British Regional Air Lines Group and Brymon Airways to create British Airways Chile Express</td>
<td>• CBAs,</td>
<td>• Layoffs</td>
<td>• Climate Employee Survey runned</td>
</tr>
<tr>
<td></td>
<td>• Low-cost competition</td>
<td>structural costs</td>
<td>• Centralization of accounting operations in the UK</td>
<td></td>
<td></td>
<td></td>
<td>• Employee engagement programme set</td>
</tr>
<tr>
<td></td>
<td>• Fuel &amp; security costs</td>
<td></td>
<td>• FSAS plan in 2002 (cutting costs to obtain efficiency)</td>
<td></td>
<td></td>
<td></td>
<td>• BATUC, a consultative forum for company &amp; unions</td>
</tr>
<tr>
<td></td>
<td>• Air traffic congestion</td>
<td></td>
<td>• Concorde cuts in 2003</td>
<td></td>
<td></td>
<td></td>
<td>• In 2002, strike threats if layoffs were ahead of announced 13,000 due to FSAS,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• LCC Go sold in June 2001</td>
<td></td>
<td></td>
<td></td>
<td>• Disputes at Heathrow terminal along summer 2003</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• In 2007/2008, consolidation of UK operations in six regional airports, and transferred ground roles to third-party ground handlers</td>
<td></td>
<td></td>
<td></td>
<td>• In Summer 2005, the Gate Gourmet catering dispute</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• “BA Way” cultural change</td>
<td></td>
<td></td>
<td></td>
<td>• In 2005, Industrial Relations Change Programme</td>
</tr>
<tr>
<td>2009-2015</td>
<td>• Financial crisis</td>
<td>• High internal</td>
<td>• Fight for survival (cutting costs to be prepared for the merger)</td>
<td>• Flight for survival in 2009 (Establish British Airways as a high-performing, market- focused, global premium airline before the merger)</td>
<td>• CBAs, such as Memorandum of Agreement (MoA) BA &amp; BALPA in 2009, minor layoffs</td>
<td></td>
<td>80 cabin crew were suspended and 13 sacked because of incidents related to the dispute</td>
</tr>
<tr>
<td></td>
<td>• Low-cost competition</td>
<td>costs</td>
<td>• In 2009, included a two-year pay freeze from 2010, or 1,700 cabin crew job cuts on the long-haul</td>
<td></td>
<td></td>
<td></td>
<td>BA and BASSA broke relations and BASSA was only invited to obligatory health and safety meetings.</td>
</tr>
<tr>
<td></td>
<td>• Security costs</td>
<td>• Labor conflicts</td>
<td>• MoA (salary, loss of license protection, sick pay, &amp; scope clause).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• 100 passengers chasse, (BA pilots from a seniority list).</td>
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<td>• Termination of the seniority system of promotion, restructuring of the cabin crew operations and assimilation of pay levels to competitors</td>
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</table>

Table 7: BA variables relationships matrix

163
CHAPTER 5: CONCLUSIONS

5.1. Summary and conclusions

5.2. Contributions

5.3. Limitations and future research

References
5.1. Summary and conclusions

This dissertation analyzes the relationship between sources of decline, turnaround strategy and HR strategies and practices. I accomplished three studies where I analyzed how this relationship works to obtain a more rich comprehension of it.

The first study consists of a theoretical review of the literature on sources of decline, turnaround strategies and HRM in crisis times, which concludes in a contextual theoretical model of HR strategies and practices in tough times. Results show four basic HR strategies for organizations in decline, flexibility-oriented HR strategy, efficiency-oriented HR strategy, maintenance-oriented HR strategy and niche-oriented HR strategy, depending on the sources of the decline. Previous literature on HRM in crisis times usually adopts a universal perspective grounded in a downsizing strategy (Cascio, 2002; Chadwick, Hunter, & Walston, 2004; Luan, Tien, & Chi, 2013; Sheaffer, Carmeli, Steiner-Revivo, & Zionit, 2009; Trevor & Nyberg, 2008; Tsai & Yen, 2008; Zatzick, Marks, & Iverson, 2009) as a set of best HR practices which can be applied to all crisis situation. This study brings the sources of decline and turnaround strategies literature to the SHRM field of study to propose a contextual model of HR strategies and practices in declining situations.

The second study partially analyzes the previous contextual model, by examining the relationship between firm-based sources of decline, turnaround strategy and HR strategies and practices in Iberia Airlines, whose decline situation has been exacerbated by persistent firm-based sources of decline (Airline Business, 2015). Results show that in a situation of firm-based decline, the success of the turnaround
strategy depends on the fit between the recovery strategy, the retrenchment strategy, and the HR strategies and practices. In addition, under situations of firm-based sources of decline, a flexibility-oriented HRS will contribute to the demanded recovery strategy, through staffing, compensating, planning, and training flexibility-oriented HR practices. Literature states that the interaction of retrenchment and recovery responses allows turnaround firms to consolidate turnaround performance (Schmitt and Raisch, 2013), but this approach does not specifically take into account HRM elements. Researchers also highlight the importance of adopting recovery strategies to address firm-based sources of decline, because if decline is due to a weak strategic posture, retrenchment will not solve the problem (Ndofor, Vanevenhoven, & Barker, 2013); but this view does not consider HRM aspects. Conversely, this dissertation covers all aspect of this relationship firm-based decline-turnaround-HRM.

The third study examined how sources of decline and national institutions’ pressures affect turnaround strategy and HRM strategy. This study incorporates the institutional pressures not in a single external-pressure label (Paauwe, 2004), and it separates external-market pressures or sources of decline (i.e.: competition, technology, economic, etc.) from the external-institutional pressures or sources of decline (i.e.: governments, trade unions, laws) (Boselie, 2010). Specifically, we observed sources of decline, turnaround strategies, national institutions’ influence (through employee representation’s power) and HRM strategies to explain potential differences in the turnaround strategy and human resource management (HRM) strategy in two airlines companies, British Airways (BA) and Iberia, subjected to the same external-market pressures, but with a different turnaround process due to internal and external-institutional pressures. Scholars have disregarded the extent to which national
institutions constrains managers’ turnaround strategies (Lange, Geppert, Saka-Helmhout, & Becker-Ritterspach, 2015). Our results show that when national institutions grant a number of rights to employee representatives, an innovative HRM strategy will facilitate the demanded recovery strategy under internal sources of decline and when national institutions grant fewer rights to employee representatives, a deviant HRM strategy will contribute to the demanded recovery strategy under internal sources of decline. In addition, a conformist HRM strategy towards external-institutional pressures such as trade unions will extend the turnaround process.

In summary these three studies show the importance of context to HRM in crisis times. In declining situation, companies shouldn’t adopt a universal approach of the HR strategies and practices (i.e.: downsizing widely used in crisis times). The fit between the sources of decline and the HR strategies and practices is crucial to the recovery of the company. Aspects such as the need for the management’s identification of the root of the internal or external problems or the nature of the external-institutional pressures are covered for this dissertation, and contribute to understand the company decline and adopt convenient turnaround strategies and HR strategies and practices to address this situation.

5.2. Contributions

This dissertation contributes on the one hand to the organizational decline and turnaround literature, and on the other hand to the strategic human resource management (SHRM) literature. Firstly, the results of these three studies help to link these fields of studies. Traditionally, researchers have analyzed organizational decline
and turnaround literature (Datta, Basuil, & Pandey, 2010; Ndofor et al., 2013), but they do not cover HR turnaround strategy. And scholars have studied SHRM in crisis times (Cascio, 2002; Chadwick et al., 2004), but they don’t match these HR responses with the decline and turnaround literature. Therefore, this dissertation contributes to the development of the organizational decline, the turnaround and the SHRM literature by contextualizing HR strategies and practices for declining organizations. Certainly, this research enriches the SHRM literature with the analysis of the sources of the decline and the interrelation with the turnaround strategies, studied in the corporate strategy literature (Arogyaswamy, Barker, & Yasai-Ardkani, 1995; Hofer, 1980; Ndofor et al., 2013) but never applied to the SHRM field of study.

Secondly, this dissertation contributes to the SHRM as it studies the HR strategies and practices in decline situations and it considers the recovery responses and not just the retrenchment or downsizing responses, as usual (Chadwick et al., 2004; Chu & Siu, 2001; Luan et al., 2013; Sheaffer et al., 2009; Trevor & Nyberg, 2008; Tsai & Yen, 2008; Zatzick et al., 2009). For instance, our results show that flexibility-oriented HR responses are crucial for the recovery strategy under firm-based sources of decline. Indeed, measures such as redistribution of the working day, changes of duties, increase of job working hours, or pay schemes related to internal deficiencies are also part of the HRM in crisis times, and they are not retrenchment-oriented but recovery-oriented. In this sense, this dissertation proposes, not only a flexibility-oriented HR strategy, but also an efficiency-oriented, a maintenance-oriented and a niche-oriented HR strategy, as recovery measures to respond to internal and external pressures.
Thirdly, this dissertation emphasizes the importance of the fit between declining context and HRM strategies. Results enrich the decline and turnaround literature as they consider the institutional context to explain the differences in turnaround decisions. In contexts where national institutions grant a number of rights to employee representatives, innovative HRM strategies will better contribute to the company turnaround than conformist HRM strategies. Indeed, in a situation of internal-based decline, a creative and collaborative way of working between HR management and trade unions will easier the recovery under high institutional pressures. Conversely, when national institutions grant fewer rights to employee representatives, a deviant HRM strategy will contribute to the demanded recovery strategy under internal sources of decline. In this regard, this deviant HRM strategy is possible as institutional pressures are lower, and the company has strategic leeway to reinvent HR responses more easily.

Finally, this dissertation has implications for management in practice. The results of this dissertation highlighted the need for detecting the causes of decline and the competitive position when proposing appropriate HR strategies and practices. Although, it may seem counterintuitive, SHRM in tough times is not just a matter of pay cuts, hiring freezes, layoffs, or reducing hours. HR professionals can increase their strategic value, and therefore the value of HR practices, by tailoring their response to the source of decline. Finally, in crisis times, more than ever, creativity and innovation is a must at HRM to cope with the organizational decline. HRM has to propose creative HR strategies and practices, and not just cutting-cost measures.

In summary, this dissertation advises of many important aspects in the SHRM field of study, such as the importance of acknowledging the sources of the decline or
in institutional pressures, and appeals for the need of innovative HR measures to tackle tough times. Although management does not want to realize, organizational decline is a fact (Scherrer, 2003)

5.3. Limitations

This dissertation has some limitations which should be noted. The context of this study raises questions about the model’s generalizability and posits possibilities for future research.

Regarding to our theoretical study (chapter 2), we are aware of the complexity and interrelation of the internal and external sources of the decline. But we have provided management with a mature approach, in the sense, that executives have to realize of the root of the organizational decline situation at each moment, before it is too late.

In relation to the limitations of the first case study (chapter 3), additional research could be extended to a broader context beyond Iberia case study; we could incorporate different corporate contexts whose decline have been exacerbated by firm-based decline. This limitation opened the door for the following study (chapter 4), where we have included different contexts.

Regarding the limitations of the second qualitative study (chapter 4), this analysis involves two companies: BA and Iberia. The introduction of other European legacy carriers such as Lufthansa or SAS would have made the results more robust for generalization. This research only focuses on the limiting effect of national institutions
CHAPTER 5: Conclusions

represented through the employee representative’s power; while there are many others institutional pressures which we may include in future research. Nevertheless, this national institutions-employee representative relationship is per se very interesting as unions are embedded in a labor-legislation framework elaborated by governments or parliaments.

Moreover both studies (chapter 3 and 4) could have also included more interviews, but as these interviews were conducted with people directly involved in the negotiations (CEO, HR managers, mediator, or unionists), this fact strengthened the study’s internal validity.

On the other hand, it was beyond the scope of this research to evaluate how much certain HRM practices will influence firm performance and efficiency, we just want to establish relationship among constructs, sources of decline, turnaround strategy and HRM strategy and practices. Future investigations can make a significant contribution by examining the actual outcomes associated with the implementation of our contextual model of HRM strategies and practices.

Moreover, from both case studies we do not intend to generalize our propositions to all possible decline situations, but they represent a good starting point for the comprehension of the HR strategies and practices from a contextual perspective in declining organizations. This contextual framework of HR strategies and practices brings the opportunity of further continuing analyzing the relationship between sources of decline, turnaround strategies and SHRM in crisis times. In increasingly complex environments and with increasing number of companies suffering decline at some point, this study appears to be relevant. The results in this dissertation suggest means of doing
CHAPTER 5: Conclusions

so. If these results survive further empirical testing, they will enhance our understanding of managing HR in declining organizations. The present research contributes to build SHRM theory and invite future research on contextual HRM strategies and practices.
References


CHAPTER 5: Conclusions


APPENDIX

APPENDIX: Example of interview outline

INTRODUCTION

First of all, I would like to thank you for dedicating part of your precious time to answer this interview. I also would like to introduce my research and myself. My name is Mónica Santana and I am currently assistant professor and PhD researcher at the University of Pablo de Olavide. The aim of the present study is to analyze the turnaround strategies, the human resource (HR) strategies and practices and the role of management and the influence of employee representation when adopting turnaround strategies.

In case of a phone interview, I would like to ask your permission to record the conversation so that I concentrate all my attention in our interview without taking notes. I would be the solely person with access to this recorded conversation. Please, do not hesitate to ask me to switch the recorder off at any time.

Would you like to make me any question before starting with this interview?

I would like to start talking about the evolution of the airline industry

INDUSTRY KEY INFORMANTS

1. What external pressures have affected the airline industry? How have the airline companies adapted to these pressures? How have the flag carriers adapted to the deregulation of the airline industry?
2. In your opinion, what are the airline companies that have better adapted to the environmental pressures?
3. What are the reasons behind this success? It’s due to some internal aspect of these concrete airline companies?
4. How important are internal aspect for the airlines’ competitive success? And how important are the human resources?
5. What indicators do you observe to measure your own or others growth or decline?

FIRM KEY INFORMANTS

1. What external factors (economic, technological, regulatory, competition, cultural or social) have affected to BA? How? What factor has most affected to your company?
2. What internal problems (labour, financial, operational) has BA faced? How have they affected to BA, especially the labour related? Are the human resources the problem or a key factor to recover?
3. What has been the root of the problem, the internal or the external problems?
4. What corporate strategy has selected the company to respond to these internal and external pressures? When? Does BA focus on strategic responses or retrenchment ones?
5. Has BA’s human resource strategy been linked to the corporate strategy? Could you give me some examples?
6. What human resource strategy has the company adopted? For example, does BA search for employees’ flexibility or fit to certain positions.
APPENDIX

HUMAN RESOURCES KEY INFORMANTS

1. Do you consider that the human resources have been a problem for the company or, on the contrary, they have been a tool to face challenging periods?
2. How important is the HR Department in the company decision making process? And trade unions (TU)? Does the HR Manager belong to the Committee of Directors? Where are TU represented?
3. In relation to training choices, does the company training aim to obtain flexible employees to adapt to the company strategy and, thus focused on extensive training or, on the contrary it’s a specific training based on the fit to job position? Could you give me some examples?
4. What is the annual budget for training since 2000? How many employees have participated in any training programme since 2000? Is it internal, external or virtual? Could you give examples of different training programmes?
5. In relation to staffing choices, how is the employee selection process at your company? What sort of employee profile does your company search for? Does your company focus on fit to job-position or adaptability of employees to respond to the changeable environment?
6. In relation to the personnel adjustment runned by your organization, why was it conducted? How? Does this adjustment aim to reduce costs or resize the company to adapt to the future firm strategy?
7. In relation to compensating choices, how has the compensatory policy been in your company since 2000? Is it fix, variable, both? Is it regulated in a collective agreement?
8. In relation to planning choices, have your company redesigned timetables, shift or positions searching for employee flexibility and enrichment or simply for reducing costs?
9. How is the communication at your company? Does it exist any system to gather suggestions from employees?
10. How does your company differentiate from competitors in relation the human resource management?
11. Could you give the number of employees per category or level and their retributions since 2000?

HUMAN RESOURCE MANAGEMENT IN CRISIS TIMES KEY INFORMANTS

STAFF RESTRUCTURATION

Your company has adopted severe employment reduction measures

1. Why?
2. What has your company obtained with the adoption of these measures? Were these measures in line with the corporate strategy? When has the company adopted the most important employment reduction measures?
3. How many employees were affected? How was this restructuration process managed? Was it voluntary or mandatory? What was the logic behind the dismissal, keeping key employees from key areas or was a generic process for everyone?
APPENDIX

COLLECTIVE BARGAINING AGREEMENTS

1. Why has your company adopted Collective Bargaining Agreements (CBAs)? As a result of labor conflicts or to develop the company HR policy? Do you have a copy of any of these CBAs?
2. What has the company achieved through these CBAs?
3. To what extent these agreements take into account unions and company’s decisions?
4. Are CBAs in line with the company strategy? Do CBAs contribute to obtain employee flexibility? Have CBAs contributed to the recovery strategy? Have they contributed to solve firm internal problems?
5. Could you resume the distinct CBAs adopted since late 90s by your company and their most relevant characteristics in relation to HR choices: training and development, planning, staffing or, compensating? Could I have a copy of these CBAs?

INDUSTRIAL RELATIONS

1. What are the most important trade unions within BA? How is the company relation with them? Explain the main point of view about the most relevant disputes with unions? When were they? What was the role of the court on these disputes? What did the unions claim for?

INTERNATIONAL AIRLINES GROUP

On the 24th of January 2011, BA and Iberia merged into IAG.

1. What were the reasons to accomplish this merger? Was a strategic response or a response searching to reduce costs?
2. What steps did BA follow previously to the merger?
3. What are the achievements of this merger?
4. How has this merger affected to the human resource management? Give examples in relation to training, development, compensating, staffing or planning?

In general, to what extent BA’s human resource management has contributed to the company performance (productivity, sales, image, and performance)?
Example of e-mail interview for industry experts

1. What are the main differences between the industrial relations process in UK and Spain? In relation to the employer-employee relationship, consultation bodies, regulations, employee rights...

2. In your opinion, what are the main differences in the employer-employee relationship between British Airways and Iberia? For instance, is there more consultation process in Iberia than in BA? Is BA more resistant than Iberia to employees’ representation suggestions or requirements?

3. What are the main HR practices that BA has adopted to survive to 2001 and 2008 main events?

4. Could you please provide me with any copy of collective bargaining agreements from BA since 2000? (In case you have this sort of information)
WORKSHOPS AND SEMINARS

The studies from this dissertation have been presented in the several workshops and seminars. I really want to thank all the rich feedback and comments I have received from participants.

HR STRATEGIES AND PRACTICES IN CRISIS TIMES

- 27th Workshop on Strategic Human Resource Management, European Institute for Advanced Studies in Management (EIASM), (April, 2012) Brussels (Belgium)

- Doctoral Colloquium, European Academy of Management (EURAM), (June 2014), Valencia (Spain)

- 23rd Spanish Academy of Management (ACEDE) Doctoral Colloquium, (September 2013), Malaga (Spain)

- Seminar at Ghent University, Department of Human Resource Management and Organizational Behavior, February 2015

- Seminar at Utrecht University School of Governance (USG), March 2015

- 9th Doctoral Consortium Dutch HRM Network, (November 2015), Utrecht (The Netherlands)
SEMINARS AND WORKSHOPS

STRATEGIC PLANNING IN HUMAN RESOURCES FOR ORGANIZATIONAL DECLINE

- 30th Workshop on Strategic Human Resource Management, European Institute for Advanced Studies in Management (EIASM), (April, 2015) Brussels (Belgium)

BUILDING HR STRATEGIES AND PRACTICES TO COPE WITH ORGANIZATIONAL DECLINE: ADDRESSING THE IBERIA AIRLINE CASE.

- 25th Spanish Academy of Management (ACEDE) Doctoral Colloquium, (June, 2015) Jaen (Spain)

STRATEGIC HUMAN RESOURCE MANAGEMENT DURING ORGANIZATIONAL DECLINE: A CONTEXTUAL APPROACH

- 9th International Conference Utrecht, “Recontextualizing HRM”, (November 2015), Utrecht (The Netherlands)

TURNAROUND STRATEGIES UNDER LIMITING EFFECT OF NATIONAL INSTITUTIONS_ A COMPARATIVE STUDY IN THE AIRLINE INDUSTRY

- 31st Workshop on Strategic Human Resource Management, European Institute for Advanced Studies in Management (EIASM), (April, 2016) Segovia, Spain
I. Introducción

II. El contexto de declive

III. La gestión estratégica de los Recursos Humanos en tiempos de crisis

IV. Cuestiones de investigación y contribuciones

Bibliografía
RESUMEN EN ESPAÑOL
SUMMARY IN SPANISH

I. Introducción

El objetivo general de esta tesis es proponer un modelo de estrategias y prácticas de recursos humanos en organizaciones en declive y comprender cómo funciona este modelo. Para ello, esta tesis primero revisa la literatura sobre declive organizativo y cambio de rumbo (o turnaround en su término inglés), a continuación se estudia la literatura sobre estrategias y prácticas de recursos humanos en tiempos de crisis y finalmente, utilizamos la metodología del estudio de casos para una mejor comprensión de este modelo y para la construcción de teoría. En el primer estudio de casos, se analiza la relación entre causas internas del declive, estrategia de cambio de rumbo y estrategias y prácticas de recursos humanos. A través del segundo estudio de casos, en este caso un estudio comparativo, se pretende comprender mejor la relación anterior, pero incorporando las presiones institucionales no simplemente como una presión externa, sino también como un factor limitativo que puede afectar a las estrategias de cambio de rumbo en organizaciones.

Esta tesis lleva el análisis de la literatura relativa al declive organizativo y estrategia de cambio de rumbo al campo de la gestión estratégica de los Recursos Humanos. La dirección necesita reconocer la raíz del problema para actuar frente a ella (Barker, 2005) y, en este sentido, las estrategias de cambio de rumbo tienen que llevarse a cabo de acuerdo con las causas del declive (Arogyaswamy, Barker y Yasai-Ardekani, 1995; Hofer, 1980; Ndofor, Vanevenhoven y Barker, 2013). Por otro lado, la gestión estratégica de los recursos humanos ha estado centrada en la estrategia de reducción de tamaño (o downsizing en su término inglés) (Cascio, 2002; Chadwick, Hunter y
RESUMEN EN ESPAÑOL
SUMMARY IN SPANISH
Walston, 2004; Luan, Tien y Chi, 2013; Sheaffer, Carmeli, Steiner-Revivo y Zionit, 2009; Trevor y Nyberg, 2008; Tsai y Yen, 2008; Zatzick, Marks, y Iverson, 2009). La estrategia de reducción de tamaño parte de una concepción universalista al considerar que existe una serie de mejores prácticas de recursos humanos que puede aplicarse y extenderse a todas las situaciones de crisis organizativa. Pero, esta estrategia de reducción no siempre es la más indicada para mejorar el desempeño organizativo (Chadwick y otros, 2004; Luan y otros, 2013; Muñoz-Bullón y Sánchez-Bueno, 2011).

Por todo esto, esta tesis considera que una mejor integración de la literatura sobre declive organizativo, estrategia de cambio de rumbo y gestión estratégica de los recursos humanos es necesaria para obtener una mejor respuesta desde la gestión de los recursos humanos a la estrategia de cambio de rumbo ante situaciones de declive organizativo.

En este resumen se explica la motivación de este estudio. El apartado 2 se centra en explicar la importancia de llevar los aspectos contextuales de situaciones de declive al análisis de la gestión estratégica de los recursos humanos. El apartado 3 engloba aspectos actuales de la gestión estratégica de los recursos humanos en tiempos de crisis. Por último, se presentan las cuestiones de investigación y las principales contribuciones.

II. El contexto de declive

Investigadores reconocidos han subrayado la importancia de traer elementos contextuales al campo de la gestión estratégica de los recursos humanos (Brewster, 1999; Paauwe, 2004; Boselie, 2010). Paauwe (2004) introduce una aproximación
RESUMEN EN ESPAÑOL

SUMMARY IN SPANISH

equilibrada a este campo, al considerar la influencia del contexto en la organización pero, también, de aspectos internos organizativos en el contexto exterior de la misma. Así mismo, Boselie (2010) propone un modelo contextual donde la gestión de los recursos humanos viene definida por seis elementos: el contexto general de mercado externo (macroeconómico, mercado laboral), el contexto específico de mercado externo (competencia, mercado, tecnología, producto), el contexto general institucional (normativa o valores), el contexto específico institucional (acuerdos colectivos, sindicatos, comités de empresa, otros agentes relacionados), el contexto interno organizativo y la estrategia de recursos humanos adoptada por la organización.

Estas contribuciones son muy importantes para la literatura de la gestión estratégica de los recursos humanos, ya que aportan una perspectiva equilibrada para la incorporación de las presiones externas e internas a este campo de estudio. Sin embargo, estas investigaciones no están específicamente diseñadas para el contexto de declive organizativo. Y, por otro lado, los investigadores en el área de la estrategia corporativa han estudiado profundamente las presiones internas y externas que causan el declive de la empresa (Datta, Basuil y Pandey, 2010; Mellahi y Wilkinson, 2004; Scherrer, 2003; Trahms, Ndofor y Sirmon, 2013). Además, estos académicos han resaltado relaciones interesantes entre las causas del declive y la estrategia de cambio de rumbo (Arogyaswamy y otros, 1995; Hofer, 1980; Ndofor y otros, 2013), que queremos introducir en el campo de la gestión estratégica de los recursos humanos.

Ambas aportaciones contextuales, por un lado, la relativa a aspectos contextuales que afectan a los recursos humanos como, por otro lado, la relativa a las fuentes del declive y la estrategia de cambio de rumbo y las interrelaciones entre estas
últimas, han de ser incorporadas a la literatura de la gestión estratégica de los recursos humanos en tiempos de crisis, para un mayor comprensión de la relación entre causas del declive, estrategia de cambio de rumbo y las estrategias y prácticas de recursos humanos. Ambas aportaciones no son exclusivas sino inclusivas y pueden enriquecer la literatura de la gestión estratégica de los recursos humanos.

**III. La gestión estratégica de los recursos humanos en tiempos de crisis.**

En tiempos de crisis, la gestión de los recursos humanos representa un medio para lograr el éxito competitivo (Pfeffer, 2005), en el que la estrategia corporativa y la estrategia de recursos humanos tienen que estar alineadas (Boselie, 2009; Lengnick-Hall y Lengnick-Hall, 1988). La dirección tiene que tener en cuenta el papel de la función de los recursos humanos a la hora de formular e implementar respuestas estratégicas al declive (Arogyaswamy y otros, 1995), considerando por tanto a los recursos humanos como una fuente de ventaja competitiva, y no simplemente como un coste que tiene que ser minimizado o evitado (Pfeffer, 2005).

Schuler (1987) estudió la relación entre la estrategia de cambio de rumbo (entre otras estrategias corporativas) y las prácticas de recursos humanos. Pero, no tuvo en cuenta en su análisis las causas del declive y, básicamente, las prácticas de recursos humanos propuestas estaban dirigidas a recortar costes. Wright y Snell (1998) propusieron un modelo para explorar el ajuste y la flexibilidad en las estrategias de recursos humanos en condiciones de demanda impredecible y cambiante; no obstante,
este modelo no estaba específicamente enfocado a las situaciones de declive y, por ende, de cambio de rumbo.

Al referirse a la gestión estratégica de los recursos humanos en tiempos de crisis, Wayne F. Cascio merece una atención especial (Cascio, 1995, 2002). Él acuñó el término de *reestructuración responsable* de la empresa y realizó importantes contribuciones en su “Guía para una reestructuración responsable”, elaborada para el Departamento de Trabajo americano. Este autor propuso un conjunto de alternativas para reestructurar empresas y consideró la reestructuración responsable como una estrategia que se centraba en las personas como recursos que debían ser reforzados. Además, este investigador afirmaba que las organizaciones tienen dos opciones cuando han de adoptar respuestas de recursos humanos en tiempos difíciles: considerar a los empleados como costes que han de ser reducidos o como activos que han de ser reforzados. Las últimas organizaciones son las que reestructuran responsablemente. Estas empresas piensan como gestionar los negocios para usar más eficientemente los recursos humanos. A pesar de esta contribución crucial para el campo de la gestión estratégica de los recursos humanos en tiempos de crisis, esta conceptualización no tiene en cuenta tampoco la literatura sobre declive y estrategia de cambio de rumbo, y supone una aproximación universal de las prácticas de recursos humanos en tiempos difíciles.

Finalmente, la estrategia más recurrente en tiempos de incertidumbre es la de reducción de tamaño o recortes (o downsizing en su término inglés), normalmente asociada a reducciones de empleo (Cascio, 2002), incluso aunque también englobe diversas medidas como reducciones financieras o físicas (DeWitt, 1998). Prácticas de
recursos humanos tales como desincentivar promociones, recortar sueldos, congelar contrataciones, despedir o prejubilar empleados (Cascio, 2002; Chadwick y otros, 2004; Chu y Siu, 2001; Luan y otros, 2013; Sheaffer y otros, 2009; Trevor y Nyberg, 2008; Tsai y Yen, 2008; Zatzick y otros, 2009) son las más populares en tiempos de crisis. Suponen un “conjunto de mejores prácticas” que puede ser utilizado en todo tipo de situaciones de crisis. Este aspecto supone una diferencia importantísima con respecto al modelo contextual de estrategias y prácticas de recursos humanos que esta tesis propondrá. En nuestro estudio, se considerarán las causas del decline y las estrategias de cambio de rumbo al adoptar respuestas de recursos humanos a las situaciones de decline organizativo.

IV. Cuestiones de investigación y contribuciones

Esta tesis pretende responder a la siguiente cuestión de investigación general:

(1) ¿Cuáles son las estrategias y prácticas de recursos humanos más indicadas para cambiar el rumbo de la empresa en línea con las causas que han motivado el decline?

Para responder a esta pregunta, esta tesis se compone de 3 estudios. El primero constituye una revisión teórica de la literatura relativa al decline organizativo, estrategias de cambio de rumbo y gestión estratégica de recursos humanos en tiempos de crisis. Esta revisión concluye en un modelo teórico que identifica cuatro tipos de estrategias de recursos humanos para organizaciones en decline en función de la causa
del declive: (1) una estrategia de recursos orientada a la flexibilidad, (2) una estrategia de recursos humanos orientada a la eficiencia, (3) una estrategia de recursos humanos orientada al mantenimiento y (4) una estrategia de recursos humanos orientada a la especialización en segmentos.

El segundo estudio analiza la relación entre causas del declive internas, estrategias de cambio de rumbo y gestión estratégica de los recursos humanos. Se ha escogido el análisis del estudio de casos de las Líneas Aéreas Iberia, debido a que su estrategia de cambio de rumbo está durando más que la de otras compañías aéreas, estas dificultades indican que el declive se ha visto intensificado por causas internas de la propia compañía. Los resultados indican que en situaciones de declive agravadas por causas internas, las prácticas de recursos humanos orientadas a la búsqueda de la flexibilidad contribuirán en gran medida al logro de la estrategia de recuperación y, además, en el caso de tener que adoptar estrategias de recorte (debido a la severidad del declive), éstas deberán estar en sintonía y coordinadas con la estrategia de recuperación.

Por último, el tercer estudio va un paso más allá en la comprensión de la estrategia de cambio de rumbo y las presiones que afectan al declive, al incorporar los factores institucionales, no simplemente como una mera causa de declive externo, sino como un factor limitativo de la estrategia de cambio de rumbo. El objetivo de este estudio consiste en analizar las diferencias en las estrategias de cambio de rumbo y en las estrategias y prácticas de recursos humanos de dos organizaciones que pertenecen a la misma industria, que están sometidas a presiones externas similares, pero que están enmarcadas en diferentes entornos institucionales y hacen frente a diferentes presiones internas, como son British Airways e Iberia; más concretamente se considera la
influencia de las instituciones nacionales de trabajo en las decisiones de la dirección. El resultado de este estudio subraya que cuando las instituciones nacionales confieren amplios derechos a los representantes de los empleados, una estrategia de recursos humanos innovadora facilitará la estrategia de recuperación demandada y que cuando las instituciones nacionales proporcionan menos derechos a los representantes de los empleados, existe más margen para una estrategia de recursos humanos más divergente (con respecto a lo tradicionalmente establecido) que contribuirá a la estrategia de recuperación. Además, una estrategia de recursos humanos conformista (hacia las presiones externas institucionales tales como los sindicatos) retrasará el proceso de cambio de rumbo.

En relación a las contribuciones, en primer lugar, esta tesis contribuye al desarrollo de la literatura de declive organizativo, estrategias de cambio de rumbo y gestión estratégica de recursos humanos al contextualizar las prácticas y estrategias de recursos humanos en las organizaciones en declive. Este estudio contribuye a la literatura sobre cambio de rumbo al introducir la gestión de los recursos humanos como parte de la estrategia de cambio de rumbo. Además, esta investigación enriquece la literatura relativa a la gestión estratégica de los recursos humanos con el análisis de las fuentes del declive y la interrelación de las mismas con las estrategias de cambio de rumbo, ampliamente analizado en la literatura de estrategia corporativa (Arogyaswamy y otros, 1995; Hofer, 1980; Ndofor y otros, 2013).

Esta tesis también contribuye a la gestión estratégica de los recursos humanos, ya que estudia las estrategias y prácticas de recursos humanos en situaciones de declive y considera las estrategias de recuperación y no solo las
estrategias de recorte o reducción, como suele ser habitual (Chadwick y otros, 2004; Chu y Siu, 2001; Luan y otros, 2013; Marks y De Meuse, 2005; Sheaffer y otros, 2009; Trevor y Nyberg, 2008; Tsai y Yen, 2008; Zatzick y otros, 2009).

Además, esta tesis contribuye a la literatura de declive y cambio de rumbo, al considerar el contexto institucional para explicar las diferencias en las decisiones de cambio de rumbo. Finalmente, esta tesis tiene implicaciones prácticas. Los resultados de esta tesis subrayan la necesidad de detectar las causas del declive y la posición competitiva de la organización al proponer estrategias y prácticas de recursos humanos. Aunque, puede parecer ilógico, la gestión estratégica de los recursos humanos en tiempos de crisis no es solo una cuestión de bajada de sueldos, congelación de contrataciones o despidos. Los profesionales de recursos humanos pueden incrementar su valor estratégico y, por lo tanto, el valor de las prácticas de recursos humanos en tiempos de crisis, al adaptar sus respuestas a las causas del declive.
Bibliografía


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