

HRM in Spain

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RESUME

Human Resource Management in Spain has been characterised until recently by various features, all of which are interrelated and which largely explain each other. These are :

- *The preeminence of its purely administrative aspect*
- *The limited use of techniques and instruments of HRM, such as job analysis, planning, career management, job evaluation etc.*
- *Its reactive nature, instead of adopting a strategic perspective.*
- *The limited status and resources of the specialist personnel department, when and where these existed .*

Various reasons come together to explain this low status, and they all have to do with the evolution of both the political and economic contexts which directly influenced how HRM procedures and practices were developed. In connection with this issue, a historical perspective has been adopted, in order to make the analysis of HRM in Spain. The following periods have been covered :

- *The Franco regime, especially from 1958 to 1973, was characterised by two major aspects. Firstly the absence of free trade unions, which created an extraordinary degree of wage flexibility. Secondly, the low levels of temporary employment, despite the legal constraints to lay off employees.*

- *Economic crises and political transition in the 1970s. During the second half of the 1970s and the early 1980s a series of changes occurred which constituted important barriers for the required modernisation of the personnel function in Spain.*

- *These changes are connected with the increase of union pressure and the political situation, so that priority was given to the reduction of labour conflict, in order to facilitate the transition to democracy. This period was characterised by the following facts : an intense escalation of labour costs, a reduction in the variable component of payments linked to performance, and an excessive labour market rigidity in a period of deep economic crisis.*

- *The present situation of HRM in Spain. During the second half of the 1980s until the present, there has occurred a modernisation of HRM practices in Spain. A series of events have contributed towards this change. Among them the most important ones are the following :*

- *The end of the economic crisis and the intensive expansion process.*
- *The opening up of Spain to external investors and markets.*
- *The increasing need for labour flexibility, both external and internal.*

Finally, three HRM processes have been analysed in order to identify the special features of these subjects in Spain. These processes are :

- *recruitment and selection;*
- *career management ;*
- *compensation.*

1.- INTRODUCTION.-

Human Resource Management (HRM) in Spain has traditionally been characterized by various traits:

- Firstly, the preeminence of its purely administrative aspect which gave rise in the past to little more than the completion of bureaucratic-type tasks.
- Secondly, the limited use of the techniques and instruments of HRM, such as job analysis, planning, determination of training needs, career management, job evaluation, performance evaluation, etc.
- Thirdly, its reactive character, as personnel policies had nearly always been established as an answer to a necessity, responding to events rather than foreseeing and preventing them.
- Finally, the limited status and resources of the specialist personnel departments, when and where these existed.

Various reasons come together to explain this low status, as will be referred to in the following characteristics of the background to Spanish HRM during the period of the 1970s and 1980s. At present, these traditional features are changing rather quickly. However, in our opinion, it is important to understand the reasons behind this evolution. For this purpose, we will try to identify the main aspects influencing HRM in Spain, adopting a historical point of view. Three periods have been covered:

- The Franco regime.
- The Spanish political transition.
- The 1980's.

2.- HUMAN RESOURCE MANAGEMENT DURING THE FRANCO REGIME.-

During the Franco Regime, especially from 1958 to 1973, HRM practice was characterized by two key aspects:

In the first place, its institutional context was marked by pseudo - collective bargaining, in the absence of free trade unions and with considerable participation by the Government. This created an extraordinary degree of wage flexibility, which was however paralleled equally strongly by a labour market rigidity since employers were not permitted to lay off employees without justified reasons. During this period, the economy was characterized by a general situation of expansion with short periods of recession. However, there were more than enough elements of flexibility present to allow the adjustment of labour costs to the economic cycle. Among these elements, the most important were:

- the absence of specific unionization effects in the labour force,
- the actual flexibility of the payments included in wages and salaries,
- the low level of base pay,
- the systematic resort to cheap overtime.

Among the various factors of wage flexibility the following should be noted specially:

- the extensive use of variable components of wages linked to profits, productivity, or even the general prosperity of the company, amounting to up to 40% of wages.
- the intensive use of overtime, which permitted adjustments of production to the changing conditions of the product market, causing modifications in per capita wages without changing the number of employees (A. Serrano and J.L. Malo de Molina. 1979)¹.

In the second place, during this period there was a low level of temporary employment despite the legal constraints to lay off employees, and despite a 1944 Law (Ley de Contrato de Trabajo) which left it up to the effected parties (employer and employee) to opt for either a permanent or a temporary contract. This situation can be explained by two basic causes:

- to protect the large investments in vocational training companies were making, as a substitute for general lack of training given by the state education system. This protection entailed a widespread use of internal promotion as opposed to external selection. The entry of personnel occurred therefore mainly at the bottom of the organization, which contributed to the explanation of the low rate of external mobility in the Spanish labour market. It was also reinforced by the importance given to seniority as the basic criterion for promotion, even in collective agreements and labour law.
- to balance the lack of employment protection and basic workers' rights such as independent unionization, free collective bargaining, the existence of an institutional framework to conduct industrial conflicts, etc. (Rodríguez Miranda, S. 1982)²

The system we have described so far allowed for the reduction of production costs through wage flexibility without eliminating losses incurred by excess of personnel. It curbed rather than stimulated the efficient use of the workforce and created the considerable accumulation of inefficiencies in the production sphere. Additionally it contributed to the Spanish economy being characterised by its intensive use of the labour, making it especially vulnerable to wage rises.

3.- ECONOMIC CRISIS AND POLITICAL TRANSITION IN THE 1970's.-

In more recent times, the extraordinary difficulties of Spain's political transition within the context of a deep economic crisis did not contribute to the necessary modernization and development of Human Resource Management. During this period, priority was given to

¹ Serrano A; Malo de Molina, José Luis. "Salarios y Mercado de Trabajo". Editorial Blume. Madrid. 1979.

² Rodríguez Miranda, S. "Presentación" in Medidas de fomento del empleo (Measures of Employment Creation), Ed. Ministerio de Trabajo y Seguridad Social, Madrid, 1982.

the reduction of labour conflict. This in turn delayed the much needed adaptation of the economy to the context of the crisis, which became more apparent as the problems from the previous period surfaced. During the second half of the 1970s and the early 1980s, a series of changes occurred which constituted important barriers for the required modernization of the personnel function in Spain. In particular, from 1973 to 1980 various factors resulted in companies having reduced wage flexibility without providing the necessary compensating adaptation of the workforce to the new demands which were facing the company. These factors were the following:

- Firstly, the existence of legal limitations on the use of overtime and its increasing cost.

- Secondly, the intense escalation of labour costs which took place during the 1970's, due to the increase in the real wage and the real cost of social security. The real unit labour cost in the industrial sector experimented a total increase of nearly 55% between 1970 and 1980. Only from 1980, with the important "Social Agreements" was there any considerable moderation in salaries. There was, however, no decrease of real salaries (except in 1982) basically due to the intensity of wage drifts. On the other hand, as already mentioned, employees experienced an increase of social security payments and greater fiscal pressure on their incomes. These pressures gave rise to a widening gap between real labour costs and the purchasing power of incomes, with the latter only able to be raised at the cost of strong upward tendencies of the former.

- Thirdly, wage ranges were becoming compressed considerably. The linear character of desired wage increases was converted into constant demands which lasted until 1980, reflected in wages campaigns which were a frequent cause of conflict in collective bargaining. These dynamics had very negative consequences from the point of view of HRM, as it notably diminished promotion as an instrument for motivation.

- Finally, the variable component of payments linked to production or performance became a much-reduced component of the gross wage. In the 1960s, commissions, bonuses and incentives typically reached levels of between 30% and 40% and even in 1975 the importance of incentives was still significant. But from this date on, the variable compensation concepts and those of production-related pay, diminished regularly through their integration into base pay or into basically-permanent compensation. It seemed as if the salary had been definitively abandoned as an instrument for motivation (Alcaide-Castro, M., 1987)¹.

To summarize, in our opinion, the increase in wage rigidity in Spain during the 1970's was caused by both the increase in the union pressure and by the lack of

clear negotiation targets on the part of the company owners. These two factors, also contributed to raise barriers to putting into practice the precepts and modern techniques of HRM.

4.- HRM DURING THE 1980's.-

Once the political transition was completed, that was at the beginning of the 80's, it became urgent the adoption of measures to cope with the economic crisis since they could not have been taken before since priority was given to the reduction of labour conflicts. The measures which have had the greatest impact on the labour market during the 80's have been:

- Wage moderation.
- The legal reform of the contracts of employment.

During the first half of the 1980s, the necessary process of wage moderation was tackled as the largest national unions and employer's associations began to participate in nation-wide social economic pacts. One of the basic objectives of these agreements has been, during the years that they have been taking place, the determination of various general procedural rules abouts the content of collective bargaining at the company level. For this reason, these may be described as "agreements in order to agree".

In order to face up to the consequences of the economic crisis, these social agreements tried to discipline the sectorial or company collective bargaining by limiting the percentage of wage increase through the establishment of an upper and a lower limit, between which the parties could negotiate in order to establish the effective wage increase.

These social agreements had obvious positive consequences:

- 1.- they contributed substantially to the political stability,
- 2.- they established a sufficiently flexible and effective mechanism in order to make possible the necessary wage moderation,
- 3.- and, they diminished the intense labour conflicts of the previous decade.

Nevertheless, this meant the sacrifice of certain aspects of flexibility in favour of the macroeconomic control of salaries.

One of the costs for Spanish firms of the transition from dictatorship to democracy was the introduction of a presumption in law that all labour contracts were permanent, resulting in excessive job stability for workers during a period of economic crisis.

In practice, permanent contracts monopolized almost all employment along with excessively high redundancy payments. The employers, becoming alarmed, demanded a relaxation of this protection against dismissal. The Government answered with the 1984 legislative reform, putting a wide range of powers at the disposal of employers for temporary hiring, thus contributing decisively to giving flexibility to the, until then, rigid labour market.

¹ Alcaide M. "La Gestión de los Recursos Humanos en España: claves para su Desarrollo". AEDIPE. Diciembre 1987.

However, this wide range of contractual arrangements generated a complex system, in which clear, common rules did not exist.

This lack of clarity was partly due to the fact that each type of contract was regulated separately. The Government followed a gradualist type strategy (Valdés Dal-Re; 1985)¹, in introducing greater contractual freedom, but the process also produced unnecessary administrative complexity and legal insecurity for the employer, and lack of employment guarantees for the worker. From 1987 to 1991 these policies caused the doubling of the number of employees with some type of temporary contract, and by the end of 1991 the figure had reached over 33% of the Spanish work force, a percentage higher than any other in the EC. These outcomes were strongly criticized by the Spanish unions as causing considerable duality and instability in the labour market.

With respect to HRM in Spain during the 1980's, there can be no doubt that a steady process of modernization has occurred in Spanish business, even if the present outlook remains varied and uncertain. Equally, a significant degree of harmonisation to practises in the rest of the industrialized world has been brought about in the area of Human Resource Management. Various factors have substantially contributed to the fact that human resources issues have acquired, of late, a greater importance in Spain within the general context of business management.

Firstly, in recent years, Spain has participated fully in a unique way in the "globalisation" process which has taken place in all areas of management. The opening-up of Spain to the external investors and markets accelerated with its entry to the EC. From this date increasing foreign inward investment especially from the EC, with mergers and buy-outs of Spanish companies, has had a notable impact on many aspects of the management of Spanish companies. Management concepts have "globalized" in the same way as markets. The personnel practices increasingly adopted by the larger companies, many of them multinationals, are being followed gradually by the rest. A greater level of activity and influence by foreign consulting companies has also contributed to a substantial extent in the modernization of the personnel function.

- Secondly, since 1985, the end of the economic crisis and the intensive expansion process has contributed to a change in business priorities concerning personnel. During the second half of the 1970s and the first half of the 1980s, Managing Human Resources was about trying to cope with the recession within the narrow pre-existing constraints. For many years, this constituted a major obstacle to the dynamism of personnel management.

- Thirdly, spanish companies are acquiring an increasing need for labour flexibility, both external and internal, as has happened in other industrialized countries. This trend is at the root of much of the growing importance of

HRM. Consumers are more demanding than before and are more receptive to innovations in products causing the life cycle of products to be shorter, and the rate of the introduction of new models, designs and innovations to be faster. Demand is more difficult to foresee both in quality and in quantity. In order to be able to compete in a market of these characteristics companies need to have greater flexibility at all levels -especially concerning human resources.

- Fourthly, spanish companies are also participating in the Europe-wide trend towards new systems of labour relations based on individual negotiation of employment contracts and conditions, on the total integration of workers in the company's plans, and on salaries linked to productivity, merit and personal contribution.

4.1.- RECRUITMENT AND SELECTION OF PERSONNEL.-

The most commonly used methods of recruitment in Spain continue to be those which could be termed "informal". These sources of applicants involve relatively little advertising of companies' job vacancies, but rely more on personal contacts, the files of previous applicants, internal advertising, etc. Nevertheless, relatively speaking, a remarkable increase in press advertising can be observed and this source of recruitment bypasses the statutory requirement on employment. A legal obligation exists to first use the National Employment Service (Instituto Nacional de Empleo). This however is a purely formal obligation considering that the spanish placement system is governed by the principle of managerial freedom of employment. Evidence for this is seen in the fact that in 90% of cases when the manager turns to the National Employment Service, he does so with the specific name of the person to whom he wants to offer a contract.

The cost of using press advertising as a source of recruitment and selection represents on average approximately 20% of the annual salary of the post on offer. By contrast the use of the "headhunting" system usually costs around 35% of annual salary of the post. This latter method was introduced into Spain in the mid 70s.

Even if it still lacks the importance of other recruitment methods, it has seen a remarkable growth in the last few years in the face of the great shortage of qualified and experienced managers. Clear evidence of this expansion is that there are roughly 30 foreign companies operating in Spain providing this type of service.

Work or performance sample tests continue to be the principal method in the selection of middle management, clerical workers, salesmen and blue-collar workers. Behavioural science methods such as group interaction exercises are used mainly by external consulting agencies, and their use is on the increase in companies wishing to fill middle management or technician posts.

Psychological tests are still used in Spain more than they are in many other countries, mainly for the selection of young and inexperienced staff. However their use

¹ Valdés Dal-Re, Fernando. "Flexibilidad en el mercado de trabajo y ordenamiento laboral". Papeles de Economía Española N° 22, 1985.

declined during the 1980s for two reasons. Firstly, the tests were mainly imported from the United States, where a reduction in their usage has occurred. Secondly, experts in selection are no longer only psychologists, but professionals with different backgrounds are more frequently used in Spain. Graphology is not frequently used in Spain, its use being largely restricted to subsidiaries of French and German companies. Lastly, references and letters of recommendation are little-valued as a means of selection, due to the traditional lack of trust in Spain. The interview undoubtedly is still the most commonly-used means of selection and there is a trend for operational managers and not only psychology experts, to participate more and more actively in interviewing.

4.2.- THE FUNCTIONAL MOBILITY AND THE CHANGE IN CAREER CHARACTERISTICS.-

The structure of job categories currently found in Spanish companies was created by the legal system previous to the 1980 Ley del Estatuto de los Trabajadores (Law of the Workers' Statutory Rights). This structure was established in order to guarantee the rights and obligations of workers and it resulted in excessively detailed job definitions, which are currently, in practice, often out-of-date. Great difficulties have been caused by the attempt to replace the old system of job categories by collective bargaining. In particular, problems have been posed by reduction in the number of job categories, and in the reduction in wage differentials between them. In most cases, the best-paid categories have been taken as the benchmark, so the process of equalisation has entailed an increase in wage costs. Nevertheless, serious institutional obstacles to the growing need for internal flexibility do not currently exist in practice. The problems which still exist in this are largely the result of shortcomings in the training of the workforce and from a lack of managerial initiative.

Promotion structures in Spain have traditionally been characterized, as indicated previously, by the great importance of seniority and by their fundamentally intraorganizational character. In 1983 the average length of service in a company with over 200 workers was of 15 years, even higher than in Japan. Four systems of promotion can be identified: seniority, open appointment, merit and by competitive examination. In recent years, the steady disappearance of seniority as a criterion for promotion has occurred in the use of examination system and of appointment on merit. This development is consistent with the change in the attitude of the unions towards this subject in the last few years. They have switched from defending seniority to defending the competitive examination system. An explanation may lie in the fact that present systems allow for the participation of workers' representatives in the establishing of the minimum for appointment (where seniority reappears once more disguised as experience) and even in the control and design of the examinations or tests. Nevertheless, for key management posts, the increasing use of more positive promotional criteria such as merit, aptitude and even potential, can be seen while

at the same time the practice of career planning is increasing.

4.3.- THE RESURGENCE OF INCENTIVE MECHANISMS LINKED TO SALARY.-

We have already commented on the fact that during the period of economic crisis and political transition there was a marked trend to raise the basic fixed proportion of wages. The variable amount of wages currently represents a percentage which is still relatively low in comparison with other EC countries. In companies with over 200 workers, the percentage is in the 15% range and arguably even in smaller companies. This situation clearly represents a barrier to achieving higher competitive levels in Spanish companies, due to two fundamental reasons:-

The loss of the motivating role that variable remuneration plays as a motivating factor of profits.

2. On the other hand, the existence of a guaranteed level of remuneration implies a major loss of flexibility; in the conditions of economic difficulties, companies cannot reduce labour costs without having to reduce the headcount.

The low proportion of variable payments can be explained by two facts. On the one hand, workers and their representatives are unwilling to accept payment by results systems and are committed to the defence of fixed wages. On the other hand, managers have focused for many years on other problems such as the adjustment in the size of the workforce and the moderation of wage costs. These two complementary factors have caused even those parts of the salary which should be variable, to be treated as another part of the fixed wage.

This problem is not only evident respecting of shopfloor workers, but also at management levels. Until very recently, the low level of competition for managerial staff existing between Spanish companies caused management to favour loyalty to the company rather than efficiency. Managers' careers developed, as has been described, mainly in one organization and in a specific functional area: mobility between different organizations or a change of geographical location are not very frequent. As a consequence, companies have not really needed to rely on highly-competent managers in achieving results. Nor have they faced, until recently, the problem of having to retain their best managers due to this low mobility of staff.

However, in the last few years there has been a notable qualitative change in patterns of performance-related pay. Principally this has been caused by the existence of greater competition between companies and by the increasing complexity of the environment. In an ever changing business context, in which competitiveness is a key factor, adaptability and competence are values which have assumed a greater importance. Logically, these values have also had an impact on the wage systems of Spanish companies. As a consequence, companies are trying more and more to ensure that their wage systems serve to motivate the workers, and to attract and retain able and qualified staff members.