HOW NATIONAL INSTITUTIONS LIMIT TURNAROUND STRATEGIES AND HUMAN RESOURCE MANAGEMENT: A COMPARATIVE STUDY IN THE AIRLINE INDUSTRY

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Abstract

The influence of national institutions, particularly employee representation, on managers' turnaround strategies remains largely unexplored in the literature. Therefore, this paper assesses the pressures that affected two European airline companies, British Airways (BA) and Iberia, and their turnaround responses in a context of economic crisis and austerity, particularly from the perspective of strategic human resource management (SHRM). Our case studies show that when national institutions grant a number of rights to employee representatives, an innovative HRM strategy enables the recovery strategy required to deal with internal sources of decline. In contrast, when national institutions provide fewer rights to employee representatives, there is room for company HRM strategy to challenge or resist institutional pressures. Our research focuses particularly on how coercive pressures exerted by employee representation, according to the legal framework governing labor relations, affect turnaround strategies.

Keywords: sources of decline; turnaround strategy; HR strategies; national institutions; employee representatives

To cite: Santana, M., Valle, R., and Galan, J.L. (2019) How National Institutions Limit Turnaround Strategies and Human Resource Management: A Comparative Study in the Airline Industry. *European Management Review*, 16: 923– 935. https://doi.org/10.1111/emre.12177.

Introduction

The persistent weakening of the global economy has led many companies into decline, and turnaround strategies have implied drastic measures for human resources, such as layoffs or pay cuts, which have a very negative effect on workers. In this context studies of organizational decline and turnaround strategies (Trahms et al., 2013) may deepen our understanding of alternative models of work and practices to assure human and social rights at work. In the era of austerity business represents a key institutional player, and thus business management has an important role in preserving human and social rights. Managers are key in matching turnaround strategies and HR strategies to the sources of decline (Santana et al., 2017). However, managerial decisions may be constrained by national institutions, particularly employee representation (Crossland and Hambrick, 2007, 2011; Lange et al., 2015), and this fact has been largely unexplored in the literature so far (Lange et al., 2015). This constraint partly accounts for the differential in firms' flexibility (Fiss and Zajac, 2004). In some countries, like the United Kingdom (UK), institutional environments allow for more managerial discretion, whereas in other countries, like Spain, managers have considerably less discretion (Crossland and Hambrick, 2011). In order to address this difference, we develop a comparative case study of internal and external pressures, turnaround strategies and HRM responses to decline at Iberia and British Airways (BA). We investigate 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.

Interrelations among sources of decline, turnaround strategies, human resource strategies, and the effect of national institutions and employee representatives' power remain largely unexplored (Arogyaswamy et al., 1995; Lange et al., 2015), and they are crucial to better comprehend models of work and practices in the era of austerity. 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 securing of human and social rights and to the literature on strategic human resource management (SHRM), as we study HR strategies and practices in the era of global economic crisis and consider not only retrenchment or downsizing but also recovery responses. Retrenchment-oriented human resource responses usually imply layoffs or pay cuts with the consequent impact on unemployment figures, employees' purchasing power, and organizational demoralization (Luan et al., 2013). Conversely, recovery-oriented human resource measures such as tailoring the working day to fit customer demand, or more flexible staffing, allow companies to adapt to crisis situations in a more creative, proactive and responsible way, and consequently secure social and human rights. Thus, recovery-oriented human resource measures are less detrimental than those that are retrenchment-oriented, and focus on "people as assets to be developed" (Cascio, 2002, p. 80) and not just as costs to be reduced. Strategic human resource management (SHRM) must contribute to the sustainability of employment. Indeed, SHRM has an impact on both human and social outcomes (Kramar, 2014).

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 human resource strategies have Iberia and BA chosen to fight those pressures? To what extent does employee representatives' power, coming from different institutional environments, influence managerial discretion in dealing with sources of decline in the two companies? The paper is structured as follows. First, we explore the literatures on (a) the relationship between decline and turnaround strategies, (b) the effect of national institutions on strategic responses, and (c) human resource management (HRM) strategies for 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 our main conclusions.

Theoretical framework

Context and turnaround strategy

Managerial options are influenced by many contextual factors (Boselie, 2009; Boxall and Purcell 2003; Paauwe, 2004). Institutionalism theory (Di Maggio and Powell, 1983) provides the ground to understand coercive pressures (labor legislation, trade union power and collective bargaining agreements [CBAs]), normative mechanisms (norms and values linked to employees' professions), and mimetic mechanisms (general tendency or fashion) that shape employment relationships (Paauwe and Boselie 2003). Institutionalism theory emphasizes context more than do other HRM theories, such as the Resource Based View (RBV) (Barney, 1991) or the Strategic Contingency Perspective (Porter, 1980). However, it tends to disregard the external market context and internal configuration (Boselie, 2009). Boselie's Six-Component Model of SHRM (2010) proposes that HRM in an organization is shaped by (a) the external general market context (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 includes both internal and external sources of decline. External sources of decline may involve economic, technological, competitive, legal, political, cultural and/or social changes (Datta et al., 2010; Mellahi and Wilkinson, 2004; Scherrer, 2003; Trahms et al., 2013). Internal sources of decline may involve financial problems, structural characteristics of 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).

As we aim to understand company strategies in the era of crisis and austerity, it is worth turning our attention also to research on decline, turnaround strategy and the two main responses to decline, retrenchment and recovery strategies (Pearce and Robbins, 1993; Robbins and Pearce, 1992). Decline is the deterioration of a company's performance due to persistent problems (see, e.g., Cameron et al., 1987; Carmeli and Schaubroeck, 2006; D'Aveni, 1989; Francis and Desai, 2005; McKinley et al., 2014; Musteen et al., 2011). When decline is not properly addressed, it may result in the company's extinction (Francis and Desai, 2005). Researchers adopt different measures of decline depending on the characteristics of the firm (Bradley et al., 2011; Chen and Hambrick, 2012; Ketchen and Palmer, 1999; Ndofor et al., 2013), but there seems to be a general agreement that a decrease in return on equity (ROE) or return on assets (ROA) for two or three years indicates decline (Chen and Hambrick, 2012; Ndofor et al., 2013).

Turnaround is defined as the recovery of a company's performance after severe deterioration (Balgobin and Pandit, 2001). Retrenchment strategies or operating responses aim at cutting costs and assets (Michael and Robbins, 1998), while recovery strategies change or adjust a firm's domains and how it competes within those domains (Barker and Duhaime, 1997).Some scholars claim that turnaround responses have to be consistent with the sources of decline (Arogyaswamy et al., 1995; Hofer, 1980; Ndofor et al., 2013). If decline is due to a weak strategic plan, retrenchment is not the most suitable action, as it will not solve the problem (Ndofor et al., 2013) but may worsen employee performance (Datta et al., 2010) while the company is headed toward failure. In contrast, Pearce and Robbins (1993) claim that addressing the particular causes of decline can wait until the recovery phase, and they point to the universality of retrenchment in the turnaround process. We agree with the former group: turnaround strategies must depend upon the sources of decline because managers need to acknowledge both the internal and the external problems before embarking on a turnaround strategy and choosing particular HRM strategies and practices to solve the specific identified causes of decline.

Turnaround strategies, HRM and national institutions

National institutions may exert so much pressure on turnaround strategies that they may constrain or delay the turnaround. Coercive pressure may come from the government or legislature, on which companies are dependent (DiMaggio and Powell, 1983), and may also involve the effect of trade unions (Paauwe and Boselie, 2003). Yet the impact of formal and informal national institutions (individualism, tolerance of uncertainty, cultural lack of precision or weak norm enforcement, ownership dispersion, common vs. civil law systems, or employer flexibility) on managerial discretion is largely unexplored in the literature to date (Crossland and 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 firm strategy. United Kingdom institutions give executives high discretion, as they are entitled to be autonomous over collective decision-making in order to enhance shareholders' wealth (Crossland and Hambrick, 2007, 2011). The influence of trade unions is low, and management has more strategic leeway (Lange et al., 2015). Despite various consultation processes, in liberal-market economies such as this one (Tatli et al., 2012) there is not a partnership between management and unions (Bamber et al., 2009). In Spain, management has considerably less discretion. In Crossland and Hambrick's (2011) study, Spain scored low in employer flexibility and ownership dispersion. Unionism is recognized as a fundamental right in the Spanish constitution, and the civil-law tradition requires managers to consider the interests of all stakeholders (Crossland and Hambrick, 2011), including employees as well as shareholders. Labor laws apply in a variety of cases, for example whenever layoffs or geographical transfers affect at least 10 workers (in firms with less than 100 employees) or 10% of employees. Furthermore, collectivist Spanish cultural values (Crossland and Hambrick, 2011) have always made social protection part of the modus operandi, and this constrains managerial discretion (Crossland and Hambrick, 2011).

In this context, finding the right degree of adaptation to institutional pressures can be a source of organizational success (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 and colleagues (2009), there are three types of strategies for adjusting HRM to institutional pressures: deviant behavior or active resistance, conformist behavior or a passive or neutral response, and innovative behavior or active development. Deviance implies questioning established rules and expectations (Boon et al., 2009; Olivier, 1991); for instance, while in nursing homes, employees wear white nurses' uniforms and work is characterized by routine; deviant management in nursing homes implies that employees wear their own clothes and organize their own schedule in order to adapt to clients' requests. Conformity implies accepting the status quo and complying with institutional expectations; for example, when a company negotiates with trade unions in accordance with the existing legislation. Lastly, innovation actively adjusts to competitive and institutional pressures (Boon et al., 2009; Paauwe, 2004); for instance, when the active role of HRM in a company contributes to its decision to establish its own company union, which creates more leeway for decisions to be adopted.

According to Boon and colleagues (2009), innovative and deviant approaches are both innovative, but in the first, management teams search for an active development that is characterized by its use of institutional demands and expectations in order to develop a competitive advantage. However, in the deviant approach, management teams adopt an active resistance to the status quo in their challenging of norms and rules. It is important to bear in mind that what is seen as innovative or deviant could differ depending on the organization, occupation, sector or country, as norms can vary from one to another.

Methodology

Our comparative case study aims to develop theory (Eisenhardt, 1989; Eisenhardt and Graebner, 2007). We investigate the following variables: (1) sources of decline (firm-based vs. industry contraction–based); (2) turnaround strategy (retrenchment and recovery strategies); (3) the influence of employee representation (high or low); and (4) the response of HRM to institutional pressure (deviant, conformist or innovative) (see Table 1). In relation to the influence of employee representation on the turnaround strategies, we analyze the degree to which employee representatives' actions change the final turnaround strategy adopted by the company. As Wood (1999) and Paauwe (2004) suggested, it is important to differentiate external sources of decline from national institutions' influence on managerial discretion.

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We chose to study the airline industry because it confronts similar external challenges in different countries (Lange et al., 2015), so that turnaround strategy is shaped by internal managerial decisions or employee representatives' power. We have selected Iberia and BA because they are located in contrasting institutional environments and they represent traditional European legacy carriers (both companies were the flag carriers in their respective countries before privatization, and they still pride themselves on representing each country). Spain and the UK differ in labor market structures and degrees of employment protection (Francesconi and Garcia-Serrano, 2004), and therefore managerial discretion varies significantly (Crossland and Hambrick, 2011). Furthermore, the companies have a long-standing partnership that ended in a merger into IAG (International Airlines Group). As a result, unionists and executives from each company not only informed us about their own company, but also provided us with rich information about their partner.

We follow four stages that move from data to theoretical interpretation (Gioia et al., 2013; Smith, 2014): (1) detailed description of each case; (2) identification of key issues; (3) selection of patterns; and (4) discussion of findings to build theory. The process is iterative to build insight (Locke et al., 2008), and we used multiple data sources to triangulate our understanding (Eisenhardt, 1989). We conducted 16 interviews at various levels in the companies, including the management team (4 interviews), the HR management team (3 interviews), trade union representatives (6 interviews), other industry experts (2 interviews), and one pilot. We first focused on the management team to enrich our understanding of the root of the problems and the corporate responses. Afterwards, we talked to executives from the HR management team and interviewed unionists who had been at the negotiations. Also, we interviewed experts on the sector from the UK and Spain (see Table 2). Interviews lasted between 20 minutes and two hours and a half; some interviewees replied to questions by email. We started with structured interviewing to understand the context, turnaround responses, and HR strategies and practices. We asked participants to describe BA's and Iberia's 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 and Graebner, 2007). For the sake of accuracy, we recorded the interviews while taking extensive notes on site (Miller et al., 1997).

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Using a contrast matrix, we categorized sentences and facts from the documentary sources and interviews according to the elements we aimed to analyze: sources of decline, turnaround strategies, HRM responses, and employee power. Then we studied the matrix using a case-oriented approach (Miles and Huberman, 1994), observing differences and similarities between the two companies. Finally, we collected archival information or secondary data through annual reports (Iberia, 2008–2015; BA, 2008–2015), exhaustive documentation of collective layoffs, collective bargaining agreements, newspaper articles, and comparative labor legislation. We collected this archival information from the year 2008 onwards, the beginning of the economic crisis and austerity period.

Empirical findings

Sources of decline and turnaround strategies in British Airways and Iberia (2008–2015)

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: 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). Figures on ROA show that Iberia Airlines faced successive organizational declines most dramatically from 2007 to 2009 and from 2010 to 2012.

The interviews and financial reports indicate that the internal sources of decline were labor conflicts, high costs, low productivity in operating revenues. External sources of decline were world economic slowdown, low-cost carrier competition, the European air traffic congestion crisis, wars, terrorist attacks, and insurance costs. IAG's diagnosis of Iberia's problems was that "labor productivity was low and salary levels were uncompetitive" (CAPA, 2014). Also, Iberia's market is less profitable than BA's, for the following reasons: (1) customers who fly from Madrid to Latin America are less wealthy than those who fly from the two main financial centers, London and New York (TU/IB/4); and (2) Iberia needs to feed the long-haul routes from Madrid to Latin America with short-haul customers (TU/IB/4), while BA's long-haul flights from London to New York fill with London-area customers without needing to bring in short-haul customers from other parts of the UK (TU/IB/4; TU/BA/2). Consequently, Iberia showed lower performance and a weaker domestic competitive position (see Figure 1) than its peers. Given "Iberia's own structural issues and the challenging economic environment" (IAG, 2014), financial losses occurred from 2008 onwards.

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BA is the UK's largest international scheduled airline and has been part of IAG since 2011, together with Iberia, Vueling and Air Lingus (IAG, 2015). BA's main location is London. It employs around 43,550 people (BA, 2015). Passenger transport and cargo are its core business (BA, 2010). Although BA did not suffer a dramatic decline, it went through critical moments in 2009, when its ROA performance declined and it had to tackle decreased traffic, increased fuel costs and aircraft charges, high airline structural costs, and labor unrest (BA, 2009). Nonetheless, BA has some strengths that contributed to its rapid recovery, such as the increasing traffic between the two world financial capitals, London and New York, and its leadership position in its Heathrow hub (BA, 2012; TU/IB/4). BA's strength is also based on its own market: it has only seven domestic flights within UK, while the rest are long-haul flights that report high revenues (PricewaterhouseCoopers, 2013). Therefore, even though both companies were affected by environmental and firm-based sources of decline, Iberia shows the most dramatic situation. For an overview of BA's and Iberia's financial figures, see Table 3.

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Turnaround strategy. In 2009, Iberia approved a "Contingency Plan" as a response to the economic crisis. This plan proposed, among other measures, gradual capacity cuts on its domestic and European routes and the elimination of other routes (e.g. Johannesburg) (TU/IB/4). At a time when the entire airline sector was involved in deep restructuring, this plan mainly aimed to cut costs, implement flexibility measures and "maintain its financial strength" (Iberia, 2009, p. 195). This blind pride in its alleged financial power may explain why before the merger into IAG in 2011, Iberia's profit for 2008–2011 amounted to -179€ million, while BA showed a profit of 1,498.4€ million. Iberia's chief strategic measure was the 2011 creation of Iberia Express, designed to be competitive in the short and medium terms. In November 2012, only a few months before the arrival of new CEO Luis Gallego, Iberia launched a "Transformation Plan" to end its operating cash problems, achieve a competitive cost structure and focus on strategic activities in order to restructure and optimize the network (Iberia, 2012). Before this plan, Iberia's decisions and plans were not deep enough to tackle the roots of the decline: high structural costs and low productivity (M/IB/2).

In 2013, the worsening of the economic situation and a series of labor problems resulting from a mediation process forced the company to review this "Transformation Plan" and approve instead the "Future Plan", which aimed to build a solid revenue basis, together with simplicity and flexibility, in order to achieve 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. It represented a revolutionary cultural change within the company, which started in the management of the new headquarters and allowed for more fluid, transparent and frequent communication with employees (HR/IB/3; TU/IB/4). In 2015, IAG reported (p. 24) that “the implementation of the Future Plan of productivity and cost optimization measures has allowed increasing 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 airport handling licenses, winning 17 out of the 20 licenses”. In 2014, for the first time since 2008, Iberia made a profit on its operations (M/IB/2; HR/IB/3).

The situation for BA was different in some respects. Because of external pressures, including the economic recession and terrorist attacks, among others, BA engaged in deep restructuring, not only to fight against those pressures, but also to build its future. In 2009 it launched a “Fight for Survival” (British Airways, 2009) not only to tackle the economic downturn but also to prepare the company for the merger. It replaced its in-house check-in service in outlying areas like Manchester, Glasgow and Birmingham with online or outsourced check-in, while concentrating its activity in Heathrow and Gatwick (TU/BA/1). It also outsourced handling services, loading and unloading, and check-in of passengers to other companies such as Swissport. In other words, it focused on its two core business areas (passenger transport and cargo) at Gatwick and Heathrow (TU/BA/1). For continental flights, BA created a new subsidiary, Open Skies, in 2008, operating premium services from Paris and Amsterdam to New York (BA, 2009). In other words, BA seized the period of crisis to undertake deep restructuring that addressed both external and internal sources of decline—precisely what the Spanish company failed to do. Only recently, in 2014, has Iberia started a new turnaround strategy to fight against decline; until then its responses were late and maybe ineffectual. Table 4 lists the turnaround strategies adopted by each company.

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The influence of employee representation on turnaround strategies and HRM strategies and practices

Iberia is a highly unionized airline. 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—even after the pilots decided not to sign (E/1). The main trade unions are SEPLA (for pilots) and CTA, CCOO and UGT (for cabin crews and for ground personnel) (E/1). Iberia's human resource strategy is captured through the collective bargaining agreements adopted between the trade union representatives and the company to "ensure stability" (Iberia, 2009, p. 337) and increase productivity. Long-term structural agreements with the labor unions are extended every year depending on the business unit (flight staff [cabin crew and pilots] and ground staff). These agreements involved very tough negotiations. Iberia has signed several collective bargaining agreements since 2008: 3 for ground staff, 3 for cabin crews and 2 for pilots. Pay rises with the consumer price index, additional pay raises are linked to improved results and to the company's earnings, temporary contracts have been replaced by permanent contracts, part-time contracts have been transformed into full-time contracts, and turnover in temporary staff has been reduced. In 2008, together with the collective bargaining agreements, two different labor force redundancy plans were in execution: proceeding 72/2001, continuously extended until 2013, and proceeding 35/2005. It was not until 2014 that Iberia submitted proceeding 187/2014 (Iberia, 2014). The HR practices used under proceeding 72/2001 were early retirements, voluntary redundancies, deferred rehiring, and contract novation (Iberia, 2009), continuously extended until 2014. Under this proceeding there were few if any involuntary layoffs or cuts in hours, and no reconfigurations of schedules or job responsibilities.

In the era of Luis Gallego, as earnings fell dramatically, a proposal for 5,000 layoffs led in 2013 to the biggest strike that Iberia had ever witnessed (E/1; HR/IB/4). A mediation agreement (MA) reduced this number to 3,141 exits (E/1). More recently, in July 2014, the unions signed a new redundancy plan that allowed another 1,427 exits. Initially, once the merger into IAG took place, the company intended to abandon handling and maintenance in order to focus on its core business (passengers), but the fierce strikes organized by ground employees' unions (Vanguardia, 2013) pushed it to maintain all four businesses (airline, cargo, handling and maintenance) (TU/IB/2). Employee representatives accepted, in return, some restrictions on their work conditions: a salary decrease of between 7 and 14% depending on the category, and a profit-sharing freeze until 2016 (TU/IB/3). An HR manager and an important trade unionist agreed that these measures were facilitated by the new company culture, based on better communication between management and unions, together with the negotiation of more creative HR practices such as redistribution of the working day or polyvalence among employees (HR/IB/3; TU/IB/4). As a result of all these HR practices, from 2008 to 2014 Iberia's staff was reduced 22%, while total employee cost was reduced only 8%. Consequently, employee unit cost increased by 16% (Iberia, 2008–2014).

BA's main unions are Unite and GMB; the latter competes with the former for terminal employees (Lange et al., 2015). BATUC, a monthly consultative forum for the company's senior managers and trade union representatives (BA, 2002), conducted periodic consultations with employees (E/1) in order to start negotiations with the different groups (TU/BA/2): the pilots (covered by the British Airline Pilots Association, or BALPA, which is part of UNITE), the engineers, the cabin crew (linked to the British Airlines Stewards and Stewardesses Association, BASSA, also part of UNITE), ground support personnel (associated with UNITE), and administrative staff. These groups are autonomous in the agreements they reach, as well as in pay, workload and the way they operate. Very few issues go across the whole company (TU/BA/2). As a result, when BA offers a pay raise, it is done in the specific area where the negotiation takes place (TU/BA/2).

The memorandum agreement between BA and BALPA 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 had to be managed by BA pilots from a seniority list (TU/BA/1; Lange et al., 2015). However, the UK does not require formal, public registration of collective bargaining (TU/BA/2). The company may reach agreements at any point in time, without deadlines; instead, agreements remain in effect until there is a new agreement (TU/BA/2). The 2009 Fight for Survival Plan met with opposition from employees (TU/BA/2). The plan included a two-year pay freeze from 2010, and a reduction of 1,700 cabin crew positions on long-haul routes, the transfer of employees to other locations, among other measures (*Telegraph*, 2009; PricewaterhouseCoopers, 2013). Unite complained that this measure would affect passenger services, as well as the earnings and careers of the cabin crew. BASSA went on strike, but BA took the unions to court and the court determined not to allow strikes against the cutting measures. Afterwards, more than 80 cabin crew members were suspended and 13 were fired, mainly because of incidents related to the controversy (*Telegraph*, 2009). According to the media, the dispute started over pay and staffing levels, but it gradually came to encompass restoration of the employees’ conditions and jobs. More BA attempts to reduce costs through human resources focused on ending the seniority system of promotion, restructuring cabin crew operations and assimilating salary levels to those of competitors (Wilton, 2010). These 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 (*Times*, 2009) and BASSA was invited only to compulsory health and safety meetings (Lange et al., 2015). All these HR changes from 2008 to 2014 reduced BA's headcount 2% but increased employee cost 12%, for a unit employee cost increase of 10% (British Airways, 2008–2014). These figures, together with those at Iberia, may indicate that downsizing does not reduce costs, as apparently fewer employees are more expensive, and it is very likely that the redundancy payments increased the employee cost figures—a common HRM paradox in times of crisis. It is worth mentioning BA's Industrial Relations Change Programme (IRCP) "to reduce communication barriers and improve understanding" (British Airways, 2006, p. 34). But it is hard to foster good relations with unions while continuing to cut staff (Bamber et al., 2009). Table 5 summarizes the information we have analyzed so far for both airlines: sources of decline, turnaround strategies, HR responses, and national institutions.

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Discussion

Both Iberia and BA suffered similar external pressures—economic crisis, competition from low-cost carriers, and terrorist attacks—and some common internal problems—high structural costs, labor unrest. But the two companies adopted different turnaround strategies from 2008 onwards. Iberia's 2009 Contingency Plan was composed mostly of retrenchment measures, and its Plan 2012 proved to be both too late and ineffective; only in 2012 and 2013 did Iberia really decide to start thinking about the future design of the company. In contrast, from 2008 to 2012 BA launched both retrenchment measures to address critical external problems and recovery measures to tackle internal deficiencies.

Inevitably, all these measures involved HRM. In analyzing Iberia's employee representation, pilots have been historically the most contentious group (TU/IB/4). This is easy to understand if we consider that many of them have military backgrounds and are accustomed to being in command of the airplane, and they have always enjoyed better salaries and timetables than other groups (TU/IB/4; E/1). Basically, pilots have more responsibility than other airline employees and therefore consider themselves entitled to more rights. Since 2009, ground personnel have been more belligerent, partly because handling activity is no longer core for Iberia and they have had to accept forced changes of duties and timetables, salary cuts and redundancies.

Between 2009 and 2013, the relationship between Iberia and the unions became very tense (TU/IB/4; HR/IB/3). The company's financial situation was so dramatic that both parties struggled to reach agreements. Iberia had to react, but there was no consensus with the unions on many of the necessary flexibility measures; only ordinary CBAs were signed. In 2013 a new management team arrived with clear lines marked by IAG. The employees needed to understand the changes being urged; otherwise, the company might go bankrupt (*Airline Business*, 2015). Iberia even wanted to withdraw handling services, but the company eventually did not (TU/IB/1, 2 and 3). Since the 2013 strike and the arrival of CEO Luis Gallego, there has been a cultural change within the company; from that moment onwards trade unions started meeting with management every two months (or oftener, if required), and they are informed of confidential information that concerns them (TU/IB/4; HR/IB/4).

In summary, the influence of unions made it hard for Iberia to implement flexible HR practices before 2013. From 2008 to 2013 the company adopted a conformist response to unions' strong pressures, and it was not until 2013 that the company started adopting more innovative

HRM strategies, using an active development with decisions conveniently negotiated with employees: redistribution of the working day in line with flight activity, forced change of duties, part-time and temporary staffing for non-core positions, linking pay and rewards to internal deficiencies, and extensive training to obtain polyvalence. These novel measures clearly contributed to successful recovery, as the positive ROA figures beginning in 2014 demonstrate. Although the new HRM practices are not the sole turnaround measures adopted, they did facilitate the recovery. It follows that:

Proposition 1: Innovative HRM strategies will help build the requisite recovery strategy when decline has internal sources and national institutions grant a number of rights to employee representatives.

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

At BA the most important collectives are the pilots and the cabin crew, as passenger transport is the company's core business. The 2009 Fight for Survival Plan was not welcomed by the unions (with which the company has no real partnership), but BA defeated them in court. It is much easier to lay off staff or to transfer people in the UK than in Spain (TU/BA/2). Between 2009 and 2015, BA's unions did not constrain the company's turnaround strategy very much; BA was able to adopt more challenging or deviant HRM strategies that often questioned union values, norms or requirements.

For instance, in the 1990s and early 2000s in the airline industry, where employees achieved many rights (Lange et al., 2015), BA implemented measures such as ending the seniority system of promotion, the transfer of employees to other locations, and the adjusting of salary levels to those of competitors, adopting an active resistance to the status quo by challenging norms and rules. Some of BA's HR practices were also implemented, but much later, by Iberia, with an active development approach that was conveniently negotiated with unions to adjust to institutional pressures. This leads to our third proposition:

Proposition 3: Deviant HRM strategies will help build the requisite recovery strategy when decline has internal sources and national institutions grant fewer rights to employee representatives.

Conclusions and limitations

In the current era of crisis and austerity it is more crucial than ever to understand the roots of company decline and to select the most effective corporate and HR responses, taking into account national institutions and not always resorting to cost-cutting HR measures but securing human and social rights. This study's main contribution is to show how the power of employee representation in institutional contexts can influence turnaround strategies and SHRM in times of crisis. When national institutions grant more rights to employee representatives, innovative HRM strategies will let companies come to more solid agreements with unions than when they flatly comply with or flatly resist institutional pressure. On the other hand, when national institutions grant fewer rights to employee representatives there is room to question ordinary values and ways of working, without accepting every set procedure. Managers need to adapt turnaround strategies and HRM practices to sources of decline and national institutional pressures in times of crisis and austerity. Our results provide new insights into the decline and turnaround literature, mainly into how different levels of strategies and practices, and the institutional context, explain differences in business decisions. The results also contribute to the literature on SHRM, specifically on HR strategies and practices in declining companies, as well as on recovery responses that go beyond retrenchment or downsizing, thus preserving human and social rights. Economic crisis and austerity do not necessarily entail downsizing. Managers need to acknowledge the sources of decline and national institutional pressures before embarking on a turnaround strategy and choosing HRM strategies and practices. Even though SHRM is not the sole tool in turnaround strategy, it is a valuable part of recovery strategy. HR measures such as tailoring the work day to fit customer demand (in our case flight activity), more flexible staffing, and cross-training to make employees more versatile seem to succeed in addressing the company's internal deficiencies.

One of the main limitations of this study is that it involves only two companies; the introduction of other European legacy carriers such as Lufthansa or SAS would have made the results more robust for generalization. In addition, we could have consulted a greater number of experts, but it is also true that restricting the interviews to people who were directly involved in the negotiations strengthens the study's internal validity. Finally, while there are many other institutional pressures that should be addressed in future research, focusing only on the limiting effect of employee representatives' power was necessary here to understand the evolution of the two companies under examination. This focus also fills a void in recent research, given that unions are embedded in a labor legislation framework elaborated by governments or parliaments.

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Tables and Figure

Table 1 Study **v**ariables

Sources of decline	Internal and external	Datta et al. (2010); Mellahi & Wilkinson (2004); Scherrer (2003); Trahms et al. (2013)
Turnaround strategy	Retrenchment and recovery	Pearce & Robbins, 1993; Robbins & Pearce, 1992
National institutions' effect on managerial discretion	High and low	Crossland & Hambrick (2007, 2011); Lange et al. (2015)
Strategies for HRM	Deviant, conformist and innovative	Boon et al. (2009)

Table 2 Interviews

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

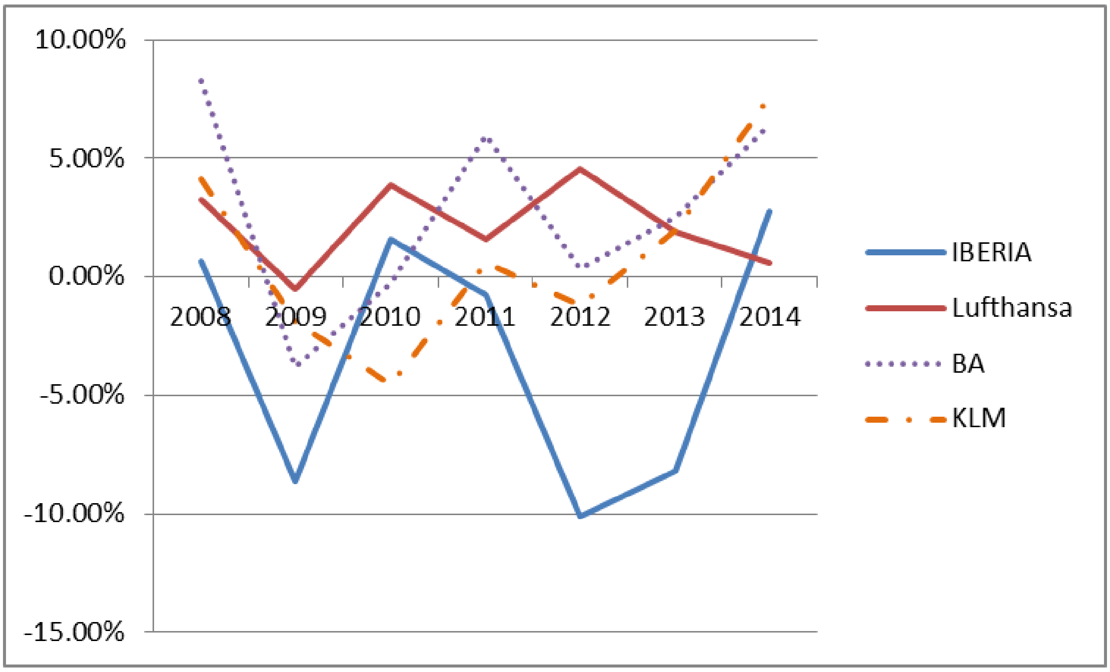

Figure 1 ROA for European legacy carriers, 2008–2014

Table 3 Iberia and BA main figures

	ROA		Assets		Profit/Loss		Revenues		Employee costs		Employees	
	BA	Iberia	BA	Iberia	BA	Iberia	BA	Iberia	BA	Iberia	BA	Iberia
2008	8.30%	0.64%	13,903.75	5,634.00	1,152.50	32.00	10,941.25	5,223.00	2,707.50	1,321.00	42,377.00	21,578.00
2009	-3.80%	-8.62%	11,327.04	5,046.00	-433.08	-273.00	9,711.36	4,231.00	2,368.44	1,348.00	42,094.00	20,671.00
2010	-0.30%	1.58%	11,947.04	6,013.00	-35.84	89.00	8,953.28	4,582.00	2,237.76	1,332.00	39,828.00	20,103.00
2011	6.00%	-0.80%	13,642.80	6,287.00	814.80	-27.00	11,984.40	4,432.00	2,583.60	1,237.00	40,252.00	20,081.00
2012	0.30%	-10.11%	14,559.51	5,837.00	50.43	-598.00	13,317.21	4,686.00	2,884.35	1,494.00	43,213.00	19,811.00
2013	2.50%	-8.19%	14,305.20	5,972.00	360.00	-493.00	13,705.20	4,104.00	2,864.40	1,358.00	41,857.00	18,254.00
2014	6.40%	2.78%	17,185.28	5,640.00	1,099.52	391.00	15,000.32	4,122.00	3,100.16	1,239.00	43,120.00	16,907.00
2015	17.10%	9.98%	20,757.60	6,035.00	3,547.80	472.00	15,299.55	4,567.00	3,329.10	949.00	43,550.00	16,177.00
€ Million												

Table 4 Turnaround strategies at Iberia and BA, 2008–2015

Iberia	BA
▪ 2009 Contingency Plan ▪ Plan 2012 (implemented beginning in 2009): maintain and even improve Iberia's leadership position in its core markets. ▪ **Merger with British Airways in 2011** ▪ Approval of creation of Iberia Express (2011) ▪ **Transformation Plan** (implemented beginning in Nov. 2012): Stop Iberia's operating cash burn and achieve a competitive cost base. ▪ **Future Plan:** build a sustainable and profitable future and a new company culture	▪ Compete 2012, a radical three-year change programme implemented beginning in 2008: refresh BA's culture and revolutionize the way BA works ▪ New subsidiary OpenSkies in 2008 ▪ Business Plan (BP) 2008–2011 ▪ Contingency Plan in 2009 (cut costs & flexibility measures) ▪ **Fight for survival in 2009** ▪ **Merger with BA into IAG in 2011** ▪ Ordinary BP

Table 5 Iberia and BA variables relationships matrix

IBERIA AND BA (SOURCES OF DECLINE, TURNAROUND STRATEGIES, HRM AND NATIONAL INSTITUTION MATRIX)							
Year	**Most influential external sources**	**Internal sources**	**Retrenchment strategy**	**Recovery strategy**	**HR strategy**	**HR practices**	**National institutions (employee representation)**
IBERIA							
2009–2015	• **Financial crisis** • **Low-cost competition** • **Security costs** • **High speed rail connection**	• **Persistent high internal costs** • **Persistent low productivity** • **Labor conflicts** • **Persistent obsolete structural characteristics**	• **Contingency Plan in 2009** • **Gradual capacity cuts on its domestic and European routes (20% Madrid-Barcelona)** • **Elimination of routes (e. g. Johannesburg)** • **Transformation Plan** (partially based on cutting costs to obtain profitability) • **Future Plan** (partially based on cutting costs to obtain profitability)	• **Merger IAG** • **Iberia Express** • **Plan 2012:** recover profitability in its core business • **Re-opening of routes (e.g. La Habana)** • **Fleet and network planning** • Emphasis on flexibility and designing of future strategy: ○ **Transformation Plan** ○ **Future Plan**	• **Mediation agreement: 3,141 exits.** • **Labor reduction plan (ERE 187/2014): 1,427 exits.** • **CBAs**	• Increase of job working hours • Redistribution of the working day in line with flight activity • Forced change of duties • Part-time and temporary staff non-core positions • Pay and reward system linked to internal deficiencies • Extensive training to obtain polyvalence • Salary cuts (14% to 7%) • Reduction of pilots in long haul (2 instead of 3)	• **2013**: Biggest strike on Iberia ever, due to layoffs, ended in the **mediation agreement (MA)** • 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.
BRITISH AIRWAYS (BA)							
2009–2015	• **Financial crisis** • **Low-cost competition** • **Security costs**	• **High internal costs** • **Labor conflicts**	• **Fight for survival (cutting costs to be prepared for the merger)**	• **Fight for Survival in 2009** (establish British Airways as a high-performing, market-focused, global premium airline before the merger) • **In 2011, Merger into IAG**	• **CBAs,** such as Memorandum of Agreement (MoA) BA & BALPA in 2009, minor layoffs	▪ The plan in 2009 included a two-year pay freeze from 2010, or 1,700 cabin crew job cuts on the long haul ▪ MoA (salary, loss of license protection, sick pay, & scope clause). ▪ 100 passengers clause (BA pilots from a seniority list). ▪ Termination of the seniority system of promotion, restructuring of the cabin crew operations and assimilation of pay to competitors' levels	**In 2009, BASSA was on strike, but BA took the unions to court and the court determined strike could not go ahead after BA won** **80 cabin crew were suspended and 13 sacked because of incidents related to the dispute** **BA and BASSA broke relations and BASSA was invited only to obligatory health and safety meetings.**