

Sources of decline, turnaround strategy and HR strategies and practices: The case of Iberia Airlines

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Abstract

This study investigates the coevolution of the sources of decline, the turnaround strategy and the human resource strategy (HRS) at Iberia Airlines, together with the influence of employee responses to these strategies. Our analysis of several moments of organisational decline at Iberia, comparing measures adopted in pre- and post-financial crisis periods shows that, in a sector experiencing a fiercely competitive transformation that negatively affects established companies, the use of downsizing in an organisation with internal deficiencies may create further problems within the company, while an HRS based on flexibility-oriented practices and a fostering approach to strategic negotiations will improve the requisite recovery strategy.

Keywords

Turnaround strategy, human resource strategy, employment relation strategy, economic crisis, Iberia Airlines

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Introduction

The European aviation industry has been undergoing a radical transformation since the mid-1990s, due to processes such as deregulation, privatisation or competition from low-cost companies. It is a worldwide sector in which traditional legacy carriers tend to face similar challenges (Lange et al., 2015), which sometimes lead to organisational decline (Lawton et al., 2011). How companies react to problems such as economic crisis, competition or rigid structural costs (Barry and Nienhueser, 2010), depends on their internal organisation. Authors such as Arogyaswamy and colleagues (1995) have signalled the importance of human resource management (HRM) in the turnaround process. However, while previous studies have, on the one hand, addressed some aspects of the relationship between sources of decline and turnaround strategy (Arogyaswamy et al., 1995; Ndofor et al., 2013), and HR strategies and practices in times of crisis (Cascio, 2002; Schuler, 1987; Wight and Snell, 1998) on the other hand, there are few integrative studies analysing the coevolution of these variables.

Iberia Airlines is an interesting case study because its turnaround lasted longer than those of other airline companies, such as British Airways or Lufthansa, as shown by return on assets (ROA) figures (Ndofor et al., 2013). This sluggish turnaround indicates that Iberia's decline was intensified by internal deficiencies (Airlines Business, 2015; Humanes and Alba, 2002), which aggravated the company's situation in this sector crisis. Although both internal and external sources of decline were present at Iberia and we explain both, the fact that other legacy carriers affected by the same external challenges (Lange et al., 2015) recovered much earlier than Iberia lead us to consider that internal weaknesses that were not properly addressed lay behind the persistence of Iberia's decline. Furthermore, Iberia is a major company listed on the stock exchange, with important strategic challenges that include the liberalisation of the

airline sector and privatisation. Consequently, Iberia has been immersed in a sensitive and comprehensive HRM restructuring process, as will be discussed here.

This study aims to understand the coevolution of the sources of decline, turnaround strategies, and HR strategies and practices, and analyses managerial responses to the effect of employee reactions on these strategies, in order to identify possible configurations of turnaround strategies and HR strategies that best address certain types of decline. First we summarise the literature on organisational decline and turnaround, as well as HRS in crisis periods. Second, we use our case study as empirical evidence to understand the coevolution of the targeted variables, distinguishing between pre- and post-financial crisis periods. Finally, we describe our main findings, conclusions, and implications for future research. Consequently, our research provides evidence and conclusions for the relationship between sources of decline, turnaround strategies, HR strategies and practices and employment relation strategies that is required to overcome crisis situations, since the failure to acknowledge these variables in our case study prolonged the period of decline.

Theoretical framework

The literature on organisational decline (for example, Carmeli and Schaubroeck, 2006; D'Aveni, 1989; McKinley et al., 2014; Musteen et al., 2011) often defines it as a decrease in company figures such as ROA for a period of two or three years (Greve, 2011; Ndofor et al., 2013; Winn, 1997), although a firm can be in decline before a real decrease in performance is visible (Hambrick and D'Aveni, 1988). If decline is not dealt with appropriately, the company may disappear (Francis and Desai, 2005). The sources of decline are crucial, as they determine the company's response (Ford, 1985). The difficulty of recognizing these factors (Weitzel and Jonsson, 1989) lies in their multiple

sources, which are both external and internal. External sources of decline encompass economic, technological, competitive, legal, political, cultural and social changes (Brown, 2008; Datta et al., 2010; Mellahi and Wilkinson, 2004; Scherrer, 2003; Trahms et al., 2013). Internal sources, however, relate to financial problems, structural characteristics (company size or operating procedures), operational deficiencies, governance (board characteristics, ownership structure), HR policies and employee attributes (Datta et al., 2010; Scherrer, 2003; Trahms et al., 2013), and even management's inability to react to decline (Balgobin and Pandit, 2001; Scherrer, 2003). There are also complex interactions between internal and external sources of decline (Mellahi and Wilkinson, 2004). Despite these complex interactions, it is important that management acknowledges and addresses the root of the problem (Barker, 2005), which may involve internal and external factors.

Turnaround strategy consists of the various actions adopted to recover the company's performance after serious decline (Balgobin and Pandit, 2001), often with the aim of avoiding bankruptcy (Clapham et al., 2005). The literature refers to two main turnaround strategies: retrenchment and recovery (Pearce and Robbins, 1993; Robbins and Pearce, 1992). Retrenchment strategies, or operating actions, are intended to reduce costs and assets (Michael and Robbins, 1998). Strategic recovery alters or adjusts the areas within which a company competes (Barker and Duhaime, 1997; Ndofor et al., 2013). Pearce and Robbins (1993) claim that retrenchment is universal in the turnaround process, irrespective of the nature of the underlying problems. These authors contend that fighting the particular causes of decline must be postponed until the recovery phase. In contrast, other scholars have claimed that turnaround responses must be consistent with the sources of decline (Arogyaswamy et al., 1995; Hofer, 1980; Ndofor et al., 2013). We share the latter position: if decline is due to a weak strategic position,

retrenchment will not solve the problem (Ndofor et al., 2013) and will impair employee performance (Datta et al., 2010) when the company is most vulnerable to failure. Thus, Ndofor and colleagues (2013) recommend the use of recovery strategies to address internally based decline. However, in very dramatic situations where both sources of decline affect the firm's performance, the interaction of retrenchment and recovery responses may allow the firm to consolidate turnaround performance (Schmitt and Raisch, 2013).

Arogyaswamy et al. (1995) claim that managing human resources adequately and stabilising the labour climate could reinforce turnaround strategy. In a crisis, the HR strategy most often mentioned is employment downsizing (Cascio, 2002), which may involve physical and financial reductions (DeWitt, 1998). Tsai and 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. Luan and colleagues (2013), however, point out that downsizing may reduce the company to an inadequate size (placing strain on the survivors) and employment downsizing as an automatic response to decline does not seem to take account of the sources of decline (internal or external) or the turnaround strategies to be adopted. Similarly, Schuler (1987) proposes a turnaround strategy aiming to cut costs, but does not take into account the sources of decline. Wright and Snell (1998) explore a model of fit and flexibility in strategic human resource management (SHRM) under unpredictable and changing demands, insisting on the importance of developing a flexible organisation. There are at least three kinds of flexibility (Atkinson, 1984; Van der Meer and Ringdal, 2009): numerical, functional, and financial. In another significant contribution, Boselie (2010) emphasises the contextual elements of SHRM, including not only institutional pressures (DiMaggio and

Powell, 1993) but also external or internal pressures. Unfortunately, the fit-and-flexibility SHRM model and the contextual SHRM model are not always linked to the turnaround literature.

As we aim to understand the dynamic coevolution of several variables and their indirect feedback effects on each other (Paauwe and Boselie, 2005), which goes beyond simple, direct causal relationships, we must understand how the interaction between the company and its environment affects the timing and incorporation of HR practices (Paauwe and Boselie, 2005). We therefore make the following proposition:

P1. Overcoming a situation of crisis and decline requires consideration of the coevolution of the sources of decline, the turnaround strategies and the HR strategies and practices.

This relationship will also be affected by institutional forces such as strong unions, or regulations (Lange et al., 2015; Sarina and Wright, 2015) within the different national contexts (Wilkinson et al., 2014). Some national institutions reinforce the position of employee representatives and thus may influence the company's strategies (Lange et al., 2015). However, employers can choose how to modify their employment relation strategies in the face of decline. Boon and colleagues (2009) describe three types of strategy that allow HRM to respond to institutional pressures: deviant, conformist, and innovative. Deviance involves active resistance, perhaps by questioning established rules and expectations (Boon et al., 2009). Conformity is neutral or reactive (there is no explicit aim to change the status quo) and may imply acceptance of and compliance with institutional pressures and expectations. Innovation actively chooses new behaviour in response to competitive and institutional pressures (Boon et al., 2009;

Paauwe, 2004). Walton and colleagues (1994) identify three strategies: forcing, fostering or escape, with particular focus on the type of social compacts that are developed with other important institutional players, such as trade unions. Forcing involves persuading employees to assent to unwanted substantive terms while simultaneously reducing the influence of unions in the workplace. This strategy entails serious risks, including defeat or intergroup distrust. Fostering emphasises the search for solutions to common problems and the creation of trust and understanding between the stakeholders, but a major drawback is that complex issues may be avoided for fear of forcing the new relationship. Escape is simply a withdrawal from the bargaining relationship by physically transferring operations elsewhere. Managerial discretion regarding employment relations strategy will also be constrained by the organisational structure of the workforce (Sarina and Wright, 2015) in large organisations, and thus management can apply different strategies in different workforce groups, depending on their contribution to an organisation's core competencies (Hunter, 2006; Huselid and Becker, 2011). The 'high road' or commitment approach is most suitable for 'core-knowledge' employees; the 'low road' or low-investment approach is most indicated for 'ancillary-knowledge' workers (Gittel and Bamber, 2010; Sarina and Wright, 2015); and the hybrid approach identifies a variety of employment relations strategies among different work groups (Sarina and Wright, 2015).

P2. Overcoming a situation of crisis and decline requires consideration of the influence of employee responses to managerial decisions regarding the coevolutionary relationship of the sources of decline, turnaround strategy and HR strategy.

Figure 1—based on this literature review—provides a theoretical overview of the coevolutionary model of the sources of decline, turnaround and HR strategies, and managerial responses to employment relations strategy. Following the configurational approach (Miller, 1986), which depends on the cause or causes of the decline and the most suitable turnaround strategy for that situation, the most appropriate HR strategies and practices should be selected. The configurational approach not only considers the context in which a company operates (Martin-Alcazar et al., 2005), but also focuses on building synergies between HRM practices (Verburg et al., 2007). Indeed, in times of crisis, turnaround depends not only on considering the context but also understanding the interaction of internal responses.

----- Insert Figure 1 about here -----

This theoretical and general model, grounded in our literature review, will guide our empirical study to explain the necessary link between sources of decline, turnaround strategies, HR strategies and employment relation strategies in times of crisis. Our analysis also considers the coevolution of these variables and not just the direct causal relationships, given that in order to obtain configurations of turnaround and HR strategies we must understand how the interaction between a company and its environment affects the timing and incorporation of HR practices (Paauwe and Boselie, 2005).

Method

Scholars use case studies to develop theory (Eisenhardt, 1989; Eisenhardt and Graebner, 2007) and we also aim to contribute to the literature on organisational decline, turnaround and HRS by explaining this coevolutionary model. We use a single case study to improve our understanding and identify key issues, such as the main problems

and company responses. Our in-depth analysis of the data has provided us with new insights into the relationship between sources of decline, turnaround strategies, HR strategies and employment relation strategies in times of crisis; in particular, the analysis of complex relationships between these variables that had not previously been considered as a coevolutionary model.

Case selection

There are at least three main reasons for studying the case of Iberia. First, as Spain's largest airline company (IAG, 2014), with around 16,177 employees and revenues of EUR4.567m in 2015, Iberia has a well-established and formal HR management. Second, the company's financial reports show that it has been affected by deep internal weaknesses that have hampered its ability to tackle the external challenges (CAPA, Center for Aviation Analysis 2014; Iberia, 1999–2015) generated by changes in the civil aviation sector, especially the appearance of intensely competitive low-cost companies. Third, other European legacy carriers such as British Airways or Lufthansa began their turnaround strategy much earlier than Iberia (Table 1). Iberia's first initiatives did not result in a sustainable recovery, as happened in other airlines, and it is only recently that the company has started to cope with turnaround (IAG, 2015) more efficiently. The obvious questions are why these initiatives failed, especially the HR-related initiatives, and what has led to recent successes.

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Data collection

Data was collected over two years. Our main sources of company information are archive information and interviews, as is common in case study research (Eisenhardt, 1989; Yin, 1994). We began with 1999, at the start of Iberia's privatisation. We

collected secondary data in the form of annual reports (Iberia, 1999–2015) and industry analysis (CAPA, 2014; Flightglobal, 2016; Iberia, 2013); exhaustive documentation regarding layoffs (three main redundancy plans¹—72/2001, 35/2005 and 187/2014—with varying extensions, and over 50 legal documents regarding the collective dismissal process); collective bargaining agreements (seven for ground staff, two for flight engineers, five for cabin crews and three for pilots); a 2013 mediation agreement; and specialist magazines.

We interviewed 16 participants at various levels in the company, as well as in IAG and BA and in the industry, including the management team (two interviews), the HR management team (three interviews), trade union representatives (seven interviews) and other industry experts and staff (four interviews). Table 2 provides details of these interviews. We first interviewed managers at executive and HR executive levels, in order to understand managerial responses to crisis. To gain a perspective from different sources we then interviewed staff representatives, ground and flight staff and the mediator in Iberia’s labour dispute, who also identified additional and very important interviewees, such as Iberia’s CEO. Interviews lasted between 20 and 150 minutes. Guided by extant research, we started with structured interview techniques. We asked participants to describe Iberia’s challenges, responses and, especially, the HR strategies and practices, as well as employer-employee relationships. As each interview progressed, we focused on the nature of specific problems and management and

¹ A labour redundancy plan, or ‘Expediente de regulación de Empleo (ERE),’ is a collective layoff procedure that must be followed whenever, in a 90-day period, the layoff affects at least: (i) 10 workers in companies employing less than 100 workers; (ii) 10% of the number of workers in companies employing between 100 and 300 workers; or (iii) 30 workers in companies with more than 300 workers. It must be based on economic, productive, technical or organisational reasons. In this case, there must be a consultation period with the workers’ legal representatives, and the employer must comply with certain information requirements such as providing documentation to the labour authorities as well as to the workers’ legal representatives.

employee responses, and how the interviewee responded. We adopted a ‘courtroom’ style of interviewing (Eisenhardt and Graebner, 2007) using recording and extensive note-taking (Miller et al., 1997), which was typed up shortly afterwards. The similarities in our independent notes reinforce confidence in the data quality.

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Data analysis

Our systematic analysis of the interviews and secondary data followed a series of steps, allowing the following theoretical interpretations of the data (Gioia et al., 2013; Smith, 2014): 1) we develop a detailed case study for Iberia in the ‘case description’ section; 2) after analysing Iberia’s key problems and plans, we identify patterns of sources of decline, selected turnaround strategy, HR strategy and practices and employer-employee relationships in the ‘empirical findings’ section; and 3) we integrate our findings to develop a theory in the ‘discussion’ section. We assimilate data on sources of decline, turnaround and HR strategies and employer-employee relationships to describe overall approaches, and apply existing theory to better understand relationships between constructs. The data and literature lead us to a coevolutionary SHRM model for crisis periods for certain configurations. However, the process is iterative in order to improve insights and generalizability (Locke et al., 2008).

Case description

Iberia Líneas Aéreas de España (Iberia), founded in 1927, is a subsidiary of International Airlines Group (IAG). It has been affected by the European aviation deregulation process, which ran from 1987 to the late 1990s, with the appearance of low-cost competitors that caused an exponential increase in competition and crisis in

many established companies. In parallel to this liberalisation, Iberia's privatisation process ended in April 2001, when shares were listed on the stock exchange (Iberia, 2001). The company has four business divisions: passenger transport, aircraft maintenance, airport handling services and cargo. Iberia is the traditional Spanish legacy carrier, headquartered in Madrid, employing in 2015 around 6,656 women (ground 4,085 and flight 2,571) and 10,721 men (ground 8,581 and flight 2,140) (Iberia, 2015). Figure 2 gives an overview of Iberia's staffing numbers.

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Iberia's passenger transport division is the company's core business, together with its wholly-owned Iberia Express unit and its franchise partner, Air Nostrum. According to its website, in 2015 the company served 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. It serves three major markets: Spain, Europe and the Americas. According to Iberia's reports, the company's returns amounted to EUR391m in 2014 and EUR472m in 2015, but returns had been negative in the three previous years. In 2014 Iberia Group's traffic capacity grew by 3.6%, while demand grew by 2.9%. Iberia is recognised as a company with a leading position in the European and Latin American markets. Iberia currently enjoys a position of leadership across the Atlantic, but has yet to build profitability in Europe (Iberia, 2014).

Empirical findings

Identifying patterns of sources of decline, turnaround strategy and HRM strategies and practices

Sources of decline

Civil aviation is a globalised industry in which established companies have faced decades of ongoing transformation following deregulation processes, which sharpened competition and intensified the pro-cyclical demand that is characteristic of the industry (Lange et al., 2015; Taylor and Moore, 2015). Furthermore, the European market, which is characterised by strong competition and the rapid growth of low-cost companies, is Iberia's base market: flights between Spain and other European Union countries accounted for over 84% of Iberia's service in the medium-haul international sector in 2004 (Iberia, 2005). These problems have had a greater impact on Iberia due to its own internal weaknesses. Iberia's ROA performance reflects several difficult periods: 1999 to 2001, because of liberalisation and the September 11 terrorist attack; and most dramatically, 2007–2009 and 2010–2012, due to the financial crisis (Figure 3). In 2014, Iberia showed six successive years of losses and had accumulated over EUR1.1bn in operating losses since the beginning of the economic crisis (CAPA, 2014). Moreover, its ROA contrasted dramatically with that of other European legacy carriers (Table 1).

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According to the interviews and financial reports, internal sources of decline include labour conflicts, a fall in operating revenues, significant losses, low productivity, high internal costs, and reduced earnings. External sources include the economic crisis, the European air traffic congestion crisis, wars, fuel prices, security costs, and competition from low-cost carriers.

Besides the general external factors, Iberia's structural problems have been exacerbated by issues such as internal weaknesses, lack of competitiveness caused by high costs, and low productivity (Iberia, 2013). Indeed, high internal costs were a recurrent cause mentioned by interviewees: 'Iberia needed to implement measures to reduce fuel, aircraft fleet or labour costs among others in order to boost productivity' (TU/IB/1-2-4). IAG's diagnosis was that Iberia's problems were caused by poor labour productivity and uncompetitive salary levels (CAPA, 2014). Luis Gallego, Iberia's CEO, clearly expressed the characteristics of the company's decline when he declared that 'the main challenge when he arrived [in March 2013] lay in winning the unions over to IAG's plans' and he added that 'they had a big gap in their costs with their competitors' (Clark, 2015: 22). The company therefore performed less well than its competitors and had suffered financial losses since 2008, mainly because of Iberia's own structural issues and the changing economy (IAG, 2014; TU/IB/1). However, for many years management considered that the company's main problems were solely external factors, particularly increased competition and the context of crisis (Iberia, 2001, 2005, 2008).

Turnaround strategy

In order to tackle these problems, the company adopted various strategic plans, shown in Table 3.

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According to the turnaround literature, Iberia's strategic decisions fall into two categories: retrenchment and recovery strategies (Pearce and Robbins, 1993; Robbins and Pearce, 1992). The strategic plans show a number of retrenchment strategies: reduction of personnel, capacity or costs; reduction of flights (to the Balearic and

Canary Islands in 2002, and Madrid-Barcelona in 2009 owing to competition from the high-speed train (AVE)); discontinuation of routes (Tel Aviv and Cairo); suspension of routes (Tokyo); sale of its holdings in Iber Swiss Catering and Touroperator Viva Tours, both in 2003; and sale of Binter Canarias Airlines in July 2002. These retrenchment measures were adopted after the most dramatic periods for Iberia, beginning in 2001, 2009 and 2012—following September 11, the financial crisis and the IAG merger. The main recovery strategies include growth and consolidation of the company's leadership in core markets such as the European-Latin American market; privatisation; defining a new alliance policy; reconfiguring the business portfolio; improving marketing; measures to improve quality, management of assets and connections at Barajas; redefining the service model; and implementing flexibility measures. The most important recovery strategy was the merger of BA and Iberia into IAG in January 2011. Both companies were members of the Oneworld Alliance and had started common operations long before the merger, so this measure was just the completion of previous agreements (IAG, 2011). Interestingly, the first intention after the merger was to sell the less profitable businesses: handling and maintenance (Diaz-Varela, 2013; TU/IB/1, 2 and 3)—a retrenchment strategy. However, the union refused to dismantle Iberia and forced it to keep these businesses, though union members had to accept undesirable labour conditions (TU/IB/1, 2, 3 and 4; M/IB/1; E/IB/1). Interestingly, one unionist admitted that 'if these labour conditions had been adopted at the moment of privatisation, the company would have been situated in a better position nowadays' (TU/IB/4). The creation of Iberia Express in 2012 represented a major strategic decision, as it targeted short- and medium-haul destinations (IAG, 2012; M/IB/1) that would feed the Madrid hub with passengers flying from other places to South America (TU/IB/4; M/IB/1).

HRM strategies and practices

In line with Schuler and Jackson (1987), we classify staffing, compensation, training and planning as HR practices. Staffing retrenchment measures were adopted through labour force reduction plans in 2001 (continuously extended until 2013), 2005 (specifically for ground staff) and 2014 (following a mediation agreement): early retirements, voluntary redundancies, deferred rehiring (termination of the employment contract for a minimum of one year and maximum of two years, with the guarantee that the employee could rejoin the labour force thereafter), and contract novation—to a stable employment contract that temporarily reduced working hours to 25% or 40% of the shift for a two-year period. These measures clearly sought numerical flexibility (deferred rehiring or temporary reduction of working hours). As a result of the rejuvenation plan, new employees were hired on the worst terms, not only of pay and type of contract (temporary or part-time), but also of duration: some employees, particularly ground staff, were contracted from job agencies for just one day (TU/IB/1, 2 and 3). Furthermore, the company sought flexible employees capable of performing multiple tasks (TU/IB/1, 2 and 3). Iberia also placed great importance on health tests, especially for pilots and technicians (TU/IB/4), as a means of containing future health costs. However, despite management opposition, the unions were able to ensure that employees who incurred any disability caused by their job were immediately placed in another, safer position (TU/IB/4).

With regard to compensation, the company used several variable pay items added to the salary, as well as a profit sharing system regulated by a collective bargaining agreement (CBA) and rewards for employee productivity (e.g., bonuses for attendance or shiftwork)—examples of targeting HR practices to increase productivity.

Retrenchment measures included pay cuts of 14% and 7% for flight and ground staff, respectively, a wage freeze until the end of 2015, and a further 4% pay cut to be made if an agreement were not reached on productivity improvements (Iberia, 2014; TU/IB/1, 2, 3 and 4; E/IB/1). These negotiations were fraught with conflict, resulting in the cancellation of over 415 flights (Diaz-Varela, 2013) and the end of conversations between the Spanish Government and the company; the first pressure put on Iberia to apply the new 2012 labour reform in a reasonable manner (Urrutia, 2015).

The company continued to train all employees during these difficult periods (HR/IB/1). Training was geared not only towards developing skills associated with a particular job, but also encouraged future professional development and alignment with the company's strategic objectives, particularly the search for flexible employees. For example, all technicians take refresher courses aimed at enabling them to resolve any incident by themselves. One interviewee noted, 'Nowadays Iberia repairs a seat breakdown with just one maintenance technician; in the past, the company had four technicians to repair a seat breakdown, thus these days the company invests in having flexible technicians' (HR/IB/1). Online customer service courses target all employees (HR/IB/1). However, one trade unionist admitted that 'the company training is quite basic, intended to produce regular or standard employees and not necessarily talented people. In other words, it seems as if training programmes are designed to fulfil legal requirements, rather than to achieve excellence' (TU/IB/4).

With respect to planning, Iberia redistributed its employees' working days to align their shifts to the flight schedule. Ground staff (handling and maintenance) hours were streamlined with aeroplane arrivals or departures, and to high season demands, to avoid employees being idle during their working hours (TU/IB/1, 2, 3). The complexity of this planning is evidenced by the fact that Iberia's former HR manager only worked

for the company for six months (TU/IB/4) and that employees colloquially refer to the peaks in the graphics mapping flight schedules as ‘the Manhattan skyline’ (TU/IB/4). In 2014, the company improved its productivity after increasing shift working hours from 214 to 228 for ground employees and allowing employees between 60 and 65 years old to fly (TU/IB/2; CBA, 2014). Negotiations were more difficult with the pilots, who refused to sign the reduction plan or even the mediation agreement in 2013 (E/1). Many pilots came from military aviation (E/1) and were used to bearing great responsibility and being the ultimate authority within the aeroplane (TU/IB/1). Even so, the company managed to reduce days off and the number of pilots on long hauls (to two, rather than the three in other companies). Moreover, some pilots accepted voluntary retirements.

In summary, Iberia has shown a consistent orientation towards flexibility in recent years. Interviewees mentioned that ‘nowadays Iberia airport administrative employees do a variety of tasks, such as check-in, accompanying passengers to the boarding gate, luggage management, etc.’ (TU/IB/1 and 4). Also, as Hunter (2006) recommends, Iberia’s HR strategy differs between workforce groups (non-core or core employees), although the decline context did not leave much room for ‘high road’ HR practices, but called for a hybrid model (Sarina and Wright, 2015) that required a greater focus on airline business and less on handling or maintenance (Clark, 2015).

Employment relation strategies

Two crucial inflection points in the evolution of the company have had significant consequences for the turnaround process: privatisation and September 11; and the economic crisis. Our analysis therefore focuses on two periods: 1999–2008 and 2009–2015.

In the period 1999–2008, measures were contested by employee representatives, examples of this being the serious pilot strikes of 2001 and 2006, where employees stated, ‘Iberia limits our right to go on strike’, or the more recent handling division strike, during which trade unionists stated, ‘Iberia’s employees were sort of civil servants with regular timetables, the company asked us to sign an unfair labour reduction plan, not respecting our rights’ (TU/IB/1-2-3). From 1999–2008, the employer-employee relationship was characterised by confrontation: ‘Iberia cancelled numerous flights in response to employees’ resignations’ (IB/TU/4), and management adopted a forcing strategy which both led nowhere and often needed the arbitration process offered by the Government. Spanish national institutions grant considerable rights to employee representatives (Lange et al., 2015). The confrontational management style used to handle the situation in the first period implied that the HR measures adopted were quite timid and consisted largely of the implementation of voluntary redundancies or early retirement which, although considered to be soft measures in a crisis context, were highly contested by the employees. In this regard, several unionists stated, ‘Initially employees accused us (unionists) of selling employees to the company’s interests, but nowadays, our colleagues consider that the measures included in the labour reduction plan 72/2001, such as the possibility of early retirement with significant payments, are an established right, emphasising this even more in the current adverse external situation’ (IB/TU/1, 2, 3-4). However, these measures were not enough to address Iberia’s dramatic condition before the merger in 2011. According to CEO Luis Gallego, ‘We were almost dying’.

Most recently, from 2009–2015, particularly in response to the global financial crisis that has threatened the survival of many airline companies, management has started changing its attitude towards the organisation (Clark, 2015), and employees are

making considerable efforts to adapt to the new flexible measures, such as flexible schedules or a forced change of duties, because the new approach since 2013 encourages mutual gains and promises to reverse the decline. One trade unionist stated, ‘When Luis Gallego arrived at the company in 2013, he met with trade unionists and explained what the real situation of the company was. He was direct and sincere, and said that he would do his best, but that employees should also understand what the situation was and behave accordingly, making a certain effort. In fact, the new era started with a cultural change, a closer relationship between management and employees, and fewer privileges for everyone’ (TU/IB/4). Luis Gallego added, ‘We change Iberia or we kill Iberia’. Indeed, a fostering strategy, based on fluid communications and trust between employer and employees, has proven to be crucial for the alignment of retrenchment responses such as pay cuts in a well-designed recovery strategy, the tackling of the severe external problems and the intensification of internal weaknesses that had not previously been addressed. ‘The mediation agreement was a success. More than 80% of trade unionists signed it, mainly thanks to the close relationship between management and employees’ (E/1). Since the mediation agreement in 2013, the employer-employee relationship has stabilised. Following the implementation of these measures and the improvement in productivity, Iberia entered and won a round of tenders to provide services at Spanish airports and management showed satisfaction and considered this event to be the start of a new period of profitability in the ground handling division (Clark, 2015). Figure 4 provides a summary of Iberia’s turnaround strategy.

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Table 4 represents an extended overview of the links between sources of decline, turnaround strategy, HR strategies and practices and employer-employee responses at Iberia Airlines, identifying pre- and post-financial crisis measures.

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Discussion of the findings

The inescapable relationship between sources of decline, turnaround and HR strategies in times of crisis

Our findings and the theoretical model in Figure 1 reflect the inescapable relationship between sources of decline, turnaround strategy, and HR strategies and practices. Our study highlights some important outcomes. Firstly, sources of decline have to be identified and understood by management (Barker, 2005). When these are complex and interrelated (Mellahi and Wilkinson, 2004), the difficulty for management in crisis periods lies in identifying the root of the problem, before applying turnaround and HR responses. Pinpointing the causes of decline is an interpretative process that is subject to cognitive and political biases (Ford and Baucus, 1987). Failure to identify the real problems of a company leads to the selection of incorrect HR turnaround measures. Secondly, internal decline should be better addressed by recovery strategies (Ndofor et al., 2013) and HR recovery strategies, and severe decline (persistent internal and external) may also require the adoption of responsible retrenchment measures (Musteen et al., 2011; Trahms et al., 2013) or downsizing to match the recovery strategies (Schmitt and Raisch, 2013) and HR recovery strategies. Thirdly, and more importantly, the need for recovery strategies that address internally-based decline should be grounded in a flexible HR strategy. Wright and Snell (1998) study the flexibility of

strategic HR management in uncertain times, but this research was not linked to the turnaround literature. For instance, in the first period of our study (1999–2008) Iberia mainly reacted to external pressures with retrenchment strategies and labour reduction plans, which had little effect on the fundamental root of the company's problem and lacked an adequate turnaround strategy. But from 2009 onwards, management also clearly understood the internal problems (Clark, 2015) and—given the financial crisis and the fact that Iberia was now part of IAG—Iberia was forced to adopt serious recovery strategies, backed up by flexibility-oriented HRM. Furthermore, with the company's entrenched inability to react quickly and consistently to new problems such as the financial crisis, the decline became more severe, and retrenchment strategies with responsible cuts became unavoidable. Iberia may have used retrenchment measures, but these had to take account of the resources needed in a later recovery stage. The global financial crisis that threatened the company's survival and even other companies' survival (Santana et al., 2017) was a significant force behind Iberia's adoption of this combination of turnaround strategies.

A configurational model allows us to analyse the case of a company facing a severe external crisis, accentuated by its own internal weaknesses and where the first decisions failed to resolve the crisis situation. Indeed, in these circumstances, a simple, single retrenchment strategy with the consequent HR actions (such as lay-offs and wage cuts) is insufficient, and tends to intensify the company's problems and crisis. This configurational model indicates that internal decline should be met with recovery strategies, accompanied by flexible HR strategies to create a multi-skilled workforce. Moreover, these flexible-recovery HR strategies have to correspond to responsible retrenchment HR strategies in order to address the severe external financial crisis. In different circumstances, with other sources of decline, both the turnaround strategies

and the inherent HR strategies and practices adopted to achieve the recovery from the crisis situation would be different.

Considerations for employment relations during times of crisis

This configurational model includes both the requisite analysis of employment relations in times of financial crisis—a tool that, when used correctly, can contribute to a successful company turnaround—and the essential consideration of national contexts (Wilkinson et al., 2014). Some national institutions reinforce the position of employee representatives, which may influence the company's strategies (Lange et al., 2015). However, employers do have some strategic leeway on how to alter their employment relation strategies in the face of decline. Drastic measures based on an external decline aggravated by persistent internal weaknesses will benefit from a fostering approach (Walton et al., 1994) to HRM strategies, based on building fluid communication and trust (Saridakis et al., 2018) with its stakeholders. Iberia started to implement this type of employer-employee relationship on the arrival of CEO Luis Gallego in 2013, in an attempt to achieve mutual gains and address the external problems and the intensification of internal problems. Management established a new culture within the company to address the problems: there were more frequent meetings with trade unions and company information was regularly shared with employee representatives (HR/IB/3; TU/IB/4). Managers listened to the feedback from these meetings; for example, they accepted the employee representatives' recommendation that aeroplane maintenance be scheduled for the off-season, and circulating information relating to company figures helped employees understand why the cuts were necessary (HR/IB/4). Prior to Gallego's arrival, the managerial style had been more forcing in response to the

union's strong pressures; it was unable to implement the necessary turnaround strategies, and as a result of the never-ending negotiations, proved to be ineffective.

A fostering approach will support the flexibility-oriented HR strategy and responsible downsizing; when employees feel they are part of the response they are more willing to accept measures whenever they are implemented in a well-defined turnaround strategy. Opposition from unions and workers is to be expected in crisis periods, especially in national contexts where employees are granted more rights, but a fostering approach will strengthen the turnaround strategy required to address external decline aggravated by internal weaknesses. Figure 5 shows the configurational model of SHRM in crisis periods in response to external decline aggravated by severe internal sources of decline.

- - - - -**Insert Figure 5 about here** - - - - -

Conclusion

During times of crisis, recovery depends on the consideration of possible configurations of HR strategies and practices in declining organisations, together with the sources of the decline and turnaround strategies. Our model indicates that consistency between the different variables (sources, turnaround, HR strategies and practices, and employee relations) will allow the company to overcome a crisis, but only when applied to a specific situation or context, such as Iberia's external decline and its persistent and entrenched internal decline. For Iberia, this adjustment between variables took a long time, until management correctly understood the causes of the decline, and established a turnaround strategy and the means to implement it, including the vital support of union workers, who had previously responded with protests and strikes.

While HR strategies are not the only means of recovery from a decline, they are an important topic that has rarely been addressed in the decline and turnaround literature (Arogyaswami et al., 1995; Santana et al., 2017). HRM is crucial in turnaround situations; in particular, we consider that a company's turnaround strategy that is grounded in external pressures but exacerbated by internal weaknesses must implement retrenchment measures that match the recovery strategy and the HR strategy has to be in line with the turnaround strategy. Previous studies on HRM in the airline industry (Bamber et al., 2009; Harvey and Turnbull, 2011) consider HRM responses and employer-employee relations, but they ignore the relationship between sources of decline and turnaround strategy, which is widely accepted in studies of corporate strategy. The need for configurations of HR practices becomes even more important, with the requirement to develop a clearly defined HR strategy that builds on the synergies between them. In order to respond to external pressures such as the economic crisis, which are aggravated by internal weakness that go unaddressed for a long time, HR planning, compensating or training practices must be designed to create synergies between these measures, and the resources needed for turnaround must be taken into account; a company cannot simply cut resources without knowing what the next step will be. For instance, before making redundancies, a company may consider whether employees have a flexible profile that could fit any core position, in which case a firm could easily multi-skill them.

A crucial aspect of our model is the coevolution of the variables, meaning that this SHRM configurational model for times of crisis is dynamic rather than static, and the model evolves over time. The complexity and the interaction of the sources of decline (Mellahi and Wilkinson, 2004) implies that turnaround strategies have to be constantly evolving, as do the HR strategies and practices that accompany them.

Responses to turnaround have to be constantly evolving, particularly in periods of crisis. There is no ‘magic formula’ for correcting this type of decline (external decline aggravated by persistent internal sources of decline), but this research makes two important practical contributions: 1) The need for management to clearly acknowledge the coevolution of the sources of decline, turnaround strategies and HR strategies and practices to address a declining situation; and 2) the need for management to understand the effect of employee responses on the coevolutionary relationship of the sources of decline, turnaround strategy and HR strategy in addressing a declining situation.

This study makes several theoretical contributions to the existing literature. First, it offers a configurational perspective on HR strategies and practices based on the causes of decline. This contrasts with previous HR literature, which proposes a set of HR best practices to be applied, irrespective of the particular crisis situation, with responsible downsizing or rightsizing being the most recurrent HR strategy (Cascio, 2002; Chu and Siu, 2001; Luan et al., 2013). Second, we have linked SHRM to the rich literature on the relationships between sources of decline and turnaround strategy, and the need to tackle internal problems with recovery strategies. Third, we incorporate the influence of strategic negotiations and employment relations. Our results show that a fostering approach, with the aim of mutual gains for employer and employees, will contribute to recovery, especially when national institutions strengthen the position of employee representatives.

Future research should analyse how other airline companies, or even other sectors, have responded to sources of decline and the influence of national institutions. It would also be useful to study how HRM strategies can target other problems, such as technological changes within the industry. For practitioners, this study may be crucial for identifying sources of decline and allowing alternative HRM strategies and practices

to be proposed. HR management in times of decline is not just a matter of redundancies, hiring freezes, or wage cuts. A fostering approach to employer-employee relations, especially when national institutions support the rights of employee representatives, will contribute to a recovery from external decline exacerbated by persistent internal weaknesses. Evaluating the extent to which certain HRM practices will affect firm performance and efficiency was beyond the scope of this research. Future investigations could make a significant contribution by examining the actual outcomes associated with the implementation of this configurational model of HRM strategies and practices.

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Tables and figures

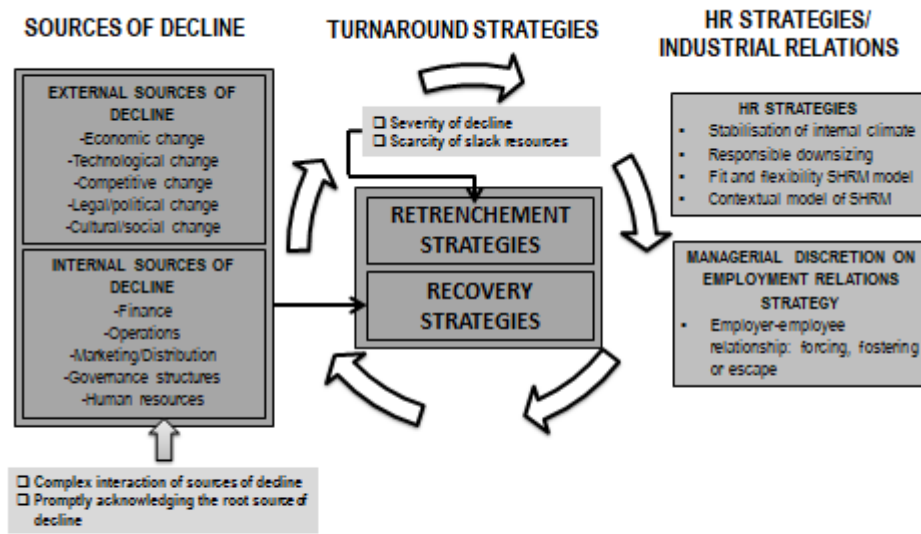


Figure 1. Theoretical overview of coevolutionary SHRM model for crisis periods.

Table 1. ROA for European legacy carriers, 2008–2014.

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|------------------|-------|--------|--------|--------|---------|--------|-------|
| IBERIA | 0.64% | -8.62% | 1.58% | -0.80% | -10.11% | -8.19% | 2.78% |
| Lufthansa | 3.26% | -0.51% | 3.87% | 1.59% | 4.54% | 1.88% | 0.59% |
| BA | 8.3% | -3.8% | -0.3% | 6.0% | 0.3% | 2.5% | 6.4% |
| KLM | 4.15% | -1.89% | -4.54% | 0.61% | -1.20% | 1.99% | 7.57% |

Table 2.

Interviews.

| Type of organisation | Country | Position | Organisation | 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 |
| Company airline | Spain | Ground staff | Iberia | 6 Jul. 2015 | 10 min. telephone interview and e-mail by request | HR dept. staff | G/IB/1 |
| Trade union | Spain | Representative | CCOO/Iberia | 23 Sept. 2015 | 150 min. face to face. E-mail at our request | 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 | Head of HR | HR/IB/1 |
| Company airline | Spain | Executive | Iberia Express | 6 Nov 2015 | 20 min. telephone interview and e-mail by request | Head of 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 |
| Trade union | Spain | Representative | CCOO/Iberia/ Groundforce | 31 March 2016 | E-mail in response to our request | Union delegate | TU/IB/5 |
| Company airline | Spain | Pilot | Air Europa/Eva Air/Spainair | 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's labour 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 | Spain | Representative | IBERIA/UE CCOO | 20 April 2016 | 20 min. telephone interview and e-mail at our request | UE Airlines transport representative of Comisiones Obreras | TU/IB/6 |
| Trade union | UK | Representative | UNITE/BA | 28 April 2016 | 40 min. telephone conversation | Head of UNITE airline industry | TU/BA/1 |
| University | Spain | Professor/ executive | Public administration | 6 May 2016 | E-mail in response to our request | Expert on tourism and airline business | E/2 |
| Company airline | Spain | Executive | Iberia | 18 May 2016 | 1 hour. telephone conversation | HR manager | HR/IB/3 |

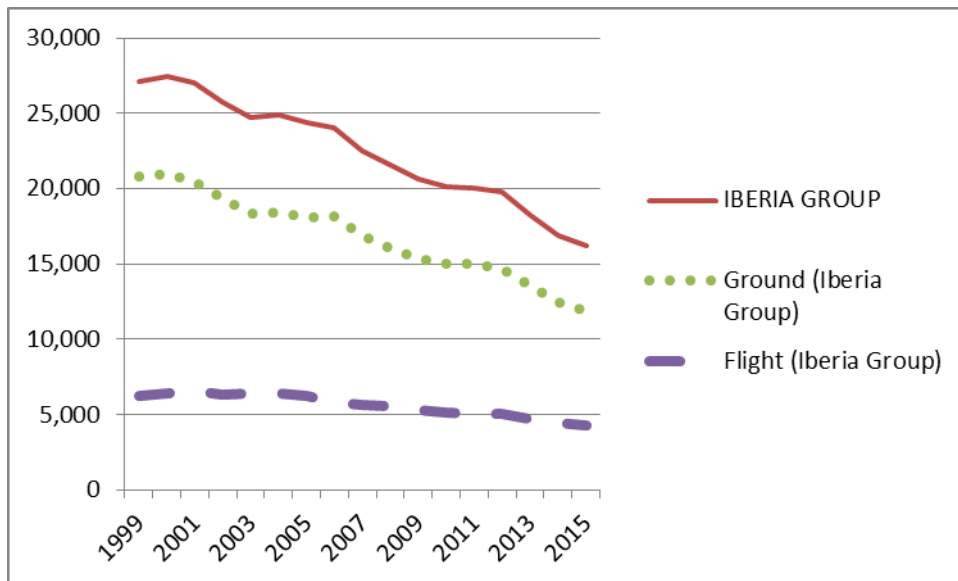


Figure 2. Iberia’s staffing numbers, 1999–2015.

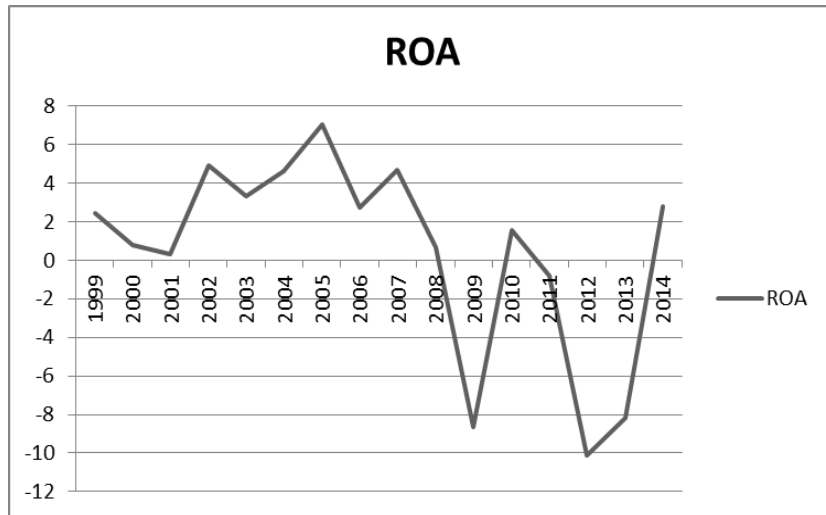


Figure 3. Iberia's ROA as a measure of decline, 1999–2014.

Table 3. Iberia's plans, strategic measures, and HRM measures, 2000–2015.

| IBERIA | | |
|--------------------------|--|--|
| Plan | Motive | Main objective/s |
| 2000/03 Master Plan | Need for growth | <ul style="list-style-type: none"> ▪ 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): <ul style="list-style-type: none"> – to reach 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) | <ul style="list-style-type: none"> ▪ 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: <ul style="list-style-type: none"> ▪ To implement a Labour Reduction Plan (proceeding 72/2001) extended until 2013: initially it affected 2,515 employees. |
| 2003/05 Master Plan | Growth with flexibility and quality | <ul style="list-style-type: none"> ▪ To increase the company's routes and flights in order to maintain and strengthen its leading position at Madrid and Barcelona 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 business. ▪ To reduce financing costs by controlling operational and financial risks. ▪ To bolster the competitiveness of the company's human resources. ▪ To capitalise on the company's alliances to sharpen its competitive edge. Some specific measures: <ul style="list-style-type: none"> – Sale of Iber Swiss Catering, Viva Tours and Binter Canarias Airlines. – Fleet renewal: New Airbus A340/600 aircrafts for long hauls and A320 for short and medium flights. HR related objectives: <ul style="list-style-type: none"> – Labour reduction plan (proceeding 35/2005): 1,074 ground staff exits (liberalisation of handling services has enormously affected Iberia). – IX (2004) Flight Engineer CBA (Pay rise and profit sharing system). |
| 2006/08 Master Plan | Profitable growth | <ul style="list-style-type: none"> ▪ To give priority to profitability over growth. ▪ To improve quality. ▪ To optimise the use of resources. HR related objectives to optimise resources (flexibility and |

| | | |
|---|--|---|
| | | productivity). <u>XVI (2006), XVII (2007) & XVIII (2008) Ground CBAs.</u> <u>XV (2007) Cabin Crew CBA.</u> |
| 2009 Contingency Plan | Extraordinary plan to respond to the profound impact the economic crisis was having on earnings | <ul style="list-style-type: none"> ▪ To maintain its financial strength. ▪ To cut costs. ▪ To defend revenues on the principal markets. |
| Plan 2012 (as from 2009) | Prepared the company for the future | <ul style="list-style-type: none"> ▪ To recover the level of profitability in the core air transport business to guarantee the company's viability and return to making a profit. ▪ 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 unprofitable routes (e.g., Johannesburg). HR related objectives (flexibility and productivity): <ul style="list-style-type: none"> – <u>XIX (2010) Ground CBA & XVI (2010) Cabin Crew CBA.</u> – <u>VII (2009) Pilot CBA:</u> the first signed CBA since 1999. |
| Joint operation with AA & BA | Prepared the company for the future | <ul style="list-style-type: none"> ▪ To cooperate on transatlantic flights from October 2010. |
| Merger with British Airways into IAG in 2011 | Prepared the company for the future (consolidation processes in the industry) | <ul style="list-style-type: none"> ▪ To gain size and 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 the company for the future | <ul style="list-style-type: none"> ▪ 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. ▪ To create Iberia Express. |
| Future Plan | Prepared the company for the future | <ul style="list-style-type: none"> ▪ To build a sustainable and profitable future and a new company culture. ▪ To implement capacity reductions of 15 per cent and reduce its fleet by 23 aircraft. HR related objectives: <ul style="list-style-type: none"> ▪ <u>Labour Reduction Plan (proceeding 187/2014): 1,427 extra exits.</u> ▪ <u>Labour Mediation Agreement: 3,141 exits, salary decrease 7%–14%, contemplated also in Ground and Flight Staff CBAs.</u> ▪ <u>XX Ground, XVII Cabin Crew & VIII Pilot CBAs.</u> |

Table 4. Linking sources of decline, turnaround strategy and HR strategy and practices at Iberia Airlines.

| IBERIA (SOURCES OF DECLINE, TURNAROUND STRATEGIES, HR AND EMPLOYER-EMPLOYEE STRATEGIC NEGOTIATION MATRIX) | | | | | | | |
|---|--|---|---|--|--|--|---|
| Year | Most influencing External sources | Internal sources | Retrenchment strategy | Recovery strategy | HR strategy | HR practices | Employer-Employee Strategic negotiations |
| 2000-2008 | <ul style="list-style-type: none"> • Terrorist attack (9/11), • Wars • Low-cost Competition • Fuel & security costs | <ul style="list-style-type: none"> • High internal costs • Low productivity • Labor conflicts • Obsolete structural characteristic | <ul style="list-style-type: none"> • 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 Iber Swiss Catering, Viva Tours or Binter Canarias Airlines | <ul style="list-style-type: none"> • Commercial relations with BA • E-commerce strategy • New “à la carte” pay service in tourist class on all domestic • Fleet renewal: New Airbus A340/600 aircrafts for long-haul and A320 for short and medium | <ul style="list-style-type: none"> • Labor reduction plan (ERE 72/2001 and extensions): 2.515 exits. • ERE 35/2005, only for ground staff: 1.074 • CBAs | <p>FOCUS ON RESPONSIBLE RETRENCHMENT MEASURES THROUGH THE LABOR PLAN 72/01</p> <ul style="list-style-type: none"> • Early retirements • Voluntary redundancies • Deferred rehiring • Novation of contract | <p>Forcing Strategy Numerous strikes and cancellation of flights</p> <ul style="list-style-type: none"> • 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 Clickair, ended with the agreement to maintain pilots |
| 2009-2015 | <ul style="list-style-type: none"> • Financial crisis • Low-cost Competition • Security costs • High speed rail connection | <ul style="list-style-type: none"> • Persistent high internal costs • Persistent low productivity • Labor conflicts • Persistent obsolete structural characteristic | <ul style="list-style-type: none"> • 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) | <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • Transformation plan • Future Plan | <ul style="list-style-type: none"> • Mediation agreement: 3.141 exits. • Labor reduction plan (ERE 187/2014): 1.427 exits. • CBAs | <p>FOCUS ON RECOVERY MEASURES DESIGNED TO RESPOND TO INTERNAL DEFICIENCIES</p> <p>Staffing</p> <ul style="list-style-type: none"> • Part-time and temporary staff non core positions <p>Compensating</p> <ul style="list-style-type: none"> • Pay and reward system link to internal deficiencies <p>Planning</p> <ul style="list-style-type: none"> • Increase of job working hours • Redistribution of the working day in line with flight activity • Force change of duties <p>Training</p> <ul style="list-style-type: none"> • Extensive training to obtain polyvalence <p>DUE TO SEVERITY OF DECLINE:</p> <ul style="list-style-type: none"> • Salary cuts (14% to 7%) • Reduction of pilots in long haul (2 instead of 3) | <ul style="list-style-type: none"> • 2013: Biggest strike on Iberia ever, due to layoffs, ended in the mediation agreement (MA) <p>Fostering Strategy</p> <ul style="list-style-type: none"> • 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. |

| 1990s | 2001 | 2001-2008 | 2009-2015 |
|---|---|---|--|
| <ul style="list-style-type: none"> ▪ Iberia's privatisation | <ul style="list-style-type: none"> ▪ End of Iberia's privatisation ▪ Terrorist attacks ▪ Civil aviation crisis | <ul style="list-style-type: none"> ▪ Retrenchment measures (downsizing, asset cuts, etc.) ▪ Recovery strategy not clearly defined (partial measures such as new flight routes) ▪ Confrontation or forcing management style | <ul style="list-style-type: none"> ▪ Clearly defined recovery strategy (creation of IAG and Iberia Express, leaders of Latin American routes) ▪ Recovery strategy supported on a flexibility-oriented HR strategy ▪ Fostering management style: mutual gains for employer and employees |

Figure 4. Summary of Iberia's turnaround strategy

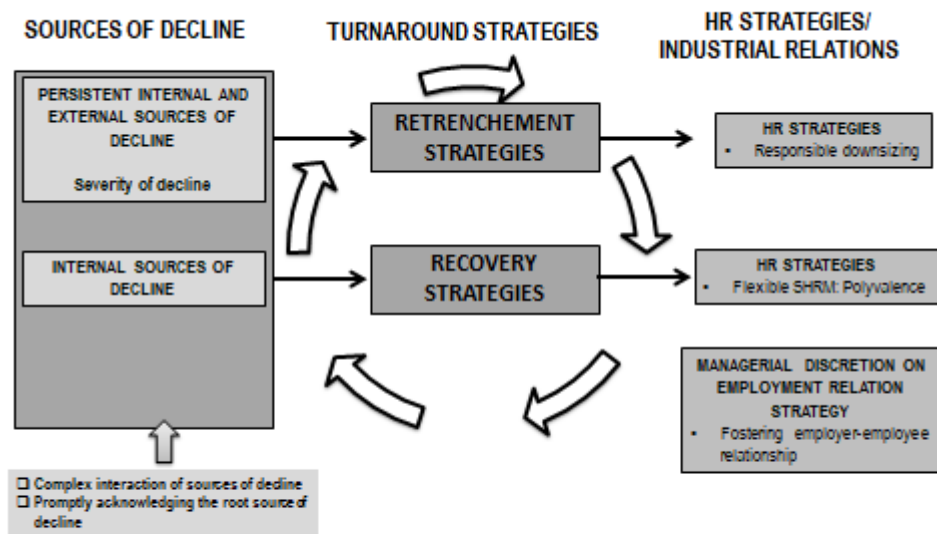


Figure 5. Coevolutionary SHRM model of configurations for crisis periods.