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Corporate Governance and Employment Relations: Spain in the context of Western Europe

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8.1. **Introduction**

Corporate governance studies have traditionally focused on the relationship between managers and owners and have usually neglected the role of employees. Recently, there has been various attempts to understand how employees might be involved in the governance of the firm and how they interact with other stakeholders (Aguilera and Jackson 2003). Blair and Roe (1999), for instance, emphasize the relevance of the institutional context in which employees are embedded as a critical explanatory factor in understanding their influence in corporate decision-making. This type of approach is reinforced by arguments presented by O'Sullivan (2000*a,b*): she provides an 'innovative capabilities' account of labour in the corporate governance equation, underscoring that corporate governance is wider than just the monitoring of managers by investors. Finally, Gospel and Pendleton (2003) dissect the specific mechanisms by which governance and financial systems influence the role of labour–management relations in different corporate settings by contrasting liberal market economies and coordinated market economies. Their comparative research also points to the corporate governance idiosyncrasies of each individual country, and therefore implicitly rejects the arguments that corporate governance is converging on the pattern of investor–management relationships held to be typical of the Anglo-Saxon countries.

In the light of this research in comparative corporate governance, the purpose of this chapter is to illustrate the characteristics of corporate governance and labour management relations in Spain. It does so with reference to other industrialized countries considered in this

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book. The chapter therefore identifies the 'exceptional' traits of the Spanish economic organization model, its main transformations over time, and the complementarities and tensions between corporate governance and employment systems. The implication of the approach is that the dichotomy between liberal market economies and coordinated economies found in the 'varieties of capitalism' literature is simplistic. The Spanish case, along with Italy and to some extent France, can be characterized as conforming to a third type, the so-called 'Latin' model. Countries in this category are typically categorized by concentrated ownership of firms, strong state intervention, and weak labour participation at company level (Rhodes and Van Apeldorn 1997; Aguilera 1999). However, this Latin model of corporate governance is far from static and, just as Schmidt (2003) demonstrates for the French case, certain market-oriented reforms are moving Spanish capitalism from state-led to 'state-enhanced' capitalism.

The chapter argues that Spain has followed its own idiosyncratic path to a new model of corporate governance. This route has been distinct and unique, and determined by Spanish institutional legacies, constraints, and opportunities. The Spanish system is evolving towards a hybrid model that adopts practices from different systems, especially the Anglo-Saxon one. There is a strong tension between the state's new role as a strong regulator, the weakness of labour at company level but its strength in shaping national employment systems, and the central but uncommitted role of foreign multinationals. This tension is framed in a context of increasing internationalization of financial markets and the closer integration of the European Union (EU). In sum, key features of the current Spanish corporate governance scene comprise newly privatized firms owned by core investors (some of them foreign), a weak market for corporate control, a dual labour market system, an emphasis on passive labour market policies, and a sporadic use of Anglo-Saxon practices. The latter includes reforms aimed at increased transparency and accountability of firms, more efficient boards of directors, the development of professional managers, and innovations in workplace practices.

8.2. **Institutional Background**

Spain experienced massive political transformations in the last century, with the Franco dictatorship and the closed economic regime initially adopted by it being the most remarkable. The legacy of this

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era has conditioned the country's economic and social organization in unique, path-dependent ways. In terms of economic development, Spain was a latecomer to industrialization. It shifted from policies of autarchy during the first 20 years of the Franco regime (1939–59) to rapid industrialization and growth, triggered by liberal economic reforms and then a market-oriented approach to the international economy. The 'economic miracle' of the 1960s was based on tourism, the export of surplus labour to other European countries, and large foreign direct investment. The latter was promoted by the complete removal of barriers of trade coupled with government incentives to attract multinational companies in capital-intensive industries (Campa and Guillén 1996). With industrialization, economic development, and the lowering of trade barriers, the sectoral structure changed dramatically in a short space of time. For example, the sectoral composition of employment shifted from 30 per cent in agriculture, 34 per cent in industry, and 37 per cent in services in 1967, to approximately 7 per cent in agriculture, 20 per cent in industry, 11 per cent in construction, and 62 per cent in services by 2000 (OECD 2001*a*).

One set of legacies of 40 years of dictatorship under Franco is the persistence of a protected banking system, extensive public ownership of industry, and paternalistic labour policies. This legacy shapes the character of corporate governance, labour management, and the interactions between them. These characteristics have diluted slowly, and their persistence (particularly in the labour market) presents serious obstacles to the country's economic development. Under the years of dictatorship, there was a particular complementarity between capital and labour, underpinned by a strong, interventionist state. The state and a privileged banking system were the main providers of capital to firms, resulting in little competition in capital and product markets, and few pressures to innovate. In turn this meant that there was limited demand for higher skilled labour. In addition, the state aimed for full employment by maintaining rigid rules to govern labour market entry and exit. This closed system intensified the tendency towards very limited investment in human capital. As will be discussed below, this labour–capital relationship has changed because of deregulation, privatization, and the development of financial markets.

In the democracy years (post-1978), and especially in the last decade, the following four developments have influenced both corporate governance and labour–management relations: (1) an extensive programme of economic restructuring to meet the requirements necessary

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to enter the European Community (EC) in 1986 and then to meet EU harmonization policies; (2) the privatization of state-owned companies; (3) an unemployment problem which rose to over 20 per cent in the mid-1980s and then to nearly 30 per cent in the mid-1990s; and (4) the presence of foreign capital in the form of subsidiaries of multinational corporations and foreign institutional investors. All of these factors are considered in the discussion of Spanish corporate governance and labour–management relations.

8.3. **The Corporate Governance System**

Corporate governance here is defined broadly to include both the institutional environment in which firm decisions are embedded (e.g. the legal system, the financial system, the market for corporate control, and the stock market), and mainstream governance characteristics such as ownership type and concentration. This section discusses some of the main institutional transformations which have influenced developments in corporate governance, prior to discussing current governance arrangements in Spanish firms.

8.3.1. ***The privatization process***

Privatization has been an important phenomenon in Spain because of its contribution to the development of 'shareholder capitalism' and the weakening of labour protection. State-owned enterprises developed under the early Franco regime as a strategic tool for the import-substitution model of economic growth and played a key role thereafter in Spanish industrialization. They were notably concentrated within the state industrial holding company *Instituto Nacional de Industria* (INI), which emulated the Italian state-owned holdings developed under Mussolini (see Chapter 9 on Italy). Since the democratization of Spain in 1978, these firms have been subject to rationalization and restructuring, with successive waves of privatization as various governments sought to improve their efficiency. The privatization process was further motivated by government efforts to cut the public sector deficit so that Spain could enter the EC in 1986. State-owned enterprises, particularly in sectors experiencing heavy losses such as iron and steel, were subject to programmes of 'industrial reconversion' to increase their competitiveness. These programmes involved tens of thousands of job losses.

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The main argument against extensive privatization in Spain rested on its potential to increase unemployment, particularly in the state-owned sector. Proof of this argument was demonstrated by the fall in employment in public sector industries, such as naval construction (58 per cent fall), mining (49 per cent), and defence (41 per cent) (Gámir 1999: 73). Often unions tried to stop privatizations or to intervene to minimize job losses. For instance, the partial privatization of Telefónica (the telecommunications monopoly) during 1991–7, coupled with a rationalization plan involving a 62 per cent reduction in the workforce of 180,000 (EIRR 1997: 32), provoked widespread protests from the unions. The bulk of Spanish privatizations took place after the enactment of the 'Spanish Privatization Plan' of 1996, with proceeds from privatization reaching their peak in 1997 and 1998. Only France and Italy secured larger sums from the divestment of publicly owned companies, though it should be borne in mind that their economies are also larger (OECD 2002: 46).

Although early privatizations took the form of trade sales to strategic buyers (as in France), in the 1990s initial public offerings (IPO) became the predominant method of sale. IPOs require sophisticated financial markets and a well-developed legal infrastructure. In practice, at first, they tended to place equity in the hands of institutional investors, some of them foreign. More recently, IPOs have included incentives to encourage the involvement of minority shareholders. For example, the privatization of the bank Argentaria in 1993 was the first one to provide minority shareholders' with pre-IPO discounts and post-IPO protection (Gamir 1999). The subscription of minority shareholders has almost doubled since the implementation of the 'Spanish Privatization Plan' in 1996. Thus, privatization encouraged shareholder capitalism by increasing the number of traded firms and boosting the capitalization of the Spanish stock exchange. Both individuals and institutional investors became shareholders, with the state slowly bowing out from its hitherto dominant role in the management of these companies. Finally, some privatization initiatives also offered special share issues for employees, who then also become owners.

8.3.2. *The legal regulation of corporate governance*

In Spain, commercial law has historically protected large shareholders and left little room for minority shareholder voice. Like other Latin countries, Spain is a typical case of a country with weak anti-director

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rights, weak protection of minority investors, and concentrated ownership (La Porta *et al*. 1998). These features were accompanied by poor accountability and a lack of transparency. A major reform within the Spanish financial system has been the enactment of two new laws to improve shareholder rights. This legislation is a consequence of the increasing importance being attached to 'shareholder value', a key trait in liberal market economies. First, the Law on Measures to Reform the Financial System was passed in November 2002 to increase the efficiency and competitiveness of Spanish financial markets and strengthen investor protection. This law was also designed to incorporate several EU Directives into Spanish law so as to prepare Spain for EU financial integration (Comisión Nacional del Mercado de Valores, CNMV 2002). Second, a Transparency Law was enacted in July 2003 to improve the transparency of ownership and corporate control. It main effect is in the area of takeover announcements. These laws bring innovative regulation in the following areas: they foster efficiency in the securities, credit, and insurance markets; they stimulate competitiveness in the financial sector; they bring about greater transparency in corporate control; they protect the clients of financial services companies; they improve the financing of small and medium-sized enterprises; and they facilitate electronic trading (CNMV 2001). For example, the legislation has created the new post of Commissioner for the Defense of Investors to deal with abuses of financial institutions. None of this new legislation was aimed explicitly at bringing about a 'shareholder value' model of Spanish capitalism but, in its emphasis on greater efficiency, accountability, and transparency, it has helped to create an institutional environment that is conducive to this form of capitalism.

In addition, in 1998, the Spanish stock market approved the Olivencia Code of Good Governance to improve the governance of Spanish listed firms and in particular to reform the operation of boards of directors. In Spain, boards have traditionally been large, one-tier boards. But, like German boards, they establish dense networks of directorship interlocks (Aguilera 1998). The Olivencia Code of Good Governance was designed and benchmarked against the British Cadbury Report of 1992. Hence, once more we find another trend towards Anglo-Saxon capitalism—if only for legitimation reasons (Aguilera and Cuervo-Cazurra 2004). The code is voluntary to the extent that listed companies are not compelled to comply with the code, but they are required to disclose in their annual reports the degree of compliance and to explain any reasons for non-compliance

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('conform or explain'). The CNMV surveys all listed companies in order to assess their degree of adoption of the Code of Good Governance's recommendations. The conclusions of these annual surveys (1999–2002) are as follows: (1) the average firm fully adheres to approximately 75 per cent of the twenty-three recommendations listed in the code (although there is no indication that listed firms are increasingly adopting the Code recommendations); (2) firms with large free-float tend to comply more; (3) the least used recommendations are those related to transparency of remuneration, age limits for directors, and the establishment of control commissions composed solely of external directors; (4) there seems to be a significant increase in the presence of independent directors, and this is directly related to the presence of floating capital (CNMV 2002, 2003).

As a result of the new EU Directive on Market Abuse, partly incorporated in the 2002 Finance law, an updated Code of Good Governance, the *Informe Aldama*, was issued in January 2003. This code comprises a set of recommendations to govern the behaviour of listed firms. As before, the emphasis is on self-regulation and the Code does not have the force of law. The Code illustrates the active efforts taken by the Spanish governance community to promote further efficiencies in the governance system, though it is too early to assess its consequences.

Finally, one of the important effects of EU measures aimed at harmonization is the approval in 2002 of an EU decree that will require all firms trading in European stock markets to comply with the accounting norms formulated by the International Accounting Standard Board (IASB) by 2005. In reaction to this decree, the supervisory board of the Spanish stock market conducted a study (Libro Blanco) on the 'Characteristics of the Current Spanish Accounting Systems and Main Issues that need to be Reformed'. Transparency comes up again as an important concern in Spanish corporate governance. Moreover, the new financial law of 2002 includes significant measures towards accounting harmonization, particularly regarding the compulsory rotation of external auditors and the audit committee of the board of directors. Also, the US Sarbanes-Oxley Law of 2002 (enacted in response to US corporate scandals) will shape corporate governance practices worldwide and in particular those firms which list in any of the US stock markets.

8.3.3. *The financial system*

In the past, the Spanish financial system bore some similarities with that in Germany. Industrial banks were the main sources of financial

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capital, with strong cross-shareholdings and director-interlocks between banks and industry (Aguilera 1999). Recently, the Spanish financial system has experienced several major changes, and these are likely to encourage greater activism among investors. To illustrate this, it is necessary to discuss several institutions in the Spanish financial system: the banking system, institutional investment, the stock market, venture capital, and the nature of corporate control.

The Spanish banking system, particularly in the form of the industrial banks, was characterized by a privileged and protected role within the Spanish economy (Pérez 1997). This changed when competitive pressures forced the sector to open the market and deregulate. By 1998, the Spanish banking system had experienced a significant consolidation, with the privatization of most of the state-owned banks and mergers of six of the largest banks into two: Banco Bilbao Vizcaya Argentaria (BBVA) and Banco Santander Central Hispano (BSCH). The Competition Tribunal approved these mergers on the grounds that competition would be protected by the active presence of a number of medium-sized commercial banks and a large number of saving banks[i]. However, it is to be noted that these two largest Spanish commercial banks (BBVA and BSCH) accounted for more than half of market share in Spanish commercial banking in 2002 (28.9 and 27.19 per cent, respectively), followed some way behind by the third largest bank, Banco Español de Crédito (with a 7.5 per cent market share) (El País 2003: 419). The concentration among saving banks is not as pronounced: the two largest saving banks, La Caixa and Caja de Ahorros de Madrid, held 19.1 per cent and 14.5 per cent of the savings banks' market share in 2002 (El País 2003: 420).

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The removal of barriers to entry in the banking system (partly triggered by EC requirements) led to an influx of foreign banks from the 1980s and a consequent growth in competition in the banking sector. The banking liberalization coincided with a shake-out of the fragmented domesticbanking system, with foreign banks allowed to rescue those in receivership. The first mover was Barclays which acquired the failing Banco de Valladolid in 1981. The proportion of foreign banks in Spain is now above the EU average even though some market entrants subsequently withdrew (OECD 2001*a*; *Financial Times* 8 October 2003). According to the *Financial Times*, 'the Spanish financial system is the most profitable in the Eurozone—in terms of return on assets and second in return on equity—but with a cost-to-income ratio of 73 per cent' (*Financial Times* 8 October 2003: 3).

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In 2002, there were forty-nine foreign banks operating in Spain with ING Bank NV having the largest percentage of the foreign banks' market share (30.4 per cent), followed by BNP Paribas and Barclays Bank PLC with 8.9 per cent and 8 per cent, respectively (El País 2003: 419). The race for market share is fierce with the two main Spanish banks undertaking aggressive marketing strategies.

The role of banks in the Spanish economy is reflected in corporate financing. Leverage ratios for Spanish manufacturing firms averaged 38.2 per cent during 1992–5 and peaked at an average of 42.6 per cent in 2000–1 (Banco de España 2002). This notable reliance on debt is explained by strong ownership ties with industrial banks as well as the underdevelopment of the Spanish stock market. Leverage ratios are higher for large firms (250 employees or more) than for small firms. However, the dependence on banks decreased in the 1990s. The proportion of bank debt as a percentage of total debt fell from over 35 per cent in 1991 to just below 22 per cent in 2000, as shown in Table 8.1. A comparative analysis of bank debt as a percentage of total debt over time shows that Spanish firms' reliance on bank debt is considerably higher than German firms (who also traditionally enjoyed closed ties with industrial banks). It is, however, considerably lower than in Italy where there is a large network of small regional banks providing finance to small and medium firms. Finally, most of the debt in Spanish manufacturing firms tends to be short-term, a pattern which occurs among firms in other European economies, such as France and Germany (Banco de España 2002: 121). There is little empirical evidence on the consequences of high debt leverages for labour and management behaviour. The suggestion which will be considered here is that the fact that lenders (banks) tended to own

Table 8.1. *Bank debt as a percentage of total debt (various countries)*

Country	1991	1995	2000
Spain	35.6	29.7	21.9
France	20.1	14.8	14.8
Germany	22.3	19.0	14.1
Italy	38.1	33.9	32.5
Japan	37.1	40.8	37.8
Portugal	37.6	31.1	33.4
United States	20.4	19.4	21.8

Source: Banco de España (2002: 131).

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shares in the firms to which they lent money meant that company managers were able to pursue long-term strategies and did not have to seek short-term efficiencies. 'Patient capital' therefore resulted in few pressures to restructure labour management to improve productivity, and facilitated employment security.

The presence of institutional investors (insurance companies, investment companies, pension funds, and other forms of institutional savings funds) in Spanish financial markets in the early 1990s was relatively small compared to other OECD countries. For instance, the share of institutional investors' assets was 21.9 per cent of GDP compared with 34 per cent in Germany, 61.9 per cent in France, 127.2 in the United States, and 131.3 per cent in the United Kingdom (OECD 2001*b*: 46). By the end of the 1990s, the share of institutional investors in the Spanish financial system had multiplied by three, and had caught up with other Continental European countries. This increase in the importance of institutional investment is explained by the entrance of foreign capital, a growing concern to supplement public pensions with private provision, and the transfer of the state's public deficit to household savings.

The Spanish stock market has historically been small, underdeveloped, and geographically segmented into four locations (Madrid, Barcelona, Bilbao, and Valencia), with the Bolsa de Madrid being the largest. During the 1990s, the stock market matured in terms of market capitalization, securitization, and the modernization of administrative procedures. Privatization, the Securities Market Law reform of 1998, and new regulations on takeover bids stimulated activity on the Spanish stock market and helped to develop a small investor culture. In addition, according to the OECD's 2003 *Financial Market Trends* (2003*b*), the growing reliance on private savings for retirement income explains part of the increasing consolidation and integration of European stock markets over time (Table 8.2).

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Viewed comparatively, market capitalization and the number of firms traded in the Spanish stock market have grown tremendously in the last few years and, although they remain well below that of the Anglo-Saxon markets, there is certainly a trend towards Anglo-Saxon sources of finance for companies (Table 8.3).

The most important reform in recent years has been the consolidation in 2001 of the four different Spanish stock markets and the financial societies within these stock markets into a single holding company with responsibility for trading, clearing, and settlement—the *Bolsas y Mercados Españoles* (BME). It is expected that this consolidation will

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Table 8.2. *Market capitalization in selected OECD countries (as percentage of GDP)*

Country	1988	1990	1993	1997	2001
Australia	50.4	35.1	67.5	71.0	101.5
France	25.0	25.9	35.7	48.0	89.7
Germany	18.3	21.0	23.7	39.1	58.1
Italy	16.1	13.5	13.7	29.5	48.4
Japan	131.2	95.6	68.6	51.4	54.4
The Netherlands	47.3	40.7	55.9	124.4	120.5
Norway	14.6	22.6	23.6	42.9	41.6
Portugal	14.0	12.9	14.4	36.6	42.2
Spain	25.5	21.8	23.9	51.7	80.5
Sweden	53.1	41.1	55.8	114.2	110.8
United Kingdom	92.6	85.8	119.5	150.3	155.7
United States	55.2	53.2	78.0	137.0	137.2

Source: World Bank (2003).

Table 8.3. *Number of listed domestic companies in selected OECD countries*

Country	1988	1990	1993	1997	2001
Australia	1,380	1,089	1,070	1,159	1,334
France	646	578	472	683	791
Germany	609	413	426	700	988
Italy	211	220	210	239	288
Japan	1,967	2,071	2,155	2,387	2,471
The Netherlands	232	260	245	201	180
Portugal	171	181	183	148	97
Spain	368	427	376	384	1,458
Sweden	142	258	205	245	285
United Kingdom	2,054	1,701	1,646	2,157	1,923
United States	6,680	6,599	7,246	8,851	6,355

Source: World Bank (2003).

attract more financial resources and ensure more efficient management, in addition to the benefits from economies of scale. Two other markets within the Spanish stock market are a special market for Latin American companies (*Latibex*) created in 1999 and a new market (*Nuevo Mercado*) for 'new economy companies created in 2000 along the lines of the *Noveau Marché* and the erstwhile *Neuer Market*. However, the Spanish new market is very small with only seventeen companies in it by 2002.

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Compared with most OECD countries, venture capital investments in Spain are underdeveloped. The immaturity of venture capital investments in Spain has long-term effects on growth and is closely related to the low levels of R&D investments at firm level. In 2000, there were only eighty-five registered venture capital entities (OECD 2001*a*: 92). Risk-averse entrepreneurs, few management buyouts or industrial spin-offs, little interest in IPOs, and financial markets which are generally oriented towards large firms contribute to this underdevelopment. To counter this, since 1999, the Spanish government has made efforts to boost venture capital investments with fiscal incentives. For example, the New Financial Law of 2002 extends tax concessions to venture capital investments even after they have been partially sold in the stock market (OECD 2003*a*: 80).

Traditionally, the market for corporate control among Spanish firms was practically non-existent because of high ownership concentration of quoted firms and poor minority shareholder rights. For instance, in 1997 nearly half of Spanish quoted-firms (representing 20.6 per cent of the capitalization of the stock market) were owned by a majority shareholder. This made it impossible for investors to bring about changes in corporate control. However, takeover bids have increased, especially by value, since the mid-1990s. As shown in Table 8.4, takeover bids reached a peak in 2001. After 2001, as elsewhere, takeovers became too expensive because of declining equity prices. This is confirmed by the fact that nine out of the nineteen authorized tender offers in 2001 were made by European groups, whereas in 2002 just three of the seventeen offers were by foreign firms. The relatively low number of takeovers indicates a weak market for corporate control, particularly if we take into account that the single largest takeover bid in 2002 (that of Aceralia for Arcelor) accounted for nearly 50 per cent of the total takeover value in the period (CNMV 2003: 65).

Table 8.4. *Spanish tender offers*

Tender offers	1997	1998	1999	2000	2001	2002
Number authorized in year	14	18	13	16	19	17
Value of authorized offers[a,b]	648	4,683	711	3,059	7,685	5,589
Number filed in year	13	18	13	14	18	17
Value of filed offers[a,b]	575	4,411	601	2,606	4,468	4,318

[a] Millions of euros.
[b] Not including withdrawn offers.
Source: CNMV (2002, 2003).

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In early 2003, a Takeover Law was enacted with the primary objective of protecting minority shareholders from expropriation by majority shareholders. The rationale for this legislation lies in the reactions to takeovers in the construction and real estate sector where huge premiums had been secured by majority shareholders at the expense of minority shareholders. However, the traditional interventionist role of the Spanish state has not completely disappeared. For instance, former state-owned firms such as Telefónica, Repsol and Endesa are protected from the implications of the new legislation by the presence of a 'golden share', held by the government until 2008 to protect the national strategic interest. This is a good illustration of Schmidt's (2003) argument that 'state-enhanced' activity is replacing fully fledged 'state-led' activity.

8.3.4. *Ownership structure of Spanish firms*

Ownership structure is one of the main dimensions of corporate governance. It is widely seen to be determined by other country-level corporate governance characteristics such as the development of the stock market and the nature of state intervention and regulation (La Porta *et al*. 1998). Ownership type and concentration are the two key dimensions of ownership structure. In Spain, details of owner identity and ownership share are reported in an annual census (Empresas de la Central de Balances) of all Spanish companies conducted by the Banco de España. Table 8.5 shows the distribution of ownership type in the last decade.

Table 8.5 shows that in the early 2000s the majority of Spanish firms are owned by domestic capital, that is, domestic firms, private

Table 8.5. *Ownership structure of Spanish firms 1990–2001 (percentage of ownership)*

Owner type	1990	1993	1997	2001
State[a]	33.7	33.4	33.5	24.8
Financial institutions	5	4.3	5.3	4.9
Domestic firms	18.8	28.8	26.8	45.1
Other domestic owners	27.6	17.6	19.6	14.4
Foreign capital	14.9	15.9	14.8	10.8
Total	100	100	100	100

[a] Including ownership by public administrative authorities and by the state-owned holding company SEPI.

Source: Banco de España (2002).

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individuals, and the state. Three main characteristics of the current ownership structure of Spanish companies are to be noted. First, state ownership continues to be predominant, despite the massive privatization programme initiated since 1996. Although state ownership has fallen since the early 1990s, the state continues to have majority ownership in a still significant proportion of large Spanish firms. Second, there has been a steady increase in the proportion of ownership held by domestic firms, suggesting a further strengthening of business groups or holdings by former state-owned firms and industrial banks. Third, the percentage of foreign capital ownership (in the mid teens throughout the 1990s) is starting to decrease.

Firms quoted in the Spanish stock market show a somewhat different ownership structure, mainly due to the increasing consolidation of the Spanish stock market during the 1990s. As is shown in Table 8.6, in 1996 the primary shareholders were foreign institutional investors (28 per cent), closely followed by individuals and family groups (24 per cent).

The high percentage of foreign ownership is mainly due to the openness of the economy after 1986. A comparison with other OECD countries highlights a relatively high percentage of bank ownership. Domestic institutional investors own a relatively low proportion of domestic listed firms. Ownership trends over time are shown in Table 8.7.

Four recent developments stand out. First, the proportion of equity (by value) held by the state has virtually disappeared. It has fallen from 16.6 per cent in 1992 to 0.21 per cent in 2000. Second, there has been a corresponding dramatic increase in ownership by nonfinancial firms, including by privatized ones such as the Spanish flagship

Table 8.6. *Ownership of listed companies in 1996: various countries (percentage of ownership)*

Investor type	Spain	Germany	France	US	UK
Institutional investors (domestic)	7	20	20	41	67
Banks	14	10	10	6	1
Institutional investors (foreign)	28	9	25	5	9
State	11	4	3	0	1
Individuals	24	15	23	49	21
Non-financial firms	7	42	19	0	1
Other	10	0	0	0	0
Total	100	100	100	100	100

[a] Foreign non-institutional ownership.

Source: Eguidazu (1999: 250–251); OECD (1998).

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Table 8.7. *Significant shareholdings in listed Spanish firms (percentages of firm ownership)*

Owner type	1992	1996	2000
Banks	15.56	14.06	7.29
Insurance firms	3.37	2.20	2.29
Institutional investors (domestic)	1.65	5.02	4.77
State	16.64	10.87	0.21
Non-financial firms	7.72	6.90	20.26
Individuals	24.44	23.59	30.52
Foreign	30.61	37.36	34.67
Total	100	100	100

Source: World Federation of Exchanges (2002); CIA (2002).

telecommunications company (Telefónica). Third, there has been an increase in the proportion of total equity held by private households, from 24 to 30 per cent. This is a higher level of individual ownership than in other European economies (25, 16, 15.6, 13.1, and 7.5 per cent in Milan, London, Frankfurt, Stockholm, and Paris, respectively). Four, the proportion of equity held by foreign capital has been more or less stable over the last 10 years at around 35 per cent. These four trends are characteristic of liberal market economies and hence might translate into demands for higher shareholder value and accountability from managers and chief executives. However, the shifts in ownership type over the last ten years have not been accompanied by ownership dispersion. High ownership concentration of Spanish listed firms persists, with 49 per cent of quoted firms in 1997 having a single majority owner (Cuervo-Cazurra 1999).

In sum, we can observe changing patterns towards a new hybrid system of corporate governance. In this system, the state has retreated from its earlier direct and highly interventionist role and instead has attempted to enhance actions taken by other actors. Spanish firms are attempting to catch up with those in more developed countries by incorporating new institutions promoted by legislation and by developing dormant ones such as the stock market. However, other characteristics of Latin corporate governance systems, such as ownership concentration and the leading role of banks, appear to persist.

8.4. The System of Employment Relations

The main heritage of Francoist industrial relations was a paternalistic orientation of management and the state towards employees. This was

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reflected organizationally in a single 'vertical' union, a state-controlled syndicalist organization uniting employers and employees in a single body (Unión Sindical Obreara). During the Franco era democratic unions were declared illegal, strikes and collective bargaining were outlawed (until 1958), and the Ministry of Labour governed industrial relations by regulations (*ordenanzas labourales*) (Preston 1976; Maravall 1978; Linz 1981; Fishman 1990; Bermeo 1994). During the political transition period (1975–8), unions functioned as moderate and constructive social agents. Following the signing of the Pactos de la Moncloa in 1977, unions became partners in a large number of social pacts. Thus, labour tried to be accommodating through political compromise and concertation. There are conflicting interpretations in the academic literature on the effectiveness of the unions' strategy. For instance, Miguélez and Prieto (1991) claim that industrial relations in Spain were the poor relations of the political transition in that insufficient changes were demanded by unions of political leaders; whereas Hamann argues that 'the lack of an institutional legacy of democratic unions and the relatively high degree of institutional fluidity, left unions much leeway to adjust quickly to a rapidly changing political environment' (1998: 427). The economic restructuring of the 1980s provided another window of opportunity for deregulation and decentralization of both bargaining and the production process.

The demographic transformations during the democratic period (post-1975) led to changes in labour market structure. As in other industrializing countries, the principal demographic shift was a significant decrease in employment in the agricultural sector and an increase in the service sector. In addition, after the Franco regime, Spanish public administration was extensively reformed, with the creation of autonomous regions (*autonomías*), new ministries, and an expansion of welfare provision. As a result, the share of public administration employment as a proportion of total employment grew by more than 50 per cent between 1976 and 1994. As shown in Table 8.8, employment in the public sector has continued to grow, despite the privatization of state-owned firms.

The main transformations in the Spanish employment system are mostly explained by the rigidity of the labour market. A particularly important feature has been the expensive and lengthy dismissal procedure instituted during the Franco regime and still persisting today. This inhibits job creation and helps to explain high levels of unemployment since the 1980s. As Table 8.9 shows, unemployment rose from 16 per cent at the beginning of the 1980s to 22 per cent in 1985.

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Table 8.8. *Employment by sector 1980–2000 (thousands)*

Type	1980	1990	2000
Self-employed	2,065	2,496	1,867
Employed	7,918	9,240	12,285
Public sector	1,510	2,106	2,443
Private sector	5,608	7,167	9,842

Source: Instituto Nacional de Estadística (2003).

Table 8.9. *Spanish employment activity and unemployment rates (percentages)*

Year	Activity rate (%)	Unemployment rate (%)		
		Total	Male	Female
1980	48.7	11.5	11.0	12.9
1990	49.4	16.3	12.0	24.2
1995	49.0	22.9	18.1	30.5
2000	51.3	13.9	9.6	20.5
2001	52.9	10.9	7.5	15.2

Notes: The unemployed are defined as those who are without work and who are actively looking for employment (as defined by registration with the INEM).

Source: Instituto Nacional de Estadística (2003).

In the mid-1990s unemployment was nearly double the European Community average. At 11 per cent in late 2002 it continued to be one of the highest in the OECD.

Moreover, with the emergence of foreign pressures for greater flexibility from the 1980s, the Spanish employment system evolved towards an extreme labour market dualism with numerical flexibility being the key divide between labour market segments. This duality is critical because it influences the entire system of management–labour relations. The Spanish labour market is divided into a primary stable sector composed of 'insider' workers with permanent contracts, rising wages, and social benefits (about two-thirds of the labour force) and a secondary unstable segment composed mainly of workers with temporary contracts and precarious job conditions (mostly young employees and women). According to Fernández Macías (2003: 207), the extreme division of the labour market is to be seen in the context of (1) a strong labour movement which can afford some protection to insiders and (2) the strong impact of international economic crisis and an extremely high level of unemployment.

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The rigid labour market has persisted since the Franco era, mainly due to the power of the labour movement. By the late 1980s, this pattern of labour market regulation could no longer be maintained and a parallel 'secondary' labour market emerged. In fact, the structure may be more complicated than this. Pérez-Díaz and Rodríguez (1995) describe the Spanish labour market as a four-tier system, composed of a protected core, temporary workers, workers in the underground economy, and unemployed workers dependent on public subsidies. They argue that the four segments are related as follows:

AQ: Please check the accent in Rodrigue?.

> the relative rigidity of the rules concerning job stability and wages in the primary labour market are to a significant extent responsible for the scope and characteristics of the other three arenas: low competencies and low wages for temporary and underground workers, and subsidies and benefits for ex-employees and the unemployed. (1995: 190)

The approach to this labour market structure has been that state policy has focused on supporting the secondary tiers by generous benefits rather than promoting employability by training and active labour market policies. As a result, there has been a lack of connection between skills and job stability and between compensation and productivity. Furthermore, rigid forms of work organization have persisted and overall there has been little innovation in work practices. In conclusion, there is a contradiction between those pressures from the corporate governance system for reforms to labour management within the firm and those emanating from government labour market policy and favouring stability.

The remainder of this section discusses several key elements of Spanish labour–management relations and their role within the corporate governance equation. In particular, it examines (1) traditional industrial relations issues, such as collective bargaining agreements, (2) work relations issues, such as skill formation, (3) employment relations issues, such as the spread of several Human Resource Management (HRM) practices, and (4) the influence of foreign subsidiaries on Spanish work practices.

8.4.1. *Industrial relations: collective bargaining and employee voice*

Spain has a well developed and relatively centralized system of collective bargaining. Three key characteristics of Spanish collective bargaining should be noted.

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First, as in Germany, collective bargaining agreements are subject to the statutory *erga omnes* principle whereby all workers benefit from agreements within their scope (national, industry, or firm) regardless of their union affiliation. As a consequence, collective bargaining de facto covers about 80 per cent of the workforce (Hamann and Martínez Lucio 2003: 66). Second, the majority of the workforce are covered by sectoral agreements reached at provincial level (Miguélez and Rebollo 1999: 333–334). Only 11 per cent of firms (mainly large firms and state-owned firms) have enterprise agreements. Sectoral bargaining is the most important level of bargaining for establishing minimum working conditions in the workplace and for pay determination. This is also vital for workers in small and medium firms with no company-level agreement or employee representation. Third, the main representative body of workers is the work councils (*comité de empresa*). This can be constituted in workplaces with fifty or more employees irrespective of trade union membership. As pointed out by Bayo-Moriones and Huerta-Arribas (2002: 710), 'although union density is very low, unions usually enjoy a high degree of influence since work councils exist in a great majority of Spanish companies'. Since all employees are entitled to vote in work council elections, union candidacies ensure that union involvement can be found in around 80 per cent of firms (Martínez Lucio 1998: 436). García-Serrano and Malo (2003) demonstrate the importance of work councils and show that establishments with firm/plant-level agreements, usually highly associated with the strong presence of organized labour in work councils, have a stronger influence on low worker mobility than establishments with higher-level agreements.

AQ: Please check the year in Garcia-Serrano and Malo (2003).

In this way, wage bargaining in Spain mainly takes the form of collective bargaining at the provincial sectoral level agreements, which might be categorized as intermediate levels of centralization in wage bargaining (Royo 2000). This differs from other Latin countries such as France where collective bargaining is increasingly taking place at the firm level, thereby enabling and supporting radical innovation in product markets (Hancké 2002). It has been argued that the Spanish sectoral collective bargaining results in a 'poverty' of bargaining (Martínez Lucio 1998), because of a narrow bargaining agenda (wages), ineffective coordination between the levels of bargaining, and fragmentation of industrial sectors into a multiplicity of sub-sectors. The sectoral level of wage bargaining has also been criticized for being insufficiently flexible 'to allow for wage differentials to reflect firm-level productivity differentials' (OECD 2001*a*: 64). Moreover, the most

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recent OECD report on Spain (2003) claims that labour costs are becoming a major obstacle to productivity growth and there is therefore a need to reforms the wage bargaining system.

The rise in unemployment in Spain led to shifts in union bargaining agendas from a focus on work organization towards demands for employment security. It is also argued that unemployment, coupled with sectoral shifts in employment, have brought about a decline in trade union membership (a fall of about 15 percentage points in the 1990s). This decline of unionization is also a result of a two opposing trends: the precarious labour market and the increased use of HRM practices to promote participation in the workplace. However, scholars of Spanish industrial relations agree that the decrease in union membership does not tell the full story of union representation or power because of the so-called 'dual system of worker representation', as regulated by legislation and entitling all workers to be covered by collective bargaining agreements. As in France, union participation in collective bargaining agreements is decided by representation in elections to workers' committee elections. Yet, unlike France, Spanish law defines a 'representative' trade union as one which has at least 10 per cent of the employee delegates and work council members within the area covered by the agreement (EIRR 1992: 120). This institutional arrangement consolidates the position of the two major union confederations (Unión General de Trabajadores, UGT and Comisiones Obreras, CC.OO.) as the dominant bargaining agents and in effect establishes a national 'contest' between them to obtain the maximum votes. As Martínez Lucio (1998: 436) points out, union influence depends on electoral success as much as on membership figures.

The employers' association (Confederación Española de Organizaciones Empresariales, CEOE) has existed as a social partner since the transition times. However, from the late 1980s, the growing recession and the increasingly conflictual state of industrial relations led employers' organizations to become increasingly antagonistic. As part of this, they developed their own political agenda, of which key items were calls for greater labour market flexibility, firm-level collective bargaining, and a reduction in employers' social security contributions. Employer associations saw no further mileage in containing union and government demands through concertation and support of potential expansionist economic policies. Instead they focused on corporate restructuring, flexibility, and international competitiveness (López Novo 1991; Martínez Lucio 1995, 1998).

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Finally, a key feature of Spanish industrial relations is the high level of industrial conflict. Spain has the highest strike rate among EU countries as a result of 'the limited strategic options available to Spanish trade unions and Spanish employer's ambivalence toward industrial relations institutions' (Rigby and Marco Aledo 2001). The most significant labour mobilizations recently were jointly led by the two union confederations (UGT and CC.OO.): these were one-day 'general strikes' in 1988 and in 2002 to oppose government decree—laws aimed at reforming employment relations by reinforcing the dual labour market.

8.4.2. *Numerical flexibility, temporal contracts, and skill formation*

This section argues that increasing labour market duality and fragmentation leaves little motivation for investment in firm-specific human capital. Employees in the temporary labour market do not need advanced skills, while those in the core labour market have little incentive to undertake professional retraining because of job protection.

The labour market helps to define the nature of employment expectations and practices, training and development, mobility patterns, and internal versus external careers. Labour market structures 'are closely connected to types of national education and training systems, skill definitions and control institutions, union structures and policies, and the legal framework governing labour relations, as well as the diffuse norms concerning authority, loyalty, and identity' (Whitley 1999: 26). Stakeholder capitalism views competitive advantage as arising from the engagement of social partners and other stakeholders in the firm's strategies and practices. By contrast, shareholder capitalism assumes a flexible labour market where employees are hired and fired at will (Hall and Soskice 2001). According to the latter model, continental European labour markets are seen as 'sclerotic' and 'fossilized', especially in contrast to the flexible and dynamic labour markets characteristic of the United States. Esping-Andersen and Regini (2000*a*), however, see this view as too simplistic. They argue instead that labour market 'flexibility' in Europe is complicated and cannot be reduced to a simple dichotomy between flexibility and rigidity. This is applied here to the Spanish experience.

Traditionally, Spain had a highly regulated labour market particularly in terms of contracting issues such as hiring and firing. In the 1980s, many employers called for greater flexibility and deregulation,

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and this resulted in several reforms (Toharia and Malo 2000). The most notable is the 1984 labour reform, known as 'flexibility at the margin'. This allows the creation of flexible contracts, while leaving existing contracts untouched, and it marked the beginning of the dual labour market. Hence, since the early 1980s, fifteen different types of atypical employment contracts have been introduced (Martínez Lucio 1998: 450), with forms of temporary employment being the most widespread. Although the rationale behind the introduction of temporary contracts was to encourage the creation of permanent post, in practice transfers from temporary to permanent contracts are rare.

In 1994, measures to promote non-precarious employment were introduced by a decree which sought (unsuccessfully) to limit the use of traditional temporary contracts (the so-called *contratos basura* or trash contracts) by creating yet another kind of temporary contract (apprenticeships) and to increase incentives for part-time work. Neither of these two initiatives were successful. Three years later, in 1997, under government pressure, employers and unions signed a national agreement 'clarifying the grounds for dismissal and in effect making it easier for companies at risk of losses to declare redundancies on economic grounds' (Martínez Lucio 1998: 452). Finally, in March 2001, taking advantage of the conservative parliament majority, the government enacted another labour reform by decree without the support of either employers or trade unions. This reform was aimed at creating more and better employment contracts by promoting indefinite contracts and encouraging female participation in the labour market.

In sum, Spain relied on numerical flexibility as its key policy for job creation and job maintenance, by making temporary contracting the main policy instrument to persuade employers to hire workers. The 'regulation by de-regulation' of the labour market is leading to high levels of job insecurity and lack of commitment by both employers and employees. A study by Amuedo-Dorantes (2000) shows that temporary employment is non-transitional and involuntary. Esping-Andersen and Regini (2000*b*) note that, as in Germany and France, the 'controlled experiment' of labour market deregulation is accompanied by other, sometimes contradictory, measures of re-regulation. Their explanation is that de-regulation seeks to insert a degree of flexibility in some segments of the labour market, but on the whole not in a way that questions the basic framework and rules of regulation.

Table 8.10 shows that Spain has the highest percentage of temporary employees in the EU. In 2000, despite governmental efforts to

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Table 8.10. *Temporary work in Western Europe 1983–94 (percentage of the workforce in temporary employment)*[a]

Country	1983	1987	1989	1991	1994
France	3.3	7.1	8.5	10.2	11.0
Germany	9.7	11.6	11.0	9.5	10.3
Italy	6.6	5.4	6.3	5.4	7.3
The Netherlands	5.8	9.4	8.5	7.7	10.9
Portugal	14.4	16.9	18.7	16.5	9.4
Spain	15.6	15.6	26.6	32.3	33.7
Sweden	12.0	—	—	—	13.5
United Kingdom	5.5	6.3	5.4	5.3	6.5

[a]National definitions of temporary employment are used. These vary from country to country. See OECD Employment Outlook (various years) for details.

Source: Waddington and Hoffman (2000: 39).

minimize this kind of contract, temporary contracts accounted for 31.6 per cent of all contracts, almost double the EU average (17 per cent) (*El País* 8 March 2001). Conversely, part-time employment is much lower than the European average (Waddington and Hoffmann 2000: 38). This is mainly explained by the lower level of female participation in the labour market in Spain.

The use of flexible labour contracts by many firms means that, as Blyton and Martinez Lucio point out, labour is not seen as 'a resource to be qualitatively developed in order to provide the economy with a competitive edge' (1995: 278). One of the main problems with labour market segmentation is that it fosters the growth of unskilled work (Pérez-Díaz and Rodríguez 1995), which in turn may encourage employment growth in less productive sectors. New personnel management and work organization designs are scarce and only permanent workers tend to benefit from them. However, smaller employers have also been looking to HRM practices 'as a way of pre-empting strong and independent labour representation' (Martínez Lucio 1999: 447).

Spanish firms invest little in R&D and in information technology. Investments are less than one per cent of GDP in R&D compared with an EU average of 1.9 per cent. Only 1.9 per cent of GDP is invested in information technology compared with an EU average of 3.2 per cent (*El País* 15 June 2003). The fact that for several decades Spain's main competitive advantage was low labour costs helps to explain these discrepancies. There were few incentives to develop the necessary institutions to create highly skilled employees. Proof of this is the low prestige of vocational training compared with countries such as

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Germany. More recently, efforts to solve the rigidity of the labour market focused on passive labour market policies (subsidies to the unemployed and to support new permanent contracts) rather than active policies, such as the provision of training for unemployed workers (OECD 2003*a*: 59).

Another institutional constraint in the vocational training area has been the inefficiency of state interventionism. Besides the formal vocational education system for young employees, vocational training was subsidized through the state and conducted under the auspices of INEM (National Employment Institute). It is remarkable that until 1993, well into the economic crises, INEM was the mediator between employees and employer, and thus controlled the entire hiring market. All new hiring contracts had to be administrated by INEM, otherwise they were considered illegal. Rodríguez-Piñero Royo (2001) shows how INEM's activities were disconnected from firms' labour requirements and also its vocational training programmes were eroded during the 1980s and 1990s.

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In Spain, training infrastructure, as well as a culture of training, are underdeveloped compared with other European countries (Martín Artiles 1999). There is no statutory requirement on employers to provide training and the few existing training schemes tend to be rigid and bureaucratic (Fina 1991). In particular, there is very little on-the-job training. Firm level training is subsidized by public funds, although their efficacy has been questioned and continues to be the subject of reform. Investment in training is highly selective, and much of it is directed exclusively to top management teams and permanent workers.

AQ: Fina 1991 is not listed. Please check.

8.4.3. *The development of HRM practices*

Work organization in Spanish firms has also traditionally been rigid as a result of state policy. The Ordenanzas Labourales in the Franco years and then the Workers' Statute of 1980 (in place until the early 1990s) severely restricted managerial capacities to innovate in work organization (Pérez-Díaz and Rodríguez 1995). The introduction of functional flexibility and HRM practices has been slow and limited, due in part to the legal and administrative constraints for change (Ferner and Quintanilla 2002). The role of personnel management consisted mainly in applying the extensive regulations. Hence, HRM was perceived as technical, bureaucratic, and legalistic.

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In the post-Franco years, the main goal of personnel management was to reduce labour conflict and manage the wide range of contractual agreements, rather than to develop human capital. The personnel function was generally underdeveloped and perceived as an administrative function as opposed to a strategic management function. During the years of high unemployment, personnel managers' activities were concentrated on the management of redundancies within the context of a rigid labour market.

Thus, the introduction of HRM practices and more flexible working practices in Spanish firms has lagged behind other European countries (García Echevarría and Val Nuñez 1996). However, the personnel function in Spanish firms has undergone a steady process of modernization triggered by the increasing flexibility in the labour market, EU social policy, the growth in competition, and the emergence of new organizational principles. In recent years, the use of team briefings, team working, quality circles, and profit-sharing schemes has burgeoned, as managements have attempted to promote greater levels of commitment among workers to the enterprise. Flórez-Saborido, González-Rendón, and Alcaide-Castro (1996) also refer to the importance of foreign consulting firms and large multinationals in implanting certain HR practices such as job rotations and appraisal feedback. Gradually, the activities of HR managers are shifting from the management of redundancy towards the introduction of new systems of labour management which contribute to labour market flexibility, vocational training, and flexible compensation.

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The development of flexible compensation is an interesting case in point. Until recently, the rigidity of the labour market and the low level of competition for managerial staff led to low management turnover. Geographical and organizational mobility was low. Managerial careers tended to develop within a given firm and promotions were given on the basis of seniority—hence the lack of incentive to leave the firm. Moreover, wages were seldom linked to performance. In the 1990s, increasing competition amongst Spanish firms and the emergence of pressures from emergent shareholder value capitalism, required greater accountability of managers and more emphasis on short-term measures of performance. These led to the introduction of new compensation strategies, some in the form of fringe benefits and some tied to stock market performance such as bonuses and stock options for senior management (Ortín and Salas Fumás 1997). In total 80 per cent of Spanish blue chip firms (Ibex35)

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now offer stock options programmes to their top managers (*El País* 15 June 2003).

The initial introduction of fringe benefits to complement pay was also motivated by fiscal advantages for the firm and the employee (Flórez-Saborido, González-Rendón and Alcaide-Castro 1995). A recent report by Mercer Human Resource Consulting (2002) indicates that the fringe benefits most used are the following (in order of use): company car, loans, pension plans, and life and accident insurance. Despite all the publicity about stock options, the most widely used form of performance-related pay is bonuses. According to Watson Wyatt (2002), contingent pay among top managers is distributed as follows: 83 per cent of managers are offered bonuses, 37 per cent stock options, 20 per cent preferential shares, and 13 per cent profit sharing. Since the equity market in Spain is still narrow and underdeveloped, the symbolic effect of stock options is perhaps more important than their practical benefits.

There are other ways in which contingent pay in the Spanish governance system does not fully compare with the situation in the Anglo-Saxon countries. For instance, as elsewhere in Europe, senior management compensation packages are not fully disclosed. Disclosure is limited to total remuneration of the top management team, with the constituent elements not being individually itemized. In addition, unlike most Anglo-Saxon companies, where compensation committees of outside directors are established to design remuneration schemes, in Spain these committees are embryonic and shadowy institutions. It is rarely clear who is on them, or indeed whether they exist at all. Finally, Romero and Valle Cabrera's (2001) survey of 99 Spanish manufacturing firms, with more than 500 employees in the mid-1990s, found that Spanish compensation practices follow different models than those in American companies. They argue that 'Spanish companies do not design true strategies of compensation; instead compensation practices may exist that are common to all companies irrespective of the strategy followed, of the sector to which they belong, or their size' (Romero and Valle Cabrera 2001: 234). They conclude that contingent pay in Spain might simply be a search for legitimacy as a result of pressures exerted by institutional shareholders.

With the exception of managers, contingent compensation linked to firm productivity or employee skills is uncommon. There are very few employee share ownership plans, except those in the form of small cooperative arrangements and the well-known Mondragón cooperatives (Whyte 1999).

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8.4.4. *Foreign direct investment and multinational corporations in Spain*

Another important factor influencing change in work organization and the introduction of HRM practices is the presence of foreign capital in the form of subsidiaries. Since the early 1960s, foreign direct investment was driven by Spain's main competitive advantage, viz. cheap labour. This meant that investment flowed to high-volume and to medium/low-skill operations such as car assembly (Blyton and Martínez Lucio 1995: 276), and was partly motivated by a concern to gain access to the European market. Spanish unions did not actively oppose these investments as they did not want to jeopardize multinationals' job creation and technology transfer activities, although they were suspicious of multinationals' motives for investing in a protected market with a dictatorial government. In effect, union views shifted to embrace multinationals as partners and as employers who could be 'more sensible, progressive, and democratic than the average entrepreneur' (Guillén 2000: 437).

There seems to be a tension between the need for innovation in Spanish work organization and the search for cheap labour. Some case studies consider whether the entry of foreign multinational subsidiaries in Spain had any spillover in the diffusion of HRM practices in Spanish work organization. Most studies, particularly within the automobile industry, seem to agree that the development of innovative work organization practices has been patchy, and such practices are intertwined with traditional and paternalistic work practices. Pérez-Díaz and Rodríguez state that '(foreign) automakers have been committed to introducing a variety of changes in work organization which most Spanish observers label as "Toyotism"' (1995: 181). In a similar vein, Charron (1998) shows how production organization in one of oldest foreign automobile firms in Spain (FASA Renault) takes a post-Fordist form: 'its production was diversified with low volumes for each model, produced on relatively flexible assembly lines, using skilled labour which enjoyed significant job security' (p. 254). Despite some significant transplant practices, there is also the case of Volkswagen's SEAT plant in Martorell introduced labour-intensive methods such as three shift working rather than highly automated production methods (Smith 1998). Pérez-Díaz and Rodríguez also note that 'there is little evidence that innovations such as quality circles, just-in-time procedures, and group work have become wide-spread' (1995: 181).

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As Martínez Lucio has noted, although multinational firms have been in the forefront of importing HRM practices such as quality circles and multi-skilling to enhance worker involvement, 'subsidiaries' plans are not always high value-added operations and their management structures are often subservient to the dictats of international headquarters (1998: 448). In conclusion, multinational subsidiaries' labour and management relations can be viewed as a hybrid between the parent firm's resources and strategies, company-level systems, and the problems and opportunities specific to the Spanish institutional context.

8.5. **Conclusion**

The Spanish case shows that change does not have to be radical or involve a transformation of the entire corporate governance system to have major effects on a national economy and significant implications for labour management. Instead institutions and practices can change over time and be transplanted in a process of hybridization (Boyer *et al*. 1999; Aguilera and Jackson 2003). Spain has moved from a 'state-led' to 'state-enhanced' corporate governance and labour relations system which is increasingly mixed in form.

In terms of corporate governance, Spain was traditionally characterized by high state ownership, strong state intervention, and an important role for banks. From these origins, the country has followed its own particular path to a new governance model shaped by its own traditions. It has moved towards a hybrid system, adopting practices from different countries, but in particular from the Anglo-Saxon model. As a result, there exists a tension between the new role of the state as a strong regulator, the uncommitted role of foreign capital, and the weak participation of labour within the firm alongside its stronger power in shaping sectoral employment systems. As has been shown, the current Spanish corporate governance scene is characterized by a new role for the state as a regulator, newly privatized firms in the hands of core investors (many of them foreign), a higher free float of capital on the stock market, but, still, a small equity market, a very weak market for corporate control, and the somewhat piecemeal introduction of Anglo-Saxon practices, such as increased transparency, accountability, and potentially more efficient boards. Anglo-Saxon style codes of corporate governance practice and stock options for managers have also appeared.

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In the Franco era, the labour market was characterized by extensive state regulation, welfare protection, and paternalistic management, especially in large firms. Since then, of course, trade unions have operated as in other market economies and collective bargaining has developed. These remain significant at the national and sectoral level and play a real part in regulating and constraining employment conditions. Decentralization of collective bargaining has not gone as far in Spain as in France and Italy, but there has been some tendency to use new HRM-type practices to reduce union presence at the workplace. These include team briefings, quality circles, and profit-sharing schemes.

Spain has a strong dual labour market economy, with a core of more secure and well-paid jobs, in larger firms, multinational companies, and state-owned organizations, but with a large peripheral labour force with temporary employment contracts and poor terms and conditions. Recent further changes, in part reflecting growing corporate governance pressures, include a greater ability to lay off workers, some more flexible forms of working, and a small increase in contingent pay. In terms of skill formation, job training for more flexible working remains limited. In part as a result, firms, including the growing number of foreign multinationals, have tended to opt for labour-intensive production methods and functional flexibility is limited.

Thus, as in the other Latin countries, major tensions exist. They exist between, on the one hand, a more marketized financial system, less state ownership and control, and corporate governance arrangements which are evolving in a somewhat Anglo-Saxon direction, and, on the other hand, labour management which is also becoming more flexible but which is still constrained by legal and institutional factors.