

How to overcome the crisis in the labor market

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With more than four million people out of work and a jobless rate hitting 18 percent, is there any hope for the Spanish job market?

A [new white paper](#) by IESE's [José Ramón Pin](#), Lourdes Susaeta and Ángela Gallifa sets out the best human resources practices that allow businesses to manage their staff without losing their focus on future viability. The goal is to facilitate a constructive dialogue among various agents to achieve greater flexibility in the labor market, and to devise measures that will provide security for workers changing jobs.

The report comes at a time when the Spanish labor market is at one of its lowest moments. Though Spanish business leaders have long advocated for greater labor market flexibility, the World Bank still ranks it as one of the world's most rigid, coming 156 out of 178 countries.

In recent years, certain Scandinavian countries and the Netherlands have successfully managed to apply measures to make their labor markets more dynamic, such as enabling more part-time work. The authors advocate similar measures for Spain, where only 12 percent of the workforce is employed part-time, compared with the European average of 20 percent and as much as a third of the workforce in the Netherlands.

The flexicurity philosophy

What's needed is a better balance, providing the flexibility that businesses need, both to create jobs but also to eliminate them, if necessary, without paying too high a price for it. At the moment, many feel that the high cost of dismissing someone in Spain actually

discourages hiring.

But it's not just about giving employers greater leeway to hire and fire, but giving employees more security. Apart from the economic benefits, employees can take advantage of retraining options and job-placement agreements with other companies. If the overall job market were more dynamic, employees would be less loath to change companies over the course of their career. Leaving a job does not condemn them to unemployment, as there would always be the chance of landing another job.

What Spain has done

To see how Spanish companies have dealt with the recession, the authors collected data from 55 companies, of which 40 percent had more than 500 employees. The largest sectors represented were construction, transport, auto manufacturing and technology.

Many said they had taken precautionary measures before the crisis set in. For example, most said they had done a study of their employees' skills to determine if they could be transferred within the company, if necessary.

In spite of this, only 6 percent of the workers whose jobs changed said they had received any training for their new position. This makes little sense, say the authors. Why go to the trouble of leveraging internal skills, yet then provide no follow-up support, if the aim is to remain productive during a downturn?

In terms of geographical mobility, only 1 in 3 companies moved workers to adapt their staff to the needs of the labor market.

Sixty-five percent of companies opted for some restructuring, mainly in the form of changed work hours and/or layoffs. Outplacement - offering workers jobs in other companies - was used only 40 percent of the time.

Eighty-five percent of companies had introduced more robust communications mechanisms to keep staff informed and involved, in order to make clear what measures were being taken and how staff would be affected.

What Spain should do

Though open communication with workers is a good thing, what's really needed, and often glaringly absent, is a general climate of trust, partly because management and unions rarely

meet except when there is a problem.

The authors suggest that management could be more forthcoming with worker committees, and divulge much more information, beyond that which is required by the letter of the law. Perhaps if they did this more often, when it did come time to make tough decisions, some matters could be dispensed with in a far more constructive manner, long before escalating into a full-scale labor dispute.

Regarding worker mobility, companies need to provide career paths that allow people to be retrained and develop multiple skills. On this point, arranging for workers to improve their level of English, for example, would remove one of the barriers that prevent Spanish workers from moving around.

Outplacement should be used as a matter of course rather than as a last resort. If it is only ever offered during cutbacks, workers will naturally opt for severance pay instead. This is bad for the company and the worker, as they fail to take advantage of a situation that could benefit them both.

Countries such as France have regulated this tool: If a company plans to lay off more than 10 people, it has to come up with a plan to find them work elsewhere. This helps to avoid personal traumas and the "survivor effect" that sometimes occurs among remaining staff. Generating a state of fear only discourages people from taking up alternative arrangements, as they focus on the negative aspects (losing their jobs) rather than the positives (they are working).

The authors also make recommendations for lawmakers and government authorities. As effective as flexible work schedules have been proven to be, Spain's laws and collective bargaining agreements do not accommodate such things so easily.

In Germany, an estimated half a million jobs were saved simply by applying a shorter workday in some sectors, aided by state subsidies. Crucially, German workers embraced it as part of their collective bargaining agreements and work cultures. It was applied almost automatically, before a crisis point was reached, with good results. This is a far cry from what happens in Spain.

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