

# Staffing a Spanish Acquisition



Selecting the right people to run a Spanish subsidiary may require the help of an expert. Joaquim Abelló reports

The subject of executive compensation is, of course, uppermost in many people's minds when making acquisitions. When one compares the level of remuneration of Spanish managing directors, it seems at first to be 20 to 40 per cent higher than that corresponding to UK executives. However, this is misleading, as, up until now, most Spanish salaries have not been complemented by significant fringe benefits.

For example, provision for company pension plans, company health insurance or school fees is still very rare. Usually only limited life insurance is available, equivalent to one or two years' salary, and while a company car is becoming more common, the present tax regulations make this benefit much less attractive.

Social security charges and personal income taxation also need to be considered when comparing salaries and costs for the company. The social security cost to the company of an employee in Spain is about 32 per cent, but there is an annual limit of

approximately 9,500 €, applicable to any salary above 30,000 €. Personal taxation is also heavy: an executive with a gross salary of 100,000 € in 2000 will have to pay taxes of 34,700 € before any tax benefits. From 66,000 € the marginal personal tax is 48 per cent, one of the highest rates in Europe.

The relationship of executives with their employers is regulated by Royal Decree 1382/1985, which partially modifies the *Estatuto de los Trabajadores* (workers' regulations). For example, the company and the executive can freely agree in a special 'management contract' on such aspects as annual and public holidays, hours of work, etc.

This contract can also include a non-competitive clause to prevent the executive working for a competitor at the end of the contract for a period of up to two years, but for this to be valid, the contract has also to include an indemnity that could be paid at the end of the contract or on a monthly basis. The contract is considered to be indefinite unless agreed otherwise,

although it is normal to sign contracts for an initial three-year period.

This regulation is specifically based on such aspects as responsibility and loyalty to the company. The executive is considered to be a person of trust, although it is important to distinguish between the case of an executive who is at the same time a shareholder and/or a director of the board, and the executive who is only a manager.

In the first case, that employee's relationship with the firm is closer to that of an 'owner' and in the second case it is exclusively that of an 'executive'. This distinction can affect the employee's situation in relation to the social security scheme, as in the first case he or she would be excluded from any unemployment benefits and be considered as self-employed. The executive contract based on the Royal Decree 1382/1985 also allows the inclusion of a 'test period' longer than the usual six months or less.

Any general manager of a Spanish subsidiary of a foreign

company must speak at least one foreign language, usually English. Often this restricts the choice of candidates as, due to the isolation of the Spanish economy until the late 1970s, few people felt the need or had the opportunity to learn English. This means that people above the age of 50, although more experienced in business are, in general, less fluent in foreign languages.

Spaniards are not usually willing to move from one city to another, even less from one region to another. Generally, Castilians would not consider moving to Catalonia or to the Basque country, because they and their children might have to learn a new local language. Also, the difficulty in selling and buying homes presents an additional obstacle to mobility. Again, these drawbacks either reduce the choice of candidates or have to be compensated for by the offer of incentives in terms of salary, fringe benefits, career opportunities, etc.

Nearly all of the multinational executive search firms are established in Spain, mostly in Madrid and Barcelona. The majority of multinational companies with subsidiaries in Spain, and many national firms, use the services of head-hunters. In general, fees and conditions are similar to those applied in other European countries, and usually depend on the level of the first year's gross salary and the difficulty of the search.

Most executive search firms do not specialise in particular industries or functions, although some, like Ward Howell International, have developed particular experience in the search of executives for cross-border investments.

As an example, one of our clients an UK firm specialising in the production of industrial equipment - acquired a Spanish company in the same sector, which had one into receivership. The company was interested in the acquisition because the Spanish target had a production facility, which would complement the other factories of the group in Europe, and had a significant market share.

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The acquired company had to be reorganised in order to achieve certain strategic objectives, such as organising the sales and distribution of all products manufactured both in Spain and abroad. The organisation to be set up was similar to that of most multinational firms in Spain, particularly in the automotive sector, and involved the almost exclusive production of a few models in the Spanish factory and the sale of both Spanish and imported models in the local market.

Once the organisational structure was agreed upon, we began the search for a production manager, to lead the conversion of the Spanish factory into one of the fundamental production units of the group. This manager had to be a leader with hands-on experience in the production of heavy equipment. A profile was prepared and agreed upon and the search for the suitable candidate was successfully completed in three months.

The next step was to search for a new general manager to reorganise the company and to convert it into a fundamental part of the European distribution network of the group. The person chosen for the job did not come from the same sector but had broad experience in management, including sales and finance, and an ability to negotiate with both head office and the staff.

Since the new general manager took over, Ward Howell International has continued working with the firm to build up a team which includes a purchasing manager and research and development staff.



*Joaquim Abelló is Managing Director of Ward Howell International and of Mercury Mergers, Barcelona*

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## COVER STORY

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