

## "Effects of the Global Political Crisis on Human Resource Management (HRM) in Multinational Companies."

Ummya Salma<sup>1</sup>, Md. Fazlul Huq Khan<sup>2</sup>

<sup>1</sup>Lecturer, Department of Business Administration in Management Studies, Faculty of Business Studies, Bangladesh University of Professionals, Dhaka, Bangladesh.

<sup>2</sup>Deputy Director, Bangladesh Bank (Central Bank of Bangladesh), Dhaka, Bangladesh

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**Abstract:** The recent Geo- Political conflicts are not only destroying nations but also making it hard for organizations to cope with the dynamic averse situation. Global political crisis is directly impacting on globally operated Multinational Companies (MNCs) and their Human Resources. The uncertainty of political crisis itself pushes the HR department of any company off the cliff. In countries with high political uncertainty, HR departments are required to be extra cautious while recruiting and managing one of the most expensive resources of the company, the manpower. This issue has been tried to investigate by using secondary sources of data. Major findings of the paper are: MNCs are facing security risks while managing employees in countries characterized by substantial security risks like Terrorism, poor research about the host location before opening a subsidiary, lack of adequate hardship allowances.

**Keywords:** Human Resource Management, Multinational Company, Terrorism, Global Political Crisis, Legal-Political Systems

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### I. Problem Statement

In every organization, it is expected that all the employees and employer will have a synergy that accelerates the organizations pace in the race of achieving its goals. However, what we see today is not only different but also alarming. The recent Geo- Political conflicts are not only destroying nations but also making it hard for organizations to cope with the dynamic averse situation. Global political crisis is directly impacting on globally operated Multinational Companies (MNCs) and their Human Resources. It is necessary to acknowledge the impacts of this recent man made phenomenon and develop ways to reduce the damage it is causing to the Human Resources of globally operated organizations.

### II. Central Research Question

Managing human resources in different cultures, economies, and legal systems presents some challenges. Political crisis has always been an issue for locally operating companies. The uncertainty of political crisis itself pushes the HR department of any company off the cliff. In countries with high political uncertainty, HR departments are required to be extra cautious while recruiting and managing one of the most expensive resources of the company, the manpower.

In this paper, first I will try to find whether there is any relation between Global Political Crisis and Human Resource Management or not.

Secondly, I will try to find whether global political crisis affect HRM in globally operating MNCs. If yes, then "How?"

### III. Rationale for Choosing the Topic

The people working in an organization are the main operators of the company's failure or success. A well-crafted human resource is not only an asset for a company but also represents the company's norms, values, culture and ethics. Human resources or the people working for the company are one of the major factors when it comes to determine an organization's sustainability in the long and short run.

It isn't hard for any of us to accept the fact that we are living in a world that is more volatile than the chemical properties of Radium. Peace is something we crave for by taking it away from other people. Terrorist group numbers are continuously on the rise. People are uprooting their governments and governments are fighting back to keep the power. These have become a very normal picture of today's world. Political unrest is right now a particle of the air we breathe to keep us alive.

This study is trying to find the relation between the recent political unrest impact on globally operated organizations or MNCs. The findings of this study will help to find the causes of the impacts (if any) and suggest further course of actions to reduce the consequences. The findings will benefit the people who are working on MNCs or are interested to work MNCs/overseas.

#### **IV. Literature Review**

Managing human resources in different cultures, economies, and legal-political systems presents some challenges. However, in many other nations, the legal and political systems are turbulent. Some governments regularly are overthrown by military coups. Others are ruled by dictators and despots who use their power to require international firms to buy goods and services from host-country firms owned or controlled by the rulers or the rulers' families.

In some parts of the world, one-party rule has led to pervasive corruption, while in others there are so many parties that government's change constantly. Also, legal systems vary in character and stability, with business contracts sometimes becoming unenforceable because of internal political factors.

Many organizations especially MNCs find themselves managing employees in countries characterized by substantial security risks. One such risk is terrorism (Suder 2004) that directly and indirectly affects organizations (Czinkota, Knight, Liesch and Steen 2010). Direct effects include the destruction of firms' infrastructure, and the kidnapping or murder of employees, while indirect effects include the loss of customers, interruptions in production and disturbances in supply chains (Liou and Lin 2008). As a result expatriates lose their interest on foreign assignment.

Global Political Crisis has a direct connection with the Global Economic Crisis, one is the aftermath of the other. Due to recent global political crisis, which include wars against terrorists and anti-government movements, have introduced a new era of economic crisis throughout the world. The world's economy is trembling and the war fighting economy is finding it difficult to bear the cost of war, which is eventually transferred to the globally operating organizations.

Starting from September 2008 the leading actors of the world economy and main international economic institutions have prepared studies on the world economy and have announced what actions they are going to take. On March 21, 2008, World Bank President Bob Zoellick warned that the global economy will shrink 1% to 2%, and that the 3 current unregulated stimulus plans around the world will result in another crash (Zoellick, 2009). "This global crisis needs a global solution and preventing an economic catastrophe in developing countries is important for global efforts to overcome this crisis," said Robert B. Zoellick. He insisted further: "We need investments in safety nets, infrastructure, and small and medium size companies to create jobs and to avoid social and political unrest" (World Bank, 2009).

The economic crisis caused by the global political crisis is forcing the MNCs to restructure their HR which is a very crucial step to take in a world like this. The recent refugee crisis has changed the demography of a few European countries. These incidents are going to impact the HR of global and multinational companies. Lay-offs will take place and wage rate will fall, creating difficulty for all the stakeholders.

HRM policies and practices vary on different uncertain issues. The logic for implementing 'best' HRM policies and practices (e.g., Schuler and Jackson 2005) works differently under 'uncertain institutional circumstances' (Davila and Elvira 2009, p. 181), such as the global political crisis.

#### **V. Key Arguments**

"External factors are uncontrollable and dynamics in HRM", the statement proclaims the inevitable importance of influence of external factors on HRM practices. That is the reason why HRM practices vary from organization to organization at national and international level. Human resource management is being considered one of the vital factors affecting organizational performance; because it is human resource that can provide competitive advantage in highly competitive business environment (Noe et al., 2012). In this regard, the most important issue which should be addressed is rapidly changing environment faced by HR managers. There are several factors that affect the roles and responsibilities of HR managers and HR practices within the organizations. Internationally, the most important factors which can affect HR practices within the organizations are international economic conditions and technological advancement. At national level; economic, legal and political circumstances, cultural and demographic factors are the factors which affect HRM practices. In changing business environment influenced by external national and international factors the traditional and basic HR practices are becoming insignificant (Hassija, 2014). Therefore, to solve such external issues HR managers ensure to develop HRM strategies. International HRM is a particular example of changing HRM practices with effect of globalization (Torrington et al., 2008). So, it can be concluding that external factors are uncontrollable and dynamics in HRM.

Political factors are one of the major forces which are responsible for a company's mission and strategy (Singh, 2010). Noe et al. (2012) found that political & legal factors are one of those factors which affect HR practices.

v.i) Impact of political factors on HR practices

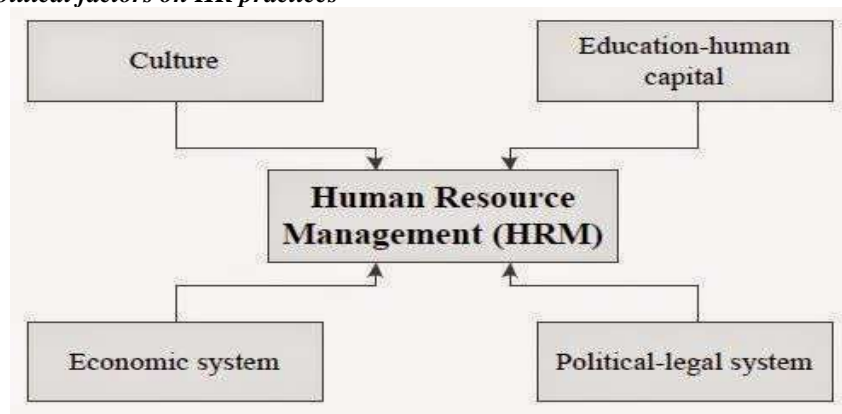


Figure 1: Factors Affecting HR Practices (Source:Noe et al., 2012)

Kokkaew&Koompai (2012) stated that in Thailand political factors have also affected HR practices. They further stated that government policies in any country also pose some threats and hurdles for HR professionals. For example in Thailand the minimum wage level is very high set by government and it has posed a threat to HR managers to cope with this issue because this matter has increased the labor cost for companies (Kokkaew&Koompai, 2012). Labor cost is the major proportion of cost structure in most of the Thailand manufacturing organizations (Kokkaew&Koompai, 2012). Tayeb (2005) also developed a model which shows the flow of the impact of political factors on HR practices.

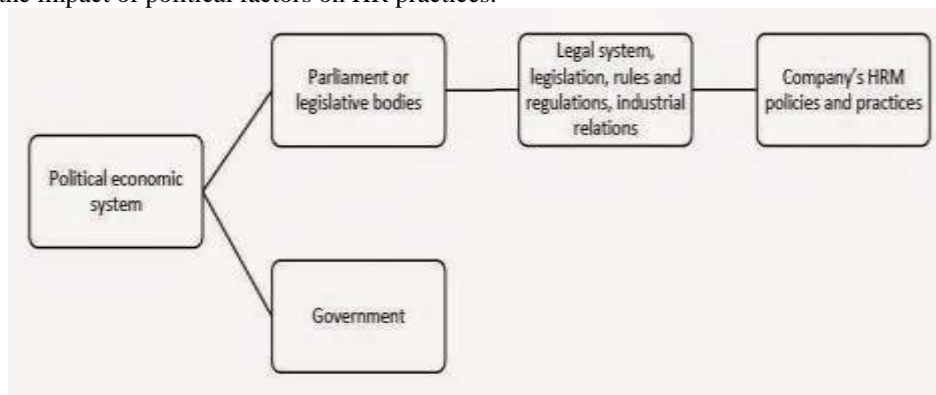


Figure 2: Impact of Political System on HR Practices (Source:Tayeb, 2005)

In some countries such as Lebanon political factors also a part of recruitment process. For example in Lebanon, the selection criteria for applicants who apply for bank jobs is not confined to education and experiences only. It is also compulsory for candidates to provide the references of some politicians because it is the central practice of HR in Lebanon and this process is known as Clientalism (Nakhle, 2011). Moreover in Lebanon, workers are not allowed to discuss politics at their workplace so HR managers have to ensure the strict adherence of these types of rules as well in Lebanon (Nakhle, 2011). Shaw et al. (2013) also investigated the impact of political factors on HR practices in MNCs in the markets of Hong Kong and Singapore. They found that in Hong Kong government has adopted the policy of non-interventionism while in Singapore government has been monitoring the HR practices and government is heavily monitoring the pay & incentive systems so HR professional has to make it sure to comply with government rules and regulations.

v. ii) The impact of political crisis on multinational companies (MNCs)

The impact of terrorism on multinational companies (MNCs) has led researchers to propose theoretical models and a research agenda for HRM in this context. Fee, McGrath-Champ and Liu (2013) theoretically argue that the welfare-officer role of HRM (Welch and Welch 2012) involves communication on such issues as safety and security in the event of a crisis. Sometimes 'crisis' refers to terrorism, which creates challenges for local firms and MNCs with regard to employee well-being (e.g., Leguizamon, Ickis and Ogliastri 2009). This suggests that HR plays a strategic role in the management of employees in terrorism context that goes beyond typical HR roles, such as 'expatriate compensation' (Fee et al., 2013, p. 256).

MNCs in Latin America have also been found to make payments to crime entrepreneurs. For example, *US-based Chiquita Brands* has acknowledged making payments to paramilitary groups in Colombia to protect its executives and its banana plantations (Maurer 2009).

In general, these studies seem to indicate that firms generally bend to terrorist organizations' demands, which might imply that they engage in illegal activities, such as paying for protection.

Davila and Elvira (2012) report that the *Mexican MNC FEMSA*, which is the largest beverage company in Latin America, 'provided emergency cell phones, transportation to and from work, secure housing and other measures to protect their employees in Coca-Cola FEMSA's subsidiary in Colombia' (p. 489).

Furthermore, Leguizamon and colleagues (2009) identify 'contingent' practices that firms adopt in response to war, violence, poverty, and natural disasters (Leguizamon, Ickis and Ogliastri, 2009: 88). During the civil war in El Salvador in the 1980s, *Grupo San Nicolás*, a pharmaceutical company in El Salvador, offered its employees flexible schedules and private transport between the firm and their homes at night. These policies made employees feel that 'this is a family, and all of us feel that we are a part of it' (Leguizamon et al. 2009, p. 89).

## **VI. Central Research Findings**

So from this discussion we identify two patterns in the extant findings. First, firms in environments challenged by terrorism and/or crime and violence bend to crime entrepreneurs' demands by subordinating to their demands such as paying them. Second, firms that focus on employee and community development through HRM, tailor their policies and practices to fit terrorism contexts that is, to offer to their employees and community adequate knowledge and tools for this environment.

There is growing recognition that HRM can serve as a source of competitive advantage for the firm. It is crucial for HR professionals to conduct a comprehensive review of the political environment and employment-related laws before beginning operations in a foreign country. Employees in MNCs sometimes need to work on turbulent political environment (countries like: Afghanistan, Pakistan, Libya, etc.) for that reason they are not interested to go overseas, so it is important to create a clear HRM policies for, staffing, training and development, performance appraisals, compensation, safety and health issues for employees to overcome the hardship in a foreign location. So finally we can say that there is a correlation between Global Political Crisis and Human Resource Management.

## **VII. Theoretical and Policy Implementations**

The above arguments also suggest that firms that suffer from terrorism in areas where basic principles of the rule of law are lacking (e.g., Dietz, Robinson, Folger, Baron, and Schulz 2003) adopt a more strategic role in society. They do so through the implementation of HRM policies and practices those are tailored to such environments.

Davila and Elvira (2012, pp. 483-84) argue that 'the role of HRM department is crucial, in order to demonstrate solidarity with employees in times of dramatic misfortune surpassed potential claims when national and local institutions fail to enforce basic property rights, or to provide protection and security'. In such contexts, the HRM department might use policies and practices to send signals to employees that they 'at the center of the business strategy' (Leguizamon et al. 2009, pp. 94).

There should be a realistic job preview about the job location so that candidates can take realistic decisions about their job especially in foreign location.

This is an alarming high failure rate when executives are relocated overseas. The mismatching of executives and foreign subsidiaries is primarily caused by: Poor or inappropriate selection procedures and Inadequate orientation programs. In selection process employees employers should focus on psychological test to know about the candidates/employees mental strength. People who have the emotional stability and maturity will get the priority in international selection. People who all are from expatriate family may have the chances to best fit in the foreign location.

In the orientation & Training program you have to talk about the culture, language, local customs, political conditions, expectations and about the unique aspects to the assignment.

Incentives may be added, especially for assignments in less desirable locations where political conditions are volatile. Supplements may be given to the MNC's foreign employees to cover the extra costs of educating children, making return trips to the home country and paying servants' salaries. Benefits for the MNC's foreign employees are: company car, a driver, club membership, housing and other perks for top management in MNCs.

### **VIII. Conclusion**

Global politics has brought a lot of things which helped us shape our society. Throughout the history, politics has contributed the most to produce a civilized and structured culture. Politics is omnipotent and important. But it is also true that this tool of magnificence can cause trouble if used to oppress, torture and conquer societies and their members.

It is true and well proved that political crisis has a monetary cost which we can measure, but the humanitarian costs realized by the wars and fights are beyond measure. The society does not need violence; it needs the politics to take the lead in shaping the world for a better humanitarian and economic future.

It is concluded that external environment of the business is changing with rapid pace so it has become essential for HR professionals to get ready to cope with the changing requirements. It is also concluded that external factors like: political crisis around the world are not controllable and they have intense impact on people of MNCs. These factors not only affect business performance but also enforce the HR professionals to take necessary measures to cope with issues due to the impact of external business factors which results in re-designing of HR practices. These external factors include economic factors, legal factors, demographic factors, cultural factors, political factors and technological factors. All these mentioned factors have transformed the HR practices with the passage of time and now HR practices have become more efficient in delivering the value to organization through changing the system of recruitment & hiring, training & development, and compensation and benefits. In the end, I can say that the statement given in the start of this study is true because global political crisis is affecting HR practices of MNCs around the globe and this factor cannot be controlled as well.

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