International Human Resource Management

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Human Resource Issues as a Cause of Global Financial Crisis

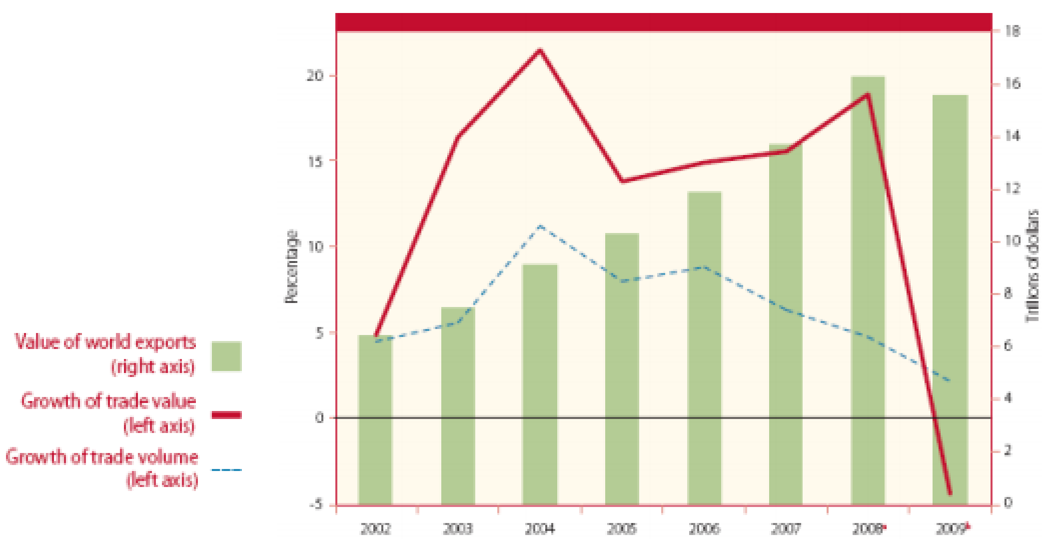
The Global Financial Crisis the rocked the world in 2007 through 2009 nearly collapsed the entire global financial system. According to Gunnigle, Lavelle and Monaghan (2013), the Global Financial Crisis started in the United States of America following the burst of the housing bubble in 2007 and through contagion and spillover effects spread to the rest of the world. Studies conducted to investigate the root cause of financial crisis of 2007 point to financial innovation, de-regularization of the financial system, greed and excessive leveraging by financial institutions. Choudhry, Marelli and Signorelli (2010) assert that at the heart of the blame for the crisis are financial derivative products such as collaterised debt obligations and subprime mortgage backed securities, which were later branded as toxic assets. Other scholars like Akinbami (2010) opine that the cause of the Global Financial Crisis was as a result of financial deregulation. Government and regulators relaxed their regulatory and oversight mandate, leaving the financial markets to market fundamentalism to correct anomalies. With most of the studies blaming financial innovation and deregulation as the root cause of the Global Financial Crisis, few, if any, studies have explored human resource issues that contributed, partly or wholly, to the crisis. According to Cascio (2010), inability by financial institutions to manage human resource risks is partly to blame for the Global Financial Crisis.

Management of financial institutions breached risk management policies in order to achieve above board performance. Consequently, failing to control the risk inherent in people, this from a human resource management point of view caused the crisis. For instance, performance-based pay system exerted pressure on employees to improve on their individual performance, and as a result led to employees to ignore the tenets of prudent risk management in order to achieve better performance by taking outsized risks. Coupled with poor reporting and disclosure structures, employees disregarded ethics as they pushed risk limits to get better pay. For example, loan officers who used to work for mortgage lending companies selling mortgage-backed securities were paid based on the number and size of mortgage loans they sold; therefore, a loan officer who failed to sell loans would receive no commission. Since the mortgage lender did not penalize on bad loans, loan officers were tempted to sell loans even to high risky borrowers, NINA, NINJAs and subprime borrowers. Organizations have adopted lopsided reward systems that do not value ethics instead putting great emphasis on performance. For example, financial institutions such as investment banks and stock brokerage review performance of their employees based on the number and size of the deal closed. Similarly, a ranking of the best investment banks is based on the number and size of the deals closed, ignoring performance based on prudent corporate values, although financial institutions have well defined corporate values. Consequently, loan officers, investment bankers and stockbrokers trample upon corporate values and effectiveness to achieve successful performance. Cascio (2010) observes that although Enron believed in respect, integrity, communication and excellence, no performance measure was developed to measure achievement of these corporate values. It is, therefore, evident that the human resource management is partly to blame for the financial crisis, although their intentions were unintended. Target based reward systems commonly referred as performance based pay systems, individualized incentives and poor people management were the highlighted HR issues that partly fuelled the Global Financial Crisis, and averting another Global Financial Crisis would require immediate solutions to these human resource management issues. Organizations operating in industries characterized by intense competition, particularly financial institutions need to adopt a performance based system that recognizes financial performance and non-financial performance that is corporate ethical values and culture. In addition, organizations need to enhance people management practices and supervision in order to manage prudently risks stemming from people.

Human Resource Challenges Due to the Global Financial Crisis

The Global Financial Crisis of 2007-2008 did not only threaten the entire global financial system but also caused the global recession, which started in the United State of America spreading to other global economies, emerging, developed and developing economies. According to Balboa and Mantaring (2011) the Global Financial Crisis of 2007-2008 can be described the worst crisis to have hit global economies in the recent years and after the Great Depression of 1930. Because of the recession, global economies, emerging, developed and developing economies contracted. The financial crisis was deepened by globalization, and through contagion and the spillover effects virtually every economy of the world, even the resilient China experienced some negative effect on its economy. Verma (2012), for example points out that due to globalization emerging economies such as Brazil, India, Russia, China and South Africa which were prior to the recession experiencing tremendous economic growth felt the negative impacts of the crisis. Asyali, Zobra, Cerit and Sag (2009) cite Trichet who stated that in the year 2009 the European Central Bank gave an indication that the European Union economy would contract by 3.2%. Due to the contraction of economies, demand for output fell, organizations recorded reduced margins, therefore forcing companies to implement cost-cutting measures to survive, and as a result, millions of employees were rendered jobless. ILO (2010) observes that the Global Financial Crisis has left in its trail high rates of unemployment rates in the world, with millions of employees in the world redundant due to contraction of economies, which resulted to subdued demand for goods and services. The United States of America, for instance, where the crisis started, witnessed a shedding of 2.2 million jobs in 2007, Canada's unemployment rate from 0.6% in a space of one year to 7.2%. ILO (2010) continues to observe that the International Labour Organization reported that in 2010 over 51 million workers were rendered jobless and 30 million workers employment status is in jeopardy. The labour organization reveals that the global unemployment level has increased from 6.7 percent in the year 2008 to 7.5 percent in the year 2010 as organizations engage in cost cutting measures through downsizing, layoffs and retrenchments. The swelling unemployment level and pressure on organizations to maintain a lean, efficient workforce that would help business growth has led to organizations reacting in three ways, organization reaction for sustainability and viability, workers' reaction for survival and human resource personnel reaction for adaptable recruitment and retention practices.

Figure 1. Slump in trade and output following the Global Financial Crisis of 2007-2008



Source: cited in Asyali et al., (2009)

Rowley and Warner (2004) state that corporate reaction for sustainability and viability has been a result of shrinking demand from the market for goods and service, threatening profitability and survival of organizations. As a result, most multinational corporations resorted to reducing employee costs through resizing mechanisms, resulting in integration and restructuring work process. This created a challenge for human resource managers who were required to develop strategies, policies and systems that would help the organization, for example multinational corporations, achieve robust business performance and at the same time reduce operational costs, especially employee costs. The author continues to state that employees' reaction for survival has been manifested through increased stress levels. Employees who were left following resizing and restructuring of organizations experience increased levels of stress, as a result of increased work burden following integration of work process, a tough economic life that characterizes economic dip, de-motivation and uncertainty over their future employment status in the organization, and the loss of their former colleagues at the workplace who were instrumental in their social and work life. Employee reaction to sustainability and survival was a major cause of challenge to international human resource managers. The human resource reaction is manifested by adopting strategies, policies and structures that help the organization wade through the tough times. Human resource functions of organizations shift to redesigning human resource practices, systems and relationships, engaging in training and development, developing retention strategies to keep talented employees and motivating retained employees who were de-motivated following termination of employment contracts of their colleagues. The human resource function, therefore, faces immense challenges trying to motivate the retained employees and keeping the workforce lean and efficient.

According to Rowley and Warner (2004) effective human resource management policies help organizations survive and achieve long-term growth during crisis period. Hence, human resource managers are an asset in times of financial crisis, as the one witnessed in the year 2007-2008.

Similar observations are made by Asyali et al., (2009) who observe that organizations achieve sustainable competitive advantage if, and only if, they implement effective human resource strategies and policies in a complex business environment such as during the recession period. During tough economic times human resource managers offer strategic leadership to the organization, and Some of the strategies and policies that human resource managers use to help an organization achieve sustainable competitive advantage in complex business environment include developing employee retention programs, developing employee motivation and rewarding system, developing job description that align to goals and objectives of the organization and advising other organizational managers on strategic leadership. However, during the Global Financial Crisis, international human resource managers have faced challenges that have undermined their strategic roles. Among the challenges that international human resource managers have faced include shortage of skill in the international labour markets, employee poaching by well capitalized organization and tight budget and resources which has undermined effective employee training and development. Gunnigle et al., (2013) assert that adverse changes in the external environment of business organization caused by the Global Financial Crisis impacts human resource management practices with major theme changes focusing on pay, performance management, industrial relations and training and development. The themes are affected by changes in the external economic environment the organization is operating, causing challenges to international human resource managers. During the Global Financial Crisis, human resource managers were shouldered with a difficult task of balancing employee interests and shareholders or employers interests. According to Stefanescu and Darabaneanu (2010, p.109), human resource managers are playing a delicate balance between employees and employers with both of them expecting measures that are if not favourable at least tolerable to their situation. Among the challenges that human resource managers in Hungary are facing according to Stefanescu and Darabaneanu (2010, p.109) include conflict management, overcoming employee attitudes and perceptions, improving the working environment and social environment to foster employee participation and job satisfaction. Therefore, the role of human resource managers has changed to include that of change agents, motivators, counselors, mentors, strategists and innovators too. Poglianich and Antonek (2009) observe that due to anxiety facing employees during times the times their organization are in economic quagmire such as during the times of financial crisis, there is a breakdown of communication in the organization. This is a challenge that human resource managers face because they need to ensure there is an efficient communication channel, which continuously keeps employees abreast of human resource development and how they affect employee. As a result, ease tension and anxiety in order to improve performance and sustainability.

Because of reduced demand for goods and services from the markets during the Global Financial Crisis, most of the multinational corporations that did not restructure or resize their workforce resorted to pay cuts in order to survive. Consequently, de-motivating employees and loosing employees to competitors that were willing to hike their salaries and other emoluments. International human resource managers working for multinationals that opted to reduce employees' salaries and benefits were faced with the challenge of developing strategies to motivate employees and retention strategies to keep talented and valuable employees. Stefanescu and Darabaneanu (2010,p.109) observe that employee wage cut is the most difficult issue that an employee can handle because a wage cut advertently affect the living standards of an employee and is a signal of devaluation of his work. It is as a result that wage cuts are unpopular among employers because it leads to a mass exodus of employees, especially valuable and talented employees. Loosing talented employees to a rival, particularly in times of crisis when human capital asset is a key to survival is a big blow to the survival and sustainability of the organization. International human resource managers found themselves in a tricky position because during the Global Financial Crisis, they were tasked with developing strategies to retain talented employees, however, they were to do so on tight budget given that most of the companies were barely surviving and were trying to run on as least possible cost as possible. Therefore, monetary incentives such as bonus pay packages and hefty pay hike, which are proven employee retention strategies during recessionary periods, were off the mind of most of international human resource managers. Gunnigle et al., (2013) observes that during the Global Financial Crisis multinational corporations stretched their financial resources to insulate themselves from the effects of shrinking sales and profits due to plummeting demand for goods and services. The author further states that for companies to survive a hostile economic environment caused by recession they must enhance efficiency levels by running the organization at minimum operational costs. One way of enhancing efficiency in an organization is through employing or having a pool of talented workforce that will develop new products, push sales and expand markets. Therefore, during the Global Financial Crisis, Multinational Corporation tapped, poached and held on to their most talented employees, resulting in a shortage of skilled and talented employees in the international market. This created a challenge for human resource managers who were looking to fill positions left vacant following exit of talented and skilled employees. Another challenge that human resource managers faced during the Global Financial Crisis was on how to engage employees in training and development. Poglianich and Antonek (2009) report that training and development of employees during the global financial crisis was mired in uncertainty and turmoil as human resource managers, particularly in multinational corporations, were unwilling to invest in employee training and development due to likelihood of employees being rendered jobless before the organization could recoup its investment in training and development. On the same note, due to the reduced financial bottom line, organizations were operating on tight budgets and spending on immediate business essentials. Therefore, human resource managers were forced to cut on their employees training and development budgets. Despite the critical importance of training and development, some human resource managers scrapped training and development because the organizational policies had been changed to invest in programs that yield short term gains and because training and development is an investment that gives long term benefit some organizations opted to divert the resources meant for employee training and development to other programs that would yield short-term gains to sustain the business. It is evident that human resource managers faced numerous challenges by seeking to shore up business performance through a lean and efficient workforce and at the same time maintaining favorable terms for employees despite the harsh business-operating environment.

Human Resource Actions to Foster Recovery during the Financial Crisis

According to Boxhall, P. & Purcell (2008), human resource functions holds indispensable tools in helping organizations achieve sustainable competitive advantage. Similarly, human resource personnel hold the key to survival of an organization, more so during periods of crisis such as the global financial crisis. The human resource function of an organization is charged with the role of managing people through the selection, recruiting, motivating and training employees in order to pursue and achieve the goals and objectives of the organization. Therefore, during the Global Financial Crisis, the human resource function of organizations was tasked with developing

strategies, policies and systems to help in survival and recovery following adverse effects on business performance of most corporations. Fapohunda (2010, p.10) observes different organizations responded differently to the Global Economic Crisis. Some organizations such as financial institutions in the United States of America sought government bail out or government protections, while other companies sough to be more efficient through reducing workforce, outsource auxiliary services, and de-diversifying through selling off unrelated business and subsidiaries. These actions were meant to help the organizations survive the harsh business environment or achieve a competitive advantage following subdued business opportunities.
One of the human resource actions that organizations resorted following adverse effects on business performance due to recession was restructuring and resizing of the workforce. Resizing of the workforce was done through downsizing, retrenchment and layoffs. On the other hand, restructuring was done through integration of work process and trimming reporting layers in the organization. The intended consequence of restructuring and resizing was to reduce employee costs. Fapohunda (2010, p.10) asserts the only immediate feasible solution to organizations during the Global Financial Crisis was retrenchment and downsizing of employees in order to match the reduction of profits and employee costs. It is worth to note that resizing should only affect employees whose performance is below average, retaining talented, skilled and performing employees. Additionally, restructuring and resizing should affect departments or functions that are not core to the business or organizational goals.

Similarly, it is worthy for organizations to review their pay and benefits structure of their employees. For instance, corporations operating defined benefit scheme should convert those schemes to defined contribution or a hybrid of the two to ease debt obligation in the form of retirement packages; bonuses and pay hikes should also be reviewed downward in order to conserve cash for survival and long term planning. Human resource managers should review organization and reporting structure in order to reduce reporting structures, some non-functional positions that are not core to the business should be scrapped from organizational structures, job descriptions revised and reviewed and working schedules re-oriented. Restructuring of reporting structure mostly should affect managerial position due to the duplication of roles. Fapohunda (2010, p.10) suggests that an organization that restructures from a complex reporting and organizational structure to a simple organizational and reporting structure enhances autonomy in decision making, which is an advantage during times of crisis because of the need for quick decision making and execution. Restructuring of work process should be done in order to integrate and merge related work process into a single work process. As a result, maximizing labour and reducing employee costs. A job that was previously done by two employees will, as a result, be condensed in order to be performed by one employee and in the process saving the organization money. The only way of enhancing efficiency and innovation is through having talented and skilled employees, a view posited by Stefanescu and Darabaneanu (2012). Therefore, human resource managers should attract talented and skilled employees to the organization by creating an attractive compensation system and employee retention systems despite a tight budget. Conversely, to expectation, organizations should not only engage in downsizing and pay cuts, but also engage in staffing and motivating employees through performance-based pay and rewarding good performance. During times of crisis such as Global Financial Crisis, organizations are required to be innovative and efficient in their day-to-day activities.

Outsourcing, hiring of personnel on contract and enhanced communication are other strategies that a human resource manager should explore in order to help an organization struggling to survive recover from the Global Financial Crisis. According to Fapohunda (2010, p.10) outsourcing involves is one way that organizations could avoid mass retrenchment of its employees. The advantage of outsourcing is that it is cheap and easy to manage saving organizational cash, which it badly needs to maintain its core operational expenses. Some organizational functions are seasonal and require staffing on a need basis, therefore having staff on the organizational payroll is wastage of finite resources. Therefore, these functions and duties should be filled with a need by need basis through hiring employees on contract, as a result saving the organizational costs that would have gone to paying the employees even when their human capital is not in use and of help to the growth of the organization. Improved communication between human resource personnel and employees will help in developing strategies to overcome slump caused by the crisis. Increased employee involvement enhances job satisfaction among employees and spurs innovation among workers. According to Apostolou (2000), improving communication between employees and the management leads to employee involvement in the goals, mission and vision of the organization, leading spurring interest in employees to develop solutions affecting the organization. According to Marchington,Wilkinson and Ackers (2001), one way of enhancing communication is through holding regular meeting between management and employees to share knowledge, solutions and discovery that will help the organization achieve growth through improved business performance during the crisis period. Wilkinson et al., (2004) assert that improved communication in an organization leads to improved organizational performance due to increased levels of job satisfaction, retention levels and few cases of absenteeism.

Positive Outcomes of Global Financial Crisis from HR perspective

The Global Financial Crisis left in its wake a series of negative effects on organizational functions. For instance, it created a myriad of challenges for human resource managers who were left to play a delicate balancing act to accommodate employees’ interests and employers’ interests. However, this delicate balancing act pushed and encouraged human resource managers to develop strategies that would favour or at least tolerate employees, especially those who were not rendered redundant following resizing exercise. Employees who were retained following the resizing exercise experienced anxiety and stress because they were uncertain of their future in the organization. Human resource personnel were, thus faced with the challenge of encouraging and helping the left employees cope with stress levels caused by the loss of their colleagues to retrenchment or downsizing. In addition, during times of economic turbulence, employees experience high levels of stress due to increased cost of living. As a result, human resource personnel developed human capital development strategies to help employees transition and adapt to reality.

Frauenheim (2009) observes that following economic downturn and subsequent resizing by companies to create a lean and efficient workforce most of employees morale and engagement levels decreased. Consequently, human resource personnel have made communication a priority in organizations to foster employee engagement and participation. According to Newcombe (2012) one-way that organizations can insulate themselves from the negative effects of economic downturn or recession is through increased employee participation, employee engagement and employee involvement. The author further observes that organizations in the United Kingdom through learning from organizations that have fully adopted employee involvement and employee engagement as a human capital development strategy are reorienting their human resource management models to be employee centric during this harsh operating environment. Development and adoption of employee engagement and employee involvement as human capital development strategies are being buttressed by empirical findings that are reporting that organizations that have adopted employee involvement and employee engagement have achieved competitive advantage during recessionary periods. An observation made by Marsden (1998) and Sisson and Storey (2000), both studies concur that exponential growth of organization in the recent few years has been due to enhanced employee relationship with employers. The crisis also offered organizations an opportunity to resize and restructure their workforce; as a result, organizations are utilizing human capital optimally.

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