

Human resource capabilities in uncertain environments

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Abstract

Increasingly, multinational companies (MNCs) are entering less explored markets with highly uncertain environments. In such an environment, MNCs must develop new solutions to tackle unpredictable changes. While there are some studies focusing on firm strategies in turbulent environments, there is a scant understanding of how the human resource strategies of MNCs should change in precarious environments. Thus, built upon the dynamic capability perspective, we focus on human resource capabilities that MNCs develop in an uncertain emerging economy. In this research, we carried out a multiple case study and interviewed six MNCs' subsidiaries operating in the Islamic Republic of Iran. Our findings demonstrate that in an uncertain environment, human resource managers should be able to develop flexible cost management, adapt compensation packages, employ frequent and transparent communication, ensure retention of their top-quality managers, develop long-term oriented team-based and quick decision-making, and have the autonomy from MNC headquarters to enact these initiatives.

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1 Introduction

With increasingly saturated markets and fierce competition in developed countries, some multinational companies (MNCs) are targeting fewer but untapped markets in emerging economies (Ghauri, Tasavori, and Zaefarian 2014; Tasavori, Zaefarian, and Ghauri 2015) where they might be faced with highly uncertain environments. Unpredictable changes from war, terrorism, sanctions, economic crises, or political changes in these environments create uncertainty and a more challenging situation for MNCs (Wood, Cooke, Demirbag, and Kwong 2018). Such environmental conditions also make it difficult for businesses to apply their standardised practices and become successful (Mellahi, Demirbag, Collings, Tatoglu, and Hughes 2013). To overcome this, MNCs have to develop new strategies, not for improving their performance, but sometimes with the aim of survival (Nijssen, and Paauwe 2012).

In an uncertain environment, employees are also affected. In such an environment, because of the possibility of fluctuations in firm revenues, companies may consider downsizing (Sahdev, Vinnicombe, and Tyson 1999; Schenkel, and Teigland 2017). Employees' bargaining power is also impacted (Wilkinson, and Wood 2017) and they might experience a reduction in their benefits and wages (Streeck 2009). In addition, employees might feel more vulnerable and less rational in their decision making (Weick 1993) with the resultant threats to their job security (Shoss 2017; Streeck 2009). The possibility of all these potential changes might also lead to the development of negative emotions such as fear, worry, anxiety (Lerner, and Keltner 2001), and stress (Subramaniam 2018).

Considering the impact of the uncertain environment on employees is particularly crucial as the development of solutions to best utilise human assets (Björkman, Fey, and Parks 2007) can be a source of competitive advantage for the firm (Barney 1991; Collings, and Mellahi 2009; Pfeffer 1994) in an unpredictable environment. With volatile environmental conditions impacting not only the firm but also its employees, human resource (HR) departments have to be proactive and take measures to prevent any potential disruptions in the workplace (Mirza 2018). Despite the prominence of human resource management (HRM), there is little understanding of HRM-related strategic changes that MNCs must deploy in turbulent environments (Bader, Schuster, and Dickmann 2015; Nijssen, and Paauwe 2012; Oh, and Oetzel 2011; Wood, Cooke, Demirbag, and Kwong 2018). Therefore, the first objective of this research is to bridge this gap and shed light on how HRM practices should be amended in a precarious environment.

To answer this question, we adopt a dynamic capability perspective. Dynamic capability scholars suggest that in a rapidly changing environment, in addition to possession of distinctive resources, MNCs should also be able to develop capabilities to adapt to environmental changes (Ambrosini, Bowman, and Collier 2009; Eisenhardt, and Martin 2000). Capabilities are defined as capacities and processes that enable the firm to renew, rebuild, and reconfigure its resources to meet the changing environment (Teece 2007; Teece, Pisano, and Shuen 1997). Therefore, we investigate if, and if so how, HRM related dynamic capabilities can enable a firm to adapt to a highly uncertain environment.

As an uncertain environment, we have selected the Islamic Republic of Iran (IRI). The IRI has a population of approximately 82.5 million (Worldometers 2019) and is the second biggest economy in the Middle East and North Africa (MENA) (World Bank 2018b). Despite its large market size, the country has faced several political and economic challenges over the past few

decades, which makes it an uncertain environment for MNCs to invest in (Wilkinson, and Wood 2017; Wood, Cooke, Demirbag, and Kwong 2018). According to the World Bank (2018a), there are two main sources of uncertainty in the IRI: first, from the *external* point of view, the IRI's nuclear programme and the related sanctions on the country have created enormous uncertainties. Second, from the *domestic* viewpoint, the government has to respond to these political and economic pressures by changing its policies, rules, and regulations continuously, which contributes to the environmental uncertainty in the country (Segal 2018).

In the context of the IRI, we selected six subsidiaries of MNCs and carried out interviews with their top managers to shed light on specific capabilities and practices that are developed by MNCs' subsidiary HR departments.

Our study aims to offer several contributions. First, while there is a plethora of research about the HR strategies that MNCs adopt in stable environments (e.g., Laine, van der Heijden, Wickström, Hasselhorn, and Tackenberg 2009; Sahdev, Vinnicombe, and Tyson 1999; Stavrou, Brewster, and Charalambous 2010), there is not much known about the successful human resource practices in highly uncertain environments (Bader, Schuster, and Dickmann 2015; Wood, Cooke, Demirbag, and Kwong 2018). Thus, our research aims to complement the existing understandings in the field of HRM. Second, we contribute to the dynamic capability perspective (Teece 2007; Teece, and Pisano 1994) and extend it to the context of international HRM and an uncertain emerging economy. Our findings reveal specific HR capabilities that are crucial in a precarious environment and examine the applicability of this theoretical perspective in such an environment. Finally, our research has been conducted in the IRI, an emerging market that has been relatively less studied. Prior studies have highlighted the scant knowledge about the Middle East and have

called for the conduction of further research in this region, particularly in the field of HRM (Budhwar, and Mellahi 2007; Soltani, and Wilkinson 2011).

2 The context of the IRI

The IRI has a population of approximately 82.5 million, which ranks it 18th, globally (Worldometers 2019). The country is the second-biggest economy in MENA (World Bank 2018b) with GDP per capita of \$5,415 in 2017 (World Bank 2017). The IRI benefits from one of the biggest natural resources in the world. According to the statistics published by the BP Statistical Review of World Energy 2018, the IRI is ranked fourth in oil reserves and second in natural gas reserves (Paraskova 2018); as a result, crude oil sales are the primary source of its foreign income (Trading Economics 2019).

The country has faced an uncertain environment in the past few decades. In 1979, the country experienced a revolution (BBC 2018). In 1980, the IRI-Iraq war started, which continued for around eight years. In 1995, the United States (US) imposed oil and trade sanctions, accusing the IRI of sponsoring terrorism and engaging in the pursuit of nuclear arms (BBC 2018). Since 1995, several economic sanctions have been imposed against the country, although there have been periods when the sanctions were suspended.

Over the years, the IRI has attempted to develop its nuclear programme for peaceful purposes, which has nevertheless created concerns globally. After several years of negotiation between the IRI and P5+1 countries (China, France, Russia, the United Kingdom, and the US, plus Germany) over the country's nuclear programme, the IRI agreed to sign the Joint Comprehensive Plan of Action (JCPOA) in 2015 which led to the lifting of financial and economic sanctions (BBC 2018). However, in spring 2018, the US president announced that the US was planning to withdraw

from the JCPOA (The White House 2018b). As a result, on the 8th of May 2018, President Trump announced that all sanctions that were waived or lifted as a result of JCPOA would be re-imposed within six months (The White House 2018a). The US sanctions against the IRI included economic, trade (including selling oil), scientific and military (US Department of State 2019). In May 2018, the European Commission (EC) announced that they would continue to implement JOCPA and attempt to nullify the US sanctions against the IRI, and support European companies to operate in the IRI (Deutsche Welle 2018; Strupczewski 2018).

According to Segal (2018), US sanctions impacted the IRI's economy through declining oil production, the collapse of GDP growth, weakening of the IRI's currency, and increasing rates of inflation. Following the imposition of sanctions, many MNCs also decided to exit the country or postpone any new investments to avoid risking their relationship with the US (Segal 2018).

3 Literature review

3.1 Undertaking business in uncertain environments

With the presence of uncertain environments in the world, an important issue is how companies carry out business in such an environment (Bruton, Su, and Filatotchev 2018; Julio, and Yook 2012; McCarthy, and Puffer 2002; Rodgers, Stokes, Tarba, and Khan 2019). In this section, we provide a brief overview of some of the findings of these studies. Some scholars, for example, have pointed to the emergence of institutional voids, 'situations where institutional arrangements that support markets are absent, weak, or fail to accomplish the role expected of them' (Mair, and Marti 2009, 419), and highlighted the importance of the development of entrepreneurial orientation when dysfunctional competition exists. McCarthy, and Puffer (2002) explain how environmental changes made the Soviet Union to restructure corporate governance. In the face of political

uncertainty such as an election period, Julio, and Yook (2012) found that organizations adopt strategies that reduce their investment and risk. Rodgers, Stokes, Tarba, and Khan (2019) elaborate on how service MNCs in the turbulent institutional environment of Ukraine developed non-market strategies to survive. Despite the existence of some literature shedding light on how companies operate in a precarious environment, there is limited research investigating how firms should also develop strategies to cope with the effects of uncertainty inside their firms, especially in managing their employees (Wood, Cooke, Demirbag, and Kwong 2018). Below, we point to some of these HR-related findings.

In highly uncertain environments, cost reduction is a common strategy that also impacts HR departments. Prior studies have shown that when faced with a crisis, companies may decide to change employees' compensation packages (Dewatripont, and Roland 1995), lay them off (Luan, Tien, and Chi 2013), or reduce their wages, actions which are usually perceived as a breach of the psychological contract between the employer and employees (Chambel, and Fortuna 2015) and which lead to employee dissatisfaction (Robinson, and Rousseau 1994). Moreover, in turbulent environments, more flexible, extemporaneous decisions may be needed to respond quickly which can change the previous decision-making procedures of some MNCs to more distributed, localized ones (Williams, Gruber, Sutcliffe, Shepherd, and Zhao 2017; Wood, Cooke, Demirbag, and Kwong 2018) that is built upon the "rare Knowledge" acquired in such environments (Suder, Reade, Riviere, Birnik, and Nielsen 2019). The decision-making processes of managers will also be affected (Drabek 1986; Pearson, and Clair 1998; Williams, Gruber, Sutcliffe, Shepherd, and Zhao 2017). MNC managers will have to accelerate the speed of their decision-making under limited time pressure which requires having managers with better cognitive ability (Pearson, and Clair 1998).

Some scholars have also pointed out the role of communication with employees about both the uncertain environment and the strategies that the company is going to pursue to create a shared understanding among employees (Dyer, and Shafer 2003; Nijssen, and Paauwe 2012; Pearson, and Clair 1998). Prior research has also corroborated that in precarious environments, subsidiaries may need to have a higher level of control over HRM practices to conform to the local conditions (Mellahi, Demirbag, Collings, Tatoglu, and Hughes 2013).

Finally, in the face of unstable environmental conditions, some scholars have highlighted the importance of the development of resilience in employees (Coutu 2002; Luthans 2002). Resilience has been found to be a critical factor that supports employees in managing work-related stress and coping with challenging environmental conditions.

Considering the uncertain environment of the IRI, in the next section, we review some of the prior findings about the HRM practices in this country.

3.2 *HRM in the IRI*

There is very limited research about *international* HRM in the context of the IRI (Soltani 2010; Soltani, and Liao 2010), particularly considering the impact of the uncertain environment on HRM. Prior studies conducted on local Iranian firms have revealed the prominence of flexibility in Iran. Feiz, and Golshahi (2017), for example, argue that in an uncertain environment, strategic flexibility allows Iranian companies to respond to environmental changes more quickly and better utilise their resources which can improve their firm performance.

Aezami Nejad (2014), a board member of Iran's Human Resource Management Society, highlights the importance of communication with employees in an uncertain environment. He explains that when the environment is changing rapidly if managers do not communicate with their

employees frequently, employees may start creating rumours or assume that their managers are incapable of managing the new situation. Similarly, Jalalkamali, Ali, Hyun, and Nikbin (2016) found that communication satisfaction (relational and informational) of employees can positively affect the job performance of employees working in international joint ventures operating in Iran.

The research of Gholipor, and Eftekhar (2017) on talent management of telecom companies in the IRI's uncertain environment illustrates that their current approach could not only retain and develop talent in turbulent times but could also lead to the loss of their talent or their disengagement. Talented employees are particularly important in uncertain environments to come up with innovative solutions to address potential challenges (Holland, and Scullion 2019; Scullion, Collings, and Caligiuri 2010; e.g. Zhang, Ahammad, Tarba, Cooper, Glaister, and Wang 2015).

Latifi (1997) refers to the impact of Islam's values and Iran's national culture on managers' values. She sheds light on some of the work-related values of Iranians such as behaving kindly towards employees and involving employees in decision-making. By contrast, Tayeb (2001) indicate that decision-making in Iranian companies is usually centralised as employees (particularly at lower and middle levels) are not committed to the organisation and are reluctant to contribute to the decision-making. Similarly, Balali, Ahmadi, Seyed Javadin, and Farhangi (2009) conducted research on the Iranian managerial decision-making style. They found that Iranian managers make decisions individually, and do not change their decisions based on certain cultural norms; in fact, they may ask others for suggestions but there is no participatory method of decision-making in Iranian companies.

MNCs' HR managers might also be faced with the dilemma of pursuing standardised headquarter HR practices or adapting HR policies to suit the environmental conditions of the IRI. According to Tayeb (1998), international companies can have enterprise-wide policies, but to meet

the local circumstances of the IRI, they have to adapt their HR practices. Similarly, Soltani, and Wilkinson (2011) shed light on how managers assigned to subsidiary MNCs in the IRI are under pressure to find a balance between orders from their headquarters and the environmental uncertainty in the country.

3.3 Dynamic capability perspective

To examine specific HR practices of MNCs in the uncertain environment of the IRI, we have adopted a dynamic capability perspective which is built upon the resource-based view (RBV) of the firm. According to the RBV, it is the possession of valuable, rare, inimitable, and non-substitutable (VRIN) resources that support firms to gain a competitive advantage and enhance their performance (Barney 1991; Barney 2001). However, dynamic capability scholars argue that the sole possession of VRIN resources would only create a competitive advantage in stable environments (Ambrosini, Bowman, and Collier 2009), and in volatile environmental conditions, companies should develop dynamic capabilities to adapt to complex or changing environments (Nelson 1991; Teece, and Pisano 1994). According to them, in a precarious environment, dynamic capabilities are required to enable firms to transform their existing resources and create a new bundle of resources to achieve the firms' strategic objectives (Ambrosini, and Bowman 2009; Helfat, and Peteraf 2009). Teece (2007) explains that the development of capabilities allows firms to better sense the opportunities in a changing environment and seize them, which can then enhance firm performance. Dynamic capabilities are defined as "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" (Teece, Pisano, and Shuen 1997). They are considered as latent capacities that cannot be detected directly but can be identified through observable routines and their outcomes (Di Stefano, Peteraf, and Verona 2014).

Capabilities are built upon the organisational and managerial processes of a firm (Amit, and Zott 2001; Dosi, Faillo, and Marengo 2008). Managers employ these processes to transform their resources into new useful assets that enable the firm to conform to environmental changes (Colbert 2004). Wang, Jaw, and Tsai (2012) found that to retain dynamic capabilities, firms should work on their human capital to realise maximum productivity, and engage them in leveraging the core competencies of the company; these competencies then become the differentiating factor of the organisation and can be adjusted to the new and future needs of the environment.

4 Research Method

4.1 Research design

To understand how environmental uncertainty impacts employees and the way that MNCs' subsidiaries' HR departments design HR capabilities to be agile and respond to uncertainties, we conducted a qualitative exploratory research (Saunders, Lewis, and Thornhill 2016). The qualitative approach allows a deep understanding of the phenomenon in its context (Bryman 2015) and facilitates the development of new insights (Yin 2014). A multiple case-study approach was employed as this supports replication logic and enabled us to identify the similar capabilities that were developed and employed by different MNCs' subsidiaries' HR departments (Eisenhardt, and Graebner 2007; Yin 2014).

4.2 Case selection

In this research, HR departments of subsidiaries of six MNCs in the IRI were selected. Case selections were based on two approaches: *purposive* sampling, based on the information we received from a person working in a governmental organisation supporting MNCs' operations in

the IRI, and *convenience* sampling. Convenience sampling (Saunders, Lewis, and Thornhill 2016) is a common practice in emerging markets (Zaefarian, Eng, and Tasavori 2016) as gaining access to top managers of these companies is quite difficult, particularly when they are dealing with many challenges as a result of uncertainties in the environment. When deciding on which companies to interview, we endeavoured to select MNCs' subsidiaries operating in different industries and from different countries of origin. Heterogeneity of cases allowed us to compare the findings in different industries and facilitated generalisation (Schuster, and Holtbrügge 2012; Tasavori, Ghauri, and Zaefarian 2014). An overview of company cases, number of years of operation in the IRI, their industry, and the continent of origin is provided in Table 1. To respect the anonymity and confidentiality of interviewees and the interviewed companies, a pseudonym is given to MNCs' subsidiaries.

Insert Table 1 about here

4.3 Data Collection

Data for this research were collected from multiple sources. Primary data were collected by interviewing top managers and employees of MNCs' subsidiaries in the IRI. Overall, 14 interviews were conducted (see Table 2 for an overview of interviewees) between August 2018 and February 2019. Before the interview date, an explanation of the research project and the list of interview questions were sent to the interviewees and they were invited to participate in the research. After their initial consent, an interview was arranged.

Interviews lasted between 30 and 90 minutes, with an average duration of about 60 minutes. Interviewees included HR managers, HR employees, technical managers, project managers, marketing managers, and vice presidents. Other managers were also interviewed for triangulation purposes (Stake 2010) and to obtain a more comprehensive picture. After conducting

the first interview in each company, snowball sampling (Bryman 2015; Kuzel 1992) was employed to interview the second informant in the firm. Interviewing several people in a company allowed us to achieve a more comprehensive understanding (Golden-Biddle, and Locke 2007) of the impact of uncertainties on employees, and how HR departments were addressing them. We also interviewed some of the employees of these companies for triangulation purposes (Ghauri, and Firth 2009; Perry 2001). Before each interview, we confirmed the anonymity and confidentiality of the data and obtained the permission of interviewees to record the interviews. Interviews were then transcribed to facilitate data analysis (Bryman 2015). Except for two interviews that were conducted in English, the rest were carried out in Persian.

Based on the reviewed literature, we designed an interview guideline (King, and Horrocks 2010) and constructed semi-structured and open-ended questions. The interviewees were asked to provide some information about the background of the company, their position and experience of working in the firm, the environmental uncertainties impacting the firm, and how the HR department was developing new capabilities in the face of these uncertainties.

Insert Table 2 about here

Secondary data were also collected by reading different supporting documents, reports, journal articles, news, company websites, and brochures. Secondary data can be helpful in providing a comprehensive picture and corroborating the primary data (Yin 2014).

4.4 Data analysis

We first developed a story of each company case based on the number of interviews that we had conducted. Interviews were analysed and coded by employing thematic analysis approach to

identify emerging themes (Braun, and Clarke 2006; Gaur, and Kumar 2018; Ghauri, and Gronhaug 2010; Miles, and Huberman 1994). Thematic analysis was used because it enables the summarising of critical aspects of a large body of data, facilitates the highlighting of similarities and differences and allows the acquisition of unpredicted insights from the dataset (Braun, and Clarke 2006). Consistent with prior studies, codes were both theory and data-driven (Sinkovics, Elfriede, and Ghauri 2005). In the coding process, we identified the textual data of each interview corresponding to the code. Subsequently, we subsumed codes under broader categories wherever possible. We then carried out a within-case analysis to identify more detailed emergent patterns (Miles, and Huberman 1994). When following this process, we allowed the emergence of the patterns of each case before a cross-case generalisation. To ensure the reliability of coding (Bryman 2015), each author coded the interviews independently; the codes were then compared with each other to identify and achieve consensus on any potential discrepancies. Such an approach also helps to improve data analysis and extend insight into the data (P. Koen, Plessis, and Koen 2014, 185-186). Following the suggestion of some researchers (Ghauri, and Gronhaug 2010; Miles, and Huberman 1994; Yin 2014), we then pursued pattern matching and compared and contrasted the identified themes and patterns across cases. We employed Maxqda12 software in the process of data coding and analysis as it supports the analysis of data from multiple sources and facilitates coding, segmenting, classifying, and analysing interviews (Gibbs 2002).

5 Findings

In our interviews, we endeavoured to examine capabilities that MNCs' subsidiaries' HR departments developed in highly uncertain environments that enabled them to adapt to environmental changes.

5.1 Impact of uncertainties on employees and the aim of development of capabilities

The key uncertainties that were highlighted in our interviews were related to sanctions and consequently high exchange rates, high inflation rates and change of government rules and regulations in response to sanctions. In line with the existing literature (e.g., Weick 1993; Wilkinson, and Wood 2017), we also found that highly uncertain environments not only had impacted MNCs' subsidiaries but also their employees. Between February 2018 and November 2018 when the country was facing the possibility of more sanctions, the exchange rate and inflation rate surged considerably (Segal 2018). These sudden changes in the environment made people very anxious about the future of the country, continuity of the operations of MNCs in the IRI, and the likelihood that they would lose their jobs. As suggested in the literature (Halkos, and Bousinakis 2010), the managers we interviewed also pointed out that in such environmental conditions, the efficiency of employees dropped and they were not as focused on their jobs as they should be. For example, an HR Senior Manager of ComCo. commented:

“I really do not want to follow the news, but all my colleagues are talking about the situation and what they should do. They do not concentrate on their job, and they are just searching for solutions to maintain their standard of living [because of the rise in the inflation rate and the exchange rate].”

Figure 1 demonstrates an overview of the sources of uncertainties and their impact on employees working in MNCs' subsidiaries in the IRI.

Insert Figure 1 about here

Our interviews highlighted that the HR departments attempted to develop new capabilities in the face of environmental uncertainties. Specifically, they explained that they were developing capabilities with the hope of reducing the anxiety of employees about the future, enhancing their concentration and efficiency, ensuring their job security, enhancing employees' purchasing power, and improving the resilience and morale of employees. In the next section, we explain specific capabilities that were developed in these subsidiaries to achieve these goals.

5.2 HR capabilities developed in the uncertain environment

5.2.1 Flexible cost management of HR operations

Interviewees indicated that in the face of an unpredictable future and to run the business for a longer period, they had to develop new cost management capability. Specifically, from the HR point of view, they attempted to reduce unnecessary HR costs and redesign training strategies. These initiatives are explained below.

Managing unnecessary HR costs. Most of the interviewed companies emphasised that they decided to prioritise saving more jobs in an uncertain environment by reducing the overall HR costs. The HR manager of Consumer Goods, for example, explained that every year they funded extravagant celebrations for the New Year. However, this year, to reduce costs they decided not to organise such an expensive event; instead, they decided to allocate part of this money to the benefits that they were going to pay to employees. According to her,

“Every year, we had a very big and costly ceremony for Iranian New Year, which is the best practice here, but because of the economic situation, we found out that it is not necessary to have it like other years; we are also reducing other costs so we could pay more money to our employees.”

Based on our interviews, this strategy was both accepted and welcomed by employees as it ensured the continuation of the company over a longer period.

Another type of cost reduction strategy employed by HR departments was restricting unnecessary overtime working and consequently reducing HR overall costs (e.g. in the case of ComCo.).

Flexible training and development processes. In the uncertain environment, interviewees revealed that they had to adapt previous standards of training provided by their headquarters. In agreement with their headquarters, they decided to reduce or postpone unnecessary training and wherever possible, reduce the cost of training. For example, they indicated that they decided to reduce the number of offshore training programmes. Due to the increase in the exchange rate, they found it too expensive to travel overseas and pay for hotels and workshop registration fees, among other outgoings. Nevertheless, to cover headquarters' training standards, subsidiaries' HR managers had to find new ways of covering the training needs of their staff. For example, they attempted to identify local institutions to offer the required training (e.g. in the case of ComCo.) or offer internal training (e.g. in the case of FoodCo. and Herbal Med.). The HR manager of FoodCo. elaborated:

“We check if someone else in the company has received this training before; we then ask him/her to train others in the company to reduce our costs in this environmental condition”.

5.2.2 *Adapting compensation packages*

Interviewed companies also asserted that in the face of the uncertain economic conditions, they decided to redesign their compensation package by focusing more on the primary and basic needs of their employees. The HR Vice President of the ComCo., for example, indicated,

“We have many incentive packages like travel, sport, etc. We found out, in this difficult economic situation, our employees are in desperate need of cash so we are no longer

offering any of these: instead, we are giving them gift cards so they can spend them on their more urgent needs.”

Similarly, the HR manager of the Medicine Co. spoke about small changes they made to help their employees feel better in the face of uncertainty within the external environment:

“We cannot do significant work financially, but we do small things to increase the welfare of the employee in the office, like having breakfast or snacks or changing the compensation package”.

Another interesting initiative was offering extensive medical check-ups because of the higher stress levels among employees. One of the HR managers postulated that people may pay less attention to their health during tough economic conditions; therefore, they decided to provide this benefit for their employees. In the words of this manager,

“We had some health check-ups every year, but this year, we had them done more comprehensively, and I think it has had a very positive effect. Before that, we had just blood, eye and ear tests but this year we have added heart tests and some internal organs’ tests for men and women.” (Consumer Good HR Vice President)

Another interviewee, the HR manager of FoodCo, explained that to enhance the resilience of their employees, they are now offering more stress management workshops to reduce the stress of employees to support them during the uncertain environmental situations. Specifically, she said,

“Look, we provide some crisis management training for our staff, so our people know how to manage their stress in critical situations and help our team to be one step ahead.”

5.2.3 Frequent and transparent communication with employees

The interviewees pointed out that the volatile environmental situations had impacted their employees by reducing their morale and efficiency as they were worried about losing their jobs and anxious about their prospects. To reduce this problem, HR managers found it critical to develop the capability of more frequent and transparent communication with their employees. Almost all interviewee managers highlighted that they were arranging more frequent and

transparent meetings with their employees, emphasising that they were not planning to leave the country or that making employees redundant was not on their agenda. The Chain Store HR manager said,

“We have told our employees that the last MNC to leave the country would be us!”

In their communication, managers also attempted to enhance the resilience of their employees by asserting:

“Do not worry, this [referring to the sanctions and related uncertainties] will also pass.”
(HR manager of the Chain Store)

One of the HR senior experts of ComCo. said:

“There was a time when everyone was stressfully following news and the exchange rate, it was an overall panic, but through indirect communication, we showed that although our business is very dependent on the rate, we are doing our business and we will survive in Iran; so anxiety reduced little by little”.

Another advantage of frequent and transparent communication was to give the employees the impression that if the company could not continue working in the IRI, their managers would inform them so they would have enough time to plan. The Vice President of the Consumer Goods Company, for example, commented:

“We have been very honest with our employees, and we inform them of any changes in advance, so they have enough time to plan what to do”.

5.2.4 Talent retention

To be able to adapt to environmental conditions quickly, most of the interviewees also acknowledged the importance of retention of their key capable top managers. While most of the company cases asserted that they had developed loyal and committed managers over the years, some revealed that because of the high inflation rate and high exchange rate, the company had

decided to develop specific strategies to retain their key managers. Some of the companies (e.g. Chain Store and Medicine Co.) explained that they even decided to improve the key managers' compensation packages to ensure that these managers did not leave their companies.

The importance of employing capable managers in the interviewed cases was emphasised by almost all managers. Even though most of them had decided not to recruit new employees in the uncertain environment, they were attempting to collect information about potential top candidates who had lost their jobs (because of the turbulent environment), so as to recruit them as soon as the economic conditions improved.

5.2.5 Long-term-oriented, team-based, and accelerated decision-making of top managing teams

Interviewed subsidiaries said that, in order to adapt to environmental changes, they found it critical to focus on the long-term operations of their business in the IRI as the environment would not always be volatile. For example, the Chain Store HR manager mentioned that the IRI had quite a large middle-class population and, in the long term, it was quite profitable. However, not every MNC, particularly those from developed countries that were not used to uncertain environments, could continue doing business in those conditions. Similarly, the HR managers of Consumer Goods and FoodCo. said they had been operating in the IRI for a long time (over 40 years) and were not planning to leave the country, a fact which was taken into account when they were making decisions during times of turbulence.

Interviewed managers also highlighted the necessity of developing more team-based decisions and involving HR departments even more (e.g. Consumer Goods, ComCo., FoodCo.). Also, team-based decision-making allowed companies to reduce risks and undertake a more

comprehensive analysis of the situation. For example, the HR Vice President of the Consumer Goods said,

“When we encounter a crisis, we develop a crisis management team; we choose a team from different departments to work on finding solutions for the crisis. We arrange the team in a way that we have a comprehensive view of the problem”.

Interviewees also indicated that, when faced with environmental changes, they found it crucial to make quick decisions at the firm level. As these decisions also required some changes at the HR level and support of HR managers in aligning their strategies with the firm’s responses, managers said they also had to make HR-related decisions quicker than would normally be the case.

5.2.6 *Delegation of autonomy to subsidiaries’ HR departments*

In line with the previous capability, we also found that quick adaptation of MNCs’ subsidiaries would not have been possible without the trust and support of the company headquarters. Specifically, we noticed that some of these MNCs’ subsidiaries’ HR departments could be agile in the context of the IRI because of the autonomy that was given to them by their headquarters. Although the headquarters wanted to be informed about the decisions being made, over the years of operation in the country, they had learnt to trust the analysis and solutions proposed by top managers of their subsidiaries. For example, the HR manager of FoodCo. said that,

“We have specific guidelines for the number of training hours that our employees should attend in a foreign country, but we convinced our headquarters to change this practice and offered this training locally”.

Similarly, the HR Vice President of the Consumer Goods elaborated that,

“Over the years, they [the headquarters] accepted our understanding of the environment; of course, they still expect us to inform them about any challenges that we face. However, they ask *us* to offer at least three solutions and they will pick one”.

It should be mentioned that delegation of autonomy would not have been possible if the company did not have highly qualified top managers, almost all of whom were Iranian (except in the case of Chain Store and one manager in Consumer Goods). The need to know the culture and contexts in decision making was indicated by all our interviewees. For example, the marketing manager of Herbal Med Co. stated,

“We proved ourselves to our headquarters by having a breakthrough from the beginning. Therefore, they did not feel that this subsidiary needs to have an expatriate to run and develop the business”.

An overview of our findings is presented in Figure 2.

Insert Figure 2 about here

6 Discussion and conclusion

In this research, we set out to examine how MNCs’ HR departments can be agile and overcome highly uncertain environmental conditions by shedding light on specific HR-related capabilities that they develop to adapt to precarious environments. Our findings reveal that HR departments of MNCs operating in the IRI developed six capabilities: these are (i) flexible cost management of HR operations, (ii) adapting compensation packages, (iii) frequent and transparent communication, (iv) talent retention, (v) long-term oriented, team-based and accelerated decision-making of top management teams, and (vi) delegation of autonomy to subsidiaries’ HR departments. Our research also highlights that the immediate aim of developing these capabilities was to support employees to adapt to environmental changes and consequently support the firm to have congruence with the precarious environment. Figure 3 presents a summary of our findings.

Insert Figure 3 about here

Our research offers several contributions. First, it adds to the international HRM literature by exploring HRM in highly uncertain environments, which has rarely been studied (Wood, Cooke, Demirbag, and Kwong 2018). We extend this body of literature by employing the dynamic capability perspective and illuminating several key HR capabilities that should be developed to enable MNCs to adapt in turbulent economic environments.

The first capability that we found was related to the flexible cost management of HR operations. While the prior literature points out to downsizing as a dominant strategy in times of economic downturn (Luan, Tien, and Chi 2013; Schenkel, and Teigland 2017), our research suggests that because of the high level of uncertainty, interviewed MNCs preferred to postpone any more severe actions such as laying off employees for as long as possible. Instead, they started with reducing unnecessary HR-related costs, and pursuing flexible training, supporting previous studies that have highlighted the importance of flexibility in the context of the IRI (Feiz, and Golshahi 2017). While the dominant HRM literature suggests that these type of reductions lead to decreased satisfaction of employees (Robinson, and Rousseau 1994), our findings provide a different perspective. Specifically, we found that in a highly uncertain economic environment, employees are willing to sacrifice a portion of their benefits to support the company to adapt to environmental changes and to reduce the risk of imminent job loss.

In line with previous studies (Dewatripont, and Roland 1995), our research also illustrates the necessity of adapting compensation packages in the face of highly uncertain environments and economic crises. As revealed by some scholars (G. Kautt 2018; Sadri, and Bowen 2011), we also found out that in turbulent environments, companies decided to change how they remunerated their employees by focusing on their critical needs and expectations

In congruence with other studies (Aezami Nejad 2014; Dyer, and Shafer 2003; Jalalkamali, Ali, Hyun, and Nikbin 2016; Nijssen, and Paauwe 2012; Pearson, and Clair 1998), the necessity of frequent and transparent communication in a highly uncertain environment was indicated as another critical capability to be pursued by HR managers. Transparent and honest communications have been found to reduce employees' stress (Subramaniam 2018) and enhance their job performance (Jalalkamali, Ali, Hyun, and Nikbin 2016). Sharing information about the uncertain environment and coping strategies of the firm also enables employees to rebuild their shattered assumptions and reduce feelings of vulnerability (Pearson, and Clair 1998).

Based on our research results, one of the main activities of the HR department of the MNCs working in the IRI is focusing on top talent retention. This is supported by the overall talent management literature: that retaining 'star' or A-players is the most important strategy among the talent management activities (e.g. Zhang, and Stewart 2017). Talent retention is even more critical in the context of the IRI as prior studies have revealed that Iranian managers may not be very successful at retaining their talented staff (Gholipor, and Eftekhar 2017).

The fourth capability that we found was related to the decision-making process of the management team. Our research highlighted three key characteristics of top management decisions in a highly uncertain environment. First, in the context of the IRI, managers preferred to consider the long-term future of their business in the country rather than focusing on short-term volatile environments. This corroborates prior studies pinpointing the necessity of the pursuit of long-term orientation in large-sized markets where operations might be challenging (Ghauri, Tasavori, and Zaefarian 2014; Tasavori, Ghauri, and Zaefarian 2016). Second, all our company cases were inclined towards team-based decision-making by involving all top managers to ensure a more comprehensive analysis of the situation and the related solutions. Although some scholars have

pointed out that Iranian managers may prefer centralised decision making (Balali, Ahmadi, Seyed Javadin, and Farhangi 2009; Tayeb 2001), our research illustrates that when faced with unpredictable changes, Iranian managers working in MNCs prefer to adopt more team-based decision-making. It might be because this type of decision making can facilitate the development of more creative solutions (Sommer, and Pearson 2007) which is essential in a dynamic environment (Mirza 2018). Finally, managers have to make much quicker decisions to respond in a timely fashion to opportunities and threats in a dynamic environment, as previously reported (Drabek 1986; Pearson, and Clair 1998; Williams, Gruber, Sutcliffe, Shepherd, and Zhao 2017).

The last capability that we found critical in the context of high uncertainty was related to delegating decision-making to local managers. Prior research has also emphasised that in a precarious environment, subsidiaries may need to have higher levels of control of HRM practices to conform to the local conditions (Mellahi, Demirbag, Collings, Tatoglu, and Hughes 2013; Suder, Reade, Riviere, Birnik, and Nielsen 2019). Our interviewed MNCs had decided to develop this capability because of the importance of quick decision making, and because their managers had a good understanding of the context of the IRI. This confirms prior literature highlighting the necessity of local responsiveness and decentralised decision-making in such an environment (Soltani, and Wilkinson 2011; Williams, Gruber, Sutcliffe, Shepherd, and Zhao 2017; Wood, Cooke, Demirbag, and Kwong 2018).

Our research also contributes to the dynamic capability literature (Teece 2007; Teece, and Pisano 1994). First, prior research has referred to dynamic capabilities as factors that enable firms to sense and seize opportunities in turbulent environments (e.g., Teece 2007), but the role of HRM has been relatively ignored in this process, particularly in highly uncertain economic environments (Wood, Cooke, Demirbag, and Kwong 2018). Our study illustrates that in such an environment,

not only the firm but also its employees are impacted, and it is crucial to support employees' ability to carry out their jobs. Our research reveals that in order to adapt to the uncertain environment, MNCs should first develop HR-specific capabilities to tackle the negative impacts of uncertain environments on their employees. This is vital, as prior research has indicated that employees with anxiety or stress will not be able to work productively (Anderson 1976).

Finally, this research was conducted in the IRI which has had relatively little research focused on international business and international HRM (Soltani 2010; Soltani, and Liao 2010). However, for the purpose of this research, this context offered a unique insight as it was undertaken at a time when the country and MNCs' subsidiaries were experiencing one of the most uncertain environmental situations (i.e. sanctions imposed by the US).

Managerially, our findings offer several implications to HRM managers working in highly uncertain environments. First, our research suggests that in a volatile economic environment, not only the firm but also the employees suffer, and this should be considered when designing HRM policies and practices. Employees might also feel the fear, anxiety, and stress etc. which can directly impact their performance. Therefore, in such environmental conditions, HR departments should develop capabilities to adapt to environmental changes by reducing the negative consequences of uncertain environments on their employees and improving their employees' morale and resilience.

Our findings also illustrate that adaptation with highly uncertain environments requires the development of specific capabilities. First, our research suggests that generic MNC HR practices may not necessarily work in a precarious environment, and HR managers may benefit from redesigning HR-related activities and focussing on more essential programmes to save money and

be able to continue their business for a longer period. Being flexible in training was specifically highlighted as an area which can help HR managers to save money.

Second, in a highly uncertain situation, it is particularly important to be flexible in designing employees' compensation packages. In fact, according to our findings, managers might have to focus on more primary needs, particularly if there is a significant economic downturn. Third, our findings suggest that in a continuously changing environment, frequent and transparent communication is necessary between managers and employees about environmental changes and how the company is going to tackle these volatile situations.

In a turbulent environment, managers may have to make many quick decisions in response to environmental changes. As a result, as is corroborated by our research, it is especially important that MNCs' subsidiaries attempt to retain their talented staff even if it means payment of higher compensation packages. In addition, employing team-based managerial decision-making in an unpredictable environment allows managers to develop a more comprehensive analysis of the situation and make better decisions within a short period of time. Moreover, it is vital for HR managers working in volatile situations to have a long-term view and see beyond those uncertainties when designing their strategies.

Finally, our research advises that, in highly uncertain environments, subsidiary HR managers should be authorised to make quick decisions if necessary. This also emphasises the significance of recruiting and developing qualified local managers.

This study is not without limitations. First, this research was conducted over a short period of time, and future studies can add to our findings by employing a longitudinal approach and by investigating the potential capabilities that should be developed and how MNCs' subsidiaries

might have to adapt them over time. In our research, we only focused on one country and specific uncertainties, which limits the generalizability of our findings. Future researchers can add to our study by addressing this shortcoming. Our research was also qualitative and limited to a very few cases. The international HRM literature could benefit from studies that test our findings on a larger scale. Finally, we only interviewed the MNCs' subsidiaries' top managers. Future studies could expand our findings by exploring views on this topic from MNCs' headquarters.

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Table 1. Overview of interviewed MNCs					
No.	Name of the company	Industry	Number of employees	Years of operation in Iran	Origin
1	ComCo.	High Tech	>1000	10	A developing country
2	Medicine Co.	Pharmaceutical and biopharmaceutical industry	400- 500	>20	A developed country
3	FoodCo.	Food manufacturing	400- 500	>40	A developed country
4	Chain Store	Retail	> 1000	<10	A developing country
5	Consumer Goods	Chemical and consumer goods company	400-500	>40	A developed country
6	Herbal Med.	Pharmaceutical industry	<100	<5	A developed country

Table 2. Overview of interviewees			
No.	Name of the company	Number of interviews	Position of interviewees
1	ComCo.	4	HR Vice President; HR manager, HR experts
2	Medicine Co.	1	HR Senior Manager
3	FoodCo.	1	HR Manager
4	Chain Store	2	HR Manager, HR Expert
5	Consumer Goods	2	HR Vice President, CEO Vice President
6	Herbal Med	4	CEO, Marketing and HR Manager, Financial Manager

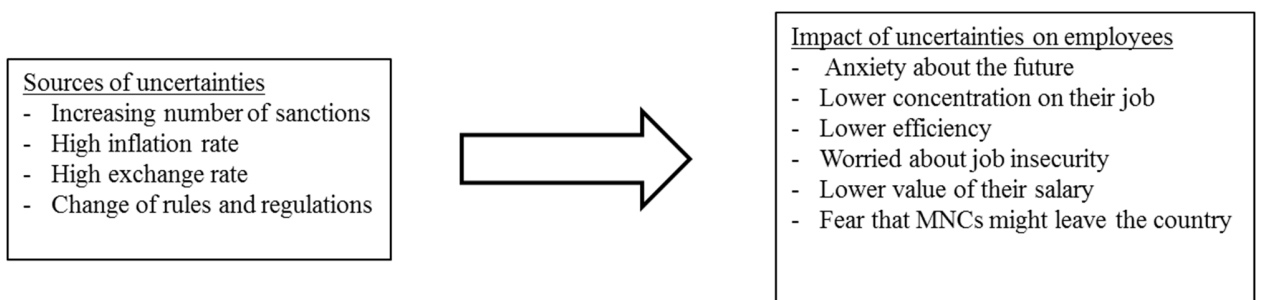


Figure 1. Uncertainties and their impact on employees

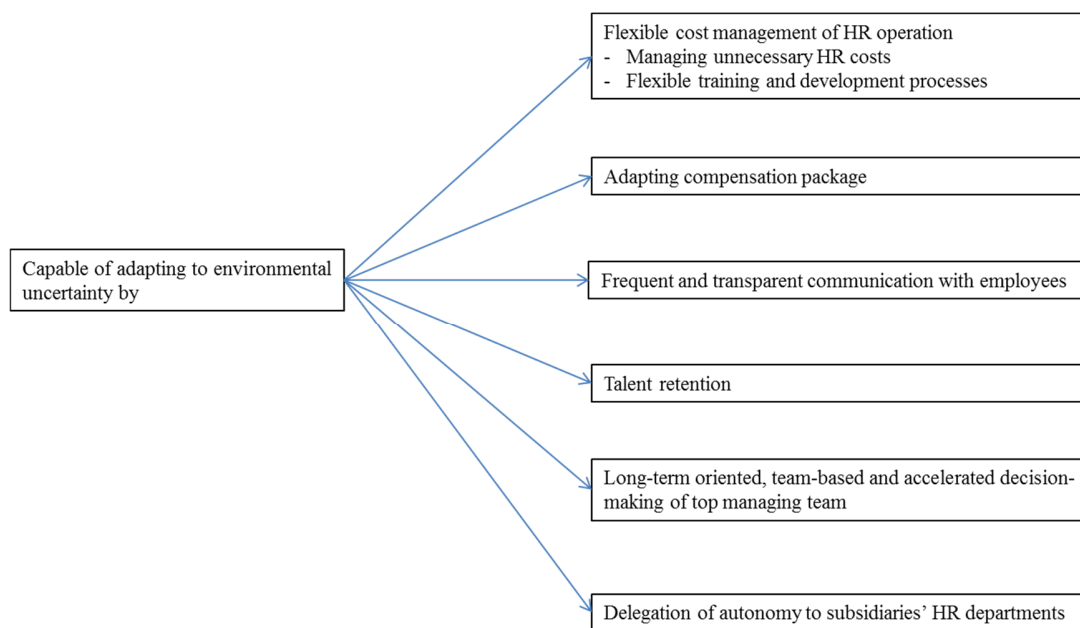


Figure 2. - Summary of capabilities developed by HR in highly uncertain environments

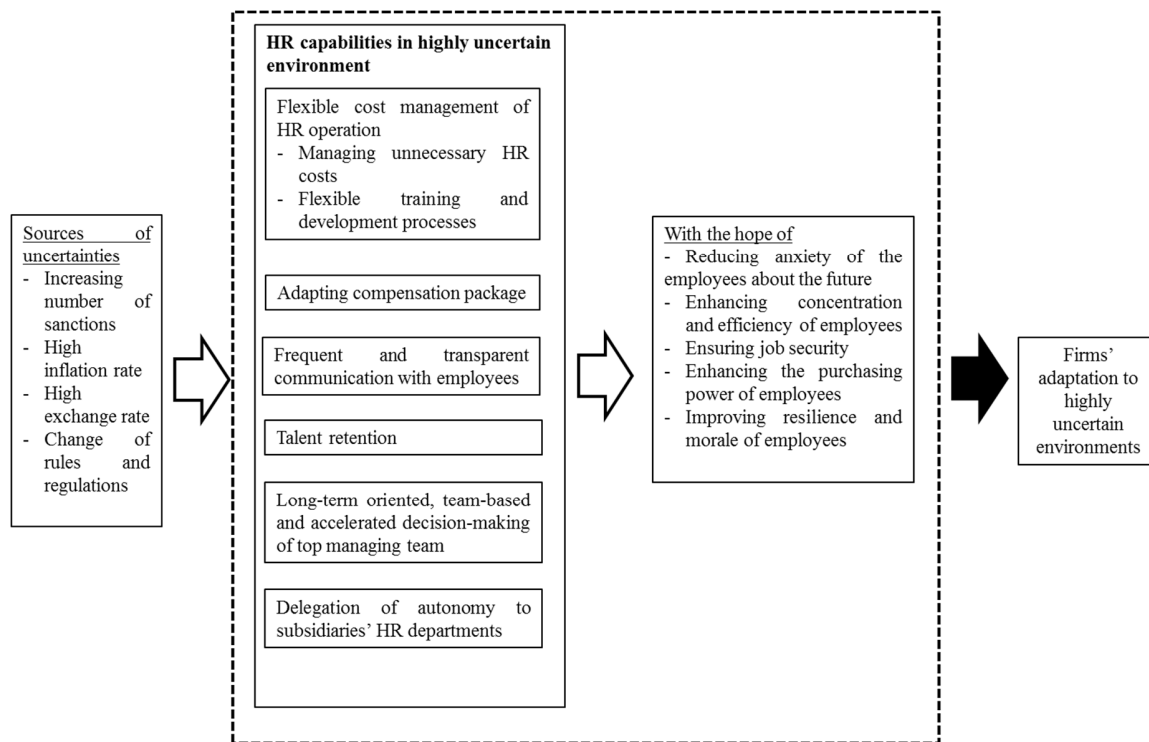


Figure 3. HR dynamic capabilities in highly uncertain environments and their outcome

Data Availability Statement

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available because they contain information that could compromise the privacy of research participants.