

Human Resources Management In Context

**Lecture Title :-
HRM and the External Environment**

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Date: 12th May 2025



**Masters in
Human Resources Management**

Learning Outcomes

- Identify various external factors that can affect Human Resource Management (HRM)
- Evaluate the impact of external factors on HRM
- Understand how to use PESTLE analysis in relation to HRM processes
- Critically assess how HRM strategies are shaped around macro environmental factors



“HRM in organizations cannot be fully understood in an atomic sense isolated from economic, social, and institutional interconnecting relationship”. Dundon and Rafferty (2018: 380)



Group discussion

Can you mention some **internal** and **external** environmental factors that can influence how organisations function?



Internal and External Environmental Factors

Internal Environmental Factors –

- **Social system** (the methods in which work groups are organized and their interactions)
- **Technical system** (how work is organized)
- **Sector** (ex – private, public, voluntary, manufacturing, service..)
- **Size**
- **Complexity**
- **Technology**
- **Culture**
- **Financial aspects**
- **Type of people employed**
- **Presence or absence of trade unions**

Internal and External Environmental Factors

External Environmental Factors–

- **National and international competition**
- **Deregulation of markets** (the removal of government regulations or restrictions in a particular market, industry, or economy, intended to create more competition within an industry)
- **Impact of globalization**
- **State of financial markets**
- **State of labour markets**
- **Economic trends**
- **Societal trends**
- **New technology**
- **Government interventions** (legislation and regulations)
- **Political**
- **Ecological**
- **Demographic**

Group discussion

What external changes have recently impacted workplaces you've worked in or organisations within your respective countries?



Pestle Analysis

PESTLE analysis is a strategic method for identifying and evaluating macro-environmental issues that can impact a company. The acronym represents **Political, Economic, Social, Technological, Legal, and Environmental** factors.

This approach helps firms, especially HR departments, to evaluate external factors that may influence decision-making, resource planning, and strategic direction.

The PESTLE concept originated from Francis J. Aguilar who used the terms **ETPS (Economic, Technical, Political, and Social)**. The model evolved over time, with later scholars and practitioners expanding it to PEST & PESTLE, to include legal and environmental factors.

Pestle Analysis

P POLITICAL	E ECONOMICAL	S SOCIAL	T TECHNOLOGICAL	L LEGAL	E ENVIRONMENTAL
<p>Example:</p> <ul style="list-style-type: none">• Current tax policy• Brexit• Trade policies• Political stability• Government policy• Climate Change Acts	<p>Example:</p> <ul style="list-style-type: none">• Inflation rate• Exchange rates• Economic growth• Interest rates• Disposable income• Unemployment rate	<p>Example:</p> <ul style="list-style-type: none">• Lifestyle attitudes• Cultural barriers• Population growth• Population age• Health consciousness• Target demographics	<p>Example:</p> <ul style="list-style-type: none">• Level of innovation• Automation• Technological awareness• Cybersecurity• Technolgical change• Internet availability/ speed	<p>Example:</p> <ul style="list-style-type: none">• Employment laws• Discrimination laws• Health and safety• Copyright protection• Consumer safety	<p>Example:</p> <ul style="list-style-type: none">• Weather• Climate change• Environmental policies• NGO pressure• Recycling• Pollution• Sustainability• Waste disposal• Energy consumption

Pestle Analysis

PESTLE Element	Definition	HRM Relevance/Example
Political	Government policies, labor laws, tax regulations	HR policy adaptation in response to trade union laws or visa restrictions
Economic	Inflation, interest rates, unemployment, GDP	Compensation strategy during recession; hiring freeze during downturn
Social	Demographics, education levels, cultural norms	Diversity & inclusion strategies; flexible work for Gen Z expectations
Technological	Innovation, automation, digital disruption	Reskilling programs, AI-driven recruitment, HRIS adoption
Legal	Employment law, health & safety, data protection	Compliance training, GDPR impacts, HR audits
Environmental	Sustainability, climate change regulations	Green HRM, remote work policies to reduce carbon footprint



SWOT Analysis

SWOT analysis is a popular strategic planning tool for identifying an organization's **internal strengths** and **weaknesses**, as well as **external opportunities** and **threats**. This framework facilitates decision-making by providing a structured approach to evaluating an organization's existing situation and planning future plans.

SWOT analysis originated in the 1960s and 1970s at California's Stanford Research Institute (SRI). It was created as part of a long-term study project directed by Albert S. Humphrey, who wanted to understand why business planning frequently fails. His team developed the SWOT framework to boost strategic alignment and company planning effectiveness (Humphrey 2005).

SWOT Analysis in HRM

SWOT analysis is commonly used in Human Resource Management to:-

- Align HR capabilities with organizational goals
- Assess internal competencies
- Anticipate external changes that could affect the workforce

Integrating PESTLE and SWOT

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HR Forecasting and Environmental Scanning

Human Resource (HR) forecasting

The process of estimating an organization's future HR needs—both in terms of quantity (headcount) and quality (skills, capabilities)—based on strategic goals, business trends, and projected changes in the internal and external environment.

- To align workforce planning with organizational goals
- To anticipate talent shortages or surpluses
- To prepare for future changes in demand, such as expansion, downsizing, or digital transformation

Different Types of HR Forecasting

Type	Description	Example
Demand Forecasting	Predicts the number and types of employees needed in the future	A tech firm forecasting the need for 50 data scientists in the next 2 years
Supply Forecasting	Estimates the availability of current workforce and future talent pool	Assessing internal promotion pipelines and local labor market availability
Gap Analysis	Identifies the shortfall or surplus between supply and demand	Identifying a need to hire or retrain due to an aging workforce
Action Planning	Determines how to close gaps (e.g., recruitment, training, outsourcing)	Developing a reskilling initiative for current employees

HR Forecasting and Environmental Scanning

Environmental Scanning

A systematic process of **monitoring, analyzing, and interpreting** external influences that could impact the organization's human resource management practices and strategy.

This is where tools like **PESTLE** analysis and Porter's Five Forces become central to understanding external trends.

- To identify emerging trends, risks, and opportunities
- To inform strategic HR decisions (e.g., policy changes, workforce design)
- To ensure HR is proactive rather than reactive

Key Environmental Scanning

Area	HR Implication
Technological	Need for upskilling, adoption of HR tech (e.g., AI, automation)
Demographic	Aging workforce, generational diversity, global talent mobility
Economic	Budgeting for salaries, impact of inflation, benefits planning
Legal/Political	Employment laws, data protection regulations
Social/Cultural	Inclusion strategies, work-life balance preferences

Combining HR forecasting and Environmental Scanning

Step	What Happens
1. Scan Environment	Use PESTLE to identify trends (e.g., AI adoption, labor laws)
2. Forecast HR Needs	Determine how these trends affect workforce size and skills
3. Plan Strategic Response	Talent acquisition, retention programs, L&D initiatives



PESTLE & SWOT Analysis exercise

Instructions:-

PESTLE Analysis

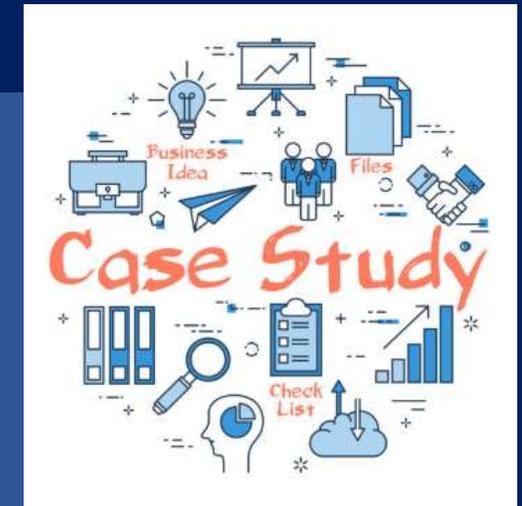
- Identify at least 2 key factors per PESTLE category that are influencing GlobalTech's HR environment.
- Explain how each factor may impact HR practices such as recruitment, employee engagement, learning and development, or compliance.

SWOT Analysis

- Assess GlobalTech's internal Strengths and Weaknesses (e.g., resources, systems, culture)
- Link Opportunities and Threats to your PESTLE findings.
- Provide 1–2 HR strategies or actions that GlobalTech should consider in response.

Discussion Prompt (Optional for Group Work)

"How can GlobalTech align its HR strategy to be both compliant and competitive while responding to both employee expectations and external pressures?"





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Group Work (Refer to work sheet)

Challenge Description	PESTLE Category (Choose One)	Suggested HRM Response
Difficulty hiring skilled foreign workers due to visa restrictions		
Inflation driving employee demands for higher pay		
Employees demanding more flexibility and remote work options		
Legal changes around employee data privacy (e.g., GDPR)		
Talent loss due to automation replacing routine roles		
Rising pressure to demonstrate environmental and social sustainability		
Cybersecurity threats involving employee records		
Aging workforce nearing retirement in key departments		
New government regulation affecting working hours		
Skill shortages in emerging technologies (e.g., AI, data science)		
Decline in employee morale after pandemic-related return-to-office		
Global economic uncertainty affecting hiring plans		



Strategic Integration of External Analysis

Strategic integration of external analysis allows HR to **transition** from a **reactive administrative role** to a **forward-thinking strategic partner**, which is critical for organizational resilience and success.

Effective strategic integration of external analysis leads to :-

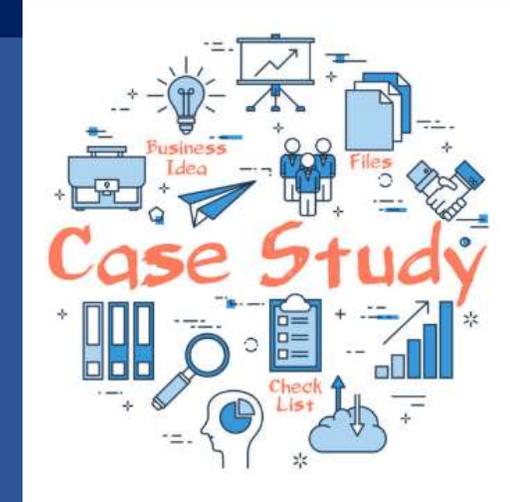
- Anticipating Change Instead of Reacting to It
- Enabling Evidence-Based Strategy
- Aligning HR with Business Goals and Market Conditions
- Supporting Risk Management and Agility
- Enhanced Competitiveness



Strategic Integration of External Analysis

Instructions (Group Work – 3–5 students per group):

1. Review the PESTLE Analysis (provided in the handout or shown on screen).
2. Select 2–3 PESTLE factors and identify:
 - 1 strategic opportunity they create for HR
 - 1 potential threat or risk
3. List them in the SWOT grid provided
4. Briefly explain how HR might respond to one of the threats or leverage one of the opportunities
5. Prepare to share your analysis with the class in 5 minutes.



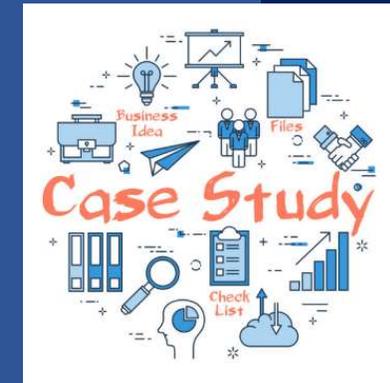
Strategic Integration of External Analysis

Scenario

A mid-sized tech company is expanding into Europe and wants to future-proof its HR strategy over the next 3–5 years.

PESTLE Analysis (External Environment)

Factor	Observation
Political	EU pushing for stricter labor and data privacy laws (e.g., GDPR)
Economic	High competition for tech talent; inflation affecting salary expectations
Social	Millennials and Gen Z demand flexibility and purpose-driven work
Technological	Rapid automation and AI integration affecting roles and required skill sets
Legal	Changes in remote work legislation post-COVID across European countries
Environmental	Increased pressure to demonstrate ESG and sustainability credentials



Aligning HR with Strategy in Uncertain Environments

Strategic alignment elevates HR from a support function to a critical enabler of business agility, creativity, and sustainability in times of transition. Here's why:-

- **Agility and Resilience**
- **Talent as a Competitive Advantage**
- **Cost-Efficiency and Prioritization**
- **Workforce Planning and Risk Management**
- **Cultural and Ethical Leadership**



Aligning HR with Strategy in Uncertain Environments

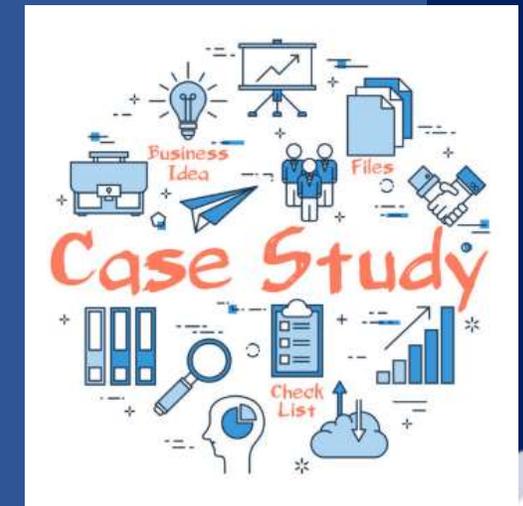
Instructions:

Your group is acting as the HR leadership team of a global retail company facing the following challenges simultaneously:

- Rising inflation and reduced consumer spending
- Tight labor markets in logistics and tech roles
- Calls for sustainable operations from investors and employees
- Ongoing supply chain disruptions due to geopolitical tensions

Task:

1. Identify **three strategic business responses** the company might consider.
2. For each, decide how **HR should align** to support or lead the response (e.g., talent planning, policy, culture, communications).
3. Identify **1 key risk** if HR is not aligned strategically.



Key Readings :-

- Aguilar, F. J. (1967). Scanning the Business Environment. Macmillan.
- Boxall & Purcell (2016), *Strategy and Human Resource Management*
- CIPD Report on "External Forces Shaping the Future of Work"
- CIPD Knowledge Hub: External Environment & HR
- Harvard Business Review article on environmental scanning and workforce strategy
- Humphrey, A.S., 2005. SWOT analysis for management consulting. SRI Alumni Newsletter. Available at:
<http://www.alumni.sri.com/newsletters/Dec-05/>
- Torrington, Hall & Taylor (2020), *Human Resource Management*
- Ulrich, D. (1997). *Human Resource Champions*





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