Chapter 3
Environmental Influences on HRM
After reading this chapter, you should be able to:

• Identify the sources that HR planners use to keep current with business and HR trends

• Understand how environmental scanning is practised

• Discuss the challenges in scanning the environment
After reading this chapter, you should be able to:

• Delineate the environmental factors, such as the economic climate, the political and regulatory context, and the social and cultural climate, that influence the practice of HRM

• Describe the role of the stakeholder, and list several examples
Environmental scanning: Systematic monitoring of trends affecting the organization

• Identifies trends that might affect the formulation and implementation of both organizational and HR strategies
• **External environment:** Anything outside organizational boundaries that might influence an organization

• The external environment is not part of the organization but is tightly integrated with it.

• Organizations do not exist in isolation.
Analyzing the External Environment

1. Scanning
2. Monitoring
3. Forecasting
4. Assessing
Each source of information can be used to develop HR strategy:

- Publications
- Professional associations
- Conferences/seminars
- Professional consultants
Top Ten Trends in HR

1. High cost of employee health care
2. Changes to federal healthcare laws
3. Increased global competition for jobs, markets, and talent
4. Growing complexity of legal compliance by employers
5. Changes in employee rights
6. Baby boomers leaving the workforce
7. Growth in emerging markets (China, India, Brazil)
8. Greater need for cross-cultural understanding
9. Growing national budget deficit
10. Greater economic uncertainty and market violation
Competitive intelligence: A formal approach to obtain information about competitors

Two Important Questions

1. Is the source reliable?
2. What is the likelihood of the information being correct?
Examples include:
1. Study competitors’ websites
2. Have employees ask suppliers about competitors
3. Hire employees who have worked for competitors
Challenges:

- Inability to accurately predict the future
- Inability to isolate what really is important to HR

Examples include:

- Technology, downsizing, telecommuting, outsourcing
Isolating Critical from Insignificant

• Few trends exist in isolation.
• For example: Difficulty finding employees where labour shortages exist; retiring university professors may not be replaced with permanent positions.
• For every trend, there is a counter-trend.
• For example: Globalization vs. localization.
Major factors include:
1. Economic climate
2. Globalization
3. Political and legislative factors
4. Technological factors
5. Demographic factors
6. Social/cultural factors
Economic climate: Anything to do with the economy that affects HR management

- Examples include: unemployment, globalization, interest rates, and the strength of Canadian dollar
Globalization: The growth in flows of trade and financial capital across borders

- Affects sovereignty, prosperity, jobs, wages, and social legislation
- NAFTA has increased both imports/exports, and 20 percent of jobs are now related to international trade
Demographics: The study of population statistics, including:

- Age
- Gender
- Family status
- Education
- Economic status
- Labour market
Demographic Factors

• Labour market: Most important demographic factor, influencing an organization’s ability to implement strategy

• Unemployment rate; geographic migration; graduation rates; local, provincial, federal, global regions
Demographic Factors

• Diversity: Great disconnect between actions and words. Many organizations acknowledge the importance of diversity, **only 26 percent** fund it.

• Generational differences: Greatest trend is retiring baby boomers’ huge impact on job vacancies and the whole structure of what will follow.
Political and legislative factors:
Provincial and federal governments influence organizations with changes to laws and regulations.

- Governments can influence job creation with tax incentives and job-training opportunities.
Technological factors: The process by which inputs from an organization’s environment are transformed into outputs

- Some new issues include online HR functions, information privacy, identity theft, e-learning
- Every HR function can potentially be managed electronically.
- There is a trend to increased virtual work.
Social and cultural factors: Includes all the social trends that occur regionally and nationally

- **Work–life balance**: Desire to have better quality of life; main issues are related to elder care, child care, flextime, telecommuting, reduced hours

- **Violence at work**: There is a broad definition of violence, from physical to emotional to psychological violence.
Social/Cultural Factors

- **Contingent jobs**: Aimed at part-time, seasonal, temporary, and contract employees.

- However, the ratio of contingent to permanent jobs continues to grow since they are **viewed as costs rather than assets** (human capital).

- This job structure creates issues of employee commitment, loyalty, and productivity.

- Contingent is also synonymous with precarious employment.
Socio-Cultural Trends

- Increasing environmental awareness
- Low fertility rates
- More households without children than with
- Expanding seniors market for goods and services, especially healthcare related
Stakeholders

- **Stakeholders**: Groups of people who have vested interests in an organization’s decisions
- They are also known as constituent groups.
Powerful stakeholders affect strategy formulation.

- Board of directors and senior executives
- Senior management
- Supervisors
- Employees
- Unions
Other Stakeholders

- Customers
- Suppliers
- Governments
- Regulatory agencies
- The public
- NGOs
- Anyone who can influence or be affected by management’s decision making
Issues priority matrix: Used to determine the important trends that may affect an organization

• Managers rate the trends from high to low based on:
  1. The probability of these trends actually occurring
  2. The likely impact of each of these trends on the organization
**Figure 3.1**

**Scanning and Monitoring the General Environment**
- Economics, globalization, politics and legislation, technology, demographics, social and cultural factors

**HR Forecasting and Assessing**
- Determining issue priority
- SWOT analysis
- Scenario planning

**Scanning and Monitoring the Business Environment**
- Porter’s five forces
- Stakeholders (management, employees, unions)
A Proactive Approach

• HR managers are **not passive** observers.
• They want to participate and influence the trends.
• Some organizations will lobby for legislative changes and shape perceptions.