

# External macro environment factors



Human Resource Management (HRM) according to Boxall and Purcell (2003: 1) are the actions which involve the 'management of employment relationships in the firm'. The modern world of business is changing rapidly in its attempt to gain and maintain a competitive edge. Business is operating in an environment affected by macro environmental factors ranging from Technology to Legislation and Globalization. These factors and many others are causing business to re-evaluate itself, both internally as well as externally. Structures are becoming flatter and decentralization is taking place as organizations attempt to remain competitive, survive and grow. The macro environment which is the main concern in this essay, are factors like political, economic, social, technological, environmental and legal environment (PESTLE) that can influence an organisation but are out of the organisations control. It is very important for HR practitioners to monitor the external macro environment since it can greatly make or unmake their businesses. This can be seen on the social changes technological advancement on workforce and HR policies in the last 10 years.

In this essay, an elaborated definition of the external macro environment is well explained. Also, explanations of why it is necessary for HR practitioners to monitor the external macro environment , with reference to relevant academic theory is done. Also an illustration of how technological advancement and social change has affected the workforce and HR policies in the last 10 years is detailed out. The essay is then Concluded and bibliography cited as well.

The marketing environment surrounds and impact activities carried out in the organisation. There are three key perspective on the marketing

environment which involves the internal environment, the micro environment and the macro environment as shown on the diagram below.

There are three key perspective on the business environment which involves the internal environment, the micro environment and the macro environment according to Kotler et al (2009). The micro environment influence the organisation directly and it includes the consumers, customers, suppliers, new entrants and competitors. All factors like men, money, machines, materials and market that are internal to the organisation are known as the internal environment. The external macro environment involves all those factors ranging from the political, economic, social, technological, environmental and legal environment also known as the (PESTLE factor) that affects the organisation uncontrollably, influences the organisations decisions and affects its performance and strategies. These macro factors are continually changing and the company has to be flexible enough to adapt to it.

Looking at the political factors affecting a business, it involves factors like initiatives, grants and funding offered by the government, wars, government relationships with other countries, taxation policies, the goods and services the government produces, the health of the nation and the quality of the infrastructure of the economy such as the road and rail system. As such the degree of government intervention in the economy will affect companies operating in it. Thus the political atmosphere of a country should be checked before the establishment of a business.

Economic factors includes interest rates, taxation changes, economic growth, inflation, loan access, unemployment, government spending consumer spending and exchange rates that affects the organisation. Using the economic factors to analyse a business scenario, a higher interest rates may deter investment because it costs more to borrow. Also, inflation may provoke higher wage demands from employees and raise costs. Also, a higher national income growth may boost demand for a firm's products.

Social factors involves religious differences, ethics, lifestyle of the people, demographic changes, education and culture. For example, changes in social trends can impact on the demand for a firm's products and the availability and willingness of individuals to work. In the UK, for example, the population has been ageing. This has increased the costs for firms who are committed to pension payments for their employees because their staff are living longer.

Technological factors involves the amount of research funding in the country, consumer purchasing power, technological advancement/ innovation, intellectual property and copy right infringement. For example Bar coding, online shopping, and new computer designs are all new technological development in the way companies do business due to the advancement in technology.

Environmental factors involves a countries weather and climate change, the level of pollution, recycling considerations, legislative changes both current and future. Climatic changes can affect companies in the country. With the changes of global climates experienced today due to global warming, firms

make this external factor a significant issue of considerations when expanding their businesses internationally

Legal factors are factors like safety, competition, health, future legislation, trading policies and regulatory bodies which relates to the legal environment in which firms operate. In recent years in the UK for example, there has been many significant legal changes that have affected firms' behaviour like in areas like age discrimination and disability discrimination legislation and wages.

HR practitioners have to carry out a PESTLE scan of the macro environment where the political, economic, social, technological, legal and environmental aspects of the business would be scanned properly. This is done in order to caution the HR practitioners on how changes in their external macro environment will impact the organisations activities. The external analysis of the macro environment has both micro and macro focus. At the level of the micro trend, HR practitioners should monitor suppliers, the strength of their competitors, labour supplies and the demographic population. At the level of the macro trend, HR practitioners should monitor the market forecast, technological trends, labour market forecast and trends in public sector employment and political atmosphere of the country.

Also, the reason why HR practitioners scan the macro environment is to identify and analyse possible opportunities and threats of the industry as a whole that are outside the control of the industry using the opportunity and threat analysis (SWOT) analysis. The opportunities identifies the environmental characteristics that can help the organisation succeed and the

threats identifies environmental characteristics that can prevent the organisation from being successful. As such, with the opportunity and threat analysis, HR practitioners are able to develop a corporate, business and functional level strategy. With the corporate level strategy, the organisation lays a plan of action to manage the growth and development of the firm hence profit maximisation in the long run. With the business level strategy, the organisations find ways to counter its threats so as to compete effectively and with the functional level strategy, the HR practitioners establish a plan of action to improve its departments so as to create value. All these increase profits and the survival of the organisation.

In addition, monitoring the external macro environment will assist the HR practitioner on how to recruit, retain, and develop the workforce they need. As such, HR practitioners are able to carry out their four main functions which are; the acquisition function, development function, motivation function and maintenance function. As such knowing the PESTLE environment will assist them to understand the policies, salaries, culture, educational levels of the potential employees in the country they operate. Once a sound external analysis is conducted, it can be reviewed and updated as part of the planning cycle to identify any significant changes in the environment.

Also, looking at the social trends, HR practitioners monitor the external environment in order to know more about the culture of its employees. Trompenaars and Turner (1997) defines culture as the way in which a group of people live, solve problems and reconcile dilemmas. He also postulated seven dimensions of culture that relate to relationships with people and their

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working environment. Also, Arnold et al cited in Handy (1986) pointing out that ' A strong culture makes a strong organisation and not all culture suits all purposes or people'. As such it is necessary for HR practitioners to study their external environment so as to blend the organisations culture with that of its employees in order to create a good working atmosphere in the organisation. Thus resolving cultural differences will bring in team work and group cohesiveness.

Furthermore, according to Devanna et al (1984), scanning the external environment assist HR practitioners to fit their HRM policies, practices and strategies in its competitive environment with the immediate business conditions that it faces as shown on the diagram below.

### **The Matching model.**

As such, information's from the external environment assist HR practitioners to establish a proper mission and strategy, organisational structure and also enables human resource management policies to be used in their organisations based in different countries.

The external environment has a major impact on the companies activities and decisions. More often than not, these forces are beyond the control of an organization and its managers. Though non-controllable, these forces require a response in order to keep positive actions with the targeted markets. Thus HR practitioners scan their external environment so that they can respond profitably to unmet needs and trends in the targeted markets.

Linked to the above, accordingly, the factors of the environment will need to be considered as inputs in the planning and forecasting models developed by <https://assignbuster.com/external-macro-environment-factors/>

an organization. Disturbances in the environment may spell profound threats or new opportunities thus the supervision helps HR practitioners to monitor and adapt to the environment if it is to survive and prosper. They thus identify, evaluate and react to the forces triggered by the external environment so as to make profits and survive in the long run.

Furthermore, the knowledge gotten from the scanning of the external environment by HR practitioners assist them in gathering information's based on both government and private laws affecting the industry. Laws like rigid government laws in some countries that might affect their investments where by business may be doomed to be non starters due to business restrictions imposed by the government are determined before establishing a business. Also, cost of recruitment and standards in different from one country to another. More so, the availability of key inputs like trained managers, skilled labour, raw material are all impacted by the external environment. As such, monitoring the external environment enables HR practitioners to gather necessary information's which can affect their businesses.

Until about twenty years ago, the world of work was an unfortunate place. Change of all kind was slow and non existence. Products had long life cycle, organisations were characterised by long control/ universally applied rule and technological innovations and inventions were pretty slow. In the last ten years technological advancement and social change has affected the workforce and HR policies.



Looking at the way technological advancement has affected the workforce, in the past ten years, technological advancement has made globalisation possible amongst employees. Technological innovations in areas like learning and development, telecommunications, computers, satellite system have made it possible for information and innovation to rapidly cross national boundaries in between employees.

More so, with technological advancement and the advent of new machines, there has been division of labour within employees hence creating higher quality products, just in time delivery and greater customization of products. In addition, Robinson (2006) pointed out that, within the past ten years in Britain for example, the amount of people employed in the manufacturing sector reduced by a half. Also there has been a decline in skilled and semi skilled manual jobs due to the rise in the creation of machines. The workforce nowadays is highly segmented and job length vary between the skilled and semi skilled jobs.

Technological advancement has also affected HR policies in that Decades ago, HR management was autocratic in nature, employee made no decisions in the organisation. Organisational culture was hostile and employees didn't care about career advancement/ promotion opportunities since they were satisfied with their jobs. But in the past ten years, technological advancement has caused the establishment of new policies in order to work hand in hand with the growth. There has been a radical organisational restructuring programmes evidenced in de-layering, downsizing and decentralized. Also, with the advent of technology, HR practitioners keep restructuring new policies in terms of employing on a permanent basis and

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also offering career advancements in the form of training, development and promotion to employees as pointed out by Robinson (2006).

Social change has affected workforce in that, in the past, men were employed most in organisation due to the increasing use of manual labour and physical power. But within the last ten years, there has been a steady increase in the participation of women in the labour force. Robinson (2006) analysed that there has been a rising level of divorce and single parents has lead to the provision of social welfare, health and educational services by HR practitioners.

Social change has also affected HR policies in that, organisation in the past faced difficulties of dealing with cultural differences. Going international was very difficult due to the cultural barriers and differences. Within the past ten years, cultural policies have been instituted in order to deal with cultural conflicts in organisations. Organisations find it very easy to go international due to laid down policies, training and care giving to their expatriate employees. Also, HR policies have been adapted to satisfy consumers as customers have greater choice and power to influence purchase Boxall and Purcell (2003). As such, employees receive training in aspects like offering better customer care and services to consumers. All these has lead to increase profitability and survival of organisations.

The external Macro environment also Known as the PESTLE environment consists of trends and forces which might not instantly influence the relations that a company has with its clients, suppliers and mediators, but afterward, macro-environmental changes will modify the nature of these

relations. As explained above, it is very necessary for HR practitioners to monitor these macro external factors so as to foresee and manage any future impact it might have on the companies activities. Also, looking at the changes in technology and social change on workforce and HR policies in the past ten years, HR practitioners have adapted themselves to this changes by implementing new policies, strategies, rule and regulations to adapt their businesses to these uncontrollable factors.