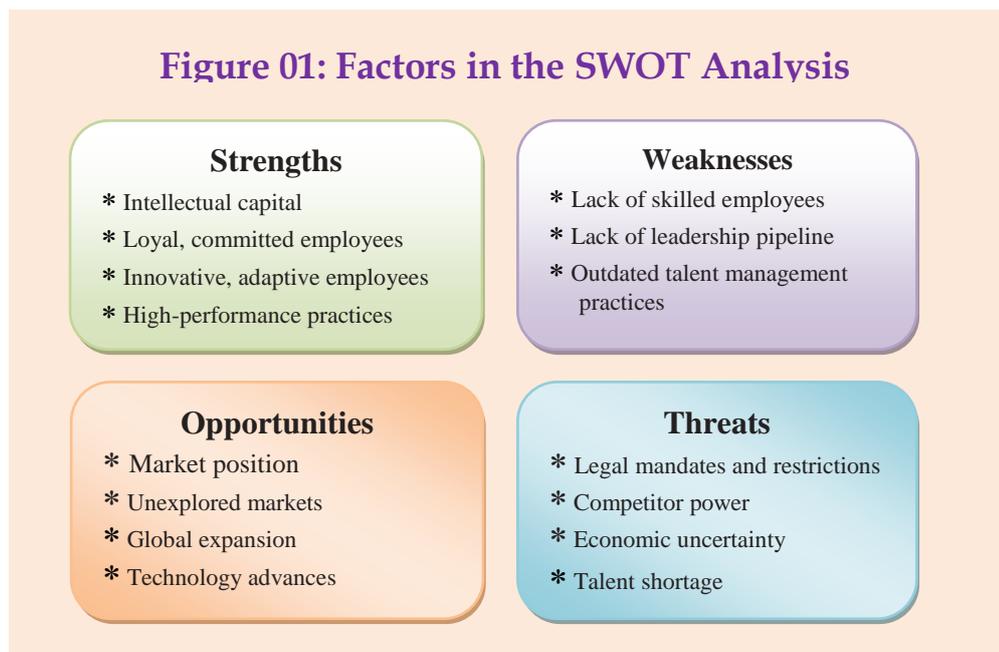


PREFACE:

This topic discusses how internal and external environmental factors affect HR strategies.

1- ENVIRONMENTAL ANALYSIS

Before the managers in an organization begin strategic planning, they study and assess the dynamics of the environment in which they operate to better understand how these conditions might affect their plans. The process of environmental scanning helps to pinpoint strengths, weaknesses, opportunities, and threats that the organization will face during the planning horizon. The internal environment includes the quality and quantity of talent, the organizational culture, and the talent pipeline and leadership bench strength. The external environment includes many economic, political, and competitive forces that will shape the future. **Figure 01** shows the HR elements of a SWOT analysis.

**1-1 Internal Environmental Analysis**

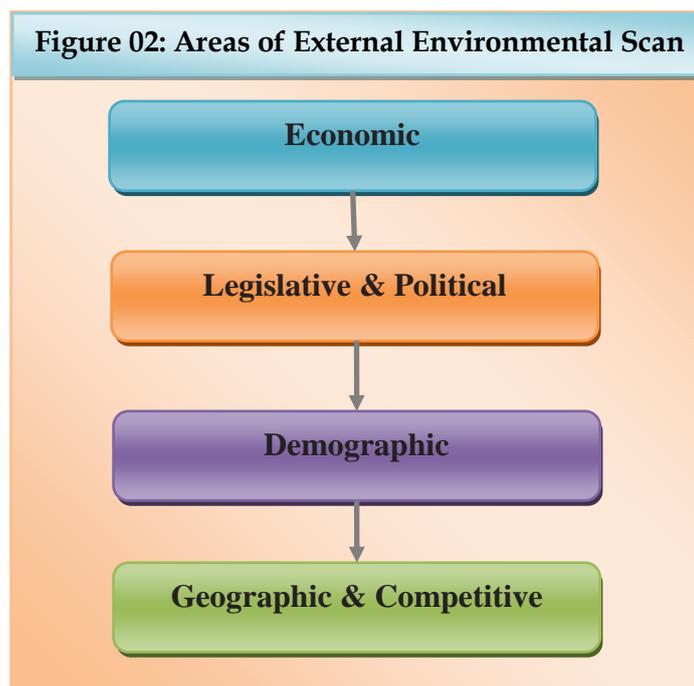
The strengths and weaknesses of the organization represent factors within the organization that either create or destroy value. When assessing the internal environment, managers evaluate the quantity and quality of human resources, HR practices, and the organizational culture. The strength of the talent pipeline is particularly important as the organization plans its future. Fulfilling strategic objectives is impossible without sufficient skills and talent. Leadership development and succession planning programs ensure that high-quality talent will be available

to carry out the strategy. Effective development programs can reduce the high failure rate of people in leadership positions. Selecting individuals with the right talents and teaching them leadership skills can improve the quality of leaders and promote strategic success. Succession planning is the process of identifying a plan for the orderly replacement of key employees. The succession plan is the blueprint for managing the internal talent pipeline. Managers identify individuals who can fulfill new roles in the future and include them in the succession plan. This internal pool of talent is the reserve needed to meet the objectives in the strategic plan.

1-2 External Environmental Analysis

Opportunities and threats emerge from the external environment and can impact the outcomes for the organization. Many of these forces are not within the organizational control, but must be considered in the scanning process.

Dealing with uncertainty in the external environment is becoming a critical skill for planners. The external environmental scan includes an assessment of economic conditions, legislative/political influences, demographic changes, and geographic and competitive issues, as shown in Figure 02.



Economic Conditions The prevailing business climate will affect strategic planning because the future is shaped by current conditions. Productivity levels, interest rates, economic growth, consumer prices, inflation, and unemployment rates affect the business outlook. Access to credit, capital, and labor affect the

organizational ability to grow and to provide desired rewards to employees. During times of high economic growth, labor and material shortages are more likely. During economic downturns, resources are underutilized and organizations seek to increase productivity and to lower costs. When facing difficult economic conditions, firms may react by implementing severe workforce reductions, compensation cuts, and other drastic measures to remain viable. These actions have strategic implications for the organization because they may leave the organization vulnerable when the economy improves.

Inflation rates can influence the revenue stream for the organization as well as employee expectations regarding compensation. As the unemployment rate rises, the number of qualified people looking for work increases. This poses challenges for the organizations because the sheer volume of applicants can overwhelm the selection process.

Legislative/Political Influences An expanding and often bewildering collection of government regulations affects the labor market and organization practices. Consideration of current and pending legislation should be a part of the assessment process because new mandates might impact how the organization operates during the planning horizon.

Legislation regarding taxes, labor unions, compensation, benefits, employment, and safety and health affect the HR practices in all organizations. Many aspects of the employment relationship are regulated, and strategic planning must be done with these restrictions in mind. The social and regulatory priorities of political parties also influence how business operates, with particular programs gaining or losing support. In summary, an organization considers a complex variety of government policies, regulations, and laws during the strategic planning process.

Demographic Changes Significant demographic changes are occurring that will impact the composition of the future workforce. The U.S. Census Bureau projects that by 2042 non-Hispanic whites will no longer comprise the majority of the U.S. population⁵¹. These population shifts and demographic changes can affect the organizational strategy in several ways. Consumer demographics influence the demand for products and services. For example, as the population ages, demand for medical services and assistive devices will increase. Workforce demographics will also affect the quality and quantity of labor available to the organization.

Among the factors influencing workforce diversity are age, gender, generational differences, race, and ethnicity. Managers assess changes in the workforce composition because the diverse needs and expectations of a heterogeneous workforce require creative and flexible solutions. A one-size-fits-all approach to recruitment, compensation, training, and performance management will no longer

be effective. The anticipated retirement of baby boomers in the near future will leave many organizations without sufficient skilled talent. NASA faces a serious workforce issue, and the HR Best Practices box describes their strategy for dealing with it.

Geographic and Competitive Concerns The local industrial base and economic conditions affect the strategic planning process. Where an organization locates its operations plays a role in how well it will perform. Being located in an industry hub (like Silicon Valley for IT firms) provides the infrastructure and supply base the organization needs to succeed. The local industry is centered on the particular industry, and resources, including skilled talent, are more readily available. If operations are located in a sparsely populated area, the organization will face staffing challenges if the strategy involves substantial growth. An understanding of geographic advantages and disadvantages can help managers develop appropriate plans.

Competitors exist in both the product and labor markets. Competition in the product market determines the potential for the organization. If the organization is in a highly competitive industry (such as consumer electronics), strategies for growth rely heavily on innovation and driving down product costs. Competition in the labor market establishes the pricing for high-quality talent and determines the availability of workers. A detailed competitive analysis in both product and labor markets provides important information to managers regarding the possibility of meeting strategic objectives.