

Human Resources Management In Context

Lecture Title :-
Economic and Political Influences on HRM



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Human Resources Management

Learning Objectives

- Assess the impact of government policies and political ideologies on employment practices
- Analyse how economic systems and labour market trends impact HRM decisions
- Interpret employment legislation and its implications for HR strategy and compliance
- Discuss how HR practitioners navigate complex regulatory and market environments



Political Ideologies

A political ideology is a set of views, values, and concepts that define how society should function, notably in terms of government, the economy, and individual liberties.

Political ideologies direct political conduct, affect public policy, and influence institutional frameworks including employment and labor relations.



Key ideologies relevant to HRM

Neoliberalism: Emphasis on free markets, deregulation, reduced government spending

Social democracy: Strong state intervention, labour protections, welfare support.

Authoritarianism: Centralized control; often weak labour protections or suppressed unions.

Key ideologies relevant to HRM

Feature	Neoliberalism	Social Democracy	Authoritarianism
Core Beliefs	Free markets, minimal state intervention, individual responsibility	Economic equality, welfare state, regulated capitalism	Centralized control, limited political freedom, state dominance
Role of Government	Small, regulatory	Active in regulation, welfare provision	Dominant, directive
Union Influence	Weak or declining	Strong and institutionalized	Controlled, banned or state-run
Employment Protections	Limited, flexible	Strong, statutory	Varies – often limited and politically constrained
HRM Style	Market-driven, flexible hiring/firing, performance-focused	Collaborative, equity- and welfare-focused	Compliance-oriented, state-aligned
Examples of HR Practices	Gig work, at-will employment, limited benefits	Collective bargaining, generous leave policies	Politically monitored HR, limited worker voice

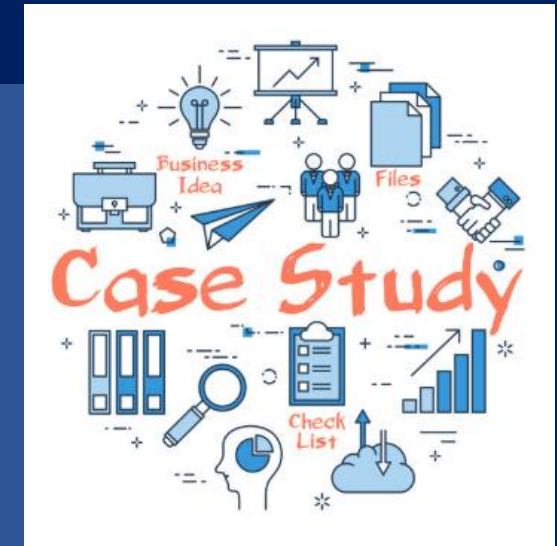
Country	Likely Ideological Orientation	Notes
USA	Neoliberalism	Strong private sector orientation, limited federal labour protections
UK	Neoliberalism (post-1980s)	Shifted from welfare state to neoliberal model under Thatcher
India	Hybrid (Neoliberal + elements of Social Democracy)	Liberalized economy since 1991 but retains strong public sector and labour laws
Germany	Social Democracy	Co-determination, strong labour protections, works councils
Sweden	Social Democracy	High union density, universal welfare, strong worker protections
Norway	Social Democracy	Similar to Sweden with additional oil-funded welfare model
Finland	Social Democracy	Tripartite labour system, egalitarian policies
Russia	Authoritarianism	Centralized power, state-managed unions, limited worker rights
China	Authoritarianism	One-party system, state-run unions, strong economic control
Saudi Arabia	Authoritarianism	Monarchy, strict labour regulation for foreign workers, limited labour rights
Nigeria	Hybrid (Authoritarian leanings with Neoliberal tendencies)	Strong state presence, corruption issues, informal labour sector
Pakistan	Hybrid (Authoritarian-Neoliberal)	Fluctuates between military and civilian rule, weak labour enforcement
Nepal	Transitional (Democratic-Socialist orientation)	Constitutionally socialist, but with liberalized economic reforms and political instability

Understanding Political Ideology & HRM

Refer to the case study worksheet

Review each of the three policy scenarios and :-

1. Identify the political ideology represented.
2. Describe one main **challenge or opportunity** this scenario presents for HRM.
3. Suggest how HR could **adapt its strategy** in response.



(20 minutes)

Government Role in Employment

Welfare State VS Laissez-Faire Models

A welfare state is one in which the government takes an active role in preserving and promoting its residents' economic and social well-being, primarily through extensive labor laws, public services, and income redistribution.

The Laissez-Faire Model is a limited government interventionist approach to the economy and employment relations that relies on market forces to decide labor conditions.



Welfare State VS Laissez Faire Model

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Category	Welfare State Model	Laissez-Faire Model
Government Role	Active regulator and provider of social protections	Minimal intervention; relies on free market dynamics
Labour Protections	Strong laws on pay, leave, dismissal, equality	Limited protections; employers have more autonomy
Social Benefits	Universal healthcare, pensions, unemployment insurance	Often private or employer-sponsored; varies by company
Union Involvement	High union density; collective bargaining is institutionalised	Low union influence; decentralised or absent bargaining
Employee Voice	Works councils, formal consultation processes	Individualised; fewer formal mechanisms for worker input
HR Compliance Needs	Complex and legally binding frameworks	Minimal statutory compliance; high managerial discretion
HR Strategy Impact	Focused on well-being, long-term planning, skill development	Focused on cost control, flexibility, and quick restructuring
Talent Retention	High job security and satisfaction reduce turnover	May face retention challenges; relies on incentives and culture
Employer Flexibility	Low to moderate; bound by legal and union frameworks	High; easy to scale workforce up/down based on business needs
Examples of Countries	Sweden, Norway, Germany, Finland	United States, Singapore, (historically the UK)

Group discussion

Which model better supports innovation vs. stability?

Can a hybrid model be more effective. Why or why not?

Can you map your home country to one of the models.

How does HR must adapt when operating in each context?



Economic Systems and HRM

System	Key Characteristics	Examples	Implications for HRM
Capitalist	Market-driven, private ownership, profit-oriented	USA, India (mixed-capitalist)	HR prioritises performance, flexibility, and cost-efficiency
Socialist	State ownership, wealth redistribution, central planning	Cuba, (formerly USSR)	HR aligns with state goals; limited autonomy in decisions
Mixed Economy	Balance of market freedom and government intervention	UK, Germany, France	HR balances compliance with performance, adapts to policy shifts

Economic Cycles

Economic cycles, also known as business cycles, are changes in economic activity that occur over time. These cycles typically comprise four major phases:

Cycle Phase	Characteristics
Expansion (Boom)	Rising GDP, low unemployment, increased investment
Peak	Economy at maximum output, potential inflation
Contraction (Recession)	Declining GDP, rising unemployment, reduced spending
Trough	Economic activity bottoms out before recovery begins

The HR Role Through the Economic Cycles

What is the HR role through the different economic cycles?

Cycle Phase	Sample HR Focus
Expansion	
Peak	
Recession	
Trough	

The HR Role Through the Economic Cycles

What is the HR role through the different economic cycles?

Cycle Phase	Sample HR Focus
Expansion	Talent acquisition, employer branding, onboarding systems, scaling culture
Peak	Managing burnout, retention strategies, reward equity, future planning
Recession	Layoffs planning, morale management, redeployment, legal compliance
Trough	Workforce rebuilding, internal development, innovation through reskilling

Labour Market Indicators and Trends

Labour market indicators are crucial statistics and measures that shed light on a country's workforce performance, trends, and health. These indicators assist governments, corporations, and human resource professionals in understanding labor market supply and demand dynamics, which in turn guide policy, strategy, and workforce planning decisions.



Labour Market Indicators and Trends

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Indicator	Definition	Relevance to HRM
Unemployment Rate	% of the labour force actively seeking work but unable to find it	Indicates job availability, talent pool size, and economic health
Employment Rate	% of working-age population currently employed	Helps assess labour market participation and workforce engagement
Labour Force Participation Rate	% of people aged 15–64 who are working or actively looking for work	Helps gauge potential workforce size and societal involvement in the economy
Underemployment Rate	% of workers employed below their skill level or in part-time roles involuntarily	Reflects skill mismatch and inefficiency in labour utilisation
Wage Growth	Average increase in wages over time	Tied to productivity, inflation, and talent attraction/retention
Vacancy Rate	% of open positions relative to total employment	Signals demand for labour and potential skills shortages
Informal Employment Rate	% of workers not covered by formal work arrangements or social protections	Common in developing economies; affects HR planning and compliance
Youth Unemployment Rate	% of the labour force aged 15–24 who are unemployed	Affects early-career talent pipelines and long-term employability
Average Hours Worked	Average number of hours worked per week	Indicates labour intensity and potential for burnout or flexibility
Labour Productivity	Output per worker or per hour worked	Links workforce effectiveness to economic performance



Labour Market Trends

Key global labour market trends reflect how technological, social, economic, and geopolitical forces are reshaping the world of work and HR's strategic role.



Labour Market Trends

Trend	Description	Implications for HRM
Unemployment & Underemployment	High rates in some regions; underutilisation of skills in others	Reassess job design, focus on skills matching, rethink recruitment and development
Skills Shortages	Mismatch between available jobs and worker qualifications	Increase investment in training, partnerships with education providers, internal mobility
Gig Economy Growth	Rise of freelance, contract, and platform-based work	Adapt HR policies for non-traditional workers, manage compliance, rethink benefits
Youth Unemployment	Higher unemployment among young people globally	Develop early-career programs, apprenticeships, and inclusive hiring practices
Aging Workforce	Workers staying employed longer in developed economies	Implement age-inclusive practices, flexible retirement, and knowledge transfer strategies
Informal Employment	High rates in developing economies without formal protections	Explore strategies for formalisation and provide flexible benefits for informal workers
Remote & Hybrid Work	Permanent shift in many sectors post-pandemic	Reconfigure workforce planning, remote policy, digital HR tools, and team engagement
Wage Stagnation vs. Wage Inflation	Varies by region and sector	Re-evaluate pay structures, compensation benchmarking, and reward systems
Labour Migration & Mobility	Increased regional/international worker movement	Manage legal compliance, diversity, and global talent integration
Automation & Technological Disruption	Changing job roles due to AI and robotics	Reskill workforce, conduct future-of-work planning, focus on change management

Employment Legislation and HR Strategy



Welfare State Model

Category	Welfare State Model Example: Sweden, Germany, Finland
Government Role	Strong intervention to protect worker rights and ensure social equity
Labour Protections	Robust laws on minimum wage, working time, paid leave, and job security
Social Benefits	Universal healthcare, pensions, unemployment insurance, parental leave
Union Involvement	High union density; unions influence collective bargaining and policy-making
Employer Obligations	Must comply with extensive labour regulations and consultative frameworks
HRM Strategy Impact	Long-term planning, high investment in training, emphasis on well-being and compliance
Employee Relations	Collaborative, structured, and supported by works councils or similar mechanisms
Recruitment & Retention	Attracts talent through strong protections and work-life balance; turnover tends to be lower
HR Challenges	Higher costs, limited flexibility, administrative complexity
HR Opportunities	Stability, motivated workforce, state-supported training programs, employer branding advantage

Laissez Faire Model

Category	Laissez-Faire Model Example: United States, Singapore, (historically UK)
Government Role	Minimal intervention; market determines employment conditions
Labour Protections	Limited statutory protections; flexible work laws
Social Benefits	Often employer-provided or privatized (e.g., health insurance, pensions)
Union Involvement	Weak or fragmented; union membership is voluntary and often low
Employer Obligations	Fewer legal constraints on hiring, firing, and wage-setting
HRM Strategy Impact	Focus on cost-efficiency, flexibility, and fast adaptation to change
Employee Relations	More individualistic; less structured employee voice
Recruitment & Retention	Driven by compensation, perks, and career growth opportunities
HR Challenges	Potential for high turnover, inequality, job insecurity
HR Opportunities	High agility, lower compliance burden, scope for innovation in practices

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

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

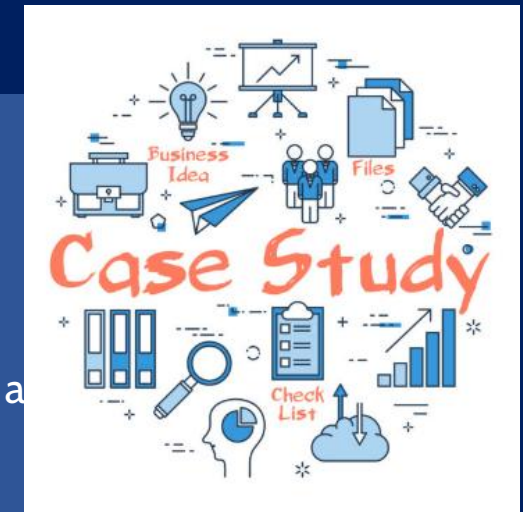
- Identify at least 2 key factors per PESTLE category that are influencing GlobalTech's HR environment.
- Explain how each factor may impact HR practices such as recruitment, employee engagement, learning and development, or compliance.

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 :-

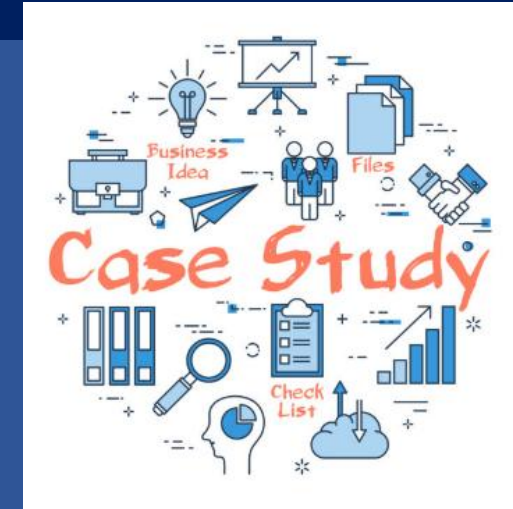
- Anticipating Change Instead of Reacting to It
- Enabling Evidence-Based Strategy
- Aligning HR with Business Goals and Market Conditions
- Supporting Risk Management and Agility
- Enhanced Competitiveness



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.



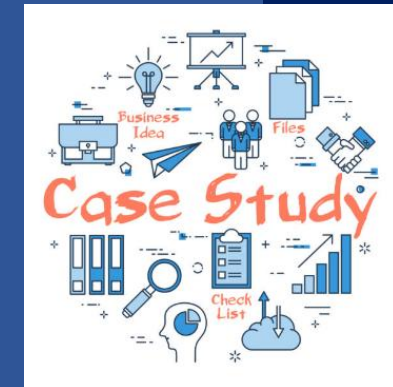
Strategic Integration of External Analysis

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

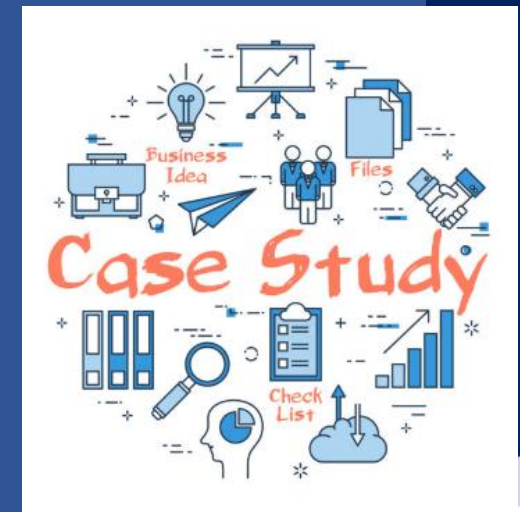


Aligning HR with Strategy in Uncertain Environments

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 :-

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