

# Understanding Human Resource Management in the Context of Internal and External Environment of Organizations

Baoyi Gao\*

Adam Smith Business School, University of Glasgow, Glasgow, United Kingdom

\*Corresponding author: 2765324G@student.gla.ac.uk

**Abstract.** Based on an examination of the dynamically changing global market, the primary objective of this research project is to investigate the influence of both internal and external environmental elements on the human resource management and strategy employed by businesses. This study investigates in depth the issues that Human Resource Management (HRM) faces and covers the necessity of corporate social responsibility, fundamental corporate values, balancing and accommodating the expectations of diverse stakeholders, balancing the requirements of employees, and enhancing organizational performance when assessing the influence of the internal and external environment for the purpose of executing an effective HRM strategy. The research also showed that HRM has to develop effective and transparent communication and information channels beginning with top management, promote corporate inclusivity and openness from the standpoint of job variety, and construct a fair management structure in order to effectively manage employees. It is concluded that developing an effective human resource management system is vital to the success of any organization.

**Keywords:** Human resource management; context of environment; internal and external; organization.

## 1. Introduction

Organizations are managed to achieve goals and are operated through human resources, which are the backbone of organizations. As a crucial aspect of organizational management, human resource management has historically been encouraged to become more flexible and inventive, based on a "people-oriented" mindset. A continual awareness of changes in an organization's internal and external environments is essential since "change management" is one of HR's four main objectives [1]. Building a successful management system for one's organization's human resources is absolutely necessary for that business's continued existence. It assists the firm in recruiting and retaining exceptional people who are competent and motivated to execute well, which is beneficial for the organization [2]. Additionally, it guarantees that the business continues to maintain a healthy working environment in which all workers are engaged and dedicated to the accomplishment of organizational goals.

When conducting an analysis of an organization, it is particularly difficult to disentangle the effects of its internal forces from those of its external influences. Changes in the corporate culture and rules, as well as shifts in the internal setting, might, for instance, have an effect on alterations in employee behavior. It is of the utmost importance to take into consideration the ways in which the internal context impacts the exterior context as well as vice versa. In the short term, managers typically prioritize short-term objectives to achieve daily deadlines and address any urgent issues that might arise inside the firm. HR, however, has to integrate more into the larger environment for long-term planning and policy innovation in order to keep up with the changing worldwide scenario brought on by the advent of the technology era and changes in demographics [3]. Long-term consideration must be given by businesses to the ways in which the broader community is impacted by their operations, and the corporations must then take measures to mitigate any unanticipatedly negative effects that their activities may have on either the environment or the society.

The internal and external environments of an organization both have an effect on the human resources that are available to the organization. The organizational framework, which functions as the vehicle for human resource management, provides the resource allocation, options, and

restrictions that will determine the authentic purpose and requirement of HRM. HR professionals are frequently charged with the implementation of new HR management strategies and policies as part of their job roles. The purpose of these initiatives is to increase efficiency and ensure that the organization is proceeding in the appropriate direction. In addition, according to Farnham's argument, human resource management has historically been a very adaptable profession that is always undergoing innovation and transformation [1]. Although the HR department of the future will continue to prioritize the needs of employees in the same way that it has in the past, the new HR model shifts the department's primary emphasis away from the management of individuals and processes and instead places it on the cultivation of innovative leaders and organizations. Helping to establish a culture that encourages teamwork and new ideas is one of the primary responsibilities of HR professionals. Developing a strong connection is also essential since it is necessary for producing an efficient working environment in which workers are interested in their job and driven to give their absolute best performance. In addition, the reduction of expenses, the enhancement of efficiency, and the use of technology methods to achieve advancement are all extremely lucrative strategies for dealing with changes in the external environment.

## 2. Critical Steps for Implementing Effective HR Strategies

Traditional and non-traditional methods of human resource management, as outlined by Farnham in his book, each seek to accomplish a particular set of goals. HRM should work under changing market circumstances and establish more flexible practices and policies in the context of competitive markets and modify agendas according to the norms of regulated markets in order to account for the present quick and dramatic developments and changes in the environment [1].

To begin, cultivating a fantastic and widely held corporate culture is becoming an increasingly acknowledged requirement for achievement. This trend of innovative culture and strategy has been pioneered by a large number of prosperous businesses, which have led the way in this arena. The core values of a corporation are also directly responsible for determining its business strategy. Norms of conduct set by organizational norms and practices evolve as a result of organizational members' shared values, which give them a sense of what behavior is suitable and inappropriate [4]. It is the responsibility of HR to ensure that the organization's shareholders, senior management, and workers all have strategies that are congruent with the organization's values and ethos. Employees ought to be encouraged by the HR department to share their concerns regarding the operations of the firm. In addition, employees need to take responsibility for ensuring that they are treated fairly and that they are given a chance to have their voices heard inside the organization. The implementation of this strategy, which entails giving all employees an equal say in the growth process of the firm as well as equal opportunity to participate in that process, has emerged as a new trend among major businesses looking to improve their position in the market. Monitoring the application of equality policies into corporate practices and management is something that HR departments should actively seek today, while also fostering the creation of a more inclusive organizational culture that offers a strong foundation for improving equal chances in employment. This is something that HR departments should actively pursue today.

Building long-lasting relationships between an organization and its workers is a crucial component of any effective human resources strategy in today's cutthroat business climate. This is due to the fact that it is a central idea in terms of regaining equilibrium in legal matters as well as economic trades [5]. The significance of human resources lies in the fact that it acts as a vehicle for the knowledge, attitudes, or skills necessary to sustain organizational strategy. Furthermore, it determines the organizational outcomes that are achieved when members of the HR organization choose to engage in behaviors that benefit the organization, particularly in terms of knowledge and value commitment [6]. The Human Resources department is viewed as a public service for change both inside and beyond the business. In order to affect organizational results, new policies and procedures as well as a concept are required. For new ways to be successful, one must have an in-depth grasp of the internal

and external environment factors that have an effect on the strategy and performance of the company. The term "external environment" refers to the social, political, and economic conditions that are outside of a company and have the potential to affect the outcome of a business plan.

Having strategic skills in addition to lowering operating expenses while simultaneously boosting efficiency via the use of technology and networks is yet another component of producing value for the company and the external environment [7]. The utilization of HRIS is being progressively regarded by the most influential authorities on a global scale. This office automation system is heavily utilized not just by administration, but also by human resources, who make substantial use of the system [8]. They need to have a more complete awareness of the internal and external elements that may impact their company. They will be able to make strategic decisions that will contribute to the overall performance of the organization as a result of this.

Keeping the needs of both internal and external stakeholders in proper proportion is one of the most difficult challenges that human resources departments confront in the modern day. The Human Resources department needs to have a thorough understanding of the internal and external environment's requirements for the best employees, as well as the ever-evolving set of skills required to fulfill those requirements. Furthermore, HR must modify its approach and strategy in order to accommodate for these shifts. On the one hand, they have a responsibility to safeguard the continuity of the company by cultivating positive connections with both the upper management and the staff. A favorable image of the firm is also promoted by them, and partnerships with external stakeholders, such as consumers and suppliers, are developed by them. This indicates that they need to be adaptive and flexible, taking a more holistic approach to staff management that goes beyond the traditional components of management systems. In other words, they need to be able to move with the times. This will become an increasingly essential factor in the 21st century as a result of the growing complexity of the business environment that will be faced by businesses. This environment will be characterized by rising uncertainty, fast technology development, and environmental change.

### **3. Internal and External Factors Affect Organizations**

One of the characteristics of a successful company is having strong ties to the community in which it does business. The purpose of strategic management of human resources is not only to learn and alter the method in which managers come to choices, but also to investigate and put into practice the models that are best suitable for categorizing and adjusting to both internal and external environmental elements. The capacity to successfully adapt to the various impacts exerted on a business seems to be more essential than it has ever been, notably in light of the fact that business environments and models are becoming more inventive and complicated, as well as interacting with external variables such as shifting economic conditions and political landscapes [1]. Although strategic human resource management has the possibility of resulting in long-term improvements in performance, it is equally as crucial to be aware of both the direct and indirect challenges and opportunities presented by the external micro- and macro-environment [9]. Although resources found both inside and outside of an organization are interrelated, the environment and decisions made outside of the company, in addition to the processes and structures within the organization, may have a significant influence on the change that occurs within the organization. As a result, Human Resource Management (HRM) has to follow the appropriate procedures in order to notice and track alterations in the external environment. Companies are able to determine the future direction of the company as well as examine possible risks and unexplored possibilities by conducting an analysis of the changes that occur in the external environment. In order to accomplish the goal of supporting the firm in increasing growth and productivity in a long-term global business model that is more dynamic, strategic HR needs to play an active part in the degree of organizational decision making, organizational commitment, and social responsibility. Evaluating the micro-external environment of an organization can provide direct elements of action, while analyzing the macro-external environment of an organization can provide indirect elements of action. It is the responsibility of HR

to make sure that these impacts are taken into account throughout the development and implementation of company initiatives in order to modify the recurring negative issues that are related with the implications of imbalance.

Over the course of the past several years, corporations have placed an increased emphasis on the concept of corporate social responsibility. Companies come into existence in contemporary society as a result of the fact that the goods and services that they offer contribute, however marginally, to the accumulation of societal value. CSR has never had an inherent need to relate to each component of a business, despite the fact that different departments within an organization have varied functional duties, such as marketing, human resources, and other vital aspects of an organization. It is a challenge for businesses to look at themselves from a different perspective by reflecting on the enhancement of social responsibility in today's tumultuous global business environment and fierce competition in a variety of industries. This is a necessity in order for businesses to be successful. While globalization has undoubtedly aided the CSR movement, it has also led many businesses to adopt a "fast win/quick profit" mentality in the face of social upheaval and economic competition, which has eroded CSR. Response effectiveness has never been more important than it is now, as company settings and models become more inventive and complicated and interact with external elements like economic change and political change [1]. Studies have shown that customers have a growing preference to purchase goods from businesses that engage in socially responsible business activities [10]. Since the ideas of 'social processes' and 'people' cannot be separated and relate to social responsibility and the human resource department, the external and internal environments, respectively, it is important to lay more focus on the development practices of the human resource department. In the contemporary setting, there is an increased focus on employees in their role as facilitators of the development of the company. There is a growing trend among certain businesses to update their corporate development plans in a way that takes into account the long-term impact of labor relations on societal progress and international economic integration. These businesses see employee engagement and contentment with their workplace as key components of creating sustainable competitive advantages in the marketplace and increasing their bottom lines as a result. It will be implemented throughout the whole management process, including product creation as well as the selection of technologies. The long-term viability should also be improved by the strategic policy for human resources. Additionally, strategic HR policies ought to raise the significance of sustainability, for instance, by placing an increased emphasis than ever before on communication, employee remuneration, development programmes, and a healthy work-life balance. HR departments should assist businesses in expanding their operations while sticking to an open and sustainable commitment to actively produce profits for their stakeholders. This is something that should be a priority for HR departments. Spread a culture of excellence across the organization and the surrounding area, have a positive influence now and in the future, take into account the effects of the external environment, and provide innovative goods and services to the market with an eye on long-term success.

#### **4. Balancing Employee Needs and Organization Performance**

When formulating their commercial strategy, companies have to take a number of aspects, both internal and external, into consideration. Consider the examples of staff output, customer happiness, operational expenses, and overall company success as internal variables. Changes in consumer attitudes and preferences are examples of changes that can be caused by external forces such as political, economic, and technical development trends [11]. The examination of these elements can be of assistance to companies in the formulation of future plans and methods that are both feasible and effective for the accomplishment of their objectives. To decide the scope of the quality management system, the company must identify the aspects that are pertinent to its purpose and strategic direction and impact its capacity to accomplish the intended objectives, as well as the system's boundaries and applicability.

The process's goals, however, must be crystal clear and well understood by the organization's most important players before any plan can be put into action. In addition to this, it is essential that the plan be plausible and capable of being carried out successfully to the degree that the capability that is already available and within the constraints of the resources that are currently accessible. To guarantee that the strategy has a predictable and measurable possibility of success, the company has to communicate extensively with different stakeholder groups both inside and outside of the business, as well as undertake some kind of market research. Following the strategy's creation, it must be put into action and constantly evaluated for effectiveness. Periodically, recommendations for adjustments are made, and input is solicited, in order to guarantee that the system will produce the intended outcomes. Because of this, the company will be able to pinpoint any flaws in the plan and make adjustments to problematic business practices before they create irreparable harm to the company.

Developing an inclusive corporate culture is also extremely favorable to building a trustworthy and balanced corporate environment that is better able to adjust to changes in the external environment. The approach to designing a workplace is founded on the idea that a more open and accepting atmosphere leads to increased productivity, creativity, and financial success for everybody involved. Equality, diversity, and inclusion (EDI) efforts have become increasingly important in today's corporate environment, and any firm that wants to continue to be successful and competitive must implement them. HR professionals may assist companies in realizing their commitment to EDI and driving genuine change by (1) revamping their recruiting strategy to generate more chances for diverse applicants and (2) developing internal initiatives that encourage a more inclusive work environment. Diversity and inclusion are critical variables that boost employee happiness and engagement in a roundabout way, mostly by boosting employee performance and corporate productivity. When firms build their own inclusive culture plan and it is vigorously adopted by leaders, diverse personnel across a variety of ethnic and cultural backgrounds have a better possibility of creating a profound sense of trust and belonging to the company, which is more favorable to encouraging steady growth. It should come as no surprise that one of the primary objectives of strategic human resources management is to ensure that each employee's full potential is realized. A higher level of corporate praise and a culture that is more inclusive and egalitarian will both contribute to the achievement of this goal.

Considerations about the motivation of staff members provide a significant obstacle for businesses that put diversity and inclusion plans into practice. The human resources and administration departments of the organization's overlapping tasks should be aimed toward the creation of a central and unified management commitment and organizational vision [12]. In order to protect the unique rights of each worker, the company's equality policies should be adapted to the nature of the business itself as well as the specific requirements of each worker. Give employees the opportunity to provide feedback and suggestions for improving the company's internal positive development and performance appraisal by providing effective resources and services in every area of HR responsibility. This will allow for better monitoring of the company's internal positive development. A top focus for human resources should be the development of productive working environments that cater to the needs of all categories of employees.

## 5. Conclusion

Developing an effective human resource management system is vital to the success of any organization. It helps organizations to recruit and retains skilled employees who are capable and motivated to perform effectively. HR managers need to develop the ability to identify the most critical external and internal factors affecting the business, using data and analytics to inform key decisions. However, today's HR departments also face challenges, such as the need to balance the importance of internal and external stakeholders. Flexibility to respond to changes in the internal and external environment of the business, including politics and economics, requires innovative and efficient policies and management based on traditional methods.

Global economies and corporate models are more vulnerable to political and social unrest in any one area or country. The worldwide labor market has been significantly impacted by the dramatic shift in the global corporate landscape. As the HR manager of a company, you will come into contact with groups of workers hailing from a variety of countries and having a variety of life experiences. These interactions, together with the diversity of the employees themselves, can stimulate new ways of thinking about how work patterns might evolve as a result of workplace diversity. The trend in organizational growth now is toward openness and adaptability, which requires companies to be more open to change and more flexible in their operations. The department of human resources in modern businesses has to have efficient information communication channels, be able to mix internal and external influences, establish a fair and transparent management structure, and effectively motivate staff. Whether or not businesses have had a long day, human resource management and development must be prioritized at the highest levels of management in order to keep up with the ever-evolving demands of modern organizations.

## References

- [1] Farnham, D. (2015). *Human Resource Management in Context: Insights, Strategy and Solutions* (UK Higher Education Business Management) (4th ed.). CIPD - Kogan Page.
- [2] Ferguson, K. L., & Reio, T. G. (2010). Human resource management systems and firm performance. *Journal of Management Development*, 29(5): 471–494.
- [3] Jackson, S.E. & Schuler, R.S. (1990). Human Resource Planning: Challenges for Industrial/Organizational Psychologists. *American Psychologist*, 45(2): 223-239.
- [4] Cabrera, E. F., & Bonache, J. (1999). An expert HR system for aligning organizational culture and strategy. *Human resource planning*, 22, 51-61.
- [5] Aylott, E., 2018. *Employee Relations*. 2nd edn. Kogan Page. Available at: <https://www.perlego.com/book/1589806/employee-relations-pdf>. Last accessed 2022/12/15.
- [6] Bowen, David E., and Cheri Ostroff. 2004. Understanding HRM-firm performance linkages: the role of the 'strength' of the HRM system. *Academy of Management Review* 29(2): 203-221.
- [7] Foster, S. (2010). Creating HR value through technology. *Strategic Direction*, 26(8): 3–5.
- [8] Kovach, K.A., Hughes, A.A., Fagan, P. & Maggitti, P.G. (2002). Administrative and strategic advantages of HRIS. *Employment Relations Today*, 29(2): 43–8.
- [9] Ricardo, R. (2021). Literature Review HR Planning: External Environment, Organizational Decisions and Employees Inventory, 2(3): 346-356.
- [10] Sroka, W. and Szántó, R. (2018). Corporate social responsibility and business ethics in controversial sectors: Analysis of research results. *Journal of Entrepreneurship, Management and Innovation*, 14(3): 111-126.
- [11] Litvinenko, V.S. (2020). Digital economy as a factor in the technological development of the mineral sector. *Natural Resources Research*, 29(3): 1521-1541.
- [12] CIPD. 2022. Equality, diversity, and inclusion (EDI) in the workplace. <https://www.cipd.co.uk/knowledge/fundamentals/relations/diversity/factsheet#ref>. Last accessed 2022/12/15.