

Human Capital Analytics: Thinking like an economist



Increasingly, many HR leaders have to answer questions that have an economic issue at their core—the allocation of a scarce resource called talent.

Today, many HR leaders are dealing with more complex, challenging questions than the ones their predecessors faced. Instead of focusing on traditional “personnel” issues, these new questions address core business issues: Where should we build a plant? Which M&A target will add the skills we need? Where should we locate a new R&D center? Why is our turnover rate in China so high?

Answering questions like these require new data and new thinking. Today’s HR leader has to think like an economist—someone who studies and directs the allocation of finite resources. In the global economy, talent is one of those scarce resources.

Embracing that mindset is half the challenge. The other half is harnessing the applicable information. Companies are accustomed to following their own internal “leading indicators,” but the economist-minded HR leader has to look outward as well. Macroeconomic indicators like GDP (gross domestic product), employment shifts, or public infrastructure spending are critical in pointing the way to sound business decisions. By calibrating the finite talent investments their organizations are able to make, these leaders aim to make their workforces more responsive to the current and future needs of their organizations.

Ultimately, HR decisions are like many other business decisions: They involve both cause and effect—and supply and demand. As HR leaders focus on solving more complex business issues, they increase their alignment with the other business leaders in their organization.

What's driving this trend?

Because of globalization, connectivity and other trends, business is more complex, moves faster, and is more competitive than before. Senior leaders don't only have tougher decisions to make—they also have new kinds of decisions to make. And they need new kinds of facts to base them on. The data, skills, and methodology of the classical economist can help an HR leader answer that call.

Globalization. Increased mobility and social media have erased boundaries, creating a global talent pool. Today, HR is recruiting and managing people around the world.

Competition. Thinking like an economist about human capital questions doesn't just influence the competition for talent; it influences competition at virtually every level. Talent is a bigger driver of enterprise performance and profitability than ever before.

The connected workforce. Many businesses operate on a global basis, which expands and accelerates competition at every level. In this digital age, companies and their competitors can view their workforces—and the entire global talent pool—in real time.

More complex business issues. Large organizations often face major strategic turning points, such as entering new markets, siting new facilities, locating sales offices, or making M&A moves. Now, the talent and workforce implications of these decisions have come to the forefront. For example, the value of talent may represent a significant part of an acquisition price; some M&A transactions actually center on the need to acquire talent. Choosing where to locate a facility may depend upon workforce demographics and visa availability. Across the board, business is asking HR to help solve top-level strategic problems.

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Practical implications

When an organization stakes its future on the value it can create by managing people, a quantitative-analytical approach is vital to seizing opportunities, reducing risks, and fine-tuning decisions to enhance efficiency. Thinking like an economist can help refine talent decisions from recruiting and retention through training, rewards design, and team composition. More importantly, the economist view can help extend the value of HR to the whole organization, by driving decisions in strategic areas such as M&A, new market entry, and innovation.

New market entry. When an organization breaks new ground, economic data can help HR leaders contribute to strategic decisions, such as what services to provide in a new market or whether to manufacture there. No one wants to commit to a plant and then find out the market doesn't have the talent to operate it. Are people with the right skills and competencies available? Does the country provide visas to import start-up talent if needed? Where should plants or sales offices be located? What is the cost of labor? Is it cheaper to import raw materials or components, or to source them locally? An economist view can also bring critical regional facts—such as the high inflation rates characteristic of some BRIC economies—into the conversation early enough to make a difference.

M&A. It's increasingly common for the workforce value of a target organization to be the chief reason for its acquisition. Economic data can help HR leaders find companies with people who offer hard-to-find skill sets. Which countries promote start-ups? Which countries have large populations of people with scarce skills, like biotech and cloud computing? How long will these resources remain scarce? What countries are importing specialized talent the fastest? What companies are gaining market share in innovative industries like biotech based on their recent market performance? Thinking like an economist helps you find the talent value that can form the centerpiece of a deal.

Innovation. An economist mindset can help HR leaders find new ways to generate value from talent resources. Which countries have growing economies? What countries have a high concentration of engineers, mathematicians, and other critical professions? What countries provide tax credits? Do the countries or locations have the right infrastructure to support R&D? What colleges are producing high-demand engineers and scientists?

Lessons from the front lines

People in leadership roles, in HR and everywhere else, have much of their time locked up by operational concerns. Thinking like an economist requires stepping back and taking the time to think about strategy. If talent is more important in addressing business issues, and talent is finite, how can it be allocated to generate more value for the business? Most companies find having the right people and skills in the right place at the right time is an ongoing challenge.

This is not an invitation to dive headfirst into the limitless pool of big data. Rather, it's a call to do what economists do: maintain a 360-degree view of the key indicators, near and far, that matter to the business—and apply that knowledge to make smarter decisions.

HR leaders should start looking at micro- and macro-economic data in order to make more effective fact-based business decisions. Figure 1 shows ten common indicators that economists often follow—and business leaders often ignore. These publicly available data sources provide a starting point for economic thinking that can be applied to

business decisions. These should complement, not replace, the internally generated indicators that most companies use to direct talent and strategy decisions.

Build a broad dashboard. More data volume and fancier analytics are not the goal. But they're both means to an end: making better decisions based on new insights. A growing number of leaders utilize dashboards that deliver relevant data and analytics on a real-time basis, allowing them to closely monitor shifts that can affect business decisions. A well-designed dashboard presents a view that is broad enough to encompass the macro- and micro-views needed for decision-making, but focused enough to avoid overload and distraction.

Speak a new language. Economist thinking can be positively infectious. Be a carrier. Make leading indicators and analytical projections the lingua franca of HR leadership meetings, and share insights outside the HR realm with the top leaders who drive overall organizational strategy. When hard numbers can explain or predict what's important to the business, leaders listen.

Ten examples of external data types an economist-minded HR leader can use to drive better business strategy

	Economic indicator	How to use it
Market data	GDP Per Capita	Understanding standard of life measures and anticipating future growth can help HR stay ahead of the curve when the business is ready to penetrate new markets or expand in established ones.
	Confidence	Monitoring confidence can indicate consumer and industrial outlook, allowing HR to anticipate potential changes in the economy.
	Public infrastructure & private investment spending	Spending per capita and spending as a percentage of GDP are means of normalizing spending to compare the current positions and policies of different markets.
Financial data	Company value & output	Monitoring the trending and current worth of your company can help keep a pulse of the overall health of the organization and anticipate future changes.
	Market performance	External performance can be used to conduct competitive analysis and establish comparative benchmarks.
Talent data	Job creation	Monitoring job creation can help HR anticipate labor market changes that could impact the demand for different skills, organizational retention, and competition for key types of talent.
	College hiring	Understanding college hiring levels can help HR anticipate the types of degrees and specializations in demand and the amount of competition for different types of university talent.
	Education/skills	Understanding the education and skills available in different labor markets can help HR make informed decisions for acquiring and managing talent.
	International mobility	Monitoring the inflow/outflow of talent to different markets can help HR anticipate skill shortage and surpluses in different geographies and develop strategic mobility programs to enable a global workforce.
	Unemployment	Monitoring different types of unemployment can help HR understand and anticipate a portion of the "supply" side of labor and can serve as a valuable input to the development of compensation and retention programs.

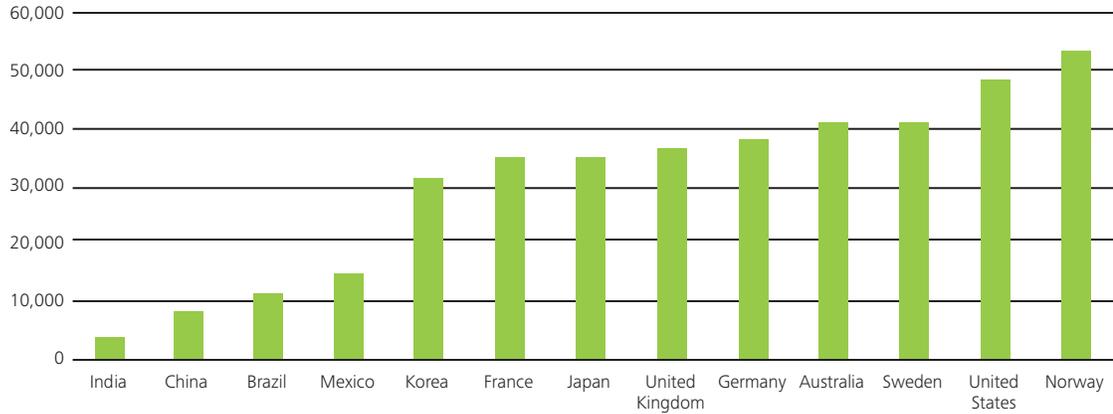
Source: Deloitte

One example of macro data that can help direct business strategy.

GDP influences spending in a market—and also compensation expectations among workers based there.

2011 GDP per capita

Based on purchasing power parity in international dollars



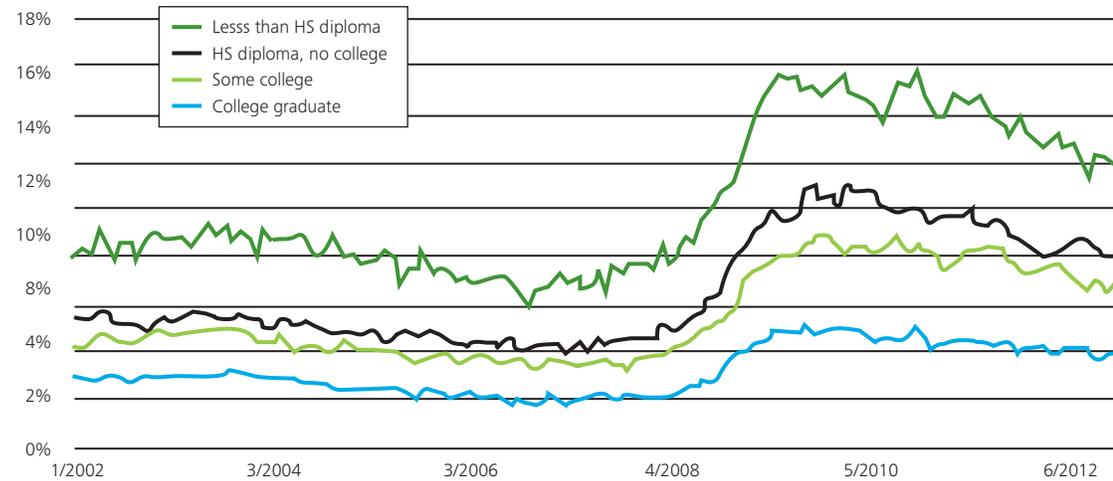
Source: International Monetary Fund World Economic Outlook Database, October 2012

The talent paradox in numbers.

Mass unemployment exists alongside shortages in critical skill areas in part because unemployment declines as education rises. Meanwhile public infrastructure spending often drives employment for less educated people.

U.S. Unemployment rates by educational level

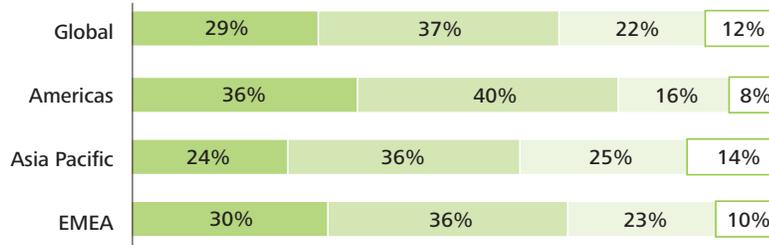
(Seasonally adjusted)



Source: Bureau of Labor Statistics

Human Capital Analytics: Survey highlights

Relevance by region



- Trend is highly relevant today
- Trend will be relevant in the next 1-3 years
- Trend will likely be relevant in 3 years and beyond
- Not applicable

Region	Total
Americas	315
Asia Pacific	582
EMEA	412
Total	1309

Digging deeper

- 29% of respondents from the Manufacturing report this trend as relevant beyond 3 years, higher than the global average of 22%
- 34% of respondents from Consumer Business industry report this trend as highly relevant today, which is the highest across industries
- 45% respondents with strong business outlook in FY13 identify this trend as relevant in the next 1-3 years in comparison to those expecting moderate to much slower growth (36%)

Authors



Patricia Buckley
Director
United States



Jonathan Ohm
Managing Director Deloitte
Finance
United States



Robin Lissak
Principal
United States

Endnotes

¹ World at Work / Sibson Consulting, "2010 Study of the State of Performance Management." <http://www.worldatwork.org/waw/adimLink?id=44473>