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Leadership Trend: Are you thinking like an economist?

Decisions facing business leaders today are more complex than ever and the results of one decision can have a lasting impact. Do you grow your business systemically or through acquisition? Do you promote from within or bring in new expertise? When is the right time to expand facilities? Buy or lease? Is a partnership the way to grow? Do I have the right people in the right places to achieve our goals? These are some of the questions many of our clients are asking. Answering these questions requires the ability to consider complexity, analyze new data, and to use a new style of thinking. You need to think and understand your business using an economist mindset.

What exactly is an economist mindset? Recently Deloitte completed a study identifying top human capital trends. One of these trends focuses on the importance for a business leader to think like an economist. An economist studies and directs the allocation of finite resources. People in leadership roles focus much of their time on operational concerns. Thinking like an economist requires stepping back and taking the time to think about strategy and looking at the necessary resources.

Understanding the importance of your most critical resource – the people in your organization is a critical first step. It is the people who develop and execute the plans. Therefore, if the right talent is essential to addressing business issues, and talent is finite, how can it be allocated to generate more value for your business? Most companies find having the right people and skills in the right place at the right time is an ongoing challenge. Thinking like an economist can help refine talent decisions from recruiting and retention through training, rewards design, and team composition.

So how do you think like an economist? The following figure demonstrates the ten key economic indicators often used by economists and often ignored by business leaders. These publicly available data sources can provide a sound starting place and can be applied to your business decisions. When combined with your internally generated indicators, you set yourself up for better decision making.

Figure 1: 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. |
| External 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

This does not mean you need to move into a “paralysis by analysis”, but rather to consider a high level view of the key indicators that matter most to your business and then apply that knowledge to make wise business decisions.

Yes, you can think like an economist.

Source: Deloitte - Human Capital Trends 2013.