# HR Magazine: Statistically Speaking

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***Monitoring and understanding the best economic indicators for your organization can enhance HR's effectiveness.***

As the HR profession advances in becoming a strategic business partner, HR executives continually look for ways to enhance their understanding of how business developments and trends might affect their employers. Among the best tools for gaining that understanding are economic data and statistics released regularly by various government agencies and private-sector organizations.

"The focus on economic indicators is exactly where the field of HR is going, and it is part of the whole focus on evidence-based HR," says Linda Barrington, research director and labor economist with The Conference Board, a business research organization in New York. "Understanding relevant economic indicators can help HR have informed discussions with finance executives, company economists, and the CEO and other senior executives about what this data means for the business from an HR perspective." Moreover, having this insight shows that HR executives understand the company's and its industry's business cycle and the underlying economics driving the company's performance.

"Now that HR is moving from an administrative approach to become a strategic business partner, HR professionals are looking at data on productivity, help-wanted advertising and other economic indicators to determine what is happening in the labor market," says Miguel Quinones, professor of management and organization at the Edwin L. Cox School of Business at Southern Methodist University in Dallas. "They can use this data to help support strategic initiatives within the different lines of business."

The key challenge is identifying the most appropriate and relevant economic indicators to track without getting bogged down in too many. HR executives who can effectively monitor a relevant collection of

## Web Extras

**SHRM toolkit**:
**Business Literacy**

**SHRM/Rutgers LINE**:
**Leading Indicator of National Employment**

**Productivity data**:
**Major sector and industry productivity and costs**
(BLS)

**Labor force data**:
**National, state and local employment data**
(DOL)

**Workforce confidence data**:
**Hudson Employment Index**

**Country information**:
**CIA World Factbook**

**Business and industry data**:
**Economic statistics by geography, sector and frequency**

economic indicators and turn that stream of data into strategic business insights can add tremendous value to their companies.

### Zeroing In

Quinones suggests that HR professionals begin tracking productivity data, such as the industry and labor productivity data provided by the U.S. Department of Labor's Bureau of Labor Statistics, as a way to benchmark productivity per employee and calculate the company's return on human capital. "Companies are now driving growth through their talent, not machinery," he says. "In a knowledge-based economy, it makes sense to track returns on human capital." HR professionals can take this a step further by using data to gauge their own internal economic indicators, such as HR costs as a percentage of revenue.

One use of economic indicators is gauging the economic issues facing the workforce in different parts of the country and the world, which could significantly affect a company's ability to find talent and drive compensation levels. HR professionals might also want to track complementary industries to see how economic developments might help or hurt the company's ability to hire employees from companies in that industry. For example, if the travel industry is heading toward a slump, retailers might be able to increase their hires from companies in the travel industry.

To find out which indicators are most important to the company, start by asking executives in finance and operations what indicators and data they track regularly. Additional insight can be gleaned from professional conferences and associations, from peers in other companies, from industry and trade groups, and from the company's own HR staff. In choosing which data to collect and analyze, HR professionals should think carefully about the types of data that will be useful. "You can create metrics on anything, but you have to ask, 'What does this data mean for me and my company's business?' " says Grant Schneider, SPHR, vice president of HR for The Briad Group, a Livingston, N.J., company that operates restaurant and hotel franchises.

### The Big Picture

Macroeconomic indicators include data that are indicative of the health of the overall economy, such as interest rates, inflation, unemployment and gross

### What Data, When and Where

HR executives can track an array of economic indicators, but the key is to focus in on those that fit the needs of the company and given situations. Nick Cihak, a director in the HR Effectiveness Group of PricewaterhouseCoopers in Dallas, provides four scenarios in which HR professionals can rely on very different sets of economic indicators:

- Business expansion. If a company is considering a business expansion into a new location or geographic area, HR professionals can evaluate the availability of workers in that area by using the U.S. Department of Labor's Metropolitan Statistical Area employment figures. Cihak also suggests mining private-sector data, such as compensation surveys offered by consulting firms, to analyze labor costs.
- Facility closure. If a company is closing a facility and releasing a large number of employees, HR professionals can use local economic indicators and data, such as unemployment rates and economic and job growth projections, to assess the economic impact. In this case, HR professionals might use that data, with information about what other companies are doing, to determine severance benefits.
- An acquisition. If a company is undertaking an acquisition, HR can assess how the labor component might affect pricing of the deal by examining local market-based pay and labor costs, using the U.S. Department of Labor's economic indicators on

domestic product (GDP). Depending on their situation, some HR professionals find these indicators useful and others do not.

In industries that are sensitive to interest rate fluctuations—construction, for example—tracking macroeconomic indicators and interest rate movements can help HR professionals with their strategic workforce planning.

Stanley Bloom, vice president of HR for Latin America for Chubb Insurance in Sunrise, Fla., relies on an array of economic data and indicators when preparing for the annual budget review and proposal for the following year. "I always look at general economic data, such as the GDP, to see if a country is growing or slipping, and at the unemployment rate to gain insight into the overall economic condition of the country," he says. "That information has a profound impact on projections for the future."

The unemployment rate and other indicators can help HR professionals estimate the forthcoming supply of workers with particular talents or skill sets. "You can use economic data when the company is considering expansion," says James Lewis, director of HR for NSF International, a standards-development and product-safety certification organization in Ann Arbor, Mich. "This can indicate how difficult it will be to staff the expansion, how the company should time the launch of the project or expansion, or whether the company should put a hold on the project until conditions change."

At the international level, Lewis keeps tabs on currency exchange rates to understand how their fluctuations affect labor costs in the company's international operations. For example, the strength of the euro against the U.S. dollar has made hiring people in the company's Brussels office more expensive. This doesn't necessarily prevent hiring, but it does make the company require a better ratio of revenue to expense before making those hires.

### Go Local

Not all HR professionals find macroeconomic data to be useful in their work, however. For example, Schneider relies instead on industry-level data on recruiting, industry sales trends, information about what his company's competitors are doing, and the results of the company's own customer satisfaction and employee engagement surveys to set priorities and identify areas of focus. "We need to determine how to execute differently to beat the competition and to train and retain our people," he says.

If the company relies on the local labor force for talent, it makes sense to track local employment data, as well as trends in university and community college enrollment in the area. If the company routinely looks nationally or internationally for talent, the data tracked would expand accordingly.

Data from consumer confidence surveys and other sources, such as the Hudson Employment Index's measures of employee sentiment regarding personal finances and job satisfaction, can indicate whether employees are likely to be optimistic or pessimistic, and HR professionals can use this information locally or nationally to benchmark the mood of their own workforces using their own employee attitude surveys. If consumer confidence is up but a company's employee satisfaction is down, that could indicate that employee dissatisfaction is not simply a reflection of general dissatisfaction and lack of confidence in the population at large.

Because the majority of NSF International's employees are based in Michigan, Lewis tends to focus on state-level data, particularly as it relates to health care cost trends, economic activity in the state and unemployment. "Michigan employers often have problems attracting and retaining employees because of the economic downturn in the state," says Lewis. "We've lost three employees because their spouses were unable to find work and they had to leave the state."

Even when the closure of a major competitor for talent, such as Pfizer Inc.'s Ann Arbor facility, frees up local talent, it also makes the state less attractive overall to workers. "State economic activity affects how we approach attracting talent from out of state," Lewis says. "For example, we may have to expand our relocation package and offer more job placement assistance to the relocating spouse."

Other useful data that can affect compensation planning include the percentage of the population enrolled in higher education and their areas of study. "That gives you a sense of how the [labor market] will play out in the future," says Bloom. For example, if there is an aging population in a certain field and education data reveal an upcoming shortage of young workers entering that field, expect a war for talent to emerge.

## Looking for Data Globally

In an increasingly global economy, HR executives are likely to be collecting economic data for countries beyond the United States. In general, finding economic data for developed countries is a straightforward matter, but it is trickier for developing countries. “While the data necessary to make workforce decisions is readily available in the United States and other countries, it can be much less available in others,” says Nick Cihak, a director in the HR Effectiveness Group of Pricewaterhouse-Coopers in Dallas.

Moreover, the quality of that data might vary depending on the size of the country and the resources it has for data collection and analysis. There also can be differences between government and private-sector data. “Governments tend to be optimistic when it comes to cost-of-living or other data, so I tend to rely more on the data of independent consultants,” says Bloom. The U.S. Central Intelligence Agency has country profiles with a wealth of economic data, and consultants and local universities can also provide this data.

However, specialty data, such as diversity-related data, can be a challenge to collect in developing countries, especially if diversity is not a cultural or governmental priority. Chubb Insurance has a proactive diversity program, so Bloom is continually looking for local market information, including demographic information on disability, age and other criteria. “I try to mine this data in the local market, but it can be difficult to find,” says Bloom. “You may have to look for that data at a local university, government agency or nontraditional sources like medical providers. You sometimes have to be more innovative to get that type of data.”

No matter what data HR executives collect, they must have enough context to understand what they are looking at. For example, in some countries, inflation might be measured using different market basket studies, and some of those studies might be more conservative than others. “It’s important to have local contacts who can provide the appropriate context about which studies are most commonly used,” says Bloom. “But it is good practice to validate the numbers with two or three different knowledgeable sources within the company, other HR professionals, a consultant or some combination of the three.”

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