



Age and Opportunity

Plan Strategically to Get the Most Out of a Maturing Workforce

by Charles Mitchell

The trend numbers are enough to frighten even the most stoic CEO. In a nutshell: if boomers retire as expected, there won't be enough people to do the work. But companies can plan their way out of the worst and gain a competitive advantage too—if they act now.

Numbers don't lie—and the aging of the global workforce is considered by many to be one of the most significant (and perhaps disruptive) business and social trends of the not-too-distant future. But not all companies will be affected equally. Before you panic, you need to figure out if your organization

has a problem in the first place. Step one—do the math. And if there is an issue, resolve to act now to improve chances of long-term success. It may take years to implement an effective knowledge-management and transfer program.

Reason to Worry?—A Shrinking Workforce

Several converging trends are creating near-term challenges for business. The worldwide elderly population is growing significantly in number and in share, and, as a result, the workforce is shrinking:

- The overall rate of U.S. workforce growth was 30 percent in the 1970s, 12 percent in the 1990s to present, but it is anticipated to level off at 2 to 3 percent in 2010 and beyond.
- By 2010, the number of 35 to 44 year olds, those normally expected to move into senior management ranks, will not grow but will decline by 10 percent.

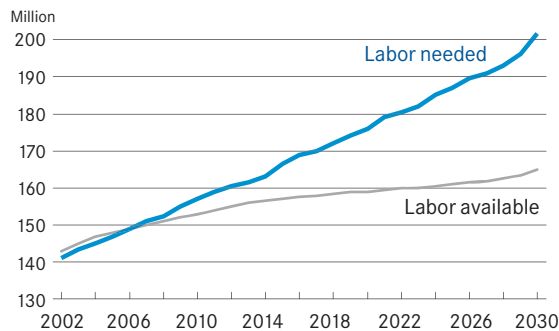
- By 2010, the number of U.S. workers ages 45 to 54 will grow by 21 percent; the number of 55 to 64 year olds will grow by 52 percent.
- In Europe, the pool of workers ages 35 to 44 is expected to shrink by 19 percent in the United Kingdom, 27 percent in Germany, and 9 percent in Italy.
- In Japan, workers ages 35 to 44 will shrink by 10 percent, and in China, by 8 percent.

Source: *Managing the Mature Workforce*, The Conference Board, Research Report R-1369-05-RR



U.S. Labor demand will outstrip supply

Expected labor force and labor force demand, 2002–2030



Source: Employment Policy Foundation analysis and projections of Census/BLS and BEA data, *American Workplace Report 2002*

Companies face two basic choices: Be proactive by developing and executing a strategic workforce plan in advance of the potential retirement wave or be reactive by plugging gaps as they arise—a potentially risky strategy in a tight labor market dictated by demographics.

In an ideal world, most HR executives would likely choose the proactive route, but implementing a proactive plan may not be as easy as it sounds. Many business or line managers (and many HR departments too) are either unwilling or too intimidated by potential legal obstacles to collect reliable data that will effectively predict personnel needs in the medium to long term. Retirement intentions have become a “don’t ask, don’t tell” quandary for both employers and employees. Action to alleviate skill shortages only comes once a manager feels the pinch, and that might be too late for a cost-effective solution to be put in place. Getting commitment for a strategic workforce review and plan that has the buy-in of the legal department, the CEO or the board before the storm hits can prove difficult.

As a result many organizations are forced into a reactive mode. If that is the case, you need to be concerned about windows of risk. You need to determine:

- Who may leave (don’t forget that changes in your pension plans can have a profound impact on this);
- When the skills crunch will hit your company;
- What the business impact is when it hits;
- What your readiness is to respond;
- What your strategy is;

- How long it will take to implement a response, including training and knowledge transfers.

Good News (for Some) –The Impact Is Not Equal Across all Sectors

Not all industry sectors or businesses will be affected equally by the aging of the workforce. Those industries already feeling some fallout from looming boomer retirement include oil, gas, energy, healthcare, transportation, and government.

For some organizations, the demographic trends may be nothing more than curious generalizations whose impact will be “on the other guy.” Like politics, workforce issues, at least for individual companies, are local. But even if your organization may not have an enterprise-wide issue with aging in the workforce, there may be problems (*and certainly opportunities*) looming in a specific skill set, occupational group or product line.

Employers—and younger generations in the workplace—are often trapped in a tired mindset that sees older workers in a negative context (out-of-date, inflexible, lacking tech savvy) with emphasis on their shortcomings rather than the contribution that their commitment, knowledge and experience can continue to make to an organization.

Critical Realization: Managing a Mature Workforce is a Strategic Issue – Not Just an HR One

The issue of managing a maturing workforce needs to be viewed not only as a negative (a problem to be dealt with), but also (this is the strategic part) as a potential opportunity for change within an organization. Trying to successfully manage a maturing workforce in isolation without incorporating it into a company’s broad business goals and a comprehensive strategic workforce plan, will lead to missed opportunities and, at best, only limited success.

Experts agree being able to leverage the talents and capabilities of a maturing workforce and ensuring knowledge transfer to younger generations *must be viewed as a strategic issue*. While HR is part of the solution, it is not *the* solution.

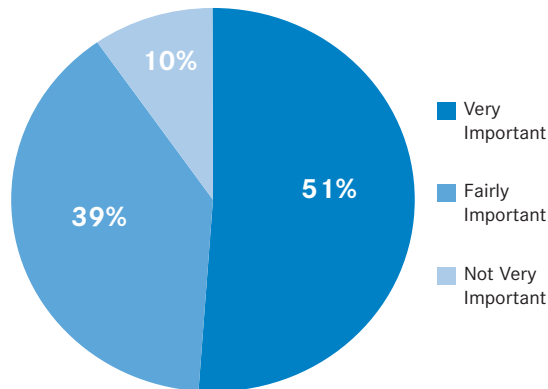
Important Issue—But Many Companies Unprepared

A pulse poll* of 44 executives belonging to 13 Conference Board Councils in the fields of Talent Management and Diversity provides an interesting snapshot of how companies view mature workforces. Many companies are reluctant to discuss the mature worker issue and have no idea

about their retirement risk. While 90 percent said it was either a “very” or “fairly” important business issue for their organization, just 55 percent had conducted a strategic workforce analysis to determine the profile of their employee populations.

* The pulse poll was conducted among The Conference Board Councils early in 2006. These data are for informational purposes only. Pulse poll results do not reflect a scientific representative sample.

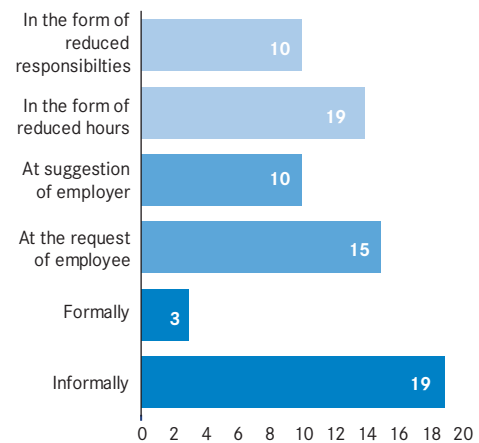
How important is the workforce as a business issue for your company



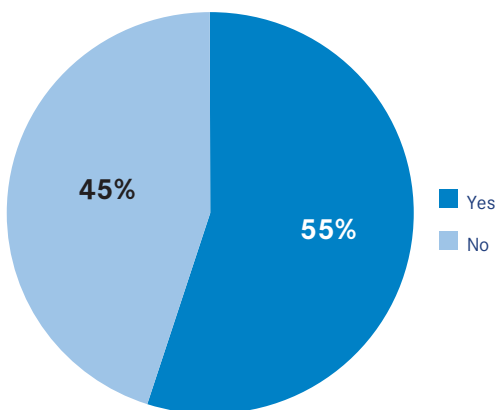
Does your firm offer phased retirement options?

Please check all that apply.

Percent Offering Phased Retirement Options



Has your company conducted a strategic workforce analysis to determine the profile of your employee population?



Does your firm have...

Please check all that apply.

Percent With



To plan effectively a company needs to assess a broad range of HR and business areas including performance management of the entire workforce, diversity, knowledge management, succession management, and that ever-increasing source of workplace angst—managing the friction created in an age diverse, intergenerational workplace.

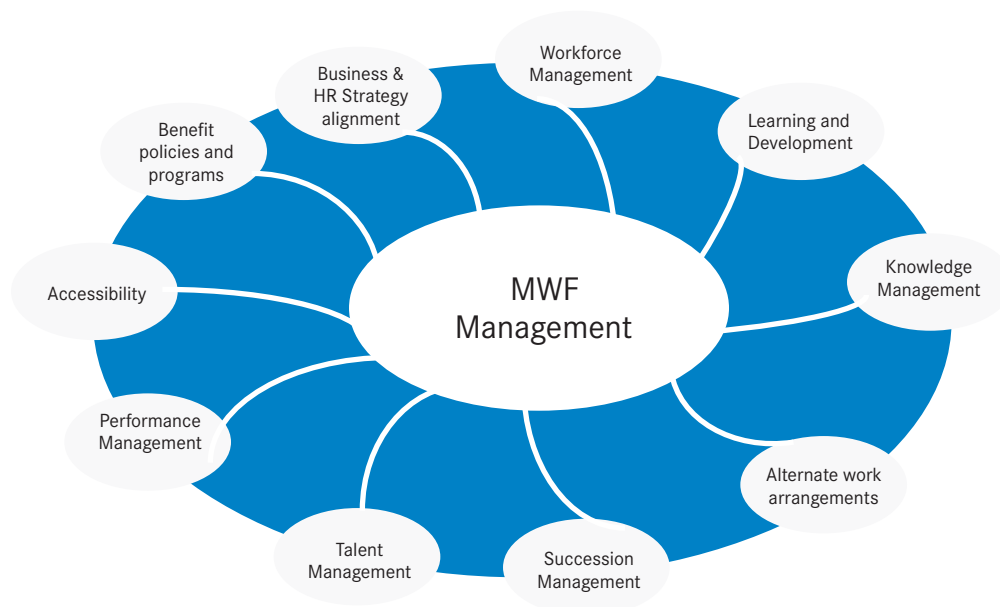
When it comes to planning how best to minimize negative impacts and maximize opportunities associated with managing a mature workforce, the real value to an organization will be in the strategic discussions themselves, says Ed Vitalos, of IBM Consulting. A maturing workforce not only presents challenges and risk. It also presents opportunity.

Vitalos cites the example of a large transportation concern that, after doing a strategic workforce assessment, realized it was facing a potential retirement wave within its information technology section. Many of these workers were present at the beginning of the tech boom and had managed to string together four or five different IT legacy systems over the course of the years. The systems were made compatible only by the ingenuity of the IT workers—in

essence these soon-to-be-retirement-eligible workers were “human web ware.” This was not a system that new graduates would be trained to handle out of school. For replacement hires to come up to speed and learn the knowledge necessary to run this patchwork, but effective, system might take years.

The company had to ask itself the question: Does it make sense to hire replacements and hope the knowledge necessary to run the current system can be transferred to them by the outgoing cohort or does it make more sense to bite the bullet and buy a whole new state-of-the-art IT system? It was a question that neither HR nor IT could answer alone. It would require both departments working together. A look at the numbers and an assessment of the potential efficiencies available from the new system made the decision easy. Rather than keep the patchwork system and replace those that ran it, it was better and more cost efficient to buy a new IT system and provide retirement options for those that ran the old system. Looking ahead to the retirement of this group of IT specialists forced the company to examine its systems and what made sense for the future, thus providing an opportunity for the organization to benefit from its foresight.

Figure One: Maturing Workforce Management (MWF) assess a broad range of HR and business areas



Source: IBM Consulting Services

Inter-Generational Battle Lines: Slow the Leak and Increase the Flow

It is impossible to divorce the issue of managing a mature workforce from the broader issues of the inter-generational workplace. Both ends need to be managed.

Many workplaces now have four different generations in place. While boomers make up the most experienced and largest cohort, they are making things crowded at the top. This is having a trickle down effect, creating, as IBM's Vitalos terms, a "backwards overhang" in workforces. Boomers are still occupying positions where the Generation Xers expected to be by now. The Xers, in turn, are in jobs that Generation Y expected to occupy at this stage in their careers. Hence, the underlying friction often seen between generations.

The challenge: *Slow the Leak* of retirees in critical jobs and *Increase the Flow* of younger generations into ready positions to move up.

Develop HR responses (policies, procedures, training, and development) to maximize the effectiveness of each workforce generation, and create a work culture that blends and harnesses the best of each generation.

Promote cross-generational cooperation via special teams and mentoring relationships. This creates a culture that supports learning and sharing continuously and may be critical in the knowledge transfer process. For example:¹

- provide mentoring opportunities for mature workers;
- provide special rewards for the strong work ethic of Baby Boomers;
- reduce the rules and red tape that Gen X-ers find unnecessary; and
- use cutting-edge technologies as a way to excite and engage both Generation X and Y.

¹ *Managing the Mature Workforce*, Research Report R-1369-05-RR, The Conference Board

Do the Math—You May Find New Opportunities

The notion of implementing a plan to capture and disseminate the critical knowledge of valued retiring workers while creating an inclusive culture for employees of all generations is a daunting task.

Too many companies, their leadership, and their HR departments remain bogged down in short-term thinking. The reality is that frequently the year-to-year staffing plans done by business units and HR departments create a false sense of security and substitute for a much more comprehensive (and necessary) strategic workforce plan.

The fundamentals of a strategic workforce plan include²:

- Collecting data about the business environment, customer preferences, the organization's strategy, what jobs will be the most critical, and other aspects of the future that will determine workforce needs.
- Analyzing data about the current workforce (such as headcount, turnover, skills, age, pension data, and retirement eligibility) to project, as best one can, the future workforce, say two years from now. These analyses can be very sophisticated and accurate, or very crude. The quality of the data is one deciding factor.
- An analysis of the gap between projected supply and demand. This is often an oversupply in some areas and deficits in others.
- A plan for closing the gap, for example, by hiring, training, leadership development, rotational assignments, coaching, knowledge management, and so on.

² *Strategic Workforce Planning*, Research Report, The Conference Board, to be published Spring 2006.

Basic Strategy

Even the most basic HR strategy designed to deal with the challenges posed by a maturing workforce should include these three goals:

- Capture critical knowledge/expertise of valued retiring workers and effectively transfer it
- Develop flexible work arrangements and benefits to suit needs/desires of valued retirement-eligible employees
- Create and maintain a culture welcoming to employees of all generations

Strategic Ideas and Actions

An action plan requires an organization to analyze, plan, execute, and pilot initiatives, but it may be able to galvanize around already existing assets and programs. Companies often already have policies and procedures in place that could provide flexibility for valued retirement-age employees. However, managers sometimes view these policies with suspicion. They may be fearful of legal and bureaucratic tangles or uncertain how to apply such policies in individual cases. Often managers may not see the relevance of these policies for older workers. It is HR's role to make those policies visible and communicate them to all managers. They need to be pulled together, made accessible, and identified as tools for managing workers of any age.

Extensive research by The Conference Board in this field shows that forward-thinking companies are:

- Creating an inclusive culture and challenging stereotypes about mature workers' ability to stay innovative and productive
- Realizing that retirement-eligible does not mean retirement-prone
- Placing the mature worker in the talent management framework
- Leveraging their mature workforce to increase customer satisfaction
- Experimenting with phased retirement options

Elements of an Action Plan

Here are a few suggestions that can help a company maximize the opportunities presented by a mature workforce:³

Conduct strategic workforce planning It's critical to know your workforce composition and address potential vulnerabilities. Be prepared to project at least five years out.

Establish flexibility as a corporate value Flexibility applies to employee aspirations, job design, and benefits and can go far to ensure talent retention.

Capitalize on affinity groups A mature worker group can be open to a population 40-plus years old and strategically used as an incubator of ideas for the employee and employer. Some organizations have conducted focus groups and surveys through their affinity groups.

Make a four-generation workforce work For a cultural value to manifest, behavior has to change. Ensure the language used to describe mature workers is less age-specific and more centered around the value placed on wisdom and experience. Address stereotypes and multigenerational issues.

³ *Managing the Mature Workforce*, Research Report R-1369-05-RR, The Conference Board

Case Study

Being Proactive: Southern Company's Retiree Reservist Program

Southern Company, the leading producer of electricity in the United States, has always taken great pride in knowing that once someone joins the company, they rarely want to leave, says Leonard Owen, Director of Human Resources. However, what had once been the company's unabashed strength, has, over time, turned into a potential Achilles' heel. Those workers who came and stayed and spent their careers with Southern

Southern Company's Challenge

- More than 25,000 employees
- Average age: 45
- 52 percent have 20-plus years of experience
- Approximately 35 percent of workforce is craft labor
- 97 percent of current employees say they intend to retire from Southern Company
- 34 percent are currently retirement eligible—and the number *doubles* in the next five years.

Company are now ready to retire—at a significantly higher rate.

It was clear, according to Owens, that Southern Company needed to get out in front of its looming demographic crunch:

- it's workforce was aging and retiring;
- the skill levels and increasing diversity of the replacement workforce created new challenges;
- the company risked a loss of key institutional knowledge; and
- downward pressures on rates and the need to remain competitive created a need to focus on cost reductions.

The company responded with an aggressive workforce planning process to manage attrition, joined the Utility Workforce Planning Network, a nationwide cooperative effort by utilities to ensure a skilled workforce is available for industry needs, began an outreach to technical schools, and accelerated its internal leadership development process.

The company learned—mostly from internal surveys—that some potential retirees were not financially ready to leave, many were healthy and wanted to extend their careers and were interested in phased retirement and

part-time options. Their experience made them highly valuable resources to younger workers. So, in 2003 human resources and Georgia Power Company management partnered to launch an innovative program aimed at retirees, the Retiree Reservist Pool. Due to the program's success, the company has plans to roll it out throughout Southern Company.

The goals were straightforward:

- provide experienced staff to meet short-term critical business needs (typical uses: plant outages, storm restoration, special projects, peak labor needs); and
- enable the company to proactively manage knowledge transfer associated with anticipated attrition over the next decade.

The program is self-selecting. Retirees who are eager to continue working on a part-time basis complete a form detailing skills and work experience and are placed in a company-wide database accessible to managers. The length and scope of assignments are tailored to managers' needs. The assignments must be clearly defined and of limited duration. Managers must also identify safety requirements.

There can be no pre-arranged hiring between retirees and managers, there is a minimum 90-day separation period, and pay is market-driven and not tied to previous salary. No "on call" pay is offered at this time and reservists cannot be assigned to all of the same duties performed before leaving.

Owens says the benefits to workers and the company from the Retiree Reservist Pool are powerful. However, there is still work ahead to assure the unions understand the program is not intended to take jobs away from younger union members.

Benefits to retiree

- Lessens emotional impact of separation from company
- Provides additional income
- Helps keep retiree connected and knowledgeable about the company
- Self-esteem enhancer

Benefits to company

- Ready-made, experienced temporary labor force
- Effective knowledge transfer
- Better management of labor costs
- Strengthens employee engagement
- Role model for other companies

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About This Report

This report is based on presentations given to members of The Conference Board Advisory Council on Human Resources Management and the Council of Human Resources Executives in February 2006 in Orlando, Fla. Material was also culled from published research reports and ongoing research by The Conference Board. Presenters at the Councils meetings included:

Linda Barrington
The Conference Board
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the Management Excellence program

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