Smart Workforce Management
How to Successfully Address Changing Demographics
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EXECUTIVE SUMMARY

The workforce in developed economies is getting older. The graying of the baby boomer generation, coupled with declining birthrates, will exacerbate the war for talent. Most businesses understand what this means, but few are developing, let alone implementing, creative solutions to address the issue. Companies must adopt HR strategies that reflect the aging of the working population or they will find themselves at a competitive disadvantage. They need to analyze their workforce demographics to identify areas that will be affected by waves of retirement and develop strategies to fill the gaps. We call this approach Smart Workforce Management.

Smart Workforce Management requires a regular review of HR strategies and programs. First, companies should identify potential skill deficits. Next, they should look at the kinds of programs that mitigate the shortages—e.g., better compensation and healthcare packages—or the introduction of flexible work arrangements and a corporate culture that values older staff. The productivity of the 50-plus generation is key to gaining a competitive advantage in the future. Forward planning will reduce corporate brain drain and strengthen a company’s position in the fight to attract and retain the best available talent. Smart Workforce Management must start now.
Across the Western world, the age structure of the working population is changing. Companies need to understand the impact of this demographic shift in the general population and how it affects specific industry sectors. Human resources (HR) departments can then develop plans to address the issue and, more important, take advantage of the situation. We call this approach Smart Workforce Management. Given the magnitude of the shift, how companies respond will greatly affect their future success and even their survival.

People today are living longer and having fewer children. Globally, life expectancy is expected to reach 82 in 2050, up from 78 in 2020. In parallel with this trend, birthrates are in decline. In more than 40 developing countries, fertility rates in 2008 were at or below replacement levels, according to the U.S. Census Bureau. In Russia and Japan, birthrates are 1.4 and 1.2 children per woman, respectively, well below the 2.1 children per woman required to maintain population.

In the U.S., the total population is increasing, but the percentage of those in the active workforce—people aged 18 to 64—is shrinking as a result of the graying of the baby boom generation. By 2030, one in five Americans will be 65 or older (see Exhibit 1). The picture in Western Europe, where populations are in decline, is different—but the consequences are the same: smaller, older working populations. In Germany, for example, the active workforce is expected to decline by as much as 29 percent by 2050.

Surprisingly few companies are developing strategies to accommodate or, more important, take advantage of these demographic realignments. This can be explained by the fact that population changes are not sudden, but instead occur gradually: They creep up on us. Many companies just do not react because they do not yet feel the impact. Visionary organizations, however, can gain a competitive edge by understanding these changes and proactively managing their workforce. This, in effect, is the essence of Smart Workforce Management.
Exhibit 1
Population Pyramid in the U.S. and Germany

Source: Population Division, U.S. Census Bureau; German Federal Statistical Office (Destatis)
Four major trends make Smart Workforce Management an imperative for organizations.

Trend 1: Decreasing Labor Pool and Increasing Cost

Businesses are aware that the long-term cost of human capital is increasing. The war for the best talent has never been fiercer. This expected increase in costs is exacerbated in some countries by the fact that age is a decisive factor in compensation. As a result, even if there were no war for talent, an aging workforce would lead to higher costs.

Trend 2: Skills and Qualifications Gap

Today, 80 percent of the worldwide human capital deficit exists because job candidates lack the appropriate qualifications. Over the next two decades, the baby boomers will retire, taking with them a wealth of hard-to-replace experience, industry-specific knowledge, and long-term customer relationships. Clearly, training has not kept pace with changing work practices, and although new technology has produced productivity gains, there is still a significant gap in workforce competencies. Take the oil and gas industry, for example. About 50 percent of worldwide employees will retire within the next 10 years. New talent is scarce and relatively inexperienced. Transferring the experience of the next wave of retirees to new hires will determine a company’s future success in this and other industries.

Trend 3: Changing Values

In the West, workers no longer view employment mainly as a means of paying bills. Rather, it is seen as a road to personal fulfillment. Studies show that different generations have different expectations, attitudes, and requirements with respect to work. A successful HR management approach must take these into consideration to attract and retain the best and the brightest.

For example, manufacturing industries are finding it hard to replace retiring employees with equally motivated younger workers. Today’s new workers tend to view these jobs as stepping-stones, not careers for
life. They are less committed than the previous generation. This poses significant challenges to employers who cannot afford to invest in training only to see staff leave prematurely.

**Trend 4: Changing Working Conditions and Career Paths**

The traditional career model of working for one company and then retiring at age 65 has rapidly given way to more complex and varied career models. Increased life expectancy, reduced pensions, and new technologies are changing work patterns. People work longer, have varying professional biographies, and take a different approach to retirement.

In the “cyclical” employment model, for example, employees intersperse full-time employment with leaves of absence. And, far from learning one skill or one job for a single career, people retrain, even late in their careers, to keep up with new technological advancements in all facets of business and life.

Traditionally, a slope-shaped, or “cliff,” employment model has been the prevailing pattern of retirement: Workers simply leave their jobs once they reach a predetermined retirement age. The future, however, will be much more characterized by a “plateau” employment model: People will choose to remain active in the workforce for a substantially longer time (see Exhibit 2). Some people can expect a 20- to 30-year final phase in their working lives, which could include part-time or full-time employment.

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**Exhibit 2**
Comparing Current and Future Career Paths

<table>
<thead>
<tr>
<th>Current Model (“Cliff”)</th>
<th>Future Model (“Plateau”)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td><strong>Income</strong></td>
</tr>
<tr>
<td>Age</td>
<td>Age</td>
</tr>
<tr>
<td>20 30 40 60 80</td>
<td>20 30 40 60 80</td>
</tr>
<tr>
<td>Income</td>
<td>Income</td>
</tr>
<tr>
<td>Pension</td>
<td>Pension</td>
</tr>
<tr>
<td>Pension starts at age 65</td>
<td>Pension starts at age 67</td>
</tr>
</tbody>
</table>

Source: Booz & Company
Booz & Company has identified six action areas that organizations should address to keep pace with the changing requirements of an aging workforce. It is important for companies to analyze the nature and magnitude of the challenges within their own organizations. Any measures in each of the six areas need to be integrated into an overarching HR management strategy (see Exhibit 3).

1. Workforce Planning

The goal of effective workforce planning is to ensure that the company’s workforce is adequately staffed and has the right skills and best qualifications to address the challenges of the company at any time.

The Internal Age Pyramid

As a first step, companies should conduct a detailed analysis of the age structure in their organization. A graphical depiction of the age demographics of teams, corporate departments, or the entire company will illustrate the age structure today and can simulate it going forward. The average age of new hires can also be integrated into the model. This gives a short- to medium-term view of workforce planning.

Take the example of one hypothetical corporate department (see Exhibit 4). In 10 years, the change in workforce demographics will result in a significant shift; the share of 50-plus workers will increase from 35 to 45 percent. Companies can prepare for this, but only if they realize it is going to happen.

Just as age mapping helps companies plan for the future, a gap analysis will identify what skills the company might lose owing to retirements. In 2007, a major U.S. utility company conducted a basic gap analysis that gave management a clearer perspective on its aging workforce and allowed it to compensate for a wave of future retirements by adapting its hiring process. The analysis was performed by line management, helped by the HR

Exhibit 3
Six Action Points for Managing an Aging Workforce

Source: Booz & Company analysis
Talent Acquisition: Old and New
Demographic changes will lead to a paradigm shift in the area of talent acquisition. Recruiting departments that have typically focused on younger applicants will have to consider candidates from all generations. This will necessitate retooling recruiting messages, creating new hiring programs, and tailoring job descriptions to attract the best available talent, be it young or old.

For example, faced with a shortage of qualified job applicants, the Abu Dhabi Company for Onshore Oil Operations (ADCO) developed a new sourcing strategy for mature hires: It encouraged existing employees to identify and recruit candidates from within their social networks by offering job referral bonuses.

Career Paths: New Models for a New Workforce
Today’s career path models need to be adjusted to account for longer working lives; otherwise, younger managers may find themselves trapped in career bottlenecks while waiting for older employees to retire. This phenomenon leads to dissatisfaction and, potentially, an exodus of talent. Companies must give younger managers the means to develop, grow, and stay committed. At the same time, older employees need to adjust to an environment in which climbing the career ladder is not the only way to gain job satisfaction. A sideways move or reduced hours near the end of a career should not be seen as failure.

For example, Scripps Health, a leading healthcare provider, offers experienced nurses the chance to become “clinical mentors” to newer recruits. This allows them to transfer their experience to younger employees while reducing the more physically strenuous aspects of the job.

Deployment: The Right Employee for the Job
The development of individual career and advancement plans helps ensure the optimal matching of job openings with the right, qualified individuals. The personal development goals of older employees often differ from those of younger employees. Older workers may not be as ambitious as their younger colleagues, but their experience and knowledge are valuable assets that need to be intelligently deployed. Identifying the best position for the right older employee will be a critical task for HR managers.

Flexible Work Arrangements
Flexible work arrangements not only meet customer demands, but also are a way to help motivate and retain workers. Although many companies offer a variety of arrangements, they are not always promoted systematically to all staff.

Flexible Work Time Models
Part-time employment prior to retirement is a popular work model for seniors. For companies, the aim is to retain experienced employees and at

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Exhibit 4
Analysis of Workforce Demographics in Corporate Department over 10 Years (Illustrative Example)

<table>
<thead>
<tr>
<th>Age of Employees</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>550</td>
</tr>
<tr>
<td>25</td>
<td>500</td>
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<td>30</td>
<td>450</td>
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<tr>
<td>60</td>
<td>150</td>
</tr>
<tr>
<td>65</td>
<td>100</td>
</tr>
<tr>
<td>70</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Booz & Company
the same time give them an opportunity to reduce their workload at the end of their careers.

At Home Depot, a large U.S. home-improvement chain, staff can choose to work part-time, opt for special holiday arrangements, and take personal leaves without prejudicing future employment. This flexibility has helped Home Depot retain qualified staff of all ages. ASDA Group Ltd., a U.K. supermarket chain, offers a variety of tailored working models, including “grandparents’ time,” a week of unpaid holiday after the birth of a grandchild. The company’s flexibility has lowered absenteeism and made managing staffing rosters easier because it has increased the pool of available workers.

Telework
All types of business have jobs that can be completed off-site. Telework—i.e., working from home—has become standard practice. The challenge is to provide the necessary infrastructure and support to ensure employee development, and to provide the appropriate mechanisms for performance measurement.

3. Compensation
In the past, compensation packages were typically made up of standardized, one-dimensional benefit schemes. Today, they have become another strategic incentive in a company’s bid to lure talent.

Compensation and Incentive Schemes
Attractive compensation packages are typically performance oriented, are independent of age, are tailored to individual needs, and explicitly include recognition as an incentive. In both the U.S. and Europe, health insurance options have also become increasingly important as the workforce ages. A variety of company-sponsored healthcare and pension options offer employees more choice but also place more responsibility on employees to choose a plan that best meets their needs.

Pension Plans
In some countries, pension plans offer employers a chance to differentiate themselves in the job market. They provide a way for employees to complement private retirement plans and compensate for the drop in government pensions, which today are supported by fewer contributions as the workforce ages.

For example, in 2000 German carmaker BMW introduced a “lifetime working hours account.” The company contributes to an individual employee account, with contributions based on the number of hours worked. Employees know what they can expect upon retirement, in addition to their usual pension, and can choose to work more hours in order to increase their retirement income. This enables a smooth transition into retirement, often earlier than the mandatory retirement age, because employees can set their own pension goals.

Pensions are costly, and companies need to offer options that meet individual needs while limiting their own financial risk. As the example of the General Motors Corporation and other automotive companies in the U.S. shows, underfunded pension plans endanger a company’s financial stability and increase insecurity among the workforce. After the stock market crash in 2000, General
Motor’s pension fund finished 2002 with a shortfall of almost $20 billion (€22 billion). The situation may worsen when a company is forced to lay off workers, because depending on the structure of its pension fund, it may then face longer pension payouts. Companies need to carefully plan and structure their pension policies, always with an aging workforce in mind.

4. Learning and Development

Training and development are central to corporate performance and capacity building, and are prerequisites for sustainable productivity and employee motivation.

Seniors Learn Differently

Studies show that investing in training programs for older employees pays off because they are loyal, and far less likely than younger employees to leave the company after acquiring new skills. Despite this, companies continue to spend more on developing younger staff. This is true across Europe, where older workers regularly receive less training than average staff (see Exhibit 5). Only Sweden offers older employees the same job training opportunities as younger employees. The figures for Germany and France are particularly low.

Companies may believe older staff have less enthusiasm for learning new skills and concepts, but this is not the case. University-level courses for seniors are in high demand. Older employees don’t learn less; they learn differently. Studies show that they prefer on-the-job training so they can use new skills immediately. For this reason, companies need to develop programs that specifically cater to the needs of their more senior staff.

Learning from One Another

Successful examples of age-based training initiatives include programs where seniors and juniors help one another learn. Deutsche Bank AG introduced an innovative learning model worldwide called “Know-how Tandems” based on the idea that older and more experienced workers and more junior staff can help one another acquire new skills. Younger staff pass on IT-related knowledge to older employees, who, in turn, share their customer service skills and general experience. The result is beneficial to both groups and provides an incentive for further learning.

In the U.S., General Electric Company introduced a similar program that brought 500 older and younger staff together to discuss the potential of the Internet. At Deutsche Lufthansa AG, managers over 45 are encouraged to participate in the company’s “Added Experience Program,” a series of one-week modules in which managers exchange ideas with their peers.

5. Healthcare Management

An aging workforce requires a different approach to healthcare management, be it through special training programs or redesigned working environments. Getting these issues right can help retain staff and make them more productive.

Exhibit 5
**Advanced Training and Continuing Education by Age Group**

<table>
<thead>
<tr>
<th>Country</th>
<th>Employees aged 25 to 64</th>
<th>Employees aged 55 to 64</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>2,4%</td>
<td>7,4%</td>
</tr>
<tr>
<td>France</td>
<td>2,6%</td>
<td>7,8%</td>
</tr>
<tr>
<td>Great Britain</td>
<td>8,9%</td>
<td>16,0%</td>
</tr>
<tr>
<td>Finland</td>
<td>12,3%</td>
<td>23,5%</td>
</tr>
<tr>
<td>Sweden</td>
<td>16,1%</td>
<td>30,1%</td>
</tr>
<tr>
<td>Denman</td>
<td>16,1%</td>
<td>26,5%</td>
</tr>
</tbody>
</table>

Source: Institute for Labor Market and Career Research, German Federal Employment Office, 2005
The Integrated Health Concept
Studies show that physical and mental capabilities do not necessarily decline uniformly with age. Rather, a greater range of performance capabilities will appear among older employees than among younger employees. Many factors are at play, including lifestyle and the work environment. Knowing these changes may be coming means companies can improve the capacity of older staff by providing the right kind of encouragement and training, tailored to their specific strengths.

There are three overlapping dimensions to an integrated health management strategy: physical health, mental health, and emotional balance.

**Dimension 1: Physical Health**
Even though physical abilities may decline with age, older employees are able to compensate with experience and context-based knowledge. In some cases, job-specific age restrictions—for example, mandatory retirement for pilots at age 60—do not make sense. Studies show that older pilots perform just as well as younger ones. Clearly, most older people cannot perform extremely physically demanding work, but they can carry out most jobs in an adapted workplace. For example, the BMW Group invested $35.8 million (€25 million) to upgrade one site to accommodate older workers, and Bosch recently invested in promoting healthy lifestyles to its workforce, to help older staff stay fit and employable longer.

**Dimension 2: Mental Health**
Mental capabilities need not decline with age, but they do change. Capabilities—including the ability to assimilate new information, make judgments, concentrate, and learn new languages—remain intact until about age 80, although some kinds of abstract thinking and information processing might start to decline after 50 years. Research shows that the more the brain is stimulated, the longer mental capabilities remain intact. Companies should constantly challenge older staff and provide varied development programs.

**Dimension 3: Emotional Balance**
To help older employees remain productive, it is imperative for the workplace environment to support and value their contribution. Too often, rumors and prejudices related to age and abilities demoralize employees nearing retirement. Simple awareness of this can translate into support for older staff, improve productivity, and avoid unnecessary workplace stress.

The Work Ability Index
In the mid-1980s, Finnish ergonomists developed the Work Ability Index (WAI), which provides companies with a way to measure the physical, mental, and emotional health of their employees and their suitability for specific jobs. The WAI can also evaluate company policy in relation to employee health and is a useful tool to help HR devise appropriate workforce strategies.

6. Corporate Culture
A corporate culture that copes adequately and proactively with demographic changes must address two key issues: diversity management and knowledge management.

**Diversity Management**
Diversity management is the successful integration in the workplace of different social and cultural groups.
As heterogeneity in the workplace increases, diversity management becomes an effective mechanism to fight ageism, promote creativity and innovation, and deliver a competitive advantage. This is achieved through appropriate communication and HR awareness of how to cater to the different needs and preferences of employees.

A successful diversity management program will break down age-specific pre-judices and allow younger and older staff to successfully work together. This includes helping young managers develop the appropriate leadership skills to manage older employees and, conversely, helping older staff respond to younger managers.

Knowledge Management
Proactive knowledge management can help companies avoid a corporate brain drain as baby boomers retire. The experience and knowledge of the older generation must be transferred efficiently and systematically through an organized management structure. This is not easy, especially in complex, interdisciplinary teams.

Knowledge management that recognizes the impact of demographic change is based on three key building blocks:

- Defining current and future competency profiles
- Outlining career and succession planning
- Encouraging and managing knowledge transfer

Definition of Current and Future Competency Profiles
It is too late to identify competency gaps when an employee has left the company. Companies should review existing staff capabilities and know-how and match these with retirement plans and timelines so that they can identify at an early stage critical areas where staff loss will be most costly.

Career and Succession Planning
Succession planning is highly relevant for all kind of jobs, including technical, operating, and management positions, and it requires regular meetings with key staff, starting when they turn 50. This is standard practice at Siemens AG, the German electronics giant. In addition, promotions should automatically trigger the process of transferring knowledge and identifying a successor.

Knowledge Transfer and Management
Companies use a variety of methods to transfer knowledge, including document mining, storytelling, creating knowledge maps, and bringing together specific groups to share information. To address this issue in an aging workforce, companies should introduce cross-generational teams (as in the Deutsche Bank example above), mentoring, debriefings by those leaving, and cooperation agreements with retired employees.

ABB Ltd., a large German energy company, recently introduced a program called “Generations” that encourages mixed-age management teams to facilitate knowledge transfer. In 2003, Procter & Gamble Company and Eli Lilly and Company established “YourEncore,” a privately held consulting company, to bring recent retirees with specialized skills back into the workplace on short-term contracts.

Proactive knowledge management can help companies avoid a corporate brain drain as baby boomers retire.
The productivity of employees over 50 years old is critical today and will be even more critical in the future. As the percentage of older employees rises, Smart Workforce Management will become an increasingly important factor in guaranteeing corporate success. Companies cannot assume demographic stability; they must rethink their management strategies in a way that reflects the current reality of an aging, shrinking workforce. In the future, the war for talent will not concentrate on the young; it will be recast as the war for seniors. To be successful, companies will need to mine and develop the capabilities of their older employees. Smart Workforce Management is an innovative way to gain a competitive advantage.

Companies cannot assume demographic stability; they must rethink their management strategies in a way that reflects the current reality of an aging, shrinking workforce.
**About the Authors**

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