

Marius Leibold
Sven Voelpel

Managing the Aging Workforce

Challenges
and Solutions



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Managing the Aging Workforce

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and Sven Voelpel



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The world is facing an unprecedented war for talent and competencies. Will your company be able to manage this and survive? Here is what others say:

“The rapidly aging global workforce is considered by many to be the most significant business and societal trend for the next several decades.”

Lorrie Foster, *The Conference Board*

“Going grey with worry: Ex-communist countries risk growing old before they become rich.”

‘Demography in Eastern Europe,’
The Economist, May 27, 2006, p. 48

“Dramatic trends are already in motion that will force organizations to do some major rethinking about their relationships with their employees.”

Harriet Hankin, *The New Workforce: Five Sweeping Trends that will Shape Your Company's Future.*

“... the problems are bigger than we imagine. We have never had such an older age mix in the workforce or a generation as large as the baby boomers preparing to retire.”

Ken Dychtwald, Tamara Erickson &
Robert Morison, *Workforce Crisis*

“In the developed countries, the dominant factor in the 21st century will be the rapid growth in the older population and the rapid shrinking of the younger generation.”

Peter Drucker

Prologues

Critical Workforce Solutions for Leaders and Managers

Many countries in the world, including Germany, Japan, the U.S. and even China, are facing a crisis during the first decade of the 21st century and beyond: the aging of their populations due to declining birthrates, longer life-spans of people, the retirement wave of Baby Boomers now reaching age 60 from 2006 onward, and the demands of the global economy for creative human resources for innovation.

This crisis impacts several levels, such as social (pension-fund demands, financing escalating social benefits), economic (global competitiveness increasingly depends on innovation), industry (rising human resource costs), and enterprise (competition for talent, preventing loss of key knowledge).

Several publications have recently appeared that alert decision-makers about the impending crisis and its critical challenges. This book goes an important step further – it provides approaches and solutions from business leaders and managers that are aimed specifically at the aging workforce. It is the first publication that provides an overview of both challenges and solutions for enterprises, as well as an integrated scorecard tool for five of the key managerial areas concerning an aging workforce.

The key contribution of this book is its renewed focus on how to utilize aging employees better and longer in enterprises. The emphasis on life-long learning, aging worker-sensitive environments, new cooperative approaches with trade unions, and health challenges – mental and emotional – of aging employees, all point to a new role for human resource management in enterprises – one that emphasizes an aging workforce need and requirements. It is important to realize that this is not a choice for leaders and managers, but an absolute necessity for survival.

I am pleased to provide this foreword, and I recommend that managers read the book and apply its advice urgently and wisely. I congratulate the authors and the Jacobs Center for Life-Long Learning at International University of Bremen for their initiative. I trust it will stimulate even more guides and tools for leaders and managers designed to help us in addressing the crisis of workforce aging and its impacts on all levels of society.

*Heinrich von Pierer,
Chairman of the Supervisory Board, Siemens AG*

Aging Human Capital and the New Role of HR Management

Demographic changes and globalization are among the most important challenges of the future. The younger and middle-aged populations of Western societies decrease, whereas the older population increases in size. One of the main results is a skills shortage entailing a global ‘war for talents’ in a business world primarily characterized by a concurrent cost, productivity, and quality pressures.

There is an increasing awareness about the implications of demographic changes influencing organizational human capital policies and procedures. Although human capital issues with a short- and medium-term impact still take precedence over long-term considerations and strategies, and the immediate pressure induced by the demographic development appears to be comparably low, many organizations start seeking solutions to encounter the risks and also to benefit from an experienced aging workforce.

This book addresses challenges as well as solutions based upon the value-add of an aging human capital in a ‘brave new world of work’. It meets the need for a multi-dimensional, integrated, comprehensive, and dynamic approach, incorporating research results across various disciplines such as business administration, neuroscience, education, sociology, psychology, and communica-

tions. The authors emphasize quite clearly that all organizational activities and initiatives should be closely linked and intertwined in order to be successful and sustainable.

Soft and hard facts, qualitative and quantitative issues as well as the most critical fields of activity with regards to an aging workforce are thoroughly explored, structured, and presented. This framework helps organizations answer some of the most important questions: What are the implications and costs of an aging workforce? What is the return on investment of any change, knowledge, health, and human resources management initiatives? What is the impact upon leadership and corporate culture?

The overall objective of an organization is to maintain and increase creativity and innovative power, work ability and productivity in order to keep its competitive edge in a global market with and not despite an aging workforce. The ability to positively and proactively anticipate the challenges of the demographic changes and to use the current age structure of the organization, the industry, or even the country for productivity, innovation, and competitive advantage is what we call 'demographic fitness'.

This complex challenge also needs a newly defined, extended role of HR service providers, who will have to know much about the aging workforce's needs and desires to make their enterprises fit for global future.

This book will assist you as leaders, managers, and employees to face and embrace the challenges, to jointly create innovative and sustainable solutions, and to eventually achieve organizational demographic fitness today and in the future.

*Klaus J. Jacobs,
Chairman Adecco Group*

Contents

Introduction 16

PART I The Challenge Ahead

1 Critical Challenges of the Aging Workforce for Enterprise Sustainability and Survival 22

How Big and Serious are the Challenges of an Aging Workforce? 22

Why are the Challenges Critical Right Now? 24

■ Competition for Talent and Skills in an Aging Society 24

■ The Pressure for Innovation: The Necessity to Reinvent Company Value (Products & Services) in the Knowledge-Networked Global Economy . . 26

■ Escalating Costs 26

■ New Work-Life-Meaning Relationships 27

Which Companies and Organizations are Responding to the Challenges? 27

Can the Challenges be Managed? How, What and Where are the Solutions for My Company? 30

■ Realization of the Interrelated Challenges of an Aging Workforce 30

■ Insight into the Implications of an Aging Workforce for an Enterprise's Business Model 31

■ Strategic and Operational Capabilities to Devise and Implement Appropriate Solutions in Managing the Challenges of an Aging Workforce . . 32

2 How Demographic Trends will Impact Economies, Industries and Enterprises 36

What is Happening to the World's Population and Workforce? 36

■ Demographic Realities 37

■ Attitudinal Shifts in Society 40

■ The Nature and Impacts of an Aging Workforce 41

How will Economies, Industries and Enterprises be Affected? 48

■ Wider Political and Societal Implications 52

| | |
|---|----|
| What Interventions are Possible? | 54 |
| What Should My Enterprise Be Doing? | 60 |

PART II **Managerial Objectives**

| | |
|--|-----------|
| 3 Company Objectives to Increase the Value (V) of the Aging Workforce for an Enterprise | 64 |
| The Necessity of Clear, Integrated Objectives to Increase the Value of an Aging Workforce | 64 |
| Who is Responsible for Setting These Objectives? | 67 |
| The Particular Types of Business Model Objectives that are Necessary ... | 69 |
| ■ The First Key BM Element: Objectives Concerning Particular Market Needs | 70 |
| ■ The Second Key BM Element: Objectives Concerning Specific Product Propositions | 70 |
| ■ The Third Key BM Element: Objectives for Particular Value Chain Configurations | 71 |
| ■ The Fourth Key BM Element: Objectives Concerning Particular Enterprise Policies and Capabilities | 72 |
| Objectives in Each of the Five Key Organizational Action Fields | 73 |
| ■ Objectives for Managerial Mindsets | 73 |
| ■ Objectives for New Knowledge Management Processes | 74 |
| ■ Objectives for Age-Related Health Management Processes | 75 |
| ■ Objectives for Human Resources Management (HRM) Processes | 76 |
| ■ Objectives for the Work Environment and Physical Tools for an Aging Workforce | 78 |
| Towards Integrated Aging-Focused Workforce Objectives | 79 |
| 4 The 5V-Framework to Increase both Productivity and Creativity of the Aging Workforce | 81 |
| The Two Key Value-Adding Dimensions of the Workforce in Any Enterprise | 81 |
| Why a 5V-Framework? | 82 |
| Dynamics of the 5V-Framework | 83 |
| Managing the 5V-Framework as a Process | 85 |

PART III The Five Value-Adding Fields

5 The First V-Field: Mindset Change Approaches for the Aging Workforce 90

 The Prerequisite: Understanding the Mature Worker 90

 ■ Myths and Realities about Older Workers 91

 ■ Positive Qualities of Older Workers 95

 The Necessity of a New Managerial Mindset Concerning the Aging Workforce 96

 ■ Urgency to Change the Status Quo 99

 Key Elements of a New Managerial Mindset about the Aging Workforce 99

 Enabling a New Managerial Mindset to be Embedded in the Organization 102

 Tools to Manage Mindset Change Processes both Internally and Externally to the Enterprise 105

6 The Second V-Field: Knowledge Management (KM) Approaches for the Aging Workforce 109

 Understanding the Nature of Knowledge Threats to the Enterprise Due to the Aging Workforce 109

 A Practical Knowledge Management (KM) Model for an Aging Workforce 113

 ■ Phase One – Workforce Knowledge Assessment 113

 ■ Enterprise Competitive Needs 114

 ■ Phase Two – Recruitment and Retention 116

 ■ Phase Three – Knowledge Capture and Transfer 117

 How to Retain Critical Knowledge: A Knowledge-Retention Framework and Actions 123

 ■ Barriers to Organizational Knowledge Retention 127

 How to Transfer Tacit Knowledge, Wisdom and “Deep Smarts” of an Aging Workforce 129

 Knowledge-Recovery Initiatives 136

 KM and Overall Enterprise Sustainability: The Systemic Context of the Aging Workforce 140

| | | |
|----------|--|-----|
| 7 | The Third V-Field: Health Management Approaches for the Aging Workforce | 145 |
| | Health is More than Just a Physical Issue for an Aging Workforce | 145 |
| | Fitness is Not a Matter of Age | 147 |
| | Mental Health Management of an Aging Workforce | 149 |
| | Physical Health Management of an Aging Workforce | 156 |
| | ■ Chronic Conditions of an Aging Workforce | 158 |
| | ■ Health Plans | 160 |
| | ■ Designing Health Promotion Programs | 161 |
| | Emotional Health Management of an Aging Workforce | 163 |
| | Integrated Health Management Tools to Increase Productivity and Creativity of an Aging Workforce | 167 |
| | | |
| 8 | The Fourth V-Field: Work Environment Approaches for the Aging Workforce | 172 |
| | The Importance of Appropriate Work Environment and Physical Tools for an Aging Workforce | 172 |
| | Work Environment Responses to Physical Changes of an Aging Workforce | 174 |
| | ■ Creating a Safe and Healthy Work Environment | 178 |
| | Ergonomics and Reduction of Stress for an Aging Workforce in the Workplace | 179 |
| | Creating the Right Work Environment Action Fields | 183 |
| | Technology and Tools for an Aging Workforce | 185 |
| | ■ The Digital Workplace and the Aging Workforce | 187 |
| | ■ The Need to Establish Electronic Workplace Platforms Among an Aging Workforce | 189 |
| | | |
| 9 | The Fifth V-Field: Human Resources Management (HRM) Approaches for Managing the Aging Workforce | 194 |
| | The Challenges and Changing Role of HRM Concerning an Aging Workforce | 194 |
| | HRM Strategies and Work Models for an Aging Workforce | 199 |
| | Key HRM Action Fields for an Aging Workforce | 206 |
| | ■ HRM's Role in Knowledge Retention and Transfer | 206 |
| | ■ Flexible Learning and Training | 211 |

| | |
|---|-----|
| ■ Comprehensive Compensation and Benefits | 212 |
| ■ Extended/Variation Careers | 214 |
| Critical Perspectives and Steps for Successful HRM Programs | 215 |

PART IV Putting It All Together

| | |
|---|------------|
| 10 The 5V-Scorecard for Measuring the Performance of an Aging Workforce | 222 |
| What Overall Performance of an Aging Workforce Should be Measured? | 222 |
| The Integrated 5V-Scorecard as a Holistic Measurement Tool of the Value-Added of an Aging Workforce | 224 |
| Combining 5V Implementation Tools and Measurement Tools | 225 |
| The Dynamics of Utilizing the 5V-Scorecard | 226 |
| Glossary of Major Terms | 228 |
| Notes | 232 |
| Index | 242 |

Introduction

Businesses in developed countries worldwide are facing a critical challenge: managing an aging (and declining) skilled workforce. Executives today are waking up to the realization that their firms will encounter a wave of retirements over the next decade as the ‘baby boomers’ of the post-World War II era reach retirement age. At the other end of the talent pipeline, birthrates have been declining significantly over the past 20 years, with the pool of new talent shrinking, and the younger workforce is also developing a different set of work values and expectations than previous generations. Although these trends are especially evident in developed, industrialized countries, all countries worldwide are affected – the imminent ‘war for talent’ will also be affecting developing countries – as they will be facing shortages of skilled workers being drawn to developed countries – while developed countries will battle to retain a skilled, competitive workforce due to the large number of retirees.

To manage the aging workforce, leaders must have an accurate understanding of its current and shifting composition, likely impacts on different types of enterprises – and especially their own – and the strategic and operational approaches to use to ensure both innovative capability and effective operations. The main issues necessary to address are new leadership mindsets about the right business models in an aging society, new concepts in workforce health management – acquiring, utilizing, retaining, energizing and rejuvenating knowledge for innovation – and organizational learning, changing physical work environments, new ways of managing human resources, and new techniques to measure performance of an aging workforce.

Managing the Aging Workforce provides these new concepts and practical managerial approaches in four parts:

- Part I (Chapters 1 and 2) provides an understanding of the critical challenges of an aging society for an enterprise’s

workforce, and indicates how demographic trends will impact particular economies, industries and organizations. Questions such as why these challenges are crucial right now, and if these challenges can be managed, are addressed. Although the focus is on enterprises, the impacts for industries and economies are also indicated.

- Part II (Chapters 3 and 4) traces the nature of the changing value of workers for the 21st century enterprise, states the necessity for clear objectives in critical managerial areas, and presents the concept of a workforce scorecard tool – the 5V-framework (five critical aging workforce arenas) to manage (enable, guide and measure) both creativity and productivity of an enterprise's aging workforce.
- Part III consists of five chapters (Chapters 5 to 9), providing guidelines and approaches for each of five critical aging workforce arenas: mindset-changing approaches concerning an aging workforce in global demand and supply chains; knowledge management and organizational learning approaches; new health management approaches; new physical work environment approaches; and new human resource management approaches for the aging workforce. In chapters 5 and 6, particular misconceptions and myths of the aging workforce are highlighted and dispelled, and a practical knowledge management model for an aging workforce is proposed, with recommendations how to retain and even recover critical knowledge, and how to transfer tacit knowledge and 'deep smarts' of an aging workforce. Chapter 7 emphasizes that health is more than just a physical issue, and that it includes mental and emotional health. Integrated health management approaches for an aging workforce are proposed. In chapter 8 the right work environment platforms, processes and measures for an aging workforce are highlighted, and in chapter 9 appropriate human resources approaches and strategies for an aging workforce are outlined.
- Part IV provides (in Chapter 10) the integrated 5V-Scorecard for managing the aging workforce, and outlines the key integrated requirements for sustainably implementing and guiding the management of an enterprise's aging workforce. The dynamics of utilizing the 5V-Scorecard as an integrated system are illustrated.

Some of the facts outlined in this book may appear in more than one chapter. This is due to the fact that the aspects of managing the aging workforce are tied up among each other, and each of the chapters shall be readable on its own.

This is a solutions-oriented book with the purpose to assist 21st century enterprises in dealing with one of the most pressing management problems of the immediate coming years: how to sustain an enterprise in being continually innovative, effective and efficient in the coming 'war for talent'. The world is facing an unprecedented brain drain and those enterprise leaders adroitly managing the aging workforce – in their organizations and value chains – will emerge as the winners of the future.

This book became a reality due to stimulating ideas, comprehensive research, and intensive networking among many people. These include managers and executives in many enterprises, colleagues at International University Bremen, Harvard Business School, MIT Sloan Management School, and Stellenbosch University, as well as our students and research fellows. We are extraordinarily thankful that we have been able to work in the interdisciplinary context of the Jacobs Center for Lifelong Learning and Institutional Development (JCLL) at the International University Bremen (IUB), Sven Voelpel as the centre's Professor of Business Administration and Marius Leibold during his visits beyond the intensive virtual contacts.

The JCLL enabled us to address the topic of an aging workforce from a wider integrated perspective rooted in basic research of several disciplines. Various sessions to further establish the newly founded trans-disciplinary JCLL in 2003 as the world's hub institute on the mega-trend of lifelong learning and the aging workforce, countless faculty meetings for developing joint curricula, executive programs and above all joint research projects on this topic during more than two years, enabled us to understand the topic from a wider perspective. Therefore we would like to thank Dean Ursula Staudinger for her extraordinary commitment for establishing the JCLL and her and our JCLL faculty colleagues shared time: Ute Kunzmann and Britta Renner, with Ursula Staudinger our Professors of Psychology; Klaus Schömann, Professor of Sociology; Clemens Schwender, Professor of Communication Science; Benjamin Godde, Professor of Neuroscience and Human Performance as well as Dr. Claudia Voelcker-Rehage, Post-

doctoral Fellow for Human Performance, especially also for her literature suggestions for the chapters on health management and work environment.

We are also thankful for JCLL's research associates, doctoral students and invited external scholars to share their experiences in various fields and leading expert speakers in our meetings, weekly seminars, Distinguished Lecture Series and JCLL Colloquium Series.

We also particularly thank Klaus J. Jacobs, in his capacity as the chairman of the board of the Jacobs Foundation and the Jacobs Foundation for the noble funding of the JCLL. Moreover we acknowledge the visionary foresight of Klaus Jacobs, in his recent function as Chairman & CEO of Adecco, the worldwide leader in Human Resource services, for strongly supporting our Executive Master Program in Lifelong Learning, Knowledge Management, and Institutional Change (LKI) that enabled us to exclusively train the Aging Workforce Consultants for this equally named newly established Adecco unit. This enabled us to develop curricula and to work for establishing practical concepts for companies with a very fast pace.

We are for this book particularly indebted to our research assistants Polina Isichenko, Chris Streb and Eden Tekie for their inputs, expert technical reviews of draft chapters by Maike Wilpert, and word-processing by Hanneke du Preez. Special thanks to our publisher Dr Gerhard Seifert for his motivation, support and professional editorial guidance.

Marius Leibold

Sven Voelpel

PART I

The Challenge Ahead

1 Critical Challenges of the Aging Workforce for Enterprise Sustainability and Survival

Key Issues of this Chapter

- How big and serious are these challenges?
- Why are they critical right now?
- What companies are responding to the challenges?
- Can the challenges be managed?
- What are the solutions for my company?

How Big and Serious are the Challenges of an Aging Workforce?

Brainpower, human competencies and physical energies are the very air that businesses breathe in the knowledge-networked global innovation economy of the early 21st century. In today's world, innovation capability and sustainable human endeavor are the essence of competitive survival and corporate sustainability. This is well realized by most enterprises, but what is surprisingly little appreciated is the looming impact of the aging workforce in the developed world on their sustained competitiveness and the growing of shareholder value.

The developed world's workforce – the key source for innovation and effective competencies – is shrinking at a frightening rate. Consider the evidence in a number of countries: in the United States, labor shortfalls of 5 to 10 million workers are expected in the next ten years¹ (see Figure 1.1); while a shortage of nearly one million workers in Canada is predicted over the next 20 years.² In the European Union (EU), populations are already decreasing in major countries, including Germany, France, Italy and Austria – and an influx of about one million immigrants a

year into the EU is considered necessary to make up the shortfall in workers.³ In Asia, Japan's birthrate continues to fall, with the number of workers of ages 35 to 44 predicted to shrink by 10% as early as 2010, while in China the similar type of workers is expected to shrink in number by 8% by 2010.⁴

The seriousness of this challenge is mirrored in the simple fact that by 2010, the number of 35 to 44 year olds that are normally expected to move into senior management ranks, will not grow but significantly decline – by 19% in the U.S., 27% in Germany, 19% in the U.K., 9% in Italy, and respectively 10% and 8% in Japan and China. Conversely, the number of aging workers will increase substantially, e.g. in the U.S. the workers aged 45 to 54 will grow by 21%, and the number of 55 to 64 year olds will grow by a whopping 52%.⁵

As a result of these dramatic demographic changes, global competition for skilled workers and creative talent is gradually increasing. Many countries and companies are starting to recognize the changing value of their aging workers, and the critical importance to retain, nurture and rejuvenate the value-adding contributions of the aging workforce. Some observers call it the 'com-

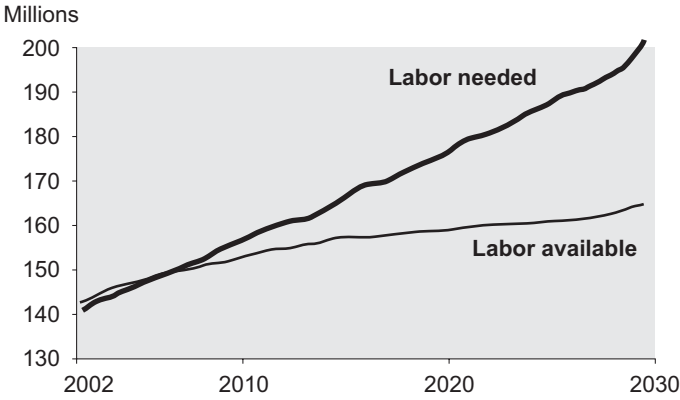


Figure 1.1
How labor demand will outstrip supply up to 2030
(Source: Employment Policy Foundation analysis and projections of Census/BLS and BEA data, *American Workplace Report 2002*)