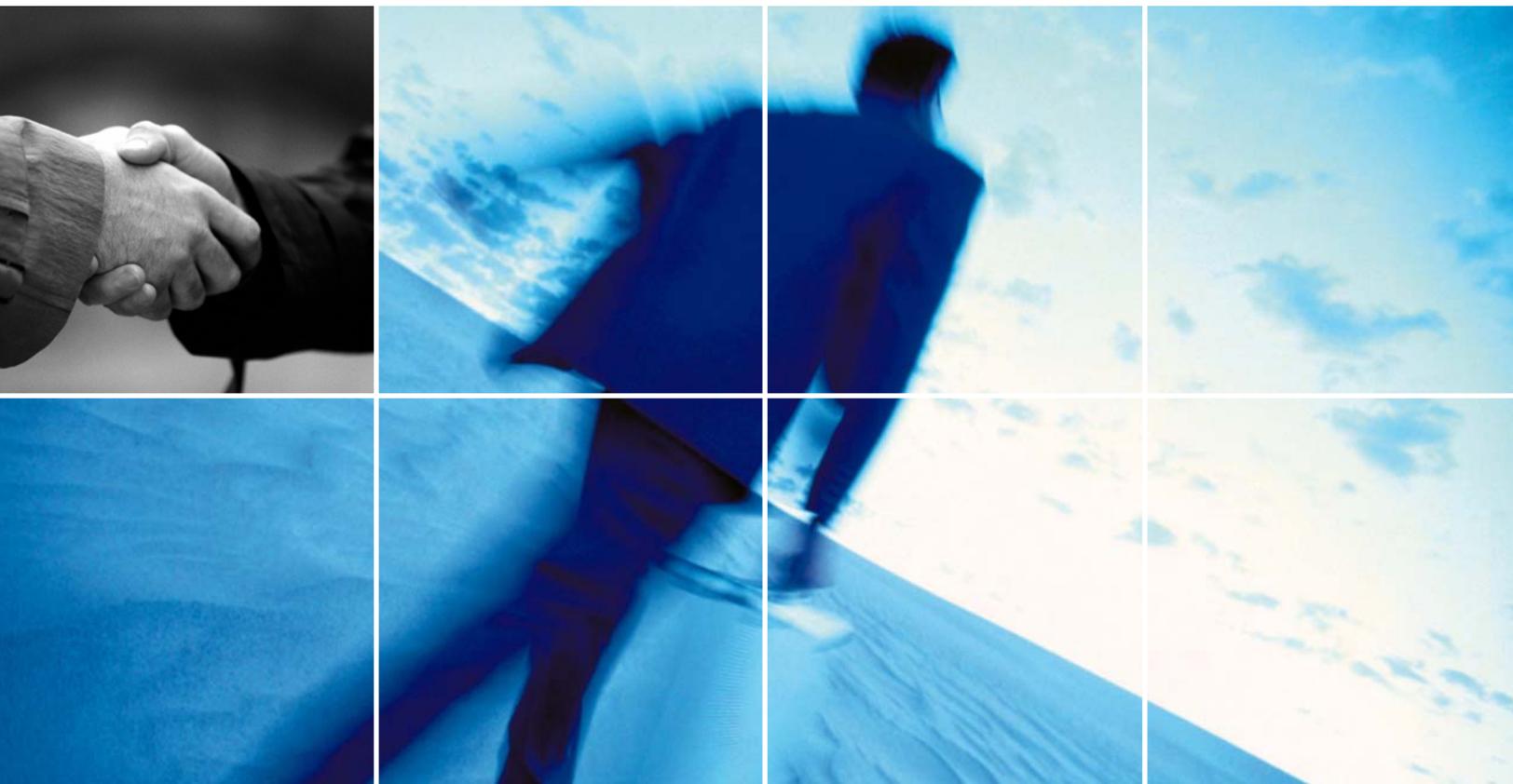# Addressing the challenges of an aging workforce

A human capital perspective for firms operating in Asia Pacific

An IBM Institute for Business Value executive brief

Contents

"This is not something that tomorrow, all of a sudden, will show up in the headlines. This is a slow effect of changing demographics that is absolutely predictable but with profound implications…There will never be a moment where there is a massive crisis to call attention to this. If there is a crisis, it will be too late."[1]

David Ellwood, Dean of Harvard University's Kennedy School of Government
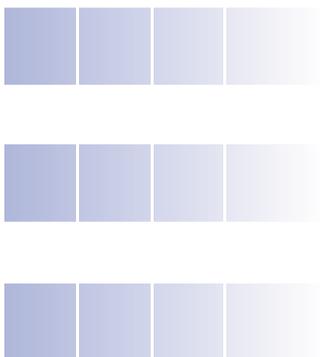
The graying of Asia Pacific's workforce

Many industrialized nations, having built their economies upon a workforce fueled by one of the largest baby booms in recorded history, are now finding a significant percentage of their workers approaching traditional retirement age. At the same time, many of these countries are facing flat, if not declining, birth rates, which reduces the number of new workers entering their labor force. While many countries around the globe are facing this demographic dilemma, this problem is particularly acute in many of the major nations in the Asia Pacific region.

The challenge of an aging workforce, combined with shrinking pools from which to draw new workers, has been particularly apparent in the public sector and in mature industries such as petroleum, chemicals, mining, and aerospace and defense. Many firms that we work with are facing a number of issues associated with this trend. In response, they are attempting to extend the working career of their employees through alternative work arrangements, preserve organizational memory and balance the work/life needs of multiple generations within the employee population.

In this report, we examine the changing demographics within several major countries in the Asia Pacific region and how companies are beginning to tackle various challenges associated with the aging workforce. We also highlight some key questions that executives should be answering to make sure that their organizations are prepared to address these new demographic issues.

How does the aging workforce manifest itself in Asia Pacific?

Four major industrialized nations in the Asia Pacific region are currently facing, or will soon encounter, significant demographic shifts.

Australia

Australia faces a potential workforce crisis. As its population ages, a relatively low number of mature workers are choosing to remain in the workforce. By 2016, the number of individuals aged 60-64 is expected to almost double.[2] Meanwhile, the country currently has one of the lowest workforce participation rates for older people in the developed world, with just 49 percent of Australians between 55-64 years of age working today compared to 59 percent in the U.S., 60 percent in New Zealand and up to 65 percent in Scandinavia.[3] Today, there are approximately six working individuals in Australia for every person over 65 years; during the next twenty years, it is estimated that ratio will be reduced to 3:1.[4]

In Australia, this situation is attracting significant government attention. In his August 2003 address at the Symposium on Mature Age Employment, Australian Prime Minister John Howard asked the government, employers and individual employees to play an important role in staving off a major national crisis. He implored his colleagues in government to consider policies "to encourage and support [businesses] in their desire to maintain more mature workers on their payroll." He urged companies to revisit policies and to provide incentives for workers to remain in the workforce longer. Finally, he made a plea to maturing workers to demonstrate "a greater willingness to be involved in part-time and contract work and the corresponding flexibility in relation to remuneration arrangements."[5]

In 2004, Federal Treasurer Peter Costello outlined plans to encourage older Australians to stay in the workforce longer and allow retirees to take their superannuation accounts as annuities rather than as a lump sum. He stated that the aging population is putting heavy demands on the budget, and that the best way to address the problem is to grow the economy by expanding the workforce and encouraging older Australians to continue to work part-time as they pass their retirement age. Mr. Costello also added that, "The Government will amend superannuation laws to allow people to access superannuation from preservation age as an income stream…they will be able to receive income from their superannuation and continue in the workforce if they wish to do so as a way of encouraging part-time connection."[6]

Japan
According to many sources, Japan is facing a severe demographic crisis on several fronts. Within the next 10 years, over 33 million individuals (26 percent of the population) are expected to be over 65 years old.[7] When coupled with the fact that the average Japanese woman gives birth to 1.3 children in her lifetime, the nation will have difficulty maintaining its current population of 127 million. If this trend continues, Japan's population is likely to drop to just over 100 million by 2050, reducing the country's labor force by more than a third.[8]

This potential decline is triggering a number of social policy discussions within the government regarding issues such as immigration, the role of women in the workforce and child and elder care. Over the next 10 years, the Health, Labor and Welfare Ministry plans to create 1.6 million jobs by encouraging employers to hire and retain senior citizens. Under the plan, the government will require companies to introduce an employment system for workers who have reached retirement age of 60 so they can continue working until they receive their pensions at 65.[9]

China

While its situation is not as severe as that in Japan or Australia, China may soon encounter a similar set of demographic challenges. While only 11 percent of the population today is over 60, the United Nations projects that this segment will increase to 28 percent by 2040. At that time, China is expected to have 397 million people over 65, which is more than the total current population of France, Germany, Italy, Japan and the United Kingdom combined.[10] These sheer numbers of older workers – coupled with the transformation from state-run enterprises with generous benefits to private corporations with few, if any, retirement benefits – could potentially leave hundreds of millions of individuals ill-prepared for their post-employment years.

Traditionally, children in Chinese society play an important role in taking care of the retirement needs of their family. However, as birthrates continue to decline and extended families find themselves increasingly separated by urbanization, this safety net will become less resilient. Demographers refer to this as the "4-2-1 problem," where one child is expected to support two aged parents and four grandparents.[11] As Richard Jackson and Neil Howe from the Center for Strategic and International Studies in the U.S. state, "If China fails to prepare for the aging of its population, it could face a crisis of immense proportions later in the century…If it confronts the challenge, tens of millions of elders will be spared a destitute old age."[12]

South Korea

Similar to China, Korea will confront an aging population in the not-too-distant future. According to Mark Keese, a principal economist at the Employment Analysis and Policy Division in OECD, "South Korea has currently one of the youngest working age populations among all OECD countries, but by 2050 it is likely to have close to the oldest, just behind Japan."[13] According to the National Statistical Office, the number of individuals aged 65 or older increased to 3.77 million in 2002 compared to 1.46 million in 1980. In 2003, the Ministry of Planning and Budget said it would invest over 17 billion won (approximately US$15 million) in a national project to create jobs for the elderly. The government also plans to provide a job-training program for 5,000 elderly people and wage support for 20,000 more, while it creates as many as 300,000 job opportunities for the elderly through a state-funded manpower center.

What should companies do to address this issue?

Based on our research and working with companies on their workforce strategies, we believe that companies should consider a number of potential strategies for addressing the aging workforce, including:

- *Attracting and retaining older workers within the labor force through part-time and other alternative working arrangements.* Given the potential shortage of skilled workers created by retirement and smaller incoming labor pools, many companies are evaluating ways to encourage older workers to extend work beyond the traditional retirement age. Considerations include offering workers part-time employment by allowing them to work fewer hours per week or, in some cases, on a project-by-project basis. At the same time, employees are increasingly interested in exploring nontraditional work arrangements. For example, a recent study by the Hudson Group found that almost 70 percent of Australian managers would like to remain in the workforce on a part-time or causal basis after retiring from full-time work.[14]

One organization that has made a commitment to leveraging workers after they reach retirement age is the Aerospace Company, a U.S. defense contractor. It developed a Retiree Casual program, where retirees can work on a project-consulting basis for up to 1,000 hours per year and earn roughly the same base salary they earned prior to retirement, depending on roles and responsibilities. About 500 Retiree Casuals are eligible to work, while 200 are working at any given time. Most individuals in the program work two days per week, but some work full-time for six months straight. Most of the workers in this program are in their mid-sixties, but some continue into their eighties. The program has proven beneficial not only for the participants, but also for the company as a whole. As George Paulikas, a retired executive vice president and a program participant stated, "The Retiree Casual program keeps expertise around and helps transfer it to others. People often remark that we don't have many consultants around here. Actually, we do, but they are called retirees, and they already know the business inside out."[15]

In Australia, the Employment Policy Branch of the Queensland Department of Industrial Relations has recently launched a program across Queensland Government agencies to assist each agency with implementing strategies that address impacts of the aging workforce and that facilitate knowledge and skills transfer to avoid loss of corporate knowledge and specialized skills. Specific strategies include the introduction of phased retirement, flexible work practices, reduced hours of work and updated leave provisions.[16]
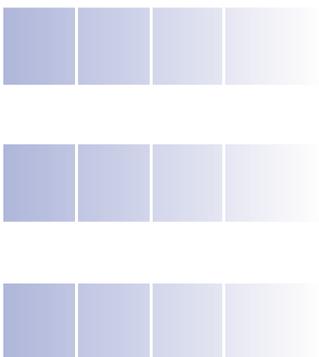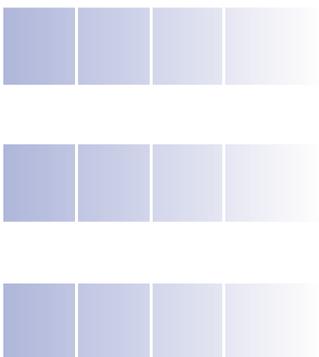
- *Preserving critical knowledge before it leaves the organization.* When individuals leave an organization, the organization often loses a career's worth of experiential knowledge. This can range from notes, reports and documents employees have accumulated to tacit knowledge about how to do their jobs effectively. Too often, this knowledge leaves the organization without any attempt to identify, capture and share it with others. As a result, remaining employees often search futilely for answers to questions that have already been answered, recreate analyses that have been conducted many times over or simply fail to heed previously learned lessons that were never formally identified and captured.

A number of firms have focused on techniques to stem this hemorrhage of corporate insight. These can be grouped into two major categories: *knowledge elicitation* techniques that help capture and retain tacit knowledge in formats that are easy for employees to access, and *knowledge exchange* techniques that are designed to foster communication and dialogue among employees to transfer knowledge that does not easily lend itself to capture and storage.[17]

To retain valuable experiences, share lessons learned, expand the organization's knowledge base and improve operational and product quality, the World Bank captures videos and audiotapes of selected individuals and groups involved in challenging projects. Using storytelling techniques, the Bank seeks to uncover new knowledge from the practitioners in developing countries. Interviewees are encouraged to focus on telling stories, rather than providing general observations, so that the material will be more interesting for the intended audiences. This knowledge retention initiative uses subject matter experts to conduct interviews, as well as screen and edit the videos and audiotapes, pushing relevant insights and content to audiences through a variety of media.

In concert with their well-conceived elicitation technique, the World Bank's knowledge dissemination process also contributes to their success. Both audio and videotaped interviews are posted to a Web site and burned onto CD-ROMs, with any documents referred to during the interview appearing as hot links in the final text. The Bank also pushes these debriefings to a distribution list of targeted members, rather than simply passively posting them on the Internet. For reinforcement, they also make interviewees available for follow-up and mentoring.[18]

In addition to capturing knowledge, some leading organizations have developed methods for facilitating the direct exchange of knowledge between employees who are about to retire and peers who remain. For example, West Australian Petroleum Proprietary Limited has developed and implemented an innovative scheme that focuses on transferring the knowledge of incumbents to replace-

ments. Having identified an employee who is about to retire, the company attempts to find a replacement approximately three months before the planned retirement date. For the retiring employee's last three months, they are able to work at a reduced schedule while drawing full salary. During this time, however, the retiree is expected to "diligently apply himself or herself to instructing their successor until they are capable of assuming full responsibility for the job." This transition period provides the incumbent with the opportunity to share with their replacement some of the critical knowledge which might not be easily capture or stored. [19]

- *Providing workers who are changing careers with opportunities to acquire new skills.* If companies are looking to tap into the mature worker segment of the population, they must be prepared to provide appropriate educational opportunities to these employees to update their skill base. In some cases, universities and the public sector are taking the lead in providing retraining opportunities and assistance for mature workers. For example, the University of Sydney offers an 18-month Accelerated Teacher Training degree program for older scientists, information technology experts and engineers that want to switch careers and enter the classroom.[20] In other situations, private industry is providing training for individuals interested in second or third careers. Westpac, looking to increase its presence in the financial advising market, is training up to 900 recruits who are over 55 years of age. Noel Purcell, Westpac's general manager of stakeholder communications, has noted that these older workers are an important asset because they relate well with older customers who sometimes feel that younger staff are not experienced enough to address their financial concerns.[21]

- *Facilitating the productive coexistence of a multigenerational workforce.* When individuals think about diversity challenges, age is not always one of the delineations that leap to mind. Yet, the viewpoints and perceptions of different age groups can present significant barriers in a workforce where ages can span fifty years or more. For example, preconceived biases about the willingness of older workers to learn and embrace new technologies can limit their opportunities, discouraging mature workers from refreshing their skills. At the same time, younger workers may be perceived as not willing to "pay their dues" before advancing in the company. This can damper the enthusiasm of new employees and result in low morale and early attrition.

A number of organizations have taken an active role in understanding and managing perceptions about employee groups that have been influenced by different historical and workplace trends. For example, the Australia Post commissioned a study to understand its changing workforce demographics. The aim of the study
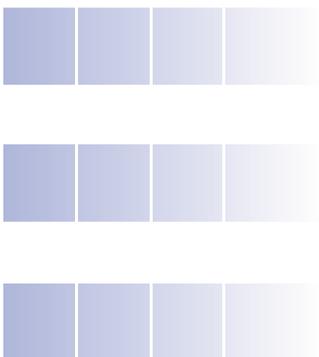
was to better understand the needs and perceptions of both younger and mature workers and how the organization could better capitalize on the capabilities of each group.

One of the significant findings from the study was the opportunity to harness the enthusiasm and energy levels of younger workers, while leveraging the skills and experiences of older workers. They found that younger workers were often frustrated by what they perceived as the relatively slow pace of change within the organization and a lack of opportunity for rapid career advancement. At the same time, they found that less experienced workers were looking for opportunities to be mentored in the workplace. As Pat McCarthy, the national manager for organizational development and change stated, "While younger workers are very adept at getting answers to questions electronically, they were also quite good at getting answers to questions from human beings. They really valued having an [experienced] supervisor who would answer their questions, coach them and tell them about the organization."[22]

Some companies have engineered ways to bring together older and younger workers to leverage their respective talents. For example, General Electric, at the dawn of the e-commerce era, matched 500 of their most senior managers with junior employees to learn about the potential for Internet technologies. The "junior" mentors and the "senior" mentees were paired based on knowledge and personality traits and then spent two to four hours per week together, learning the ins and outs of the World Wide Web. As a result of this process, the senior executives gained new insights that were critical to moving their businesses into the Internet age, while the junior people were able to gain access to a network of executives that under normal circumstances would be difficult to obtain.[23]

Moving forward

Given the challenges that organizations face as a result of the changing composition of the workforce, the following questions provide a guide for companies that want to avoid potential pitfalls and proactively address related issues:

- What do you see as your company's key human resource requirements in the next 5 to 10 years?

- Does your company have a detailed understanding of its employee demographics and what key positions or job categories may be at risk in the near future?

- Has your company identified potential opportunities for attracting and retaining mature workers using part-time or alternative work arrangements?
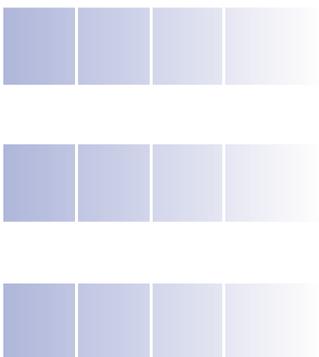
- To what extent is the retraining and acquisition of new skills by mature workers part of your company's overall learning and development strategy?

- Does your company have a strategy in place to preserve critical knowledge before it walks out the door?

- How effectively are age-related issues addressed within your company's overall diversity strategy?

Conclusion

The challenges associated with the maturing workforce often do not garner much executive attention. Like an individual suffering from hypertension, an organization with an aging workforce often feels no symptoms for many years. However, as the situation advances, companies will soon realize the pain associated with losing expertise, incurring higher recruiting and training costs and managing intergenerational concerns. Firms need to take a proactive approach to address demographic changes, both within their organizations and across their labor markets, if they wish to avoid issues that could significantly hamper companies in the industrialized world.

About the authors

Eric Lesser is an Associate Partner with the IBM Institute for Business Value. In this role, he leads research and intellectual capital development on a variety of human capital management topics. Eric is based in Cambridge, MA and can be contacted at *elesser@us.ibm.com*.

Bill Farrell is a Partner in the Human Capital Management practice within IBM Business Consulting Services. Based in Sydney, Bill is responsible for leading the Human Capital Management practice in Asia Pacific and works with clients across a number of industries. He can be contacted at *bill.farrell@au1.ibm.com*.

Meredith Payne is a Senior Consultant in the Human Capital Management Practice within IBM Business Consulting Services. Meredith has worked with a range of clients on human resource performance improvement initiatives. Based in Brisbane, she can be contacted at *meredith.payne@au1.ibm.com*.
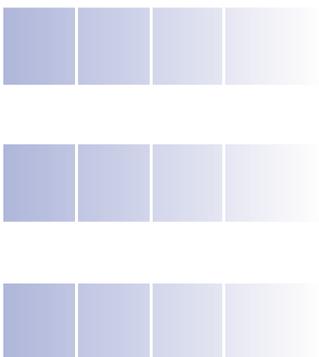
About IBM Business Consulting Services

With consultants and professional staff in more than 160 countries globally, IBM Business Consulting Services is the world's largest consulting services organization. IBM Business Consulting Services provides clients with business process and industry expertise, a deep understanding of technology solutions that address specific industry issues and the ability to design, build and run those solutions in a way that delivers bottom-line business value.

References

[1] Barrett, J. "An impending work crisis." *Newsweek*. September 20, 2002.

[2] Mackay, Alan. "Mature Age Workers: Sustaining Out Future Labor Force." An Ageless Workforce - Opportunities for Business' Symposium Conference Paper. August 27, 2003. www.ageing.health.gov.au/ofoa/wllplan/aawpapers.htm

[3] Nixon, Sherrill. "Looming Labour Crisis Puts the Focus on Grey Force." *Sydney Morning Herald*. October 2, 2002.

[4] Nixon, Sherrill. "Save Australia – Keep working." *Sydney Morning Herald*. August 28, 2003.

[5] Howard, J. *Symposium on Mature Age Employment*. August 2003.

[6] *"Costello reveals plan to keep Australians working."* ABC News On-Line. *February 25, 2004.*

[7] "Time to act quickly on aging." *The Japan Times Online.* August 23, 2002 www.japantimes.co.jp/cgi-bin/getarticle.pl5?ed20020823a1.htm

[8] "Time is running out for shrinking Japan." *The Japan Times Online.* September 2, 2003. www.japantimes.com/cgi-bin/getarticle.pl5?fl20030902zg.htm

[9] "Ministry looks to counter impending workforce fall," *The Japan Times Online*, June 18, 2004. www.japantimes.co.jp/cgi-bin/getarticle.pl5?nn20040618b5.htm

[10] Howe, Neil and Richard Jackson. "The Graying of the Middle Kingdom." *Center for Strategic and International Studies Report*. April 2004.

[11] Ibid, p.5.

[12] Ibid, p.5.

[13] Bae, Keun-Min. "Korea Unprepared for Aging Society." *The Korea Times.* October 30, 2003.
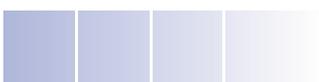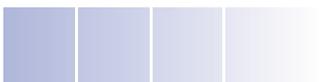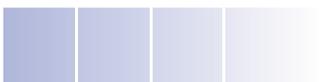
[14] "HR drags ageing workforce chain." *Human Resources*. February 24, 2004.

[15] Dychtwald, Ken, Tamara Erickson and Bob Morison. "It's time to retire retirement." *Harvard Business Review*. March 2004.

[16] Queensland Government Department of Industrial Relations. "Workforce Demographics Toolkit : Framework and Strategies for an Ageing Workforce." June 2002.

[17] For more information on techniques to preserve critical knowledge, see Casher, Amy and Eric Lesser "Grey Matter Matters: Preserving Critical Knowledge in the 21st Century." IBM Institute for Business Value Executive Brief. 2003.

[18] "Retaining Valuable Knowledge: Proactive Strategies to Deal with a Shifting Workforce." APQC Best Practice Report. August 2002.

[19] Department of the Premier and Cabinet, Government of Western Australia. "Phased Retirement in the Western Australian Public Sector." March 2003 (amended March 2004).

[20] Pryor, Lisa. "Older, wiser…and ready to work as long as they want." *Sydney Morning Herald.* October 2, 2002.

[21] Nixon, Sherrill. "Looming Labour Crisis Puts the Focus on Grey Force." *Sydney Morning Herald*. October 2, 2002.

[22] "Australia Post delivers aging workforce insights." *Human Resources.* August 19, 2004.

[23] GE Annual Report 1999; Schlender, B. et al. "The Odd Couple." *Business 2.0.* May 2000; Breen, B. "Trickle-Up Leadership." *Fast Company Magazine.* November 2001; Low, L. "New Tricks for Old Dogs." *CIO Magazine.* October 15, 2000; Useem, M. *Leading Up: How to Lead Your Boss So You Both Win.* 2001. New York, New York: Three Rivers Press, p. 284.