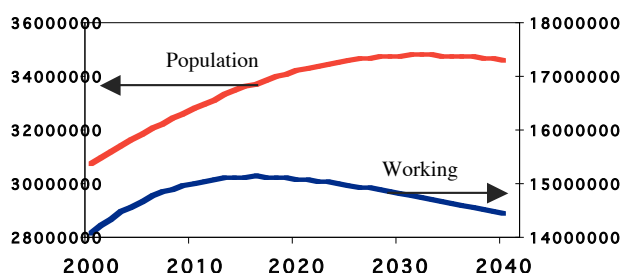


The Demographic Crunch – Crisis or Opportunity?

The Issue - Background

Predictable changes in demographics will create corporate winners and losers. The changes in the business environment will require significant changes in many Human Resource practices, including people development. Although many employers will find this challenging, it will also create new opportunities for many HR professionals.

Country Demographics - In North America, the labour market has been growing for over 40 years. First, through a wave of post-war immigrants. Second, the entry of the baby boom generation into the workforce. Third, increasing labour market participation of women. The dominant societal challenge has been to find jobs for people needing work. However, starting in the early 2000's, retiring Baby Boomers will cause the workforce to shrink. After decades of easy access to talent, employers will suddenly be faced with a sellers market for employees. This can be exacerbated by regional disparities (e.g. the "brain drain" to the United States). As the above graph shows, a population that continues growing will cause a "labour supply crunch": demands for goods and services continue to increase as the workforce to supply them dwindles. If a large percentage of



employers do not address the demographic issue proactively, adverse societal implications are likely. The upward wage pressure will increase the cost of goods and services. This will erode the standard of living. It will also promote imports, which will worsen our balance of payments. Valued social programs may become unaffordable.

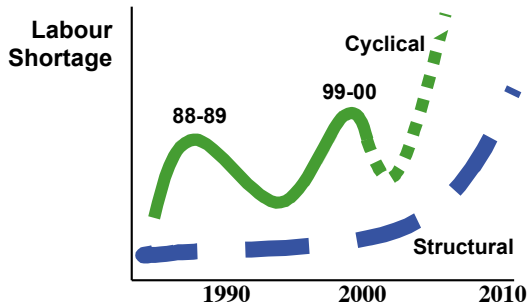
What about employers? – Many large and traditional employers have workforce demographics that look very different from the general Canadian population. In a representative sample of 6 large Alberta-based employers (with well over 40,000 employees) we found that employees under 35 were significantly under-represented – i.e. the workforces are skewed towards older workers, many nearing retirement. Although they are seen as “safe havens” during economic downturns, this is cannot be relied on to secure continued access to high calibre employees.

The causes of this skewed picture lie in actions taken during the early 90's. We saw a significant increase in the mobility of capital. Today, investors can move their money around with a few mouse clicks. A big chunk of the nation became stock traders. Companies that under-performed in the eyes of the investment community were punished by flight of capital. Under the mantra of “shareholder value creation” many traditional organizations (including government) responded with waves of restructuring often brutalizing their employee population and eroding loyalty (and maybe more importantly, diminished their children's appetite to join such corporations). Many curtailed internal development systems while lack of organic growth limited new opportunities.

The Internet technology that made capital mobile is now also facilitating an increase in the mobility of labour. Just when companies have successfully driven home the message that “loyalty is dead, look after yourself”, career websites (like monster.com) are making sure they actually can. In some professions a new job is already only a few mouse clicks away. Like under-performing stocks were punished by the rapid flight of financial capital, unattractive workplaces can expect a rapid exodus of human capital. Companies that have tied employees' rewards tightly to stock performance can induce a death spiral: less talent – less performance – less attractive stock – less talent.... Yesterday's solutions are today's problems.

Labour Market Dynamics

We must recognize that two trends are superimposed. First, we have a cyclical pattern of labour shortages, driven by cycles in industry capacity utilization. Big upswings were seen in the late 80's and 90's. However, this pattern is superimposed on slower demographic changes, which are less visible (but entirely predictable). When the economy recovers from a recession in the mid 2000's, the cyclical upswing in demand



for labour will coincide with the leading edge of baby boomer retirements. This will cause an especially severe shortage of workers. The question is “how will employers deal with this?”

The corporate response

As with many changes in the business environment, the demographic challenge will create winners and losers. Many losers will be caught unaware and face a crisis - mostly because they haven't considered human resources a strategic priority. Their lack of preplanning will force them to use “quick fixes”, mostly by throwing cash at the problem – i.e. hiring bonuses and compensation increases. This effect has been demonstrated amply during recent nursing shortages.

Other organizations, having anticipated the problem and taken action, will have adopted a number of different strategies. They may have invested strategically in leadership development, implemented processes for hiring entry level employees, modified their business processes to better fit future workforces, invested in productivity increases, etc. The planning process must take into account not only the general labour market environment but also the actions of reactive employers. It is unlikely that they can escape the upward pressure on wages resulting from worker scarcity.

As part of the HR strategy formulation process we suggest using rigorous analysis of internal and external demographics combined with scenario planning. This results in a resourcing strategy that is robust and fits well with business plans and organizational philosophy.

There will be a resurgence of interest in employee development for two reasons. First, employers will have to hire less experienced employees and develop them. Second, employers will want to accomplish productivity improvements to live with fewer employees (i.e. as people retire, do not rehire one-for-one). Productivity improvements will require investing in technology and investing in people.

Implications for HR

Corporate Human Resource groups can serve their organizations best by addressing this issue strategically. First, the demographic issues must be brought to the attention of the executive. This requires identifying the business implications (e.g. inability to staff expansions, reduced market share, higher compensation bills). Good planning and communications skills are needed to identify unintended consequences of seemingly simple and obvious solutions. Second, HR must help their organization formulate the right response using the concepts mentioned above.

Many Human resource professionals will find that they need to enhance their skills. Structural changes in organizations will be needed – these demand organizational design and change management skills. Developing and implementing programs for accessing a tight labour market will require marketing skills (e.g. market research, segmentation, loyalty program design). All in all, wonderful and exciting new opportunities!

About CCS Incite

CCS Incite is a boutique strategy consulting firm that focuses on structured analysis of complex business issues. An area of specialization is strategic workforce planning. CCSI's principals have extensive experience in Corporate Strategy, Human Resources and Organizational Development and Design.

CCSI also advocates for public policy changes that improve the functioning of an efficient labour market.