Managing Five Risks to Future Workforce Performance

By Dr. David DeLong

What's your reaction today when the subjects of retiring baby boomers and looming skills shortages are raised? Do warnings about boomer retirements appear overblown or irrelevant because they don't square with what you're seeing in your organization? Or does the loss of so many highly-skilled, experienced employees combined with emerging shortages of skilled workers feel too overwhelming to address?

Changes occurring in the sources of human capital today are actually much riskier and the interactions more complex than many executives realize. In addition to the ongoing impacts of globalization, five trends are simultaneously reshaping your workforce and management ranks. As a leader, if you don't understand these impacts you will find your ability to develop and sustain a high performing workforce seriously threatened.

1. Older Workers Won't Retire. Many executives won't admit it publicly, but they are primarily concerned about having what they see as too many expensive and under performing older workers on the payroll, despite warnings of a looming skills shortage. As a leader, however, you make a mistake when you generalize about this problem because there are really three scenarios that require different responses:

- Relatively easy-to-replace (i.e., low skill) workers who are truly coasting toward retirement. These people should be encouraged to retire as soon as they are eligible. But, given changing demographics, be certain your assumptions are correct about the availability of even minimally qualified replacements.
- Higher skilled employees and managers who the organization has failed to motivate and develop to ensure late career success. The potential value-added of these employees and the high cost of replacing them makes investing in them worthwhile. But most of these employees today are simply encouraged to walk.
- Highly-skilled workers and managers where leadership is underestimating the true costs of their departure. These are employees who should be proactively retained. Unfortunately, executives often don't have a clue about their real value to the business, or the difficulty in replacing them.

Each of these situations requires a different approach. You need to start by making distinctions, where allowed by law, to retain valuable high performers, while letting others move on.

2. The Predictable Surprise: A Retirement Wave <u>is</u> Going to Hit. Even if it doesn't effect your company directly, you will experience the impact of these changes indirectly because many critical sectors, such as energy, government, aerospace and defense, and healthcare *are* looking at incredible jumps in retirement rates in the next five years. In that time, the number of workers aged 55 to 64 will increase about 50%, while those aged 35 to 44 will decrease by 19%. As a result, in many organizations, key departments or leadership groups are going to be devastated.

Executives who by now haven't identified which units with lots of older workers pose the greatest strategic threat to their future performance are failing in their leadership role. Every organization today should know the age distribution of its current workforce *by individual work unit* to identify the risks of critical capability loss due to major retirements.

3. Organizations Become More Vulnerable to Poaching of Highly-Skilled Employees. Even if you aren't concerned about the aging workforce in your firm you should be very worried about where other organizations, who are about to be devastated by retirements, are going to come looking for increasingly scarce skilled talent. That's because "cherry picking" talent is going to become a matter of survival for many companies. Even if your organization has prided itself in historically low turnover, you will become more vulnerable to competitors and other industries stealing away your best and brightest mid-career employees. Poaching high performers from other organizations has already become a recognized practice in professional services, as well as the information technology, healthcare, and energy industries. It is a phenomenon that will accelerate, and you should be developing counter strategies now. Do you know where you are most vulnerable to cherry picking talent?

4. Companies Struggle to Integrate More Mid-Career Hires. The loss of a lot of experienced workers in highly-skilled roles also means more mid-career hires must be integrated into your organization. After all, you rarely replace a 60-year-old research scientist or senior project manager with a 24-year-old. Companies will need more experienced mid-career hires as retirements accelerate in the next few years. But for mature organizations with traditional, hierarchical cultures, retaining experienced mid-career workers is increasingly difficult. Middle aged workers have inevitably been trained in other settings, and they know there are more productive ways to work than in your slower-moving culture. This puts lots of pressure on older organizations to rethink how their work environments are accelerating turnover among essential mid-career and younger employees. Does your culture support the behaviors and practices needed to increase retention of younger, high performing talent? If not, what are you doing to change it?

5. Skilled Younger Workers Are Harder to Recruit. Even if you aren't concerned about older workers retiring, it is likely you are already struggling to find younger recruits to fill entry level positions. It may be skilled manufacturing labor in the tool-and-die industry, apprentice diesel mechanics, pharmacists, nurses, systems engineers, or project managers. In fact, many more companies today are focused on their inability to recruit skilled or trainable young workers than are concerned about retaining older talent. There are a growing number of fields where there just aren't enough qualified job applicants. And this problem is going to get much worse. Smart firms have started to be much more creative and aggressive about recruiting and developing younger talent because they know this will be a key to survival in the future. As a leader, one danger in focusing only on hiring fresh talent is that you are overlooking the resources available to you in retaining or recruiting still productive older employees.

Implications for Future Workforce Development

There are a variety of action steps to consider when trying to respond to the five forces shaping your workforce's capabilities. Your response depends on your situation today.

1. Are you ignoring how other organizations will respond when the aging workforce problem hits them full force? To minimize cherry-picking of your top performers, begin taking steps now to improve your firm's ability to attract and retain young talent in what will become an intensely competitive market.

2. Are you defining workforce threats too narrowly? While you are pre-occupied with recruiting problems or concerns about capability loss due to retirements, you may be overlooking other threats or opportunities. Take a more systemic view of what's needed to build future capabilities, instead of focusing on just one aspect of the problem.

3. Are you so overwhelmed by daily activities, budget constraints, and the enormity of workforce changes coming (i.e., retirements) that you are ignoring the evidence of the problem and its impacts on performance? As a leader, your first step is to find out which capability losses pose the greatest threat to achieving future performance objectives. This diagnosis will often reduce the anxiety created by the uncertainty of coming workforce changes. Defining the real risks also helps build a business case for investing in preventive solutions before it's too late.

The complexity of the changes occurring in labor markets today explains why executives have such varied responses to this multi-faceted problem. Unfortunately, your organization can be blind-sided by the threats you overlook. No matter what your company's situation, you should anticipate the impact of these five risks and develop coordinated responses.

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