The HR manager at Medignostics sees a disaster on the horizon: The company's workforce is aging, and it can't attract young talent. But his bosses are more concerned with cutting costs here and now. How can he persuade them to take the long view?

The Cane Mutiny

Managing a Graying Workforce

by Cornelia Geissler

HUMAN RESOURCES MANAGER Frank Heberer frowned. The internal-mail envelope he'd just torn open with great expectations contained the report he'd labored over for months. It outlined the long-term human resources strategy he believed Medignostics needed to adopt in order to remain competitive in the next 20 years. On the title page was affixed a yellow Post-it, with the words "Not a priority" penned in the ornate handwriting of Erwin Baum, the vice president of HR. Noting the crispness of the binder, Heberer doubted that anyone had read beyond his cover sheet.

He felt completely deflated. For the past six months, this had been his pet project. He'd done all the research, and everything he'd read pointed to a rocky road ahead. The average age of the German population was steadily rising, and that had real implications for the midsize pharmaceutical company's personnel. He flipped open his report to look once again at the shocking statistic: Without immigration, the country's population would fall from 82 million to 24 million by 2100. "Granted, that's a long way off," he thought, "but what could be a bigger priority than a disaster you clearly see coming?"

Heberer had timed his proposal carefully. While the executive team might not have been reading many demographic studies, he trusted they'd heard

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DANIEL VASCONCELLOS

of the wildly popular bestseller *Das Methusalem-Komplott (The Methuselah Conspiracy).* Written by Frank Schirrmacher, an editor of the *Frankfurter Allgemeine Zeitung* newspaper, the book chronicled the demographic transformation occurring in Germany and seemed to be the hot topic of conversation everywhere Heberer went. The picture it painted of the future was anything but rosy. In just 25 years, more than a quarter of the country's population would be over age 65. That was 6% more than in America. In his report, Heberer went further to predict the effect this trend would have on the German workforce. "What happens when our employees start retiring in droves?" he asked. "How will we find good workers to fill the ranks?" Heberer smiled grimly: At the moment, the bestseller's title struck a chord. He felt as if the members of Medignostics's executive wing – all of them older than 55 – had ganged up on him. Their priorities were all about cutting costs. Why couldn't they take the long view?

He dropped the report on his desk and combed through the rest of his mail. Only two more applications – a meager yield for a job that had been posted for three weeks on online boards and in the daily press. Heberer was trying to fill a position in basic research that had opened when Medignostics had enticed one of its chemists into management. He hadn't expected it to take so long to find qualified candidates and wondered if he should contact a recruiting agency.

"First the company insists on my being here full-time, and then it finds a pasture to put me out to....Tell me, Frank, when it gets to be ten years from now, will you know less about how to do your job – or more?"

A knock on the door interrupted his train of thought.

"Frank, can I speak to you for a moment?" His HR colleague Rita Wachten sounded troubled. "It's about Matthias Hausmann." The 58-year-old Hausmann had been with Medignostics for more than 20 years; he'd started as a bookkeeper and worked his way up through the accounting ranks before being moved into account management. "I just spoke with his manager. Matthias's time away from the office is becoming problematic. He can't always be found when decisions have to be made or when his clients call. Apparently, there's been more than one complaint."

"That doesn't sound like Matthias. When did the problem start?"

"In the last few months, he's taken an unusually high number of sick days."

"Is there something seriously the matter, do you think? He's not as young as he once was, but his energy couldn't have dwindled so suddenly."

"I don't know any details," Wachten said. She hesitated, then added: "But it might have to do with the part-time statute. I've been hearing through the grapevine about a lot of grumbling among the old guard. You're friendly with him – can't you have a word?"

She was referring to the Part-Time Statute for the Elderly, a special feature of German social legislation – and, more specifically, to Medignostics's policy regarding it. In the country's ongoing battle with unemployment, the statute was a way of easing older workers out the door so that jobs could be made available for the young. Companies that complied were eligible for subsidies. If you worked at a company that participated, then, beginning at age 55, you could reduce your hours to half-time for the rest of your working years but still earn 80% of the wages you had as a full-time employee. Once you reached age 65, the statutory retirement age, you would face only a small penalty in pension benefits for having worked those part-time hours. At first Medignostics encouraged employees to participate. But it was a costly program, even with the offsetting government subsidies the firm earned by, for instance, taking on new trainees. And unlike some other businesses, the company did not need a palatable way of making workforce reductions. So a few months earlier, the executive team at Medignostics had decided not to offer the program anymore. Hausmann, it turned out, was the first person the decision directly affected.

Heberer agreed to speak to the account manager and asked his assistant to arrange a meeting. "It's all part and parcel, isn't it?" Heberer thought. "We've got a group of workers nearing retirement age and few good applicants looking to take their spots. But all I hear from top management is 'We need to tighten our belts.'" He was more convinced than ever that Medignostics was on shaky ground.

Too Early Retirement?

When Hausmann entered the HR manager's office the next afternoon, Heberer caught himself looking for signs of illness. But the tall, athletic man rumbled in full of energy.

"Did you go to the mountains last week?" Heberer asked by way of greeting. "The weather was amazing." The two men had been members of the local mountain-climbing club for years. He offered Hausmann a chair and poured him a glass of water.

"Yes," Hausmann responded. "As soon as I'm surrounded by those peaks, I'm a new man."

Heberer smiled. "But the climate in here doesn't agree with you lately?"

"Well, I'm not getting any younger." Hausmann sighed significantly and sank a little deeper into the chair.

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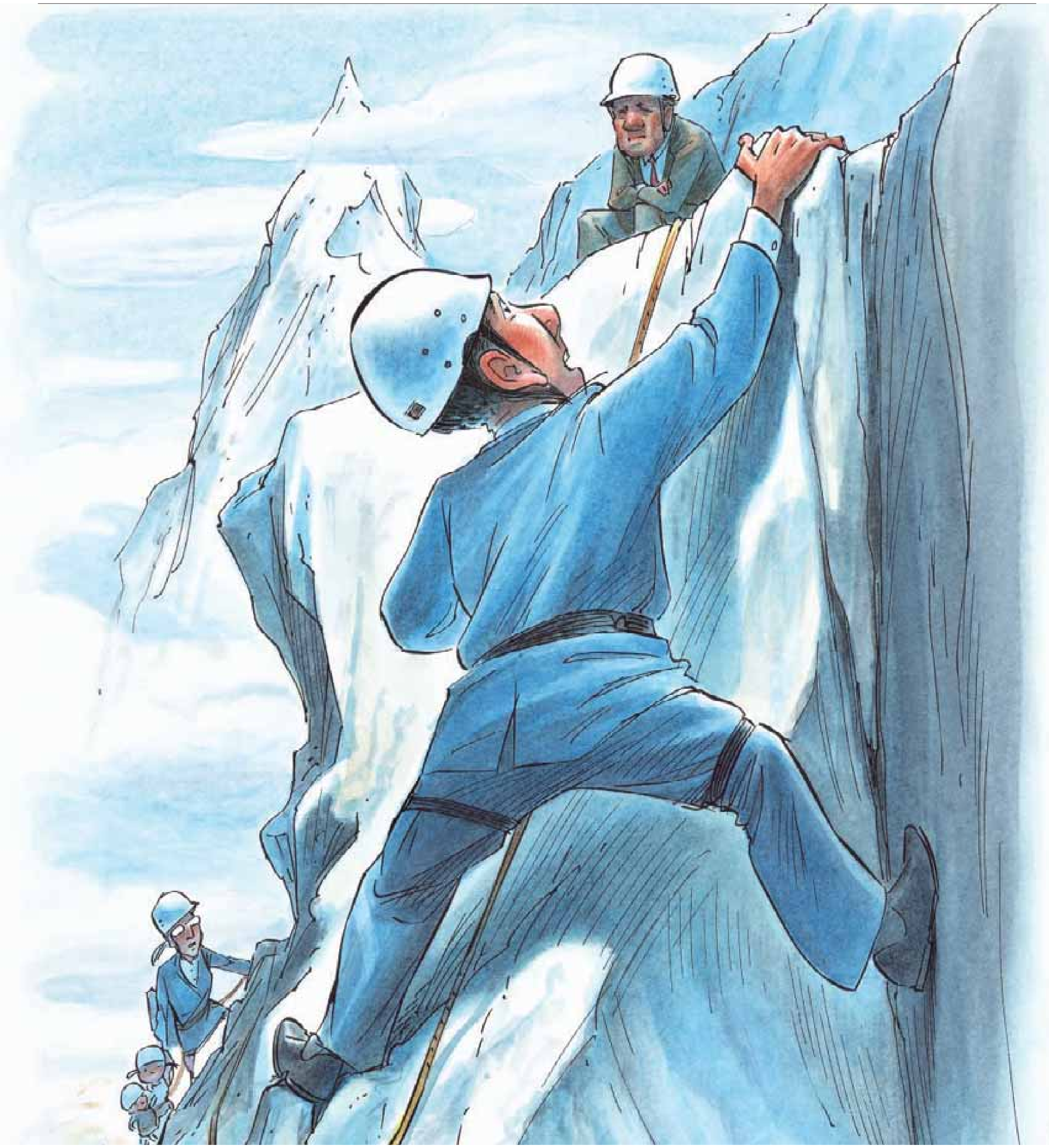

"Nonsense! You can easily beat me up a mountain, even though I'm more than ten years younger than you."

"Well, mountain climbing is an activity that holds the body and soul together. Also," he paused and folded his arms across his chest, "no one tells me what stone to put my foot on."

"Ah. Are you having some difficulties with your boss?" Heberer had hired Hausmann's supervisor just a year before. The 32-year-old sales director was labeled a high-potential; top management expected great things from him. He had earned his MBA at Insead and, after that, had shot up through the managerial ranks at one of Medignostics's biggest competitors. Heberer considered it a feather in his cap to have lured this wunderkind away.

Hausmann studied Heberer's face for a moment before responding. "Your protégé is smart. I'll give you that. But he has a lot to learn about managing. And the 'new' approach to account management he's touting is basically the same thing we tried in the early 1990s, with a few added bells and whistles. Perhaps you remember how it turned out the first time? Because I surely do. Not only that, but he recently sent me on a training program with people who were all at least 20 years younger. I couldn't understand them – they spoke nothing but jargon, tossing around words like 'turnkey' and 'synergy.' And they've all got IT mania. I have to wonder, if their laptops or Palms are turned off, do they shut down, too?"

"I can sympathize with you, Matthias, but no one benefits when you disengage. Your absences are having a negative impact on your colleagues and clients. If you're no longer comfortable in this department, you should have talked to me. Perhaps we can come up with a new position for you."

"So that's what this is really about! First the company insists on my being here full-time, and then it finds a pasture to put me out to." Hausmann looked belligerent. "I've been here a long time, and I know this business inside and out. If I say a man does not know how to manage, why not assume I may be right? Tell me, Frank, when it gets to be ten years from now, will you know less about how to do your job – or more? And what if everyone has stopped listening?"

"I'm listening." Heberer cautiously patted Hausmann's shoulder. "And no one wants to put you out to pasture. Let's both give this some more thought and meet again at the end of the week. All right?"

As soon as the door closed, Heberer exhaled slowly. He suspected that this unpleasant conversation was just the first of many; he could think of three other employees the same age as Hausmann, and he wouldn't be the least bit surprised if they soon started staging their own unofficial "strikes."

Older and Wiser

Heberer was stirring his coffee in the cafeteria when he noticed Bertha Weber from the marketing department waving him over.

"Frank, I was just planning to call you. How are you doing? The reason you've been on my mind is that I've gotten some research results that raise a few issues –" She stopped midstream and looked concerned. "Is something the matter? You look worn out."

"Sorry, I guess I am. You know how we phased out the early retirement policy? It's causing some, er, tension." He shook his head as if to clear it. "But that's hardly your concern, is it? Tell me, what about this new research?"

"Actually, it may be related. The good news is, our brand is the most respected in the geriatric market. There is definitely a lot of potential for us to extend it."

"That's great." Heberer smiled. "Your team must be very proud." At the same time, he wondered what this had to do with his worries.

"Think about it, Frank," Weber said, reading his mind. She leaned over the table with a look that reminded him of his high school math teacher. "What do you know about the problems one faces when arthritis sets in? Or how it feels to have a weak bladder?"

"Listen, I just turned 45. That's a long way off for me."

"Precisely," she beamed. "And therefore people your age – not to mention those who are younger – aren't qualified to market the products that 70-year-olds need. Our arthritis campaign that was so successful last year? It was spearheaded by Johann Weiss, who retired not long after."

"So you're concerned about our recruiting. I see. Maybe we need some more gray hairs in marketing?" Heberer thought for a moment. "Makes sense. Definitely gives me something to think about, thanks."

He stood up to leave, but Weber placed a hand on his arm to stop him. "Frank, one more thing. I've heard a rumor that the company is trying to warehouse Hausmann."

Heberer looked surprised. "Bertha, you know I can't discuss personnel matters with you –"

She held up her hand to cut him off. "No, of course not. I'm not asking you to. All I'm saying is that – as we've just agreed – older workers have a lot to offer. Think of all the experience they have. They know their way around the firm better than anyone. Our stopping the early retirement option must have been a real blow. I just think you should give them some time to adjust."

"I'll keep that in mind, Bertha, I will. But this is a company, and we need our employees to be productive. Now, if you'll excuse me, I've got a full day ahead of me. I've got some applicants to speak to and then a meeting this afternoon with Erwin to talk about the other end of the aging spectrum – children. He's finally agreed to hear my plan on a company day care center."

Weber grimaced. "Good luck with the dinosaur."

Back in his office, Heberer picked up the applications that still lay on his desk. Thoughts about the old-timers would have to wait; right now, Medignostics urgently needed to fill this specialist position. Basic research was the company's most important department – without it, the product pipeline would dry up. Unfortunately, a good scientist was hard to find. He wondered if the lower birthrate was already having an impact on the number of university graduates.

One of the applicants looked promising. The woman had excellent grades,

"Your 'age wave' crisis…is tremendously overhyped. It reminds me, in fact, of Y2K. Everyone panicked, talked in horror scenarios, and threw money at consultants – yet we woke up on January 1, 2000, to find nothing amiss."

her dissertation topic perfectly fit the job, and she had worked for a competitor for the past three years. "What a find," Heberer thought joyfully. "I didn't even have to hire an expensive recruiter." He picked up the phone and dialed her number.

In with the New?

Two hours later, Heberer knocked on Erwin Baum's door. The VP of human resources was a formidable man. He had joined Medignostics 30 years ago, in the sales department, and had been drilled for decades on reaching financial goals. To Baum, every decision came down to numbers.

Heberer tried to suppress his disappointment over the rejection of his demographics report. He needed to be clearheaded and persuasive to have any chance of getting approval for his day care idea.

"Come in," a voice rattled from within Baum's office. Baum was sitting on his leather sofa and reluctantly looked up from the documents he had been reading. "What can I do for you?" he asked in a tone that sounded more like, "Make it short."

"I'd like to talk about the viability of establishing a company nursery school," Heberer cautiously reminded him, taking a seat in the opposite chair.

"Child care is a private matter, Heberer. We just got the costs for early retirees off our shoulders. Now you want to shackle us to parents? You know we don't have money to burn."

"With all due respect, we talk a lot about costs, but we ought to be talking about people." Shocked by his own boldness, Heberer rushed on. "Otherwise, we'll run into problems with recruiting and retention, and that means bigger costs down the line.

"Let me give you an example. I finally have a terrific applicant for the research job. Her qualifications are ideal, but she has two children. Our having a school here could make the difference between her joining us and her going to a competitor."

Baum leaned back and folded his arms: "You can't tell me that she is the only qualified applicant in this entire country."

"It's not just about this one position. We need to figure out a way to ensure reinforcements for the next ten years. And let's not forget the many mothers – and fathers – already on our payroll. Think how it would improve retention if leaving the company also meant pulling your child out of school."

"If it isn't done right, the effect is more dissatisfaction than satisfaction. And doing it right is expensive – in both the short run and the long run. You know, I'm 58 years old, but that doesn't mean I don't care about the future of the company. If today's problems don't get taken care of, though, there is no future. Our first priority is cost containment. Then growth. Once we are on that path, I will gladly reconsider the luxury of a company nursery school."

Heberer thought about *The Methuselah Conspiracy* to steel himself. "I am not trying to create programs that sap our growth. I am trying to *drive* growth. Somehow we must learn to keep our older workers engaged and productive. At the same time, we must become more attractive to younger workers. In some ways, those are similar goals; in other ways, they are at odds. But when I create a long-term plan to strike the balance – to tap the knowledge and networks of older workers and signal their worth to us without allowing their prolonged tenure to block the ascent of young talent – you don't even read my proposal."

"Heberer, this conversation was not supposed to be about your 'age wave' crisis, but here is my thought on that: It is tremendously overhyped. It reminds me, in fact, of Y2K. Everyone panicked, talked in horror scenarios, and threw money at consultants – yet we woke up on January 1, 2000, to find nothing amiss." The telephone rang. After a glance at the machine's display, Baum decided that the conversation was over. "And now, please excuse me."

What should Medignostics's long-term HR strategy be? • Four commentators offer expert advice.

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I suspect that Frank Heberer did not support his proposal with enough data and facts. In my experience, human resources managers won't get the ear of executive management unless they translate their concerns into language that the top team understands. If Heberer wants his HR strategy to be taken seriously, he must show Erwin Baum the business consequences of ignoring the demographics issue. He should frame them in terms of costs, performance, and innovation.

Let's look at costs first. Right now, the lopsided staffing structure at Medignostics is generating expenses that the executives might not be aware of. Matthias Hausmann frequently calls in sick, and that is creating work delays and hurting productivity. Several clients have complained and may move their business elsewhere; winning them back may take expensive measures.

Additionally, the salary structure is surely becoming an issue since older employees generally have higher salaries than their colleagues who are ten to 15 years younger. If Medignostics continues on its current course, this problem will become more acute in five to ten years. I'm less concerned with employees like Hausmann, who are about to retire, than with those between 40 and 50 years of age, for whom work/life balance is a foreign concept. Burnout and stress-related cardiovascular illnesses are especially widespread among this middle-aged group, and Medignostics will have to address costly problems like these down the road.

A similarly bleak scenario can be drawn for performance: When managers are markedly younger than their reports, tensions often arise. The young high-potentials, using the most modern technology and business jargon, can make subordinates feel that their experience and knowledge are outdated and not valued. Continuing education can be helpful, but not if it's like the course Hausmann participated in. Instead of improving his productivity, the experience undermined his motivation and further exacerbated relations with his supervisor. Managers should pay attention to the needs of older workers and send them to appropriate training courses to help them remain productive until they retire.

Employee age has a mixed effect on innovation. Older employees – especially at pharmaceutical companies – are an important resource. Medignostics supplies products to seniors, a fast-growing market. As Bertha Weber explained, firms that properly utilize older employees will develop better products for this target group and will be better equipped to market them effectively.

Firms that properly utilize older employees will develop better products for the senior target group and will be better equipped to market them effectively.

However, a pharmaceutical company must also perform basic research to maintain its product pipeline. For this, it needs young, highly qualified scientists. And they won't sign on if they perceive Medignostics to be a conservatively managed, family-unfriendly company.

Only when Heberer details these sobering scenarios will Baum be ready to listen. We don't know exactly what Heberer's HR proposal entails. But I hope it includes launching an information campaign for Medignostics's staff, to spread awareness about the changing demographics of the company and what they mean in practical terms. There should also be a plan for internal development and continuing education that takes workers' life stages into account. It should include managerial training that older employees run and health programs that accommodate employees in the middle of their working lives. The plan should also include affordable, flexible retirement and compensation models as alternatives to the part-time statute.

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To encourage older workers to stay on the job, the U.S. eliminated the Social Security earnings test for retirees over 65, which had been a strong disincentive to work.

This case does not depict a uniquely German situation. The steady rise in average age is occurring in many advanced economies, including the United States. Each of these nations will have to address the question of how to plan for an approaching labor shortage.

The challenges posed by aging populations range from fiscal imbalance in national pension systems, like the U.S. Social Security program, to the potential economic strains due to shortages of skilled workers. In the United States, lower fertility rates, rising life expectancies, the retirement of the baby boom generation, and the popularity of early retirement are all contributing to slower growth of the labor force: Annual growth has dropped from about 3% in the late 1970s to around 1% now. Further, the United States is on an unsustainable fiscal path, driven in part by these demographics. Absent change, the country may experience reduced economic growth and a slower rise in living standards. These trends and their implications are foreseen in other nations as well.

Countries can try to avoid that dark future by enacting public policy changes to rebalance their long-term fiscal trajectories and to expand the labor force. One way to do the latter is to encourage and enable older workers to stay on the job longer. An obvious first step is to dismantle barriers to older workers. For example, the United States eliminated the Social Security earnings test for retirees over 65. The test reduced Social Security benefits to those with incomes above a certain level and was a strong disincentive to work.

But more remains to be done to alter incentives both for workers and for employers. Rules in the United States governing employer-provided pensions prevent companies, in certain circumstances, from paying out pension benefits to people still on the payroll. For most affected workers, it is only rational to quit working entirely at the full retirement age, even though many of them would prefer to scale back their work hours more gradually. Other pension rules carry similar disincentives for employers and workers. Companies say that they face economic barriers to creating more of the part-time positions that would suit older workers. The fixed costs (for benefits, training, and such) of employing a worker can create strong incentives to maximize that individual's hours, output, and tenure prospects.

Between these structural problems and employers' ambivalence about the merits of older workers (as seen in the Case Study), initiatives to hire or retain older workers are not widespread in the American private sector and are only somewhat more common in the public sector. Some public school systems have instituted Deferred Retirement Option Plans, which allow teachers who are eligible for full retirement through defined benefit plans to continue working without having their pension checks deferred or reduced. DROP programs have reportedly been successful in retaining some of the best and most experienced teachers. The U.S. Government Accountability Office is currently studying older workers and their employers, as well as ways the federal government can remove or mitigate barriers to working longer.

Many believe that more innovation will occur in the private sector as companies' growth becomes constrained by the labor crunch. The pioneers may be the industries that rely most on "knowledge work"–where a career's accumulation of experience and wisdom is an especially precious asset. And just as we in Washington hope to learn from how other governments are dealing with the issue, companies will build on one another's solutions. Meanwhile, I sympathize with managers in the vanguard like Heberer. They may not get a hearty welcome in their bosses' offices yet, but their efforts can make a tremendous difference in the long run.

I would recommend that Heberer make another serious effort to convince Baum that the changing demographics are a real concern for the company. As I see it, Heberer must not only raise a red flag but also present affordable ways to balance out the age structure at Medignostics.

I applaud his idea to provide a day care facility on-site. Even though it is difficult to calculate exactly the benefits such a program will bring, there are various reasons to act on this idea. In general, employers are demanding increased mobility and flexibility from their staff, and so they must provide something in return. And because the country's changing demographics have forced firms into fierce competition with one another to recruit qualified professionals and managers, companies would do well to position themselves as family friendly. Child care is an important criterion when an employee decides whether to join a company. If Medignostics truly wants to become more competitive in attracting talented, young employees, offering such a benefit will definitely help. In fact, that is one of the reasons we offer a day care facility at Telekom's Bonn site, where some 10,000 employees work.

Germany's changing demographics have created fierce competition to recruit qualified professionals, so companies would do well to position themselves as family friendly.

Of course, Heberer must make sure the costs for such a project do not get out of hand. Before pushing his proposal too far, he has to calculate the construction, rental, and staffing costs. The funding of a child care center is easier to handle for a corporation like Telekom, with €58 billion in yearly revenue, than for a midsize firm such as Medignostics. But that is no reason for Heberer to give up his quest. If the company can't afford to provide a center on its own, Heberer should try to come up with imaginative solutions. Maybe Medignostics could cooperate with other companies in the region to establish (and share the costs of) one day care facility that serves all their staff members.

The other issue Heberer is wrestling with has to do with older employees. At Telekom, we still have a part-time provision for them, to smooth their transition into retirement. At first glance, this solution looks expensive. But I am not certain we would save any costs if we were to do away with it, as Medignostics has done. Here, as in the case of offering day care, it is difficult to assess all the benefits accurately. Take Hausmann, for instance. He has given the company more than 20 years of great service. If managers like him want to wind things down near the end of their working lives, then I believe they should be given that opportunity. Otherwise, you run the risk of employees' internally "resigning" – putting in only meager efforts, blocking progress, and chasing away important clients. In the long run, this kind of subtle sabotage causes the company far more damage – in terms of costs, competitiveness, and reputation – than an arrangement that lets workers bow out earlier and with grace. An internal resignation like Hausmann's eventually makes itself known through very clear signals, such as poor attendance.

Since Medignostics is in a difficult financial situation, it cannot offer part-time work to every aging employee. But I would recommend that the company carefully analyze each case to determine the best possible outcome. It may be worthwhile to hire a coach for late-life career changes or an outplacement adviser for some employees. And it might be good to think about transferring aging workers to less demanding roles. In Japan, for instance, employees are routinely taken out of management at a certain age and allowed to glide into retirement. Perhaps Hausmann might be better off in a consulting role at Medignostics. That way, the company could still benefit from his vast experience, but clients wouldn't be affected if he adopted a part-time schedule. For a business to be successful, it must take the interests of both its clients and its workforce into account.

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To address human capital needs, every company needs a long-term strategy – one that takes into account the societal, political, economic, and technological changes that will dramatically transform the way we work in the future.

Two fundamental changes should frame Medignostics's response to the challenge of an aging workforce. The first is globalization. Although the movement of labor is not as unfettered as the movement of goods, labor laws around the world are changing, and companies can cast a much wider net for talent. Medignostics, therefore, should consider its potential talent pool to be global rather than national or local. The second is technology. Today, everyone is interconnected and interdependent. The 24/7 environment, with its constant information flow, forces a change in the basic work paradigm.

In this context, the old model of hiring young management trainees at corporate headquarters and having them work their way up through the ranks to senior management is as archaic as quill pens. The new model focuses on attracting talent from all over the planet – people who can work from dispersed locations, linked by common goals and enabled by technology. The post–World War II business model is yielding to a more fluid, less hierarchical approach.

The old model of hiring young trainees at corporate headquarters and having them work their way up to senior management is as archaic as quill pens.

The rigors of a global business model require far greater inclusivity. Despite the predictions of a looming global war for talent precipitated by declining Western birthrates and accelerating retirements, the talent pool is deep when viewed from a global perspective. Companies should expect to employ a workforce that is far more diverse in terms of nationality, age, and gender.

Two examples underscore the changes in how companies must think about attracting talent and how people think about their work. In China, there is enormous demand for executives who have gone to the West to be educated and to work but who wish to return home. Referred to as *hai gui* – or returning sea turtles – these executives provide critical managerial and technical talent to Chinese industry. Chinese companies, therefore, must learn how to identify and attract this group of professionals.

In the West, an entire generation of executives nearing retirement is reinventing the way it works. Rather than retreating to the golf course, executives are extending their working life far beyond traditional norms. They've prepared by "going plural" earlier in their careers, pursuing various interests that may include public company boards, charity boards, and venture capital work. This trend coincides with the increased demand for experienced directors.

Companies that have reinvented their processes to take advantage of these changes don't have problems attracting young talent or retaining seasoned executives. They lead their sectors, in part because their own leaders have challenged themselves to invent new ways to work in order to create the greatest possible opportunity for the broadest inclusion of talent. Kelvin Thompson, a senior partner and innovation leader at Heidrick & Struggles, observes that the companies winning the talent wars have leaders with both the knowledge and the confidence to manage and grow a global business. They hold inclusivity as a core value and are willing to create innovative work environments in order to foster it. Finally, they have the foresight to invest in technology that lets employees optimize their talents. Companies with such leaders will face the challenges of global competition, technological innovation, and workforce changes with the confidence that they will attract, retain, and motivate the most talented people they can find from around the world.

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