Corporate Ageing -

A challenge to the future competitiveness of Corporate Europe

Dr Hendrik Garz/Tim Gerdes (H-Faktor)
FAIRE conference, 11-12 June 2007
In your company problems are showing up. How do you react?

I’m not thinking of layoffs!
Our FAIRE conference note – a working paper

Our note, which we have prepared for the FAIRE conference 2007 in Paris, is the preliminary version of a more comprehensive study that we plan to publish before the end of Q3.

This will include, besides a general descriptive analysis of the issue:

- sector-specific rankings of European companies measuring their relative preparedness for the demographic challenge;
- simulation analyses (case studies) based on the employee age profiles of specific companies;
- snapshot evidence of the attitudes of DAX and MDAX companies to issues relating to ageing workforces in Europe (based on our survey);
- examples of good practice, from which we will derive a catalogue of recommended management actions to make Europe’s ‘ageing companies’ fit for the future.
The demographic trap

- Ageing societies…
  Declining birth rates combined with rising life expectancy is causing a continuous shift in societies' age structures
- …cause ageing workforces

WestLB’s “Human Capital Challenge Preparedness” (HCCP) indicator

Within our rating system HR issues are captured by indicators that reflect diversity issues, health and safety incidents, discrimination issues, conditions of employment, employee satisfaction and the intensity of staff training.

To assess companies’ approach to human capital we have developed a ‘Human Capital Challenge Preparedness’ (HCCP) indicator.

HCCP indicator - best and worst companies in Europe (DJ STOXX600)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>ICB sector level 3</th>
<th>Country</th>
<th>HCCP score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>HBOS</td>
<td>Banks</td>
<td>United Kingdom</td>
<td>3.60</td>
</tr>
<tr>
<td>2</td>
<td>Numico</td>
<td>Food Producers</td>
<td>Netherlands</td>
<td>3.24</td>
</tr>
<tr>
<td>3</td>
<td>Essilor</td>
<td>Health Care Equipment &amp; Services</td>
<td>France</td>
<td>2.99</td>
</tr>
<tr>
<td>453</td>
<td>Wincor Nixdorf AG</td>
<td>Software &amp; Computer Services</td>
<td>Germany</td>
<td>-1.80</td>
</tr>
<tr>
<td>454</td>
<td>DSV</td>
<td>Industrial Transportation</td>
<td>Denmark</td>
<td>-1.97</td>
</tr>
<tr>
<td>455</td>
<td>UCB</td>
<td>Pharmaceuticals &amp; Biotechnology</td>
<td>Belgium</td>
<td>-2.22</td>
</tr>
</tbody>
</table>

Source: WestLB Research, SiRi
Company survey: 'corporate ageing' – the results (1)

- Striking result: There seems to be a significant gap between perception and awareness on the one hand, and careful consideration and implementation on the other.

Significance of the issue of ‘corporate ageing’ for competitiveness and strategic planning

Companies’ estimates of their ability to recruit – trends and frequencies

Source: WestLB Research
Company survey: ‘corporate ageing’ – results (2)

- Addressing the demographic challenge in HR management

- Companies give the politically correct answer, but are they actually delivering on it?
- And anecdotal evidence and our ‘Human Capital Challenge Preparedness’ (HCCP) indicator leave us with some doubts about the adequacy of programs in place.
Company survey: 'corporate ageing'

- What do the employee age profiles of listed companies look like? Can we confirm that they are distorted? How do HR managers assess future developments on the recruitment front? What strategies do they have to meet the demographic challenge?
- To get the answers we have conducted a survey of exchange-listed German large- and mid-cap companies (DAX and MDAX).
- 15 of the 67 companies have answered our detailed questionnaire on the age profiles of the local workforces.
- 17 companies (a 25.4% response rate) gave us answers to the five qualitative questions on the subject of corporate ageing and HR management.
Forcasting & managing employee age structures – a simulation approach

- Does the age structure of a company have measurable effects on the competitiveness and the value of a company?

- If there are effects, are these rather opportunities or risks?

- Can we define types of age structures and if so what actions are to be taken on each of them?

- Is ageing a threat to the competitiveness and the value of a company?
Defining basic age structure types

1. **Balanced structure**: pretty boring, but ...

![Balanced structure diagram](image-url)
Defining basic age structure types

2. By far more thrilling, because constantly changing, the **unbalanced Structure**:
Unbalanced age structures

Running through a typical age structure (life) cycle:
Four major states - (1) Youth clustered
Unbalanced age structures

(2) Middle-age clustered
Unbalanced age structures

(3) Old-age clustered

![Graph showing Altersstruktur 2033 with age distribution for different categories: Sonstige Arbeitskräfte, Führungskräfte, Gesamt. The graph illustrates the percentage distribution of different age groups.]
Unbalanced age structures

and (4) Twin Peaked
The BCG product life cycle matrix, applied to the typical age profile cycle of ‘unbalanced companies’

- **Youth-clustered** ("Stars")
- **Middle-age-clustered** ("Cash cows")
- **Twin-peaked** ("Question marks")
- **Old-age-clustered** ("Poor dogs")

*Source: H-Faktor, BCG, WestLB Research*
Characteristics of the four types of age profiles, and the challenges for HR management that they imply

<table>
<thead>
<tr>
<th>Type</th>
<th>Features</th>
<th>Need for action by HR management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Youth-clustered</td>
<td>• Highly up-to-date know-how</td>
<td>• Prevention (use of personal protection equipment)</td>
</tr>
<tr>
<td>('stars')</td>
<td>• High level of flexibility</td>
<td>• Horizontal career planning</td>
</tr>
<tr>
<td></td>
<td>• High level of commitment</td>
<td>• Implementation know-how</td>
</tr>
<tr>
<td></td>
<td>• High level of mobility (including external)</td>
<td>• Target-based commercial activity</td>
</tr>
<tr>
<td></td>
<td>• Career-oriented</td>
<td>• Frequent short-term absence due to sickness</td>
</tr>
<tr>
<td>Middle-age-clustered</td>
<td>• Balance between up-to-date knowledge (e.g. new technology) and</td>
<td>• Growing need for training</td>
</tr>
<tr>
<td>('cash cows')</td>
<td>implementation know-how</td>
<td>• Assurance of flexibility by way of changing requirements</td>
</tr>
<tr>
<td></td>
<td>• High level of efficiency and willingness to perform</td>
<td>• Growing need for health prevention</td>
</tr>
<tr>
<td></td>
<td>• Balance between performance requirements and performance capacity</td>
<td>• Avoidance of failure to use full individual potential due to the pure</td>
</tr>
<tr>
<td></td>
<td>• Very good health statistics</td>
<td>routine nature of work</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Alternative career paths</td>
</tr>
<tr>
<td>Old-age-clustered</td>
<td>• Good routine knowledge</td>
<td>• Avoidance of productivity reductions</td>
</tr>
<tr>
<td>('Poor dogs')</td>
<td>• Often have expert knowledge in highly specific fields</td>
<td>• Performance-appropriate deployment</td>
</tr>
<tr>
<td></td>
<td>• Pronounced and strong informal contacts</td>
<td>• Protection and use of informal knowledge</td>
</tr>
<tr>
<td></td>
<td>• Tendency towards 'experience-based know-how'</td>
<td>• Transfer of expert knowledge within the organisation</td>
</tr>
<tr>
<td></td>
<td>• High level of loyalty to employers</td>
<td></td>
</tr>
<tr>
<td>Twin-peaked</td>
<td>• Polarisation of the workforce between young and old</td>
<td>• Team-building measures</td>
</tr>
<tr>
<td>('Question marks')</td>
<td>• Mix consisting of the features of both groups (see above)</td>
<td>• Protecting know-how and inter-generational transfer of know-how</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• HR recruitment at a high level that will decline in the course of the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>next five to 10 years</td>
</tr>
</tbody>
</table>

Source: H-Faktor, WestLB Research
Results

For all companies analyzed in this study as well as for all companies we analyzed in our consultancy projects we can say:

- All companies we know do have this order of cyclic changes
- Which means in reverse, of course, that no company was balanced.
Results

Noticeable:

- These cycles show a strong similarity to the Product-life-cycle theory (PLC) of the Boston Consulting Group.

- We did find in reality that there is a frequent connection of the State of the age structure a organizational unit is in with the state of the PLC of the product / service, this unit is dealing with.
Conclusions

Balanced Model:

- From the structural analysis’ point of view extremely boring
- From the economics’ point of view very interesting
- One stable State. The age structure becomes a ceteris paribus condition as well as the related processes
- The company gets the chance to ride the learning curve very effectively
Conclusions

Unbalanced Model:

- We did find cycles of typical states.
- These states can be predicted.
- There are typological states of the age structure and typical actions that fit these states.
Conclusions

Notice:

- Actions and initiatives taken in human resource management need at least five years to come to effect.

- You have to act proactively.

- Ageing is a process that is not a thread but a determining factor. You can take influence on the age structure of a company as well as on the fit of the organizational structure and processes to deploy the age structure.
Thank You!
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