

Are UK companies
prepared for the
demographic crunch?

The Demographic Fitness
Survey 2007

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About the Adecco Institute

The Institute is committed to facilitating discussions on the broad topic of work and how work impacts our society among all stakeholders, from governments and academics to employers, unions and employees.

Through primary and secondary research as well as thought pieces, conferences and events, the Institute provides a forward-looking and fact-based perspective on innovative approaches to help organizations and regions raise employability, productivity and employee satisfaction at work.

Adecco's worldwide reach enriches the Institute's views. With over 6,600 offices in more than 70 countries and territories, and managing a workforce of over four million individuals each year, Adecco employees every day face economic and demographic realities that both challenge and foster clients' business goals.

The Adecco Institute comprises a board of advisors and is managed and run out of London, UK. The institute draws on the full resources of the Adecco Group.

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Executive Summary

The UK Demographic Fitness Survey 2007 is the second annual survey on the topic of demographic change in the workforce and its consequences for companies in the United Kingdom. The issue of population ageing is real. Over the next 50 years, *every* country will experience a drop in the share of people of prime working age and an increase in the number of people aged 65+. In just ten years, people over 40 will be in the majority across Europe for the first time. The total number of 50-65 year olds in the five biggest EU economies, representing two thirds of regional GDP, will rise by 16% and those in their 20s to 40s will decline by nearly 10%.¹ By 2025, people over 40 will comprise 53% of the population of the UK.² Almost 1 in 5 will be 65+.

The ageing of the population and workforce will have a major impact on our lives, the business world, our jobs, the pension and health systems as well as the education system. Early results indicate that when the proportion of older people in the population shifts dramatically, companies will be unprepared for the workforce impact.

The Demographic Fitness Survey measures firms' preparedness for the changing demographic in the workforce across five dimensions: career management, lifelong learning, knowledge management, health management and age diversity management. Based on responses to a survey of 502 companies in the UK, we have compiled a Demographic Fitness Index (DFX) indicating how well prepared UK companies are to tackle the issue of demographic change. While the UK shares with Germany the highest score in the DFX across Europe, both scored just 186 out of a possible 400 total points in demographic fitness. Moreover, the UK score declined from 189 points a year ago. These scores indicate that companies must increase their awareness of the changing demographics in the workforce – or risk being caught unprepared when waves of retirements deprive companies of potentially critical knowledge and talent. Human resources, the most valuable and least fungible of business resources, are being drained by the very process that once renewed the workforce – timely retirements. Decades of decreased births in developed economies have reduced the number of young workers entering the workforce, and increased longevity is swelling the ranks of the ageing population. This shift in workforce demographics will force companies to review traditional practices, and actively work to retain and hire ageing workers. The DFX provides a quantitative measure of preparedness for this change.

¹ ILO

² US Census Bureau's International Database; <http://www.census.gov/ipc/www/idb/tables.html>

Introduction to the Demographic Fitness Survey

In January of this year, the Adecco Institute released the results of the European Union (EU) Demographic Fitness Survey, the second annual survey of European companies' preparedness for the changing demographics in the workforce. The EU Demographic Fitness Survey is based on a survey of over 2500 companies in the five biggest EU economies: France, Germany, Italy, Spain and the United Kingdom. Based on answers provided by Human Resources (HR) decision-makers from companies with a minimum turnover of 10M Euro, each country is scored on a range of 100-400 points. The UK, tied with Germany with a total score of 186 points, actually dropped 3 points from their 2006 Europe-leading score of 189. This report provides an overview of the Demographic Fitness Index (DFX) and its components, and provides a detailed study of how UK companies scored in each of the areas analysed.

Methodology

The UK Demographic Fitness Survey was based on interviews with HR decision makers in 502 UK companies. Of the companies that participated in the survey: 238 were medium-sized (annual sales of Euro 10 to 50 million) and 264 were large (annual sales of more than Euro 50 million). The companies were drawn almost evenly from the Trade, Industry and Services sectors (162, 170 and 170 respectively).

Dimensions of Demographic Fitness

The DFX was designed as a means to quantitatively assess whether companies are preparing for the changing demographics of the workforce. The index is based on a weighted formula that measures both a firm's offerings and employee adoption of tools in each of the following areas:

Five Dimensions of the DFX:

- Career Management
- Lifelong Learning
- Knowledge Management
- Health Management
- Diversity Management

Career Management measures the extent to which companies offer, and employees adopt, tools to manage career expectations and goals. It measures companies' awareness of the age structure of their workforce, employee development tools, as well as the availability of tools for employees interested in horizontal or non-traditional shifts in professional growth (across lines of business or areas of expertise).

Lifelong Learning is increasingly important in workplaces characterised by rapid change - in work processes, in competition, in customer tastes and demands, and in how we work. Both employers and employees must be committed to Lifelong Learning in order to keep up with the demands of business. This dimension of the DFX measures whether companies are offering tools to develop technical, methodological, and social skills, as well as how deeply employees are involved in the process.

Knowledge Management measures how companies manage their own business-critical knowledge. We evaluate the extent to which tools are used to track and share knowledge, whether companies are aware of who their 'knowledge holders' are, and how companies propagate and extend knowledge in their organisations.

Health Management addresses the health needs of workers – from regular medical checkups to more forward-thinking programs like healthy catering. This dimension recognises that a well-deployed health management program encourages younger workers to maintain healthy lifestyles, while keeping older workers healthy longer.

Diversity Management evaluates whether companies foster an environment that accommodates employees of all ages. We assess the availability of a wide range of diversity management tools, from passive (age-neutral appointments and equal opportunities) to actively promoting awareness of age diversity through workshops and round-tables.

Main findings

The most surprising finding of the 2007 Survey is that UK firms, almost uniformly, scored lower in the 2007 survey than they did in the 2006 survey, indicating that companies are not only *not* preparing for the demographic changes in their workforce, but are, in fact, less prepared for the coming changes than they were a year ago. The only exception were firms in the services sector, whose scores increased by a single point, due largely to improved scores in the areas of Lifelong Learning and Knowledge Management. We observed the most precipitous decline in companies in the industrial sector, whose score declined a significant 11 points from a year earlier - due to lower scores in both Lifelong Learning and Age Diversity Management.

Demographic Fitness Index (DFX): State of Fitness in the UK

Index	Total	Medium-sized	Large-sized	Trade	Industry	Services
Average score 2007	186	181	202	182	183	200
Average score 2006	189	184	203	186	194	199
Trend	-3	-3	-1	-4	-11	+1

Despite the declining trend, the UK leads, along with Germany, the five major European economies in overall preparedness for demographic changes in the workforce. On a positive note, the number of companies who have done a full and complete analysis of their age structure increased to 40% in 2007 from 28% in 2006. Awareness of age structure is a critical first step in understanding the impact that changing demographics will have on a company; specifically, how much a firm will be impacted by the two biggest aspects of the changing demographic:

1. A shortage of young, qualified professionals entering the workforce
2. An excess of retirements, with the potential impact of draining expertise from the workforce

Yet, fully 38% of UK companies have done no analysis of the age structure of their workforce – a trend that is likely to decline as companies become increasingly aware that the demographic of their workforce is changing, and they must adapt policies to address this at every level or put the viability of the company at risk.

Why Care About Firms' Demographic Fitness?

As noted in our inaugural 2006 report, we have identified population ageing as one of the biggest challenges facing companies in the future. Over the next 50 years every country will see not just a steep rise in retirees, but also a sharp drop in the share of people of prime working age.

We rang the alarm bell in 2006: in just the next ten years, people over 40 will be in the majority across Europe for the first time. The total number of 50-65 year olds in the five biggest EU economies, representing two thirds of regional GDP, will rise by 16% and those in their 20s to 40s will decline by nearly 10%.³ By 2025, people over 40 will comprise 53% of the population of the UK.⁴ Almost 1 in 5 will be 65+. Compare and contrast: Afghanistan's population aged 24 and under is projected to be 61% of their total population in 2025; India's 42%; Morocco's 40%. The UK has already begun to respond to the threat of an ageing population by taking measures to increase the pension age. Women's state pension age will increase from 60 to 65 between 2010 and 2020, and to 66 for both sexes between 2024 and 2026. UK Government projections indicate that these measures will increase the working age population to 43.1 million by 2031.⁵ These projections, however fail to take into account labour force participation rates of older workers in the UK. According to a 2006 study on aging and employment, workforce participation rates in the UK drop from 89.7% for men at age 50 to 37.8% at age 64.⁶ The drop is equally dramatic for women, whose workforce participation drops from 78.1% at 50 to 49.7% at age 59. Unless corporations take steps to re-engage the ageing workforce, these trends will put the brakes on economic growth as firms struggle to fill talent shortages from a shrinking pool of workers.

European firms can build reserves in the inevitable war for talent by ensuring that their existing workers remain ready and willing to remain in the workforce - but for most employers, that will mean change. US and European studies have found that older workers have a stronger work ethic, are more reliable, more willing to work different schedules, and more likely than younger colleagues to have

a positive attitude towards work and their employers.⁷ Yet, in our 2007 study of UK employers, only 11% of employers plan to hire more workers over 50 than they did last year. Over time, hiring workers over 50 will become a necessity to keep the engine of economic growth running.

Firms not sufficiently motivated by the threat of workforce and talent shortages will find a financial motivation in the DFX Survey's conclusion that poor DFX scores can impact a firm's innovation, productivity and competitiveness. As noted in our 2006 report, a firm's ability to innovate can be impacted by as much as 23% by their knowledge management practices. Good knowledge management means information stays in the firm even when key resources depart - regardless of age. Poor knowledge management means key information walks out the door with employees - regardless of their motivation for leaving - and innovation either walks to a new firm or dies with an employee's career.

Both productivity and competitiveness are driven largely by a firm's ability to manage employees' careers. Firms that are able to direct their human resources to strategic problem areas derive the dual benefit of motivating employees (who feel recognised and rewarded for their expertise) and increased competitiveness, fueled by having the right information at the right time.

³ ILO

⁴ US Census Bureau's International Database; <http://www.census.gov/ipc/www/idb/tables.html>

⁵ Population Trends, Spring 2008, No. 131, UK National Statistics; http://www.statistics.gov.uk/downloads/theme_population/Population_Trends_131_web.pdf

⁶ OECD Ageing and Employment Policies Project, 23 Feb 2006; <http://213.253.134.43/oecd/pdfs/browseit/8104181E.PDF>

⁷ Center on Aging and Work, Boston College. Issue Briefs 1 and 2. *Older workers: what keeps them working? And Businesses: how are they preparing for the aging workforce?* July 2005. See also Marius Leibold and Sven Voelpel, *Managing the Aging Workforce: Challenges and Solutions*. Wiley (2006, forthcoming) pp95-96.

The 2007 Demographic Fitness Survey Results

In this section, we review the results of UK firms in each of the dimensions of the Demographic Fitness Survey. The total score assigned to each country is based on individual company results in each of the survey dimensions.

Career Management

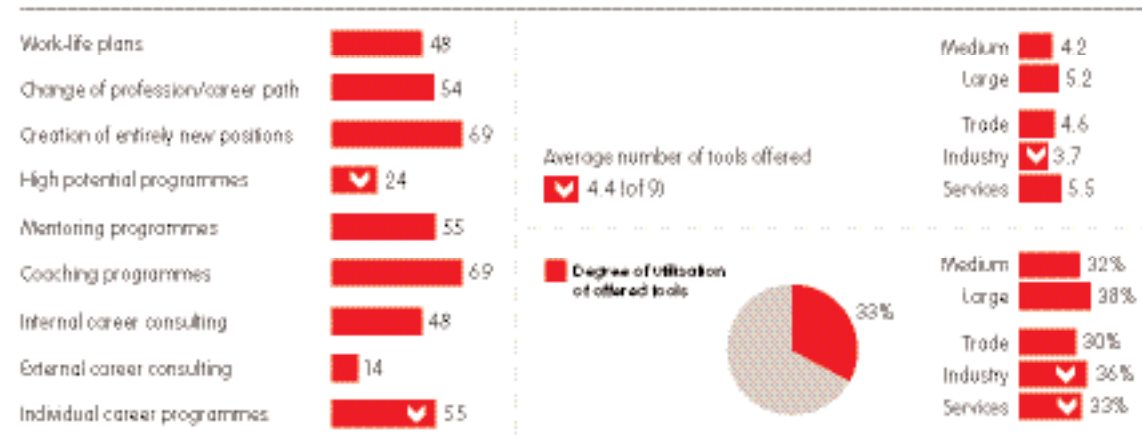
On average, UK firms offer 4.4 of the 9 Career Management tools included in our survey. Fully 69% of firms offer coaching programs, and are willing to create new positions to accommodate the career aspirations of employees. Consistent with a trend that we have observed across Europe, fewer companies offer external career consulting (14% of UK firms) or high potential programmes (24%). Only 33% of employees take advantage of the tools offered - DFX scores look at both tool offering and tool adoption (e.g. do employees take advantage of the tools that are available to them?). In order to improve on this metric, UK companies need to improve both the number of tools offered, as well as the adoption of these tools throughout the enterprise.

Lifelong Learning

The UK is a leader across the economies studied in the area of Lifelong Learning. Almost all UK employers (96%) offer workplace-based training; UK employers offer more Lifelong Learning tools (5.8 out of 8 surveyed) than the other economies studied, and UK employees have the highest utilisation rate (61%) of tools offered. In addition, UK employees spend 6.8 days a year in advanced training programs – the most in the EU. The UK's impressive score on this dimension figures prominently in the country's top ranking among EU economies. While the recognition that employees need to continue to upgrade their skills is an important contributor towards overall preparedness for changes in the workforce, it alone is not enough. UK companies need to continue to develop their proficiency in this arena while improving their adoption of tools from the other dimensions in the DFX.

Career Management

Career Management tools:
Share in %

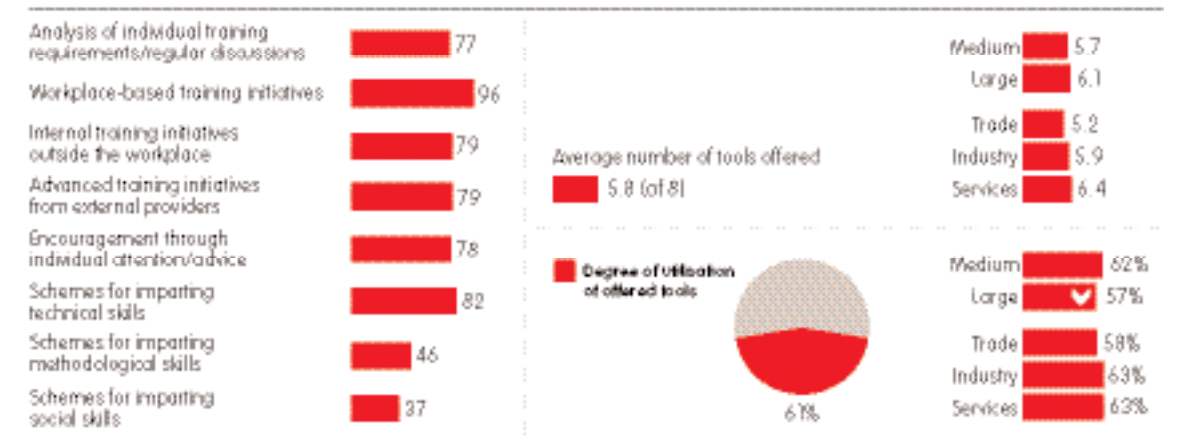


Significant upward trend compared to 2006

Significant downward trend compared to 2006

Life Long Learning

Human resource development tools:
Share in %



Knowledge Management

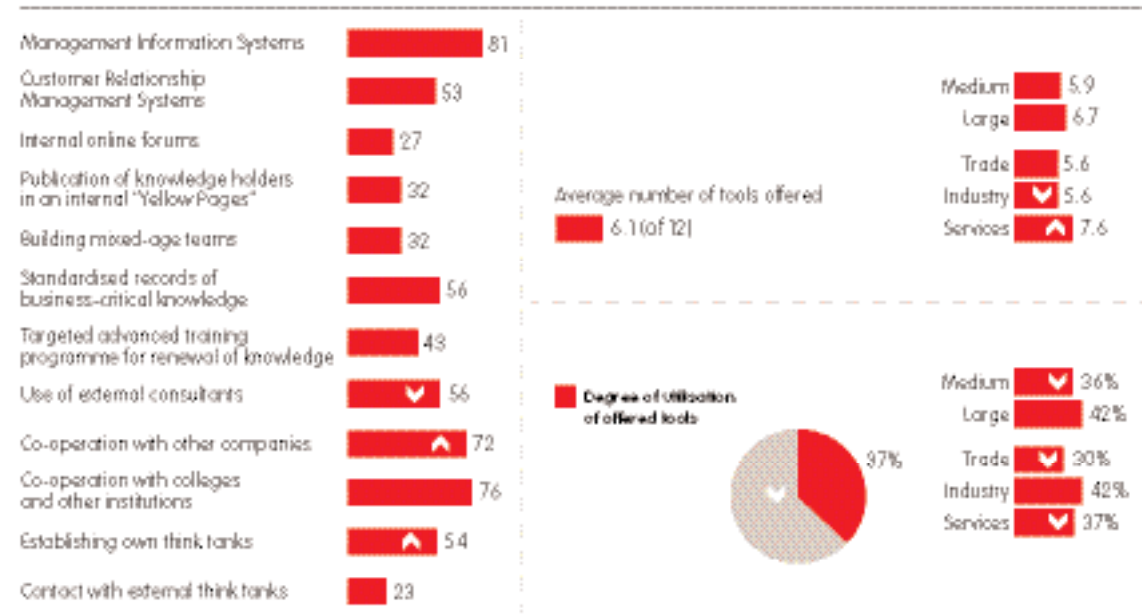
Only 18% of UK firms have conducted a full and complete analysis of the holders of business critical knowledge, while twice that many (36%) have conducted an analysis of the holders of company-specific technical knowledge. This relatively shallow awareness of where business knowledge resides in the firm exposes UK companies to potential loss of critical knowledge when employees depart or retire – and highlights that companies don't even realise the magnitude of that threat. In general, UK firms make good use of technological tools available to them – 81% use Management Information Systems, and 53% use Customer Relationship Management Systems. Of note is that 76% of UK firms cooperate with universities (colleges) and other institutions to improve their knowledge management. However, only 37% of employees use the tools available to them, and less than one third (32%) of firms maintain internal directories of knowledge holders. To improve their score in this dimension, UK firms need to focus more on understanding where critical business knowledge resides in their businesses, and develop more robust tools to codify and share information about where that knowledge resides.

Health Management

Health management remains an area that is ripe for improvement. While 63% of UK firms offer medical checkups at work (vs. 76% of European firms), fewer than 10% offer dietary advice or relaxation programs. Programs focused on long-term health options such as sports facilities and back strain reduction remain the exception, with fewer than a quarter of all firms offering these options, but healthy catering is on the rise, with 32% of UK firms now focusing on what they serve in their cafeteria. Long considered firmly in the personal domain, forward thinking firms will increasingly look to health management to ensure an active and healthy workforce in the long term.

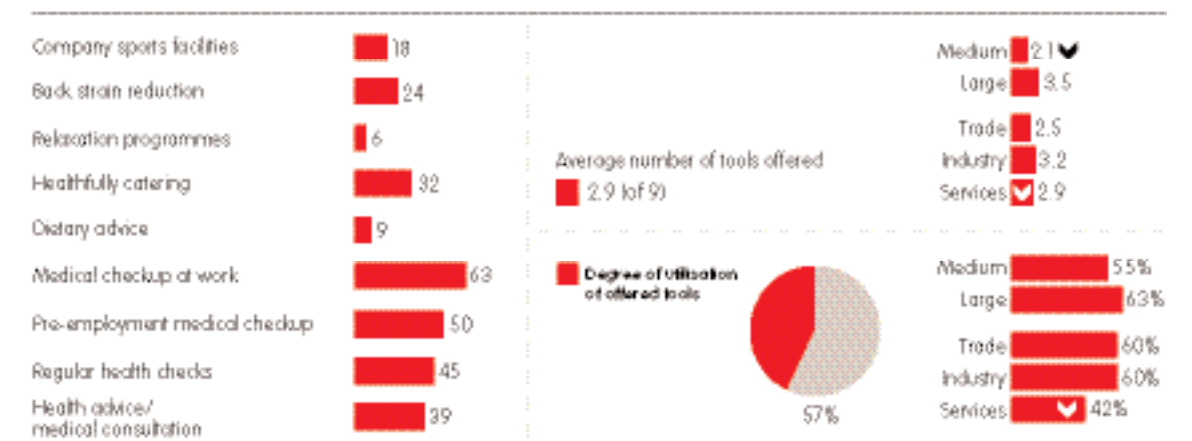
Knowledge Management

Knowledge Management Tools: Share in %



Health Management

Health Management Tools: Share in %



Age Diversity Management

As the composition of the workforce shifts to an increasingly older demographic, firms will need to focus more on intergenerational issues in the workplace. This dimension of the DFX focuses on whether firms are actively working on recruiting, integrating, and benefiting from the expertise of employees at every level of the age spectrum. Age-neutral advertisements and appointments, as well as equal opportunities for all age groups, are generally the norm throughout Europe. More innovative techniques to integrate workers of every age, such as junior/senior roundtables are more the exception – only 18% of UK firms are using these (vs. 27% across the EU). To improve scores on this dimension, UK firms must focus on widespread adoption of tools and techniques that ensure that their work environments welcome and encourage the participation of all employees.

Conclusions and Recommendations

Although the UK's 2007 DFX score registers a decline from 2006, UK firms are more prepared for demographic changes in the workforce than other firms in Europe - yet all companies remain grossly underprepared for this global phenomenon. After years of refining 'just in time' processes, companies are ill prepared to start addressing a slow-moving trend that has not yet made its impact. Human resources are among firms most valuable inputs – and firms are likely to be caught flat-footed unless they start examining the impact that demographic change will have on their workplace. Fewer young graduates will knock at their doors – and those that do will have many options. In general, options will only increase for talented professionals at every level, moving retention into the foreground for all companies. In 2005, the average labour force participation rate for men in Europe aged 55 - 64 was 53 per cent. Firms attuned to demographic change will increasingly recognise that they can't afford to squander this latent talent, and will work more diligently to keep these resources in the workplace. Indeed, we envision a world where talent will be lured irrespective of age, as the availability of talent will become increasingly scarce.

UK companies performed well in the area of Lifelong Learning, but need to focus on Career Management and Knowledge Management to protect their most precious assets – their employees and the knowledge they possess. Focusing on Health Management and Age Diversity will ensure that employees are able to contribute for longer periods of time, and that all employees remain healthy, active, and engaged. UK firms currently lead Europe in preparation for the phenomenon of an ageing workforce, but all are still unprepared for the impact this will have on their organizations.

HR, and indeed all corporate decision makers, need to improve their awareness of demographic change and its impacts on the workforce – and can start with an analysis of the age structure of their workforce. A heightened awareness of how the changing demographic will impact a firm – and when the impact will be felt – will incent companies to start implementing the changes necessary to prevent a hard landing.

Age Diversity Management

Tools of Age Diversity Management: Share in %

