



The Shrinking Labour Pool: Organizational Strategies in the Battle for Top Talent

By

n-gen People Performance Inc.

Authors: Adwoa K. Buahene and Giselle Kovary

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Email: info@ngenperformance.com

Tel: 416-362-7564

www.ngenperformance.com

313 Richmond St. E, Suite 569
Toronto, ON M5A 4S7

n-gen is a performance consulting company that works with organizations to achieve greater organizational performance by improving processes and people management strategies. n-gen combines traditional performance consulting methods with a unique focus on generational performance in the workplace to address gaps in organizational and team performance.

Abstract:

The labour pool is shrinking in both Canada and the United States. In the next decade, it is estimated that there will be over one million employment vacancies in Canada and four to six million vacancies in the United States. As North America gradually adapts to this reality, organizations will find it increasingly difficult to attract and retain top talent. The battle for high performing employees in both the public and private sector will be fierce. Organizations will be forced to become best-in-class employers in order to gain the attention and commitment of desirable employees. The challenge is that different generations have different expectations. Traditionalist, Baby Boomer, Gen X and Gen Y cohorts attribute best-in-class status to employers differently, based on their generational values, motivations and workplace expectations. Successful organizations will need to create integrated people performance strategies that speak to all generations in order to attract, orient, retain, manage and succession plan the best and brightest from each generation. Additionally, because of impending mass retirement as the Baby Boomers leave the workforce, it will be essential that organizations devise knowledge management strategies to ensure that crucial knowledge and corporate memory is captured and transferred. This paper explores the data surrounding the impending labour scarcity and the consequences this shortage will have on the employee life cycle and human capital management.

Introduction

By 2010, there will be a North America-wide labour shortage. In the next 4-7 years, the negotiation position of strength will shift from the employer to the employee. As the rest of the Traditionalist generation (1922 – 1945) retire and the Baby Boomers (1946-1964) retire en masse, organizations will be scrambling to fill every positions from front-line staff to senior executive with competent, skilled, knowledgeable employees who can excel in a fast-paced, consumer-driven market place. It is a fact that there are not enough Generation Xers (1965-1980) to fill the labour gap left by Baby Boomers, since demographically there are over 1/3 less Gen Xers than Baby Boomers. Generation Y (1981 – 2000) is just beginning to enter the labour market with a lot of formal education but limited experience. These four generations, Traditionalist, Baby Boomer, Gen X and Gen Y are the employees that make up the workforce in all western countries.

Each organization must prepare itself to compete nationally and internationally for employees. If an organization does not have enough of the “right” employees, its competitive survival will be at risk. In order to attract and retain desirable employees, organizations will have to become best-in-class employers, appealing to the motivations, expectations and work approaches of all four generations. Developing an integrated people performance strategy will be the key to winning the battle for top talent.

This paper is divided into two sections. Section one focuses on the demographic data which supports the position that the labour market in both the United States and Canada will face a severe labour shortage that cannot be relieved through increased immigration or abolishing the mandatory retirement age. These facts are followed by a discussion of the consequences of a tight ‘employee-favourable’ labour market, concluding that organizations who wish to remain competitive will be required to invest in becoming a best-in-class employer.

Section two focuses on the stages of the employee life cycle for which organizations must develop and maintain strategies in order to become best-in-class, including attraction, orientation, retention, talent management and succession planning. Even though knowledge management is not part of the employee life cycle, a brief discussion of the importance of this topic is included since mass retirement, and the subsequent loss of knowledge and corporate memory, puts an organization’s productivity and operational efficiency at risk. Strategies which ensure the successful capture and transfer of knowledge are imperative to maintaining and improving organizational performance.

SECTION One: Demographic Analysis

The Four Generations: Canada and United States

Generations are either categorized by birth years or shared socio-historical experiences which bond members into generational cohorts. In the latter categorization, each generation shares common life-defining experiences which shape its viewpoints, expectations and motivations. For the purpose of this paper, a generation is defined as a hybrid of both the birth rates identified by demographers and the major socio-historical events that occurred during that time period.

The Baby Boomer generation is the largest demographic cohort that Canada and United States have ever experienced. In fact, relative to its population, Canada actually has the largest Baby Boomer population of any industrialized country in the world with 9.3 million Canadians in this generation.¹ During the 18 year period, between 1946 and 1964, birth rates grew to an unprecedented high of 25.3 births per 1000. A decline in birth rates occurred in 1965 which marked the beginning of the 'baby-bust' period where birth rates dropped to 14.6 births per 1000. This smaller population group is referred to as Generation X which is comprised of only 6.8 million. By the early 80's birth rates had begun to climb again as Baby Boomers become parents of Generation Y, which represents a cohort of 8.4 million.

Table 1: Cohort Sizes (in millions)

Cohort Name	Canada	United States
Traditionalists[®] (1922-1945)	3.5	75
Baby Boomers (1946-1964)	9.3	76
Generation X (1965-1980)	6.8	46
Generation Y (1981-2000)	8.4	76

Source: Statistics Canada and US Census Bureau

[®] 3.5 million who are of an age (59-65), where they are likely to participate in the labour force.

Labour Force Growth Rate Declines

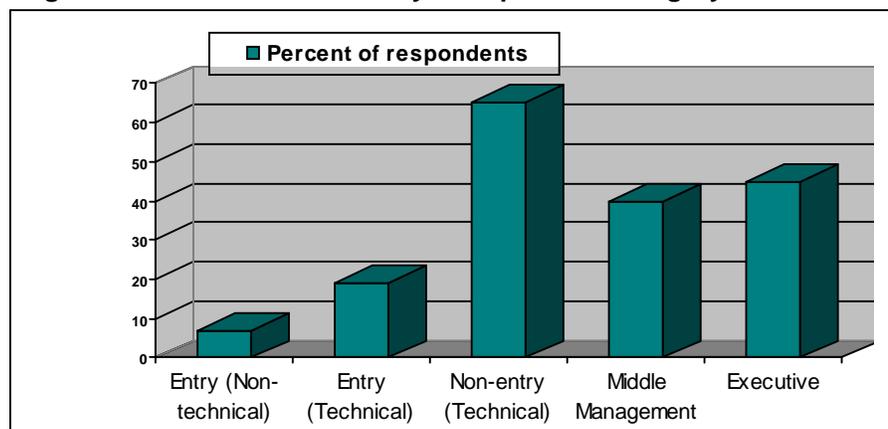
The labour force growth rate, which is defined as the number of people entering the labour force, will peak in 2007 and decline rapidly over the next decade.² The Conference Board of Canada states that the “steep decline in labour force growth is at the root of the labour supply crisis that will develop in Canada around 2010”. In Canada, approximately 11.8% of the population remains active in the labour force after retirement, although the overall participation rate by men decreases to 8.3% while women’s participation rates remained stable. In the United States, the US Bureau of Census states that “almost 90 percent of the next decade’s net increase in the working-age population will occur in the 55 to 64 years age category”.³ As the labour force is aging, North America and parts of Europe are faced with the challenge of not having enough younger employees entering the workforce to replace the gap created by retiring employees.

Industries, Functions and Occupations Affected by the Labour and Skill Shortage

Certain industries will be impacted by the labour shortage sooner than others. Additionally, in both the U.S. and Canada, the industrial sectors including construction and manufacturing will suffer from en masse retirement. For example, in Canada, the steel industry anticipates a loss of one-third of its workforce and 45 per cent of all steel-related trades’ people in the next five years.⁴ Also, the effect on the labour market will be far reaching with the shortage first occurring in the public sector where retirement age occurs earlier (on average at 58 years) than in the private sector (on average 62 years).⁵

In a Conference Board of Canada survey, overall, 10 percent of industries surveyed are experiencing widespread recruitment problems. 70 percent report problems recruiting particular occupations or skill sets and 60 percent have difficulty recruiting middle managers (See Figure 1).

Fig. 1: Recruitment Problems by Occupational Category



Source: Conference Board of Canada

In the U.S., among broad private industry functional categories, the hardest hit by the shrinking labour pool will be the executive, administrative and managerial occupations. Those 45 years and older make up 41 percent of this group, and 42 percent of those experienced workers are expected to leave by 2008.⁶ The Bureau of Labor Statistics indicates that in the public sector, education will be significantly impacted by mass retirement, including teachers, administrators and operational personnel. Reportedly, the U.S. school districts and universities will require 2.2 million more teachers over the next decade. Generally, in the public sector, 59 percent of public administrators are aged 45 and older, and 42 percent are projected to leave the labour market by 2008.⁷ Table 2 lists the top 10 occupations that will be the first affected by Baby Boomer retirement.

Table 2: Top 10 occupations affected by Baby Boomer retirement (by end of 2008)

⊗ Management analysts	⊗ Social workers
⊗ Industrial engineers	⊗ Lawyers
⊗ Financial managers	⊗ Registered nurses
⊗ Personnel and labor relations managers	⊗ Public administration, administrators and officials
⊗ Police supervisors and detectives	⊗ Postal clerks

Source: U.S. Bureau of Labor Statistics

Sizeable Consequences of the Scarcity of Labour and Skill

The combination of scarcity of labour with scarcity of skills will mean lost opportunities and reduced competitiveness for Canadian organizations. As the Conference Board states “without a secure pool of talented workers, many industries and trades are predicting a difficult future, and some companies are already unable to undertake major projects because of labour and skill shortages. Many firms are afraid that the price of skill shortages will be reduced competitiveness and ultimately their very existence may be threatened”.⁸ The Conference Board of Canada has conducted a comprehensive study which forecasts a labour shortage of almost 1 million workers by 2020. The study states that the “dimensions of the problem are enormous, and a growing difficulty in hiring or retaining existing employees will dramatically alter the structure of the Canadian labour markets.”⁹

A U.S. Bureau of Labor Statistics economist states that the implications could be enormous to the U.S. workforce. In those industries where technology cannot replace human effort, such as health services and education, “service could suffer and needs could go unmet”.¹⁰ Even in those industries where innovative technology could lessen the numbers of employees required, often the technology is complex and complicated requiring long periods of training both on and off the job before employers are “up to speed”. Regardless of the best efforts of labor-saving technology and immigration, a labor shortage of 4-6 million employees is estimated by 2010.¹¹

Table 4: Estimated Labour Shortage

Canada (by 2020)	United States (by 2010)
1 million vacant positions	4-6 million vacant positions

Source: Conference Board and Employment Policy Foundation

Immigration Not Sufficient to Compensate for Labour Scarcity

In the early 1990's, the focus on immigration had been on immigrants who applied as independents, so that these immigrants could supply Canada's short-term labour market needs.¹² Recently, proposals are being made to change the immigration policies to broaden definitions and the criteria, thereby allowing more immigrants to enter Canada. Such policies would remain in line with the 1993 Liberal Redbook which stated that immigration numbers should be one percent of total population.

However, while immigration will help western countries to fill some vacant positions, it is an option that has a number of limitations. First, Citizenship and Immigration Canada had trouble in the past of meeting the demand for skilled labour, in addition a rapid increase would tax the resources of this department (See Table 3). Secondly, Australia, the United Kingdom and the United States will be facing similar shortages, so the battle for skilled immigrants will be fierce. Thirdly, according to a study by the British North American Committee, immigration can not be the sole answer to filling the labour shortage. While immigration may make sense for individual employers, it is not a solution that can become a widespread practice, because the volume required by Western nations would have negative consequences on social policy and public institutions.¹³

Table 3: Immigration Statistics for Canada 1998-2002

	Population (in millions)	Immigrants[®]
1999	30,403,900	189,922
2000	30,689,000	227,346
2001	31,021,300	250,484
2002	31,629,700	229,091

Source: Canadian and Citizenship Canada and Statistics Canada

Baby Boomers Continue to Believe in Early Retirement

While studies conducted by the American Association of Retired Persons and Human Resource Development Canada (HRDC) indicate that many Baby Boomers want to continue working after the age of retirement, they do not want to work full-time or in the same position from which they retired. Currently, in Canada, the HRDC estimates that 46% of the Baby Boomer population is close to their retirement or pre-retirement years.¹⁴ Despite stock market fluctuations, early retirement continues to be increasingly more common. The rate of retirement before the age of 60 has increased from 14% to a high of 43%. In Canada, the average retirement age was 58.5 years in the public sector compared to 61.3 years in the private sector (HRDC, Challenges of an Aging Workforce). HRDC states that two-thirds of Canadians will continue to retire before the full CPP/QPP age of 65. In the U.S., the Bureau of Labor Statistics states that the average age of retirement is 62.2 years of age. This means that, like immigration, the answer to the coming labour scarcity will not be as simple as retaining Baby Boomers post the current retirement age.

[®] The numbers listed include all three classes of refugees. However, immigration lawyers as well as Citizenship and Immigration Canada agree that those from the refugee class should not be viewed as economic migrants (such as the independent class), thus the total number of immigrants to be viewed as contributing to the labor force participation rate for each year would be 10-12 percent less.

Secondary Consequence: Critical Knowledge Walks Out the Door

Sylvain Schetagne, on behalf of the Canadian Council of Social Development, is fairly optimistic that Canadian organizations will be able to manage and adjust to fewer workers. However, he is concerned with the loss of knowledge and skill because of mass retirement. He states “the mass retirement of the baby boomers in the coming years will bring with it the risk of losing the knowledge and skills they have acquired on the job over the years”.¹⁵ Most decisions to accept early retirement packages are made quickly with only weeks prior to departure. It is unlikely that the vast amount of knowledge that retiring employees possess can be transferred efficiently in such a short period of time. Organization’s operations and productivity will be at risk as retiring employees take with them corporate memory and subject matter expertise.

Section One: Conclusion

Section one of this paper demonstrates that:

- 1) there are fewer Gen X employees than Baby Boomers;
- 2) the labour force participation rate will steadily decline after 2007; and,
- 3) immigration and changes in mandatory requirement will not sufficiently compensate for labour and skill shortages.

Thus begins the battle for talent. Given this context, organizations will be forced to compete to attract and retain the best and brightest Gen Xers and Gen Ys. Secondly, organizations will also need to explore how to attract and engage older workers who wish to continue to work on a part-time basis post retirement. In the next section, this paper will discuss each stage of the employee lifecycle. In particular, we will highlight the consequences of the labour shortage on the stages of attraction, orientation, retention, talent management and succession planning and the strategies that need to be considered to win the battle for top talent. Additionally, since the loss of knowledge and corporate memory will have negative consequences on organizations, this topic is also briefly highlighted.

Section Two: Introduction

In order to win a battle, one must be better than one's opponent. This maxim holds true in the battle for talent, where your organization will be forced to be a best-in-class employer in order to win high performing employees. This section highlights the implications of the coming labour scarcity on the five areas of the employee lifecycle. Successful organizations will evaluate their attraction, orientation, retention, talent management, succession planning and knowledge management practices holistically in order to create integrated solutions. *The key is to develop one integrated people performance strategy that has multiple execution vehicles that speak to all four generations.*

Attraction

Organizations want to attract the best and the brightest employees to lead projects, to design new product or service offerings, to offer exceptional client service. When organizations hire top talent, innovation and productivity are boosted to new levels. Products get to the market better, faster, first. For public institutions, being able to attract top talent is necessary for the efficient operation of schools, universities and hospitals. Moreover, public institutions also innovate to improve citizens' quality of life and standard of living.

The shrinking labour pool has a number of consequences on attracting top talent:

1) increasing competition between organizations for the 'right' employee; 2) increasing tension between the public and private sectors, as each tries to convince high school students to select the post-secondary education that will lead to employment in its sector; 3) increasing need for organizations to understand your strengths and weaknesses from an HR standpoint, in order to create a work environment and career opportunities that will attract the top talent.

For experienced workers (Traditionalists, Baby Boomers), the key will be to find ways to attract the skill set your organization needs, while offering the relationship commitment the experienced desires, for example, part-time, job-sharing, flex-time. For younger workers, (Gen Xers and Gen Ys) attracting top talent means being able to paint a picture of a career in your organization that is clear and aligns closely with the career goals and expectations of this generation.

Orientation

Once an organization has been successful in attracting new employees, the next most important relationship building phase occurs during the first 12 weeks of orientation. It is during this phase that employees decide whether or not they have 'buyers regret'. Employees learn if their career opportunities have a likelihood of being met, and if the description of the organization's culture and their job function, provided during the recruitment process, was accurate.

The orientation phase is the period during which organizations not only begin product / corporate knowledge training, but it is also the period when cultural, social and psychological orientation occurs. Whether employees are oriented through formal programs or informal methods, it is in these first few critical weeks that an organization has the ability to 'seal the deal'. A proper employee orientation reduces early turn-over which saves costs and corporate energy. Well-planned orientation programs are particularly important in retaining younger employees (Gen Xers & Gen Ys) who view employment as a mutually beneficial contractual relationship. For experienced workers, (Traditionalists and Baby Boomers) orientation programs allow them to feel like they are adding value to organization through sharing knowledge and give them opportunity to learn new skills in a non-threatening way.

In general, it is difficult for an organization to gain the psychological commitment of its employees, necessary for a long-term relationship, if it is not won in the first 12 weeks.

The consequence of the shrinking labour pool, in addition to the unique employment perspective held by Generations X and Y, means that your organization will need to work particularly hard to ensure that the psychological commitment is won during the orientation phase in order to retain top talent.

Retention

An organization focus on its employees does not cease once it has recruited and orientated new hires. Organizations must have strong, clear strategies for retaining employees over the long term. A consequence of the shrinking labour pool will be that your organization will have to work harder to provide employees with valid reasons to stay with the organization. In the past, when the labour supply was larger than demand, external forces such as high unemployment rates, lower starting salaries and the uncertainty of being downsized encouraged employees to stay with their current employer. In the near future, competitors will create attractive packages, both monetary and non-monetary to entice employees away from one organization to another. A successful organization will ensure that its work environment is one in which employees want to stay and grow.

The non-monetary reasons for staying with an organization include the management and corporate culture. Many studies show that 'working with great people and having solid working relationships' is one of the key retention drivers. Therefore, the cost of keeping managers who are not capable of building strong relationships with their teams is often greater than the benefit their technical knowledge provides. Non-monetary incentives also include learning and development programs which appeal to an employees desire to improve marketable skills. This topic is further discussed as an element of Talent Management in the next section of this paper. It is the organization who possesses the right mix of monetary and non-monetary strategies that will be a best-in-class employer and will be able to retain high performers.

Talent Management and Succession Planning

As organizations plan for the types of skills and number of employees they require for future business performance, it is important that programs and services be established to support existing employees in fulfilling the mandate. Some employees may already possess the necessary knowledge and skills required to succeed and simply require coaching and support to accept greater accountability. Other employees will need to develop both technical and business skills to prepare them for the next level. For all generations, learning and development opportunities will become an increasingly important aspect of their relationship with their employer. For Traditionalists and Baby Boomers, learning and development opportunities will allow them to remain productive contributors throughout their careers. For Gen Xers and Gen Y's, an organization that provides opportunities to learn new marketable skills, while demonstrating clear career paths, will gain loyalty, motivation and commitment from their employees.

The benefits of developing a strong internal learning and development corporate culture are multiple. First, with less skilled workers available, organizations will not have the luxury of turning to the labour market to find necessary skills and expertise. Secondly, the cost of salaries will be exacerbated as the labour supply lessens, therefore requiring organizations to invest in their people first before looking outside the organization for talent. Thirdly, providing internal employees with the opportunity to develop new knowledge and skills will engender a greater sense of commitment and loyalty to the organization, resulting in increased retention and workplace performance.

Knowledge Management

One of the unmeasured costs of retirement and turn-over is the loss of knowledge, experience and corporate memory. These costs translate into decreased productivity and operational inefficiency. Organizations must develop processes and procedures for capturing knowledge to ensure intellectual capital is absorbed corporate wide. Strategies are required to ensure that the appropriate knowledge is transferred from experienced employees to new or younger workers long before retirement takes place.

Conclusion: Section Two

Organizational performance success hinges on the ability to attract and retain not only enough people, but also the right people. With a labour and skill shortage in the next 4-7 years, organizations must begin now to strategize and implement integrated people performance plans that speak to all four generations. While different tactics may appeal to different generations, the key will be to develop one integrated strategy that bonds employees into high-performing intergenerational teams. Organizations are already finding it difficult to attract the required skilled labor, as this scope broadens by function and skill, the competition for employees will become fierce. Only those organizations that have the foresight to strategize and implement plans to be best-in-class *now* will be ahead of the competition when the battle for talent is at its height.

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Endnotes

- ¹ Conference Board of Canada, *Performance and Potential*, 53.
- ² Conference Board of Canada, *Performance and Potential*, 55.
- ³ British North America Act Committee, *Aging Populations*, 7.
- ⁴ Conference Board of Canada, *Performance and Potential*, 58.
- ⁵ HRDC, *Challenges of an Aging Workforce*, PowerPoint Presentation.
- ⁶ Bureau of Labor Statistics, *Monthly Labor Review*, July 2000, 24.
- ⁷ Eisenberg, *The Coming Job Boom*, **Time**, May 6, 2002.
- ⁸ Conference Board of Canada, *Performance and Potential*, 59.
- ⁹ Conference Board of Canada, *Performance and Potential*, 51.
- ¹⁰ Bureau of Labor Statistics, *Monthly Labor Review*, July 2000, 17.
- ¹¹ Eisenberg, *The Coming Job Boom*, **Time**, May 6, 2002.
- ¹² Conference Board of Canada, *Performance and Potential*, 62.
- ¹³ British North America Committee, *Aging Population*, 15.
- ¹⁴ HRDC, *Challenges of an Aging Workforce*, PowerPoint Presentation.
- ¹⁵ Schetagne, *Building Bridges across Generations in the Workplace*, 17.

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