

2005 REPORT

Von Rohr & Associates S.A.
Career Life-Cycle Management®

Ethys cabinet conseil
InterimExecutives SA

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The demographic evolution: Challenge and opportunity for enterprises to leverage talent

Introduction

To explore the impact of an ageing population on business sustainability **Ethys SA**, **Interim Executives SA**, and **Von Rohr & Associates SA** are partnering in a study of this emerging issue for enterprises, senior employees and governments. The goal of this effort is to provide guidance to corporations and employees on how to address the major challenges this trend may present.

This study, conducted by Maderni & Associates Sàrl, is an update of a review of this topic sponsored by Von Rohr & Associates in 1998, capturing the evolution since. It presents the key issues from the perspective of a representative sampling of Swiss business, and reflects the thinking of employees with whom the three sponsoring companies have worked.

Summary of results

The populations of many Western countries are projected to see a proportional reduction in the 20-40 year-old age group which typically constitutes the active workforce. In parallel, the population of 60 years plus, is rapidly growing.

The length of the active work life is shortening due to trends favoring a longer period of education and early retirement. While the work-life traditionally ran from age 16 to 65 years, yielding 49 years, the reality today is that an individual career may be as short as 35 years. Governments are now considering legislative measures to discourage pre-retirement.

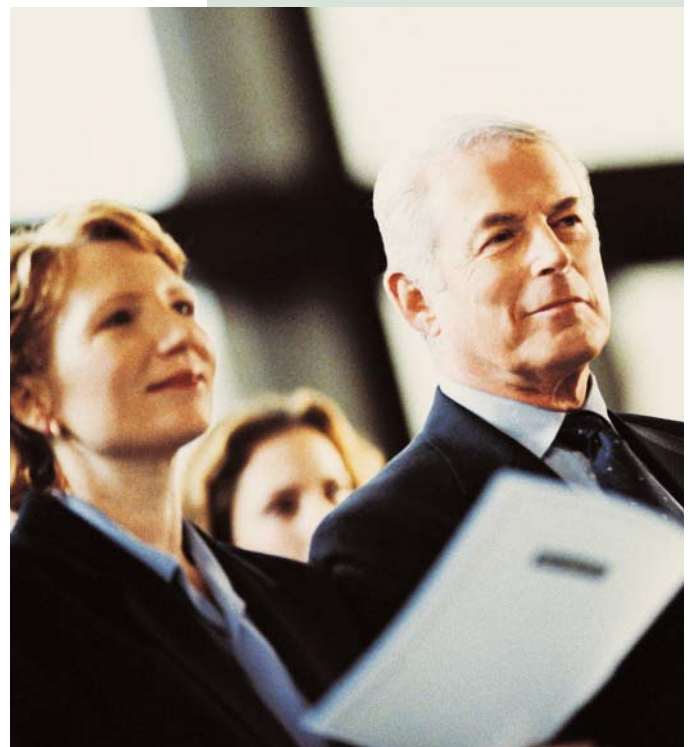
The joint effect of these two trends has led to a skills shortage as the renewal of skills based on generational turnover is becoming more problematic. Twenty-five percent of the employers responding to our survey admit they had difficulties finding the right skills in the preferred age range.

Life expectancies are increasing. The life expectancy for the cohort born in 1970 is 80 years. Improvements in public health, generally, mean that older employees are, typically, more physically able to work at advanced ages than before.

Given these long-term trends, the challenge is for companies to break the age-barrier prejudices to leverage the skills and experience of older employees, to permit skill renewal, building business sustainability. Employers must overcome misconceptions about the capacities and performance of older employees. Among those, 52.7% felt that the age-barrier is based on unfounded perceptions.

Possible strategies to retain older employees include: offering flexible work contracts, targeted training and coaching to match the learning abilities of the older workforce, using senior employees to transfer skills and knowledge to others and offer career and retirement counseling.

“From baby-boomer to back-boomer: the key to business sustainability.”



Demographics and active life trends

The demographic shift

A recent Swiss Federal Office of Statistics study on the ageing of the Swiss population shows that older employees comprise a growing proportion of the labor force. The proportion of employees older than 60 grew from 16% to 20% between 1970 and 2000. By 2003 this proportion stood at 23%.

In the 21st century this trend will accelerate, with much of the demographic growth occurring in the 64 and above age group, while the 20-40 group continues to shrink. This demographic shift is observed in all industrial countries, of which Switzerland is just an example.

A skills shortage is on the way

In their unrelenting efforts to cut costs, mainly by downsizing, many businesses have overlooked the demographic shift that will lead to a shortage of skills in a relatively short time. In the UK this shortage will appear within the next five years.

In all industrial nations the pool of potential employees in the 20-40 years age range is inexorably shrinking while the over 50 population is growing.

The crucial aspect of this demographic shift is that this latter group drove the companies during the boom years, embodying the skills, experience, and soul of many of them. These are the indispensable aspects of business sustainability.

The unsustainable shortening of working life

While the socio-economic impact of an ageing population has been extensively analyzed in the industrialized countries, little attention is given to its impact on employment.

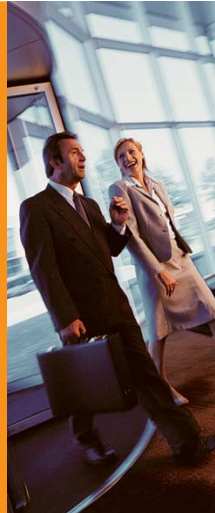
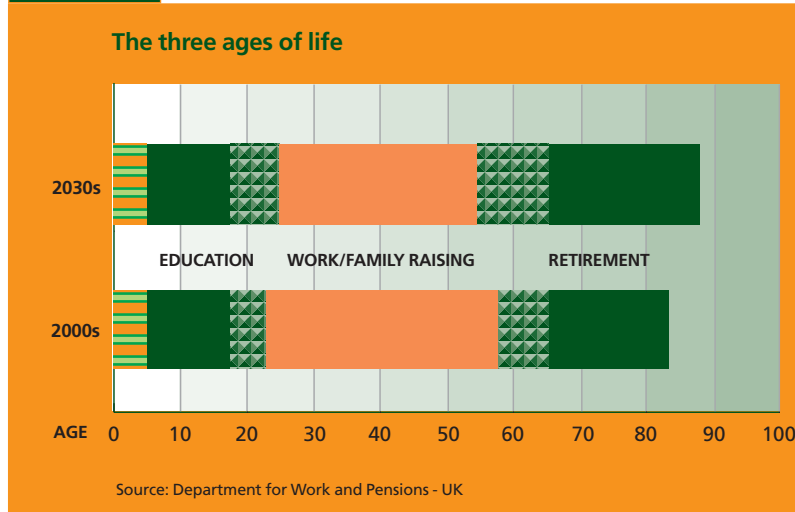
Figure 1 illustrates the changes in the duration of the three "ages" of life: Education, Work and Family Raising and Retirement. The solid green shaded areas represent the official age transition from one to the next while areas with green square patterns represent the optional ages of transition. Here, for example, while the official retirement age in many industrial nations is 65, in practice a substantial proportion of the working population retires at 58.

During the late 1980s and the 1990s, several governments favored pre-retirement in a (failed) attempt to reduce unemployment. This led to many companies leveraging this practice to hire younger employees to reduce costs.

By the 2000s, the overall trend has been for the duration of the first and third ages to increase, and for the second age to contract. Several factors contributed to this trend. The rise of the information society and the declining relevance of unskilled labor has encouraged young people to extend their higher education, occupying them until 22-25 years of age or later. Concurrently, with early retirement being encouraged, the average active work life has been reduced by five years or more.

The steady increase in life expectancy has, meanwhile, extended the third age. It is expected that the population born in the 1970s will live 80 years or more.

FIGURE 1



“Living longer means working longer.”

(Source: OECD)

These factors taken together have caused the second age to shrink from about 50 years in the 1930s to 35 years nowadays. This short active professional life almost as long as the retirement puts a considerable strain on the viability of the pension systems of many countries, with some courting almost certain financial crisis.

Looking to the future, many observers expect the period of education and training to continue to increase (with retraining and life-long learning growing in importance). With that, and the considerable uncertainty about the relative duration of the second and third ages, governments are being urged by the OECD to pursue efforts to better balance the age composition of their labor forces.

Improvements in general health mean that older employees are, in general, more physically capable to work at advanced ages than previously. Thus, current and future generations of older employees are (and will be) physically and psychologically better placed to be economically active for longer periods of their lives than previous generations. With age, some mental abilities such as speed of assimilating new concepts and short term memory tend to decline, while abstract thinking, thoroughness and rational thinking tend to increase.

While for older employees themselves, there will be few physical or mental limitations to working longer, companies need to create favorable working conditions and continuous training to keep their skills up-to-date.

Indeed, there are both pluses and minuses to an older workforce.

Older employees are likely to have higher levels of experience and hence be more productive and generally higher paid. This implies that growth in productivity per employee is likely to be boosted by the higher age mix of the workforce.

Confronted with this demographic reality, enterprises will have to abandon stereotypes about older employees, relying more on mid- and late-career employees to meet skill demands. The reality is that these trends present opportunity as well as problems to be solved. The demands of the emerging information-based economies of the West suggest an important rise in demand for highly qualified employees while we see a parallel contraction in the demand for low-skilled labor. The pressures for businesses today to innovate, require a continuous renewal of skills while, from a demographic view point, renewal based on generational turnover is no longer possible.

Facts and myths on the age barrier

The slow evolution of the age barrier

The point at which age constitutes an issue in recruitment, promotion and employment cannot be defined rigorously as it varies across industry sectors, organizations and job-types. For this study we have asked companies and candidates for their perceptions on when age becomes a barrier.

“Experience, maturity of judgment, specific competencies are more important than age.”

The table below shows the results obtained in 1998 and 2005. The candidates' perception is that this age "limit" has increased by 1 year, suggesting some loosening of perceived age-based discrimination. By contrast, company responses indicate a toughening of attitudes, with the barrier emerging 1.6 years earlier over the same period.

	2005	1998
Candidate	47,2	46,2
Corporate	47,9	49,6

However, unprompted comments, from both candidates and companies, suggest agreement that for positions requiring: experience, maturity of judgment, specific competencies and senior management capabilities, the age barrier is higher, i.e. around 50-55 years. It is also interesting to note that in the 2005 corporate survey, the highest age of 60 is quoted in a couple of responses, while the maximum age in the 1998 edition was 55 years.

Despite these stated attitudes, discrimination remains a significant problem. Some 64% of candidates report that they were either excluded from job interviews or job offers because of age, while 36% said that age has not been a problem.

Nevertheless, there are some positive trends. Respondents aged 50 years or older estimate that the chances of being accepted for job interviews have doubled during the last

7 years. The same respondents reported that the chance of promotion has increased by about 7%, though age remains a perceived obstacle to promotion for 26% of respondents in this age group. By contrast, only 12% consider age an obstacle to job change.

If we look at the perception of age as a problem over time, during the last seven years the views, of both companies and candidates, have not significantly changed.



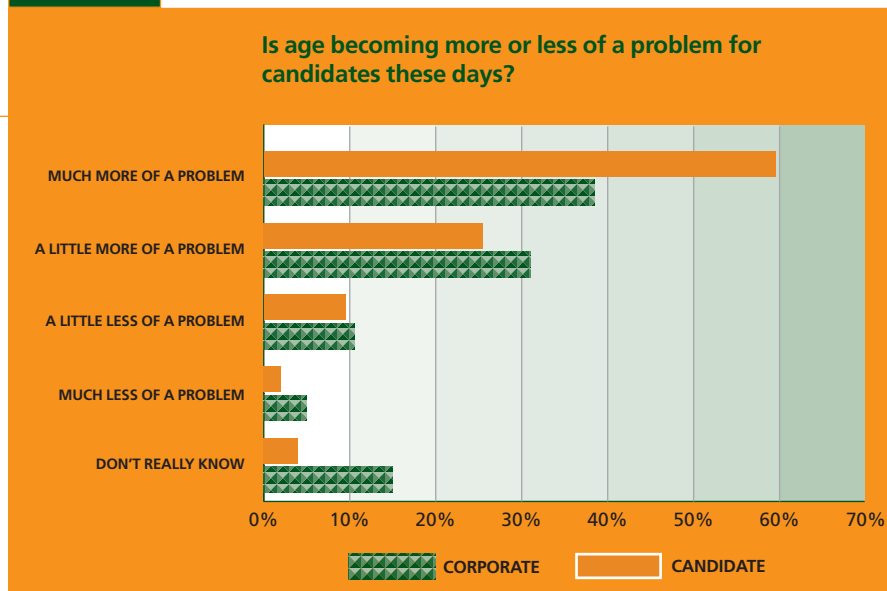
However this perception differs substantially between companies and candidates, as shown in Figure 2. The candidates' perception that age is becoming more of a problem is much stronger than that of companies.

The age barrier: myth or reality?

The question whether the perception of an age barrier results from direct observation, experience, or is in essence a self-fulfilling prophecy, received significantly different responses in the 1998 and 2005 surveys.

In 1998, 65% of the respondents said that their perception of an age barrier was something for which they had no direct evidence. In 2005 this figure fell to 52.7%. However, some respondents commented that the age after which professional performance declines varies enormously among individuals, and that any decision based on a generalization in a specific case would likely be flawed. For instance there may be good reasons for considering an early retirement of fighter pilots that are not valid for commercial pilots.

FIGURE 2



Age discrimination applies equally to men and women according to 58% of the respondents. 25% believe that women suffer greater discrimination than men, perhaps reflecting a cultural bias toward a differing aging standard for men and women. This belief may be attributed to the different pathways into work of middle-aged men and women: many of the latter return to work after raising children with possibly out-dated skills and less experience than men of the same age.

Age and job related policies

Fewer but better age-related policies

Comparing the results of the 2005 survey with that of 1998, we note significant differences in company recruitment and promotion policies. In 2005, a smaller proportion of companies (22.9%) have age-related recruitment policies compared with 1998 (33.7%), while promotion policies are consistent at about 10%.

A careful reading of volunteered comments describing the nature of these policies reveals some substantial differences in the types of policies. In 1998 most of the policies addressed specific age ranges and gender particularly for middle-management positions with a preferred age of 40 years.

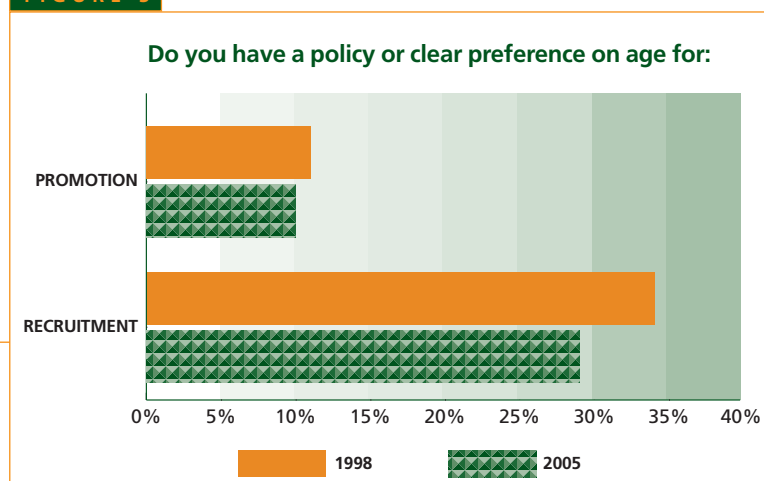
In 2005 the policies are more focused on the strategic intent of the company and less on age. Statements like "rejuvenate the organization" and "ability to generate value", "skills and experience requirements" are more frequent and policies are more targeted to senior management.

It may well be that this shift in focus is driven by the need

to comply with new legislation prohibiting age discrimination. Whatever the reason, these more open policies clearly favor older employees as candidates for recruitment or promotion.

The job profiles addressed by these policies are those where maturity, experience, human relationship and other soft skills are the key elements. Complex skills such as those required for management and turn-around situations, calling for leadership and social competencies, and which can be a function of experience, are also addressed by these policies.

FIGURE 3



Strengths and limitations of senior candidates

Leveraging and bridging the skills of senior candidates

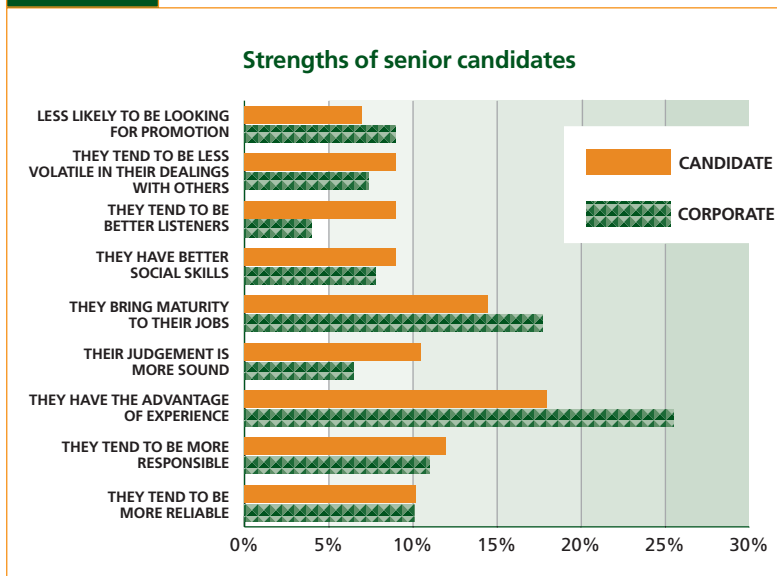
Figures 4 and 5 below highlight the perception of companies and employees with regard to the advantages and disadvantages of older employees.

Experience, maturity and responsibility are the top three advantages of older candidates. It is interesting to note that companies give higher ranking than the candidates themselves on the first two items. This is also the case for the question “less likely to be looking for promotion”. On the contrary, companies tend to dis-

Older candidates are seen as good trainers and coaches to their younger colleagues, as they have no need to prove themselves and are eager to transfer their knowledge, ideally in mixed-age teams. As the career prospects diminish with age, older candidates’ motivations are more directed toward achieving results.

In problem solving, older candidates take a longer-term perspective with a broader vision of the problem that leads to more strategy-oriented solutions.

FIGURE 4



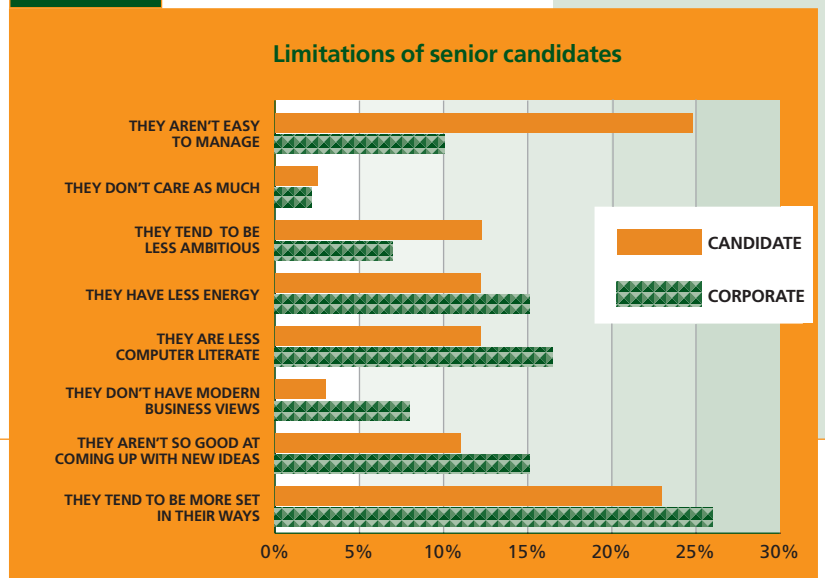
agree with the candidates on the statements that older candidates are better listeners and have a sounder judgment.

Some useful insights can be gained from the volunteered comments. These focus primarily on four main advantages: interpersonal skills, knowledge, experience and commitment to the organization. Some respondents also pointed out that the combination of these four traits raises the productivity not only of the employee but also of the entire team.

On the limitations (Figure 5) of senior candidates, the opinions of companies and candidates differ substantially on almost all points. Only on two points: “aren’t easy to manage” and “they tend to be less ambitious” the candidates’ ranking is higher than companies’, meaning that candidates have a more pessimistic view of themselves.

It is worth noting that the two major disadvantages, “they aren’t easy to manage”, and “they tend to be more set in their ways” revealed here are behavioral traits that can be addressed with focused awareness training.

FIGURE 5



The other behavioral traits above the 10% threshold are professionally of secondary importance and can be seen as acceptable on balance as more junior team members may benefit from the experience, maturity and strategic thinking older candidates can bring to the team.

Computer illiteracy, as an employment concern, is rapidly disappearing thanks to the prevalence of home computers and ergonomic improvements in the user interfaces for enterprise software applications. This trend is noticeable. In the 1998 study, this was a concern of some 26% of the respondents; today this figure stands at 15%.

In a more general way, these results are consistent with the prevailing stereotypes of the strengths and limitations of older employees that are too often based on imprecise lay assessments and rarely on systematic evidence. Learning ability is a good case in point, as it affects the effectiveness of training. While this ability can be seen as likely to diminish generally with age, more detailed studies indicate this is not true in people with higher education.

Clearly, individuals are unique, and the variance among them is

immense. Each case should be appraised separately to identify the strengths and weaknesses in order to define the training curriculum, the type of responsibilities that best fit the candidate and the organization while optimizing the mix of skills.

Jobs in which effectiveness increases or diminishes with age

Employers believe that specific older employees may be in better positions for jobs requiring: experience, maturity and rationality (55%), relational and people oriented skills (20%) and top management decisions (14%). In summary, these job characteristics are suited to older employees probably because they utilize their life and work experiences and maturity. The widespread belief that repetitive routine jobs like administration are suitable for older employees was not confirmed in this study, as only 5% of respondents supported it.

Technology skills appear to be the major hurdle to effectiveness as age advances (34%). To a lesser degree, dynamism, and abilities required by functional specialists and managers, were believed by 18% of the respondents to diminish with age.

“The starting presumption should be that older workers are an asset, not a liability.”

Hiring and retention practices, trends and preferences

Reasons for age preference in recruitment

This section of the survey sought to investigate the reasons why companies may prefer younger or older employees in recruitment.

The results show a clear preference for recruiting younger candidates for the balanced development of the organization. The preference for the younger recruit was based on the belief they ensure a good fit with other employees and the culture of the company (86%) and enable a clear career path within the company (92%).

Other traits usually associated with younger employees are also quoted such as “candidates who are flexible in their thinking” (92%) and “looking for up-to-date- knowledge” (63%).

These reasons for preferring younger candidates are the same as those quoted in the 1998 survey but at that time the results were, on average, 10% lower than this year. This indicates that the perceived difference between younger and older on these specific traits has increased over time.

The need for reliable candidates is the first reason for hiring older candidates and finding the right skills is the second. The latter, even if it is less important than in 1998 it is still at the 60% level.

With respect to 1998, 20% more companies seem to consider older candidates in their search for up-to-date knowledge, this is consistent with the increasing computer literacy among older candidates as discussed in the previous section.

“Younger for standard skills - Older for rare skills.”

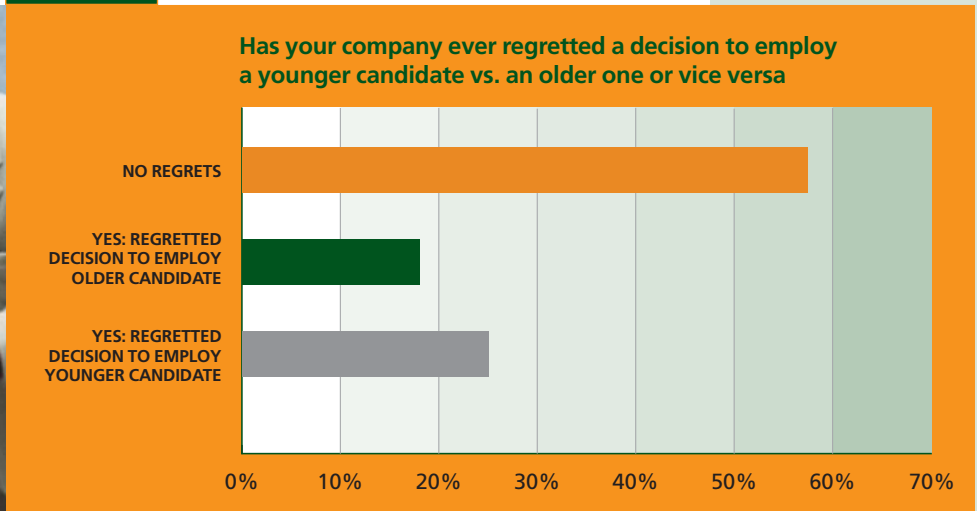
Younger or older? This is the question

Figure 6 below gives some insights into the risks involved in selecting between a younger and an older candidate when both alternatives are possible. A bit less than 60% have no regrets concerning their choice whatever it was. 25% regret having hired the younger, and 17% regret hiring the older candidate. Not shown explicitly in the graph is that about 10% of respondents regretted both choices.

“Decisions you may regret ... sometimes.”

This result confirms that age is not “per se” a reason for the final hiring decision. A sound selection process should be based on the real job requirements and conduct an in depth appraisal of the skills, experience, motivations and personality of the candidates. Recruiters need to ensure that age isn’t used as an, unreliable, indicator of potential performance.

FIGURE 6



Hiring practices with regard to the demographic trends

Companies were requested to provide the age distribution of staff hired in 2004. As expected, the bulk (67%) of the new hires fell in the 20-30 years age bracket.

These hiring practices go against the changing demography of the workforce, which is starting to impact organizations. In fact, the vast majority of the companies are aware of the growing shortage of the active population in the 20-40 age bracket. This trend is now evident as 25% of companies already struggle to find competencies in the preferred age range.

The changing age-structure of the workforce makes it imperative that employers review their recruitment, retention and retirement practices and adopt more rational and purposeful age-management policies.

Along these lines, the legislation on age-discrimination passed by the British Parliament, effective October 2006, has alerted employers to the need to have an age-positive approach to optimize their workforce.



Moving into action

Actions to retain senior employees

To acquire or retain scarce skills and capabilities usually found in older employees, organizations should adopt working practices that fit the personal working and life-style aspirations of candidates, and an environment facilitating continuous learning and career counseling.

Flexible work contracts are proposed by 37% of the companies participating in this study. These contracts are an easy way to increase flexibility at three levels: functional flexibility in the core business, numeric flexibility to balance manpower to workload, flexibility of competencies by fixed-term contracts or outsourcing.

The prevailing fixed-term engagements are for consulting projects (33%) with an emerging minority (5%) for interim management.

Companies should also consider retaining older employees to ensure the transfer of skills and knowledge by coaching and supporting younger employees. This provides a useful learning environment in which both older and younger employees can leverage on their respective strengths and mutually compensate for their limitations.

Training is essential for both younger and older employees to keep pace with the rapid transformation of the business environment. However older employees have different ways to assimilate new notions. For this, training should take into account the different approaches to learning and adapt the training to preferred learning methods. The new training technologies based on Internet because of their ubiquity and round the clock availability can be of great help.

In recruitment, selection should be based on competency and skills required for the role rather than on education, qualifications and age. For internal job changes, the requirements of the job, physical working conditions and working hours should be considered. Flexibility in working hours may be needed if older employees have caring family responsibilities.

“Flexible working and training are key to retaining older workers’ experience.”

A recent survey conducted in the UK by the Chartered Institute of Personnel and Development (CIPD) indicates that 68% of employees anticipate working part-time toward the end of their careers and 24% say that this would be the most important factor in their decision concerning when to retire.

Retirement should be planned to meet older employees’ needs. Some older employees may wish a phased or gradual retirement through the reduction in their working hours while others may wish to work beyond retirement age. Given that, late retirement schemes should be put in place to permit this flexibility.

In most cases the transition from employment to retirement is abrupt. Few companies offer part-time jobs to older employees to ease this transition or provide counseling for creating their own businesses.

In the UK the CIPD recommends some best practices including dedicated HR resources to handle age diversity issues. Their charter may include analysis of corporate workforce demographics and skills, job modification and training of older employees to

maintain productivity, and methods to capture their knowledge for sharing with succeeding generations.

Recommendations to senior employees

The volunteered comments from the responding enterprises give some suggestions on how older employees might overcome the age barrier.

- Flexibility, pro-activity, motivation, curiosity, self confidence and sense of initiative are the paramount personal attitudes.
- Senior candidates need to be transparent as to why they are on the market at a late age and explain sincerely why the former employer let him/her go.
- Have special competencies that are not widely available, target jobs that require the experience that comes with age.
- Highlight personal experience, competencies and skills and demonstrate how you can adapt these strengths to the new job but refrain from old “war stories”.
- As salary can be an issue, older employees must review their financial situations and accept an initial lower salary, leaving open the option of negotiating substantial increases after showing results.