

End of the Boom: Retiring Baby Boomers and the Consequences for Your Business

Business owners and human resource managers are facing an impending mass exodus of senior workers, the likes of which has never before been seen. As we move forward further into the first decades of the 21st century, we will soon have to deal with the reality of the Baby Boomers retiring. The iconic generation (those born between 1946 and 1964) is estimated by the Bureau of Labor Statistics to number approximately 82 million as of the 2000 Census. Further the BLS estimates that by 2010, 24 million workers will need to be replaced due to death or retirement. Some organizations could lose up to 50% of their executives in the next two to three years. As this generation leaves the workplace, the consequences of their exit and the steps necessary to ensure a smooth transition should be carefully examined.

Impending Mass Retirement

By 2010, the Baby Boomers will be 48-66 years old; in other words, they are ripe for leaving the cubicles and corner offices for the golf course or the beach. This will place an obvious strain on both governmental entitlement programs and company benefit and pension plans, but also of pressing concern will be those suddenly empty chairs in offices across the nation. While the overall labor force is projected to grow 12% over the next four years, the number of workers over the age of 55 is expected to grow nearly 50%. The smaller size of Generation X (25 – 38-year-olds) coupled with their high turnover rate and the transient nature of the work force of late, means that there is both a shrinking pool of replacements and increased competition for those employees. The demographic realities seem to suggest a possible labor shortage in the coming decades.

There are those who argue that the Baby Boomers will stick around longer than their parents and prior generations. Longer life expectancy makes it likely that many Boomers will retain positions past typical retirement age. The possibility of new legislation raising the age for Social Security benefits, higher costs of living, and recent losses in pension, 401(k), and IRA accounts tied to the stock market could contribute to older employees delaying their retirement. Fortunately it is doubtful that all of the Baby Boomers will retire en masse tomorrow, but planning for that eventuality needs to begin today.

How Can HR Respond?

It will fall to HR to prepare and eventually handle the fallout from these retirements. Often companies do not have an adequate idea of what their future manpower and skill needs are going to be. A survey of 150 HR managers by the Conference Board revealed that 66% do not have an age profile of their workforce and 63% do not have an inventory of available skills. HR and top management need to get together and plan the organization's future human resource and skill needs for the next five years, especially taking into consideration potential changes to the marketplace and the demographics of their current workforce. A careful examination of who could be retiring in the coming years or who might be likely to move on can aid in this.

As currently there is a dearth of qualified individuals to fill many soon-to-be vacant positions, HR managers can help their organizations devise incentive plans to convince top employees to put

off retirement until younger employees can get the needed experience to replace them. Some creativity will need to be employed to do so, with ideas such as shortened work years or continued health-care coverage being mentioned as possibilities. Finally, before combined hundreds or even thousands of years of work experience pack up and leave, there must be a concentrated focus on capturing and transferring the critical knowledge of retirees.

Knowledge Management

While companies have been devoting a significant amount of time to succession planning for top management, that has come at the cost of ignoring the importance of transferring essential know-how and skills to younger workers. Knowledge management has become a crucial new task for HR. In most leadership transitions, one of the greatest difficulties is the loss of critical, often unspoken knowledge. Then the company incurs both direct and indirect costs in “reinventing the wheel.” There is a risk of losing customers when they realize that new managers might not have the necessary skills to run the organization at its previous levels. Mistakes resulting from uninformed new leaders can lead to crippling expenses.

The process of going about this transfer of knowledge is far easier said than done. Many traditional training programs fail to capture information, which many senior employees have, perhaps without even realizing its importance. While technology can support the process of diffusing knowledge throughout an organization, technology alone is insufficient. The best method is through frequent interaction; employees learn the most through live work situations. By mixing more experienced and learned employees with up-and-coming workers through mentorship programs or work groups of diverse ages and experiences, an organization can facilitate this process.

Additionally, an organization should encourage internal documentation of tasks by all levels of employees. Not only does this promote the transfer of skills and lay out how the day-to-day work of the company is done, it can provide guidance for future improvement of processes and procedures. This is a good practice to get employees into and the benefits of such action can be reaped well into the future. Top management should endeavor to create an atmosphere that discourages the centralization of knowledge in the hands of a few and support an environment where sharing knowledge is the norm. This can break down divisions between departments of a company and enable greater cooperation.

Attempting to cram this entire process into the final months before key employees retire is a futile effort and if possible should be avoided. Ideally knowledge management should be an ongoing practice within a business. Also, it should be paired as much as possible with succession management.

Succession Management: A Smooth Transition

Key studies, such as the research done by Jim Collins and Jerry Porras for their book, *Built to Last: Successful Habits of Visionary Companies*, identify succession management as a central element of business success. With the retirement of many Boomer executives on the horizon, such planning is more important now than ever before. Given the time, resources, and high level of failure when bringing in outsiders, top management and HR need to work together to identify, develop and assess potential leaders within a company. This effort will ensure that when the corner offices become vacant and many business founders turn their organizations over to the next generation, the transition will be as painless as possible. Coupled with the aforementioned knowledge management, this will help companies to not miss a beat and move forward with continued success.

The most common mistakes in succession planning are waiting until it's too late and failing to be forward-looking. Admittedly this will take up valuable time and in an already hectic business environment, such time can be hard to find. But succession planning is vital to an organization's continued success, particularly given the current demographic situation. If succession planning looks for individuals who fit the company *now*, then it will be of much less use. Organizations should look ahead five to ten years into the future and consider where the company wants to be at that point in time. From there, a list of the skills and characteristics needed to guide and lead *that* company can be created and successors picked who can meet the future challenges of the company.

Small and mid-sized businesses need to be just as aware of the effects of the coming retirement of the Baby Boomers as large corporations. As nearly 30% of the adult population in the U.S. population is preparing to leave the workforce, we are hearing of possible economic slowdowns and significant changes. Much of this is simply sensationalism, but the impact of the Baby Boomer retirements on all businesses should not be ignored. Provided that companies analyze the demographic conditions within their organization, plan for future needs, and devote the necessary resources to knowledge management and succession planning, they will be able to weather these retirements comfortably.

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