

THE GROWING SHORTAGE

How Demographics Will Inform Strategy

A multitude of factors impact every organization's strategic decisions and managers are constantly challenged to find the right equilibrium to this dynamic. There is one key driver, however, that will dominate organizational strategy for the next generation.

More than capital, resources, energy, competition, trade, pandemics, or terrorism, the **labour force** will become the pre-eminent strategic consideration. The way in which industries, sectors and organizations understand and respond to the projected *demographic shrinkage* will determine their ultimate success or failure.

Birth, Employment, Retirement

Since the 1960s, the developed world has experienced a significant decline in both:

- ◆ the **“fertility rate”** (percent of women having children) and
- ◆ the **“birth rate”** (number of children per woman).

When coupled with the aging and impending retirement of the Baby Boom generation, these factors are changing labour markets worldwide. (Boom, Bust and Echo)

In understanding labour force projections, there are two critical elements – “*New Entrants*” and “*Exiters*”. “*New Entrants*” to the labour force are youth leaving school and new immigrants. “*Exiters*” is comprised of retirements, emigration and death.

Current demographic projections indicate that in 2013 these two lines will intersect, meaning that there will be more “*Exiters*” than “*New Entrants*”. (Conference Board of Canada) As this pattern continues, the labour force will shrink, because there will be a shortfall of new workers to replace those who are retiring and dieing. This won't be a sudden, cataclysmic event. Rather, it is a gradual process that will be uneven, both geographically and by sector.

If all other factors remain constant, this continuous *shrinking* of the labour force will result in reduced output, a deteriorating economy and a steady erosion of our standard of living, because the ability to produce goods and provide services will be constrained by the dearth of workers.



A Preview

Alberta and British Columbia, where their booming economies already are experiencing labour shortages across many industries and sectors, provide an insight into how this situation might look.

For example, some hotels in Calgary are posting “*No Vacancy*” signs, because they can’t hire enough staff to clean the rooms! Some businesses even have been forced to close down. The construction industry, hobbled by a lack of skilled tradespersons, can’t build homes, hospitals and schools fast enough to accommodate its burgeoning population. The development of the infrastructure is lagging demand. (Globe and Mail)

As the competition for labour becomes evermore acute, what are the various responses? Furthermore, are these responses of a tactical or strategic nature?

Compensation

One obvious alternative is to offer higher pay. In Alberta, a fast food chain has found it necessary to increase pay over time from \$7 to \$17 per hour in order to compete for labour. This short-term, tactical action may provide some limited relief, but it’s not a long-term, strategic solution.

Ultimately, competing for labour on the basis of pay just creates a new “*pay floor*”, resulting in an unsustainable upward structural cost spiral. The cumulative effect can be seen most recently, where major expansion plans for oil production have been deferred, because spiralling wage costs have rendered them uneconomic.

Recruitment, Retention

A number of sectors in Alberta have initiated recruitment efforts that extend across Canada and, in some instances, globally. An example is in construction of the energy infrastructure, its production and related support services, where companies are offering significant compensation enhancements (increased pay, rental relief, paid airfare) to encourage immigration that satisfies their skills requirements. Once recruited, their further challenge will be to retain those employees, which requires a culture that cements employee-loyalty. Otherwise, these firms will experience costly turn-over.

In British Columbia, the construction sector has initiated a two-day *construction camp* for young girls in order to interest them in the industry. This is a profound departure for this male-dominated sector.

Ironically, after years of government-mandated initiatives, employment equity finally will be achieved through the dynamics and needs of market forces! Strategically, organizations will need to broaden their recruitment universe to capture potential candidates from groups that they might not have engaged previously, such as aboriginals, women and minorities. Developing supportive and welcoming work environments also will require particular attention.



Reorganizing Work

In order to attract and accommodate a workforce that will be expressing emergent needs, progressive organizations will reorganize the nature of work and the manner in which it is arranged to make it more interesting and desirable.

For example, introducing flexible hours or project-based activities may help retain older employees who otherwise might retire. Younger workers, on the other hand, will gravitate to organizations that provide heightened personal fulfillment and developmental opportunities. This, in turn, will necessitate upgrading the underlying nature and organization of work so that it fulfills these aspirations.

Employer of Choice

In a labour market characterized by chronic labour shortages, workers will recognize increased power in the relationship with their employers. How organizations respond will be telling and, to a large degree, will determine their success.

Some organizations will not be interested in adjusting their operation. They likely will employ workers with lesser skills and will continue to compete on pay, with the inherent churning of their labour force. Invariably, this will become part of their cost structure.

Other organizations will listen very closely to what their employees want and will invent creative responses to satisfy those needs. These will include:

- ◆ ***Professional and personal development***
- ◆ ***Job rotation and enrichment***
- ◆ ***Training and developmental opportunities***
- ◆ ***Engagement in solving problems and making decisions***
- ◆ ***Enhanced responsibilities***
- ◆ ***Profit sharing***
- ◆ ***Work / Life balance***
- ◆ ***Values-based enterprises that embrace “Sustainability”***

Because younger workers will seek more than just remuneration in their work, the dual themes of *Social Responsibility* and *Sustainability* will become significant priorities for them. These “*New Entrants*” will pursue organizations that embrace such values and embed them at their core.

A growing number of discerning organizations are recognizing that *Social Responsibility* and *Sustainability* create fundamental value and differentiation. These serve as significant drivers for organizational innovation and excellence, as well as becoming essential strategies for employee recruitment and retention.



Changing The Equilibrium

It was stated earlier that, if all factors other than the *shrinking labour force* remain static, a profound erosion of our standard of living will occur. In fact, many factors will undergo adjustments in response to these dynamics, thus mitigating the situation

It already can be seen that work is being modified to delay retirements, thereby adding to the overall labour pool. In addition, recruitment is being extended to a larger potential universe. As competition for labour increases, *values-based* enterprises that incorporate innovative work arrangements and heightened employee engagement will experience more success in attracting and retaining skilled employees.

But, of necessity, the biggest adjustment will be a giant leap in productivity. This will be like going from *Murray Westgate* to self-serve gas stations or from bank tellers to ATMs and on-line banking. Because labour will cost more in this changed marketplace, organizations will find it cost-effective to invest in new technologies and efficiencies.

An example of this is the Canadian primary steel industry, where 55% of the workforce is over 45 years of age. By introducing new technologies, the sector anticipates needing to replace only 50% of these imminent retirees. Even at that, however, an estimated 2,300 new operations and trades workers will be required over the next five years – three times the recent rate of recruitment! (Canadian Steel Trade and Employment Congress)

The adoption of new technologies, streamlined processes and value-added breakthroughs will help maintain and even enhance our standard of living.

Managing Strategically

Demographics will influence the re-shaping of organizational strategy, including:

- ◆ ***Reorganized work arrangements***
- ◆ ***Employee engagement and management responsiveness***
- ◆ ***Recruitment, selection, retention, and post-retirement strategies***
- ◆ ***Values-based organizations that embed “Sustainability”***
- ◆ ***Productivity improvement***

Astute organizations are embracing the changing economy by ensuring their culture is ready for these unique challenges. Perhaps you already are experiencing some of these issues or this article has got you thinking? Can we help you prepare for success?

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