After the Baby Boomers

The Next Generation of Leadership

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This report was commissioned and supported by Odgers Berndtson. It was researched and written in conjunction with Cass Business School, as part of a business project.

Survey Methodology

The *After the Baby Boomers Survey* was conducted on behalf of Odgers Berndtson in conjunction with Cass Business School. The survey sample consisted of 100 senior executives based in 19 markets representing 24 different nationalities. Fieldwork was conducted via telephone interviews which took place between 2010 and 2012.

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If you would like to discuss any aspect of this report, or how we can help your company prepare itself for the next generation, please don't hesitate to contact us.

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Muhtar Kent
Chairman and CEO
The Coca-Cola Company

"As the pace of global transformation continues to accelerate, it is more important than perhaps ever before to identify and understand the fundamental trends shaping the future of work and the future of our world.

While the impact of the massive Baby Boom generation will continue to be felt well into this young century, asking what comes next is becoming more and more important. Today's leaders – and those who will lead tomorrow – will find this study essential for formulating a vision of the future and the execution of their plans, both now and for years to come."

Foreword

Should it matter to our future leadership that the world is undergoing unprecedented demographic, gender and cultural change? Or that a whole cohort of leadership, characterised by the baby boomer era, is about to step down? Is it possible for organisations to be 'prepared' for such fundamental changes and adapt to a different style of management? Or, as one respondent said about the next generation of leaders, *"They may think about the world in a different way but that doesn't make them poor leaders."*

To arrive at the conclusions in this report we spoke to 100 senior executives of global companies. Their responses provide an in-depth understanding of how companies see their marketplaces and workforces changing over the next two decades, and how ready they are to embrace these changes.

We are grateful to the senior executives in global businesses who took time to speak to us, the ones experiencing first-hand the macro-economic and geo-political trends that are reshaping the world in which we work. They represent a wide range of industries and geographies and 30% are women. Their responses fall into three broad categories: what is the situation now? What skills will be most important in the next 20 years? How future-proof are today's companies?

The report closes with some suggestions on how companies can prepare themselves for a new generation of leadership. It concludes that, to continue to thrive, organisations must:

- Transfer knowledge, by coaching, mentoring and codification.
- Re-evaluate their organisational structure, including their incentive philosophy, and how they recruit and retain talent.
- Build cultural awareness, designing leadership programmes that develop cultural diversity, flexibility and people skills.

This research has identified some remarkable insights into the challenges facing business after we have said goodbye to the baby boomer generation. We hope you find this as insightful as we do.


MARKETING
INNOVATION

Executive Summary

We live and work in a world that is going through unprecedented demographic, gender and cultural change. The rapid rise of developing economies, retiring baby boomers, greater international mobility and more women rising to senior leadership ranks are converging to create a fundamentally shifting business environment. The report pointed to six key trends which will be the greatest influencers on companies in the post baby boomer[1] era.

"Retiring baby boomer employees will result in a massive exodus of talent over the next 20 years, as the leadership and experience that has shaped modern business steps down."

The war for talent will intensify

Rapidly ageing populations and retiring baby boomer employees, born between 1945 and 1964, will result in a massive exodus of talent over the next 20 years, as the leadership and experience that has shaped modern business retires. It will also lead to a shift in leadership style as new generations rise through the ranks. The baby boomer exodus, combined with falling birth rates and a smaller workforce, means that the already fierce competition for global talent will intensify.

Most organisations underserve female markets

More women working is both transforming workplaces and creating new markets. Women control spending in excess of $20 trillion, more than the combined Gross Domestic Product (GDP) of the US and the UK, and the female market segment is growing faster than most high-growth countries: yet most organisations currently underserve it.

Growing economic weight of BRIC countries & Next 11

Organisations are already facing stronger competition on their business front lines, both as they expand internationally and see new competitors from fast-growing economies entering their own markets. The growing economic weight of the BRIC countries and the Next 11[2] has fundamentally altered the business landscape: already, S&P 500 companies derive nearly half of their revenue from international sources; and, for many, international revenues are growing faster than their core revenues.

"Going global; necessary, not just nice to have."

[1]Baby Boomers – people born between the years of 1945-1964; Generation X – people who were born between 1965 and 1979; and Generation Y or the 'dot com' generation, people who are born after 1980.
[2]The Next 11 – Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea, and Vietnam – identified by Goldman Sachs economist Jim O'Neill as having a high potential of becoming, alongside the BRICs, the world's largest economies in the 21st century.

Organisations are not ready for wider cultural changes

"They may think about the world in a different way but that doesn't make them poor leaders."

68% of respondents think their companies rely too heavily on male Chief Executive Officers (CEOs) from the baby boomer generation. In spite of this, 57% of respondents are still confident that executives over 55 have the required leadership skills to adapt and be in tune with Generation X, born between 1965 and 1979, and Y employees, born since the early 1980s. This still leaves a significant minority (43%) who are not confident that their senior management is future-proof.

The ability to speak foreign languages, more as a proxy for cultural awareness than for practical reasons, will be increasingly important. 62% of respondents believe that being able to speak a foreign language will be more valuable to future executives than past ones.

The feminisation of leadership

Faced with this potent cocktail of uncertainty, companies that pursue 'business as usual' do so at their peril. 82% recognise that a different leadership style will be required to motivate people. Tomorrow's leaders will need new skills, not only to do business in this broader environment, but also to attract and retain talent from a far more diverse and fluid workforce. Emotional intelligence, people skills and flexibility, traditionally regarded as more feminine leadership skills, will be particularly highly valued.

Organisations need to ease the intergenerational transition

"We are actively trying to get in front of the change and lead. However, I find it difficult to say that we are ready. I doubt many organisations are."

Organisations must tap into the wealth of experience in their senior executives to ease this inter-generational transition. It was suggested executives could step back from the business front line during the final years of their careers, focusing instead on mentoring and transferring knowledge to up-and-coming executives. Some organisations already do this, moving their top executives out of the business gradually, with a commensurate reduction in remuneration as their workload and responsibility eases. While this model makes sense – allowing senior executives to wind down gradually towards the end of their careers – the question of pay was the most controversial in the survey: nearly half of respondents (45%) agreed to some degree that compensation should decline until retirement, while a significant proportion (34%) disagreed.

Introduction and Foreword to the Annexe

Cass Business School prides itself on operating on the interface between the academic world and the business community. Our research tends to be practitioner focused, relevant and practical in its execution and application. Many of our MBA graduates value the opportunity to participate in projects providing real insight into how businesses function; this survey was one of those projects.

The second half of this report offers some valuable insights into the socio-economic context impacting upon the workplace in a 'post baby boomer' world. In this annexe, three highly significant developing trends are discussed and summarised below. First, evidence of a 'generational shift' (i.e. an ageing population and a shrinking workforce) is presented. Second, the implications of a changing workforce in terms of gender are explored. And finally, the far reaching effects of globalisation are articulated.

- **The knock-on effect of a generational shift**

Society has never been so top heavy with the inevitable result that companies will struggle to find the skills and talents they need in the quantity they need them. As baby boomers exit the centre stage, a new generation will take the reins with markedly different attitudes and management styles.

- **The propulsion of women in the workforce**

Having more women in the workforce is increasing its overall size rather taking jobs away from men, yet occupational gender segregation persists. Promoting women is not just about equality – there is a robust business case for promoting women. Not only do they bring a unique perspective on tapping into some of our fastest growing markets they are spending and saving more than ever before.

- **Increasing globalisation – a necessity rather than nice to have**

Companies are recognising that growth will come from outside their own borders so that developing international markets is no longer an option for them. A combination of geographic diversification and increasing immigration will help companies in the developed world overcome the challenges of ageing in their domestic markets by tapping into a new and growing pool of highly educated talent.

Taken as a whole, the material contained in this annexe provides thorough and compelling empirical support for the actions and responses presented in the main body of this report.

Professor Cliff Oswick
Deputy Dean
Cass Business School

Survey of senior executives

Interviews with 100 senior executives representing a wide range of industries and geographies provide the basis for these findings.

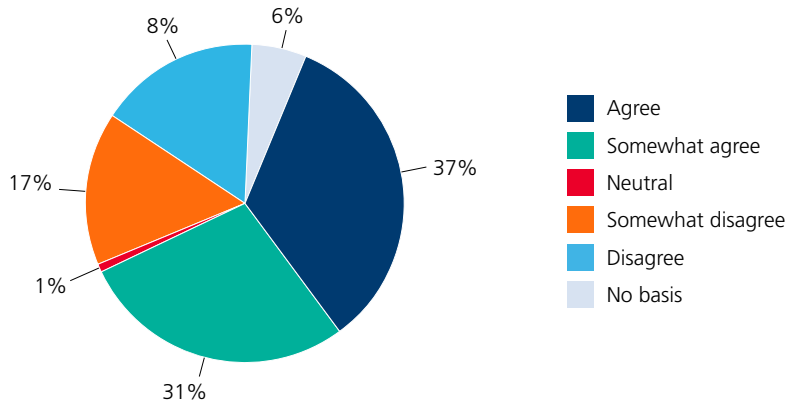
- 30% of participants were women.
- The average age of participants was 49, with an average of 22 years of work experience in their industry, and nine with their current company.
- Those interviewed therefore have the requisite experience and seniority within their organisations, while also having a stake in their industry's future, with an average of 10-20 years' work ahead of them.
- 59% were in senior organisational or managerial roles. A further 31% worked in human resources or business development, in positions which will be at the forefront of adapting to changing workforces and marketplaces.
- Interviewees represented 24 different nationalities. They were based in 19 different countries, 16 different industries were represented (plus 6 unspecified) with 26% of interviewees working in heavy industry and 19% in finance/insurance.

Baby boomers (still) dominate

"68% of respondents think companies rely too heavily on male baby boomer CEOs."

The senior ranks of organisations remain dominated by men; yet only just over a third of those interviewed believe that today's companies are over-dependent on male chief executives born during the post-war baby boom. They are confident that internal promotion will allow them to replace retiring talent easily. Most executives do not feel threatened by the war for talent that current demographic trends will only intensify. However, a significant 68% agree to some extent that companies rely too heavily on male baby boomer CEOs.

Are companies today over-dependent on male CEOs born during the post-war baby boom?

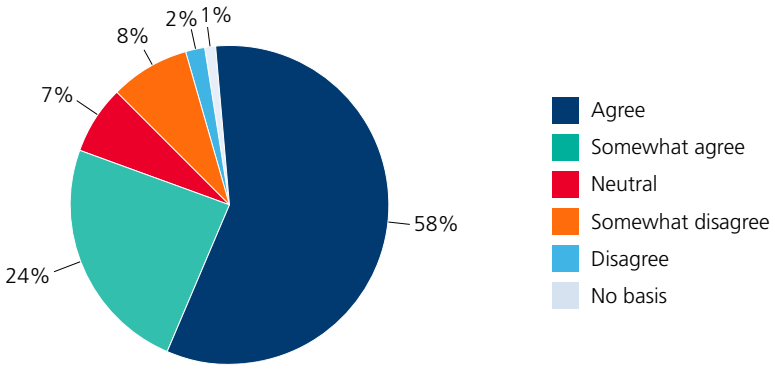


Nor are respondents concerned about losing talent as older generations retire. Less than half believe (44%) that baby boomer CEOs are visibly more talented than successor generations. *"They may think about the world in a different way but that doesn't make them poor leaders,"* says one. Others acknowledge that there is an intergenerational experience gap, but argue that this will close over time.

Changing leadership styles

Nevertheless, there is a widespread feeling that baby boomers have had to work hard for what they have achieved, while younger generations have a relatively easy ride. This suggests that organisations not only recognise that a new generation is on the way up, but also that it is motivated differently from the generation currently dominating global business. 58% of respondents believe that a different leadership style will be needed to motivate future employees, as Generations X and Y replace the retiring baby boomers.

As people from Generation X and Generation Y replace those retiring, is a different leadership style from the past required to motivate people?



Most believe that only minor adjustments to leadership style are needed, rather than a radical shift. 57% are confident that executives over 55 have the requisite leadership skills to adapt and be in tune with Generation X and Y employees. They recognise that the 'old ways' might not be entirely suitable for modern business, but believe that the solution lies in adaptation rather than revolution. Many respondents point out that, *"as much as things change, they stay the same."* Core leadership skills remain constant, they argue, regardless of generation; these skills just need to be moulded to the ever faster pace and more global nature of business. *"Age is irrelevant, it's about the person and the personality,"* explains one. Organisations accept that their leadership style might need to shift a little, but they do not seem to be preparing for a transformation.

"58% of respondents believe that a different leadership style will be needed to motivate future employees."

Preparing for change

The sangfroid of executives,' reassured by their organisations' robust and regular approach to talent seeking, masks an underlying malaise. Formal leadership programmes may continue to be the norm, but less than half (41%) of respondents think their organisations are ready for demographic changes. There is an inherent circularity to recruitment, as people tend to hire those similar to themselves, making it harder for organisations to change in people terms. Traditional leadership programmes, which typically breed more of the same, risk perpetuating this difficulty.

Fortunately, change does not only come from above, from those at the top of an organisation. Workplace attitudes are also shifting from the bottom up. 61% of respondents say they are witnessing a shift in their organisation's culture in line with generation changes. Most are already noticing a significant change in their employees' appearance, with much more ethnic diversity and more females as well as less hierarchy and formality.

The feminisation of leadership

Companies are aware that shifting demographics are changing the workplace, even if not all believe this means they need to reassess their corporate structures and employment practices. So what skills do they think will be most valuable for the next generation of CEOs?

The Three Qualities Most Needed by Future Leaders
1. Emotional Intelligence (EQ)
2. Flexibility
3. People Skills

"Those who have endured as leaders tend to have high emotional intelligence and communication skills."

When asked which three qualities they looked for when identifying future leaders, most executives quickly say "emotional intelligence", followed closely by flexibility and people skills, traditionally regarded as more feminine leadership skills. Interestingly, though, only one person mentions "technological savvy". Respondents believe, at least on an intuitive level, that dealing with and managing a diverse group of people is the key to leadership, rather than any specific technical skill. Executives are looking for people who can "inspire people across geographic and age barriers"; who are "at ease with uncertainty and flexible to adapt to new cultures"; "self-motivated and self-aware"; "open to the new and unknown"; "able to motivate diverse people and values"; and "curious, well-read, educated and travelled". This list makes sense: emotional intelligence and flexibility are essential skills in an environment where generations, cultures and gender are all in flux.

Baby boomers tend to be seen as more emotionally intelligent, while younger generations are often labelled quicker learners and more technologically able – which does not bode well for companies seeking future leaders with strong people skills. This may, however, be a function of experience rather than character. As one executive observes: *"Those who have endured as leaders tend to have high emotional intelligence and communication skills. The challenge for boomers is often technology. Younger generations tend to excel at technology but struggle with leading themselves, peers and direct reports, due to under-developed leadership skills/experience and emotional intelligence that needs more opportunity to mature."*

Gen X & Y: they are different to you and me

More worrying, in terms of tomorrow's leaders, may be the evidence that younger generations focus more on personal development than corporate progression. Getting to the top is no longer an automatic aspiration: work/life balance and personal fulfilment are more important to many post-baby boomers and many working women, who are

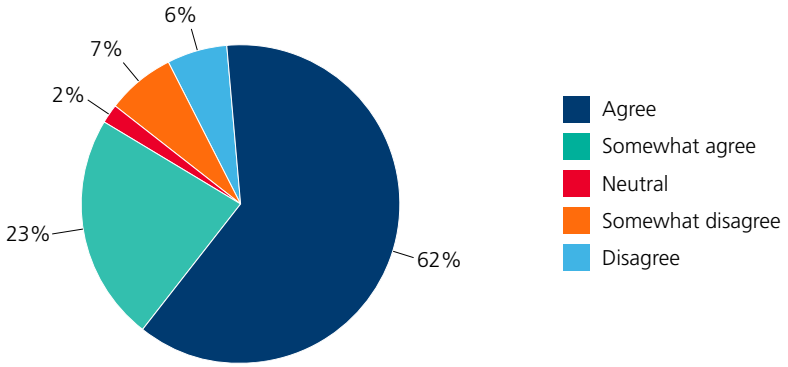
more interested in being intellectually stimulated and valued as part of a team than in breaking through a (perceived) glass ceiling. *"The younger generations are more concerned about being individualists and specialists. They are reflecting less about being a manager. In general we are nurturing individuals, while the baby boomers are more generalists,"* says one interviewee.

"Younger generations focus more on personal development than corporate progression."

Building cultural diversity into leadership

Looking at skills on a more practical level, a majority of respondents (62%) believe that the ability to speak foreign languages will be more important to future executives than past ones. This may seem obvious, in a world where an increasing amount of business is being done outside domestic markets, and effective communication is vital. Yet executives believe it is more important for foreigners to speak English well than for native English speakers to speak foreign languages fluently, reflecting an acceptance of English as the global business language.

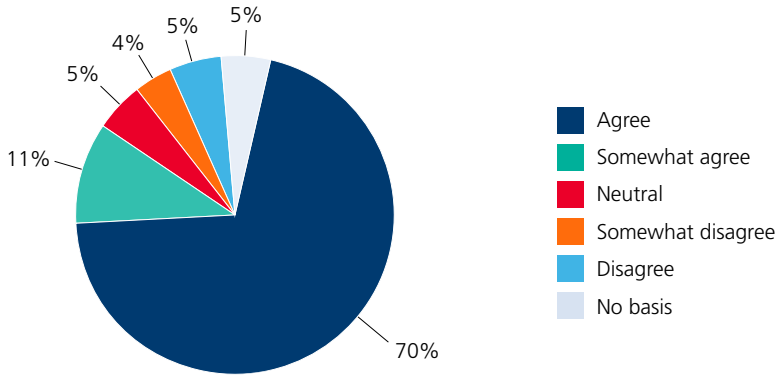
Do you believe that the ability to speak foreign languages will be more important for executives in the future compared to the past?



It may not be essential for executives to learn foreign languages to be successful, but English-speakers cannot afford to be complacent. Most respondents (70%) consider it critically important that their leadership development plans include cultural awareness/diversity elements, and there is a clear correlation between language skills and cultural awareness. Very few (4%) disagreed. As one puts it: *"The ability to work in a number of languages can differentiate the effective executive from the merely capable one."*

Attracting and retaining talent will be the most critical human capital issue facing their organisations over the coming five years, say respondents. Organisations are all about people, and the intensifying war for talent will put recruitment firmly at the heart of

■ Do you agree it is critical to include a cultural awareness/diversity element to reflect the increasing influence of BRIC countries and the growing importance of diversity in G7 countries?



"70% of respondents consider it critically important that their leadership development plans include cultural awareness and diversity elements."

business strategies. Successful recruitment can become self-perpetuating. *"The best attract the best. We aim to hire the best leaders in the market, and with the best on board, the best talent follows,"* explains one interviewee.

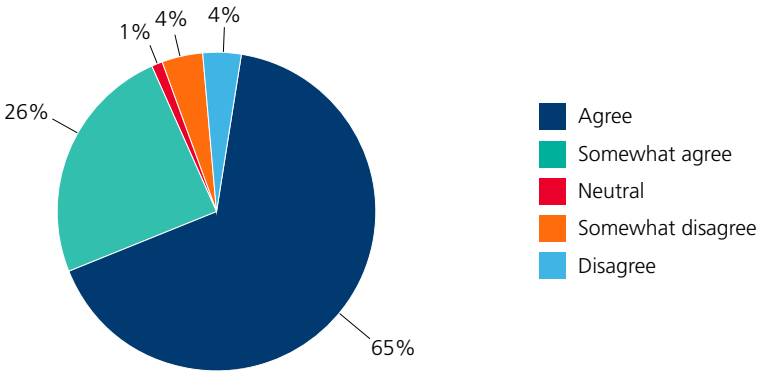
Executives comment that there are plenty of people with good analytical skills (generalists), but only a few with real operational experience or technical know-how (such as engineers and programmers). It is hard to find people with these specific skills, albeit not necessarily for leadership roles (where technical skills are considered relatively unimportant by respondents). As technology advances and becomes increasingly complex, experts in specialist fields are becoming ever more sought after. Leaders may not need these skills themselves, but they will need to attract and manage people who do have them.

Respondents say they find it hard to recruit local talent in emerging countries, especially in the Middle East, India and China – even though these countries often lead the way in terms of pure academic training. *"Asian countries have a real focus on educating engineers, and are doing so in large quantities. They also have a much bigger focus on educational quality than most Western countries,"* observes one executive. It may be that their leadership programmes are weak, as talent from these countries is often highly successful further afield. Or it may be that organisations are failing to attract the best talent, or are seeking skills that are simply not available locally.

■ How future-proof are today's organisations?

Most respondents are confident that their organisations are willing to embrace the necessary strategies to compete in the war for talent: 91% agree, at least to some extent, that their companies will adapt as necessary to attract the best people. In a market where

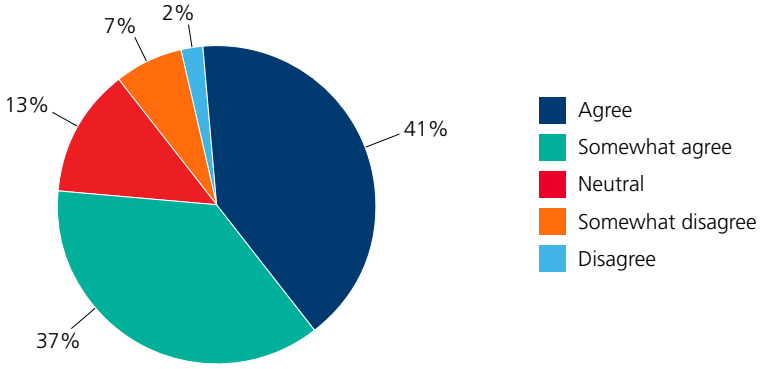
■ Is your organisation willing to embrace the necessary strategies to compete in the war for talent?



the top talent is defined as the top 20%, there will inevitably be intense competition for high fliers, and not all companies will be able to satisfy their needs. Companies are well aware of the importance of attracting and retaining the skills they require – if they fail to offer the right incentives, there are plenty of others out there who will.

"We are actively trying to get in front of the change and lead. However, I find it difficult to say that we are ready. I doubt many organisations are."

■ Is your organisation ready for the changing demographics (gender, age, diversity)?



Finally, executives comment on whether their organisations are ready to capitalise on changing workplace demographics, which will result in a very different mix of employees, as well as rapidly changing markets for their products and services. Tellingly, given the positive responses to questions more specifically targeted at recruitment, only 41% of respondents believe their organisations are ready.

"We are actively trying to get in front of the change and lead. However, I find it difficult to say that we are ready. I doubt many organisations are," says one executive, summing up the views of many.

Managing the intergenerational transition

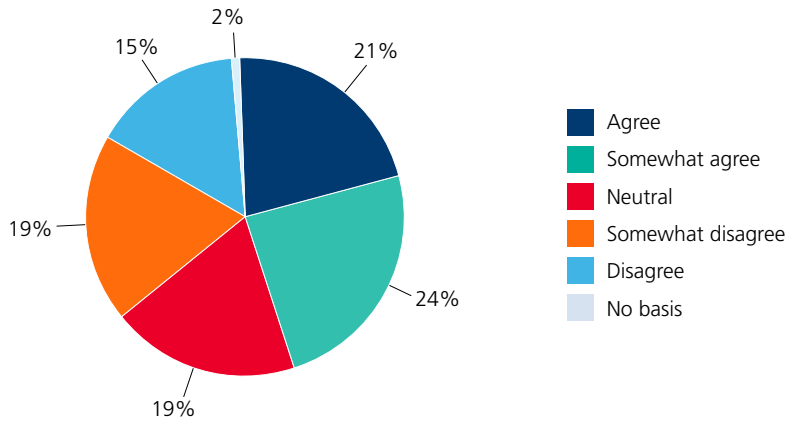
"I think it would be interesting to be able to give executives special tasks (not belonging to the executive team) from a certain point in their careers, to let new blood into the executive teams."

One way of easing the transition between generations could be for senior executives to use the last years of their careers to mentor and transfer knowledge to up-and-coming executives. They could move away from the executive front line, with a corresponding reduction in pay, and possibly in working hours too. As well as benefiting future generations, this might help ease the transition out of working life for those retiring.

However, there is little evidence of this happening yet: the average age of a CEO is not declining. As health and life expectancy improves, many people are choosing to retire later. *"People will stay longer in their role because they do not want to retire. There are always good candidates for the C suite. It's the layer below that will be the problem,"* says one interviewee.

When it comes to money, opinion is sharply divided. The question of compensation is one of the most controversial in the survey. Less than half (45%) agree to any degree that compensation should decline until retirement, while 34% disagree. A significant 19% occupy the neutral middle ground.

Traditionally, executive compensation has risen so that it peaks at retirement. If people are staying in employment longer, should compensation peak earlier and decline steadily until retirement?



At one organisation interviewed, employees have to leave senior executive roles when they turn 60, and normally also take a pay cut – a perfectly reasonable transition, in the interviewee's opinion. Another observes: *"People need more money when they are young and energetic. By the time they reach normal retirement their liabilities are less and they have built their nest eggs already. For those who want to keep working probably do it out of interest. Money is less important to them."*

But others disagree, arguing that compensation should be a reward system based on contribution, and nothing to do with age. *"Why would a great talent want to work longer at a reduced compensation?"* asks one interviewee. The key, it seems, is to reduce responsibility and probably working hours accordingly, so that senior executives will not be asked to do the same job for less; instead, their role within their organisation will fundamentally change.

While there is logic to this approach, the accepted pattern of a salary rising steadily to retirement (perhaps driven by final salary pension schemes, once prevalent but now all but obsolete) is not about to change overnight. As one executive says: *"It could be a challenge for this to play out, but already we are seeing some older leaders staying with the organisation but allowing younger executives to take more senior roles."*


STRATEGY
MISSION
VIS

Conclusion: Blueprint for the next generation of leadership

Our survey suggests that while most organisations are fairly confident that they are ready to face the demographic changes ahead, a significant minority are not. There is 'no one size fits all' formula; companies must thoroughly evaluate their own business models, circumstances and weaknesses.

We identify three areas we believe will be essential for success below, and which could serve as a starting point for organisations seeking to assess how future-proof they are.

Transfer knowledge to the next generation of leaders

Organisations must find ways of transferring as much knowledge and experience as possible through directly mentoring next generation talent so that tacit knowledge can be transferred, and codification of any knowledge that can be written down. Companies are far from ready. 68% of those interviewed agree that their organisations are over-dependent on baby boomer CEOs. Most companies do have CEO-level succession planning in place, but they need to think beyond the top tiers of leadership. The focus must be on a company-wide, inter-generational transfer of institutional knowledge. That knowledge currently residing within the minds of senior management is a huge silent asset that helps companies win, giving them an imperceptible edge that boosts sales and widens profit margins. Even though it does not show up on a balance sheet, its loss will certainly be felt. Companies that have effective knowledge transfer plans, and build the necessary institutional structures to assure as seamless a transition as possible, will gain a deep strategic advantage.

"That knowledge currently residing within the minds of senior management is a huge silent asset."

Reconfigure organisational structures and incentives

Once the next generation is in place, organisations need to assess whether or not their current structure is right for this new generation. Hierarchical command-and-control structures and purely financial incentives are unlikely to get the best out of Generation X-ers. Different generations have fundamentally different mind-sets. Baby boomers think that Generation X has had an easy ride and could work harder. Generation X, on the other hand, values work/life balance and personal fulfilment more, and thinks in terms of working 'smarter' rather than necessarily working longer. Organisations must accommodate these different work attitudes and motivations, moving if necessary to a flatter organisational structure and providing opportunities for freer movement. If next generation employees are not given broader horizons within their own organisations, they

"Command-and-control structures are unlikely to get the best out of Generation X."

will seek them elsewhere. Most executives recognise attracting and retaining talent as their biggest human capital issue over the next twenty years and are confident that they can compete in the war for talent. But in a fast-moving and fluid labour market, where the best know they are readily employable, companies without clear and attractive recruitment and retention strategies will be increasingly vulnerable.

Adapting leadership styles

"Flexibility and a focus on people will be key survival attributes for tomorrow's leading organisations."

58% of survey respondents believe that a different leadership style is required in future business and they almost unanimously agree that cultural awareness will be at its heart. Tomorrow's workplaces will look and feel very different to today's and this transformation is already being felt. Emotional intelligence will be even more important for success than technological prowess and Generation X may, initially at least, lack the baby boomers' people skills. It therefore makes sense to put cultural awareness at the heart of senior recruitment processes and leadership programmes. An alarming 59% of respondents do not think their organisations are ready for demographic change, even though most have formal leadership programmes, suggesting that most organisations still need to tailor their approach to leadership development to accommodate cultural awareness. The future is exciting, full of opportunities as well as threats: the sooner organisations adjust to the rapidly changing landscape, the more able they will be to capitalise on demographic and geographic changes, instead of trailing behind their peers. Adapting need not involve dramatic change, but it requires a subtle shift of culture and priorities. As with tomorrow's leaders, flexibility and a focus on people will be key survival attributes for tomorrow's leading organisations.

Annexe: Key macro-economic, workforce and structural trends

In the second half of this report, we look more closely at the trends that are reshaping the world in which we live and work. These fall into three broad categories: generational shift, more women working and globalisation, which we address in turn below.

Generational shift

An ageing global population

Populations have expanded and contracted throughout history, but we have reached a point where age distribution has never been so top-heavy. In 1960 there were on average three children (0-14 years) for each elderly person (65 or over). Over the next century, this proportion is likely to be reversed, with more than two elderly people for each child by 2060, or more grandparents per grandchild than ever before. As people live longer, families will tend to be 'vertical', with several generations alive simultaneously but fewer siblings, rather than 'horizontal'[1].

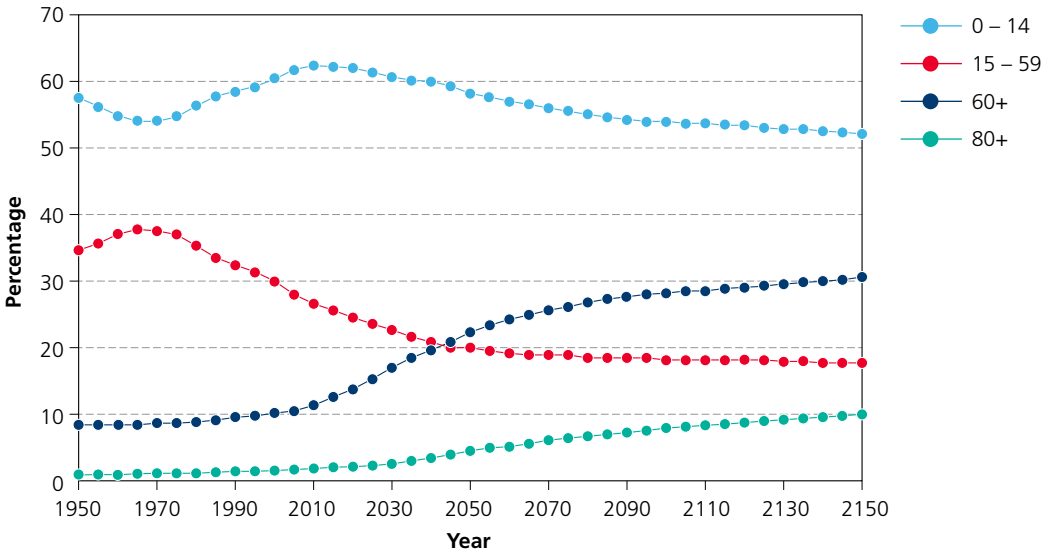


Figure 1: Percentage of world population by age group, medium scenario, 1950-2150 (United Nations, 1999)

[1]Miller & Yu, 2005

Figure 1 illustrates how the global population is ageing. The percentage of the population older than 60 is increasing, while that under 60 declines, at the fastest rates in human history.

This trend has important consequences for workplaces. Retiring workers will need to be replaced at an unprecedented rate, yet there will be fewer young people available to meet demand in an already over-heated labour market. Even in the current economic downturn, the unemployment rate is not increasing; instead, companies are struggling to find the skills and talents they need.

This trend is particularly acute in advanced economies. Figure 2 shows the population median increasing worldwide. Most of the short term increases (2010 – 2050) will be seen in Europe and North America; but longer term (2010 – 2100), the most dramatic increases come from the fast-growing emerging economies such as Asia and Latin America.

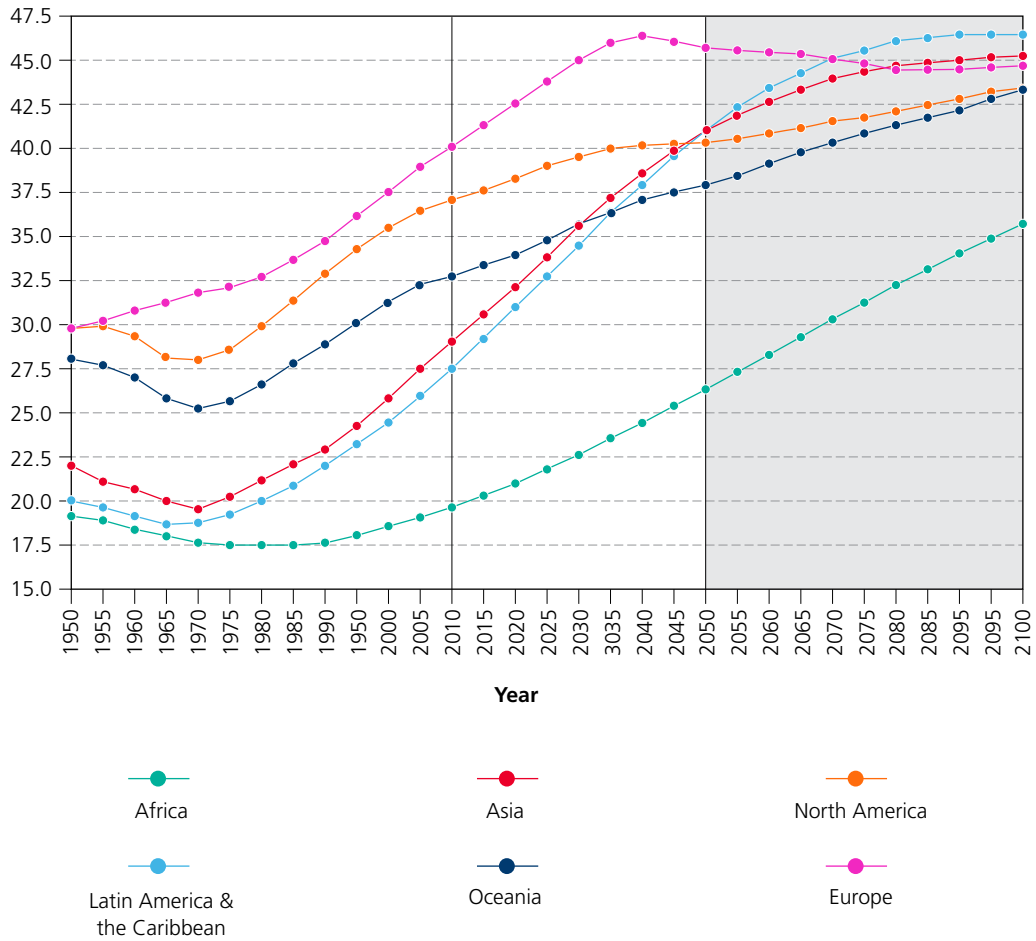


Figure 2: Median age of the population by major regions (United Nations, 1999)

A smaller workforce

Ageing populations are one side of the complex demographic challenge facing companies; a shrinking workforce is another.

Analysts and economists tend to focus on the unemployment rate, the proportion of willing workers unable to find a job; but the impact of an ageing population is better measured by the labour force participation rate (LFPR), the percentage of the population that is in the workforce. The rising number of retirees is already having an impact on the LFPR, and the economic output of most advanced economies will almost certainly decline as a result.

In the US, for example, the LFPR jumped from 59% in 1960 to a peak of 67.3% in 2000, owing to a combination of demographic drivers[2]. The baby boomers entered their peak productivity during the 1970s and 1980s; technological advances allowed greater productivity and more jobs that could be done by a wider proportion of the workforce (office/desk jobs instead of manual labour); improvements in healthcare and medical insurance led to a healthier and more productive workforce; and, finally, more women entered the workforce. In 1948, one woman in three was working; by the mid-1990s, this had doubled to more than 60%.

Since 2000, however, the LFPR has declined as the baby boomers started to retire. From its peak of 67.3% in early 2000, the LFPR has fallen by 3.3%, double the rate of any decline in the post Second World War period.

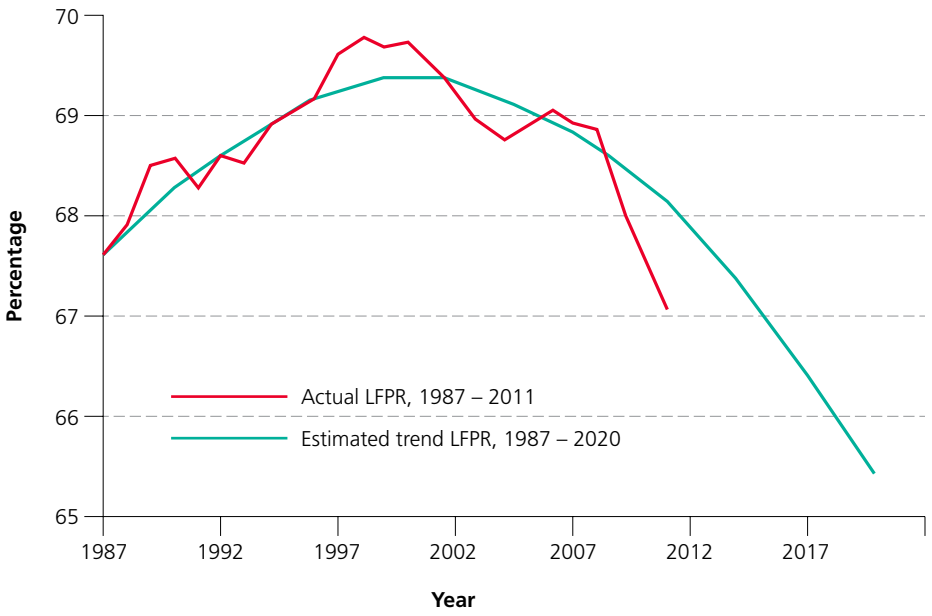


Figure 3: Actual vs. trend labour force participation rate, 16 – 79 year olds (Aaranson, Davis, & Hu, 2012)

[2]Aaranson, Davis, & Hu, 2012

Although the Federal Reserve Bank of Chicago (Chicago Fed) estimates that the 2008 financial crisis and subsequent recession have contributed to this decline, it attributes about half of this decline to long-running demographic trends[3]. Some estimates attribute more than two-thirds of the LFPR to retirement and ageing[4]. This is a significant departure from the accepted theory that economies are stagnating as a result of financial crisis, not structural demographic realities.

This will have a noticeable impact on advanced countries: Unemployment translates directly into production losses. According to Okun's Law, every 1% increase in a country's unemployment rate will cost it about 2% of potential GDP. Okun's Law may also be used to estimate the effect of LFPR falls: the Chicago Fed's estimated 2.7% drop in LFPR by 2020 (Figure 3Figure 3) translates into a 4% drop in GDP. This effect is likely to be even more pronounced in Europe and Japan, as their populations contract alongside a falling LFPR.

Goodbye baby boomers

It is not only ageing that is transforming our populations; attitudes and values are also changing. Throughout the 20th century, falling fertility rates and improving mortality rates led to generally ageing populations. For the two decades immediately following the Second World War, however, fertility spiked in most developed countries. The resulting baby boom is a primary driver of the population ageing we are seeing in the 21st century[5].

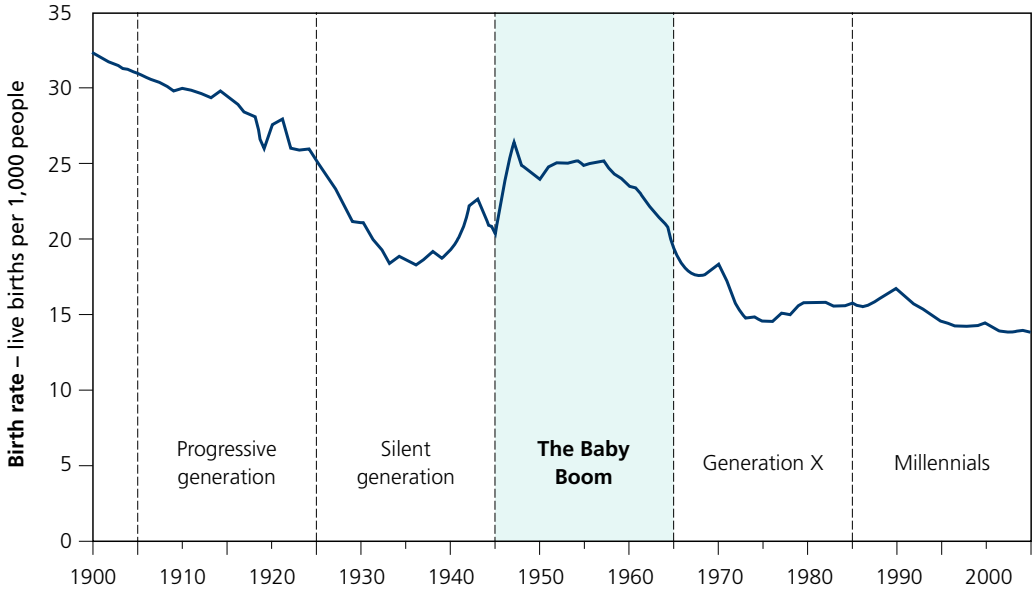


Figure 4: The post-war jump in birth-rate created the baby boom generation (Ferrell, Beinhocker, Greenberg, Skukla, Ablett, & Greene, 2008)

[3]Aaranson, Davis, & Hu, 2012
[4]Maki, 2012
[5]Hogan, Perez, & Bell, 2008

Baby boomers are now leaving the workforce, with profound implications. In the US alone, some 77.5 million people will retire in the next 15 years[6]. In Europe, the effect of the post-war boom is even more dramatic. Europe's population peaked at 728 million in 1995, and is projected to have fallen by 100 million, or 14%, by 2050[7].

This generational transition is not just about numbers. Subsequent generations have very different attitudes and preferences. Baby boomers, born between 1945 and 1964, have been at the forefront of economic and cultural development for the last four decades. Generation X-ers, born between 1965 and 1979, have different values and management styles[8]. They are often driven more by personal satisfaction and fulfilment than pure financial incentives, and tend to be more loyal to their own personal development than to their employer. Not surprisingly, then, Generation X-ers tend to thrive in flat organisational structures: The formal command-and-control structure still prevalent today – established by a post-war generation used to structure and discipline – may be poorly suited to the next generation.

Gender: women in the workforce

Women have reshaped the workplace since the mid-20th century. They represent over 40% of the global workforce and, in developed countries, their participation rate in the labour market is around 70%[9]. More women working has pushed up the LFPR; they have increased the size of the workforce, rather than taking jobs away from men (Figure 5).

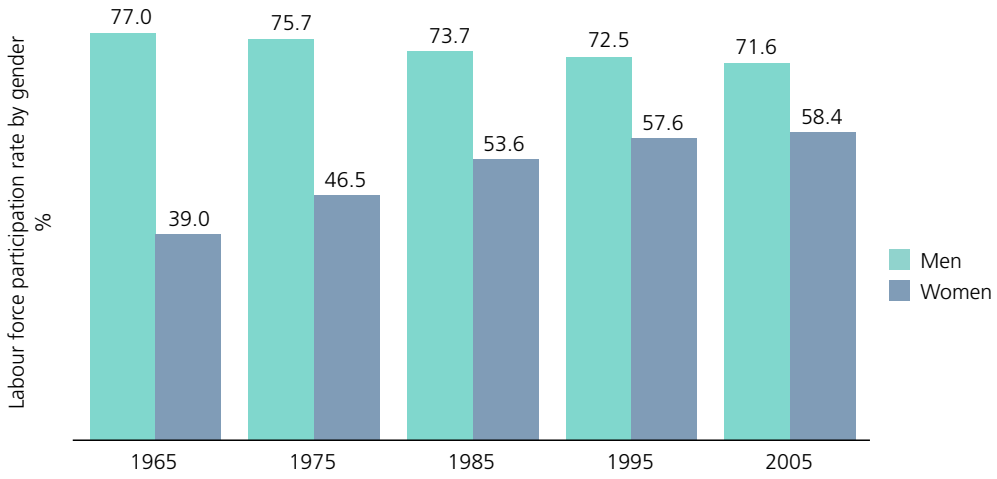


Figure 5: Increase in labour force participation driven by the entry of women (Ferrel, Beinhocker, Greenberg, Skukla, Ablett and Greene, 2008)

[6]US Census, 2011
[7]Eurostat, 2008
[8]Miller & Yu, 2005
[9]OECD, 2012

Yet, in spite of the growing contribution of working women, occupational gender segregation persists, with some jobs seen as male and others as female. In the modern professional services workplace, women tend to be concentrated in feminized professions such as administration and human resources (horizontal occupational segregation) and they also often remain in lower ranking jobs than men (vertical occupational segregation). Men dominate higher levels of professional work while women remain concentrated in the lower managerial positions.

Even in the 21st century, women are not seen as men's equals in the workplace. Women generally have to work harder (to prove they can survive in a 'man's world') and to accept lower pay than men of the same seniority. Many employers assume that women will be unable to commit fully to demanding jobs due to the constraints and commitments of family life. Consequently, fewer women are selected for the prime jobs in, or leading to, senior management – even though when women reach the upper levels of management, attitudes towards them are similar to those towards men[10].

Promoting women – not just about equality

Enabling women to work on the same terms as men is not just about fairness: There is a robust business case for promoting women to senior management. There is evidence that female influence at the top brings important benefits, including[11]:

- Higher profits, more risk awareness, less hyper competition and a greater ability to survive financial downturns.
- Policies that contribute to individual and societal health – education, families, entrepreneurship.
- A stronger integration of work and family leading to higher productivity and quality of life.
- Increased commitment to both personal and corporate responsibility and broader and more long-term planning.
- Management that reflects 21st century teamwork and participative decision making.

Increasing economic power

Women can also bring a unique perspective on tapping into many of today's fastest growing markets. More women working – and in senior roles – means that women are earning, spending and saving more than ever before. Women earn about $11 trillion annually, income that is expected to grow at 8% a year[12]; and they directly control about $20 trillion in global consumer spending[13]. Women are one of the largest growth market

[10]Wirth, 2004
[11]Tarr-Whelan, 2009
[12]Silverstein & Sayre, 2009
[13]Davidson & Burke, 2010

opportunities in the world, representing consumer spending greater than the entire GDP of North and South America combined, and growing faster than most national GDPs.

Yet many organisations are failing to make the most of this enormous market opportunity, with most continuing to focus their marketing and sales efforts on men and specific geographies[14].

The opportunities span industries and sectors, even in female-dominated sectors such as fitness, beauty and clothing. For example, women are generally unsatisfied with beauty products, where product turnover is extremely high compared to male products such as after-shave. Women are better able to understand these complexities and therefore market to other women. In spite of this, women represent a relatively small proportion of upper management decision makers.

The greatest opportunities lie in industries in which women are almost completely ignored, such as financial services. In 2009, private wealth in the US was approximately $14 trillion; by 2020 this number will be above $22 trillion, 50% of which is controlled by women[15]. Yet financial services are almost exclusively targeted at men: There are no significant financial products focused around childbirth or financial security in the event of divorce, under-served markets that are estimated to be worth around $5.1 trillion, roughly twice the size of the UK's GDP.

Tipping points

Employers are starting to promote women more systematically and to introduce family-friendly policies in order to retain them. Nomura, an investment bank, has recently undertaken a specific recruitment mandate for 'flexible working' positions[16], aimed at attracting women with family commitments. The introduction of paternity benefits, which recognise men's role in family life and take the pressure of primary responsibility away from working mothers, has also helped to level the playing field.

Eventually a virtuous circle is set in motion, as more women are promoted, reflecting changing attitudes as well as their sheer numbers in the workforce.

There seem to be various tipping points, such as at least 30% women in leadership roles[17] and having three or more women on a corporate board of directors[18]. A few advanced economies have already reached tipping points, while others are working towards them.

[14]Kotler & Keller, 2012
[15]Silverstein & Sayre, 2009
[16]Sweeney, 2012
[17]Tarr-Whelan, 2009
[18]Kramer & Konrad, 2006

The Norwegian government, for example, requires boards of directors of publicly-owned firms to include at least 40% women[19] while the Spanish government has committed to 40% by 2015. However, fewer than 15% of corporate board members in the US, UK, Canada, Australia and many European countries are women[20].

Globalisation

The global macroeconomic picture has changed dramatically in recent decades, and will continue to do so. The world is getting smaller. A generation ago, doing business abroad meant flying from London to France or Germany. Today's executives are much more likely to be travelling to Asia or Latin America. Twenty years ago, the BRIC countries – Brazil, Russia, India and China – represented 6.4% of the global economy; now, they represent more than 20%. The Next 11 countries will continue this trend. In 1992, their economies barely registered on the global GDP table. Today, however, they represent 7.2% of global output. Combined, BRIC and Next 11 nations account for more than a quarter of the world economy – and they are by far its fastest growing segment[21].

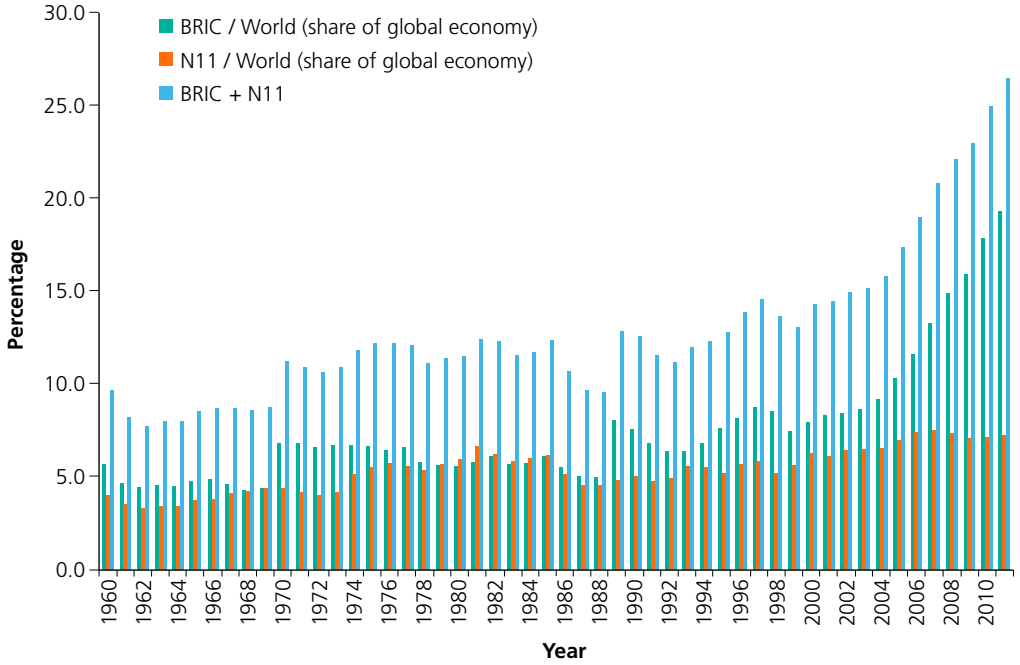


Figure 6: BRIC and N11 share of global GDP (International Monetary Fund, 2012)

[19]Storvik & Teigan, 2010
[20]Deloitte Consulting, 2011
[21]International Monetary Fund, 2012

Going global: necessary, not just nice to have

The sustained growth of foreign economies offers more opportunities than threats, at least for the fleet of foot. Organisations can no longer rely on perpetual growth from their core markets. S&P 500 companies now derive nearly half their sales from abroad, even though they operate in the largest single domestic market in the world. In 2011, this was equivalent to international sales of over $2.6 trillion or 20% of the US's GDP. This is 14.7% higher than 2010 international sales of $2.3 trillion, and 29.8% higher than 2009's $2.0 trillion.

	2011	2010	2009	2008	2007	2006	2005
Consumer Discretionary	42.28	42.98	42.43	44.05	42.46	38.76	37.28
Consumer Staples	46.99	45.61	46.56	46.95	39.06	36.57	37.51
Energy	39.29	38.86	43.66	50.47	55.69	56.50	56.25
Financials	34.67	37.05	40.19	34.09	31.59	29.93	31.36
Health Care	52.42	49.82	47.21	48.61	44.54	41.14	39.68
Industrials	47.96	45.06	44.21	46.14	44.11	41.14	39.68
Information Technology	56.52	56.30	56.02	55.27	55.38	53.50	54.86
Materials	53.71	52.46	52.06	49.66	46.99	42.22	40.81
Telecommunications	N/M	19.68	15.10				
Utilities	18.94	84.29	81.97	52.18	55.16	63.60	60.48

Figure 7: Foreign sales percentage of total sales (Silverblatt, 2012)

The picture varies across different industries. Several S&P 500 companies now derive more sales outside the US than within it. IT companies, including Oracle, Cisco and Google, generated 56.5% of their revenue internationally; and the Materials and Healthcare sectors also derived most of their sales outside the US. This trend looks set to continue, with international revenues growing at almost twice the rate of total revenue between 2006 and 2008.

The growing importance of international markets can also be measured by comparing the values of domestic companies with their international peers. The FTSE Multinationals Index consists of global, publicly listed companies that derive more than 30% of their revenue outside their region. The FTSE All-World Developed Index comprises of all companies in advanced economies, regardless of their revenue profile. Since the financial crisis of 2008, the FTSE Multinationals Index has outperformed the FTSE All-World Developed Index by 10% (Figure 8).

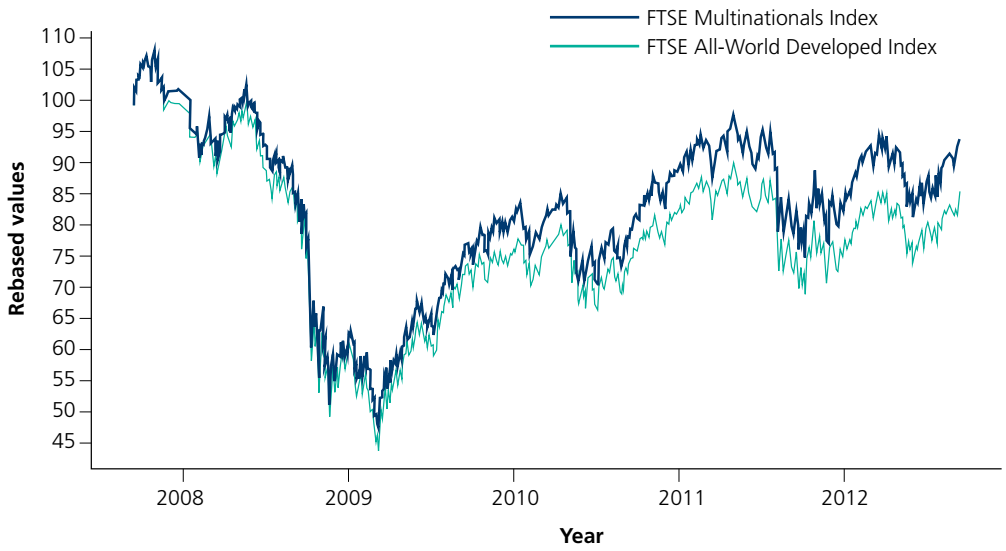


Figure 8: FTSE Multinationals Index vs. World Developed Index (FTSE, 2012)

This suggests that companies with significant international sales outperform their domestic peers. Geographic diversification not only taps additional sources of revenue, but also acts as a hedge, helping to insulate companies from specific country risks, such as the US subprime mortgage crisis in 2008 or the European sovereign debt crisis in 2010. Organisations are now focusing on building market share in the BRIC and Next 11 countries, to gain exposure to these fast growing markets and further diversify their revenues.

Migration – an influx of talent

This increasing globalisation, combined with the rise of economic superpowers in Asia, South America and Africa, offers both opportunities and threats. Companies that do not diversify internationally risk missing out on high growth markets, and are also more exposed to newcomers in their own core markets. But at the same time, newly wealthy consumers in booming economies such as China present huge market opportunities for companies facing stagnant growth at home.

Geographic integration has equally important implications in terms of people. The ability to tap into new international pools of talent allows organisations to overcome the challenges of ageing populations in their domestic markets.

Barring a sudden reversal in fertility rates or a huge increase in productivity, OECD countries will rely on immigration to help even out their top-heavy demographics. Immigration to developed countries is already significant. According to the latest UK census, the migrant population of England and Wales increased by 2.9m between 2001 and

2011, bringing the number of residents born abroad close to one in eight. The immigration rate is accelerating – around half arrived in the UK in the last decade alone – and the largest increase was in London, where over a third of residents were born abroad and almost a quarter were not British nationals.

Migration is not just about sheer numbers, but about filling gaps in leadership, experience and talent – and there is a growing pool of international talent to meet this demand. In most OECD countries, the percentage of highly educated among the immigrant population has been growing over the past decade (Figure 9). New entrants into the workforce have generally been far more educated than retiring workers over the 2000 to 2010 period[22].

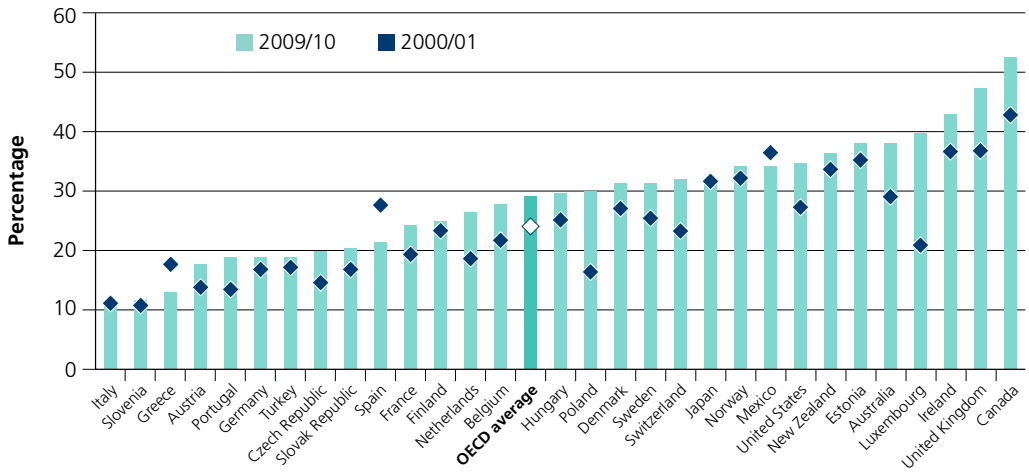


Figure 9: Percentage of highly educated among the foreign born population in OECD, 2000-2010 (OECD, 2012)

But while highly skilled immigrants support a country's economy, low-skilled immigration can damage it. Spain, Greece and Italy, for example, saw a far higher proportion of low-skilled than highly skilled immigration in 2000 – 2010, which contributed to a decline in their competitiveness. By contrast, more than 50% of Canada's migrants were university educated, and Canada has escaped relatively unscathed from the global economic meltdown.

Migrants, however, tend to maintain the size of the workforce rather than increase the overall skill or talent. Between 2000 and 2010, new migrants accounted for 15% of new employees into strongly growing occupations in Europe, and 22% in the US.

[22]Lanzieri, 2011

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Professor Cliff Oswick is Deputy Dean of Cass Business School and Head of the School's Faculty of Management, which provides teaching and research expertise in areas such as corporate governance, strategy, marketing, human resource management and organisational behaviour. Prior to his role at University of London, Professor Oswick held senior positions at Queen Mary, University of London, the University of Leicester, Kings College University of London and Westminster University. His research interests focus on management, organisations, organising processes and organisational change. He has also published more than 120 academic articles, including recent contributions to Academy of Management Review, Human Relations, British Journal of Management and Organisation Studies. He is currently European Editor of Journal of Organisational Change Management, Associate Editor of Journal of Change Management and co-director of the International Centre for Research on Organisational Discourse, Strategy and Change.

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