The missing age dividend

The issue of increasing longevity and whether retirement ages have been set too low would seem like a low priority issue for South African employers and policymakers. Surely addressing the crisis of youth unemployment warrants greater attention? The problem here comes when we see these two concerns as mutually exclusive. By promoting the needs of youth at the expense of the aged, we ignore the interconnectedness of intergenerational dynamics. We prioritise because we believe limited resources dictate prioritisation, but occasionally we find that suppressing the interests of one group only exacerbates achieving the needs of another.

What follows is a discussion of the missing age dividend. Framing our understanding of the value of older workers should give employers pause for thought – and a deeper appreciation of what stands to be lost.

Taking age off the table when deciding who should work where

As we've seen, making HR policy decisions based on hunches and intuition can result in some disastrous business choices. With transformation a priority in South Africa, employers tend to assume the most obvious way to achieve it is to have older employers step aside to create opportunities for a new generation of workers. On what basis have we made that assumption? The power of HR data analytics is that we can test these assumptions empirically.

As we discussed in last year's *Benefits Barometer,* studies from Scandinavia and Germany are challenging these conventions by suggesting that productivity and, by extension, job creation can actually increase when older, experienced workers are retained. But why rely on secondary information when we can do the research ourselves?

CASE STUDY

Workforce analytics and the productivity contribution of older workers

Consider the work that Mercer has done on examining this question of the productivity contribution of older workers in a range of different industry settings. Haig R. Nalbantian, Senior Partner at Mercer, provided a particularly insightful study that highlighted how effective HR data analytics can go a long way towards resolving these types of emotive policy debates.

Nalbantian argued that when traditional economic approaches for measuring productivity are applied to older workers, they typically pick up a decline in productivity. But this type of assessment may well miss a big part of the productivity story. What the analysis may miss are spillover effects, or productive 'externalities', that might be so significant that they more than compensate for the fall-off in productivity or performance.

For example, including older workers can add value by:

- stabilising a work unit by lowering turnover, which in turn increases unit productivity and performance
- increasing the productivity of other team members through information sharing and legacy knowledge
- assisting in the growth of human capital by enhancing the development and career progress of those they supervise or mentor
- enabling innovation
- strengthening group cohesion, collaboration, conflict avoidance, and resolution

Nalbantian's study goes on to point out that it's only by doing the data analysis that we can really understand whether these factors are at play. His analysis showed that the results could be quite variable across different companies. For example, in a case study on a company in the professional services sector, length and dispersion of experience proved to be the strongest drivers of year-to-year sales growth. By contrast, a case study involving a retail company showed older employees performing less well. And in a natural resource company, it turned out that older workers drove productivity in one unit, whereas it was length of service that drove the performance of another unit in the company.

Nalbantian's concluding points are as follows:

- Productivity and performance in older workers may wane, but this may be offset by the value of these employees' firm-specific knowledge.
- Gauging the value of an older worker by looking only at their specific productivity may completely miss the far greater benefit achieved from that individual's presence in the group.
- There may well be tensions between how external and internal labour markets 'price' this experience premium. The skill by itself may be valuable to the broader economy or other employers but may block the career developments of younger employees in a specific company.
- Strengthening 'after-markets' for older workers to enable them higher mobility might be a better way to align social and private value.

Nalbantian's most forceful conclusion, though, is that there is simply no substitute for applying a careful, disciplined measurement of performance drivers to prevent rash decisions being formulated.