

Creating Public Sector Value in a Rapidly Aging World

Governments in both developed nations and many developing countries face a major workforce-related challenge: Depending on the agency, as many as 60 percent of government workforces will be eligible for retirement in the next five to 10 years, resulting in a major exodus of talent and experience. Worse yet, this development is not a short-term problem, as the working population will continue to age over the next 30 to 40 years. This challenge is compounded by a much smaller talent pool coming behind retiring Baby Boomers. With workers aging and fewer people in succeeding generations, governments will experience a significant exodus of talent in the next two decades and a dearth of new employees to step into roles requiring specialized skills that are in short supply.

Efforts to respond to the developments to date have provided some temporary relief. Yet few if any governments have addressed the problem in a way that will yield lasting benefits. This must change if governments hope to continue delivering services that citizens and businesses value—a hallmark of a high-performance government organization. Without fully addressing the aging workforce issue—which threatens to become a huge problem if not dealt with—governments will find themselves unable to operate in a way that meets their constituents' needs, expectations and perceptions.

Accenture believes that to effectively position themselves to meet taxpayer expectations for better service at a lower cost—in other words, deliver more valued outcomes more efficiently—governments must create a higher level of performance across public-sector agencies even in the face of a shrinking and aging workforce. How? In our research and work with forward-thinking public-sector organizations, Accenture has found that agencies that take a more comprehensive approach to the aging workforce challenge are much better positioned for high performance than do agencies that continue to address the problem in a piecemeal fashion. This approach enables organizations to:

- fully understand the impacts of workforce aging and other related trends on their operations and missions;
- assess preparedness to address the issue;
- develop a detailed roadmap to eliminate key human capital shortcomings in their organizations; and
- build and implement the capabilities critical to successfully carrying out their missions in the challenging decades to come.

The world is getting older.

The workforce in many countries is aging, and governments will begin to feel the impact of this aging in as little as five to 10 years. Globally, the elderly account for 15 percent of the population in the developed world, compared with 2 percent to 3 percent 150 years ago. In the United States, for instance, the percent of people aged 65 and older has increased from 8 percent to 12 percent since 1950. In France, the percentage of those 65 years old or over has jumped two points in just a little over a decade (from 14 percent to 16 percent).¹

These trends are reflected in the demographics of workforces across most industries. In the United States, for example, more than 25 percent of the working-age population will reach retirement age by 2010, resulting in a potential worker shortage of nearly 10 million people.²

¹ "Policy Responses to Population Ageing and Population Decline in France," Georges P. Tapinos, United Nations Secretariat, Department of Economic and Social Affairs, September 29, 2000, <http://www.un.org/esa/population/publications/popdecline/Tapinos.pdf>

² "The Aging Workforce: The Reality of the Impact," Nancy R. Lockwood, Society for Human Resource Management, 2003.

Canada and the United Kingdom face a similar situation. Forty-six percent of Canadian baby boomers are close to their retirement or pre-retirement years,³ and by 2015, the number of Canadian workers between 55 and 64 will make up nearly half of the labor force.⁴ In the United Kingdom, the mean age of the workforce is now 1.75 years older than it was in 1991. By 2006, 45- to 59-year-olds will become the largest single group in the workforce.⁵ The United Kingdom's Office for National Statistics predicts 40 percent of the workforce will be older than 45 by 2010, up from an estimated 35 percent in 2005.⁶

While the aging workforce creates problems for many industry segments, it is especially troubling for government. In nearly every developed country, the average age of civil service employees has risen in the past decade and is projected to rise even more steeply in the next 10 years. According to numerous studies, the average age of the civil service workforce around the world typically exceeds that of private-sector workforces—and, in some cases, substantially so, as revealed in the appendix on page 17.

Workers are retiring earlier.

Compounding the impact of workforce aging is the fact that people in many countries are leaving the workforce at a younger age. In the United States, the average retirement age has fallen from 67 in 1950 to an estimated 61 today,⁷ while in Canada the median age of retirement dropped from 65 in 1976 to 61 in 1999.⁸ In France, the reduction of the legal retirement age to 60 led to a slide of 3.5 years in the average age of retirement—from 62 to 58.5 between 1968 and 1995.⁹ Low retirement ages in the United Kingdom also encourage early departure from the workforce. Fire fighters can start drawing their pensions at age of 50, police officers are expected to quit by 55, and traditional civil service office workers can retire at 60 without penalty.¹⁰

Europeans overall exit the workforce at a younger age than ever—typically, much younger than their counterparts in the United States. The average retirement age of European workers fell from 66.2 in 1950 to 59.8 in 2000. Reflecting that drop are the figures of employment rates for people in Europe aged 50 to 64 (as of 2000): 40 percent in Italy; 42 percent in Belgium; 52.7 percent in France; 54.6 percent in Germany; and 63.4 percent in the United Kingdom and Finland. These compare with 67.9 percent in the United States. Echoing the sentiment behind those numbers is one 44-year-old Belgian, who noted, “Americans can work until they’re 85. In Europe, retirement is a sacred right.”¹¹

The trend has staying power.

³ “Challenges of an Aging Workforce: An Overview of the Issue,” 2002 presentation by Human Resources Development Canada, <http://www.sdc.gc.ca/en/lp/spila/wlb/pdf/overview-aging-workforce-challenges-en.pdf>

⁴ “The Aging Workforce and Human Resources Development Implications for Sector Councils,” Alliance of Sector Councils, February 2003, <http://www.councils.org/tasc/docs3/Aging%20Workforce%20Final%20Report.pdf>

⁵ “Time to ‘Sell’ the Idea of Work,” *Personnel Today*, October 26, 2004, <http://www.personneltoday.com/Articles/2004/10/26/26271/Time+to+'sell'+the+idea+of+work.htm>

⁶ “Grey Matters,” *Personnel Today*, April 1, 2003, <http://www.personneltoday.com/Articles/2003/04/01/18409/Grey+matters.htm>

⁷ “Facts from EBRI: Trends in Early Retirement,” Employee Benefit Research Institute, July 2001, <http://www.ebri.org/facts/0701fact.htm>

⁸ *Ibid.*, 4

⁹ *Ibid.*, 1

¹⁰ “The Elephant in the Room,” *The Economist*, September 16, 2004.

¹¹ “Will Europeans Be Forced to Retire at an Older Age?” John W. Miller, *Wall Street Journal*, <http://www.careerjournaleurope.com/myc/retirement/20040621-miller.html>

Governments must prepare themselves for the fact that this is not a short-term problem that will abate anytime soon. In fact, the population of developed countries is expected to only get older over the next several decades.

Italy, Japan and Spain will have as many people aged 60 or more as people between the ages of 15 and 59 by 2040. By 2030, 28 percent of Germany's population, and 20 percent of the United States', will be older than 65—and 19 million people in the United Kingdom will be over 60. In Canada, one in five people will be 65 or older by 2026—a major jump from one in eight in 2001.¹² In Europe as a whole, the over-65 population is anticipated to rise from 15.4 percent of the European Union population in 1995 to 22.4 percent by 2025.¹³

The aging trend will last for several decades because, quite simply, people live longer and produce fewer offspring. For instance, average life expectancy has reached 80 in Japan¹⁴ and 83 in the United States.¹⁵ By 2075, at today's rates, average United States life expectancy is projected to reach 87. Globally, life expectancy has increased from 45 to 65 since World War II and shows no signs of slowing. In fact, continuing advances in medicine and science likely will push life expectancy to 100 and possibly higher in the next few decades.

Decreasing birth rates are also a major factor. In the past 30 years, the worldwide birth rate has been nearly halved—from 5.0 children per woman to 2.7. In the developed world, it is even lower—1.6—which is less than the 2.1 replacement rate needed to maintain stationary population. In Canada, where the rate was three or more children per woman until the mid-1960s, the birth rate has dropped to 1.5.¹⁶ The situation is particularly dire in Japan (1.5), Germany (1.3) and Italy (1.2).¹⁷

Government is not an attractive career choice.

If workforce aging and early retirement are not troubling enough, governments also face the sobering reality that many well educated and highly skilled younger people do not view a career in civil service as particularly attractive. This mindset, if not altered, will further shrink the talent pool from which governments can draw.

One study of United States agencies illustrates what many countries currently deal with in burnishing the image of public-sector employment. Federal agency executives noted they face a number of stiff challenges that make it difficult to recruit new employees. These include a poor image of federal government as an employer, perceptions of non-competitive salaries, length and complexity of the hiring process, and budget constraints and uncertainties.¹⁸

Similarly, a study of 19 primarily European countries by the Organisation for Economic Cooperation and Development found that young people deem the public sector "dull, bureaucratic, [and] old fashioned." The report further found that the "prestige of civil service is

¹² Ibid., 4

¹³ "Europe's Aging Workforce," Andrew Geddes, BBC News,

<http://news.bbc.co.uk/1/hi/world/europe/2053581.stm>

¹⁴ "Global Aging: The Challenge of the New Millennium," Center for Strategic and International Studies, 1999, <http://www.csis.org/gai/GlobalAging.pdf>

¹⁵ "State of the Cities Report 2004," League of Minnesota Cities, <http://www.lmnc.org/pdfs/SOTC04/sotc04chap4.pdf>

¹⁶ Ibid., 4

¹⁷ Ibid., 14

¹⁸ "Managing Federal Recruitment: Issues, Insights, and Illustrations," US Merit Systems Protection Board, September 2004, http://www.mspb.gov/studies/rpt_managefedrecruit/mangfedrecr.pdf

low in many countries,” and “trust in government has decreased, negatively influencing the image of government.”¹⁹

Even if they were attracted to civil service, newer employees tend to eschew the notion of a “cradle-to-grave” career with the same employer. Thus, unless government changes how it operates, agencies will struggle to retain the new generation of employees for as long as they have been able to keep baby boomers in the fold.

Impacts are broad and deep.

With the first wave of baby boomer retirements imminent, government executives must understand the impacts of this workforce challenge for the governments of many countries.

At a macro level, the increasing age and longevity of the population means pension/social security programs will have to support more people—and for much longer than in the past. With many countries’ pension programs being funded by current taxpayers—who soon will be outnumbered by those receiving benefits—severe budget strain is inevitable. In the early 2010s, benefit spending globally is expected to rise steeply for two decades before slowing or plateauing during the 2030s.²⁰ By 2040, total old-age benefits will reach an estimated 17 percent to 20 percent of Gross Domestic Product in the United States, Australia and United Kingdom; 23 percent to 29 percent in Belgium, Canada, France, Germany, Japan, the Netherlands, and Sweden; and greater than 30 percent in Italy and Spain.²¹ Not surprisingly, responsibility for increasing pension costs will have a major impact on the budgets of federal governments—impacts that could trickle down to local governments as the federal government reduces subsidies to states, counties and municipalities to absorb rising pension costs.

The workforce impacts will be just as severe. If they do not act now, governments will lose a significant amount of institutional knowledge as their most experienced employees leave the workforce. They also will find themselves locked in a battle—with private-sector employers, as well as with each other—for a shrinking pool of talent and confronting the escalating salaries that will accompany a limited supply of workers. The reality is that governments face the prospect of having to do the same amount of work (possibly more) with much fewer employees, and as a result will have to make difficult decisions about eliminating services the public needs and relies on. Even if governments can maintain services, workforce shortages could result in deteriorating levels of service to citizens and businesses. While in some cases the tangible outcome of such deterioration is merely annoying (waiting an hour in line to renew a driver’s license), in other cases it is downright life-threatening (delayed police or fire department response to emergencies).

Responses to date do not fully address the problem.

The trends just discussed are no surprise to government executives. In fact, governments around the world are aware of the challenges and have begun taking steps to address them. The scope and results of these efforts, however, vary dramatically by country. For the most part, these approaches—while helpful in addressing some immediate needs—essentially are short-term, ad hoc measures that simply shift the day of reckoning by a few years or maybe a decade.

Efforts by governments in Europe and Asia appear to focus primarily on making public service more attractive as a career option to both encourage older workers to remain working longer and

¹⁹ “Public Sector—An Employer of Choice? Report on the Competitive Public Employer Project, Kirsi Aijala, Organisation for Economic Co-operation and Development, <http://www.oecd.org/dataoecd/37/29/1937556.pdf>

²⁰ “The 2003 Aging Vulnerability Index,” Richard Jackson and Neil Howe, Center for Strategic and International Studies, March 2003, http://www.csis.org/gai/aging_index.pdf

²¹ Ibid.

attract newer employees. More strategic and comprehensive approaches to the problem generally have not moved past the policy-discussion stage.

For example, the study by the Organisation for Economic Co-operation and Development found that its member countries—in pursuit of becoming an employer of choice—have embarked on various initiatives centered around four primary areas of focus: enhancing trust in government and improving the image of the public sector; reforming HR systems; creating better working conditions; and improving professionalism in the public service. The report acknowledges that the stage of implementation of these initiatives varies by country and most are still in their infancy.²² Examples of these and other initiatives include the following:

- In Germany, governments are considering such plans as making career structures more flexible and implementing a variety of development programs to help staff earn promotions.
- Korea has opened up 20 percent of its top civil-service posts to open competition in the hope of getting better candidates from both the private and public sector. This is a marked change from the previous system in which seniority was the main route to executive-level positions.
- Austria has revamped its civil service compensation systems by, among other things, aligning public-sector salaries closely with those in the private sector for comparable jobs; enabling agencies to hire contractual workers for executive posts; and basing some portion of pay on meeting performance objectives.
- Local government councils in the United Kingdom sponsor an annual Career Day across the country to introduce young people to the councils and promote the councils as attractive career options.²³

Many countries have augmented such initiatives with changes in their retirement policies—whether those changes result in disincentives to retiring early or encouragements to work past normal retirement age. These measures have been especially prevalent in countries where the situation is critical—such as Japan and Sweden. Japan recently enacted substantial benefit cuts to its national pension system by raising the eligibility age and reducing benefit levels, while Sweden eliminated its traditional defined-benefit plan in favor of a system in which participant's benefits are more in line with their contributions made while working.

Countries such as France, Italy, Germany and the United Kingdom also are considering raising, or have raised, the retirement age. Not surprisingly, such moves are deeply unpopular among European citizens who are eager to move on with other pursuits when they reach their 60s. Attempting to blunt such criticism, the United Kingdom has passed legislation making it easier for people to continue working and defer their state pension. The country in 2006 will eliminate rules that prevent workers from drawing their pension while still being employed by the same organization.²⁴ However, at the same time, the United Kingdom is considering changing the manner in which pension is calculated—basing civil-service pensions on the average of a person's salary throughout his career instead of the current practice of using salary at retirement to determine his entitlement. If enacted, this change typically would reduce pensions for public-sector workers, because one's salary at the end of his career generally is higher than his career-average salary. While such a move will ease the government's financial burden, it also could further discourage people from taking up a civil-service career at a time when the government desperately needs new blood.

²² Ibid., 19

²³ From the LG Careers Web site, which offers information on United Kingdom local government, <http://www.lgcareers.com/careers/careersday.htm>

²⁴ "Age Discrimination: Treatment of Retirement Age," United Kingdom Department of Trade and Industry, <http://www.dti.gov.uk/er/equality/statement.htm>

In addition to the preceding, some European and Asian countries are thinking creatively about how to add more people to the talent pool—by encouraging more births through additional child-related tax breaks, promoting the region to immigrants, or implementing new programs that make it easier for stay-at-home mothers to work while raising their children.

Governments in the United States and Canada also are exploring ways to reverse the trend toward early retirement and make civil service a more attractive career option.

For instance, states in the United States are creatively addressing present and potential workforce shortages. Thirty-seven states have created new approaches such as targeted recruiting for certain jobs, conducting exit interviews to evaluate work environments and incorporating flextime scheduling. States also are utilizing former employees as resources, as 36 states now allow retired state employees to return to work on at least a part-time basis. Another approach, which 30 states employ, is the reform of employee classification and pay systems to make salaries and advancement opportunities more competitive with the private sector²⁵

At the federal level, the National Aeronautic and Space Administration (NASA) has recognized that capturing the knowledge of the experienced workforce, as well as preparing and supporting the next generation of aerospace workers, is critical to ensure the success of future military and commercial space operations. To address this issue, NASA and the State of Florida have funded the development of the Advanced Learning Environment, an entirely Web-based virtual learning and collaboration community.²⁶ Furthermore, the United States Army will make 25,5000 new appointments per year between 2001 and 2007, aided by the use of a dynamic (versus static) workforce planning model that builds micro- and macro-level scenarios assuming constant or changing environment. Managers can use this tool at all levels for just-in-time “inventory-based recruiting.”²⁷

In Canada, recruitment, retention and succession planning was the overwhelming choice as the top management issue facing Canadian government in a survey of federal, provincial and territorial ministers and administrators.²⁸ Therefore, it is no surprise that a number of Canadian government entities have embarked on efforts to improve the way they attract and develop staff. One is Consulting and Audit Canada (CAC), which put in place a number of initiatives to improve the workplace environment, including a Wellness Committee, a new professional development framework with five learning programs, a career plan framework, and a mentoring/training plan as part of its Professional Development Program. As a result of these initiatives, CAC reported boosting its rate of hires from outside of professional service to 57 percent and an average age of 37 for new hires (indicating the attraction of a younger workforce).²⁹

In short, while governments are beginning to respond to the aging workforce challenge, most of their approaches—while helpful in addressing some immediate needs—will do little to enact lasting change in how governments attract, develop and retain talent. What is more, such current efforts may even be undermined by the wave of efficiency programs that are sweeping through governments around the world. In their attempt to “do more with less” by reducing headcount and

²⁵ “State Employee Worker Shortage: The Impending Crisis,” Council of State Governments and National Association of State Personnel Executives report, October 2002.

²⁶ “Advanced Learning Environment for the Aerospace Industry,” Thomas Cavanagh and David Metcalf, ASTD, February 2004, <http://www.learningcircuits.org/2004/feb2004/metcalf.htm>

²⁷ “The Aging - and - Retiring Government Workforce,” Center for Organizational Research, 2003, <http://www.ipma-hr.org/pdf/federal/aging.pdf>

²⁸ “IPAC Public Sector Management Issues Survey 2002: Summary Report,” Institute of Public Administration of Canada, <http://unpan1.un.org/intrdoc/groups/public/documents/IPAC/UNPAN008016.pdf>

²⁹ “Public Works and Government Services Canada Performance Report,” for the period ending March 31, 2003, http://www.tbs-sct.gc.ca/rma/dpr/02-03/PWGSC-TPSGC/PWGSC-TPSGC03D-PR_e.asp?printable=True

shifting emphasis from the back office to the front line, governments can unknowingly eliminate strategic skills and experience that are key to agencies' achieving high performance.

A comprehensive approach to the challenge is needed.

The preceding initiatives have positively affected, to varying degrees, the governments implementing them. However, because of the "one-off" nature of most efforts to date, organizations will not realize the magnitude of improvements necessary to fully address the aging workforce challenge. In our experience, few governments in any country are doing what is really needed: avoiding short-term fixes in favor of a more holistic, comprehensive approach.

Accenture has developed such an approach that can help government agencies fully understand the impacts of workforce aging and other related trends on their operations and missions; identify how well prepared they are to address the issue; develop a detailed roadmap to eliminate key human capital shortcomings in their organizations; and build and implement the capabilities critical to successfully carrying out their missions. Governments adopting this process can take major strides toward high performance by helping to ensure that they maintain a focus on delivering valued services to taxpayers while keeping their operating costs as low as possible.

This approach encompasses three broad steps as illustrated in Figure 1:

- Diagnosing the problem
- Developing a human capital management strategy for addressing the problem
- Implementing the key human capital processes, technologies and capabilities.

Figure 1: Aging workforce: human performance transformation approach



An agency will not necessarily implement the entire approach at once. However, government executives must understand the issue thoroughly and create a comprehensive transformation agenda even if they implement the approach in phases.

The first step is diagnosing the breadth of the problem.

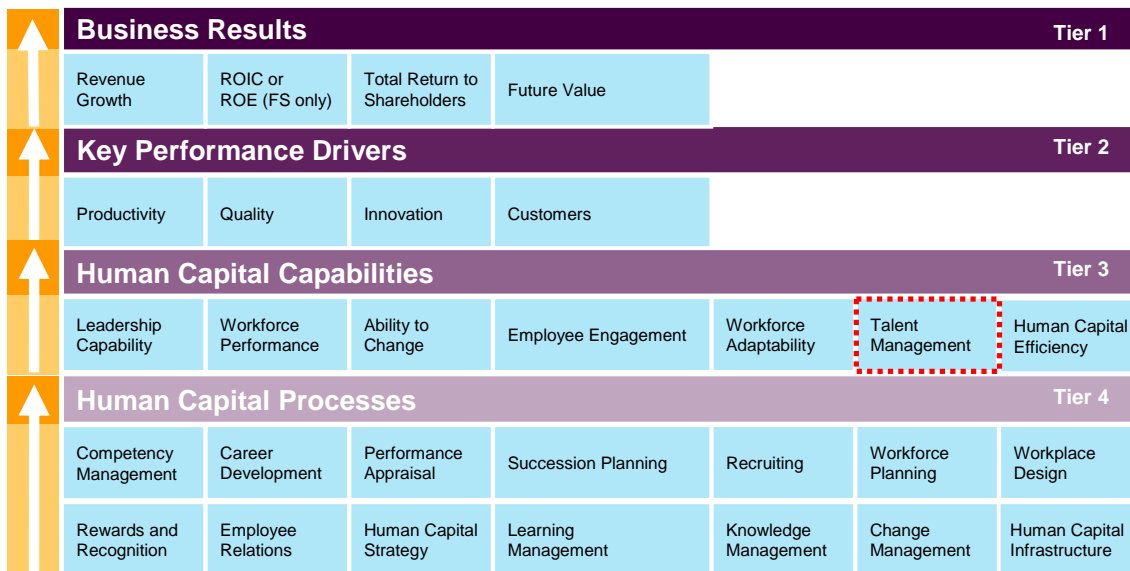
To effectively address the workforce challenge, an organization first must understand the extent of the problem and how well the organization is positioned to alleviate it. Therefore, the first step in Accenture's approach is to conduct a short, but valuable diagnostic.

The diagnostic, which can be conducted in as little as 10 weeks, enables the organization to evaluate the potential magnitude of aging workforce impacts by assessing costs of replacing retiring workers, training new or incumbent workers in critical skill areas, and lost productivity during transition. The results can highlight the potential cumulative cost of the mismanagement of or failure to anticipate aging workforce trends on overall operating costs.

The diagnostic also helps benchmark the effectiveness of the human capital processes needed to address aging workforce issues and improve the overall workforce experience. And it validates existing human capital investments to re-direct investments for greater impact. The sidebar on page 18 illustrates some of the key questions the diagnostic helps government agencies answer.

A tool such as the Accenture Human Capital Development Framework plays a critical role in this effort (Figure 2). This framework, which emerged from Accenture’s ongoing research into high-performance businesses, is a diagnostic approach to assessing human capital capabilities and the processes that drive them, and then linking human capital assets and approaches to business performance outcomes. The framework draws on best practices and Accenture experience in the fields of human resource development, learning and knowledge management alongside state-of-the-art measurement techniques. The framework is unique in that it helps organizations do more than look at levels of spending to get a sense of their human capital development strengths; it also highlights the underlying practices’ completeness and alignment with the organization’s competitive strategy and mission. With the framework—which uses qualitative information from executive and employee surveys and interviews, as well as quantitative HR and financial data—an organization can better assess its core human capital capabilities (such as leadership and employee engagement), identify specific human capital needs and then prescribe the right interventions to improve overall business performance.

Figure 2: The Human Capital Development Framework



During the past year, Accenture implemented the framework in 19 organizations around the world. After studying the results of those implementations, Accenture has identified a set of specific human capital processes where investments have been shown to help organizations achieve high performance—both in superior workforce performance and in bottom-line business results. These processes include human capital strategy, which aligns people initiatives with overall business strategy; work environment, which provides employees with supportive and positive work environments; and employee development, which expands and enriches employee capabilities.

A North American financial services company was an early adopter of the Accenture framework. This organization was in the midst of implementing a major new strategy to expand into middle markets. Recognizing the impact this strategy would have on the company’s people, and on the HR function, the company wanted to ensure that it had an appropriate human capital strategy and infrastructure in place to support the new business push. Working with Accenture, the company implemented the Human Capital Development Framework in a span of eight weeks, during which time an Accenture team collected and analyze data within the four major areas of the framework: human capital processes, human capital capabilities, key performance drivers and business

results. The comprehensive testing procedures included an examination of actual HR and other corporate data, employee and HR executive survey responses, and interviews with executives.

The results of the framework implementation confirmed a number of areas of strength. The company scored highly in vital transactional activities such as payroll, benefits administration, and time and attendance tracking. Company executives now believe that HR has a solid infrastructure in place that eliminates redundancies, although they also think the company should pay additional attention to certain areas such as recruiting and performance appraisals.

The project also confirmed that the HR function has done an excellent job in recent years in streamlining human resources, using shared services and outsourcing strategies in order to focus on more strategic endeavors. However, to become a full strategic partner to the business means that HR executives must have the right capabilities in human capital strategy. Based on their results from implementing the framework, executives now have the data to show that additional attention and resources must be devoted to developing their human capital strategy capabilities.

The analysis also indicated that some other human capital processes—such as career development, leadership, succession planning and workforce planning—are areas where investments also could contribute positively to overall performance. This finding indicated that the company would benefit from additional efforts to proactively plan for and manage employees and talent. As the company works to implement its new strategy, our results indicated that it must increase communication about the strategy and its implications to all levels of the company. New workforce skills also will be needed, so workforce planning, competency management and learning management are even more crucial.

Using a tool such as the Human Capital Development Framework, an organization can identify where it has shortcomings in the processes that support acquiring, developing and retaining talent. In fact, when an organization applies the framework across multiple functions or divisions of an organization, it can make comparisons that reveal the unique strengths and opportunities for improvement for each function or division. This allows the organization to identify internal areas of “best practice,” where a process is working particularly well, and apply this “best practice” across the organization to enhance knowledge retention and talent management capabilities

The second step is developing a human capital management strategy.

After completing the diagnostic, an organization then must develop an overall strategy for, in the short term, retaining employees eligible for retirement who possess critical skills and, for the longer term, capturing the knowledge of these people and transferring it to remaining employees. The organization also must define how it will replace, develop and manage these skills once these employees retire. This includes identifying the changes required in the organization’s recruiting, hiring and knowledge management practices, as well as how new workforce models, processes and technologies will be adopted to support these changes. There are two principal actions in this phase:

1. **Defining the organization’s future human capital requirements.** Government and HR leadership work together to determine which skills, behaviors and jobs are needed, as well as which aspects of the organization culture must be strengthened or developed, for the government to fulfill its mission in the coming years.
2. **Conducting a gap assessment to identify where human capital change efforts should be focused and in what order.** Considering the results of the diagnostic and the organization’s future requirements, the organization must define:
 - The critical competencies and skills, as well as the job classifications, that are most affected by the imminent retirement of key workers and supervisors, and how

important those competencies, skills and job classifications are to the government's ability to carry out its mission.

- How the organization will capture those critical competencies and skills and transfer them to remaining employees.
- How it will recruit and hire new workers with those critical skills, and what training and development programs are necessary to build those skills among existing employees. Concurrently, the organization also must consider options that it can provide to keep key individuals with critical skills for as long as possible (such as phased retirement, flexible work options and alumni programs).
- Where the organization must shore up its succession plan for retiring managers and executives, and its leadership development program for incumbents and new hires to ensure it has sufficient "bench strength" to carry the government into the future.
- Rewards and recognition programs and performance metrics more appropriate for the new work environment
- Changes in existing human capital processes and infrastructure, as well as in the government's overall organization structure and job duties, needed to support the organization's future human capital requirements.
- New capabilities needed to help guide the organization through what will be a major change initiative.
- Changes necessary in the government's culture and technology to promote and support knowledge sharing and retention.

A comprehensive human capital management strategy is absolutely essential to proactively identify and address the major workforce challenges an organization will face in the coming years.

The third step is implementing a broad-based solution.

With the human capital strategy defined, the organization then reaches the third step in the approach. Here, the organization must begin enacting the changes necessary to close the gaps identified in the previous stage. Accenture recognizes that every organization is different and each government's specific challenges will vary in magnitude and imminence. Yet we also know that most organizations will find their efforts centering on addressing three overarching needs: capturing knowledge to minimize knowledge loss; attracting, developing and retaining critical capabilities (including older workers); and doing more with less (people and money). Meeting those needs will require a variety of innovative approaches and solutions—many of which are new to government or are in their infancy in government applications.

Knowledge capture and transfer

For many governments, the first order of business will be to implement a formal process to ensure that the organization captures the experience and expertise of retiring workers and transfers this knowledge to retirees' successors. Accenture has worked with a number of organizations in both the public and private sectors on such projects, using an approach called Enterprise Knowledge Retention and Transfer. This approach encompasses the tools and methods necessary to identify and capture critical knowledge—both explicit and tacit—from experienced employees, and make this knowledge available to less-experience employees on an ongoing basis at the point of need.

At the heart of the offering is a Web-based suite of tools—based on proprietary, patent-pending software developed by Accenture—that intuitively guides teams through a successful knowledge capture and transfer program. It is designed around existing business and technology processes, so that employees can use it to transfer critical knowledge and experience virtually, with very little training or additional effort. The suite captures knowledge from experienced employees (the "instructors") by digitally capturing video of instructors and recording their narration as they

perform key tasks (for example, closing an organization's financial books). These recorded sessions then are turned into digital "knowledge objects" that are stored in a knowledge repository that is accessible by "learners" whenever necessary through a Web portal customized to each employee. Because of the digital nature of the process, management can track the extent to which instructors have completed their knowledge transfer activities and learners have accessed the available content. The benefits of the suite include reducing the time, cost and risk factors that organizations may face during knowledge transfer—especially the capture of valuable knowledge that must be transferred between employees across a variety of different processes and functions.

Another tool that plays an important role in Accenture's knowledge management approach—specifically, in knowledge capture—is the Personal Awareness Assistant that mobile workforces can use to passively capture and store key information with context. Featuring a scrolling audio/video buffer, this device recognizes and records relevant phrases, names, requests or faces so that employees can perform their daily interactions without interference.

For knowledge delivery, Accenture has developed technology that enables organizations to provide knowledge intelligently to employees at the point of need. Consider an example of the use of this technology in a sales context. A salesperson carries a computerized tablet with him. The tablet listens in on the conversation he is having with a prospect or customer, looking for key words, and also knows the salesperson's location (such as the department of a retail store). Based on this, the tablet retrieves helpful knowledge objects from the knowledge repository and presents them to the salesperson at that point in the conversation—in real time.

This technology could apply to any government setting in which workers' interactions with people involve asking questions in an attempt to resolve an issue—such as an revenue department call center that fields taxpayers' questions about tax-return filing or a government "bank auditor" who visits banks to ensure that they are meeting regulatory guidelines. The tool also could be very helpful in a setting where governmental healthcare professionals visit patients at home. Professionals could be prompted during conversations with patients to ensure that they are using the correct terminology and approach. Used in conjunction with online access to a patient's health care record, the tool also could ensure that a comprehensive assessment is undertaken and the best healthcare provided for each situation.

Also playing a key role in knowledge delivery is what Accenture calls dynamic computer-based training (CBT). Because of how knowledge objects are captured and stored in the knowledge repository, we are able to present insights from a variety of different experts—and update these insights continuously to keep the content fresh and relevant. This is a significant upgrade from a traditional computer-based training program, which houses static knowledge from a single source. The military is one area of government in which a dynamic CBT could prove extremely effective. For instance, when an army must set up operations for combat, the procedures are essentially the same regardless of the location. However, specific details change depending on location and scenario (setting up in an Asian jungle is very different from a Middle Eastern desert). By using the dynamic CBT to communicate location-specific instructions, the army can more easily and efficiently rotate troops in and out of different battlefield theaters.

Talent management

In addition to knowledge transfer, governments must adopt new solutions to help them more effectively attract, develop and retain critical. Accenture refers to these activities collectively as *talent management*.

Specific talent management programs vary by organization, depending on its human capital strategy. However, there are talent management processes that are common to most organizations (Figure 3). Within employee acquisition, those processes include recruiting, competency management, workforce planning, and rewards and recognition. In employee

development, processes include competency management, career development, performance appraisal, learning management, leadership development, workforce planning and knowledge management. Career development, workforce planning, and rewards and recognition also play an important role in employee retention, as does employee relations. Lastly, key transition processes include success planning, retirement and workforce planning as well as knowledge management.

Figure 3: Common talent management processes

| | | |
|---|---|--|
| Talent Management: A set of internally consistent programs, policies and processes for managing the workforce; defines the workforce culture, skills, leadership goals and employer/employee contract | | |
| Common Processes | | |
| Acquire | <ul style="list-style-type: none"> ▪ Recruiting ▪ Competency Management | <ul style="list-style-type: none"> ▪ Workforce Planning ▪ Rewards and Recognition |
| Develop | <ul style="list-style-type: none"> ▪ Competency Management ▪ Career Development ▪ Performance Appraisal ▪ Learning Management | <ul style="list-style-type: none"> ▪ Leadership Development ▪ Workforce Planning ▪ Knowledge Management |
| Retain | <ul style="list-style-type: none"> ▪ Career Development ▪ Workforce Planning | <ul style="list-style-type: none"> ▪ Employee Relations ▪ Rewards and Recognition |
| Transition | <ul style="list-style-type: none"> ▪ Knowledge Management ▪ Workforce Planning | <ul style="list-style-type: none"> ▪ Succession Planning ▪ Retirement |

Accenture has extensive experience helping a wide range of organizations improve their capabilities in all three areas of talent management. In many cases, we use proprietary Accenture solutions and methodologies to help clients achieve maximum benefits.

For example, Woodside Energy Limited, a leading Australian upstream energy company, hired Accenture to help develop an innovative approach to people management. The key objective of the project was to integrate people management processes and tools to encourage behavior that is aligned with Woodside's vision and business objectives. While many organizations approach changes to people management piecemeal, Woodside partnered with Accenture to design and implement a customized and fully integrated people management strategy. As part of that effort, Accenture created a strategy focused on three key areas: performance management, reward and recognition and talent management. Key activities include aligning individual performance with business performance; providing opportunities for individuals to realize personal and professional growth aspirations; and developing a flexible reward and recognition program.

In just 12 months, Woodside's people management strategy was designed and now is being executed. A behavior-based competency model and performance management solution are currently in place and already have created improvements in workforce performance by encouraging employees to learn, develop and align their behaviors with key business objectives. Web-based HR tools and the reward and recognition strategy will be implemented in the next stage of work. Once the reward and recognition strategy is in place, every employee will be compensated based on their ability to not only achieve individual and team goals but also on how well their individual behavior aligns with Woodside's mission, vision and values.

A second case involved a country's treasury department, which recognized that maintaining human capital resources and planning for succession replacement had become a pressing issue. The department asked Accenture to provide assistance with the strategic development of human capital assets to help ensure the viability of the organization.

The project comprised two major initiatives. Initially, the team developed a succession planning toolkit that described the steps necessary to identify future leadership requirements and key roles; define key role competencies and analyze organizational bench strength; and pinpoint

development activities that would build the required proficiencies to fill future leadership roles. Accenture also created an employee development program with mentoring for high-potential employees. As part of this effort, the team benchmarked other high-potential programs and identified best practices that could be incorporated in the treasury department's program. It also developed an executive-potential mentoring handbook with sample mentoring agreements, activities, best practices and role descriptions.

Importantly, improving talent management processes can have a tangible impact on the bottom line. For example:

- Our work in helping a utilities company improve its field workforce resulted in a 3 percent cut in absenteeism, which translates into a potential cost savings of \$300,000 to \$600,000 annually. This project involved designing and implementing a performance management system, developing structured training in managing behavioral aspects of performance, and creating a set of HR key performance indicators based on the balanced scorecard approach.
- By working with Accenture to boost the performance of its executive workforce, a large investment bank realized an increase of \$40 million to \$55 million a year in new revenue. Among the activities in this project were leadership development workshops for executives, personal development planning and coaching sessions, and workshops to better align key executive teams to the company's strategy.
- A retail bank generated a number of financial benefits by working with Accenture to improve its IT workforce skills and organization structure. These include a 15 percent reduction in overhead costs—a savings of \$5.1 million in the first year—a 7 percent increase in staff utilization, and a reduction of \$4.5 million in manpower costs through new sourcing models.

While none of these examples is from a government setting, they do demonstrate the types of tangible benefits a government entity could expect to realize by improving its talent management processes.

Doing more with less

Finally, with large numbers of older employees leaving and fewer employees entering the system, and government budgets continuing to shrink, governments will experience increasing pressure to do more with less money and fewer people—something in which high-performance government organizations excel. In Accenture's experience, two business models can help government agencies answer that call: shared services and government processing services.

Simply defined, shared services means creating world-class support functions as standalone business units within a government agency or shared among several agencies that perform routine administrative transactional processes most efficiently. Shared services helps organizations trim operating costs and reallocate the time key employees spend on low-value routine functions to the more effective delivery of services to the public. Once management and key employees are freed from the burdens of routine administrative procedures, they can focus on activities that add more value to the government's program-delivery goals.

Moving to a shared services model yields a wealth of operational improvements and an increase in quality of service. These benefits have not only economic value, but far-reaching strategic implications as well. Economic value arises from a lowering of total costs of an existing administrative support function. There are immediate economies of scale, as consolidated functions and processes eliminate redundancies and minimize the cost of transaction-processing activities. Facilities costs drop because of an aggregation and reduction of what previously may have been many disparate locations providing the same function. For instance, in Accenture's experience the introduction of shared services models in finance organizations has correlated with a significant decrease in the cost of their operations over a 12-year period. The average decrease during that time was 52 percent.

At least as important are the significant strategic benefits a government organization will realize in implementing shared services. For example, the shared services model delivers “economy of skill.” It is built around the concept of developing “centers of excellence” for the functions to be performed. These centers allow for people to develop highly specialized skills, which then can be leveraged across an entire government. The end result is higher employee productivity, reduced error rates, increases in process speed and reduced cycle times. As well, there is an associated increase in responsiveness, as a focused, specialized, service-oriented support organization addresses supported entities’ needs and issues in a timely manner.

Accenture has helped implement a shared services function in a number of government entities around the world. One of these is the government of Queensland, Australia. Comprising 26 agencies with more than 180,000 employees, the Queensland Government serves more than 3.6 million residents in the country’s northeast corner. In February 2003, the government began a wide-ranging initiative designed to create shared services centers to support a number of back-office functions—including finance, procurement and human resources. The goal of the initiative is to redirect resources from what are largely administrative activities to programs that support the government’s five priorities:

- Creating jobs and facilitating skill-building and ongoing learning for all citizens
- Ensuring safer and more supportive communities
- Fostering a high quality of life
- Maintaining a healthy and sustainable environment
- Encouraging the growth and development of Queensland’s diverse regions

As part of this larger initiative, the government worked with Accenture on an HR business solutions project in which common business processes and systems will be implemented to support recruitment, workforce management, HR and payroll information, performance planning and development, and workplace health and safety.

The Queensland Government’s shared services initiative is expected to deliver dramatic benefits—one of which is an annual savings of approximately US\$80 million in operating costs across the functions covered by the effort. This money will be reinvested in ways that will tangibly and visibly improve the services the government offers its customers—the citizens of the state—in critical areas such as health, education and justice. Beyond such quantifiable benefits, the initiative is expected to improve performance management of employees remaining in the shared services center; create a more positive and professional working environment for services center staff; and enable the HR function to more easily accommodate the “machinery of government” changes.

Some organizations opt to take the shared services concept one step further by capitalizing on a third party’s expertise in actually running the shared services function. As government agencies find themselves pinched on both human and financial resources—yet still have the same work or more to get done—such an arrangement becomes a very viable option. In fact, Accenture’s research on the government sector has found that agencies delivering the greatest value to constituents typically are highly focused on their core capabilities and rely on third parties to improve the efficiencies of their non-core activities. By shedding non-core functions, agencies not only can free up existing staff for more critical roles, but also take advantage of the economies of scale offered by the services provider. The concept—often referred to as government processing services—can be applied to traditional human resource and learning activities, as demonstrated by the experiences of several public- and private-sector organizations.

One of these organizations is the United States Transportation Security Administration (TSA), an agency within the United States Department of Homeland Security that is responsible for securing all modes of transportation (rail, ground, port, sea, and air) to ensure free movement of people

and commerce. Upon start-up as a new agency and to comply with United States Congressional mandates, TSA was required to assess, hire, train and deploy personnel as smoothly and quickly as possible. To support the human resources needs of its large and diverse workforce, TSA became the first United States federal government agency to deliver its core human resources activities through a shared-services provider. In December 2002, the agency chose Accenture as its service provider for human resources administration.

Since January 26, 2003, Accenture has been providing a broad range of human resources services for TSA's approximately 55,000 active employees. Accenture delivers service through an integrated service model leveraging both Web-based human resources information systems and a service center staffed with experienced federal human resource professionals. The majority of services are delivered to TSA through a centralized, shared service structure (via phone, on the Web and through service centers), and other functions are being implemented at or near airport locations.

From a learning perspective, government processing services can be used to more cost effectively deliver comprehensive programs that develop critical employee skills. In this context, agencies can learn from the experience of several private-sector employers that have hired Accenture to run various aspects of their learning function. One of these companies is Avaya.

The New Jersey-based communications company, by virtue of its industry, faces the need to continually introduce complex new products, and do so quickly. To support these frequent launches, the company has to ensure that its workforce, channel partners and customers can be educated quickly and regularly on product changes to support effective manufacturing, marketing, sales and service processes. Realizing that maintaining a training function that could keep up with the pace of product introductions would be difficult and costly, the company decided to outsource its entire training and development function, Avaya University, to Accenture. In doing so, Avaya gained continuous access to state-of-the-art training and development capabilities without the large-scale investment in the infrastructure and processes necessary to maintain such a function in-house—and, as a result, can focus its internal investments on core competencies.

As part of the outsourcing arrangement, Avaya retained responsibility for overall strategic management of the learning function—including setting learning objectives and monitoring the performance of the overall program. Accenture handles the development of the program content, delivers the training globally (both classroom- and Web-based), maintains the necessary technology solutions, tracks learner achievements and performance improvement, and manages the course lifecycle (updating as necessary). Together, the two companies continually monitor the program to ensure that all activities and courses are aligned with Avaya's overall strategy and are meeting the business objectives of the company's functions.

The company rolled out its new learning program—encompassing more than 1,800 courses—to more than 50,000 employees, customers and channel partners in more than 90 countries in the first six months of the outsourcing arrangement. Over the past several years the program has successfully supported the largest introduction of new products in Avaya's history—thus supporting the company's continuing efforts to achieve high performance.

Conclusion

While it is true that statistics can be manipulated to support a story, in the case of the aging workforce challenge the numbers do not lie. The largest segment of the working population will be retiring in the next five to 10 years, and the potential talent pool behind that cadre is smaller, less interested in government as a career option, and likely to be more expensive by virtue of its limited supply.

As governments around the world grapple with this emerging scenario, it is more critical than ever for them to take a holistic, comprehensive view of their human capital needs today and in the future. As part of that effort, they should ensure that they have the mechanisms in place to capture knowledge to minimize loss of critical expertise; attract, develop and retain key capabilities (including older workers); and do more with fewer people and less money.

In doing so, government organizations can take major strides in their journey toward high performance by effectively balancing the outcomes they deliver to the public with increasing levels of cost-effectiveness. They will be better positioned to maintain a client-centered, outcome-oriented focus that is supported by innovative and flexible operations and a motivated, productive workforce that is held accountable for the achievement of the organizations' missions. And, they will be able to more effectively recognize and respond to changes in the environment that present new opportunities for transforming the delivery of government services.

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About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Committed to delivering innovation, Accenture collaborates with its clients to help them become high-performance businesses and governments. With deep industry and business process expertise, broad global resources and a proven track record, Accenture can mobilize the right people, skills and technologies to help clients improve their performance. With more than 110,000 people in 48 countries, the company generated net revenues of US\$13.67 billion for the fiscal year ended Aug. 31, 2004. Its home page is www.accenture.com.

Appendix

As a group, public-sector employees are older than most private-sector workforces.

In a study of 11 North American and European countries, the Organization for Economic Cooperation and Development noted that in most of the participating countries, more than 25 percent of national government employees are older than 50. In fact, the average age of the public-sector workforce surpasses that of private-sector workforces in most developed countries. For example:

- In the Executive Branch of the United States federal government, 20 percent of employees in 2002 were older than 55; 39 percent were older than 50. According to the Office of Personnel Management, 30 percent of the federal workforce will be eligible to retire in three to five years. In the Department of Defense, 66 percent of all civilian employees are eligible to retire in 2006.³⁰ In some states, the situation is even more severe: Maine and California could lose half of their employees today if all those eligible for retirement chose to stop working.³¹
- More than 50 percent of Canadian government executives will be eligible to retire by 2010.³²
- In the Netherlands, a survey revealed that more than 60 percent of public-sector employers have more than 20 percent of employees aged 50 to 64.³³
- In Australia, the median age for all public service staff nationwide has increased from 37 in 1993 to 41 in June 2002. In the country's state of New South Wales, 42 percent of public-sector employees are over 45 years old, versus 32 percent of private employers in the state. Furthermore, only 5 percent of public sector employees are under 25, compared with 18 percent for private employers.³⁴
- In the United Kingdom, 27 percent of the public-sector workforce is 50 or older, compared with 21 percent in the private sector. A further 29 percent of public-sector workers are in their 40s, compared with 21 percent in the private sector. And, just 16 percent of those in the public sector are under 30, compared with 31 percent in the private sector.³⁵

The human capital management diagnostic answers numerous key questions.

- Workforce Planning and Workforce Analysis: Which employees are eligible for retirement in the next two to five years? Do they possess critical skills? Which jobs and skill sets will be impacted? How will you replace these skills once these employees retire? What are the critical skills for the future that will need to be recruited or developed?
- Learning Management: Do your current training and learning programs focus on the critical skills needed for the future? Are your delivery systems designed to provide training in ways that meet older or new employee learning needs?

³⁰ "DOD Faces Aging Workforce," Matthew French and Colleen O'Hara, *Federal Computer Week*, May 26, 2003

³¹ *Ibid.*, 25

³² "A Stealthy Approach to KM," *KM Magazine*, October 26, 2004, <http://www.kmmagazine.com/xq/asp/sid.53B2DC4E-EAEF-4B8C-B104-18F4D26D56E9/articleid.ECB6DBC-B323-4678-A6F6-D9AC1BA13D36/qx/display.htm>

³³ "Managing an Aging Workforce and a Tight Labor Market: Views Held by Dutch Employers," <http://members.lycos.nl/nidi/pdf/prpr-22-01-remery.pdf>, page 27.

³⁴ "Overview Report for the NSW Public Sector Workforce Profile 2000," Human Resourcing http://www.premiers.nsw.gov.au/our_library/workforce_profile/Overview_Report_WP_2000.pdf, page 13

³⁵ "Older and Gloomier," *The Economist*, January 16, 2003.

- **Recruiting:** Do the current recruiting processes operate effectively so that you can quickly hire top talent as the competition for skilled resources continues to increase?
- **Succession Planning:** Which employees can assume leadership roles when the current leaders retire?
- **Rewards and Recognition:** Do you offer creative and flexible rewards to employees eligible for retirement in order to encourage them to stay? Do you offer competitive rewards in order to attract and retain new talent?
- **Employee Relations:** Do you have an environment where employees feel valued and respected in order to make sure both older and younger employees stay?
- **Knowledge Management:** Are you able to capture and make accessible the unique knowledge possessed by workers who are retiring?
- **Workplace Design:** Are the workplace and jobs designed so that they are sufficiently flexible to accommodate the needs of employees considering retirement or new workers seeking flexibility, such as job-sharing, telecommuting, part-time work, etc.?