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Retiring Workers Could Present a Problem for Marketers, Even in a Recession

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ABSTRACT

Today's workforce is aging fast. The tacit knowledge held by those approaching retirement is necessary for firms to compete in the increasingly competitive marketplace. While some research has been devoted to how older workers view their retirement will impact the workplace, minimal attention has been given to how younger workers view this issue. As companies strive to remain market-driven, this paper examines how younger personnel view the impact of retirement on their employers and the impending brain drain. A discussion of implications for the marketing function within firms also is provided.

INTRODUCTION

The 1990s were viewed as an outstanding decade for domestic commerce in the United States. A solid economy, fertile stock market, and productivity growth fueled business gains and helped firms become more competitive than they had been in decades.

The outlook for the 21st century has grown turbulent due to the recent global economic downturn creating an increased level of competitive intensity. In such a business environment firms must have a heightened vigilance to protect, preserve and transfer strategy-critical tacit knowledge about markets, rivals and customers. This ability to maintain key capabilities has become more critical as large groups of experienced and valuable workers, the baby boomer generation, nears retirement.

Organizational Capabilities

With the dynamic and competitive intensity in the global marketplace, firms must make concerted attempts to become more customer-oriented, more efficient and to improve their business capabilities. The term "capabilities" refers to the bundle of organizational skills and accumulated knowledge that enable firms to coordinate essential business activities and make use of their resource endowments (Day 1994). Many strategic management scholars contend that such capabilities should play an integral role in how firms are managed, and must be adapted to meet market requirements in a constantly changing business environment. The linkage between capabilities and business processes is a critical one because capabilities allow the activities or

tasks in a business process to be executed. As business activities are carried out, knowledge is accumulated which can facilitate behaviors leading to performance enhancements.

Day classified the configuration of organizational capabilities into three categories- inside-out, outside-in, and spanning. The easiest to identify capabilities are those associated with the activities that take place inside an organization. Day referred to these as inside-out capabilities corresponding to the core business processes that identify what a firm is capable of doing internally to create economic value. This particular set of capabilities helps to ensure the proper skills, knowledge and experience are in place to facilitate movement of goods through all value chain activities. Examples are manufacturing, human resource management, financial management and accounting.

While these capabilities have an intra-company focus, firms are also required to have a matching set of external capabilities. These are imperative in order to accurately interpret and anticipate actions by competitors, suppliers, customers and other parties with the ability to impact the company from outside the organization's boundaries. The outside-in capabilities within firms rely on the skills and knowledge embedded primarily within personnel performing the marketing and sales functions, and their abilities to execute the tasks necessary to build ongoing relationships with customers and other business stakeholders.

Lastly, spanning capabilities are required to combine the sets of internal and external processes. These capabilities involve the knowledge required to perform sequences of activities associated with the processes required to satisfy anticipated customer needs as identified by outside-in capabilities, and rely heavily on information generated by inside-out processes. Business processes that are integral to the development of spanning capabilities include strategy, new product development, and service delivery.

Knowledge-based Capabilities in a Changing Workforce

Much of the knowledge needed for each of these categories of capabilities is the knowledge of experience, or tacit knowledge. Tacit knowledge is the understanding gained through experience and is difficult to elicit, teach or make explicit (Polanyi 1966; Leonard and Swap 2004). Recording how to do something is relatively simple compared to writing down why that method is the best choice. Unstated knowledge is best learned by working side-by-side with the keeper of the information so that the explanation of why things are accomplished in a certain way can be shared.

Nuances such as how best to apply business practices and keen understanding of rivals' motives and customers' behaviors can only be learned through time and experience. Firms throughout the world are faced with the looming retirement of a large group of knowledge-holders, the baby boom cohort. In 1951, the median age in North America was 30; this will escalate to 41 by 2050. The drastic shift is not unique to the U.S. and Canada. The same U.N. report noted that in the E.U. the median age in 1950 was 29 but would be 49 100 years later (UN 2002). From 2006 to 2016 the U.S. workforce that is over 55 years of age will grow 5 times faster than the general

labor force (Franklin 2007). Managers considering this data in aggregate should find the prospect of this fundamental shift menacing.

For the past 30 years, the majority of people in the work force have belonged to the boomer segment. As this huge cohort nears retirement significant attention has been paid to the implicit changes. In the workplace it points to radical shifts in certain professions based upon a high concentration of baby boomers in some occupations. In particular cases this higher-than-average number of workers nearing retirement will be beneficial as the need for people in those professions declines. Demand for farmers, dress makers and bookkeepers, for example, is expected to continue to fall due to productivity improvements or declining U.S. production. The attrition created by the larger than average number of boomers retiring from these fields may correct for changes in the U.S. economic structure.

Other fields, however, face potential shortages. According to the Bureau of Labor Statistics 41% of people in executive, administrative and managerial jobs were over the age of 45 in 2000 and 42% of those were expected to leave the professions by 2008 (Dohm 2000). There are insufficient numbers of younger workers from the markedly smaller Gen X cohort available to sufficiently fill those positions. Further complicating the problem is that those positions that can be filled will be occupied by individuals who can claim similar or even better academic qualifications than the retiring boomer, but nearly always lack the depth of experience that enriches contributions made by their retiring predecessor.

Consider the implications for the U.S. federal government. After many decades of complaints about under serving citizens, government agencies are now moving toward more market-driven approaches to conducting business (Liebowitz 2004). Their ability to successfully become market oriented strongly depends upon the know-how and experience of older government workers whom have worked hard to seamlessly interweave routine business activities in order to serve customers better. Statistics reveal that many of these workers are close to retirement age. In fact, government agencies such as the Internal Revenue Service, Postal Service and NASA expect over half of their personnel to retire within the next five years. Intercepting the tacit knowledge held by the retiring workers before it is lost through retirement has become a key issue for the government. Recommendations were made to use federal retirees to help build knowledge management processes that are integral to the creation of “a results-oriented, citizen-centered, market-driven government” (Liebowitz 2004). As such, the recognition and anticipation of the upcoming brain drain allowed them to take action in hopes of circumventing potential problems. Organizations lacking such foresight might find that they need to induce retirees to stay, at least long enough to institute some knowledge transfer before they exit.

Cost of Knowledge

Interliance Consulting Inc.'s developed a *cost of knowledge* model that examines the financial risks firms incur due to failure to perform tasks such as capturing the knowledge of retiring employees (Anonymous, 2007). The model estimates the costs of losing knowledge and the financial impact of regenerating best practices and of growth in error frequency due to the erosion of a company's expertise and competencies. This framework also provides insights into

the cost of missing knowledge within organizations relative to process efficiency, human error, and employee productivity.

While boomers have often been described as inflexible and, more specifically, resistant to learning and using new technology, they have also been recognized for adding valuable knowledge and stability to the workplace (AARP 2000 American Business and Older Employee). Their stores of tacit knowledge have become a subject of much research, debate, and discussion. The American Business Collaboration, a group of firms including Abbott Laboratories, Exxon Mobil, General Electric and a host of notable others has scrutinized issues related to older workers. A primary tenet behind their interest in aging workers is the desire to understand what can be done by businesses desiring to hold onto more mature and experienced employees (Bond et al 2003).

Robert Half International, a firm specializing in human resource issues, found that over half of the companies they service are deeply concerned about losing key personnel to retirement in the upcoming years (Anonymous 2005). Max Messmer, chair and CEO of this organization noted that “tenured employees take with them valuable experience, industry contacts, and knowledge of best practices that are difficult to replace.” This sentiment has become increasingly apparent. In a discussion of a study sponsored by IBM Corporation and the American Society of Training and Development, Aronauer (2006) expressed concern about how only fourteen percent of surveyed companies had made the issue pertaining to the approaching *brain drain* a strategic priority.

Consider the implications for one international company, Daimler Trucks North America (formerly known as Freightliner). The organization recognized that the impending retirement of essential knowledge workers jeopardized their future ability to maintain proficiencies required to address customer needs. The capacity to exploit the knowledge gained from customers has not only been essential to Daimler Trucks’ capability to customize as well as improve their product offerings, but also has allowed various departments, from production to marketing, focus on continuous learning of how to meet customer expectations. Using a five-year retirement window, the company developed a process to capture critical knowledge from aging workers prior to them leaving the firm. This involved categorizing targeted personnel by first identifying whether indispensable knowledge was held by individuals, small groups of aging workers, or numerous potential retirees. Next, Daimler Trucks North America created knowledge management systems as well as other mechanisms to facilitate the transfer of knowledge to prevent the loss of critical information held by those close to retirement (Strack, Baier, and Fahlander 2008).

This initiative aligns with other market-driven practices deemed instrumental to broader attempts to sustain competitiveness and develop a business climate which relies heavily on satisfying customer needs. According to Day (1994), this requires that organizations acquire and utilize business intelligence that is crucial to the implementation of appropriate and timely market responses, with the marketing function serving as the primary conduit between firms and their customers. Marketers are routinely in the position to extract tacit knowledge from customers, channel members and other external stakeholders to facilitate better customer relationships and their own professional growth. Businesses will face challenges in addressing customer needs if

knowledge holders whom are critical to their ongoing operations leave firms without making their knowledge available for those left behind. Thus, strategies must be developed in order to obtain crucial knowledge from potential retirees and transfer it to younger workers.

Collecting Knowledge Pre-Retirement

The question that arises from all of this is how to protect, preserve and transfer strategy-critical, tacit knowledge about markets, rivals and customers as large groups of boomer retire and exit? The purpose of this research is to improve managers' understanding of the dynamics of their diverse workforce. Specifically, we provide insights into the needs and wants of younger workers relative to their perceptions of their older counterparts. Much has been written about the needs and wants of the older worker (Atchley 1989; Kim and Feldman 2000; Rau and Adams 2005; Dychtwald 2006; Lahey et al 2006; Armstrong-Stassen 2008; Groeneman 2008; Wave 2009), but if companies are to sustain capabilities they must also know more about the younger workers to whom the knowledge must be transferred. This insight should improve management's ability to more skillfully manage this diversity and remain competitive in global markets.

To accomplish this goal we first review the extant literature regarding the worker who is nearing retirement. From this data we created a survey that was distributed to MBA students. This survey allowed us to juxtapose the needs and wants of the large segment of retiring workers against the perceptions of their younger cohorts to whom they must bestow strategic knowledge if firms are to remain competitive during the transition. MBAs were queried on their perception of their older counterparts and the management of them. Survey results are identified and practical and research implications are discussed. In the final section we suggest limitations and avenues for further discovery.

Understanding the Boomers' Perspective and Behaviors

Although large shifts in the makeup of the workforce are projected, extant literature indicates that firms may have time to gather the strategic knowledge held by older workers. It is becoming common for people to experience healthy aging which impacts individuals approaching retirement, as they retain good health into their later years and live longer. This change has encouraged many to postpone retirement or return to work once retired. The older worker who continues employment during retirement is much more common than the one might assume. According to Rhume (1990) less than 40% completely and permanently retire while Lahey et al (2006) found that 59% of respondents stayed retired and 41% returned to work. In two recent studies 70% of older workers surveyed expressed intent to continue working after retirement (Groeneman 2008; Wave 2009).

Furthermore, stock market losses in 2008-2009 necessitate that many people work longer to recoup those investments. Many older workers express concern about their potential inability to afford uninsured healthcare expenses and offer this as a primary reason that they plan to delay retirement, on average, by 4.2 years (Wave 2009).

Beyond the current economic conditions, the continuity theory of aging (Atchley 1989) provides insights into why, as people age and earn the right to retire, they often choose to do otherwise. Humans have a natural desire to preserve known structures. Work environments, for many, are a major component of the framework of their lives and these they strive to maintain as a means of coping with the unknowns of aging. Although the average age of retirement declined from 1950 through the 1990's, this trend has leveled off and some estimate that the average age will increase during the 2005-2010 timeframe (Gendell 2008).

Armstrong-Stassen (2008) however, found that few working retired remained in their pre-retirement job, company or industry; 52% reported entirely new surroundings in their bridge employment. Perhaps this is a reflection of the weak effort employers made to retain life-long contributors and employees who exhibited significant promise after years of affiliation with the firm (Dychtwald, Erickson and Morison 2004). These authors suggested that too little effort has been made to convince mature workers to remain with the company and reap the mutual benefits of improved productivity and health.

Research on the subject of retirement-age workers, or those nearing it, has identified the needs and behaviors of the Baby Boomer cohort relative to the "job stopping" process. Much work has been conducted to determine which elements influence the aging worker to stay or return to the workforce. The state of one's health, amount of time with an organization, employment status of a spouse, and support of children, all had a positive correlation with the pursuit of bridge employment (Lahey, Kim and Newman, 2006), while age, salary at retirement and pension benefits all had an inverse relationship to re-employment after retiring (Kim and Feldman, 2000). Knowledge of these antecedents allows employers to understand, in general terms, the make up of those retirees who desire to stay employed or return to employment post-retirement. The perception of being treated with respect and given recognition for valued knowledge and the trust that the evaluation system employed would reflect those values were also strong motivators for the retired person to remain in or return to the workforce (Armstrong-Stassen, 2008).

Explicitly stating a company's prioritization of older workers through targeted EEO statements was found to have mixed results. When these statements were carefully balanced so that flexible work arrangements (FWA), staffing and work design policies were mutually reinforcing, the effects were positive. Without careful management of this three-way interaction the EEO policy, even when targeted, did not have the desired effect. In this study Rau and Adams (2005) speculated that targeted EEO statements might serve to increase the expectations of the older worker and make him or her more difficult to please or easier to disappoint.

SURVEY AND SAMPLE

The present research queried students from two universities on the areas that have been identified as important to the "older worker". This person was qualified as one perceived to be 62 years of age or older. Specifically, students were surveyed to determine their perception of the older worker and the management of them. There were 80 respondents with a wide variety of industry experience whose general demographic and work profile is described in Figure 1. Most

respondents are 'young' relative to thoughts of retirement (86% below age 35) but have exposure to older workers through their departments (56% report one or more workers age 62 or older in their department) or they report to someone who is over age 44 (46%). Over 61% report daily or weekly contact with older workers.

FINDINGS

Younger workers, as a whole, displayed positive feelings toward older co-workers. Generally they find the relationship with the worker nearing retirement to be positive, friendly and productive. This is reflected in the comment submitted by one respondent, "They are a wealth of knowledge and experience. I value them on my team and am grateful that they are still willing to keep working." A full 64% qualified their working relationship with older workers as "close and friendly" and "productive"; 61% classified their older counterparts as "easy to work with".

Most (61%) reported that their firm recognizes people throughout the ranks for talent and recognition while a full 75% said their organization is respectful of older workers. Results indicate, however, that older workers do not receive unique or special recognition nor were special accommodations given or needed. In the words of a respondent, "I work with several people over the age of 62. They are treated the same as other age groups. When they retire, it will not be a problem because I work for a large bank and everyone is replaceable. However, most of the older people have dedicated years to the company and will be greatly missed." Most disagreed that the older coworker needed physical accommodations or flexible work arrangements; nearly 90% did not agree that older workers took more sick time. One, however, commented that, "medical problems seem to be more prevalent with the older generation, while family problems seem to be more predominant with the younger generation".

The strongest negative sentiment registered was with regard to the lack of availability throughout the firm of specific, important knowledge held by individuals. Forty five percent of the sample stated that it was common for individuals with whom they work to have specific and important knowledge that was not recorded or available for others to use. An additional 35% were neutral on this same question.

It is notable that this sentiment is not directed at the older workers, but relates to all coworkers. When asked whether a system is in place to gather specific and important knowledge from workers in their department as they exit (in general, without reference to retirement), the feedback was split; as many agreed as disagreed and the same percentage was neutral on the subject. When queried as to whether this important knowledge was gathered from those preparing to retire respondents chose 'neutral' as the most common response (48%), while 26% answered negative and an equal percentage answered in the affirmative. Although the neutral response is difficult to interpret, there certainly is evidence that a system for the transfer of important information is not something that workers feel confident about. One respondent suggested that, "more training should be conducted to pass knowledge to the younger employees".

Interestingly, despite ambivalence about a sound knowledge transfer system, most (57%) did not feel that the number of people approaching retirement would be problematic for the organization. A small percentage (15%) felt this would actually benefit the firm, but most, 43%, did not view this as a gain. A few commented that the older workers would “leave with a lot of needed information” and “bringing in fresh talent means that there will be a significant learning curve if the older employees are not their to teach them.”

IMPLICATIONS FOR MANAGERS AND RESEARCHERS

The good news for those who manage teams with people of different ages, is that the overall attitude of younger workers toward older ones is generally positive. It appears, however, that there is significant opportunity (and implied need) for firms to create more direct and apparent knowledge transfer systems. If companies are to maintain their competitive edge through unique and valuable capabilities, those that are built upon tacit knowledge, they must make sure that these do not leave the firm as the experienced worker retires. The onus falls especially on sales and marketing functions where the valuable and illusive tacit knowledge is not only intangible, but much of it is relevant to the external environment of the firm making it even harder to accrue and understand.

It is interesting to note that many comments left by survey respondents had a rather negative tone; a sharp contrast to the overwhelmingly positive outcome of the survey. A sample of these comments include: “We currently are experiencing a generational clash between the Baby Boomers and Gen X/Y due to their differences in work ethic, supervision and approach to completing a task.” “While co-workers who are at or near retirement bring a lot of knowledge to the table, they are also the most resistant to change in the office, especially when that change pertains to technology or policy.” “Some older workers are very comfortable and don’t want to grow in the organization but they are very knowledgeable.” “From my experience, there tends to be more politics and hardheaded discussion among older workers.” Herein lays an opportunity for further research. To what degree would other respondents reject or accept these comments? To what degree are these issues reflected in day to day operations? To what degree will such thinking deter from the ability of firms to remain market-driven?

CONCLUSIONS

Organizations realize the importance of having experienced, knowledgeable, and well-seasoned employees working for them in today’s turbulent business environment. When BASF, an international chemicals and plastics company, recently realized that more than 1200 of its knowledge workers would soon retire from the firm every year, it made the capture of such knowledge a business imperative (Ottwell 2009). From a different viewpoint, a survey of marketing executives rated 55-65 year old sales representatives higher than their Gen X and Gen Y counterparts along critical dimensions such as the capability to meet sales objectives, overall customer and business know-how, company and client commitment, and creativity in problem solving (Kaplan 2001). Moreover, after an extensive review of business literature, Guest and

Shacklock (2005) found expertise, experience, and developed skills as recurrent themes used to explain the importance of older workers to organizational effectiveness.

In Slater's (1997) discussion of the customer value-based theory of the firm, it is proposed that performance enhancements can occur when firms strategically implement a business climate emphasizing continuous learning and the development of knowledge that serves as a basis for remaining competitive in today's volatile marketplace. This type of knowledge is what Leonard and Swap (2004) refer to as *deep smarts*. According to these researchers, those with this quality "...almost intuitively, they can make the right decision, at the right level, with the right people...these are people whose knowledge would be hard to purchase on the open market. Their insight is based more on know-how than on facts; it comprises a system view as well as expertise in individual areas" (p. 88).

Companies will find it difficult to remain market-driven and customer-oriented without seizing such know-how. As more workers are approaching retirement age, it is incumbent upon firms to find ways to developing means for capturing deep smarts in order to produce value that all customers desire.

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Figure 1
Respondent demographic/work profile

Age	20-35	86%
	36-52	10%
Level of Education	MBA or in progress	73%
Job Responsibility	Entry Level	38%
	Management	33%
Company Size	>2500	46%
	1000-2499	10%
	100-499	25%
	<100	19%

