

The Advisory Alliance

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Will There Really Be a Leadership Shortage?

80,000,000 million people is a lot of people. It's more than 2 times the population of California, 9 times the population of Georgia, and about 2½ times the population of all of Canada. To put it in a different perspective, it's about 3 times the combined population of the 10 largest U.S. cities, or almost 30% of the entire U.S. population. What's the significance of the 80,000,000? It's roughly the number of people born in the U.S. between 1946 and 1964, the cohort known as the Baby Boom generation. With ages currently ranging from 41 to 59, this massive cohort is rapidly approaching retirement.

Just as they had a major impact on consumer spending and more recently on the 2nd home real estate markets in the U.S. southeast and southwest, the Baby Boomers will similarly have an impact on labor markets. So far, prognosticators are not claiming that the sky is falling or even will fall. The signs, however, are foreboding. Consider the fact that combined with the exit of the Baby Boomers, there will be a concurrent drop in numbers for those aged 35 – 45. The Bureau of Labor Statistics estimates that between 2002 and 2012, the number of people aged 35 – 45 in the labor market will decline by about 2.5 million workers. This is the legacy of the Baby Bust that occurred between 1961 and 1981. Combined, the exiting of the Baby Boomers and the decline in numbers by the Baby Bust-ers represents a serious leadership issue for organizations.

Beyond the impact of demographics, there are also other factors now converging to create serious "talent" shortages beyond the issue of simple head count. Consider the following:

- The elimination of middle management layers has created notable gaps in many companies' leadership "pipeline".
- For those employees who survived the waves of downsizing in the '90s and more recently, many survived in organizations that had also slashed their training and development initiatives, further exacerbating the existing skills gap among employees.
- According to a Deloitte survey, 1/3 of U.S. companies expect to lose at least 11% of their current workforce to retirements by 2008.
- According to the same study, 1/2 of U.S. companies surveyed have not identified the set of critical skills needed for future growth.
- The Society for Human Resources (SHRM) in their recent study *2005 Future Labor Pool* found that HR professionals were reporting "a lack of competencies in workers entering the workforce that inhibited their performance, most notably in the form of overall professionalism, followed by written communication, analytical skills, business knowledge and verbal communication."
- A recent study by Executive Development Associates, found that 70% of companies reported a moderate to major leadership shortage, resulting in companies' being "unable to expand into

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new markets or make critical acquisitions, due to a lack of leadership talent.”

- Companies facing management and skills shortage but increased spans of control are facing the prospect of promoting less qualified employees into positions of significant decision-making responsibility, at great potential cost to the organization.
- And the impact transcends “business” leadership. Last year, China graduated 325,000 engineers, five times as many as the U.S. Average annual salary for a Chinese engineer - \$15,000. Average annual salary for a U.S. engineer - \$70,000.

So what to do? Here are some recommendations:

- Assess the impact of an aging workforce: Who and how many will be leaving your organization? And by when? What skills and knowledge will they be taking with them? How will you retain those skills and knowledge, and ultimately transfer them to other employees?
- What skill gaps exist within your organization now and as a result of those leaving? What has caused them to exist to date? How should you recruit and also develop your employees differently? What changes will you make to your development programs?
- Review your leadership “pipeline”. Is it sufficient? Will those selected for future leadership have the skills and capability necessary to deal with the full gamut of tomorrow’s challenges?
- Review your company’s leadership development program. How must it change to reflect the talent and market realities confronting your organization?
- Don’t have a leadership development program? To paraphrase the Chinese proverb, the best time to start a leadership development program was 20 years ago. The second best time is now.

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Until next month, best regards,

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