

# »» Older workers in SMEs – a golden asset or a liability?

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Germany's labour force continues to age, with more than one fifth of SME employees now older than 54. A special KfW SME Panel survey shows that the SME sector values its older employees. Not only do SMEs appreciate the advantages of older workers, most of them even dismiss their assumed drawbacks.

Yet in order to exploit the specific strengths of older employees (and keep them in the labour force longer), more progress needs to be made in transforming the working world. Among other things, age-appropriate working conditions, lifelong learning, and a cross-generational working climate need to be created. Large sections of the SME sector, however, are still in the planning phase.

## Demographic change is transforming the world of work

Decades of low birth rates have led to the rapid ageing of the working-age population today. The last baby boomers of the 1960s are entering the final stretch of their careers. The proportion of over 54-year-olds among all employees increased from 12 to 19% in the last ten years. Known as 'silver workers', employees from this generation are even more common in small and medium-sized enterprises (SMEs), where they make up 21% of the workforce. Forty per cent of SME employers now have at least one employee who is over the age of 54. The rising proportion of older workers is mostly due to the ageing of the population but that is not the only reason. Rising labour participation rates of

older workers and less attractive early retirement arrangements have also contributed.

What does the shift in age structure mean for business processes and productivity? On the one hand it is argued that cognitive and physical performance capacity peaks between 20 and 30 years of age and then gradually declines. On the other hand, people gather more knowledge and experience as they grow older. The scientific literature provides no consistent answer to the question whether individual productivity generally declines with age or tends to remain constant.<sup>1</sup> However: older workers often have other strengths, weaknesses and needs than younger workers.

## SMEs build on older workers' reliability and expertise

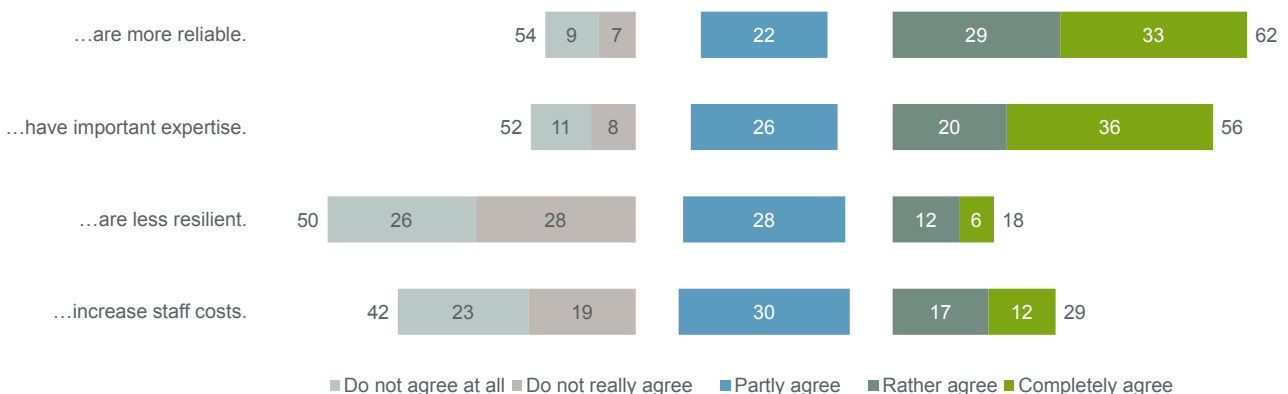
A special survey of the KfW SME Panel illustrates the attitude of entrepreneurs towards older employees. Their opinions are clearly positive, that is, SMEs apparently do not regard their older employees as a liability. For example, 62% of entrepreneurs agree that older workers are more reliable than younger ones; a good half of them even responded 'agree completely'. Only 16% of entrepreneurs do not consider older workers to be more reliable. Similarly, 56% of entrepreneurs see older workers' expertise as important for their company, while 18% do not (Figure 1).

Opposite responses are given to the negative assertion that older workers were less resilient. Only 17% of entrepreneurs agree, while more than half dispute shortcomings with respect to resilience. The SME sector does not appear to see

Figure 1: Most SMEs have a positive view of older employees

Agreement (and disagreement) with assertions about older employees (share in per cent)

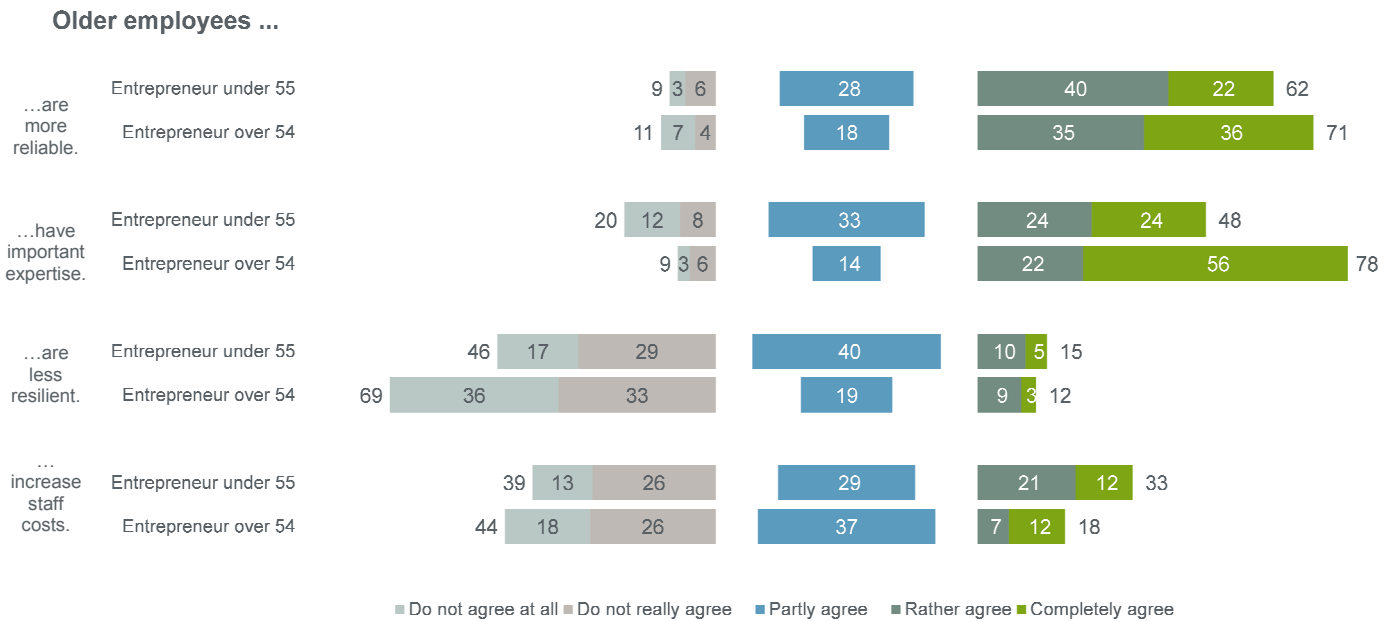
### Older employees ...



Source: KfW SME Panel 2014

**Figure 2: Older entrepreneurs have a particularly positive view**

Agreement (and disagreement) with assertions about older employees, by age of entrepreneur (shares in per cent)



Source: KfW SME Panel 2014 (only newly included enterprises were counted)

a major problem here.

**Personnel costs from absences and higher wages**

A significant number of entrepreneurs surveyed reject the statement that ‘older employees cause higher staff costs’ but although 42 % of SMEs disagree with this assertion, 29 % still agree. It is plausible to assume older workers cause higher staff costs because of what is known as seniority-based pay. On average, older employees are paid higher salaries than their younger colleagues, even when performing comparable work. They also take sick leave more frequently and for longer periods as they grow older.<sup>2</sup>

**Opinions vary by sector and age**

Attitudes towards older workers barely differ between enterprise size classes. Sector differences are more pronounced: Entrepreneurs in knowledge-intensive services and R&D-intensive manufacturing hold older workers’ expertise in particularly high regard. Construction firms are sceptical about older workers’ resilience, which is plausible as many activities are physically demanding.

The entrepreneurs’ attitudes towards older employees also depend on their own age. Entrepreneurs who are over 54 themselves consistently rate the qualities of their contemporaries more positively, especially their expertise and resilience (Figure 2).<sup>3</sup> The assessment is also slightly more positive among entrepreneurs who actually have older staff.

**Age structure of the workforce: Entrepreneurs and their staff age together**

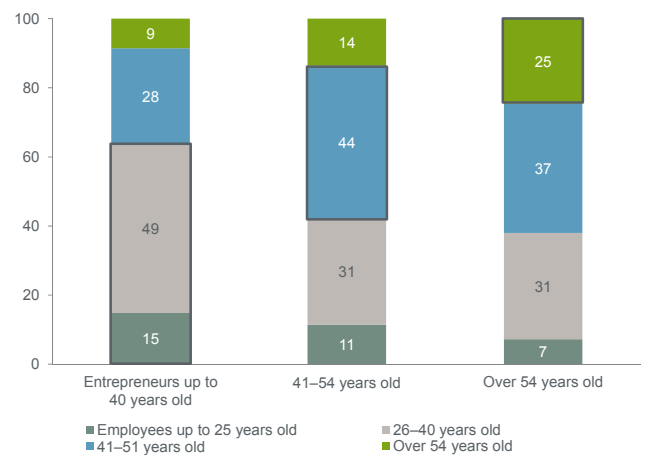
In general, small or medium-sized entrepreneurs rely strongly on staff from their own generation: Young entrepreneurs

largely employ workers who are also below the age of 41 (64 %) but only 9 % of their employees are over 54. Older entrepreneurs also have a disproportionately high share of workers from their own age group, as 25 % of their employees are over the age of 54 but only 38 % are under 40 (Figure 3). The statistical relationship between an entrepreneurs’ age and that of his staff is mostly due to long-standing employment relationships. In other words, businesses, owners and employees age together.<sup>4</sup>

Very few age structure differences exist across enterprise size classes. Smaller SMEs have somewhat older workers, mainly because they offer fewer vocational training

**Figure 3: Birds of a feather flock together**

Age structure of employees by entrepreneur age (shares in per cent)



Source: KfW SME Panel 2014 (only newly included enterprises were counted)

activities.<sup>5</sup> The only notable difference between sectors is that construction workers are significantly younger. There are two reasons for this, apart from physical demands: training rates are high and the sector employs few graduates (who are older when they enter the workforce).

## **In order to secure skills, SMEs are ready to target mature workers**

Demographic change is increasingly forcing a shift in focus towards mature workers, not only because their share in the workforce is growing. The upcoming retirement of the baby boomer generation will severely reduce the potential labour force. The strategy for securing skills will therefore have to include keeping mature workers employed – and productive – for longer. That will require working conditions and procedures to be adapted to their specific skills and needs.

The KfW SME Panel shows, however, that so far only 17 % of SME employers have implemented measures aimed at retaining older workers for longer. A further 28 % have such

plans – SMEs are in the starting blocks. Greater efforts will be necessary to enable the steadily growing numbers of mature workers to demonstrate that their experience and expertise can be golden assets of the SME sector in the long term as well.

Among other things, this requires adapting workplaces and their ergonomics to the needs of mature workers and promoting their health and continuing education. A multi-generational work environment is also of key importance.<sup>6</sup> However, attractive jobs and satisfied workers are not the only aim. Multi-age teams are also multi-talent teams that amalgamate mature employees' valuable expertise and experience with younger employees' approach to technological change – a combination that potentially generates synergies and ultimately benefits enterprises' productivity.<sup>7</sup> ■

<sup>1</sup> Cf. Börsch-Supan, A. (2014), Ökonomie einer alternden Gesellschaft (The economics of an ageing society), *Perspektiven der Wirtschaftspolitik*, 15(1), S. 4–23; Frerichs, F. (2014), Demografischer Wandel in der Erwerbsarbeit – Risiken und Potentiale alternder Belegschaften (Demographic change in employment – risks and potential of ageing personnel), *Journal for Labour Market Research* 48(3), pp. 203–216 (both in German).

<sup>2</sup> Cf. Robert-Koch-Institut (2014), Daten und Fakten: Ergebnisse der Studie „Gesundheit in Deutschland aktuell 2012“ (Facts and figures: Results of the study 'Health in Germany 2012'), *Beiträge zur Gesundheitsberichterstattung des Bundes* (Contributions to Federal Health Reporting), Berlin, pp. 143ff (in German).

<sup>3</sup> The age correlation exists across the entire age spectrum. Young entrepreneurs under the age of 40 are more sceptical with regard to the qualities of older employees, while over 64-year-old entrepreneurs have the most positive view. Also striking is the fact that older business owners often have a clear opinion, expressing full agreement or disagreement more frequently and responding more rarely with 'partly agree'.

<sup>4</sup> Cf. Schmidt, C. et al. (2012), Altert die Belegschaft mit dem Betrieb? Eine empirische Analyse mit Linked Employer-Employee-Daten (Does the workforce age with the company? An empirical analysis with linked employer-employee data), *Zeitschrift für Soziologie* 41(2), pp. 101–125 (in German).

<sup>5</sup> Although the figures shown do not include trainees, those who remain in the enterprise after completing their training also reduce the age of the workforce.

<sup>6</sup> Measures for implementing a multi-generational work climate have been implemented by 10 % of SME employers and another 30 % have plans. The corresponding shares for age-appropriate workplaces are 7 and 24 %, respectively. Sports and health promotion schemes are not widespread (implemented: 12 %, planned: 10 %). SMEs have been more active in the field of further education: 23 % have already implemented measures, 33 % have plans to do so. Cf. Leifels, A. (2016), *Mittelstand steht bei der Fachkräftesicherung in den Startlöchern* (SMEs are preparing to secure skills), *Focus on Economics* No. 119, KfW Research, Frankfurt am Main (in German).

<sup>7</sup> Cf. Göbel, C. and T. Zwick (2011), *Age and Productivity – Sector Differences?*, ZEW Discussion Paper 11-058, Mannheim.