

Risk management for an enlarged EU

In cooperation with Economist Corporate Network and Economist Intelligence Unit

Employee protection

EACH YEAR about 500 million workdays, and 3% of member countries' GDP, are lost to workplace accidents in the European Union. It is therefore no surprise that EU authorities are energetically striving to reduce losses from workplace injury and illness.

Interviews conducted for this report reveal that CEE company managers are confident of their ability to meet new European Occupational Health and Safety (OSH) standards. Further research suggests, however, that large differences in risk management activity remain between businesses working to understand the causes, costs and remedies for workplace safety problems. In practice, companies that wish to avoid reputational risk in their markets, attract and retain talented employees and head off emerging threats of litigation must strive not only to meet, but exceed the OSH standards of the enlarged EU.

In other words, managing employee risk well is central to sustaining competitiveness.

Research indicates:

- Poor compliance with new European OSH standards is more commonplace among smaller firms.



- Larger indigenous and multi-national firms import “good OSH practice” from abroad.
- OSH compliance and “good practice” in the CEE region focuses primarily on workplace accidents and, to a lesser extent, occupational disease.
- Most CEE businesses do not rate lost productivity stemming from staff absenteeism, stress, low morale and turnover among the most significant risks facing their business. This runs counter to risk perceptions in Western Europe.

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Executive summary

- Workplace health and safety conditions in the accession countries remain below EU standards.
- Resource-strapped small firms face the toughest compliance challenge; these are well behind track in bringing workplace conditions up to the new standards. Larger companies are generally OSH compliant.
- European Union occupational health and safety (OSH) directives continue to change, as new initiatives emerge on workplace illness and stress.
- OSH enforcement mechanisms are extremely weak. The enforcement authorities and trade unions are not up to the task, and sometimes complicit in poor practice.
- Business OSH risk is hard to quantify, but is certainly growing. Litigation against employers and government imposition of fines are not common practice, but may be expected to increase as enforcement and monitoring improve.
- Management attention to behavioural risk will increase. Except in Hungary, risk is not currently perceived as high from absenteeism, stress, low morale and occupational illness. This is likely to change as EU health and safety norms are absorbed and understanding of their impact on competitiveness grows.

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Research by Marsh¹ shows that only Hungarian managers within the CEE region rate lost productivity due to behavioural issues such as absenteeism among their top 3 exposures. The graph below illustrates the point. The percentage of survey respondents in each accession country who rated the risk of lost productivity as highly significant is plotted next to their perception of how robust existing management procedures are in this area.



Interviews with businesses and regulatory authorities for this report suggest Hungary is the country most prepared for EU OSH regulation. The Marsh survey also suggests Hungary is closest in risk perceptions to longer established EU member states. Hungary may therefore be a good proxy for how the perception of employee risk will develop in the region. As other accession countries embed OSH thinking in their businesses, behavioural risks will be perceived as increasingly significant. Management of these risks will become a means of improving productivity and, therefore, competitiveness.

¹Marsh 2004 Survey of Risk, involving 686 companies in 11 countries.

The state of OSH in the accession countries

 **WORKPLACE DANGER** and fatigue are significant problems in Central and Eastern Europe. A survey conducted in 2000-2001 by the European Foundation for the Improvement of Living and Working Conditions (considered a more accurate picture of conditions than government statistics) revealed the following:

- More workers in the CEE accession countries than in the EU-15 (42% versus 27%, respectively) consider their jobs harmful to their health.
- 40% of CEE workers suffer fatigue due to longer hours or other factors, compared to 23% of workers in the EU-15.
- More accession country employees than EU-15 employees (12% versus 8%, respectively) reported absence due to occupational illness.
- Conversely, the survey showed slightly fewer workers in CEE than in the EU-15 feeling job-related stress (27% to 28%).
- Fewer CEE workers (4% of the total surveyed) spend more than five days a year away from work due to industrial accidents than in the EU-15 (6%).
- Fewer in CEE (20%) also stay away from work due to general illness (24% of EU-15 workers surveyed).

The above points to a gap in workforce expectations between older member states and the accession countries: many employees in the latter are willing to work longer hours and grow more fatigued while tolerating sometimes hazardous work conditions. Interpretation suggests a real risk that workplace injuries, illness and associated costs will increase in frequency upon joining the EU-15.

Legal changes and company compliance

 **THE EUROPEAN** Commission reports that health and safety directives are largely transposed in the accession countries. The keystone legal document – now applied in the accession countries – is Council Directive 89/391 of June 1989, known as the Framework Directive. This delineates the Union’s general principles of occupational health and safety, while daughter directives address more specific matters related to individual industries, types of workplace hazard or illness, and other areas.

Prevention through risk assessment and precaution is the Framework Directive’s ethos. Acceptance of a “prevention culture” is a relatively recent development in most accession countries and the legislation places some unfamiliar responsibilities on indigenous businesses. For example, employers are obliged to provide and pay for all work-related health and safety measures. The other key employer responsibilities centre on systematic risk assessment and consultation:

- Periodic evaluations of workplace health and safety risks must be conducted, and appropriate responses must be developed in order to prevent occurrences.
- Employers are obliged to inform workers of the results of such evaluations and preventive measures, and they must also apprise them of the planned deployment of new workplace technologies or use of new products.
- Health and safety training must also be provided to workers when they are recruited, when they are reassigned or relocated, when equipment is changed and when new technologies are introduced.

Costs of compliance

INDUSTRIES WHOSE activities pose the greatest threat to employee health and safety will likely have the highest compliance costs. These include the mining industry and manufacturers of chemicals, metals, machinery and equipment.

Implementation of EU directives will add little to costs already allocated to health and safety for multinational and large indigenous firms, estimated at 2 to 3% of turnover.

- Viru Keemia Group, a privatised Estonian chemical manufacturer, considers OSH intrinsic to daily work and related costs minor when compared to EU-mandated environmental measures.
- Lietuvos Energija, a large Lithuanian electricity generator and distributor, sees spending on OSH as a source of competitive advantage.
- Polish shipyard, Maritim, has invested heavily in ensuring OSH compliance because, like many exporters, it welcomes stringent health and safety standards that help differentiate the firm from Asian competitors when breaking into Western European markets.

EU legislation has had much less effect in small firms, where higher accident rates are experienced than larger firms. Costs of implementing new standards are therefore still to be realised. Since resources in such businesses are already scarce, increasing regulatory burdens on small firms would be politically unacceptable. European officials are instead considering appropriate educational campaigns and other awareness-raising efforts.

Polish shipyard Maritim has invested heavily in ensuring OSH compliance... it welcomes stringent health and safety standards that help differentiate the firm from Asian competitors



Enforcement and monitoring capacity

ENFORCEMENT AND monitoring bodies are well below EU standards. There are serious deficits in every accession country's national inspectorate, particularly in the areas of staffing, financial resources and training.

Conflicts of interest, where inspectors or even inspectorates provide contract services to the businesses they monitor, are one cause for concern. Outright corruption is another; inspectors driving away from inspections with boots full of company products remains a common practice in some accession countries.

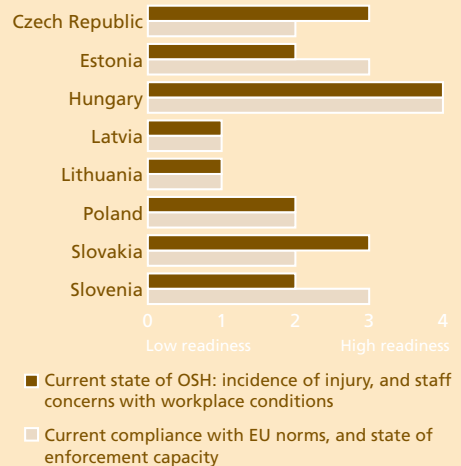
Greater co-ordination is required between labour inspectorates and health ministries, which investigate occupational disease and chemical exposure. Poor co-ordination with international counterparts also deprives the inspectorates of benchmark experience.

Trade unions and workplace committees are weak in CEE. Labour union strength varies in the region – from about 15% of workers in Lithuania to around 40% in the Czech Republic. All have suffered steep declines in membership in recent years. The International Labour Organization found a positive link between union presence and lower accident rates at CEE enterprises.

Only about 25% of accession country employees work where formal structures (e.g. joint employer-employee committees) exist to discuss workplace safety.




**HEALTH AND SAFETY:
ACCESSION COUNTRIES' READINESS**



Source: EIU (Estimates based on research and interviews)

Establishing a culture of prevention

 **STRUCTURAL PROBLEMS** are compounded greatly by entrenched cultural attitudes toward workplace safety.


Generally, the approach to workplace safety in Central and Eastern Europe emphasises employee compliance with rules and procedures rather than proactive measures to prevent incidents. This leads to a focus on industrial accidents, rather than the risk of occupational disease. Indeed, the region suffers from a worrying lack of medical expertise in the area of occupational health.

Employees and employers alike display such attitudes. At Maritim, a Gdansk-based shipyard, the executive responsible for safety issues finds the biggest obstacle to improving OSH to be an out-dated workplace culture among employees reluctant to adopt modern safety procedures and protective equipment. Levels of understanding of occupational risk are similarly low among labour inspectorates and doctors.

CEE employers and workforces also still value the principle of hazard pay for activities considered dangerous. In Hungary, for example, despite a ban introduced in 1993, the practice still existed at 25% of workplaces in 2000. Hazard pay continues because employers and employees want it and labour unions do not object. While the EU finds the practice unacceptable, stopping it will be complicated (and the practice remains today in some EU-15 countries).

It is therefore not surprising that CEE managers do not regard less tangible risk associated with occupational stress-related illness, low morale and absenteeism as a critical challenge for their companies.

Managing health and safety risk

 **WELL-RUN COMPANIES** exhibit noteworthy similarities in OSH practice:

- They accept OSH as part of good business practice; all are aware of the risks involved in non-compliance, but in any event do not see the latter as an option.
- They commonly import health and safety regimens and attempt to adapt them locally. Multinationals introduce parent company practice, which usually surpasses European minimum requirements. Independent local firms frequently turn to some form of international certification, such as OHSAS 18001 for safety. This has especially been the case in the Czech Republic, Estonia, Hungary and Slovakia.
- They focus on measuring improvements, recognising that managing employee behaviour and accident rates improves competitiveness. Two examples of Marsh clients in Western Europe:
 - An airline reduced accident frequency by 43% within one year of implementing a new health and safety programme, saving EUR900,000.
 - A food manufacturer used risk assessment techniques to improve absence rates in the workforce. In one year its absence rate fell from 9% to 4%, with associated costs driven down from EU 13m to EU 7m in one year.



CHECKLIST OF KEY RECOMMENDED ACTIONS

Management systems

- Ensure that at the highest level, senior management accepts OSH as part of good business practice, that investment in OSH improves company productivity and protects the corporate reputation. Achieve this through regular boardroom briefings.
- Communicate in writing the board's commitment to and goals for OSH within the company
- Centralise ownership of all employee risk-related activity, data and compliance requirements in order to measure the full impact of employee performance variations.
- Create a health and safety committee.
- Look to parent company practice if you are a multinational, as this often surpasses minimum European requirements.
- Look to international certification, such as OHSAS 18001 for safety, if you are an independent local company.
- Implement formal structures for management-labour relations
- Include health and safety considerations in strategic and operations decision-making, e.g. investment in new equipment

Risk assessment process

- Ensure you have qualified people within your company who are able to undertake regular audits/ risk assessments
- Audit existing health and safety procedures, checking particularly for different local interpretations of written standards
- Audit the health and safety procedures of outsourcing partners to ensure optimum productivity levels and to protect your corporate reputation
- Benchmark with sister companies and competitors
- Formally seek feedback from the workforce on health and safety measures – including aspects such as staff morale

Training

- Educate line managers and supervisors on the financial/ productivity costs of accidents and sickness AND on the reputation of the business
- Introduce annual (at least) health and safety training for the workforce, covering both policy and practice
- Ensure training sessions are relevant to each workplace function based on the risks they face – do not rely on single, generic sessions
- Provide written training support materials to employees
- Survey participants post-training to measure individual understanding of responsibilities (and identify further training needs)

Record keeping

- Monitor all audit/ risk assessment results and follow up on improvement recommendations
- Monitor and record all accidents and near misses
- Monitor and record all reports of disease
- Develop personal safety improvement plans for supervisors and employees

Communication

- Produce and publish to the workforce easily digestible OSH policy documentation
- Make OSH support material available in a number of formats – use paper, noticeboards, articles in in-house magazines, on-line formats if available etc
- Launch internal health and safety campaigns in areas of high accident frequency. Competitions to reduce frequency between divisions have been shown to be effective

Monitoring

- Develop audit standards and employ audit tools to ensure consistency of application
- Benchmark against industry best practice
- Analyse all collected data in order to identify weaknesses and report to the board with recommendations

Insurance implications

Gaps remain in the practice and perception of employee protection between many CEE and Western firms. As the legislative and cultural environment of the CEE changes, the potential exposure that an employer faces from employees claiming injury, both physical or nonphysical, increases.

This will certainly have an impact on insurance coverage and premiums paid by employers to cover this risk. At present, insurance products differ from country to country, but in general State Workers Compensation schemes operate across the region. Historic loss information for these risks is very limited and there have, besides, been few large claims. It is almost inevitable that a compensation culture will develop, increasing both the frequency and severity of claims and local insurance markets will have to adapt to keep pace with these changes. One obvious route will be to import Western European products and services related to the employment environment, including claims management.

Although it is difficult to predict precisely how the insurance market will react to change in the CEE employment environment, what can be managed is claims development. Minimising the severity of claims through health and rehabilitation schemes will become an important component of the overall risk management strategy of businesses.

In the longer term, behavioural and social risks, such as stress and sexual discrimination exposures, will also be of concern to CEE employers. Insurance coverage for these risks falls under the title of Employment Practices Liability Insurance, which in most of the European Union is an expensive and specialist product. Assessing the impact on productivity of this type of behavioural exposure and examining risk transfer options such as EPLI is something that companies in accession countries will want to consider over time.

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About Marsh

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In Europe, Marsh offers clients unique advantages in meeting their risk management and insurance needs. This advantage is twofold: a comprehensive network of wholly owned offices and the region's largest force of expert insurance professionals. Marsh is the only broker with a totally owned and operated office network, enabling client service of a consistently high standard of quality. Our people have the skills and experience to navigate the social, political, cultural and commercial environment of each country.

This paper is the third in a series of five to be published by Marsh in co-operation with the Economist Corporate Network and the Economist Intelligence Unit. The papers address the risk management implications of EU enlargement for businesses operating in the eight accession countries of Central and Eastern Europe. After the introductory paper to the series, the second paper focused on consumer protection. Forthcoming papers will address the following topics:

- Environmental liabilities
- Directors' and officers' (D&O) liability

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