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Zsolt Dudás:
Investments in OSH — a reasonable business solution and social responsibility

Investments in OSH – a reasonable business solution and social responsibility

Zsolt Dudás

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Project funded by the EU

*The way reduction of work-related injury and occupational disease incidence influences an enterprise's economy, examples of optimization of occupational safety costs and a resulting economic effect, economic methods of OSH management at an enterprise, a case study on a reasonable business solution, and much more – **in an interview of Zsolt Dudás**, Manager of the ILO Project funded by the EU, **for Okhorona Pratsi i Pozhezhna Bezpeka (OPPB) magazine**.*

OPPB

In your opinion, will better occupational safety and health at an enterprise, particularly lower work-related injury and occupational disease incidence have a positive impact on the economy of the enterprise itself? Indeed, occupational safety costs are often rather considerable, and employers do not always want to allocate enough funds for that.

Zsolt Dudás

First of all, I am very glad that this theme is highlighted – an economic aspect of occupational safety and health (OSH), because it is important not only to Ukraine but to the modern economy in general.

Let's recall the OSH-related figures given by the International Labour Organization (ILO). Looking at Fig. 1, it becomes clear that the world has faced huge economic losses due to occupational accidents and diseases.

If we speak of occupational safety and health from the perspective of its positive impact on the economy, it is a comprehensive theme because the employers' expenses (investments) on OSH can be felt immediately whereas **economic benefits are long-term, however sometimes it is difficult to present them in figures (for example, a better corporate image, etc.)**.

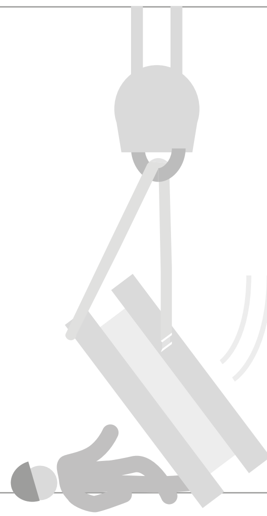
Fig. 1

Losses for the world economy due to occupational accidents and diseases

- **160 million** — **workers** suffer from occupational diseases every year
- **113 million** — **persons** are affected by non-fatal accidents every year
- **2.3 million** — **workers** (approximately) die due to occupational accidents every year

4%

Losses for the world economy amount to about 4% of the global GDP



Enterprises can be tentatively divided into three groups from the viewpoint of perception of risks and benefits from OSH improvement

1 Group – inactive – enterprises that believe that OSH is not important because their organizational risks are minor. Due to that, costs and benefits from compliance with OSH requirements are also low.

2 Group – reactive – enterprises that consider OSH compliance costs as too high relative to compliance benefits. As to costs, they incur them rather because of the need to observe legislative requirements than because they realize that compliance with OSH requirements is important. They think that implementation of all measures for compliance with OSH requirements is a very cost-expensive element, reducing their market competitiveness.

3 Group – proactive – enterprises that see OSH costs as investments. They are more concerned about interruption of production and about potential damage to workers than about the costs connected with observance of OSH requirements. They apply a proactive approach to OSH management that features involvement of executives, participation of workers, integration of OSH in business solutions, and workers' thorough knowledge on OSH.

OPPB

Please provide an example of the situation where optimization of OSH costs brought a positive economic effect to an enterprise and, perhaps, to the State.

Zsolt Dudás

In light of this question, I would like to draw your attention to the BETTER WORK flagship programme initiated by the ILO together with the International Finance Corporation, a member of the World Bank Group.

BETTER WORK programme:

- **covers** 12 countries, 1700 enterprises and 2.4 million workers employed at these enterprises (Indonesia, Jordan, Nicaragua, Vietnam, Cambodia, etc.);
- **unites** many well-known brands, in particular: New Balance, H&M, Puma, Colex, NIKE, DICK'S, Levis, INDITEX, PRIMARK, DEBENHAMS, Patagonia, TALBOTS and others (see the full list at e.oppb.com.ua).

BETTER WORK programme has brand partners that support the initiative in the garment industry. Clothes made by the brand partners are well-known and popular in Ukraine as well.

As part of BETTER WORK programme, Tufts University (Massachusetts, USA) conducted an independent impact evaluation, commissioned by the ILO, of compliance with key labour standards, including OSH and working hours, to assess the impact on enterprise productivity and profitability,

Production growth

by 5.1%

For example, management skills training of staff, first of all female workers, increased labour productivity by 22%.

Other improvements were also present: the enterprises concerned strengthened their position in the supply chain, began to receive larger orders, improved labour pay conditions and working time duration for workers.

In Vietnam, profitability of the enterprises involved in BETTER WORK programme during 4 years has grown by 25%. Besides, the number of audits on the part of purchasers has decreased.

In Myanmar, installation of ergonomic chairs and delivery of instructions to workers – on how to hold a posture correctly to prevent back pain – has contributed to decrease in the number of such pain cases. As a result, worker absenteeism has decreased by 36.1% whereas production output gas grown by 5.1%.

In Sri Lanka, for example, provision of protective eye goggles and use of appropriate mechanisms monitoring eye safety has enabled a 17% productivity rise and allowed reducing the number of incidents and minor injuries from 1.1% to 0.3% per month.

> The number of such positive examples has been growing from year to year. They prove once again that OSH is not only good to the worker's health and safety but also an economic lever beneficial to the enterprise.

Return on 1$ investment in OSH -

2.2 $

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Zsolt Dudás

For example, the International Social Security Association conducted a survey of 300 companies in 15 countries to find out opinions and evaluate return on investment in OSH. 81% of respondents rather positively assessed the situation, stating that the investments repay themselves. In particular, **return on 1 USD investment in OSH amounted to 2.2 USD.**

At the same time, it is important to say that ill-conceived and unplanned OSH measures may not provide return on investment. *For example,* according to the report, uncertainty of the OSH legal framework can result in ill-conceived investments by business, in risk overestimation or in giving up some activities instead of their proper management. Business needs stability and predictability whereas OSH measures should have sense, be proportionate to risks and targeted.

How can OSH be incentivized at an enterprise? What principal economic methods of occupational safety management at an enterprise as well as tools and measures can you name, and how are they working?

In fact, there is a lot of options of how to implement such practical actions at the enterprise level. Certainly, it is essential that companies develop and introduce OSH policies; assess and manage risks; and have emergency plans.

It can be re-equipment of workstations or workplaces, certain changes in infrastructure, proper maintenance of machinery and equipment to keep them in working conditions at all times, engagement of OSH practitioners having real expertise.

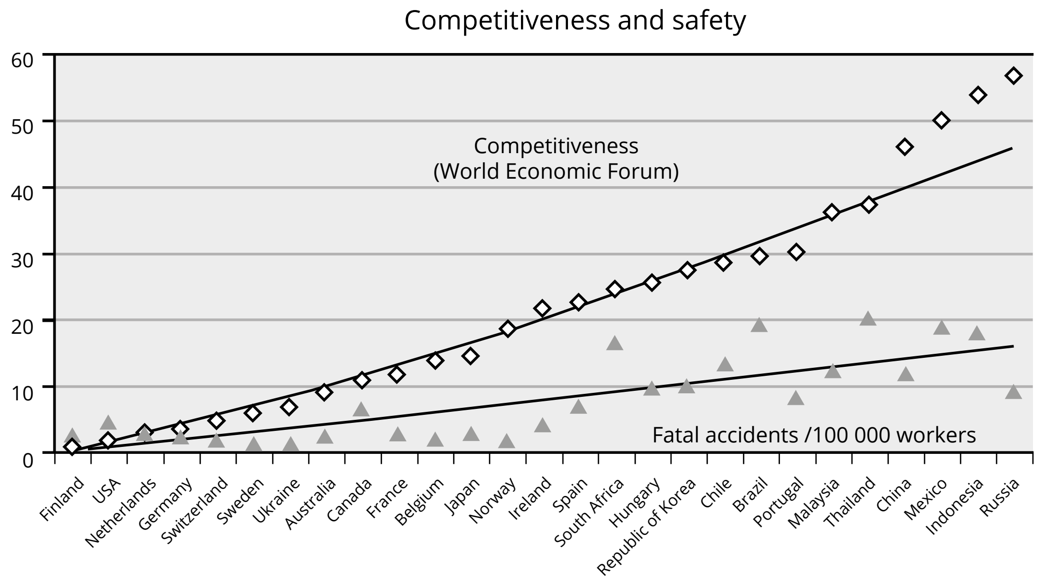
Besides, **training of workers is of great importance.** In my opinion, **establishment of bipartite OSH committees at the enterprise level** is a very good example.

That is, establishment of enterprise-level committees within which the employer interacts with workers and other representatives to examine issues and make decisions related to OSH.

One more example of enterprise-level social dialogue focused on improvement of productivity, from BETTER WORK programme: advisory services – a consultative committee on productivity improvement – are established at the enterprise level. The employer's representatives and workers discuss measures that could be taken to increase labour productivity at the enterprise.

Fig. 2 presents data from the World Economic Forum and the ILO that demonstrate a relationship between accidents and competitiveness. We see a clear dependence: **the less the number of accidents the higher the country's competitiveness.**

Fig. 2



OPPB

How do economic methods of impact influence occupational safety at an enterprise? Please provide some examples. How are they documented?

Zsolt Dudás

Speaking of the national level, of course a national OSH law is required. In all the EU countries, such national laws are aligned with the Framework Directive EU 83/391/EEC. It is also a benchmark for Ukraine.

Competitive European economies have a low level of accidents and occupational diseases.

Another one of efficient ways is to include OSH matters in collective agreements.

For example, North European countries have a developed system of collective-agreement-based regulation. Collective agreements cover 80-92% of the economy in respective countries. At the collective agreement level, many more details and practices are elaborated.

Take, for example, Netherlands. Trade union membership density is about 20%, and trade unions cover more than 80% of the economy via collective agreements and contracts. As a country, Netherlands is among the top 10 most competitive countries in the world.

Speaking of the enterprise level, guidelines, codes of conduct and policies work well at this level, which certainly rely on successful practices and are aligned with the national legislative requirements.

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How can an employer determine economic reasonability of necessary expenses on improvement of working conditions and occupational safety at the enterprise? Is there any certain formula for that?

Zsolt Dudás

A very interesting question. If we talk about a world competitiveness report, it contains very complicated and long formulas. If we talk about the enterprise level, there is a much simpler method called the “cost-benefit ratio”.

Study case

1

A construction company in Europe employed 280 workers to build houses

The company analyzed the costs related to workers’ back pain caused by working postures, repetitive movements and handling heavy loads (on average, 3 cases a year occurred in the company). The estimated costs were between 55, 178.18 and 110,356.36 euros over a four-year time span (net of insurance premium costs that usually grow for a company in case of an accident).

For example: the cost of one minor injury was estimated at 7,886.27 euros and consisted of the following expenses:

- the victim’s absence from work (28 days): 4,690.27 euros;
- the need for colleagues to interrupt the work: 32.5 euros;
- overtime of colleagues to compensate: 1,560 euros;
- accident investigation by management: 50 euros;
- accident investigation/time spent: 16.25 euros;
- accident investigation by OSH specialist: 200 euros;
- discussion of the accident in safety meeting/management, workers’ representatives and OSH specialist: 29.75 euros;
- administrative follow-up: 17.50 euros;
- training of the replacement (time of the trainer): 1,230 euros.

2

Many such cases can be prevented by purchasing equipment for heavy load handling (the cost of equipment for all 8 teams was 30,424 euros plus 2,000 euros annually for maintenance), and by providing training on safety of working processes and on correct postures that can be delivered by the company staff. Assuming that such preventive measure can reduce the rate of accidents and related costs by 75%, net prevent value of investments in these preventive measures is estimated at 35,701.02 euros[1].

And it's not about concrete figures presented above but about its being basic mathematics, and this task could be completed by every employer by calculating how much a worker's absence from work, etc., costs. **Then, we would see a much more precise picture: not only what should be paid or invested in OSH now but also calculate how much we reduce potential costs due to that and, accordingly, see how the enterprise's profit can be increased.**

Going back to the beginning of our conversation, inactive and reactive enterprises see only the money that they should spend on OSH from their pocket today. Proactive enterprises, on the other hand, look at it as at a valuable investment and calculate how it will influence their profits.

It would be interesting to learn how many enterprises in Ukraine conduct such analysis of OSH costs and what benefits from such actions are.

That is, **by making proper calculations** (see the Case Study above), **one can look at the situation differently and change the way of thinking!** It would be useful to reflect on that.

And, of course, many companies look at that as at corporate social responsibility and believe that **investing in OSH is an important component of socially-oriented activities of the enterprise.**

Investments in OSH are a reasonable business solution and confirmation of an enterprise's social responsibility.

1 Source: European Commission, 2011. Socio-economic costs of accidents at work and work-related ill health. Key messages and case studies.

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Zsolt Dudás

What can you say about incentivization of OSH abroad, and how is this aspect being realized in Ukraine? What incentives are defined in legislation, and what incentives should an employer apply?

I think that **the strongest incentive is not outside but inside the enterprise itself. If the employer analyzes costs and benefits it will become clear to him what benefits he will receive from investments in OSH.**

Possible incentives may be found in the course of social dialogue between the State, employers and trade unions.

From the ILO viewpoint, OSH is becoming increasingly important and may become part of fundamental rights at work in the near future. At the same time, OSH and a system of ensuring compliance with OSH requirements have an **impact on economy and trade relations at the international level.**

After adoption of the OSH law, it will be important to initiate and launch a series of training activities on OSH – and I hope we will manage to do that, together with employers' organizations, trade unions and SLS. Foreseeing that such time will come, **we have already translated an ILO training module on OSH for small and medium-sized enterprises**[2]. Why is this very important? Because small and medium-sized enterprises make up an overwhelming share among enterprises. It is they that encounter the greatest number of problems and challenges related to ensuring safe and healthy working conditions, therefore they need additional information and training for proper compliance with legislative requirements.

> I wish that as many Ukrainian enterprises as possible fall into a category of proactive enterprises interested in OSH investments that give them corresponding benefits.

2 The ILO's Labour Administration, Inspection and Occupational Safety and Health Branch (LABADMIN/OSH), the Vision Zero Fund (VZF), and the Sustaining Competitive and Responsible Enterprises (SCORE) Programme developed a training module that introduces workers, employers and managers of the small and medium-sized enterprises (SMEs) to the main OSH principles, concepts, processes and tools. Read, download and learn at: https://www.ilo.org/budapest/what-we-do/projects/declared-work-ukraine/WCMS_821505/lang--en/index.htm

The OSH law has not been adopted yet, still being under discussion, however if the final adopted version is aligned with the EU Framework Directive, it will provide clear understanding of the employer's obligations that will correspond to what is written in the Framework Directive, hence all the guidelines, possible methodologies, work principles will also correspond to the practice existing in the EU. **And for an employer, accordingly, his duties, approaches and a clear hierarchy of risk assessment and OSH management based on risk assessment will already be clearly stated.**

But again, a reactive enterprise's philosophy: "I will do that because the law requires that. I do that because I was forced to do that". **We must shape proactive mentality where we go a little further, beyond the law. And we can do more than it requires because there is economic sense in that,** the workers' absenteeism caused by ill health or accidents will decrease due to that, sick leave expenses will go down, etc. All that says that **the enterprise is becoming more economically healthy.**

And if we talk about trade relations with the EU countries, there will be partners playing by certain rules on that side, and the rules must work on both sides of the border, and starting conditions for enterprise competitiveness must be based on those rules.

I will give an example to demonstrate how closely everything is interconnected: employment relationship aspects, OSH aspects, enterprise economy aspects. One thing follows from another.

A great many accidents occur because people work too many hours in a row

One the one hand, it is allegedly the employment relationship matter, however at the same time it is:

- **a matter of occupational safety and health** (because an accident often occurs exactly due to the fatigue caused by excessive working hours);
- **an economic matter** (since a person works excessive hours for a long time their productivity per hour declines);
- **a matter of trade relations** (because when a person works overtime, they must be paid compensation for that, that is additional pay. And the additional pay means that the products made will become more expensive because labour pay is one of the pricing components).

Zsolt Dudás

Summing up everything said above, what conclusion can you draw and what advice can you give employers as regards incentivization of OSH as a component of economic benefit for an enterprise?

I encourage Ukrainian enterprises to view the current situation, getting closer to adoption of a new OSH law, still not as a threat but an opportunity that will be long-term.

It is very much to be done by business associations, employers and councils, considering examples from the EU countries. I would like to emphasize that the European countries' practice has economic argumentation. The European system is built not to complicate the life of business but, on the contrary, to support it, make business sustainable, and let realize that we can economically strengthen our enterprise and improve its stability by meeting the legislative requirements.

Some think that a certain level of economic development should be reached first, to be able to invest in OSH. However, it would be good to change the paradigm and realize that investments in OSH is a way of reaching the desired level of economic development and sustainability.

Prepared by the editorial board