Improving workforce health and workplace productivity
A virtuous circle

Position Statement

October 2013

Companion Statement to *Realising the Health Benefits of Work*

The views in this paper are of the Royal Australasian College of Physicians and the Australasian Faculty of Occupational and Environmental Medicine, and do not represent the views of signatories to the *Health Benefits of Work Consensus Statement.*

Contents

1 Foreword

This position paper advocates that health is a fundamental issue in Australia and New Zealand, embraced by government and citizens. However, the role of health in the workplace has not yet been established as a fundamental principle on which to create and develop workplace culture.

As occupational physicians, we see that positive and profitable workplaces are created through good treatment of employees. Yet we regularly observe that this knowledge is not understood by many workplaces.

A positive workplace culture is one that aligns employees' self-interest with the organisation's activities and objectives. When successful, the results are good relationships, high morale, trust and personal commitment as well as a profitable bottom line in both social and financial terms.

A negative workplace culture flows from the misalignment of employer and employee interests. The outcome is conflict, poor relationships, distrust and a lack of commitment. Social and financial outcomes suffer.

Discussion about workplace culture and employee engagement has been taking place for two decades now. The advocacy of employee engagement as a business case has spluttered and sparked. While the positive workplace cultures created in some organisations clearly demonstrate the social and financial benefits, the concept has not gained sufficient traction to effect widespread change. Why?

The costs of poor workplace culture are poorly understood. Costs are spread across many diverse systems: sickness absence, worker's compensation, loss of employees' discretionary effort, healthcare costs, staff turnover, private insurance arrangements, social security, and early retirement. Employers and governments can miss the opportunities available to minimise costs through improvements to workplace management.

Employees' health suffers in line with the costs. Most people can talk about a workplace where they were treated poorly. Many have friends or relatives whose lives have been or are significantly impacted by such problems. Poor organisational culture in this context is real and it is common.

Improving workplace organisational culture provides an unparalleled opportunity to improve the health of the workforce AND workplace productivity. As advocated by Dame Carol Black in our position statement, *Realising the Health Benefits of Work*, "success in this endeavour is not attainable via the efforts of health professionals alone. It must be a cooperative enterprise with employers, those who represent the best interests of employees, and government and its agencies."

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2 Context

This position paper is an initiative of the Australasian Faculty of Occupational and Environmental Medicine (AFOEM) under the auspices of the Royal Australasian College of Physicians (RACP).

As physicians, we attend to the health of employers and employees and deal daily with the impact of poor organisational culture on individuals, their families and their communities.

The RACP and AFOEM advocate for improvements in health through improved workplace culture. When workplaces embrace the wellbeing of employees as a fundamental principle, employees' quality of life improves. There is a sense of support, mutuality, a place where they contribute and feel valued.

This position statement is the third in a series of position statements developed by the AFOEM exploring work and health. The first position statement explores an evidence-based approach to assisting people to stay in work or return to work. The second outlines the health benefits of work and the health consequences of long-term work absence.

This position statement is supported by a sister position statement that outlines the nature of 'good work'.

3 Recommendations

The RACP supports governments and businesses taking actions that will enhance health and productivity in the workplace. Governments have a particularly strong role to play in education and cultural change, including:

- Increasing education for employers on the types of factors that are likely to influence their workers' health;
- Increasing education for employers on the negative repercussions poor work design may have on workers' health (i.e. the types of illnesses that can occur);
- Working towards a broader understanding of the negative impacts workers' poor health can have on workplace productivity;
- Fostering greater recognition of the effects of workplace bullying on workers' health and productivity, and the obligation upon employers to work to prevent bullying; and
- Increasing governments' role in promoting health in the workplace.

4   Introduction

The evidence is clear and undisputed: organisational characteristics affect the mental and physical health of workers. In line with this, the relationship between the organisation and the worker can be viewed as symbiotic. When both come together in a cooperative fashion, the result is a healthy, productive workplace.

A 'virtuous circle,' an economic term, refers to a complex chain of events that manifests itself through a positive feedback loop in which each iteration of the cycle reinforces the previous one.

The World Health Organization describes the relationship between health and workplace productivity as a virtuous circle, stating "there is no trade-off between health and productivity at work. A virtuous circle can be established: improved conditions of work will lead to a healthier work force, which will lead to improved productivity, and hence to the opportunity to create a still healthier, more productive workplace".[1]

Figure 1- The virtuous circle: Health and productivity in the workplace

Underpinning a productive workplace is a healthy workplace culture. The definition of organisational culture has been debated extensively; however, it may be described as a set of shared mental constructs that guide interpretation and action within organisations by defining appropriate behaviour in various situations.[2] It includes the collective values, norms, systems, aspirations and beliefs that are evident in workplace behaviours which affect the way people and groups interact with each other.

A workplace with a substandard organisational culture results in poor workers' health. Poor worker health can translate into a lack of worker engagement and productivity losses, with direct and indirect costs impacted due to the ongoing management of complex health-related issues.

Furthermore, leadership behaviours and management interaction are linked to employee behaviour in a 'feedback loop'. Managerial behaviour can cause or prevent workplace stress.[3] High standards of leadership and management practice lead to higher standards of employee health and productivity, which in turn lead to higher standards of leadership.[4] This is another iteration of the virtuous circle that develops through investment in workplace health and productivity.

An organisational culture that supports the workers' wellbeing can have a significant impact on improving the health of workers and increasing worker engagement and productivity. Ultimately, this impacts the organisation's "bottom line". New Zealand's Productivity Commission describes the benefits of increased productivity as a means to an end – improvements in wellbeing.[5]

5   The impact of the workplace on the worker

To benefit from the connection between a healthy workplace culture, a healthy individual and increased productivity, employers need to understand the characteristics of organisational culture that can bring about the desired outcome. Key factors that impact workers' health and a healthy workplace include:

- Leadership styles[6]

- Levels of support from co-workers and supervisors[7]

- Supervisory practices and safety leadership[8]

- Worker perceptions of supervisors[9]

- Incivility and bullying[10]

- Job demands and level of control over work[11 12 13]

- Repetitive tasks and other job characteristics.[14 15]

Leadership and supervision styles are recurring themes. Autonomy and a sense of control over one's own work, combined with a feeling of being supported, also contribute to wellbeing and productivity at work. Organisations that foster collaborative leadership within management at all levels can ultimately improve health and engagement in the workplace. The workplace can significantly impact on various aspects of the health of workers, including:

- Musculoskeletal disorders[16 17 18]

- Depression[19 20]

- Emotional wellbeing[21]

- Cardiovascular functioning

- Post-traumatic stress

- Burnout[22 23]

- Chronic fatigue and sleep disturbances.

Employees need to know that the organisation's leadership prioritises wellbeing by integrating safety and health-protective characteristics of job design throughout the organisation.

6   The impact of poor worker health on the workplace

Workers who suffer from physical or mental health problems are more likely to have higher rates of absenteeism and presenteeism (reduced productivity when they do come to work).[24] They are more likely to pursue compensation claims and also be slow to return to work. Indirect costs are also impacted, with managers spending more time dealing with workers' complex health issues and potential staff replacement costs.

The costs of workers' poor health and engagement can multiply if unchecked. In particular, disengaged workers display reduced levels of discretionary effort and cooperation.

Employees who do not feel they are supported or treated fairly tend to harbour negative feelings about their work situation. In response, they are more likely to act in an uncooperative manner. This loss of goodwill towards the employer is particularly evident in the workplace and will result in a reduction in productivity. On the other hand, a supportive environment will mitigate the potential negative impact of stressful or difficult jobs to some extent.

Reduced levels of discretionary effort can also impact on return to work rates, with prolonged absence from work more likely. Complex return to work programs take up supervisor and administration time and co-workers can also become frustrated and demotivated.

These individual factors have wider implications for workplaces, as they translate into dysfunctional working teams, increased burdens on other employees and more widespread negative attitudes among employees.

7   Workplace bullying

The prevalence of workplace bullying in Australian workplaces is concerning, with a 2013 report from SafeWork Australia suggesting that 45 per cent of Australian workers had experienced bullying during their working lives.[25] The report found that 10 per cent of those interviewed were currently experiencing workplace bullying.

Similarly, in New Zealand, a 2009 survey of the health, education, travel and hospitality industries indicated that 17.8 per cent of the survey sample had been consistently bullied in the last six months, using the criterion of participants experiencing, at a minimum, two negative acts, at least weekly during the previous six months.[26] In New Zealand's state sector, the State Services Commission's 2010 integrity and conduct survey found 38 per cent of state servants reported seeing abusive or intimidating behaviour towards other employees.[27]

Bullying in the workplace arises from the combination of an aggressive individual and a permissive organisational culture. In some circumstances, the organisational culture may reward traits such as "excellence" or "toughness" that can manifest as bullying.[28]

Workplace bullying is "repeated, unreasonable behaviour directed towards a worker or group of workers, that creates a risk to health and safety".[29] This definition encompasses various forms of bullying which can be grouped into subtle, nonaggressive or unintentional. The Drake International Survey found that subtle forms of bullying behaviour are most common, representing 36 per cent of instances. This may include silence, isolation and sarcasm. Public humiliation and criticism follow as the second most common form.[30]

The number and cost of stress and bullying claims have risen significantly over the last 10 years.

The Australian Workplace Barometer (AWB) project found that 6.8 per cent of workers were bullied in the six months before the survey.[31] However, the Assistant Commissioner of Australia's Productivity Commission stated "[the statistic] is probably higher than that ... it could be over 15 per cent".

Bullying has a negative impact on employee health within an organisation. Bullying can undermine a person's sense of self-esteem, security and stability and can result in the development of mental health issues, such as:

- Debilitating anxiety
- Post-traumatic stress disorder
- Depression
- Irritability
- Increased physical health complaints.

When an employee is suffering mental or physical health conditions, their power to defend themselves against bullying is reduced. Kivimäki[32] argues that bullying and depression form a cycle where bullying leads to depression which prompts further bullying. Witnesses to bullying can also suffer negative effects. A Finnish study found that witnesses to bullying had higher stress levels than people who experienced no bullying in their workplace.[33]

The impact of bullying on health has a negative impact on the employee's ability to be productive at work.

8   Reactive versus proactive management

Organisations frequently address issues such as bullying on a reactive basis. Under this strategy, management reacts to individual cases as they are reported.

Reactive approaches address damage that has already occurred. While the bullied person's health is likely to improve once the bullying has ceased, the health effects may not disappear entirely. Other employees are also likely to have been affected by stress. Investigations, meanwhile, are challenging for all parties involved and may increase tension within the workplace, rather than reduce it.

This type of approach can result in a significant expense. An Australian Parliamentary Committee report estimated that bullying costs employers an average of A$17,000 to A$24,000 per case.[29] Costs include sick leave, absenteeism, retraining employees, hiring new staff and time spent investigating claims.[34] In addition, organisations where bullying occurs are more likely to have higher staff turnover and decreased productivity.

At a governmental level, the regulatory body must devote time and resources to fielding and investigating bullying claims.

The overarching issue with a reactive approach – dealing with instances of bullying after they have occurred – is that it does not address the underlying reasons for bullying.

An Irish study of bullying incidents found that workplaces with high levels of bullying were often "highly stressful and competitive environments, plagued with interpersonal conflicts and a lack of a friendly and supportive atmosphere, undergoing organisational changes and managed through an authoritarian leadership style".[35]

Any of these attributes can contribute to a culture permissive of bullying. Addressing these organisational factors can have a significant impact on prevention of workplace bullying.

A proactive approach – preventing bullying before it has occurred - is more likely to prevent bullying, protecting employees from harm. A strong and balanced organisational culture lessens the likelihood of bullying occurring.

In addition, addressing organisational factors is more cost-effective than a reactive approach to bullying. The costs associated with a proactive approach include:

- Management time spent strategising and designing policy;
- In-depth training for staff and management teams; and
- More flexible and adaptive working arrangements.

A reactive model for responding to bullying is more expensive and less likely to protect employees. An approach that addresses organisational culture allows businesses to prevent damage before it occurs in a cost-effective, long-term manner.

9 The business case for health and wellbeing

The impact of worker health and wellbeing on organisational productivity depends on the size and nature of the business. Small and micro businesses can be affected profoundly by the costs of absenteeism and staff turnover. The larger the business, the greater the amortised costs of hidden presenteeism and disengaged workers. In both situations, however, improved organisational culture can increase productivity and reduce costs, hence the benefit of addressing these issues in the workplace.

9.1 Costs of poor workplace culture

Business costs associated with a poor workplace culture that impacts on health may result from:

- Absenteeism;

- Turnover, recruitment and training;

- Workers compensation and insurance premiums;

- Short- and long-term disability;

- Presenteeism;

- Employee disengagement;

- Reduced discretionary effort and motivation;

- Absenteeism, presenteeism, bullying and workers compensation claims; and

- Business reputation.

Moreover, from a broader societal perspective, both Australia and New Zealand face a number of challenges, which can in part be alleviated by improving the health of the workforce. Current issues include an ageing workforce[36], an increasing burden of chronic illness[37] and the increasing prevalence of mental illness in the workforce.[38] Left unaddressed, these problems will diminish available labour supply and reduce labour force participation and productivity.

9.2 Benefits of improving workplace culture

Employers have much to gain from actively engaging with their workers, particularly in relation to organisational factors that impact employees' health and wellbeing.

For instance, a strong and balanced organisational culture lessens the likelihood of bullying in the workplace. In a cohesive and supported work environment, early reporting is more likely.

Organisational culture influences whether bullying is seen as permissible within an organisation. Brodsky conducted a study of 1,000 incidents of workplace bullying in the US. He found that harassment occurred within organisations where the workplace culture permitted harassing behaviour.[39] Addressing organisational factors is, in the long term, more cost-effective than reacting to issues when they arise and allows businesses to prevent damage before it occurs.

Employees who are generally healthy, fit and resilient are less likely to suffer from physical and mental illness. Good mental and physical health impacts wellbeing, which in turn supports productivity, resulting in a competitive advantage for employers. Engaged employees are more likely to come to work or return to work after an injury, are less likely to leave the organisation, and are more likely to be open and cooperative.

For employers competing for labour, a reputation as an employer of choice can be a significant competitive advantage.

10 The case for government intervention

A range of studies have explored the causal connections between the effect of health on employment status and the effect of employment status on health. Worker engagement is a crucial link as it both enhances worker health and fosters workforce participation.

These connections are significant. In Australia, keeping workers healthy and in the workforce is increasingly important. The ageing of the population and the increasing burden of chronic disease means the proportion of the population in the labour force is set to decline.[40] New Zealand faces similar challenges; however, at least in the medium term, its labour force is projected to grow until the mid-2040s.[41]

10.1 Better health = better wages

Good health in the workplace leads to better wages and workforce participation. These findings are robust even after correcting for the likely positive impact of higher wages on health. One Australian study found that people who rated themselves as being in good or excellent health earned a wage 18 per cent higher than those with poor or fair health.[42] Similarly, a German study found that healthy men earned between 1.3 and 7.8 per cent more than those in poor health.[43]

Further, poor health is associated with poor wage outcomes. For instance, an Australian study found that men with a nervous or emotional condition earned 35 per cent less than the male average while men with chronic pain or discomfort earned 15 per cent less than average.[44] One US study found that permanent health conditions are associated with a reduction in wages of between 4.2 and 6.4 per cent for men and between 4.5 and 8.9 per cent for women.[45]

10.2 Better engagement = reduced work injury burden

In Australia, workplace injuries have been estimated to cost A$57.5 billion or 5.9 per cent of GDP by SafeWork Australia.[46] In New Zealand, in 2010, the costs were most reliably estimated at NZ$3.5 billion a year, or almost 2 per cent of GDP.[47] Many factors influence whether an employee returns to their job after injury or illness. A broad range of international studies have shown that workplace attitudes and management approaches have a major bearing on return to work rates. Improving workplace culture and worker engagement can substantially reduce the financial and human costs of workplace injuries and compensation cases.[48]

10.3 No work or bad work: both can make you sick

Generally, people who are out of work are in poorer health than those who are employed. This is true even after adjusting for the fact that poor health reduces an individual's employment prospects. The health impacts of long-term worklessness are discussed in the position statement, *Realising the Health Benefits of Work*[49], published by the AFOEM in 2010, and supported by numerous signatories to the accompanying consensus statement.[50]

Research also demonstrates that securing good employment results in improvements in health. For instance, one study found that unemployed respondents had poorer mental health than those who were employed and that moving from unemployment into a high-quality job led to improved mental health.[51] It is significant that the quality of a job matters in the relationship between work and health.[52] The characteristics of "good work" are explored in the AFOEM's companion position statement, *What is Good Work?*[53]

10.4 Reducing the burden of chronic disease

Promoting a healthier workforce can go some way to mitigate the impacts of ageing, chronic disease and mental illness on the workforce in Australia and New Zealand. Health promotion in the workplace can facilitate early intervention (and in some cases, prevention) and disease management which reduces the severity of conditions faced by the individual sufferer.

10.5 Workforce retention

Governments have a powerful incentive to keep workers in the workforce for longer, as well as to promote appropriate supported return to work after an illness or injury.[54] Retaining and returning workers can reduce the burden of disability costs as well as aged care costs. Strategies aimed at keeping workers in the workforce will be increasingly important in the coming decades as labour force shortages are predicted to become a significant problem.

11 Appendix A – Organisational costs

The following examples are based on de-identified real-world occurrences using Australian dollars in 2013.

11.1 Example A- The cost of poor management

A generally well-managed retail firm notices a series of claims from one section of their warehouse. The first employee to claim goes on to make four separate claims. There is slow and inconsistent return to work, and eventually he ceases work completely. The next claimant has a shoulder injury, remaining on restricted duties. This is followed by a second claim for the other shoulder, resulting in long-term treatment and intermittent work attendance. The third employee to claim lodges a stress and back claim and never returns to work. Over 18 months the impact of the department supervisor is recognised. There had been complaints made by the team regarding the department supervisor but to the warehouse manager he seemed personable and was an efficient employee. However, over 18 months and because of the seriousness of the claims, the unhealthy working environment that he fostered came to light and cost the retail firm significantly:

- $160,000 in lost productivity;
- $68,000 in increased premiums; and
- $38,000 in managing claims.

Additional costs included a $160,000 payout by a superannuation fund for one of the employees, who lodged a total and permanent disability claim. The community bore costs of $280,000 in supporting the injured workers, and the disability support pension cost $20,000 per year for two of the employees who remained out of the workforce into the longer term.

These costs do not touch on the emotional toll on the injured workers and the impacts on their families. These may include factors like an increased burden of caring for the injured worker placed on other family members. Family members may also be forced to compromise their own jobs to look after the injured worker or take them to medical appointments, or to care for children or elderly parents who were previously a shared responsibility. The impact of living with a parent who is emotionally impaired is also significant for children.

11.2 Example B: The cost of poor leadership

Another medium-to-large sized service industry company appointed a new CEO. The CEO's approach was dictatorial and authoritarian, and she frequently undermined staff. This change in organisational culture started to bring about a loss of morale. Over the next year, 28 per cent of the company's middle level managers left for other jobs. Most of them were long serving and well respected, and their departure resulted in significant corporate knowledge being lost, as well as further contributing to the diminishing morale among employees.

The costs to this employer were extensive:

- $176,000 in "onboarding costs" to replace eight staff with an average salary of $88,000, conservatively estimated at 25 per cent of annual salary; includes recruiting and training; and
- $440,000 in reduced productivity across the organisation, conservatively estimated at 10 per cent of all employees' annual salaries totalling $4,400,000.

These direct costs to the employer fail to take into account the human toll on the employees whose lives were thrown into upheaval by their job becoming untenable, and the roll-on impacts of this stress.

11.3 Example C: The cost of poor communication

Over an eight-month period, a 43-year-old customer service officer in a large government department senses she is being ostracised by her team leader. There is little direct communication. When she tries to broach the problem with her team leader, he is short, ill mannered and uncommunicative.

Over time she becomes increasingly focused on the issue. At home she is distracted, becomes irritable, and starts to have increasing problems with her sleep. Her children and husband bear the brunt of her anxiety. If there is a chance to avoid going to work, she does. In her subsequent performance review her work absence is noted to be high and she is reprimanded. She lodges a claim after her doctor certifies her unfit for work due to 'stress and an adjustment disorder'. Four months later she remains off work.

The costs to this employer were:

- $26,000 impact on premium;
- $1,200 direct costs associated with her claim;
- $2,400 indirect costs – HR and supervisor time spent on the claim; and
- $6,000 in lost productivity.

11.4 Example D: The cost of failing to support return to work

An Australian compensation body covering large national employers experienced a 7 per cent reduction in sustained return to work over two years. During the same period there was a 30 per cent increase (16 to 21 per cent) in the proportion of claimants who said their employer made their return to work harder. Over that two-year period there was a 60 per cent increase (13 to 22 per cent) in the proportion of claimants reporting that their main supervisor had made their return to work harder.

Annual reviews of return to work over the last 15 years show a consistent 18 per cent reduction in sustainable return to work when the employee identifies someone as making their return to work harder. The employer and main supervisor are most commonly identified as hindering return to work.

12 Appendix B – Organisational improvement

A survey was conducted in an underperforming school that employed 80 people to measure baseline scores. The school in question had recently been through a forced amalgamation and was performing poorly against established performance indicators. Several attempts at improving performance had failed. Following the survey, a program was introduced that ran for a period of 12 months at which time the survey was conducted again.

12.1 The Program- Improving workplace culture

- Operated for 12 months;
- Focused on coaching and leadership development; and
- Implemented initiatives according to needs the survey identified (e.g. effective leadership collaboration, improved communication and improved teamwork).
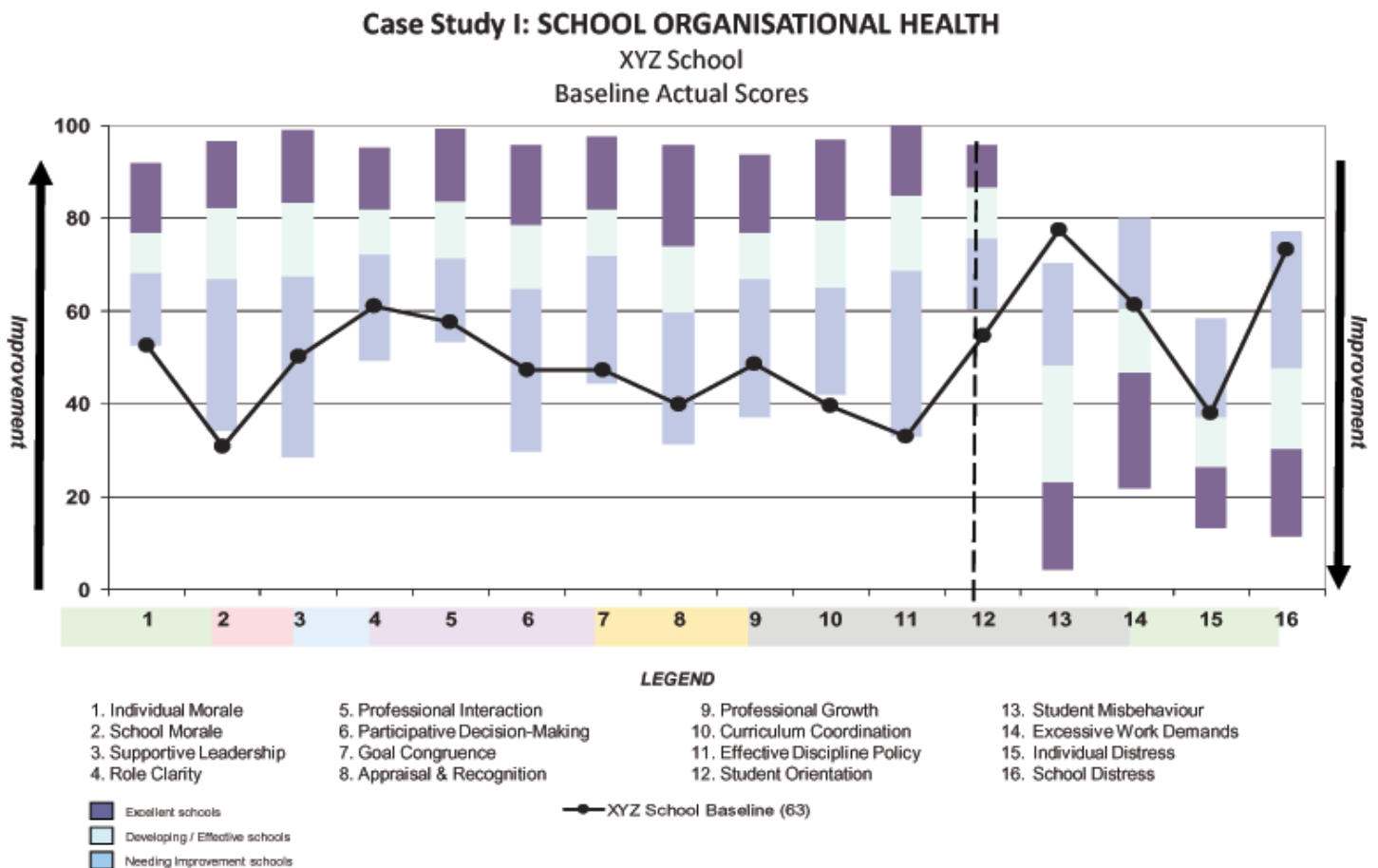
12.2 Indicators before the Program

Figure 2 - School Organisational Health

As the graph above illustrates, the school was performing poorly in virtually every indicator of performance.

Significantly, the school was suffering from a cultural problem. Indicators in Individual Morale, School Morale, Effective Discipline Policy, Student Orientation and Student Misbehaviour all displayed as 'needing improvement' at extreme levels.

The results led to a focus on leadership through coaching and mentoring.
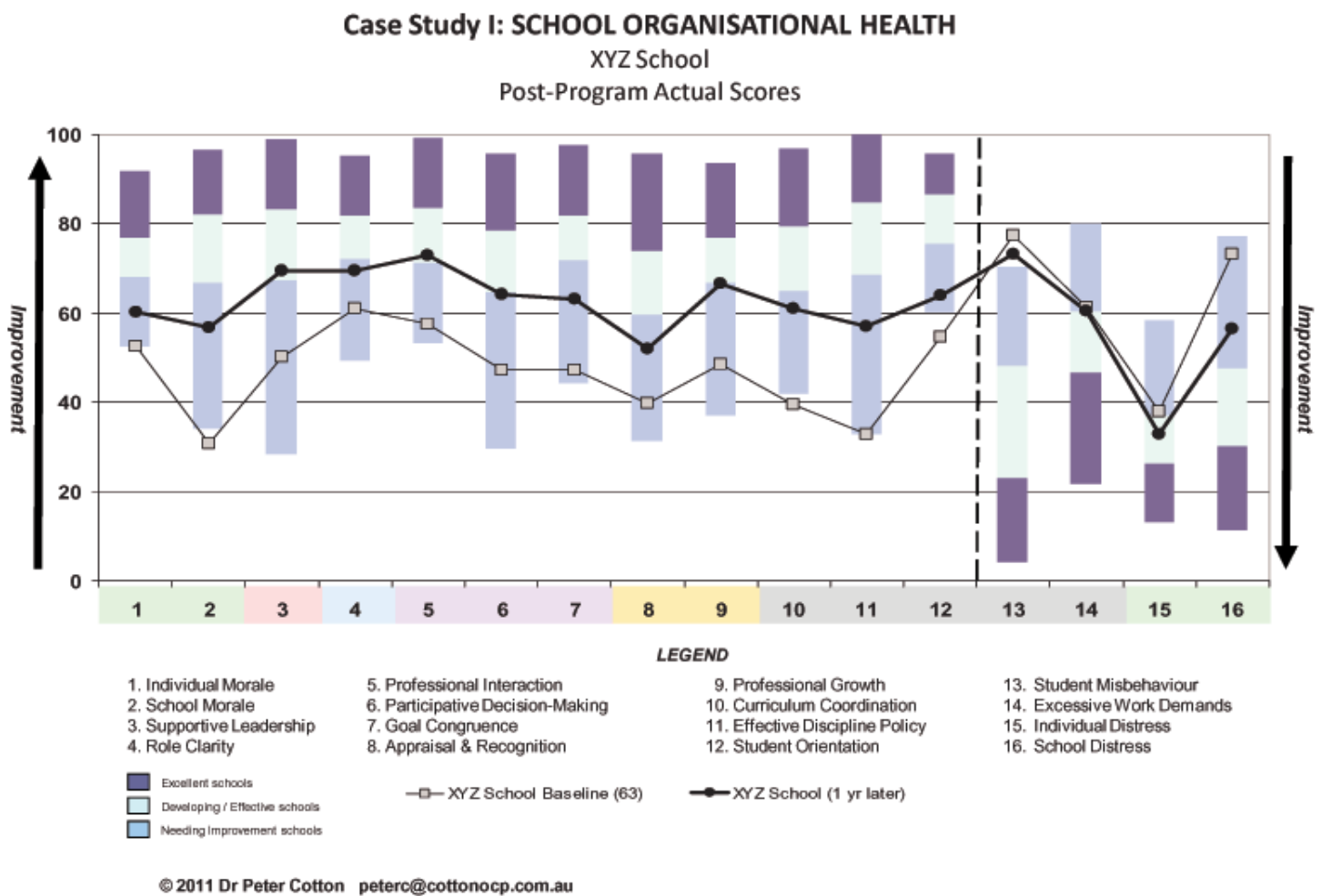
12.3 Indicators after the Program

Case Study I: SCHOOL ORGANISATIONAL HEALTH
XYZ School
Post-Program Actual Scores

LEGEND

1. Individual Morale
2. School Morale
3. Supportive Leadership
4. Role Clarity

5. Professional Interaction
6. Participative Decision-Making
7. Goal Congruence
8. Appraisal & Recognition

9. Professional Growth
10. Curriculum Coordination
11. Effective Discipline Policy
12. Student Orientation

13. Student Misbehaviour
14. Excessive Work Demands
15. Individual Distress
16. School Distress

Excellent schools
Developing / Effective schools
Needing Improvement schools

—□— XYZ School Baseline (63)   —●— XYZ School (1 yr later)

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Figure 3 - School Organisational Health

As the graph above demonstrates, the program resulted in improvements in each performance indicator.

12.4 Financial Implications

While the performance improvements made for a successful program, a further significant result was the cost savings from building a strong workplace culture. In terms of workers compensation premiums, the school of 80 staff saved a total of almost $1.4 million over three years, without any direct changes to the way compensation claims were managed.
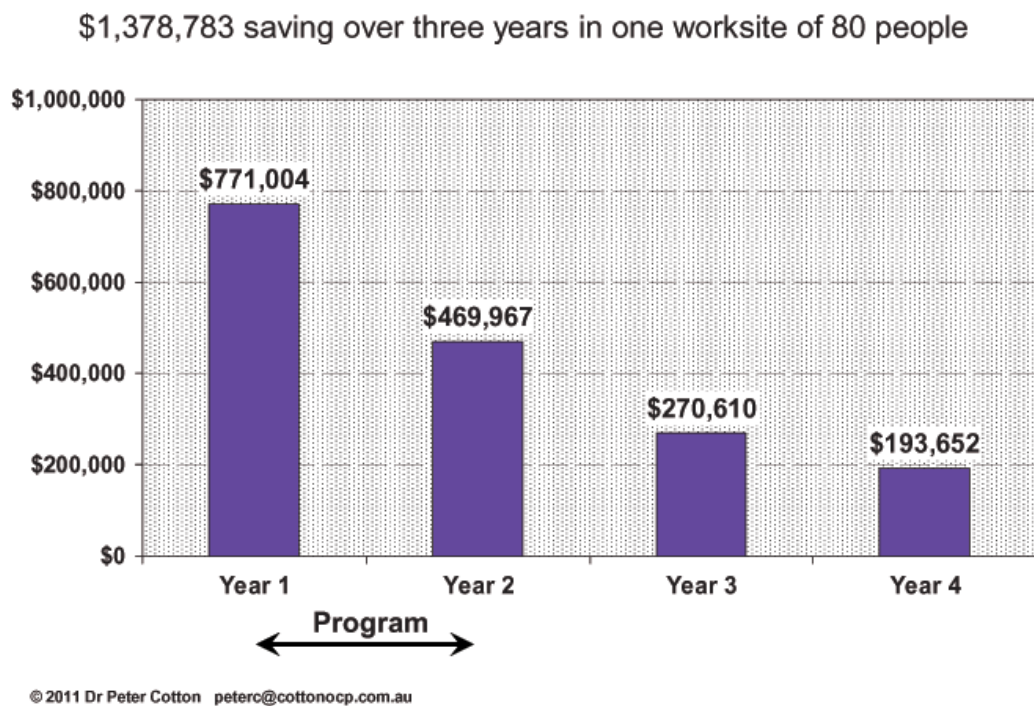

Figure 4 - Program impact on workers compensation costs

The workplace program resulted in a coherent, inclusive culture that nurtured leadership skills and collaborative efforts. As a result, workers were happier at work and their collective mental wellbeing was improved. Those who had work-related illness or injury returned to work earlier.

13 Role of Occupational and Environmental Physicians

As Specialists in Occupational and Environmental Medicine, our concern is not limited to an individual's health and their ability to work safely. We are also concerned with effects of "the work" and "the workplace environment" on the health of an individual and the collective of individuals.

Historically, medicine has focused on the hazard and the chain of events leading to the consequence of that hazard – disease, injury, disability and death. Environmental Medicine considers the multidimensional environment in which those events are happening. The workplace environments range from the manufacturing factory or office to the coffee shop and work performed from home. They cover major metropolitan, rural and remote communities.

In his 2011 Ferguson-Glass Oration[55], Dr Tom Calma recognised the unique opportunities for Occupational and Environmental Medicine to go beyond "*ameliorating negatives and remedying health threats, or potential health threats, which arise from time to time in various contexts you encounter*" for the good of Indigenous Australians. While Dr Calma expressed the sentiment as an advocate for Indigenous Australians, it applies to all communities in Australia and New Zealand.

Occupational Physicians are uniquely placed to facilitate discussion and provide strategic guidance because they hold a distinctive and independent position at the interface between workers, managers, unions, GPs, medical and allied professionals, and relevant government authorities.

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