



● Malingers remain in rude health

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Investors don't want to have to reckon with a work force that calls in sick with suspicious regularity. Unfortunately, where the Czech Republic is concerned, they have little choice. Czechs have topped the European Union absenteeism charts ever since the country joined the EU in 2004. Efforts at dissuading malingers, however, are running into political trouble.

Where illness-related absenteeism is concerned, the data from the European Agency for Safety and Health at Work (EU-OSHA)—a tripartite organization that works with governments, employers and workers representatives—continue to show that this country is achieving records it could do without. The figures show that an average 6.1 percent of employees in the Czech Republic are home sick on any given workday, with the proportion of employees being off work more than one-tenth higher than that of second-ranked Sweden. The Czech rate is also twice the EU average.

Announcing that it is vital to address the damage such a social phenomenon does to the country's investment and productivity levels, the ruling center-right coalition set out to scrap state sick leave payments that cover the first three days of an absence from work. However, with the Constitutional Court of the Czech Republic (ÚSČR) having ruled that a three-day period of unpaid sick leave unconstitutionally undermines citizens' rights to secure health care coverage, the politicians' have had to backtrack.

Not that the battle is over. In its ruling, valid from June 30, the court proposed that the politicians agree that 60 percent of the basic salary per day till the end of 2008 can be claimed in sick pay. But in its new plan, the Ministry of Labor and Social Affairs (MPSV) sees the state covering only 25 percent from September, while from January, 2009, when a new law on health insurance becomes valid, employers would take responsibility for addressing the first 14 days of sick leave, with the MPSV leaving it up to companies to decide if the first three days should be covered by a pay entitlement.

The path being pursued by the MPSV is controversial with employees and medical staff on the one side and with companies on the other. Firms point out that even if the measure did reduce the abuse of the health insurance system which overburdens their labor costs, it also complicates their work force management processes and causes more headaches in their human resource (HR) departments.

But the MPSV remains critical of the ÚSČR ruling, claiming it ignores the visible benefits the "no sick pay for three days" measure would bring to the state budget. Following its introduction, from February to April of this year, the public purse's health care insurance expenses decreased to Kč 6.59 billion (€257.79 million) from the Kč 8.10 billion total of the same period in 2007. The total number of sick day leave cases, meanwhile, fell some 25 percent. While short-term work incapacity decreased by almost one-third, the number of cases of sick leaves taken that were longer than a week decreased by one-half. Also, the comparison of the two periods showed the number of days spent away from work decreased 11.4 percent to 33.4 million days. "These are positive results that no one should ignore," said Jiří Sezemský, a spokesman for the MPSV.

Looking at the ÚSČR ruling, Petr Hájek, business development manager at the tax and legal services department of consultancy PricewaterhouseCoopers, urged caution. "It's hard to build a strong reputation as an attractive investment destination and very easy to lose it," he said. "[The court decision] can send a message on instability of the business environment, which can lead to investors losing trust in this country," he said.

No denying there is a problem

"Absenteeism in the Czech Republic is definitely higher than in other EU countries with more developed labor markets. Obviously, this is a problem for companies, which have higher labor costs and lower productivity," said Petr Novotný, a senior consultant with executive search consultancy Williams & Partner. He said that while the extensive

missing of work is mainly caused by health and personal problems, it is also due to family issues and organizational culture. Novotný also noted the effect the government's move against absenteeism caused. "The three-day sick pay cut registered a decrease of 26 percent in the level of absenteeism compared with last year. Also, the average number of sick days compared with the same period last year was 11 days lower," he said.

According to a study entitled Hewitt Best Employers 2008, published by global consultancy Hewitt Associates, the average number of absentee days due to illness per employee in the Czech Republic in 2007 was 8.19 days. The average experienced by those employers said to have built a high level of engagement and commitment with more than 60 percent of their employees was 4.08 days. The average absenteeism rate in Central and Eastern Europe was recorded at 7.04 days. "This indicates that the more engaged the work force, the less absenteeism you have," said Kamil Švec, a consultant with Hewitt Associates.

What are we talking about exactly?

Pascal Felmy, an executive search expert with consultancy Anderson Willinger, said there are two main kinds of absenteeism. The first is connected with the low unemployment rate and the consequence that employees, especially in certain professions, can find a new job within three days. The second is "the most infamous and the most expensive for the state." It concerns illness-related absenteeism. "This is a local specialty," Felmy commented, noting that the Czech Republic is the EU "champion" with its daily absence rate of 6.1 percent.

As Sezemský observed, paying the wage cost of these absences is quite costly for the state budget. Throughout 2000–06, the annual cost always soared high above Kč 31 billion. "This means some Kč 6,300 per inhabitant or 700 bottles of Gambrinus beer per year," Felmy said. "It's clear that this illness-related absenteeism is more frequent among the lesser-paid population, where the state compensation remains 'attractive' compared to the normal daily salary," he said. Some statisticians who have tried to observe the absenteeism dilemma in the Czech Republic in contrast with the extent of difficulties in neighboring countries have struggled to find any rational explanation for the differences. "It is obvious that the absenteeism is an issue for jobs paid at around or below the average.

Workers earn 'presence bonuses'

"Companies that struggle with this phenomenon are in the manufacturing sector and involve the lower financial income groups," said Milan Novák, country manager of recruitment agency Grafton Recruitment. "The reason is that the social system means there are very small differences for people on lower incomes between staying on sick leave or coming to work," he said, adding that employers have started introducing so-called "presence bonuses" that motivate people to turn up for work. "Employees receive the bonus if their absence rate is at the company average or is properly excused," he said.

Recruitment specialist Nunzio Totaro, managing director of recruitment agency Start People, expressed his strong disapproval of the local labor regulations. "The whole system sucks. Financial incentives to work instead of being sick are very small for the majority of people. There is not enough control to limit 'free riders,' and doctors easily hand out sick notices," he said.

Start People compared the number of people on its books that reported sick in the last quarter of 2007, when the first three days of a sickness absence were still compensated, with the number of people that reported sick in the first quarter of 2008, by which point the compensation had been scrapped. It noticed a decline of almost 30 percent, from 660 to 465. "Yet, the number of workers was almost the same," Totaro said.

Doctors who are just too kind

"Patients and doctors know each other, and when a patient comes and asks for a break to solve some private matter there are doctors who grant the sick leave despite the patient's real health status," said Václav Vomáčka, a secondary doctor with the internal department of hospital Fakultní nemocnice Na Bulovce in Prague 8. "This really depends on the integrity of every doctor," he said.

No figures are available for the number of doctors fined for issuing sick pay notes without a

qualifying health condition.

The Ministry of Health (MZ) wasn't available for comment on whether it plans any measures against doctors that would counter such false sick leave notes. Yet, the number of spot checks carried out by the Czech Social Security Administration (ČSSZ) at the homes of people purportedly suffering health problems that keep them from working has increased in recent years. The ČSSZ announced last November that 4,400 people were stripped of their entitlement to sick leave pay in 2006 because they were not at home when an inspector called. Štěpánka Filipiová, a spokeswoman for ČSSZ, said the inspectors made about 187,000 such random checks last year.

Felmy said that the leisurely granting of sick leave notes with no real scrutiny is "some kind of tradition" among Czech doctors. "I would name it the 'principle of prudence' that consists of a minimum of 15 days at home, whatever the symptoms. I've heard some testimonies from managers—Czechs and foreigners—who were given the '15 days sickness rest' in spite of their protest that for a simple bout of flu they required only two or three days in bed," he said. "It's also interesting to note that people are more likely to be sick when it is the season for gardening or harvesting," he added.

Vulnerable can fall through the gaps

"We can't agree with this measure of having the first three days not paid," said Zdena Kašparová, an independent psychologist and teacher. Looking at weaknesses in the system that could be aggravated, she mentioned single mothers who can't afford to take either sick leave, vacation or special leave when their child falls ill and is off school. "The system leaves some categories completely vulnerable to employer system abuses, which may later lead to people suffering depression. This is something that shouldn't be ignored as well," she said.

Kašparová added that doctors are also sometimes misled by patients' complaints. "When a patient visits a doctor's practice, he isn't overwhelmed with joy, so the doctor can hardly assess the true status of its illness. But if a patient really is ill and the doctor doesn't grant the sick leave, the doctor is liable to disciplinary sanctions," she said.

Tugging at blue collars

Oliver Schmitt, managing partner of recruitment agency Teamconsult, said that regarding the Czech employment market, the major absenteeism issue relates to blue collar workers. "Studies in Germany show that the [absenteeism] rate is influenced by the general economic situation, or to be more precise, by the fear of workers about losing their work. The more people are afraid of losing their job, the more the rate of absenteeism goes down," he said.

Currently, German workers miss about 3.4 percent of their regular work time. But the rate has continuously decreased over the last 10 years. Another relevant factor can be the trend toward early retirement. "Less old people in the work force also means a lower risk of illness among the workers. Last but not least, working conditions in heavy industries are constantly improving and by this the physical burden is decreased, thus reducing the absenteeism rate," Schmitt said. Grafton's Novak also mentioned that in Slovakia absenteeism was reduced after the introduction of a reform calling for employers to pay for the sick leave. "I think the reform being made by [Czech Prime Minister Mirek] Topolánek's Cabinet can have a similar effect," he said.

"The measure for not paying the first three days isn't anything extraordinary as it is already applied in 13 of the 15 older EU member states," Sezemský noted. Indeed, in countries such as Finland, the first nine days of sick leave are not covered by the state, being left to the discretion of the company. "It is the only regulatory mechanism to cut the burden and let us all pay lower taxes and make both patients and doctors more responsible for their actions," Vomáčka said.

Explicitly asked to telephone

Felmy observed that in Western Europe absenteeism is often seen as a problem in the organization related to hard work, stress or a bad boss. Thus, some preventive actions are taken. Some companies explicitly ask any employee who is ill to personally telephone his superior, with short text messages (SMSs) not allowed. Employers also implement systematic monitoring of missing employees, following clear guidelines. For instance, the rule might state that each fifth absence in the production plant must be closely scrutinized, so that a monitored employee cannot feel that he

alone is being subjected to such treatment. Some companies also assign some employees with the task of regularly visiting the colleague who is sick, to keep him informed of what's going on in the company. Another remedy to absenteeism can be the implementation of a strong corporate culture and teamwork, so that the employee really feels that they are part of things.

"Creating teamwork in the manufacturing field has shown good results also with respect to absenteeism," Schmitt agreed. The workers know that staying away from work will mean that colleagues will have to cover for them by doing extra work. By this, the problem of the missing worker is transferred down from a rather abstract level of the whole company to the direct working environment of the individual worker. "Finally, the colleagues play the role of a regulative instrument," he said.

Totaro agreed that "if workers are part of a team with team targets and bonuses they will less easily report ill because they will realize that it will mean extra work and a lesser possibility for a bonus for their colleagues. Also the obligation to report ill orally, by phone, to a direct boss instead of to an HR manager, has proven to be a barrier to sick leave," he said.

"It's very important to have a corporate culture with team spirit. We have to show employees that if they miss work, their colleagues have to substitute for their position," said Radek Kňava, a spokesman with carmaker Toyota Peugeot Citroën Automobile Czech (TPCA).

Williams' Novotný said that, in the long term, companies can develop action plans such as motivational programs for employees to reduce absenteeism. "For example, in our company we pay the three sick days for employees," he said. Most EU states don't pay the first sick days, but in contrast with the Czech Republic a lot of companies have action plans in place that ensure employees get their full salary for a reasonable number of sick days per year. Another solution could be better health prevention programs for employees, for example, regular health check-ups and medical care at work. "Some of the short-term solutions are using temporary employees, training staff for multitasking and many other things," he said.

Foreign workers can't afford to fall ill

The current high employment levels in the Czech Republic have forced companies to look abroad to supplement their work force. **"Temporary foreign workers have a lower rate of absenteeism than domestic employees, yet, this depends on the level of qualifications, the industry, the company culture, work conditions, salary and other things," Novotný said.**

"It is true that we have fewer problems with the foreign workers. Their motivation is to work and earn money, and they tend not to abuse the system," Grafton's Novák agreed.

Bad trends, though, spread fast. "Our experience is that foreigners during their first months in the Czech Republic definitely less often report ill, but after half a year they demonstrate the same patterns as Czech workers," Totaro said.

Time off enough to build a house

"Before the '90s, it was very easy to go on sick leave; the system was often abused and there are stories that are funny and sad at the same time about people who built their houses while on sick leave," Novák said. In the era of capitalism, mindsets started to change. It was suddenly obvious that you made less money if you were not at work with higher income groups in particular realizing they made significantly less money if they were off sick. "Senior managers are rarely sick at all, however, this can work against their overall health and can have serious health impacts," Novák said.

Under the government health insurance changes, some of those senior managers may be feeling extra strain from the decision to transfer the sickness compensation obligation to companies from 2009 onward. The measure, of course, remains controversial with doctors and employees, but in certain circumstances the companies will be ultimately responsible for deciding whether or not an employee should be compensated when they claim they are not capable of working because of a health condition.

A key feature of the transfer of risks to employers from the state obliges companies to pay the first two weeks of sickness coverage in exchange for a considerable reduction of their health insurance contributions. This measure is not very popular with private companies, even if "they will also have

the possibility of doing their own checks on sick employees, as the effect of some epidemic could be disastrous for them," Felmy said.

Producers head back West

The experts often reiterate that the headache caused by absenteeism is obviously exacerbated by ongoing nationwide labor shortages. Schmitt observed that Czech firms have been used to a shortage of highly-skilled staff for many years, but pointed out that the shortage now also encompasses low-skilled workers in the manufacturing field, meaning the labor market has "dried out down to the bottom line." "Technological progress, rising labor costs in the Czech Republic and the improved competitiveness of Western countries like Germany in some cases have already led to production or research capacities being transferred back to the West from where they came from a couple of years ago," Schmitt said.

"There certainly are a bunch of labor issues seriously worrying German employers in the Czech Republic," said Nina Ruppert, spokeswoman of the Czech-German Chamber of Commerce (ČNOPK). Germany remains the largest foreign investor in the Czech Republic, followed by Japan, the U.S., the Netherlands and France. Ruppert said the most obvious problem is the manpower shortage, in combination with severe deficits in education, especially in the technical field. "In fact, businesses face the problem that they have to scale down production because they can't find enough appropriate workers. Of course this tense labor market situation also reflects in a partially inappropriate raising of salaries. This is made even worse by the ongoing appreciation of the Czech crown, which alone is posing serious troubles for German companies anyway," she added.

Despite the difficulties, Ruppert said that the chamber "does not observe that the Germans are turning their back on the Czech Republic." But small and middle-sized companies are especially concerned. "One result of our annual economic survey found that German companies are certainly scaling down their investments here because of the uncertain future developments and policy in these fields. But they did not come here with a gold rush attitude to make quick money. German investments here are meant long term. So they stay," she said.

Ladislav Muller, director of the Irish investment agency Enterprise Ireland, said most of the Irish companies here arrived in 2002-06 and established themselves rather well. "Most of them achieved the building of good teams of key people, mainly because they are rather small or medium in size. Absenteeism is still a problem, mainly with the lower paid positions. But a much bigger difficulty is the lack of people in certain professions," he said. Muller said he was not aware of any Irish firms contemplating an exit from the country "at this time" but added that "on the other hand, most of the companies supply customers in the eurozone and the continuous appreciation of the crown is a very serious problem," he said.

Not the cause ... so far

"I believe that absenteeism isn't [so far] the reason why some companies have had to transfer production facilities abroad," Felmy concluded, saying that one way firms can counter malingering is through some reliance on blue collar workers from faraway countries, such as Mongolia or Vietnam. These migrant workers may be intent on putting in the hours to build up their savings. "Such people are here to earn [serious] money, not to tend to potatoes or pick plums. Nevertheless, with the rise of the crown and wages, the weight of absenteeism in strategic decisions may increase in the future," Felmy added.

"Companies increasingly have to deal with staff shortages," Totaro said. "We have had so far fortunately only one client that has moved part of its production line to a cheaper country," he added, noting that it is true to say some companies now struggle on a daily basis to put enough people on the workshop floor. "Companies increasingly refer to making people work overtime, which causes [workers to have] stress and thus again pushes up sickness levels. It's a negative spiral that is created. We do notice that more and more foreign companies are asking themselves why they came to the Czech Republic in the first place. There are hardly workers available, and those that are available cost more and more while productivity is low," he said.

"We cannot comment on decisions of other companies, but we are not thinking about any move away from Czech Republic," TPCA's Kňava said. This year, TPCA increased salaries by 7 percent. "Unemployment is now really low and the hiring of good employees is very hard. We expect the next steps of the government from the beginning of 2009 because the manufacturing capacity in

the Czech Republic is almost full. There is space for companies with, for example, development activities or services," he added.

No alarm at CzechInvest

"The Czech Republic is not facing labor-related issues that are worse or better than those that our main competitors have to deal with," said Alexandra Rudyšarová, director of state investment and business development agency CzechInvest. She said that rising salaries and declining unemployment are facts of life that affect all successful economies.

In many ways, she added, the Czech Republic can definitely be viewed as one of the most successful transition economies. "The country is shifting away from labor-cost-sensitive investment to something we like to call the knowledge economy with investments into high added-value activities, services and research and development," Rudyšarová said.

This trend is reflected in the composition of investment projects mediated by CzechInvest. In 1999 there was only one single research and development project in its database, while in 2007 such investments comprised up to one-quarter of the total of 182 projects facilitated by CzechInvest.

Rudyšarová said the influence of factors such as higher inflation and pressure for higher salaries will manifest itself in the final accounting for 2008. "It's yet too early to forecast what outcomes, if any, these will have," she said.

And the plan is ... to have no plan?

"I think that it is urgent for politicians to take their responsibilities, where politics equals the management of a city or a country, and set-up a long-term labor plan for the country in terms of education, immigration and incentives," Felmy said. "But maybe it is their plan not to have any plan, and to let the market regulate itself: increasing labor costs may force labor intensive industries to close down and lay off people, bringing people on to the job market, which will reduce salaries ...the problem is what type of people will be available."

Ana Maria Pop, marketing manager with Williams & Partner, said that predictions regarding Europe's population changes by 2050 show that Europe including the Czech Republic will rely more and more on a non-EU work force coming from Asia and Africa, due to falling populations. "If some five to 10 years ago we were talking about a client-driven [recruitment] market, where the market was saturated with candidates but not enough job offers, nowadays we can talk about a candidate-driven market, where there are many job offers, due to economic growth, but not enough active candidates that can fulfill requirements," she said. Recruiters and employers must therefore put more accent on developing a strong organizational culture and motivational and development programs for employees, in order to reduce employee turnover, she added.

"Due to the demographic development, it is inevitable that our work force especially in the manufacturing segment will need to be supplemented by foreign workers," Grafton's Novák said. In some situations in the Czech Republic and other European countries, he said, there is a total lack of local candidates. "I believe that work force mobility is partly the answer to the current situation," he added. "The companies will need to focus more on flexible workers, women after maternity leave, and people prior to and already into retirement. We see the first signals of Czech workers coming back from the U.K., Ireland and the U.S. due to the dropping pound, euro and dollar exchange rates. In the long term, we can expect that some companies may go eastwards, which will change the labor market again and unemployment will increase; there are now more children being born, so even the demographic situation will change," Novák said.

Not everyone is optimistic. "We think that if there is no radical system change, the Czech Republic will very soon lose its competitive position on the global manufacturing market. This would not be a problem if people were sufficiently trained and educated to migrate to the service sector, however that is definitely not the case yet," Totaro concluded.