

MARKET LEVERAGE FOR SAFE AND HEALTHY WORKPLACES: FITTING PRACTICES TO THE INDUSTRIAL SECTOR

The market relationships between buyers and suppliers can influence how suppliers manage occupational safety and health (OSH) and the safety and health of suppliers' workers. This policy brief presents recommendations for the managers of larger companies on how they can influence their suppliers to improve OSH; a goal pursued for multiple business reasons. First, customers increasingly expect ethical behaviour from all members of a supply chain and will hold buying firms accountable for the poor OHS outcomes of their suppliers. Second, buying firms depend on their suppliers to deliver the right quality at the right time, which is much more likely from a supplier with a healthy labour force committed to doing a good job. Finally, national and EU regulations, where due diligence and environmental, social and governance, or ESG, reporting is gaining prominence, will require buyers to secure the social sustainability of their business.

This policy brief is an outcome of the European Agency for Safety and Health at Work (EU-OSHA) project 'Leverage Instruments for Occupational Safety and Health – Lift-OSH (EU-OSHA, 2023). The project collected empirical data from case studies of buyer–supplier relationships in the construction and agri-food sectors (with fruit and vegetables as the subsector). The selected cases were best practice buying companies, the objective is to discuss the possible positive influence on OSH through supply chains. A more holistic discussion of supply chain influence including also negative impacts can be found in the full report of the Lift-OSH project (EU-OSHA, 2024). The analysis of these data is used to suggest measures, which can be useful for buying firms in the EU wishing to influence their suppliers to improve OSH in these and other business sectors. The aim is that the knowledge generated by the project can aid managers within large organisations in the EU to use their own supply chain relationships and networks to increase OSH awareness and health and safety in their supplier organisations.

Regulation as the basis

This research shows what private firms do to govern their relationships in the construction and agri-food industries, with the expectation that the results will apply to other industrial settings. It is important to note that public regulation of OSH — based on the EU Framework Directive from 1989 and enforced by the authorities — forms the foundation for most of the market leverage practices used by the case study firms. Both buyers and suppliers know that they may be inspected by government agencies, resulting in injunctions and fines, which may be followed by public scrutiny, and many respondents in the case studies point to the importance of complying with regulation for both business and ethical reasons. Market leverage therefore cannot replace public regulation of OSH and working conditions. Instead, strong and active public enforcement of working conditions and OSH regulation supports the application of market leverage. Regulation will be further strengthened by the ongoing legislative process in the EU with the new directive on non-financial reporting and related due-diligence regulations.

Recommendations for managers – what works?

Buyer–supplier relationships are generally regulated by contractual and relational governance (Cao & Lumineau, 2015; Koberg & Longoni, 2019; Tachizawa & Wong, 2014), and one of the clearest patterns across all the cases in the empirical data was not only that buying firms combine contractual and relational governance, but that most of the contractual terms, or penalties, are left unused. A contract, like regulation, may stipulate what should happen. But most of the time it is the relationship that determines what does happen and who gets future work. For example, most contracts in agri-food had terms or stipulations as to the penalties suppliers would face for late delivery or delivering poor quality. Yet punishing a supplier after a late (or poor quality) delivery means there is no food on the shelves. So instead, it was typical for the supplier to alert the buying firm of the problem and for the pair to work to a mutually agreeable solution outside the contractual terms. Similarly, the largest incentive that buying firms offer their suppliers is the potential for future work, which is never contractually stipulated. Understanding that future work is the largest incentive most suppliers/subcontractors are offered and that this incentive is based on relational, not contractual, governance is then key to understanding how supply chains

operate and why some buying firms are able to incentivise their suppliers/subcontractors to do things such as delivering high quality and making OSH improvements, whereas other buyers cannot.

Positive gestures and awards

First, the results suggest that managers might understate the power of small positive gestures. Some of the small positive gestures we observed included:

1. It is common for main or general contractors at construction sites to use yellow and red card systems to warn (yellow card) subcontractors or their workers when they are engaging in potentially dangerous activities or to stop work (red card) until a safety hazard is addressed. But we also observed a construction firm handing out green cards to the workers of suppliers who engaged in good OHS behaviour. The green card then functioned as a positive compliment to the more punitive yellow and red cards.
2. Other buying firms sped up payments to their suppliers or subcontractors since cashflow problems often put undue pressure on (typically smaller) suppliers to cut corners on safety.
3. One of the buying firms in construction gave out annual supplier awards for their best suppliers/subcontractors, including an OHS-specific award.

While supplier awards, green cards for workers and speeding up payment terms were rare, they all played outsized roles. Workers on construction sites with green cards were happy to be recognised for their good work (as opposed to being punished) and seemed to quickly grasp why a focal firm's safety culture emphasised what it emphasised. Similarly, while the green cards went to individual workers, management at the subcontractors viewed the green cards as recognition for their entire firm.

Future work was the main relational reward on offer across all buyers. But suppliers who were formally recognised via awards programmes could turn that award into future work from not only this buyer but others as well. And while these activities were mainly observed in construction, it does not take much imagination to suggest that a large food retailer could give green (or yellow or red) cards to suppliers' employees when they delivered to distribution centres or stores or when visiting growers. Equally, while supplier awards were rare in the case companies, large organisations in other industries have long recognised their best suppliers in this fashion (Caterpillar, 2022) and this would work just as well in food and in construction. The primary cost of these activities for the buying firm is being aware, something good managers should be doing anyway, and the returns on that awareness seem to be high.

Finally, while building a lasting and trusting relationship takes time, these relationships are often built on a number of small gestures. In agri-food many small suppliers are family businesses and to a large extent the owner-manager takes their identity from the business. Buying firms that show their appreciation of the supplier's effort to manage the business and meet shared challenges were highly valued by small suppliers. Frequent personal visits constitute the strongest means to develop social relations and show appreciation and respect for these small businesses. The key here is flexibility when the supplier is meeting delivery constraints or unexpected cost increases; once more not applying contractual terms to the letter. Such relationships develop trust and shared norms and make the supplier go the extra mile to help the buyer when needed.

Long-term relationships

The strongest means to ensure supplier/subcontractor good behaviour, including behaviours related to OSH, is linking doing a good job in the present with more work in the future. For instance, small agri-food suppliers were much more willing to work with buyers who understood their business and the challenges they faced and then engaged in respectful listening and co-cooperativeness to find shared solutions.

The supply chain literature has long recognised the value of long-term stable and collaborative relationships. Long-term relationships make communication easier and problem solving faster, while working with familiar partners is easier than working with new partners (Handfield & Nichols, 1999). While this thinking had not generally been applied to OSH management and outcomes at suppliers previously, it comes as no surprise that our results indicate that relational governance can work in this realm as well. The takeaway for managers here would then be twofold.

First, be as clear as possible as to what the minimal expectations for OSH management and outcomes are with current work to be considered for future work; make the expected levels of performance explicit and be sure they are communicated.

Second, be clear that the same relational norms that are used to develop new products, bid on new projects and so on can be leveraged to solve OSH and working conditions problems. In other words, suppliers/subcontractors need to know that safety and health, like quality, delivery and cost, is an area to work together on to improve performance.

It can be that this can be a challenge in public procurement, where the principle of competition prohibits the public procurement process to give preferences to former business relationships. However, it is still possible to opt for longer contracts as this makes it easier for the supplier to invest in and deliver social outcome.

Certificates and audits

The data suggest that buyers place a large amount of faith in certifications. This was true across industries, but more prevalent in agriculture, where certification was often the only means used to assess a supplier's management systems and the outcomes of those systems. For buying firms looking to improve OSH management, compliance with OSH regulation and OSH outcomes at their suppliers' workplaces, certifications could be the first — not the last — step. The goal should be that compliance with regulation and providing a safe workplace are order qualifiers, such that no supplier can get business without providing these basics. A lack of certification may indicate serious problems, but being certified is not indicative that good OSH outcomes will occur:

- In construction, outcomes are assessed more directly in real time on the construction site, which allows construction firms to increase the likelihood of the desired outcomes from having certified suppliers.
- In agri-food this type of hands on/real-time engagement is not possible. Instead, our study suggests that buyers in agri-food and other industries where buyers do not have real-time visibility into their suppliers' working practices and conditions can pay more supplier visits and do their own supplier audits to see how work is done and have more informal engagement with suppliers. Equally, these buying firms should collect data on actual safety outcomes, be they violations of regulation or accidents to provide evidence the certification is effective for the individual supplier.

Certification is a form of self-regulation, of questionable effectiveness, as certifications often are criticised for leading to superficial compliance instead of addressing underlying systemic issues. But it is within the remit of buying firms to enhance the quality of the data that certification and their associated audits capture, and to better ensure that being certified is indicative of truly meeting minimal expectations for OSH management and outcomes. Certifications such as GLOBALG.A.P. or ISO 45001 are provided by third parties, which sell their service to companies that need a certificate. Their business therefore depends on reliable certificates, trusted by customers and other stakeholders. Hence, as the users of the certifications, buying firms can demand that the certifications better capture OSH management and outcomes. Such demand would impact the certifying bodies to improve the quality of audits to secure their business.

Finally, many buying firms will certify their suppliers' ability to meet expectations for cost, quality and delivery (e.g. via ISO 9000 quality certification) separately from social compliance. And typically, these firms will have the procurement function oversee the certification/compliance with supply chain goals while other units such as a sustainability function will certify and manage social compliance. This separation leads to the purchasing function not concerning themselves with social compliance, of which OSH is a critical component, because it is someone else's job. In turn this separation gives suppliers the sense that what procurement asks for (lower prices, faster delivery, more flexibility) matters much more than social compliance, which does not seem tied to getting future work. Therefore, for certifications to be effective, one important element is to integrate social compliance into the procurement units rather than leaving social compliance in separate units with limited power and access to suppliers. For example, in some of our case studies the CSR unit (corporate social responsibility) that was responsible for following up on third-party social audit reports had difficulties to convince the suppliers about the necessity to develop corrective action plans in cases where non-compliances were identified. However, the supplier took corrective actions as soon as the procurement managers put pressure on the supplier and underlined the importance of social compliance.

Tailoring to the sector context

The large differences between the two sectors illustrate the need to tailor the market leverage of OSH and working conditions to the specific characteristics of a sector. For instance, whether the sector is dominated by business-to-business or business-to-consumer relationships will influence the choice of market leverage instruments applied and their outcomes. Fashion brands (like food retailers) are more vulnerable to consumer criticism than machine tool or construction companies and hence may depend on different leverage practices. While the above leverage practices can be expected to have general applicability, the characteristics of the sector determine which of the various market leverage practices and instruments will be most effective in improving suppliers' compliance with OSH regulations and their OSH outcomes. We show below how the differences between construction and agri-food constitute different strategies for market leverage in the two sectors and briefly explore how these insights could be applied to other industrial settings.

Both construction and agri-foods are hazardous industries, but construction has a much higher rate of injuries and fatalities (Eurostat, 2023). Yet, the construction context might be more amenable to change, for individual firms that want to see change, when it comes to OSH. This is because clients and/or main contractors that want to see change have a captive audience to make change. The construction site provides a setting where a buying firm looking to make change, can do so. Not only do they select subcontractors, but they get to set and enforce the rules and culture on site. They also determine the tone and tenor of toolbox talks, white board meetings and other activities. And they can, if they wish, be very hands on with their supplier/subcontractor management.

A construction site can be termed a web of network relation, and the case study companies, which are leaders in construction safety, are all leveraging these networks to improve safety management and outcomes. This does not of course magically make construction sites safe. But the studied construction firms can run a site in a much safer fashion than many of their competitors. On site this means that the focal firm's (or client's) safety culture becomes the culture of all organisations working on site. Subcontractors may not always behave in this way working for other main contractors or clients, but many reported their safety culture being influenced by the main contractor, and all knew that if they wanted future work with this main contractor or client, they would need to engage in these specific safety behaviours. This suggests that when such behaviours are not the norm or not occurring on a construction site, that the main contractor or client is not properly communicating that they care about safety and expect certain safety behaviours and outcomes. Or put in another way, a main contractor with a poor safety culture will also share that with the rest of the job site. Main contractors whose current safety record is poor will then need to start the change, by changing their own culture.

These conclusions should also apply to other industrial contexts where buyers and suppliers work side by side, typically on a project-by-project basis. For instance, film crews, event management and the like are all project-based industries where the event manager or film producer plays a role much like the main contractor in construction. They select who will supply various goods and services, and the suppliers all conduct their work on a shared site that the event management/production company controls. In these industries the safety culture on site will be driven by the responsibility of the buying firm.

The agri-food supply chain is not structured in the same manner as construction and change will be harder for firms that want to see change. Creating networks of informal communication will take more purposeful work and be harder to maintain. The dispersed nature of the growers means that the buying firms often have limited or no direct relationships with their growers. These structural elements were obviously an impediment to change in the agri-food firms studied and would also be problematic in other industries with large numbers of dispersed potential suppliers, such as textiles or the manufacturing of small/basic parts.

But an equal impediment to change was that, in general, OSH was not a top priority for the agri-food firms. The construction companies could and did talk at length about safety and the role of workers' safety. In agri-food, OSH often only came up when prompted or as part of a wider discussion on working conditions. And while most construction respondents would acknowledge the industry had safety problems, the typical response in agri-food to queries about OSH was that things must be OK because everyone has certification and their suppliers in Europe all work under strict regulation. In addition, and importantly, the agri-food suppliers did not face a substantial risk of losing the buyer due to poor OSH performance. We only identified one case where a retailer considered quitting the business relationship with a supplier, who was accused by national media and unions of having severe incidents of sexual

harassment and discrimination against female migrant workers. However, after auditing the supplier themselves and making sure corrective actions were taken, the retailer continued buying produce from the supplier.

A cultural change

In construction, the need for cultural change had been agreed by all the studied focal firms. Discussions with industry associations and regulatory bodies in the countries where the studied firms operated all indicated this change was spurred by the industry's poor safety record and relatively (the last 20 years) recently. The issue in construction was getting that culture to filter to the rest of the chain and other main contractors. In agri-food the need for change is — based on our data — still industry-wide because OSH behaviour and outcomes are not yet part of the conversation. But sustainability in the guise of how food is grown, packaged and processed is at the top of the mind for many growers and buyers. And while both food and agriculture have serious issues to sort out with emissions, pollution and negative social impacts beyond workplace safety, the food companies were more advanced in dealing with sustainability related to the environment than construction. In other words, the food companies are leveraging their networks and finding ways to change supplier behaviours in other ways that likely could be used to address worker health and safety. The agri-food sector does not have the informal network found in construction, but it does have networks working on other sustainability issues that could be used to address safety behaviours and outcomes.

The data suggest these differences should transfer to other contexts. For instance, in IT, like food, sustainability has been high on the agenda, though the industry is not typically thought of as dangerous. Yet, some IT companies have used their general expectation for suppliers and subcontractors to focus on sustainability to also emphasise safety. The same should also be possible in other industries or individual companies, where working on sustainability (but not yet OSH) is now an accepted part of buyer–supplier relationships. Equally, change in the construction industry happened on a firm-by-firm basis. Hence, firms in other inherently dangerous industries (including agri-food) that want to see change will need to follow a dual-pronged approach of both changing their own culture to emphasise OSH internally and across the supply chain, while also working with industry bodies to move safety up the agenda for the industry.

Conclusion

Relational governance of buyer–supplier relationships is important for business in general and based on our study, also for safe and healthy work at the supplier's workplace. So far, the focus on OSH in supply chains is dominated by regulation and formal contracts. While national and international regulations as well as formal requirements in a contract make up the necessary basis for cooperation, relational governance plays a major role for transforming policies and hard contractual requirements into practice at workplaces and thereby makes a difference for the health and safety of workers at supplier workplaces.

It is important to take the sectoral differences into account. In construction there is a natural focus on the direct collaboration on the construction site and the potential that this brings for the buyer–supplier relationship. In agri-food on the other hand, the dispersed nature of the production networks makes it necessary for buyers to develop more direct contact and communication channels with the suppliers.

Summarising the practical advice, the main points are to:

- support good and safe practices with positive gestures and awards;
- recognise the value of long-term relationships and talk openly about expectations related to OSH; and
- use third-party certifications and audits only as a point of departure for supplier OSH management, and do not separate OSH from other measures such as quality and delivery requirements.

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