Understanding the CONTRACTOR MANAGEMENT PARADOX

By Stefan Malhotra

In almost every major organization, contract work is a reality if not an operational obligation. It is not often that a company has all the necessary internal resources at its disposal to accomplish every project at a level sufficient to satisfy company stakeholders while maintaining quality standards.

At some point, a business model without contractors becomes unsustainable and outside expertise becomes an inevitability for operational success.

Entire industries have been built on performing a single technical task or developing one particular product for a handful of clients or, in some cases, a single client. Such is the energy generation sector, whether oil and gas, renewables, or nuclear, where a glut of contractors (e.g., drillers, civil engineering, crane services, well logging, balance of plant, waste management, maintenance services) greatly outnumber the companies that actually comprise the industry itself. Furthermore, as companies embrace the latest technologies (e.g., data analytics, cloud-based databases, drone inspections) to further extract every ounce of organizational efficiency and reduce overall costs, they promote an accelerated dependence on the specialized competencies of contractors, thus further cementing an organization's reliance on its external business partners.

The ubiquity of contractors able to perform work at every level of an organization, coupled with the inevitable necessity for a company to operate competitively, demands some measure of contractor management. In an operational context, and more specifically from an OSH perspective, contractor management is a requirement and has been for some time. However, it still remains an elusive and difficult process to define, especially for growth companies. This is due to an inherent paradox whereby a contractor must seamlessly integrate with a client's system, combining OSH elements that are at times contradictory, misaligned, out of scope or extremely difficult to gauge, either on paper or in practice.

Essentially, contractors exist in competing states simultaneously, both independent of and dependent on the client. Look no further than control of work procedures or lift planning, where differences in process can result in confusion and work stoppages in the field. Much like ill-fitting puzzle pieces, gaps form where communication breaks down, expectations are ill-defined or unmet, and standards dramatically differ, all at the expense of the safety of those performing the work.

Regardless of the level of contractor involvement in an organization, the contractor management process is a unique improvement opportunity that is often mistakenly viewed, outside of an OSH context, as an onerous formality that can be sidestepped. In part due to the difficulty of managing the contractor paradox, this perception is short-sighted at best and negligent at worst. Within the OSH context, contractor management is perceived as one of the least glamorous and overly monotonous aspects of an OSH management system, mainly relegated to whoever is willing to assume the task.

While any OSH professional will openly profess the intrinsic importance of contractor management, few may realize just how much hazard mitigation a client abdicates to them (Beale, 2003). This is especially evident when contractors isolate energized systems, where the breadth and depth of mitigations must match the complexity of the system's hazards. The inadequate application of lockout/tagout (LOTO) resulting in incidents such as high-pressure releases, live circuit contact or unplanned equipment activation is all too common. One of the most disastrous and well-known examples involving contractor LOTO is the 1988 *Piper Alpha* disaster, in which the removal of a single pressure relief valve led to the death of 167 offshore workers (Tombs, 1990). In the author's recent experience, one contractor's haphazard substation LOTO downstream of a facility resulted in a total site outage that subsequently caused the activation of an asset's emergency mode. Unfortunately, another contractor group was simultaneously working inside the asset and failed to fully apply LOTO, resulting in thousands of dollars of equipment damage.

Even a slight deviation in LOTO procedures will result in near-hits, severe injuries or worse. The classic risks associated with contractor work are well known: discrete spending, resource

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allocation, subcontractors, temporary workers, technical competency, training, procedural compatibility and more. However, beyond the reality that contractor management systems are necessary for protecting against the aforementioned risks, OSH departments often fail to proactively manage these risks relative to the contractor's scope of work. Managing contractors and their subcontractors is an active process that demands a full cycle approach (i.e., plan, do, check, act), where there is constant communication and feedback at every step of the process, not only when things go off script. This article aims to explore the common avoidable mistakes OSH departments regularly commit in relation to the contractor management paradox and proposes solutions to address their underlying causes.

Pushing Paper

Spending an inordinate number of work hours perpetually developing and revising an organization's OSH management system while accepting a contractor's system without proper due diligence is an irony often lost on industry professionals. Often, these reviews are performed once during the initial contractor qualification process and never again. Frequently the review consists of the client attesting to the contractor's OSH system comprehensiveness and performance with limited information as to the actual scope of work. The elements of the contractor's management system (e.g., working at height, LOTO, management of change) are hurriedly evaluated against client standards, while OSH statistics (e.g., total recordable incident rate, days away restricted or transferred rate, rate, near-hits) are compared against somewhat nebulous criteria [e.g., Bureau of Labor Statistics rates, experience modification rate (EMR), internal key performance indicators]. Beyond recognizing obvious data discrepancies, the result can be an ill-defined process with limited information that can, and often does, easily devolve into a pencil-whipping exercise.

Given the broad range of potential work scopes for a multitude of contractors working on a single project, meaningful evaluation of every contractor's management system and performance is near impossible. Contractor submittals are often an amalgamation of every possible OSH topic that could potentially touch on their expertise and can be unnecessarily hundreds of pages long. Whether an artifact of previous client demands or out of a fear of legal liability, most contractors regardless of size now have something resembling an OSH management system, at least on paper. Templated safety manuals covering every OSHA element can easily be purchased or obtained from online sources. Although contractors are most likely well-intentioned and there is no requirement for every OSH manual to be an original masterpiece, these manuals hold little value for either party when developed solely for bureaucratic purposes.

Skimming through hundreds of contractor management system documents, often identical, will inevitably lead to complacency and missed deficiencies. At some point, this method of review becomes unsustainable and contractor verification becomes a mindless chore rather than a tool for risk assessment, thus calling into question the usefulness of the entire process. Ironically, this burden may be shifted to online third-party contractor management databases at an additional cost (i.e., a contractor to manage contractors' data). Notwithstanding the data streamlining and resource deferral provided by such services, the core problem of gauging procedural implementation and field performance remains. Although third-party databases provide a deeper dive into content and statistics, the true picture of a contractor's actual quality can remain obscured from view.

While the insights that desktop analyses provide are a critical first step and point of reference, they also provide a standardized and objective initial approach. The following examines common missteps and potential areas for improvement in the desktop analysis methodology.

1) Avoid paper-based forms entirely. The contractor's initial encounter with an organization's OSH management system is the contractor OSH questionnaire. In the age of digitization, a paper-based form, whether a stand-alone document or part of a larger contractor qualification package, is subject to greater analytical error. Third-party contractor databases are quickly becoming the preferred data management method, although internal spreadsheets are equally reliable in collecting and analyzing large volumes of data for discrepancies and redress.

2) Develop a questionnaire that captures all pertinent OSH data in a succinct, specific and logical format. The questionnaire should be meticulously structured, as a haphazard appearance is difficult to understand and calls into question the competency of a company's OSH department. Avoid grouping unlike questions, which can break the flow of data input and create confusion. Questions should be direct, objective and explicitly target the data requested in quantifiable terms. One should not leave any ambiguity or omit specificity for fear of overreach or pushback from contractors; transparency and accuracy benefit all aspects of OSH.

3) If historic areas of concern exist, pose multiple questions about the topic. For example, instead of asking whether subcontractors or temporary workers will be used on site, the questions should be which ones, how many and for what specific job task? More importantly, one should avoid too many binary, closed-ended questions such as "does your company have a safety program?" or "do you know of any previous incidents working with our company?" These questions dissuade objectivity because they elicit a point of view and also provide limited actionable information. If open-ended questions prove to be problematic or unmanageable, multiple response questions can be used.

4) Supporting documentation is a necessity. A total recordable incident rate is only as good as the OSHA 300 form signed by the contractor. This applies to all other supporting documentation that can provide a more complete representation of contractor performance. There is no reason that documents such as OSHA forms, EMR letters, training certificates, OSH procedures, incident reports and regulatory citations should be omitted from a contractor's record, especially when the objective is to mitigate future operational risk. No other department would assume such risk without proper due diligence, so why would OSH be excluded? It would be professionally irresponsible to accept incomplete documentation that conspicuously falls below an organization's standard.

5) The contractor must be specific about a work scope on the questionnaire. Neither *consulting* nor *crane work* is a work scope, rather, they are generic job descriptors. When a contractor is operating under the purview of a client, the anticipated level of risk is inversely proportional to the specificity of the proposed work scope, regardless of the type of work to be performed. A specific work scope along with supporting technical

documentation will allow for the appropriate risk mitigations to be put in place, not excluding the selection of a different contractor if needed.

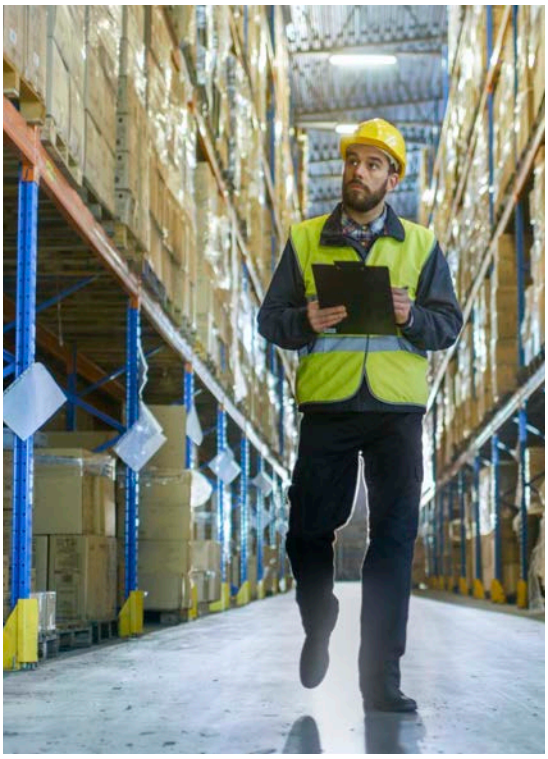
Process Meets Practice

The greatest disservice an organization can render regarding contractor safety is to ignore or circumvent any part of the contractor management process. This practice ultimately negates the need for having a process and dramatically erodes organizational integrity. The root causes of this negligence may vary (e.g., operational conflicts, internal metrics, poor scheduling, unskilled labor pool, unplanned events, competing departmental interests). However, the long-term negative consequences of such action (e.g., personal injury, loss of reputation, protracted lawsuits) will far outlive any expected short-term gains of getting the job done.

While documented systems and prior performance data are valuable to any contractor management program, they are only part of a much larger process. Desktop analyses are often given disproportionate value in comparison to the actual competency and quality they attempt to describe. This is mainly because of the resource-intensive nature of actively evaluating contractors in the field versus analyzing contractor data in the office. The latter is inherently easier. Nonetheless, the contractor management process extends well beyond the initial stamp of approval. A common error is the failure to follow through the entire process past the desktop phase.

Contractors must be assessed on a continual basis, independent of prior performance. Whether a contractor has two, 20 or 200 workers on site, the same assessment process must be consistently applied, albeit with varying levels of scrutiny relative to risk. Passing muster on paper does not equate to acceptable contractor performance in the field.

This reality becomes apparent when a contractor's work habits are observed firsthand. If this part of the contractor management process is not respected, the door to risk is left wide open. Therefore, constant communication of OSH expectations and verification of expectations in the form of frequent site audits, regular site visits, fact-based evaluations, contractor interactions, daily/weekly reporting, post-job reviews or any other means of assessment, whether formal or informal, become obligatory. All should



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be specifically tailored to the contractors on site. The client must have high visibility in the field. Managing from a distance is not a suitable option if contractors and employees alike are to recognize the importance of procedural discipline.

Regularly completing this task is easier said than done, given that most OSH professionals must manage large swaths of contractors in multiple locations performing a broad range of work scopes. In such cases, an organization must make contractor management a core responsibility for both line managers and site personnel. Many of the same auditing tools are needed for site management to document contractor performance. Indeed, the most effective method is to formally share ownership of contractor management and empower site staff to ensure that contractors perform to expectations. To start, feedback from weekly contractor meetings and direct lines of communication to corporate OSH are critical to addressing contractor safety issues as they occur. Beyond this, direct involvement throughout the entire contractor management process, from selection to commercial operation, is absolutely essential to identify opportunities for improvement that would be otherwise missed by corporate management. This author has observed that shrinking the hierarchy and shifting organizational barriers (e.g., procurement, supply chain) has created greater contractor accountability and site responsibility.

Completing the management cycle (i.e., plan, do, check, act) is crucial to operational sustainability and will further drive opportunities to identify contractor deficiencies before they materialize in the field. The level of process fidelity and consistent contractor review executed by an organization is directly tied to an organization's overall OSH performance. Without verification beyond the initial vetting phase, the process cannot impact on workplace safety. Only when the contractor management cycle is followed in its entirety will true gains in safety performance be realized and in turn raise minimum performance standards across the board.

Set Up for Failure

The preceding guidance is the minimum that any contractor management system should accomplish. However, a question remains: how can something so well-known and inextricably linked to risk management be consistently overlooked? Is the process inherently flawed? Let's examine the reality of applying the management process and its difficulties.

A contractor's OSH procedures are only a framework to enforce, they do not always represent actual practice.

Merely checking a box that a contractor's energy isolation program exists is not enough. So, what is the appropriate level of review? The answer lies in knowing the basic best practices of OSH and creatively auditing against these practices in the office and in the field. What distinguishes a functional contractor management program from one on autopilot is the ability to ask questions that address the underpinnings of a contractor's programs and gauge the depth of their competency. For example, ask for an energy isolation program, as well as completed LOTO forms, training documentation, PPE requirements and a specific list of equipment that the contractor is qualified to work on. The contractor should be able to describe in detail the specific types of hazardous energy present and their isolation methods. Follow up with a field visit and verify that these conditions are actually followed. If any part is unsatisfactory or lacks specificity, it is time to reassess.

One should ask for clarification, not change. Clients often engage in self-deception when it comes to asking contractors to modify or differently interpret their management systems to satisfy the client's standard. Any determined contractor can modify a policy to meet a client's requests, especially when a major project is on the line. The idea should not be to subjugate contractors to the client's management system; doing so will inevitably lead to lip service and deteriorating relationships. Contractors are business partners, not subordinates. Most require and welcome guidance to successfully accomplish a work scope without incident. Expectations and obligations should be clearly defined from the beginning. If a contractor's procedure does not meet a minimum standard, one should document the discrepancy and bridge the gap. Often a bridging document or management of change will suffice to clarify any perceived deficiencies and create a sense of collaboration rather than dependence.

Documenting contractor nonconformance is a necessity and should be used as often as the situation arises. Often nonconformance is followed by disciplinary or negative action against a contractor. However, in practice, documented nonconformance is a tool for overall process improvement, not punishment. If a contractor is unable to meet its OSH obligations for any reason, this should be documented for future projects as a proactive measure. Doing so obligates contractors to reevaluate their protocols to avoid repeat events and allows clients to more efficiently forecast resource allocation. Rather than only responding to outcomes with written reprimands, repetitive change orders, verbal warnings or, worse yet, near-hit reports, documented nonconformance can feed back into the procurement process and preemptively shift operational risk away from the project before any contractors arrive on site. Documented nonconformance breaks the familiar cycle of repeat mistakes and promises to improve. At some point, no matter how convenient or cozy a business relationship is, without some measure of OSH accountability, repeat errors can and will metastasize, skewing expectations and normalizing deviations within the process. Therefore, organizations should actively track nonconformance as a means to protect system integrity and transfer risk to the forefront of a project.

Erasing the Status Quo

Any OSH process performed passively is destined to produce failures at nearly every step; contractor management is no exception. The process does not seek to remove contractors from an ever-growing pool of potential partners but rather aims to build up a reliable contractor group that exemplifies an organization's commitment to OSH principles. Optimally, the OSH standards by which a contractor operates should be no different from those used by the organization that hired it. Contractor risk is not separate from company risk. Hence, a company's expectations of itself cannot differ from the expectations it has for its contractors. These expectations must be applied consistently and equitably across all scopes of work. This creates an atmosphere in which accountability is viewed as a two-way street and forces companies to broaden their scope of OSH responsibilities. Doing so advances the core objective of developing a high-performing contractor base and creates a cycle of positive reinforcement. Conversely, companies that treat contractor liability as diminutive and severable from their own risk only compound their own failures in the contractor management process.

Regardless of organizational priorities, time constraints, resource availability or even a spurious sense of security, contractors should not be expected to assume any operational risk. Contractors are by definition an extension of company risk and as such must be managed beyond their impact on project quality. An actively engaged contractor management system presents numerous potential gains in safety for a reasonable investment relative to potential risk. As noted, the slightest improvement such as reformulating questions, changing medium or consistent exchanges with contractors will start paying dividends almost immediately. Alternatively, failing to make sustained investments in contractor management can lead to pronounced losses in overall contractor quality and performance, furthering the degradation of the contractor base.

Successful contemporary contractor management requires a strategic approach to the contractor paradox, where contractors are both temporary and permanent, integral and separate, trusted but verified, subordinate and equal. Adequately assessing risk from the perspective of these multiple states demands a system reflective of the level of their interconnection. As a result of this inherent inseparable risk, regardless of the client's intent, any action on a contractor management system will yield either positive or negative synergistic and compounding effects on contractor quality. Simply put, a contractor's quality is a function of the client's capacity to align competing paradoxical states in the same direction. One must remember that paradoxes cannot be solved, they always exist in some form or another. What counts is how they are managed. **PSJ**

References

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