



COMPLETE GUIDE

How to manage outsourcing efficiently?

INTRODUCTION

If your company outsources work to contractors, it is not alone. The practice is a growing trend across multiple sectors of the industrial landscape in Canada and around the world.

Should your company self-manage contractors or outsource work to dedicated specialists? What are the risks involved in outsourcing? How does contractor management impact overall company performance? Are hiring organizations responsible for contractor-related accidents? Does external contractor compliance management generate a sound return on investment?

Cognibox addresses all of these different issues. This document briefly analyses the two modes of contractor management: internal self-management and outsourcing to external compliance professionals.

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MANAGING CONTRACTORS EFFECTIVELY

DUE DILIGENCE IMPERATIVE

Although outsourcing entails risks, it is possible for the hiring organization to attenuate these risks considerably by applying the principles of due diligence. Effective contractor compliance management requires that employers comply with the three obligations of due diligence: foresight, efficacy and authority.

These obligations encompass aspects such as the following: working environment and related risks, risk reduction, worker training, information transmittal, prevention and safety measures, conduct of investigations, compliance with safety standards, and contractor awareness of penalties imposed on offenders.

Hiring organizations would indeed be well advised to equip themselves with a proven, performance-based contractor compliance management system to reduce costs, enhance workplace efficiency, standardize procedures and improve overall quality. This document addresses each of these issues.

CHOOSING THE RIGHT CONTRACTOR

There can be no doubt about the importance of choosing the right contractors. And it is not always those submitting the best price that should be the focus of hiring organization interest. Rather it is those deemed reliable and trustworthy. Those able to demonstrate that they can work in ever evolving, sometimes challenging conditions. Those that employ competent workers. Those that use quality products. And those that offer better overall value.

FUNDAMENTALS OF A CONTRACTOR MANAGEMENT PROGRAM

All contractor management programs begin with the establishment of standards by the hiring organization. These standards define key contractor selection criteria.

This complex exercise helps identify contractors both good and less desirable, and locate those able to provide the services required in compliance with applicable financial constraints and in keeping with the hiring organization's internal culture.

The Campbell Institute¹ breaks down this exercise into five specific tasks.

PREQUALIFICATION

01

This stage involves identifying the strengths, capabilities and vulnerabilities of each contractor seeking to qualify for a specific job. It is at this point that data is gathered, rendering document management crucial. Upon completion of this step, contractors either obtain or fail to obtain “eligible to bid” status.

PROJECT RISK SCORING ASSESSMENT

02

This stage involves properly defining the work to be awarded a contractor with a view to ascertaining the predetermined category of risk. This step defines the level of training required, while detailing control and assistance measures, as well as the scope of insurance coverage required of the future contractor.

CONTRACTOR TRAINING

03

This stage involves properly validating contractor training which must be substantiated with supporting documents. In certain circumstances, such as working in a confined space where safety is of the utmost importance, the contractor must provide proof of specialized training in the safe execution of work of this nature. Managing contractor training files represents an ongoing challenge for hiring organizations given the necessity of consistent, meticulous updating.

WORK MONITORING

04

The hiring organization must periodically check work carried out by the contractor during the period set out in the contract. Rigorous record keeping of incidents/accidents is obviously a must.

EVALUATION

05

It is essential to evaluate and report on contractor performance from time to time. During an investigation, for example, these reports can prove highly useful as they enable the hiring organization to substantiate sound contractor management.

1. Campbell Institute. (2015). Best Practices in Contractor Management. Sourced from <http://www.thecampbellinstitute.org/research>.

CONTRACTOR MANAGEMENT: INTERNAL OR EXTERNAL?

There exist two ways in which to manage contractors. Companies can choose to manage them by means of an internal manual or computerized procedure, or opt to outsource.

Internal. Some hiring organizations do things very simply by compiling, on their own, minimal contractor selection information: follow-up files, incident/accident records, evaluation notes, contact information, etc. Larger companies, however, have dedicated departments for handling contractor evaluation and selection processes.

External. Other hiring organizations may choose the external route for ensuring contractor compliance management. These suppliers generally offer turnkey solutions including software as a service (SAAS) type packages and related expertise such as back office support.

CHOOSING THE BEST SOLUTION

To be certain, one must take into consideration at least three key elements:

- Number of potential contract service providers;
- Number of sites (plants, worksites, warehouses, etc.) in operation;
- Adequate availability of qualified internal resources dedicated to contractor management.

Thus, the more contractors hired by a company, the more demanding contractor management becomes and the greater the levels of overall risk. The number of operating sites also renders contractor management more complex, for each site often has different requirements and working methods. Regulations can even differ from one location or region to the next, raising the potential for non-compliance issues.

INTERNAL CONTRACTOR COMPLIANCE MANAGEMENT

Factoring in abundant changes

When working with a number of different contractors, information about them quickly takes on considerable proportions. Moreover, files are constantly changing or being amended. Following is a partial list of the many possible changes:

- Expiry of insurance policies, licences and permits;
- Updating of compliance requirements, including training;
- Updating of safety programs;
- Updating of operating and emergency measures manuals, etc.;
- Monitoring of contractors authorized or not authorized to operate on different sites;
- Information pertaining to worksite absenteeism and worker substitutions.

Technology to the rescue

Compliance-related activities can prove costly when they multiply in number. As the number of control points increases and files accumulate, the more demanding e-mail management becomes and the more managers experience difficulty in making enlightened decisions in matters relating to compliance.

Obviously, attempts to manage several compliance control points manually often translate into excessive operating costs. As a consequence, management functions must be automated to provide for a coherent, reliable and sustainable compliance framework. John Hagerty, an analyst with AMR Research² explains as follows: "People realized you couldn't maintain adequate controls over a bunch of spreadsheets and word processing documents without tying up manpower."

Implementation and management costs

Companies cannot disregard the human and financial resources necessary to set up an internal contractor compliance management system. They include as follows:

- Additional personnel to manage the program and supervise contractors;
- Cost of data storage, file management and data recovery systems;
- Specialized compliance management software;
- Mechanisms for accessing and sharing information across company ranks;
- Expertise necessary to know what to demand of contractors and what to control or monitor;
- Contractor-specific communications means and activities (document renewal, incidents, etc.).

It is difficult to reduce internal compliance management costs. Results are often deceiving. Indeed, the costs and benefits associated with either approach – internal or external management – can present considerable differences. This is the reason why companies must consider the two options closely and carefully.

2. AMR Research (2006). Supply Chain Saves the World. Boston, Massachusetts: AMR Research Publications.

EXTERNAL CONTRACTOR COMPLIANCE MANAGEMENT

Strategic solution

By adopting a strategic, longer term approach, investments in external compliance management systems should translate into significant attenuation of operating and financial risks, substantial cost reductions and welcome operating efficiency enhancements.

It is possible to obtain a sustainable, proactive compliance system in keeping with a company's financial objectives by following a number of simple steps:

- Develop and enforce appropriate policies, then integrate the latter into the company's business processes;
- Develop a culture of rigorous file management to ensure that all necessary data is collated, stored, readily accessible and regularly updated;
- Create a structure of governance which provides for compliance accountability and continuous improvement;
- Automate compliance and key document management activities to ensure system coherence, transparency and sustainability while reducing overlapping and unnecessary repetition;
- Evaluate the compliance program annually.

By following the five preceding steps, a company can set up an accessible, proactive, compliance framework designed to reduce compliance risks and costs, while avoiding duplication, unnecessary repetition and internal software maintenance. The result: enhanced overall corporate efficiency.

THE CASE OF ALCOA CANADA IN QUÉBEC

Québec is home to the largest aluminum plants in Canada. Several years back, the company required six full-time employees to manage compliance issues and contractor paperwork.

The team was ultimately reduced to a single individual thanks to the implementation of a computerized contractor compliance management system developed by Cognibox. The remaining company resources were reassigned to more important tasks. Today, Alcoa continues to reap the benefits of a system featuring centralized, readily available information.

Return on investment (ROI)

Awarding contractor compliance management to external specialists generates positive return on investment. The Cognibox experience speaks for itself.

The following table outlines the hours/year devoted to key tasks relating to contractor compliance management for a company with a hundred or so medium-sized contractors over a period of three years. A dozen or so tasks were evaluated taking into account the hours devoted to each task.

Main contractor management tasks	Year 1		Year 2		Year 3	
	hours/year	%	hours/year	%	hours/year	%
Develop questionnaire and contractor qualification criteria	34	2%	0	0%	10	1%
Forward requests and qualification forms	25	1%	25	1%	25	1%
Follow up with contractors regarding completion of qualification files	200	11%	100	5%	150	9%
Assist contractors as required in completing files	150	8%	33	2%	100	6%
Evaluate and validate contractor qualification files	233	12%	200	9%	233	13%
Input, compile and store contractor qualification file data	50	3%	150	7%	50	3%
Check insurance, training, certification, permit expiry dates	75	4%	175	8%	75	4%
Re-evaluate new tender documents and set up new files as required	100	5%	200	9%	100	6%
Ensure contractor file completion	25	1%	25	1%	25	1%
Input, archive and manage updates of contractor and contractor employee data	950	51%	1050	48%	950	55%
Track time devoted to non-qualifying contractors	25	1%	125	6%	25	1%
Update all contractor-specific data annually	0	0%	100	5%	0	0%
	1867		2183		1743	

The analysis demonstrates that all tasks combined require, on average, some 1900 hours a year over a period of three years.

The potential for savings is substantial especially respecting administrative and clerical tasks, contractor follow-up and qualification, and, of course, the time devoted to the management of non-qualifying contractors.

Conservatively speaking, it is safe to assume that the direct cost of managing some 100 contractors ranges between \$75 000 and \$115 000 a year.

Spread out over three years, these costs represent an amount of between \$225 000 and \$345 000. Readers will note that these are minimal direct costs, which can escalate significantly if the hiring organization conducts operations in more than one language and in different jurisdictions subject to differing regulations.

Once implemented, some solutions provide a return on investment in less than a year... even in the case of companies retaining the services of fewer than a hundred contractors.

Best practices

In a document drafted by the Campbell Institute³ for the National Security Council of the United States, analysts rank the use of third party prequalification companies as a key component of contractor management best practices.

The choice of an option of the like is all the more justified in instances where company size, project quantities, jurisdiction numbers and safety/productivity requirements tend to be plentiful.

3. Campbell Institute. (2015). Best Practices in Contractor Management. Sourced from <http://www.thecampbellinstitute.org/research>.



EFFECTIVE CONTRACTOR MANAGEMENT REDUCES RISKS AND ENHANCES PERFORMANCE.

EXTERNAL CONTRACTOR COMPLIANCE MANAGEMENT AS A DRIVER OF SUCCESS

Contractors exert a direct impact on corporate performance, profitability and reputation. Accordingly, both the contractor compliance management system and the expertise of the external contractor are of critical importance.

Investment in external compliance management decreases the probability of work-related accidents, while enhancing the overall quality of operations. In the event of an incident/accident, this same management system ensures that the company is well documented and able to defend itself should an investigation be launched.

OPTING FOR AN EXTERNAL SOLUTION

The decision to implement a contractor compliance management system occurs the day a company realizes that contractor management involves financial and reputational risks which can make or break it.

The adoption of an external system represents an important step for many organizations. How then does a company choose the best dedicated specialists?

The criteria to be considered include a combination of performance software backed by professionals who know which compliance programs meet requisite legal and regulatory requirements and teams of individuals poised to provide reliable, personalized customer service.

ADOPTING A STANDARDIZED OR FLEXIBLE APPROACH

The two dominant approaches to external management differ from the dual standpoint of philosophy and cost.

Hiring organization	Standardized approach (One size fits all)	Flexible approach (Personalized)
Initial preparation	Client applies evaluation criteria of system supplier Requires less preparation on behalf of client	Client determines evaluation criteria together with supplier who advises of best practices Requires more preparation on behalf of client at outset
Contractor evaluation criteria	Contractor evaluated based on predetermined, standardized criteria	Contractor evaluated based on company criteria and standards
Implementation	Implementation highly standardized and formatted based on industry-specific requirements (e.g. petroleum sector)	Client defines own requirements, standards and priorities based on company-specific needs
Contractor engagement	Contractor commits to honour evaluation criteria set out by system supplier	Contractor commits to honour evaluation criteria set out by company
Quantity of data collected	Often excessive and not always aligned with nature of work assumed by contractor	More specific based on work to be carried out and/or level of risk
Time required to complete file	Extremely demanding in terms of contractor hours	Adapted based on real needs of buyer
Contractor contract cost	Extremely costly	More affordable
Contractor adoption and participation	Harder	Easier

Two visions and the costs involved

As set out in the table, the two philosophies exhibit significant differences. The company seeking to implement a contractor compliance management system needs to assess carefully which of the two visions best resonates with the company's management philosophy and the type of relationship desired with suppliers.

In addition, implementation costs can vary tremendously. For a key contractor such as a general contractor conducting operations in several different Canadian provinces, direct costs can easily exceed \$15 000 a year to become a member of a standardized platform (one size fits all).

Functionalities and service

Users of external contractor compliance management systems must also evaluate the interface and functionalities of the different software packages. There are important differences from one package to the next in terms of application modules, reports generated and ease of use.

Lastly, it is important to evaluate the quality of service provided by external specialists, given that technical and administrative support is critical to proper system implementation.

Key factors of success

The day a company decides to raise the bar with respect to contractor qualification requirements, it can expect a broad range of reactions. Suppliers involved need to understand the tools and procedures being used to be able to conduct business with the hiring organization. External experts should normally be poised to assist clients with all phases of procedure implementation including the handling of cultural resistance!



EXTERNAL MANAGEMENT GENERATES SOUND RETURN ON INVESTMENT

Implementing an external contractor management system

Although possible for a seasoned project manager, system implementation would be better placed in the capable hands of a working group tasked with implementing the system across company ranks.

These systems impact a number of different stakeholders. For example, health and safety officers will wish to review contractor incident/accident statistics and consult contractor prevention programs. Purchasing agents will be interested in contractor qualification from the standpoint of company standards, risks and quality of work provided, including insurance certificates. The legal and communications departments will focus attention on documentation needed to demonstrate due diligence on behalf of the company in the event of an incident/accident.

In the same vein, executive and board of directors support also represent powerful drivers of success when implementing a new system or strategy. In many instances, the implementation of an external contractor compliance management system requires a change in management and employee culture, notably with respect to the manner in which a company interacts with key business partners.

Communicating change, step-by-step

The first step in the implementation of an external contractor compliance management system is to bring employees into the loop and explain both the benefits and rationale underpinning the system. When all stakeholders involved fully understand the company's goals in terms of workplace efficiency and standardization, reduction in the number of incidents/accidents and optimal financial performance, they will readily "buy" into the system.

RETURN ON INVESTMENT

Overview of benefits

QUANTITATIVE BENEFITS

- Lesser probability of incidents
- Lesser probability of quality issues
- Decrease in number of claims and lawsuits
- Decrease in number of involuntary production stoppages
- Enhanced productivity

QUALITATIVE BENEFITS

- Accessible centralized system
- Peace of mind
- Enhanced contractor retention
- Prevention of reputational damage

ABOUT COGNIBOX

Since 2005, Cognibox has provided comprehensive supplier management, worker compliance and learning solutions that support organizations in their drive towards a safer and more efficient work environment. It also offers expert professional services to accompany corporations through their supply chain safety and risk control processes.

Guided by its core values of transparency and excellence, Cognibox's flexible, client-centric approach is paramount to the customer experience, and serves over 290,000 members.

To learn more, visit www.cognibox.com.



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