



# Why Risk Management Needs to Be a Key Initiative

## How does risk mitigation rank in your supply chain management plan?

More than 60% of senior executives identified risk management and risk awareness as key initiatives [1].

And it's no secret why. In today's litigious society, taking preventative measures to ensure that your workforce is safe, compliant with regulations, and using good common sense is essential to efficient supply chain management.

Consider a contractor who is hired to remove natural gas lines. The contractor hires a two person sub-contracting company to assist.

The sub-contractor forgets to check the three gas lines prior to cutting, and the two contractor employees suffer severe burns. Neither company has Workers Compensation or Employer Liability Insurance. Who ends up on the hook for the damage involved? The lawsuit goes to the company who hired them; the controlling employer of the project is now held responsible, and ends up paying \$3.42 Million to settle both cases.

## Avoid Lawsuits

This type of lawsuit is all too common. It's the reason that supply chain management risk assessment and mitigation requires you to step back and a look at your supply chain from the 36,000 foot level. It's time to back to the basics, take a look at your strengths and weaknesses and ensure that all areas of your supply chain management process are covered. Many of us do not automatically consider the legal ramifications of hiring a sub-contractor to assist a trusted contractor of ours. Yet, as we see in the example above, accidents happen, and without the right contractor prequalification ahead of time, you can't prevent the occurrence.

Contractor lawsuits are frightening. In the petrochemical business it's magnified by the fact that between 50-75% of the plant are contractor employees. When that much of the workforce outside immediate company supervision, it's not enough to assume compliance with safety. In fact, a common myth in supply chain management is that contractors always follow health and safety requirements- that they can be simply assigned to a project, and we can rest assured that our liabilities are minimized.

Additionally, every effort should be made to actively mitigate and manage risk.

## Safety Training

The reality, however, is quite the contrary. Suppliers and contractors often fail to meet minimum contract Terms and Conditions, including safety criteria, when reviewed by the companies they work for. Why? If the contractor isn't required to substantiate safety information, they aren't motivated to do so. Nothing is stopping the contractor from bending your safety rules.

The answer to mitigating risk in your supply chain is proper evaluation. Loss control in efficient contractor and supplier relationships is most effective when you:

■ Communicate

■ Evaluate

■ Select

## Communicate



Communicate expectations. Before you award the contract, ensure that you detail safety expectations in your contract with the supplier or contractor in mind. Clearly state your expectations and the guidelines by which their work will be monitored. Hold regular contractor safety meetings, and stay up-to-date with the project and its progression to ensure alignment with the guidelines that you've put in place.

## Evaluate



Evaluate progress. Use objective criteria, like Insurance, Experience Modification Rate (EMR) and Total Recordable Incident Rates (TRIR) to determine how the contractor's performance is measuring up to stated expectations. Conduct supply chain risk management audits on subjective and objective criteria like written policies and past performance to verify that written protocols are being implemented. Rank your suppliers into low, medium and high-risk categories based on their trades. This gives you the ability to assess the services performed and how the contractor has addressed proof that a safety program is implemented for medium and high-risk trades.

## Select



Select contractors based on qualification. Once you have established the criteria against which contractors will be evaluated, be clear to contractors that all elements of qualification will be weighted and that price is not the only factor on which they will be judged. Select contractors as strategically as possible and reward top performers with improved relationships and more business if they can demonstrate a dedicated ability to meet your supply chain criteria.

## Monitor



Monitor contractors using a real-time database. Enforce company-wide standards by keeping a database of all contractors in a regularly updated format. The database should be shared across the organization to ensure that all necessary users are able to access contractor information (particularly qualification criteria and whether they currently meet requirements) any time of the day. The database should be able to produce reports and control information for data efficiency.

Having a viable contractor verification system makes all the difference. Consider the contractor who is injured by another contractor while calibrating scales. Unlike the example we discussed above, the company now chooses to use a prequalification system. Both contractors are properly insured and the correct insurance endorsements are in place. The lawsuit is between the contractors, as is the settlement.

Both contractors have no right of claim against the company, because the prequalification system collected and verified that both contractors had the required insurance coverage. The company has zero liability and no responsibility to pay.

The payoff is worth the effort. It's no wonder why so many executives identified risk mitigation as a top initiative for their supply chains. The result of contractors meeting regulatory and contractual requirements is reduced risk and cost savings. Instant information sharing and qualification data available, as a result of monitoring contractors with a real-time database, ensures that your contractors are verified, the workforce is safe, and your company is adequately protected from lawsuits. Contractor verification is a win-win process for both you and the contractors you employ, and it's essential in effective supply chain risk management.

Avetta provides a cloud-based supply chain risk management platform. Our global solution is uniquely designed to connect the world's leading organizations with qualified suppliers, driving sustainable growth. Our SaaS subscription software is used by 50,000 active customers in 100 countries. We build trustworthy bonds through responsive technology and human insight. Our process is collaborative, and our global reach is complemented by our local expertise. Over 300 of the world's biggest organizations depend on Avetta to align their supply chains to sustainable business practices.



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**References:**

[1] Source: Supply Chain Facts and Statistics- The Opportunities That Lie Beneath: 2009, Smart Data Collective. <http://smartdatacollective.com/teradataausnz/23974/supply-chain-facts-and-statistics-%E2%80%93-opportunities-lie-beneath>