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Temporary labour, permanent risk

Governance, risk and compliance are the corporate responsibility watchwords when using subcontracted labour, writes **Lindsay Clark**

The road journey between Inverness and Bucharest is a little more than 2,000 miles (3,500 kilometres). Even with a seven-hour flight, organising business over these distances can be a challenge. It is a problem faced every day by Innogy, a Frankfurt-listed company 77% owned by German electricity generation and distribution business RWE. While some management can be devolved to a local level, the European energy giant also needs to share knowledge across its operations. When it comes to working in difficult locations, as is required when servicing offshore wind farms or maintaining remote power lines, health and safety knowledge is paramount.

But Innogy does not have direct managerial control over huge numbers of people charged with servicing its infrastructure and maintaining its building and facilities. Instead, it is procurement's responsibility to source and contract out the supply of a temporary workforce: anything from highly skilled field-service engineers to office

cleaners. The difficulty is, across Innogy's geographies, procurement professionals need access to detailed information of the health and safety requirements to which their suppliers must adhere.

"We have 550 buyers, but only two in Scotland, for example. We need to make sure all buyers have a good understanding of best practice," says Innogy CPO Dr Ulrich Piepel. "Not every buyer can have an understanding of everything in all markets, so we have dedicated internal experts to teach others: there is someone they know they can ask questions about a topic. We also offer health and safety advice using internal web video."

Innogy is among a growing number of international businesses that understand that their responsibilities for health and safety do not end once a contract has been signed. Although commercial arrangements may set out the supplier's legal responsibilities, that can be of little comfort should the supplier's behaviour lead to a serious health and safety incident. ▶

“There are exceptions, but in general, if something goes wrong we are looked upon as the end of the food chain,” Piepel says. “The public is looking on us to perform at 100% and so if one of our suppliers does not do a good job, in many cases it would be seen as relating directly to us. We need to be risk-aware and very smart in how we check suppliers’ performance on health and safety.”

The challenge of maintaining oversight of health and safety standards among suppliers has been increasing over the past ten years, and that trend is set to continue, Piepel says. Around 70% of RWE’s spend is on services, making the total spent on some form of outsourced labour across the entire group around €6bn.

“The growth trend in outsourcing services is still ongoing,” Piepel says. “It makes a lot of economic sense. Suppliers get better and better at what they do because they don’t just do it for us; they focus on their specialist area. We outsource call centres and IT services; but also maintenance of power lines, which around ten years ago would have been done by our own people. On the whole, there is no new hiring for these kinds of jobs.”

Such reliance on outsourced labour must be managed in accordance with an increasing focus on health and safety, he says. For example, Innogy’s health and safety performance is published in annual reports to shareholders. As such, buyers may need the latest specialist information about health and safety standards for a specific activity or market for which they have never contracted before. To ensure they do, Innogy has created a company-wide

content system that provides details of best practice in health and safety across a broad spectrum of activities.

But RWE has not always been able to share knowledge and expertise so easily across the widespread and diverse organisation. To do so required standardisation of processes and IT systems to measure supplier performance on health and safety (see box, *Innogy: Compliance and good governance*).

No phoning a friend

RWE’s experience is increasingly common. Companies across a broad range of sectors have seen the issue climb up the corporate agenda, says Tim Hill, corporate compliance partner at global law firm Eversheds.

But awareness does not always translate into best practice, he says. “You might have people at the top who say they have got a good handle on health and safety and say they have robust procedures in place, but they need to understand what happens in practice. Even if something was in the supplier’s contract, if an accident happened it is the buying organisation that will get all the publicity – whether they are legally compliant or not.”

Hill conducts management training on health and safety for a number of large-scale projects, including High Speed Two, the project to build a high-speed rail link from London to Birmingham, Leeds and Manchester, making it the largest rail infrastructure project in Europe. Hill says the top management has to know what it might face.

“At some point, you could be sat in a room with a tape recorder in front of you and people asking very difficult questions and everything you say is on ▶

“The public is looking on us to perform at 100%, so if one of our suppliers does not do a good job it would be seen as relating directly to us”

INNOGY: COMPLIANCE AND GOOD GOVERNANCE

Innogy, the renewables, infrastructure and retail subsidiary of German energy giant RWE, knows its reputation for safety can lie in the hands of thousands of casual workers who maintain the power network, run call centres and roll out technology. To ensure supplier management keeps abreast of best practice as it applies to specialist fields, the company runs an internal competence centre and has standardised processes to ensure good governance when contracting new suppliers of casual labour.

But this has not always been the case, says Dr Ulrich Piepel, Innogy's CPO.

"Fifteen years ago we were not organised in such a centralised manner. Every company and location managed suppliers' health and safety themselves. There were companies that were doing a really good job and others which were not performing as well," he says.

"Ten years ago, we started work on agreed standards in procurement and health and safety. Over the years we have developed a more central approach that now reaches across Germany, the UK and the Netherlands. You still have to allow some variation to account for legal issues, which vary according to each country, but we are on the whole very consistent."

Long-term commitment

Piepel warns businesses attempting to create a similarly standardised governance model that they should be in it for the long haul. "The programme has taken a long time because we have 60,000 people working for us. It is not easy. We started ten years ago and we are still working on continually improving. But we have benchmarked ourselves against other companies and we believe we are in the top 3% in terms of managing supplier performance in health and safety."

Innogy manages firms that supply casual labour by using dedicated modules within

the company's enterprise resource planning system. This ensures that even minor health and safety infringements are recorded, as patterns may emerge that indicate general concerns over standards.

"Minor things can have a big impact. We put them all into the system, so we know what kind of incidents happened in the past and we have access to the data. Then we can discuss it with suppliers," Piepel says.

Safety in numbers

The company also maintains a database of standard safety procedures that suppliers must adhere to.

"We have developed criteria that can be applied across the business but adapted to a specific market or brand. Working on a cooling tower is not the same as cleaning a boiler. But in terms of health and safety, if a company is providing labour to clean our industrial boilers, they have to show a certificate that demonstrates they have yearly instruction to each worker on how to work with chemicals and maintain safety levels."

At the same time, Innogy will visit sites to check that safety training records are up to date. "We will have a meeting on their site and say, 'You have 100 people working for us, here are three of their names: we want to see their training records'," says Piepel.

But meticulous attention to detail on setting and maintaining supplier safety standards does not necessarily mean more expensive contracts. Innogy has a team of four people who advise procurement on how to judge suppliers' costs in casual labour, including meeting health and safety standards.

"We created an internal competency centre for external hiring," Piepel says. "They are expert in negotiating these kinds of deals as they understand the structure behind calculating supplier costs and that has helped generate a lot of savings."

the record. You cannot phone a friend or defer to the health and safety manager. How comfortable are you with that?”

As a result, there is a move away from the perception of health and safety as an add-on – something perfunctory, boring and negative. “There are plenty of big business where the penny is starting to drop that safety is integral to everything they do. If you look at the businesses that get it right, good safety is good business. Staff and suppliers who are engaged with health and safety are generally more engaged with the business culture – and doing everything else well, too.”

The 2010 Deepwater Horizon explosion, which claimed 11 lives, sharply raised awareness that complex contractual relationships can affect safety processes. Although oil giant BP was held largely responsible for the disaster, only seven of the 126 crew on board the rig at the time were employees of the company. As the legal cases following the incident are settled, a broader spectrum of businesses are taking on board the health and safety lessons the incident provides, Hill says.

Knowledge gap

“The biggest feature of the lessons to come out of Deepwater Horizon is that you need to strip out the technical language. Safety is about strong leadership. It is not just about saying you work safely; it is being out on the plant showing how it all works together; it is about being available to staff to educate and train them. It is about encouraging people to come forward with ideas to improve processes: little things that help people feel they can make a difference.”



But when it comes to contracting a large proportion of specialist or casual labour, procurement processes have not always kept up-to-date with the wider culture of health and safety, Hill says. Although a health and safety assessment may be part of the procurement process, its influence is limited in terms of ongoing interaction with the supplier.

“The idea of health and safety in the procurement of services is great, but how it is managed in practice is

“Safety is about strong leadership. It is not just about saying you work safely; it is about being available to staff to educate and train them”



not always good. A lot of people in procurement don't know enough detail about safety."

For example, asking about previous safety incidents may not reveal a great deal about the current safety culture at a particular supplier. It may have had an incident five years ago and, since then, dramatically improved its processes. Another supplier may never have had an incident through sheer luck, but subsist on quite limited safety processes with a poor culture of observing them, Hill says.

To add to this, there is a trade-off between working with suppliers to continually improve their approach

to health and safety, and re-tendering contracts.

"There are lots of benefits of using the same supplier repeatedly and improving the safety processes," Hill says. "Tendering to a fresh set of bidders can increase risk from a safety perspective."

Procurement can help raise suppliers' health and safety standards by ensuring they understand how their performance will be measured during the bidding and negotiating phase and as part of the contract, he says.

"At pre-contract stage, you can say: 'These are the safety key performance indicators; this is what we are going to measure you against.' That way the supplier understands their people have to be disciplined and trained. If they are not, you have got the terms in the contract and can show there is a material breach. You can say to contractors and subcontractors, 'These are the agreed standards, sort out performance in the next four weeks or you are off the job.'"

In the end, suppliers that perform well in terms of health and safety will understand they will be rewarded for their behaviour with more work, rather than seeing rivals they know have poor processes win contracts by bidding low.

"Contractors start to understand it is a way of winning work. They start to see it is about how you manage culture and behaviour around safety and quickly get a picture that shows there are business benefits. Suppliers want to demonstrate how they work. They don't need to ask what is in the contract; they want to show their systems and set up a meeting with your safety people. From a client perspective, that is assuring," Hill says.

Construction cards and contracts

Morgan Sindall, a British-based construction and civil engineering company, spends around £100m on temporary labour every year. As a ▶

“We require temporary staff to meet the same standards as our permanent employees. That’s why we build a long-term relationship with our recruiter”

basic standard, every contractor must carry a card from the Construction Skills Certification Scheme run by the government-backed Construction Industry Training Board. In addition, the firm runs an online induction scheme and specific health and safety courses for contractors depending on the scheme they will work on. A large, high-profile project such as the £4.2bn Thames Tideway, a 25km sewerage tunnel set to run mostly under the tidal section of the river Thames in London, requires three days’ health and safety training, says Graham Edgell, Morgan Sindall’s director of sustainability and procurement.

Employment agencies that provide specialist contractors are also rated on their performance, including health and safety. “The sites report back on a job-by-job basis on ten criteria.”

In the extreme case, if suppliers do not get a high enough score, they will not be used again, but Morgan Sindall tends to work with suppliers to help them improve performance.

“It is not a punitive action. The measurement is done for their benefit as well as ours. We don’t just strike them off the approved list; we advise on how they can improve so they can come back and bid for more work,” Edgell says.

While a construction firm may have to deal with tens – if not hundreds – of temporary labour suppliers, transport company National Express has decided to deal only with one agency for a pool of temporary drivers in the UK. The contract is put to tender every three to five years. Martin Tipple, group purchasing director of National Express, says that although using multiple suppliers may drive down prices, there

THE NETWORK OPPORTUNITY

“If procurement professionals can reduce their list of approved service providers and suppliers, capturing only the best performers while ensuring they share in their core values, the result is a stronger, more stable supply chain,” says Danny Shields, industry relations director of Avetta, a company that provides software and vetting services to help manage risk in hiring casual labour.

Because Avetta’s cloud-based solution gathers common measures of supplier health and safety performance, such as health and safety incidents, it can help procurement professionals to pre-qualify potential suppliers. Avetta’s software and services are used by global businesses such as chemicals giant BASF, energy

company ExxonMobil and engineering multinational GE.

Avetta also offers an audit programme in which its safety experts check a supplier’s recorded processes and performance history to identify any anomalies and report to potential buyers. In addition, it offers site audits for potential and existing suppliers to ensure safety processes described on paper are carried out in practice.

“We offer feedback and coaching to the client and the contractor in the form of a performance review, which also suggests how the supplier can improve. We cover the entire life cycle, from early in the procurement process, to ongoing supplier performance management,” says



Shields. “Because it is Software-as-a-Service, the information is available from anywhere and is continually updated. When auditors go into the field, the notes are always at their fingertips, and it provides an opportunity for suppliers, too.”

From the contractors’ perspective, they see the network Avetta provides as “a huge opportunity to highlight themselves as a provider to other clients,” Shields says. “The Avetta Connect function allows clients to find them within our network of over 50,000 contract companies based on trade and geography in which they operate, knowing they have been vetted and pre-approved. This allows contractors and suppliers the opportunity to grow their business as potential buyers know they are willing to meet their standards and performance criteria.”

is a trade-off between reduced costs and improved performance when procuring temporary labour.

“If you looked purely at the hourly rate, we might get a better price with an annual e-auction. But you have to look at the whole life cost and the purpose of bringing in temporary labour. The objective is not to reduced cost; it is to add value when the business cannot get resources itself,” says Tipple.

“You are not solving a cost problem; you are solving an operational problem. If temporary staff are not up to the standards you require, then it could cost you much more than the 25 pence per hour you might save [by sourcing labour more cheaply]. We require temporary staff to meet the same standards as our permanent employees. That’s why we build a long-term relationship with our recruiter.”

As well as standard commercial driving licences, National Express requires temporary drivers to complete its own two-to-three week training course, which includes health and safety. It will judge the agency’s performance on how many drivers pass this course, as well as on driver performance, measured by telemetric technology, once they are in service.

This approach requires a significant investment, Tipple says, but it is worth it. “In terms of any impact on the brand [from a health and safety incident] it does not make any difference whether it is a permanent or a temporary driver,” he says.

Protecting suppliers’ margins

One approach to balancing commercial and safety requirements is to work with suppliers to understand their costs and ensure health and safety requirements do not cut into a mutually agreed margin, says Simon Boggis, principal and owner of consultancy ACI Solutions ▶

and former CPO of Ceva Logistics. By creating a pool of vetted suppliers working on agreed margins, the buying organisation can then move to manage performance on health and safety.

“Once we get that level playing field we can focus on delivering on the business’s needs. The main drive is to ensure that operations is served with the right people, fit-for-purpose to do the work. This is part of supplier relationship management and it is mission-critical to success. If we get it wrong on temporary labour, the business could grind to halt, get bad press or be subject to legal action,” Boggis says.

Ultimately, health and safety can mean life or death for a temporary

worker, a permanent employee or a member of the public. It could result in an incident that the company’s name will be associated with for a long time. Managing performance on complex health and safety standards in the temporary work force for large businesses is onerous. Putting together strong governance models, backed by modern, accessible applications puts businesses at an advantage, creating more stringent standards in less time, with less effort.

Businesses avoiding such an investment may save money in the short term, but they may also find out that the worst thing that can happen can happen to them – even if their own employees are not at fault. ■

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Published by: Sigaria Ltd
Prospero House,
241 Borough High Street,
London, SE1 1GA, UK





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