The ROI of Streamlined Contractor Qualification and Management

The Hidden Costs of Ignoring Contractor Management

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When an organization's compliance function is effective, its success is often quantified by what didn't happen: lawsuits, damage to reputation, lost business, legal sanctions and so on. The absence of any compliance-related incident often makes management complacent about compliance.

As a result, some of the function's budget may even be reallocated to fund activities that are perceived to have a better impact on shareholder value and earnings. However, with focus on anti-corruption laws and workplace safety policies intensifying globally, such a stance carries significant risks.

What makes the compliance function more vulnerable to cost cutting is the lack of targeted metrics for success. Creating metrics for quantifying the effectiveness of a compliance program demands analysis of the results gathered from internal audits. Companies need to regularly track their compliance management initiatives and benchmark the results against their competitors. Such steps can transform compliance into an effective function that relies on actionable data for informed decision-making.

Companies should look at compliance as an opportunity to enhance business capabilities – and invest to achieve these goals. Compliance spend needs to be strategically aligned to high risk areas. One of these areas is the relationships that an organization forges with third parties such as suppliers and contractors. While many organizations are cognizant of the value of scoring their customers and leads according to the potential revenue each represents, very few will segment third-party contractors in terms of the potential risks they represent. What's more, at most companies, contractor qualification and compliance is often still managed through disparate systems with limited visibility and flexibility, or worse, manually on paper files or Excel spreadsheets.

The upshot is a lot of effort spent on tedious tasks like data entry and verification, with little scope for analysis or informed decision-making.

How do you, for instance, ensure all your contractors are compliant with all applicable regulations if you have to rely on them sending paper copies of their certificates every year? Or, if circumstances or regulations change, how can you afford to communicate changes and receive the appropriate documentation in a timely manner?
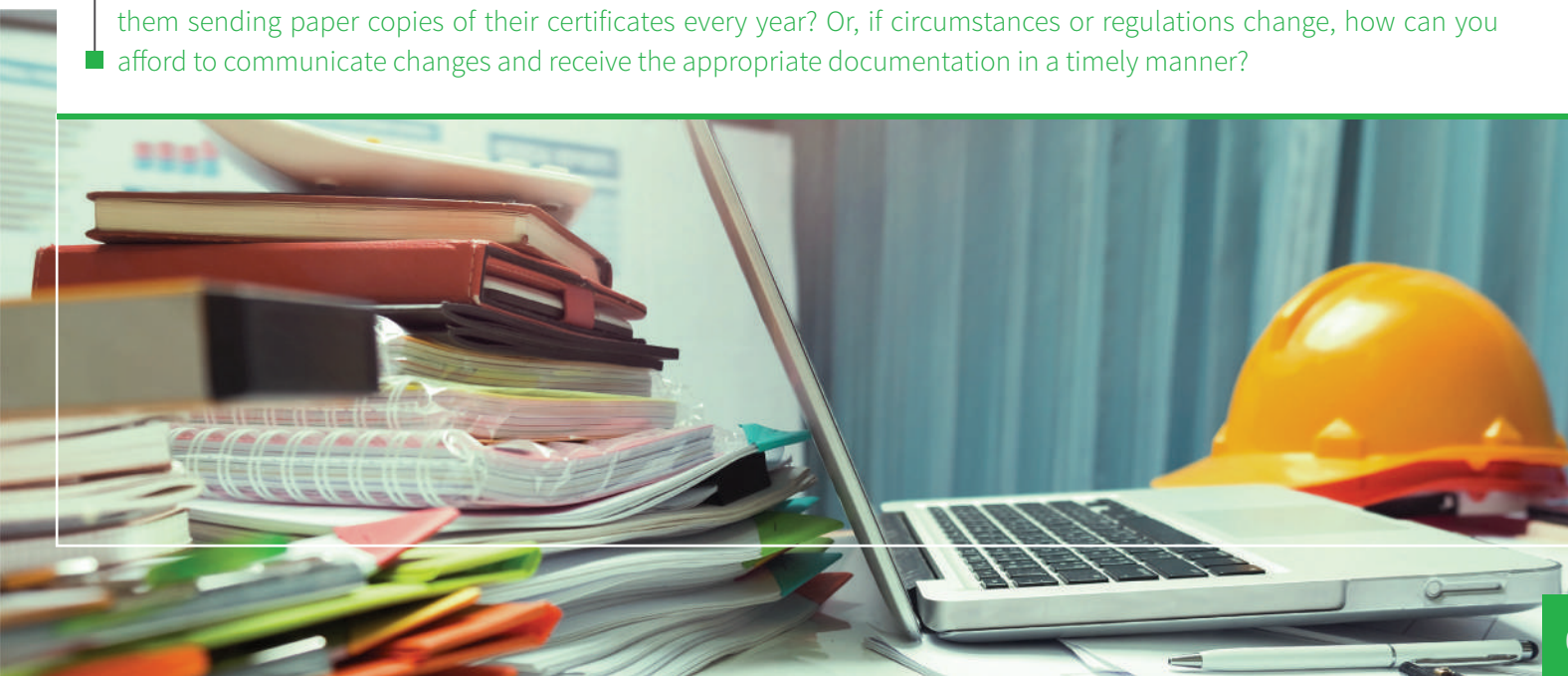
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The Rise of the Extended Enterprise

Till the recent past, most organizations viewed contractor and supplier relationships predominantly as a convenient way to reduce costs, and not as drivers of business value. This is changing.

Till the recent past, most organizations viewed contractor and supplier relationships predominantly as a convenient way to reduce costs, and not as drivers of business value. However, these days, more and more organizations see contractors and suppliers as valuable business partners who are intrinsic to driving service and product innovation, as a part of the "extended enterprise."[1]

In light of this shift, reliance on contractors continues to grow. A new NPR/Marist poll reveals that one in five jobs in the U.S. is held by a worker under contract. In fact, independent contractors could make up half of the entire workforce in the U.S. within the next decade.[2]

While the number speaks to the importance of forging and nurturing strong external relationships, reliance on suppliers and contractors also exposes organizations to higher levels of risk. These risks include financial fraud, workplace mishaps, regulatory breaches, supply-chain breakdown, reputational damage, and even loss of life. Recent instances of tragic accidents[3] and lawsuits brought by workers have demonstrated that contractor governance, compliance, and risk management have not always been given the strategic priority they deserve.

■ In the meantime, big ticket regulatory changes continue to swarm the business compliance landscape. Both the European Union (E.U.) and the U.S. have increased sanctions over workplace safety policy infringements. In January 2018, the U.S. Department of Labor issued a new Federal Register notice declaring an increase in penalty amounts for Occupational Safety and Health standard violations. Under the new legislation, the maximum penalty levied on "repeat"
■ and "willful" violations is $129,336, which is 10 times the amount levied as penalty for "serious" violations.[4]

With growing legal and societal pressures, companies (especially those operating in heavy industries) have continually enhanced workplace safety performance standards and approaches. However, safety loopholes remain, particularly for contract workers who are still vulnerable to occupational health and safety (H&S) risks. The reason? As a part of the contingent workforce, these workers are considered independent contributors. With little liability bonds with the principal employer, they're often not indoctrinated into the company's safety culture.

In addition, contractors often perform non-routine tasks at sites that are not always under the purview of an employee health and safety (EH&S) manager. An unqualified contractor without proper screening can be more vulnerable to workplace mishaps, leading to financial repercussions and damage to the company's reputation.

For operations, EH&S, procurement, and other functions, this can entail additional obligations such as issuing insurance policies, drafting safety manuals, managing professional licenses, and so on. In fact, the staff of a midsized company or operator often needs to process and monitor a large repository of documents and information merely in order to manage contractor compliance.

Offsetting Third-Party Risks to Drive Value

Organizations often approach contractor and supplier management on an ad-hoc basis with point solutions. Such solutions only address specific challenges such as regulatory mandates when they arise, without a thorough, cross-enterprise approach to compliance management.

These solutions only serve to "patch the leaks." For instance, an organization may choose to increase their compliance spend, rather than effectively assessing risks associated with a supplier. In such a case, both company and supplier may look to the other for compliance management, with neither taking full ownership.

The ownership for contractor compliance should rest with the owner organization. They should deploy rigorous compliance management programs to monitor risks across the supply chain. This is the only way to ensure that the organization's entire value chain — including suppliers and contractors — follows the same standards, and these standards are aligned to the company's policies. For this, companies need a holistic risk management framework to prequalify, monitor, and requalify all contractors within a network.

Prequalification

First, you need to identify and define contractor selection criteria based on your organizational safety standards and risk profile. The compliance program must also include assessment processes to gauge whether all contractors meet the desired compliance standards before they are roped in as partners.

Monitoring

Compliance management is a continuous process that needs to take into account frequent changes – both internal and external. For instance, a safety legislation may change overnight or a supplier may choose to hire new workers for a project. You need the right tools and processes in place to easily adapt to such changing compliance requirements.

Additionally, your contractor and supplier management program should also alert relevant decision-makers about the compliance status of each contractor on a real-time basis. Any contractors in violation of standards need to be immediately prohibited from accessing the work site.

Analysis and Visibility

Advanced analytics can put you in the driver's seat by giving you complete transparency into contractor and supplier information. Insightful dashboards and data visualization with a comprehensive view, frequent reports delivered to key decision-makers, an intuitive interface, and customizable analysis are some of the features you should look for in a supply chain analytics solution.
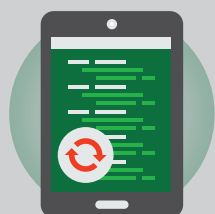
Requalification

All stakeholders should also be alerted of any regulatory changes and informed of new documentation and practical requirements. Any communications with contractors — such as expiry of licenses or permits — should be recorded in audit trails.

Costs of In-house Contractor Compliance Management

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In most organizations, contractor and supplier management is highly fragmented and requires a great deal of effort; this also makes it expensive for the organization. For instance, the pay of an experienced full-time employee (FTE) for a single function may be between $70,000 and $75,000.

A general rule of thumb is you would need one FTE to manage the information of around 200 contractors; so the more contractors you have, the higher your costs. An in-house contractor management program doesn't just come with the associated cost burdens: staffing, infrastructure, process setup, and system installation (or paper and printing). It also poses a series of challenges that have serious implications on the organization's business.
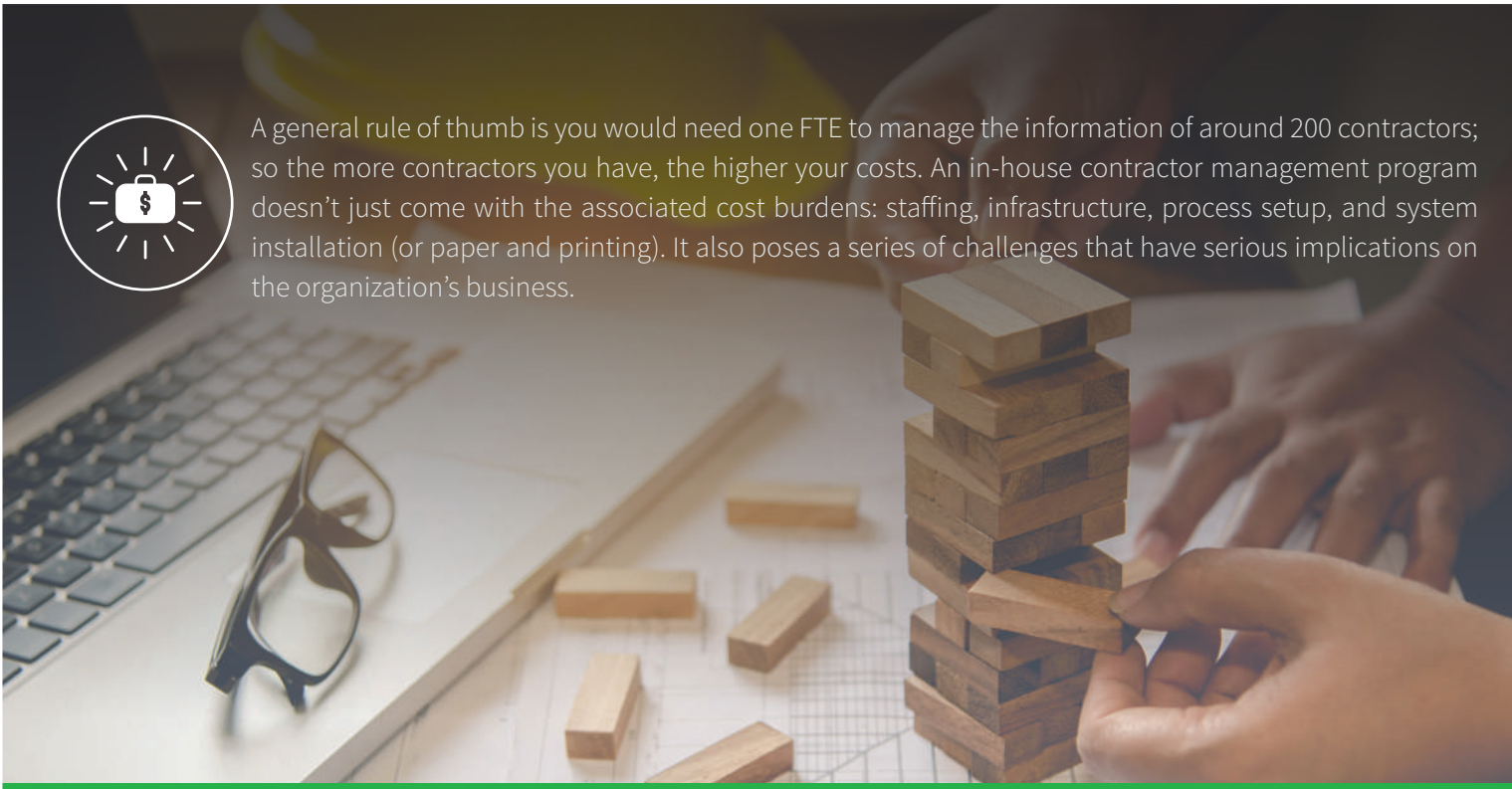
The Ever-Expanding Mesh of Compliance Silos

Paper-based processes and disparate systems make for compliance silos, with separate teams in place to address compliance requirements for different departments or regions. This results in unnecessary duplication of manual effort and the growth of a complex ecosystem of data records that are hard to maintain.

Likewise, it complicates the process for the senior management teams to get complete visibility into the current state of compliance enforcement and perform timely risk assessment. Chances are high that risks will slip under the radar.

A metropolitan passenger rail network in Australia — with 415,000 passengers every weekday — faced a safety crisis. The company employed around 3,500 contractors, but there were slight oversights during the prequalification process, partly because it was paper-based and effort-intensive.

When the office of the Federal Safety Commissioner audited one of the organization's business units, the contract management process failed across the board, receiving one point on a 100 point scale.

Home-grown Systems Cobbled Together

The use of spreadsheets and Word documents, supplemented by rudimentary document management tools like shared folders and file systems, has long been the status quo. But as compliance requirements become more complex, such applications also become more inefficient and error-prone.[5] Compiling thousands of spreadsheets for regulatory reporting often develops into a logistical nightmare. Lack of an activity log or pre-specified audit trail is another major concern.

This was the case at Vertical Limit, a provider of infrastructure services for the telecommunications industry. The company's zero-incidents philosophy was at odds with its manual processes. "Finding and approving qualified contractors is a time- and resource-intensive manual process that can take weeks," said Justin Gillette, Director of Risk Management at Vertical Limit.[6]

A global pharmaceutical company had the same problem. A Senior Safety Construction Specialist at the company told us that there was no automated way of knowing which contractor was due for review. He would only learn whether a contractor was due for review when he checked the paperwork stored in file cabinets at his office — and he would check the paperwork only if it occurred to him that the contractor hadn't been reviewed in a while. Inevitably he would discover multiple reviews that were overdue.[7]

Legacy Software Applications that Aren't Updated with Regulatory Changes

In-house contractor management processes that rely on legacy software applications also carry high risks of regulatory sanctions. Older compliance software products are just not designed to deal with constant changes in the regulatory landscape, so they become increasingly difficult to upgrade and maintain.

Also, with older software in place, companies miss out on harnessing the power of advanced analytics and other new technologies which can greatly simplify contractor management. EPCOR Utilities, for instance, needed to streamline administrative tasks for nearly 700 contractors and provide executives a consolidated view of risk, but the company's outdated systems were unable to accommodate these goals.
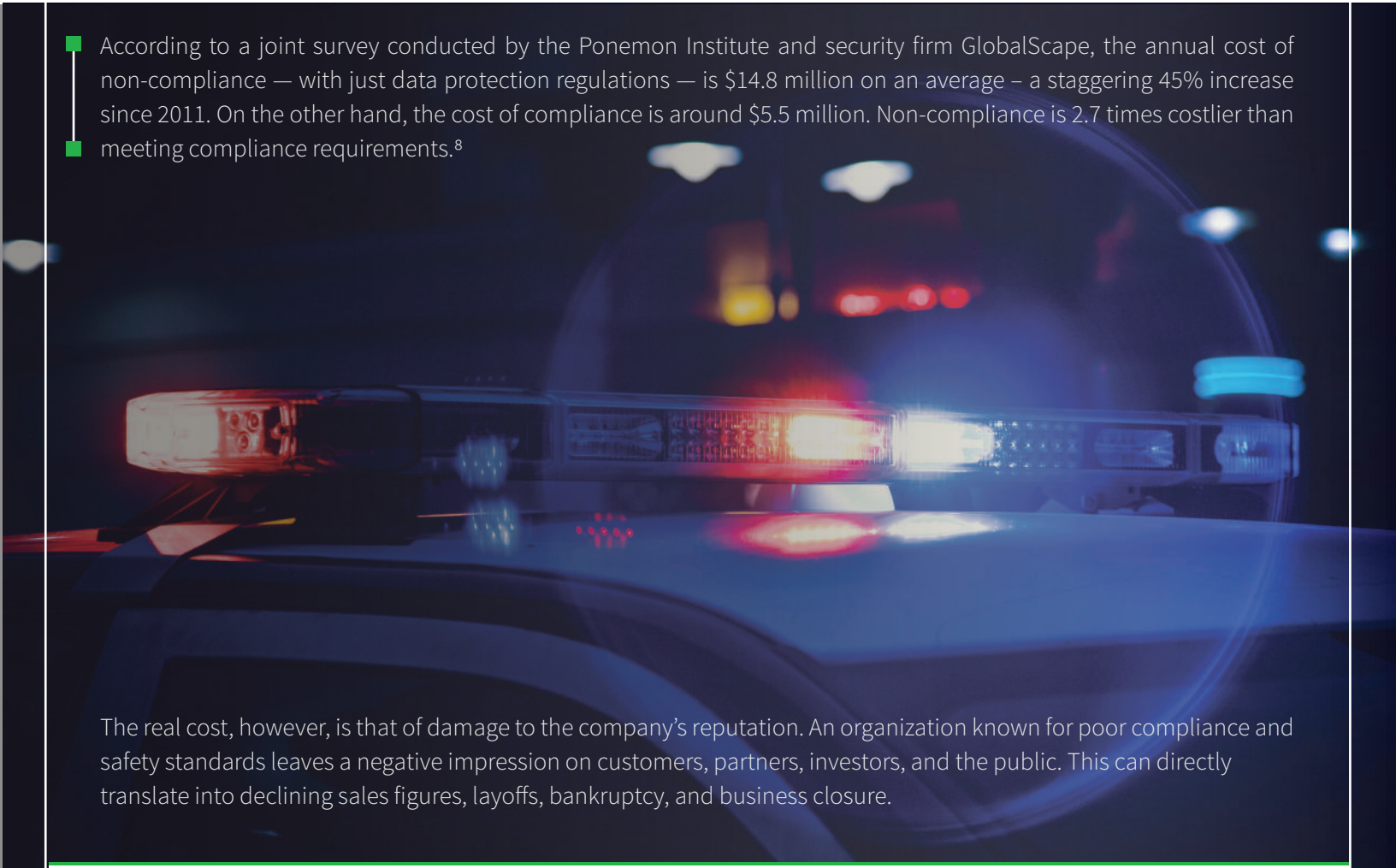
The Cost of Procrastination

For many companies, especially those operating in highly regulated industries like O&G, chemicals, and pharmaceuticals, managing compliance in-house can be ineffective. But the cost of non-compliance — in the form of penalties, fines, productivity losses, settlement costs, and inefficiencies — is ruinous.

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According to a joint survey conducted by the Ponemon Institute and security firm GlobalScape, the annual cost of non-compliance — with just data protection regulations — is $14.8 million on an average – a staggering 45% increase since 2011. On the other hand, the cost of compliance is around $5.5 million. Non-compliance is 2.7 times costlier than meeting compliance requirements.[8]

The real cost, however, is that of damage to the company's reputation. An organization known for poor compliance and safety standards leaves a negative impression on customers, partners, investors, and the public. This can directly translate into declining sales figures, layoffs, bankruptcy, and business closure.

According to a survey, the indirect cost of an injury outweighs direct medical cost 2.73 : 1. This means that if an employee's back injury entails $25,000 in medical costs, the real cost — including indirect costs in the form of downtime and lost productivity — would be around $90,000.[9]

Worse are the effects on morale and reputation due to severe workplace injuries or fatalities. In 2017, 5,147 workers were killed on the job in the U.S.; 14 deaths occurred every day.[10]

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Toward Holistic Compliance and Governance

It's clear that the costs of non-compliance and inefficient contractor management can quickly escalate. One way for organizations to effectively minimize costs and manage risks is by working with a company like Avetta.

Our innovative and configurable technology brings complete transparency to your supplier management process, and clients vouch for our trusted contractor prequalification, safety training and monitoring, and regulatory compliance services. But whether you manage these processes in-house or use solutions like ours, here are some measures that will give you greater transparency and control over your contractor management processes.

Ensuring Contractors are Qualified

Contractor prequalification is one of the most effective risk management tools that an organization can have in their repository. Unfortunately, at most organizations this process isn't well defined and the evaluation is mostly subjective. The documentation is often highly ambiguous with little clarity or agreement on how contractors will be selected. As a result, prospective contractors may walk away from projects believing that there was some sort of bias involved and they were not given a fair chance.

Technology promises to radically transform contractor prequalification by helping companies automate and streamline the process. Avetta's cloud- and mobile-based prequalification process is efficient and easy to manage since contractor information can be accessed anytime, anywhere and new contractors brought on board quickly. Decision-makers can access qualification information from any device and gain a holistic view of the supply chain.

The Australian railway leader we mentioned above now relies on Avetta's solutions to qualify and manage over 3,500 contractors. The railway staff spends just 10 hours per week on prequalification — an eighth of the time they used to spend earlier. The company also took the opportunity to cull its list, retaining only high-performing, certified contractors with adequate safety standards. What's more, when the Federal Safety Commission performed another audit a year later, the business unit got 99 points on a 100 point scale.
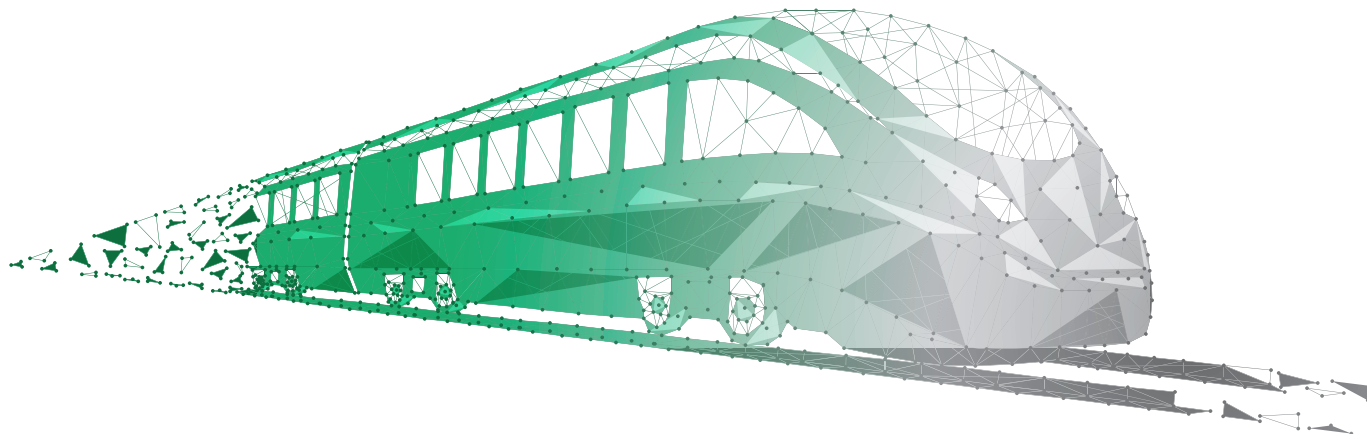
With Avetta, Vertical Limit's contractor selection and approval process became 50% shorter. "Before working with Avetta, it could take weeks to find and qualify contractors for projects in new locations. Now, we can identify and approve contractors in less than one week, which allows us to accept more projects," said Gillette.

Effectively Managing Information
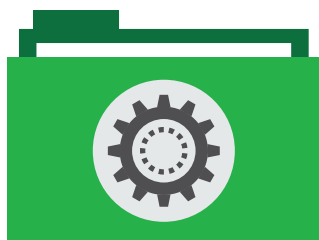
Collecting, verifying, and securely storing contractor information is an important step towards ensuring contractor safety management. A repository of accurate contractor data with a central dashboard allows you to customize compliance criteria and appropriately allocate contractors based on their skills.

But this is just the beginning. A comprehensive database makes it easier to review how well contractors are meeting your safety standards, allowing you to evaluate and predict safety risks.

Automation gives you even greater visibility: a contractor is immediately flagged by the Avetta system if they don't review their policies on time or their insurance documentation is out of date.

Avetta's insurance verification service comes with a high-end, intuitive document management system which allows suppliers and contractors to conveniently upload their certificates of insurance (COIs). These credentials are then thoroughly reviewed by insurance specialists so that an organization can only work with the third parties who are rightly insured. The central system also provides automated alerts and notifies a company of any changes in the contractors' insurance status.

The pharmaceutical company mentioned earlier reports annual operational savings of $60,000 per facility. The Senior Safety Construction Specialist says, "If we didn't have Avetta, we would have to hire someone to manage contractors at this site full time — around $60,000 per year plus benefits — and we could keep that person busy all year long."

Huntsman Corporation, a global manufacturer and marketer of differentiated chemicals, used paper forms and spreadsheets to manage contractors before the company teamed up with Avetta.[11] For both Huntsman and its contractors, Avetta's online contractor database made a huge difference. Earlier, the process of contractor prequalification and requalification took four to six weeks, resulting in project delays. With the new system in place, Huntsman can complete the process in less than two days. What's more, "there's a lot of information here that we never used to have," says David Mantheny, who handles Corporate Safety at Huntsman.

Most importantly, the total recordable incident rate (TRIR) for all U.S. contractors dropped by a whopping 74%. No wonder Matheny now refers to the solution as "proactive risk management."

Evaluating the Risks Involved
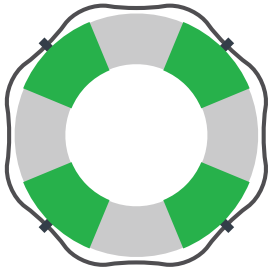
Third-party audits are the best way to assess how contractors execute safety and sustainability measures, and identify whether their procedures align with your internal standards. Avetta's experienced professionals can identify areas of improvement for your organization and provide detailed recommendations about best practices in contractor safety management. With our help, you'll empower suppliers to implement adequate safety measures that are in line with local and federal regulations.

Avetta's advanced analytics and reporting engine provides owners and operators with easy-to-understand, real-time information. With these actionable insights, companies can make more confident decisions and strengthen their prequalification process. The analytics and reporting engine makes it easy for you to quickly and conveniently modify compliance reports with an easy-to-use interface. Further, the solution also supports mobile reporting which ensures that the C-Suite and other key compliance stakeholders have access to the reports anytime, anywhere.

Training and Upskilling Contractors

The more skilled the workers, the lower the chances of contractor incidents – it's that simple. All organizations need to provide comprehensive safety orientation and skills training to contractors before they are approved for certain types of work. And these training and orientation programs should be conducted on-site for better results. Avetta empowers organizations to deliver superior training programs for contractors and suppliers, ensuring access on an individual employee level. It helps operators to gain complete visibility into employee qualifications and enable them to deploy site specific training for selective employees.

Companies also need to provide special permits or training for specific activities like electrical work, space entry, forklift control, elevated work, energy control, and so on. Rigorous safety training programs, conducted monthly, can help continually reinforce safety practices for each worker.

So, Where's the ROI?

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Telecom major SBA Communications subcontracts repair and upgrade services to a network of almost 2,500 independent contractors. Without a central database, the company had to manually check for compliance with safety regulations and insurance requirements.

A spike in cell tower related injuries in 2014 exposed a major gap in contractor safety and regulatory compliance. After SBA Communications deployed Avetta's solution, the company's contractor prequalification and verification process became much easier. With mobile access, both contractors and management could easily retrieve information enabling all 2,500 contractors to meet safety and insurance requirements. Moreover, the company saved USD 100,000 per year in employee costs.

EPCOR, too, recognizes that outsourcing the contractor qualification process saves the company time and money. "We use nearly 700 contractors, and it can take anywhere from 4 to 32 hours of effort to prequalify a single contractor," says Guy Greenwall, HSE Senior Manager at EPCOR. "Now Avetta does that work. It saves us both time and resources that we can allocate to other areas."

Our solution allows organizations to initiate a more comprehensive review of supplier and contractor data. This data is not stored in silos but captured in a centralized platform which allows you to constantly review each contractor and their associated audit trails. You are instantly notified of non-compliant and underqualified contractors. Instead of scrambling to detect risks, you can proactively manage and prevent them.

Our clients report savings of 75% in administrative expenses, and ROI of between 265% and 350% on the investment on our Software-as-a-Service (SaaS) solution. These savings arise from increased efficiency, elimination of manual effort and errors, and higher visibility. But this is only a part of the ROI a good contractor management solution can fetch you. Less tangible but very real are the consequences of a compliant workplace: safer workers, zero penalties, and a better reputation.

After all, the cost of life can't be outweighed by the cost of compliance. The single biggest argument for investing in a comprehensive contractor management program comes from the fact that it enables the well-being of people who work with your organization.
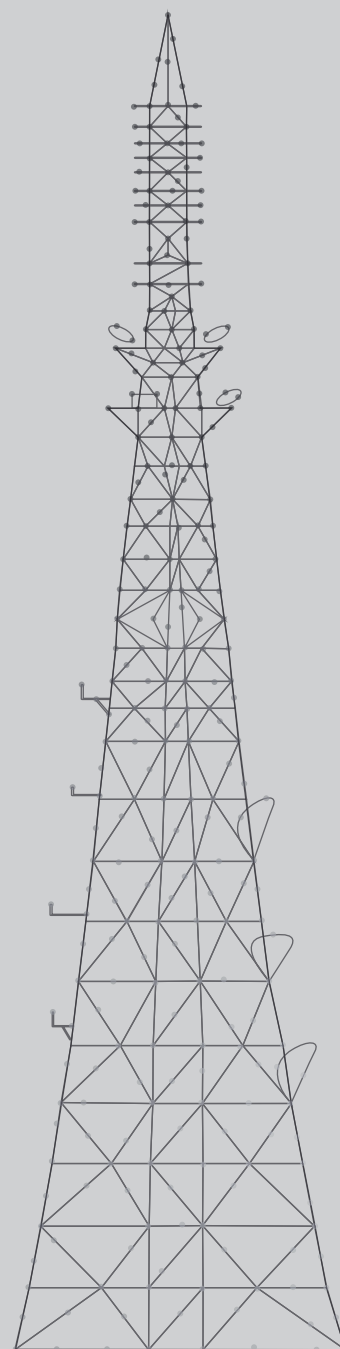
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About Avetta

Avetta leads the world in connecting leading global organizations across several industries including oil/gas, telecom, construction materials, facilities management and many others, with qualified and audited suppliers, contractors and vendors. The company brings unmatched access and visibility to its client's supply chain risk management process through its innovative and configurable technology, coupled with highly experienced human knowledge and insight. We contribute to the advancement of our clients' sustainable growth by protecting supply chains from a wide range of potential risks through trusted contractor prequalification, safety training and monitoring, regulatory compliance, insurance/financial stability and other areas of risk. Avetta currently serves more than 300 enterprise companies and 65K suppliers across 125+ countries.

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