

# Contractor, Suppliers and Vendor HSE Qualification and Feedback

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## 1. Introduction

Reorganisation (also known by the terms delayering, downsizing and re-engineering, among others) has continued to occur in all sectors. The range of outsourced tasks, and therefore the number of Contractor/Supplier/Vendor involved, may increase substantially; by contrast, the resources retained in-house to manage outsourcing are reduced as a part of the reorganisation. Contractor/Supplier and Vendor management is a necessary and continuous process that begins with an initial assessment of the capability to share and carry out Company's health, safety and environmental policy in a perspective of mutual improvement and involvement in achieving Company objectives. Later in the article we will only use the term contractor to identify both subjects.

## 2. Why do we need a Contractor Qualification Process?

Contractors and sub-contractors play a substantial role in the Refining industry, often working within a facility and alongside a company's own workforce; the activities in which they are engaged (e.g. construction and major maintenance) are typically non-routine and are in exposed situations. Within the production industry, the pattern of use of contractors has changed significantly over the last years. Figure 1 (Safety Performance Indicators 2012 Data) shows the pattern of company and contractor hours from the period 1985-2012. Prior 1985 the work force was predominately company employees. Since 1990 there has been a significant increase in the use of contractor staff, with a resulting shift in responsibility and risk from company to contractor population.

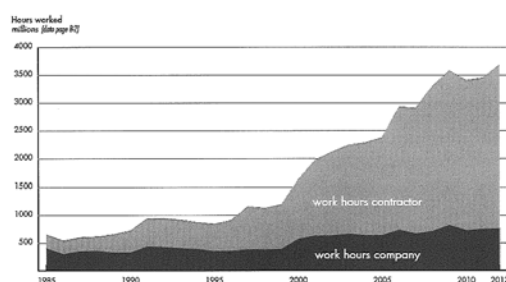


Figure 1 Hours Worked

Records and safety statistics have generally indicated that contractors' employees are involved in incidents more frequently than are employees of the principal company. They may be less familiar with site-specific hazards than are the company's own employees. It can be seen from figure 2 (Safety Performance Indicators 2012 Data) that there have been significant improvements in the safety

performance of both the Companies and their contractor during this period. Historically the contractor Lost Time Injury Frequency (LTIF) has not been as good as that of companies though the gap is narrowing. The trend is encouraging, since the contractor personnel generally have higher exposure to risk, and it is important this trend continues.

For the above reasons it is particularly important consider how the HSE Management System (HSEMS) of a company is interfaced with that of its contractors and sub-contractors. Everywhere the need to adopt contractors is a normal practice for maintenance, repairs, installation, construction, demolition and many other jobs and sometime you need more than one contractor at the same time in a site. A correct management of the full process, starting from the identification, selection, control and judgement of contractor HSEMS shall be done and in this context, particular attention shall be drawn to:

- Establishing clear communication between company and contractor staff, at all levels;
- Procedures for the management of change;
- Permit to Work systems;
- Incident reporting and follow-up;
- Emergency plans and their communication;
- Audit and review;
- Communication of hazards and individual risks, and roles in risk management.

We need to think how their work activities may affect each other and how they may interact with our. Clearly, in these circumstances there is more chance of something being overlooked, the cost of an incident – which could easily happen – would be awful. You may have heard the saying: 'If you think safety is expensive, try an accident!' Among the losses, sometimes uninsured, there are: loss of production, time, equipment even worker, there may be compensation to pay and other legal penalties.

Over the years our company defined and kept up to date several approach to manage contractor and identify the needed strategies, to develop their competence and to upgrade arrangements for verifying that contractors manage their affairs properly. Between the different actions taken in the years to better ensure the company's business we can list:

- Approved contractor/supplier lists.
- Formation of a long-term relationship with contractor/supplier;
- Measuring contractor/supplier health and safety performance;
- Incorporating contractor/supplier into the host's health and safety management system;
- Requiring long-term contractor/supplier to produce 'safety cases';
- Detached or transfer of own staff to contractor/supplier;
- Shared basic training of contractor/supplier across local industry;

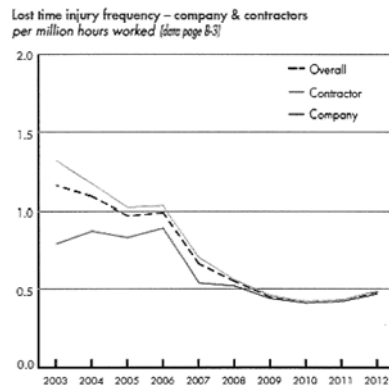


Figure 2 Lost Time Injury Frequency

### 3. Evaluation Areas and Process Development

The managing process of contractor requires the involvement of all human factors in the organization, so much more delicate and demanding are the HSE risks, greater should be the involvement in terms of human resources, skills and experience to achieve our objectives. Systems for competence assurance should apply both to initial recruitment and to selection for new activities, and to both staff and contractors. The continuing competence of personnel to perform their duties should be regularly reviewed and assessed, including appropriate consideration of personal development and training required to achieve

competence for changing activities and technologies. Procedures for competence assurance include, amongst others:

- Systematic analysis of requirements for tasks;
- Assessment of individuals' performance against defined criteria;
- Documented evidence of individual competence;
- Programmes for periodic re-assessment.

The process starts with the contractor application, but do not ends with the issue of the feedback at the conclusion of a contract: it will restart in a continuous exchange of information and assessments to ensure the achievement of the objectives.

The qualification process therefore has more than one objective such as the evaluation of the competence, the ability in terms of skill, knowledge and, awareness to perform activities within an occupation or function to specified standards and to maintain this information as much as possible updated.

We need, as a client, to be certain contractor have organisational structures in place and arrangements to make sure what it says it will do in fact gets done. We maintain procedures to ensure that our contractors operate a management system that is consistent with the requirements and provisions of the our HSEMS. Procedures should facilitate interfacing of contractors' activities with those of the company and with those of other contractors, as appropriate. This may be achieved by means of a specific interface document between company and contractor so that any differences may be resolved, and procedures agreed, before work commences, the procedures should pay particular attention to the following:

- Selection of contractors, including (amongst other considerations) specific assessment of their HSE policy, practices and performance and the adequacy of their HSEMS, commensurate with the risks associated with the services to be provided.
- Effective communication of the key elements of the company's HSEMS, and of the standards of worker and environmental protection expected from the contractor, including agreed HSE objectives and performance criteria.
- Sharing by company and contractor of relevant information which may impact on the HSE performance of either.
- The requirement that each contractor have an effective and relevant training programme which includes records and procedures for assessing the need for further training.
- Definition of methods for monitoring and assessing contractor performance against agreed HSE objectives and performance criteria.

The monitoring and classifying contractor process is handled by all the involved Company functions as we need to hire a contractor through a predetermined path and providing opportunities for verification and control during the different time phases of a contract like for example the following:

- 1) CONTRACT DEVELOPMENT
  - a) Confirm need to engage contractor/supplier
  - b) Develop contractor/supplier works scope or specification
  - c) Identify the HSE hazards and risks
  - d) Nominate the HSE controls
  - e) Short-list potential contractor/supplier/suppliers
  - f) Put works out to sourcing
  - g) Select successful contractor/supplier
  - h) Finalise HSE requirements & award job
- 2) BEFORE STARTING
  - a) Support contractor/supplier HSE management
  - b) Review contractor HSE controls
  - c) Permission to start work
- 3) DURING WORK
  - a) Monitor and manage HSE performance
  - b) Verify completion or supply
- 4) CONCLUSION
  - a) Review HSE performance
  - b) Contractor/Supplier feedback

In all the above listed activities the HSE functions identify, with support of procurement and technical units concerned, the HSE criticalities in terms of risks, criteria to be adopted by contractor for qualification, as well as the criteria for managing contracts for the supply of goods, works and services, guaranteeing, all necessary elements to carrying out procurement activities.

At the beginning of the contract development the purpose is to evaluate whether the potential supplier is eligible or not in being involved in procurement bids and particularly have the capability to maintain it. Management of HSE in a business environment where a client and one or more contractor/supplier work together requires cooperation between all parties and a clear definition of the tasks and responsibilities of each of the parties.

The objective of the HSE capability assessment phase, before or during the contract development phase, is to screen potential contractor if they have the necessary experience and capability to undertake the scope of work in an HSE responsible manner, and to effectively deal with the associated risks.

The purpose of the capability assessment stage is to establish a list of contractors that will be invited to bid (e.g. through a competitive tendering process), the HSE capability assessment is commensurate with the level of risk associated with the scope of work, following an HSE rating (matrix) (i.e. Figure 3, eni).

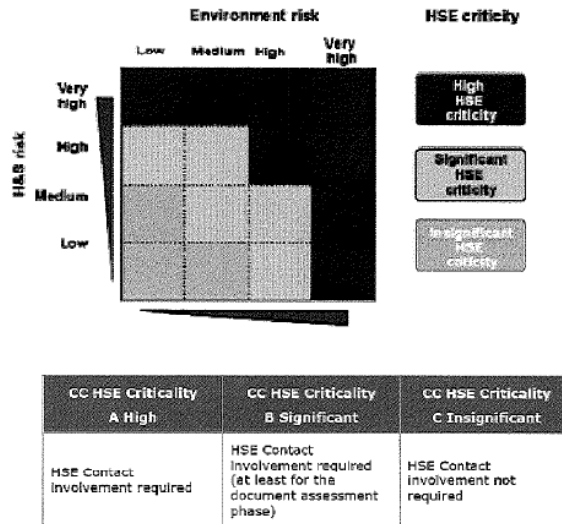


Figure 3: Risk Matrix

Eni maintain historical records of HSE performance, including findings of audits and inspections, of contractor previously employed, all this information are utilized in our system of prior registration for those already identified as capable of carrying out certain categories of work. Contractor who have not previously worked are not registered as capable of carrying out the type of work under consideration and should complete the full pre-bid process including the capability assessment. All these assessments allow to create and manage a contractor list, containing the records from which they are selected and invited to the negotiations of the procurement functions for all divisions (Corporate, E&P, R&M, G&P) and companies belonging to any such as Versalis, Enipower, Syndial.

The evaluation process is initially based on the collected documents, followed by an on-site audit done by a multidisciplinary team with different competencies, based on the Commodity Codes HSE (CC HSE) Criticality. The first step is a preliminary screen of the potential contractor/supplier to establish that they have the necessary experience and capability to undertake the scope of work in a responsible manner and to effectively deal with the associated risks.

The qualification process is applied to each contractor in relation to one or more predefined commodity classes and it is activated to meet the business needs and priorities in line with the procurement plan. The duration of this process is thirty-six months, with intermediate yearly analyses, carried out by collecting feedbacks from Company internal units, audit on-site or/and structured collection of information; exception is made for the qualification related to the product groups published in the European qualification advice notifying, pursuant to Directive 2004/17/EC of 31 March 2004, for which qualification has an unlimited duration, but it is subjected to periodical verifications.

From the point of view of a continuous improvement, the involvement and active participation of the contractor is therefore a prerequisite for achieving the goal of an effective implementation of an HSE management system to achieve the required HSE performances. In this context, Company found necessary to maintain update its tools to monitoring contractor/supplier, defining clearly roles and goals at the beginning of a contract but also during its life. The implementation of HSE performance is achieved through:

- Defining a process where Company will select appropriate contractor/supplier to improve the management of HSE issues.
- Verify the contractor's management systems and their implementation programs are suitable for the service and the level of risk associated with the activity to be performed.
- Check contracts are carried out according to the HSE plan established, in a continuous feedback on HSE performance and collection of KPI.

The main expected benefits are:

- Reduction, mitigation and control of the overall supply risks (HSE included).
- Improving the quality of potential contractors.
- Reducing the lead time for the procurement process (from the purchase requests taking over to the contract issue).
- Strong reduction of effort to create a vendor list during the procurement process.

The expected result is to have a pool of contractor checked and verified in line with specific strategic HSE requirements of our businesses, and a complete up to date knowledge of their characteristics and skills. The availability of a qualified contractor list to support the procurement process to get the primary objective to maintain and have a continuous improvement in the HSE performance.

The main innovative elements may be summarized as follow:

- Updating of definition criteria of commodities classes to better define and identify all business criticalities and as consequence have a consistent assessment of contractor/supplier.
- Introduction of new criteria and tools to better evaluate well structured and standardized requirements (including HSE) and technical capabilities of contractor/supplier.
- Enhancing the multidisciplinary feature and issue of the contractor/supplier qualification process by strengthening individual (skill, competence, personality, etc.), job (task, workload, procedures, etc.) and organization (culture, leadership, resources etc.) for business areas, technical and staff units through a clear workflow (Qualification Committee, etc.)
- Improvement of HSE Feedback Report during the life of the contract.

The main elements features of the new model are:

- Consistent approach/standard (worldwide), but with rules of governance for the contractor qualification differentiated according to the level of criticality of the commodities classes and characteristics of suppliers
- Wider involvement and strengthening of the stakeholders role (competence centres, business units, technical and staff department).
- Sharing and closer integration with procurement department during the processes phases of: planning, market intelligence and feedback.
- Minimum binding requirements for qualification, more clear and selective according to the HSE risk class.
- Introduction of new standards and tools , in particular for mapping, structured and standardized products and services offered by contractor/supplier

Our aim is to refine on the preparation and planning phase of a future contract to allow the key managers to keep under control all the business risk parameters and make easy the decisions.

The areas over which a supplier is evaluated during the qualification process generally include economical-financial, technical, know-how, organizational aspects and HSE management systems, with reference to the qualification requirements pertaining to the requested Items.

During the execution phase of the contract among the many tasks of control and monitoring, there is the collection of useful data for the subsequent measurement. This operation is an essential element of the HSE management system, so its operation of will also need to be monitored. Audit and review are the final steps in the control loop. In the monitoring phase in addition to the active control aimed at preventing the occurrence of adverse events identified during the step 1.c of the contract development phase (active control) it should be considered and measured the possible failures in the risk control (reactive monitoring), to provide the opportunity to learn from mistakes and improve the HSE management system. The above parameters are important but, it is important to ascertain the ability of the organization of the contractor to implement the main features of the HSE management system on the job, so is necessary to measure the status of development, maintenance, and improvement of its HSE management system. All these checks need to take place at different level in the contractor/supplier organization (corporate, site etc.) and in compliance with the appropriate organization structure. This phase of the control/monitoring phase is delicate since it is necessary to ensure the system's ability to manage the identify HSE risks through capability, compliance, technicality, etc.

#### 4. Conclusion

The critical review of the gained experiences searching a continuous adjustment in the working process of qualification should allow Company to:

- A more effective assessment of the ability of contractors / suppliers to meet all of the technical, quality and HSE requirements.
- A consistent approach/standard (worldwide)
- A more strict integration in the process of procurement between different culture and experiences in the Company
- Introduction of new standards and tools
- Promptly identify potential risks and reduce as much as possible, with a preventive actions, the necessary corrective actions
- Improve the achievement of objectives and HSE performances

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