



Perspectives on Contractor Management

Highlighting Different Elements of Successful Contractor Management



Key Messages

for successful Contractor Management

1. Accounting for the **complexity** of the client-contractor relationship means **mastering the collaboration process**
2. Getting the **business model** right means proposing a “**win-win**” model with a positive impact on the business for both parties
3. Ensure **you get what you pay for** by **managing contractor performance** across the entire contract lifecycle
4. Making **contractor safety management** part of your organizational safety management program by **effectively aligning and engaging contractors**
5. **The right processes and dedicated tools** will ensure successful **management** and **control** of all **contractual, financial and operational aspects** of the **relationship** between the client and the contractor



Why should you care

about contractor management?

A significant part of the budget of any company is in the hands of third parties and increasing with the globalization of projects and complexity of value chains. In this high risk and complex relationship, contractors directly impact a company's bottom line and image, and organizations need profitable and reliable partners. Managing not just the contract but the entire contractor lifecycle has become a prerequisite for successful project execution.

In today's environment, working with contractors presents great opportunities but also significant challenges



Strengths

- Strengthening the capacity to focus on the company's core activities
- Allows to handle variable workload (seasonal or peak)
- External experts have resources to improve quality and reduce costs
- Replaces rigid labour relations with more flexible trade relations
- Reduces the number of own staff
- Reduces the cost of severance payments

Weaknesses

- Difficult to find the ideal partner
- Challenge to continue leveraging trained internal workforce when activity is being outsourced
- Possible loss of visibility and / or control of the operation
- Promotes job insecurity



Opportunities

- It is an appropriate tool to reduce the overall costs of operations
- Focus efforts and resources on core activities
- It allows options to take on opportunities for growth, expansion and opening of markets, without great risk
- Possibility of continuous technological updating without large investments
- Rationalization of lay-outs and physical spaces

Threats

- Lack of experience in outsourcing
- If not done correctly: failure to service levels, fines, extra-costs, transfers inefficiencies to the contracting, etc.: manageability and visibility / control over the operation is lost
- Resistors, cultural barriers, conservatism
- Lack of objective criteria for the assessment and evaluation of the supplier
- Loss of sense of belonging and commitment of employees
- Increased dependence on third parties



Below are examples of problems encountered between owners and contractors:

- Quality problems in the delivery of services
- Missed deadlines and failure in agreed service levels
- Lack in follow up of deadlines, quality and actual cost of service on both sides
- Lack of supervision and control in the field
- Lack of knowledge of responsibilities between parties
- Processes and procedures unclear, wrongly-defined or undefined
- The lack of systematic communication between the company and the contractor
- Few performance indicators. Lack of visibility on operational activity, on both sides
- Misalignment between the objectives of the client and the contractor
- High levels of loss of effectiveness and efficiency (resources, equipment and used materials)
- Low levels of planning, with high urgent action levels or continuous reprogramming changes
- High dedication to activities with low added value
- Lack of management skills training at all levels of operations (esp. in middle management)
- Variable and uncertain workloads, causing inefficiencies
- Heterogeneous and unbalanced geographic distribution for certain services, preventing efficient operation
- Making decisions based on subjective and qualitative indicators
- Prices of outsourced services that increase significantly and continuously
- Aggressive and inconsistent negotiations between parties
- Lack of understanding of cost structures and profitability of the parties
- Remuneration models with long lists of parameters to be evaluated, generating complex cost structures. Parameters outdated

Given the complexity of the client-contractor relationship and its impacts on the organization, comprehensive contractor management is recommended for successful collaboration.

In the following, we would like to account for the complexity of the topic by highlighting different aspects of contractor management. The perspectives taken by our experts address the problems encountered showing key solutions for an efficient client-contractor relationship.





Why Collaboration matters!

Eugène-Emile KUIS

Business Lead Industrial Goods - Twynstra Gudde (Netherlands)

'Collaboration is most likely to succeed when people and organizations connect with one another in a sense-making process that does justice to the relevant interests and is targeted at a significant ambition. The major challenge is to create enabling conditions for this.'

from 'Creating Conditions for Promising Collaboration, Alliances, Networks, Chains, Strategic Partnerships', Ewin Kaats and Wilfrid Opheij, Springer 2014, p.2

Understanding the complexity / Getting the collaboration model right

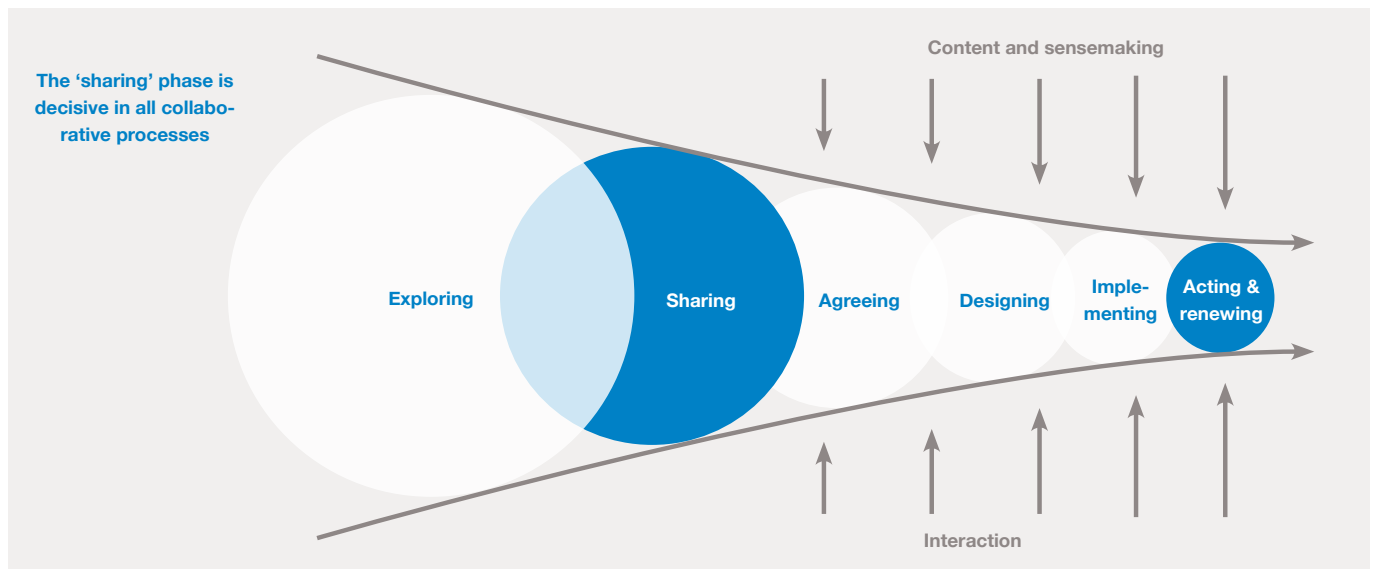
Contracts come in many shapes and sizes and largely determine the success of the collaboration between client and contractor. It is therefore important to establish a good cooperation contract. As the contract itself is only the outcome of the negotiation process between the client and the contractor it is important to create the right conditions for a promising collaboration, guaranteeing a win-win situation for both parties.

What are the ingredients to make the client-contractor relationship work?

As mentioned before, working with contractors means growing complexity and interdependence. There is thus an increased need to coordinate, and collaboration becomes a key competency.

A focus should be put on designing a sense-making process so that the outcome is a contract that accounts for the ambitions of the client as well as the contractor.

Designing a sense-making process as a contracting strategy:



One building block of Contractor Management is the process that leads to a signed contract between client and contractor as key for long-term successful cooperation. Thus a special focus should be put on the different phases within the collaborative process.

Phases of the collaborative process:

- **Exploring:** In this phase, insights should be gained into the partner's interests; those interests can be threefold: **organizational:** often linked to the organization's objectives and core values; **individual:** personal beliefs, motives and interests that influence the entire collaborative processes; **collective:** those interests matter in all complex situations; they are different depending on the situation and the context)
- **Sharing:** agreement on shared interests and shared ambitions
- **Agreeing:** negotiating an agreement in relation to existing interests

- **Designing:** realization of a developed plan, being alert to new chances
- **Implementing:** the project takes off and collaborative 'products' are becoming visible

How to master this process?

Asking the right questions and checking key aspects for each phase from different perspectives (ambition, interest, relationship, organization and process) will help to become clear about each one's intentions. This will assure that the result of the collaborative process is a contract that accounts for the client's as well as the contractor's ambitions.



Selection of questions / key aspects to consider:

	Exploring	Sharing	Agreeing	Designing	Implementing
Ambition	Which key issue is on the agenda? Examine one's own ambitions	Define and accentuate shared ambitions	Reach a workable agreement on the ambition	Make ambitions more explicit and operational	Regularly evaluate the collaboration from the perspectives of ambition, interest, relationship, organization and process; Execute interventions to improve and/or develop the collaboration
Interests	Analyze potential partners' ambitions	Intensively exchange views on mutual interests with potential partners (give and take); Identify and map key issues	Specify shared interests and make them indisputable	Monitor each partner's 'profit and loss'	
Relationship	Enter into a relationship with potential partners	Deepen relationships considering personal motives and interests	Enter into a sense-making connection with partners; Make the rules of the game explicit	Put a collaboration team together	
Organization	Get the right partners around the table	Organize the process of 'giving and taking'	Agree on contractual aspects	Specify and structure management and governance rules; Design and implement responsibility and control cycles	

To conclude, getting the contract right and efficiently managing contractors means putting sufficient time into the preparation of the collaboration. This part is often neglected but with the right focus, this will be one of the basic ingredients of success.

About the company

Twynstra Gudde, a member of Cordence Worldwide, is a leading independent firm of management consultants and managers. We have been active in consultancy for more than forty years and have a proud track record of success. Our consultants are all experts in their areas of specialization. Since most of them are joint-owners, they are highly committed, and feel a strong sense of responsibility for the work they do.

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The right Contractor Operating Model – a Win-Win Model

Gonzalo PEREZ

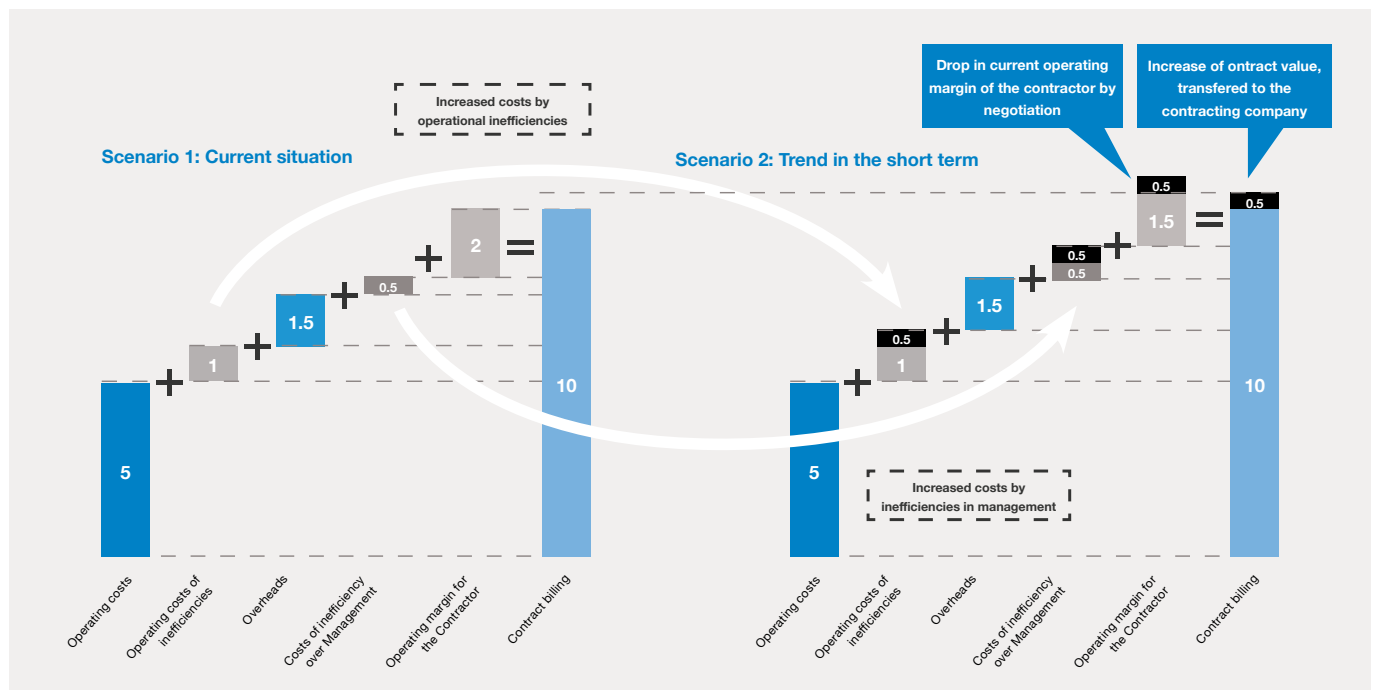
Partner - Alfa Consulting (BRAZIL)

A well-balanced contractor operating model is key to significantly reducing costs and risks associated with outsourcing.

Many current contractor operating models stimulate a perverse vicious cycle, leading to additional costs for both the contractor and the contracting company. When not correctly managed, there is a transfer of operational and management inefficiencies of the

contractor, through the contract price. Contractors also lose in margin: aggressive price negotiations between the contracting company and the contractor could cause a reduction of the contract price, drastically reducing the margin of the contractor.

The standard management model often leads to additional costs for both the contractor and the contracting company.



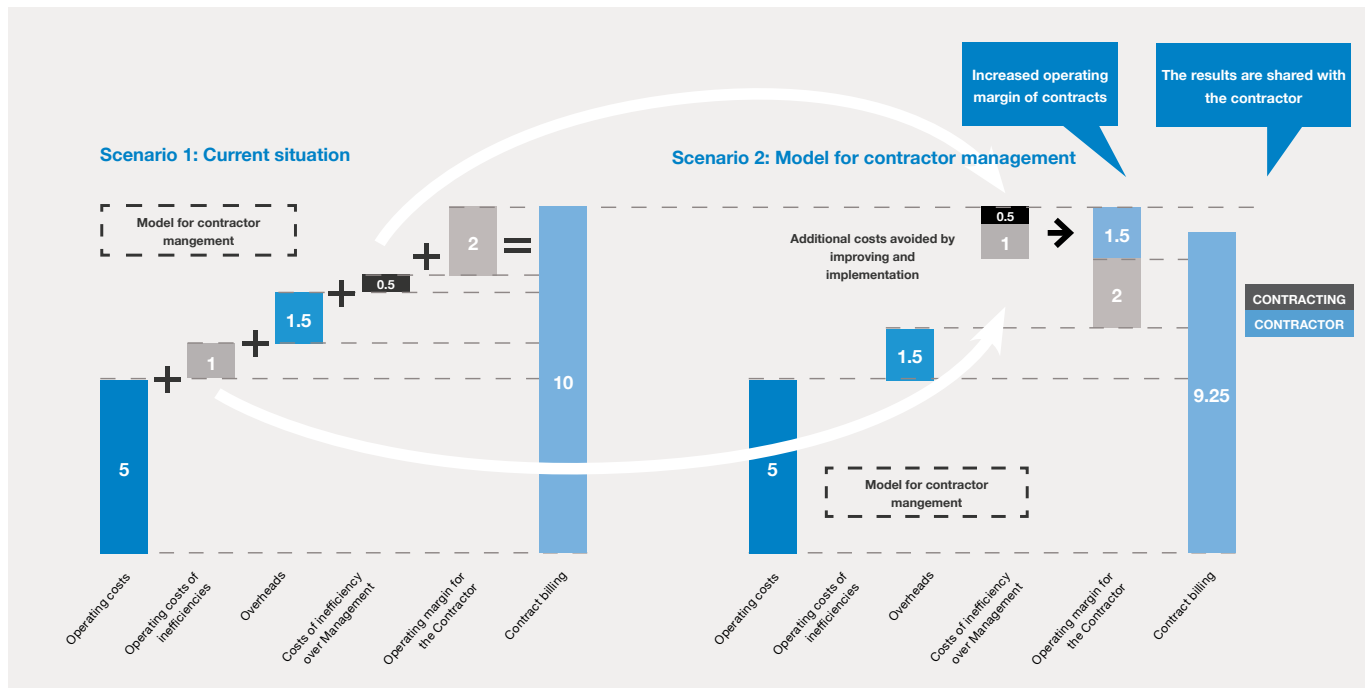
A common model, leading to a vicious cycle: there is a transfer of operational and management inefficiencies of the contractor, through the contract price. Contractors also lose in margin.

On the contrary, aggressive price negotiations by the contracting company with the contractor could cause a reduction of the contract price, drastically reducing the margin of the contractor.

Consequently, problems like the lack of commitment to plans and deadlines, quality problems and rework, increasing extra costs, penalties application, and what is even worse, lack of trust between contracting party and contractor undermining the relationship, will convert the model into something unsustainable.

On the contrary, a business model with a positive impact on business for both parties can be proposed: A “win-win” model

A healthy contractor’s management model is possible, based on mutual trust and commitment. And what it is more important: this model is built on a win-win collaboration base, increasing margins and reducing costs for each of the involved parties. A win-win approach leading to an increased profitability of the contracts, which offsets the lower price



The win-win approach results in increased profitability of the contract, which offsets the fall in the contract price. The model lays the foundation for the development of a long-term relationship between the two parties.

Action levels for improving the management of contractors:

There is a wide range of additional levels to act upon for improving the management of contractors. The contractors operating model is just one level

for potential improvement in the contractor-client relationship. These levels are shown in the following scheme:

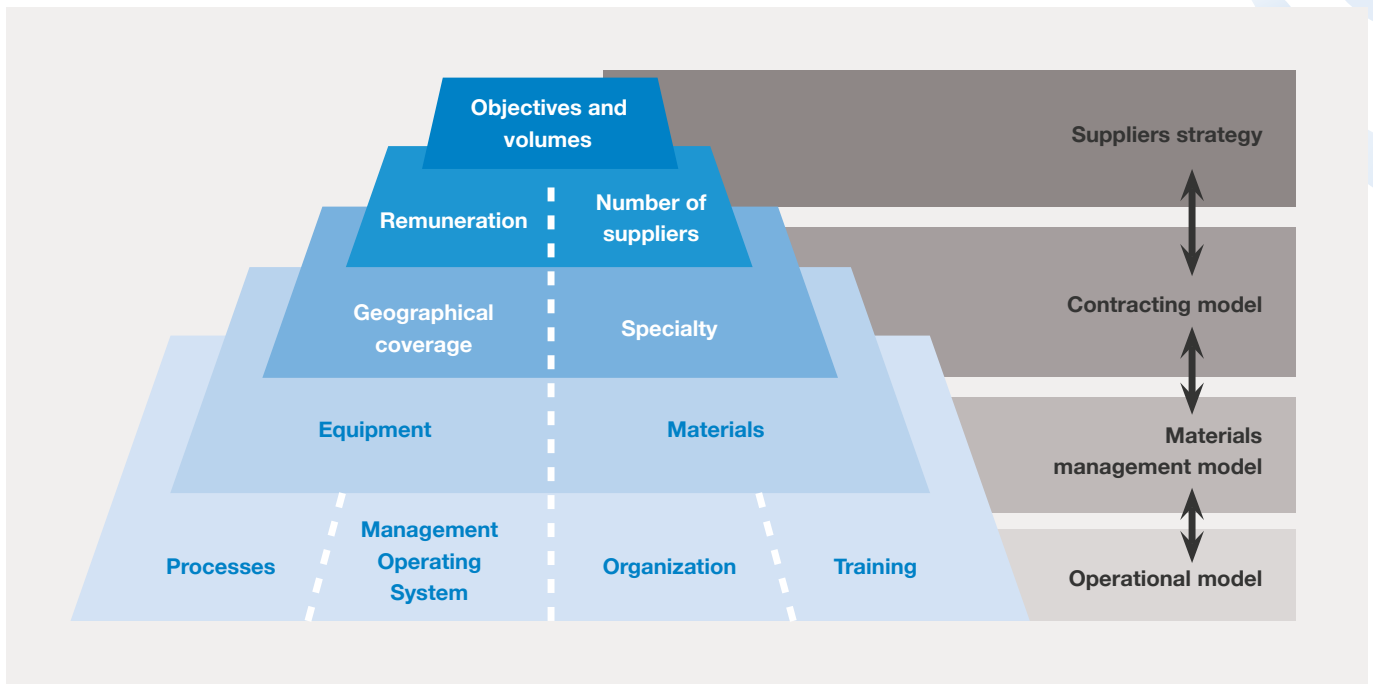


Figure 1: the Contractor's Management Model scheme

This pragmatic model provides a framework for finding a tailor-made solution for every possible situation, categorising and condensing most common problems into a reduced number of concepts.

The steps for designing and implementing a win-win contractor's management model vary from client to client, mainly depending on the starting situation of the client, and its level of evolution.

But the two most logical approaches to start the journey of improvement are the bottom up approach (placing the basement at the operating level, and continuing building following layers on top) or the top down approach (deployment of the strategic definition of the model). The starting level will depend on the evolution the client has reached within the model. What kinds of situations can the management model address at each level?

Some examples:

- At strategy level: decision-making criteria definition and process implementation to respond systematically the question of "do it internally or subcontract?", according to an organisational capability

evaluation. Once subcontracting is the decision, provide answers to questions like the adequate volume to be subcontracted, the targets to be achieved, the degree of dependence and commitment with selected contractors, how many subcontractors, among others.

- Concerning the contracting level, respond to questions like what is the fair price for a subcontracted service; what factor(s) should be considered for the remuneration model; define the adequate number of suppliers, disaggregated by geographical area; if the activities should be done by generalist or specialist contractors; etc.
- Management of Materials is key within the contractor's management model. It answers questions like if the contractor will provide the materials or better synergies of purchasing can be achieved via consolidation; better equipment planning; etc.
- Finally, at the operating level: design the operational model that proactively evaluates activity, productivity and quality levels, as well as cost optimization.

The win-win model for contractor management achieves excellent quantitative results:

- Improved productivity of contracts (20-25%)
- Reducing material stocks by 35% and equipment by 25%, achieving substantial improvement in service levels
- Up to 20-25% reduction in the cost of contracts
- 70% reduction of the required parameters for adequate compensation
- Stabilizing of “K” factor, allowing a more accurate and fair value, by activity
- Identification and implementation of new business opportunities to turn cost centres into profit centres

... as well as significant qualitative results:

- Allows greater control over activities, ensuring compliance with deadlines
- Improves the quality of work / services performed
- Improves the relationship between both parties: contracting and contracted

- Improves the performance and brings greater value to the activities carried out by teams, from both parties
- Increasing management capacity through the use of activity KPIs, allowing greater visibility and transparency
- Starts a long term relationship

In summary: this simple but powerful model can address the problems most commonly found in client-contractor relationships. It can also help to transform the current contractor relationship model into a differentiating competitive advantage.

About the Company

Alfa Consulting, a member of Cordence Worldwide, is a business consulting firm which specializes in the design, deploy and implementation of improvements in operations. We collaborate with our customers to design and implement solutions that ensure improved results.

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Why does Contract(or) Performance Management matter?

Dirk SADOWSKI

Principal - Horváth & Partners (GERMANY)

Contractor Performance Management is a significant lever to add value to your company's operations. Today, a significant portion of operating expenses is paid to externals such as suppliers and/or service providers (for simplicity called "contractors" in this article). Therefore, steering Contractor Performance by proactively managing the collaboration has a significant potential for improving service quality and reducing costs.

Contractors need to be managed carefully.

Cooperation with external partners often comes with high expectations towards a growing number of contractors: they should, at the same time, reduce costs, increase flexibility, supply/provide services at highest possible service level, and bring in specialized know-how.

We observe that many companies struggle with managing their contractor portfolio; and many contractors fail to fulfill customer expectations. The reason is that Contractor Management is often understood as a procurement core discipline only. This approach neglects the fact that many more stakeholders, such as contract beneficiary and -owner as well as controlling and legal departments, need to be involved

to ensure good performance and successful cooperation. In order to ensure successful cooperation, we therefore propose a comprehensive approach called "Contract(or) Performance Management" that helps to answer the key questions: **How to get the right contracts/ contractors and How to ensure that I get what I pay for?**

How to choose the right Contractor?

Companies manage a contractor portfolio. The portfolio's setup, however, differs from company to company and depends on strategic aspects such as degree of vertical integration, differentiation of core- and non-core businesses, supply chain risk management, agility requirements of resource planning and so forth. Three important topics set the ground for effective Contractor Management:

- Supplier selection needs to fit the corporate strategy, meaning that selection criteria have to be set up accordingly: is the contractor capable of doing what I want him to do? Is the contractor big enough to react flexibly to unforeseen situations? Does the contractor fit my regional setup (local vs. global)?
- Very often a company has more than one contract in place with a contractor. Therefore, steering the contractor means dealing with all business

relationships (contracts) in parallel. Supplier Relationship Management and supporting IT systems need to cope with this complexity. What makes this situation even more complex is the fact that companies in many industries often have an international footprint, dealing with global supplies in all regional markets.

- Contractors perform locally. Besides covering the global requirements of Supplier Relationship Management, it is also necessary to successfully steer the contractor locally. This means - in the most complex case - that global supplier governance needs to be ensured by local cooperation, whereas local information about day-to-day performance is required for global Performance Management.

How to manage the contract during its Life Cycle?

To manage Contractor Performance means **to manage the Contract Life Cycle** i.e.:

Define Contract Strategy & Concepts, Create Contract, Negotiate Contract, Administrate Contract and Close-out Contract - as indicated in figure 1.

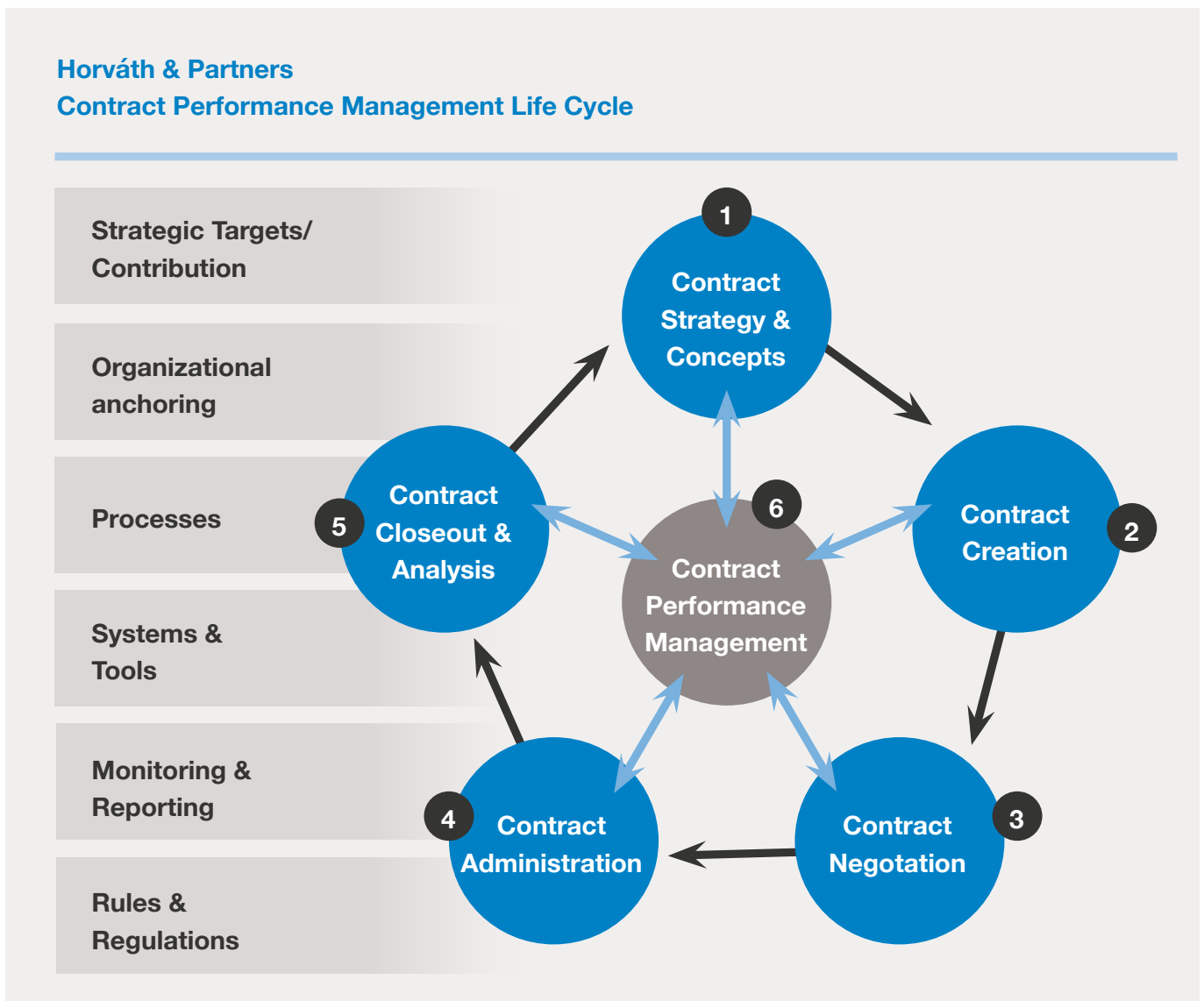


Figure 1: Contract Performance Management Life Cycle

1. Define Contract Strategy & Concepts

As explained above, contractor selection depends on corporate strategy, however, the contract itself should incorporate certain aspects that go beyond: clearly defined scope, detailed service strategy and performance oriented pricing including a bonus-malus concept. Last but not least it is important to set up a business case based on reasonable demand planning. Firstly, it indicates the feasibility of successfully implementing the contract. Secondly, it leads to requirements towards a successful contract model and a target for price negotiations.

2. Create Contract

The contract defines the rules of cooperation with the contractor. The more clearly the cooperation mode is defined, the higher the chance that the contractor understands the mode of operation and performs accordingly. However, the contract itself includes aspects relevant for many stakeholders on the contract e.g. operations, procurement, legal, finance, taxes, top management. During the contract creation phase, it is crucial to include and manage this cross-functional cooperation successfully and set up a contract model fitting best to requirements while using proven standards to ensure efficiency.

3. Negotiate Contract

Negotiations should be based on a defined and commonly agreed negotiation strategy, which should be set up prior to each negotiation round as well as to

each bidder negotiation. An excellent tool to support negotiation preparation is the “Negotiation Cook Book”. It summarizes the comprehensive bid analysis and interpretation in a manageable slide deck to provide a full picture to the negotiation team. Nevertheless, all involved parties should actively participate in negotiations, clearly address their opinion according to their role and to the agreed negotiation strategy.

4. Administrate Contract

After selecting the contractor and making the contract operational, it is crucial to measure the contract performance based on selected KPIs and costs. In case that performance tends to appear below expectations, the contract manager should take immediate action, analyze the root causes of the issues and agree with the contractor on countermeasures. A link to a structured claim management has to be established.

5. Close-out and Analyze Contract

Companies often neglect the fact that contracts expire and suddenly realize that they could be left without service provision/supply. Therefore, it is important to track expiry dates and to plan reasonable close-out activities in advance. This is the right time to learn from the cooperation model: derive an ex-post business case calculation, set up lessons learned workshops, draw conclusions for future contract standards and cooperation models, and restart to process for next life cycle early enough avoid delivery / service gaps.

How to ensure a sustainable Contract Performance Management?

A sustainable Contract Performance Management as described above can be realized by applying Contract Scorecards that include the most important information for managing the contract, such as financial and non-financial KPIs, presented in management dashboards for regular reporting purposes. An overview on typical KPIs and dashboard examples is provided in figure 2.

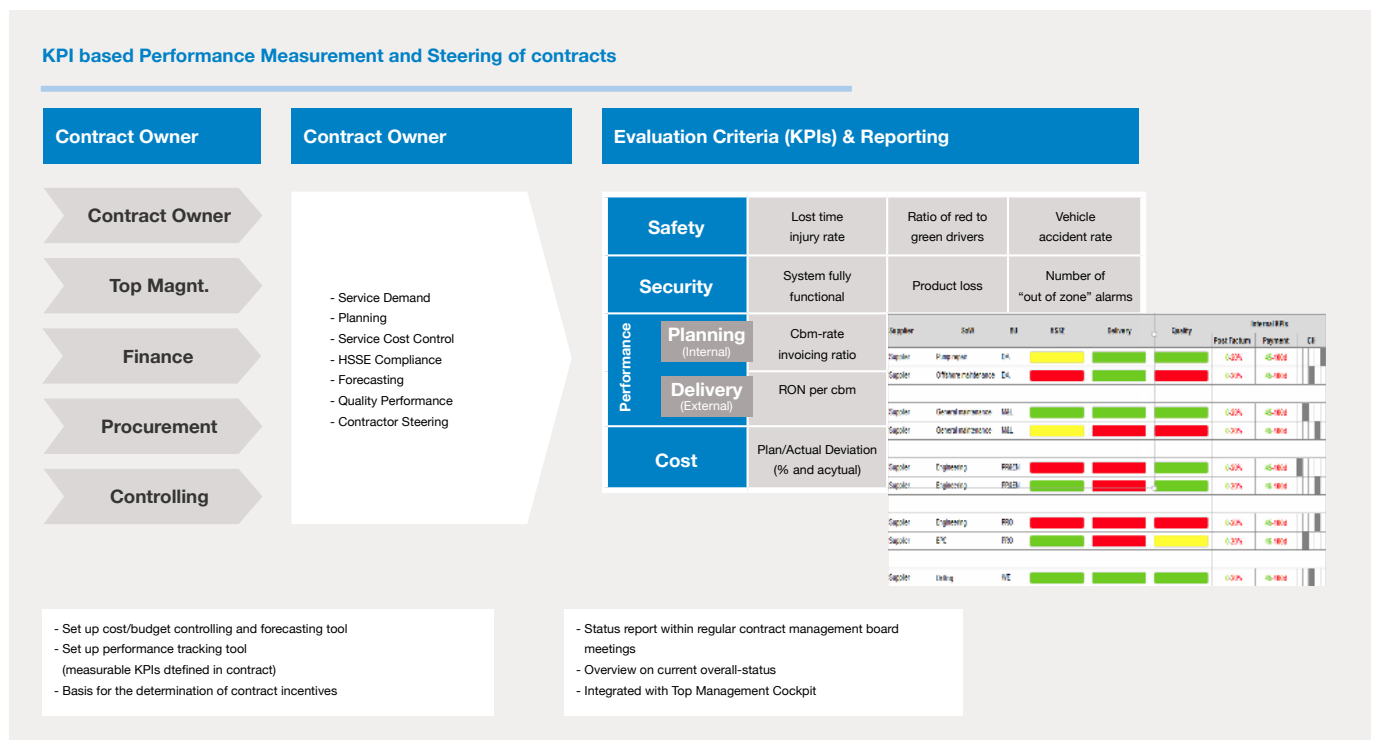


Figure 2: KPI based Performance Measurement and Steering of contracts

Typically, the KPIs are selected both on commonly agreed criteria derived from corporate strategy, and on a set of individual criteria showing if the contract is performing well on an operational level. At best, these KPIs are also anchored in the contract and the bonus-malus system.

Implementing such a Contract Performance Measurement system requires setting up processes and standards regarding KPIs and reporting. Certainly, efficient KPI reporting also requires setting up a

Contract Management Tool and interfaces to relevant IT systems such as SAP (MM/PM/FICO) in order to generate the reports as automatically as possible. Individual contract performance information has to feed a Supplier Relationship Management system in order to develop key contractors over their complete contract portfolio.

Nevertheless, it is important to look at the reports not only internally, but also confront the contractor with its performance. A suitable way to do this is through

“Contract Management Board” meetings in which operational issues, mal- or good performance are discussed between beneficiary and contract representatives on a regular basis.

About the Company

Horváth & Partners are the specialists for the corporate performance management and performance optimization of private and public sector organizations. As such we offer our clients consulting services from developing the business concept through to anchoring the solution in the company. Our approach to consulting is based on an intensive partnership and cooperation with our clients. Fair and team-oriented interaction in the project teams, with a constant eye on results, is a key success factor especially when it comes to combining knowledge about the specific situation of the client with the external view of our experienced consultants. In this way, we develop powerful business concepts, implement them in structures, processes and IT systems, and help the employees with the transformation of the new solutions into their daily work. Horváth & Partners is a member of the Cordence Worldwide alliance.

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The Impact of Safety Culture on Contractor Safety Management

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Contractor Safety Management (CSM)

Contractor safety management comprises a vital component for managing an outsourced workforce, particularly as owners and operators are faced with additional process and personnel safety regulations and standards – both internal and external. New recommended practices and regulations are continuing to broaden an Owner’s responsibilities to work inside its “fence line”. While there exist implications with authorities, fines, and reputation, there also exist financial benefits to contractor safety management programs beyond safety mindfulness and the connection with quality delivery. These include:

- Aligned safety goals, programs and motivations between parties
- Proper and complete onboarding, training and expectation setting
- Standard processes and procedures
- Lower turnover rates / impact to cost and schedule
- Consistent metrics for success

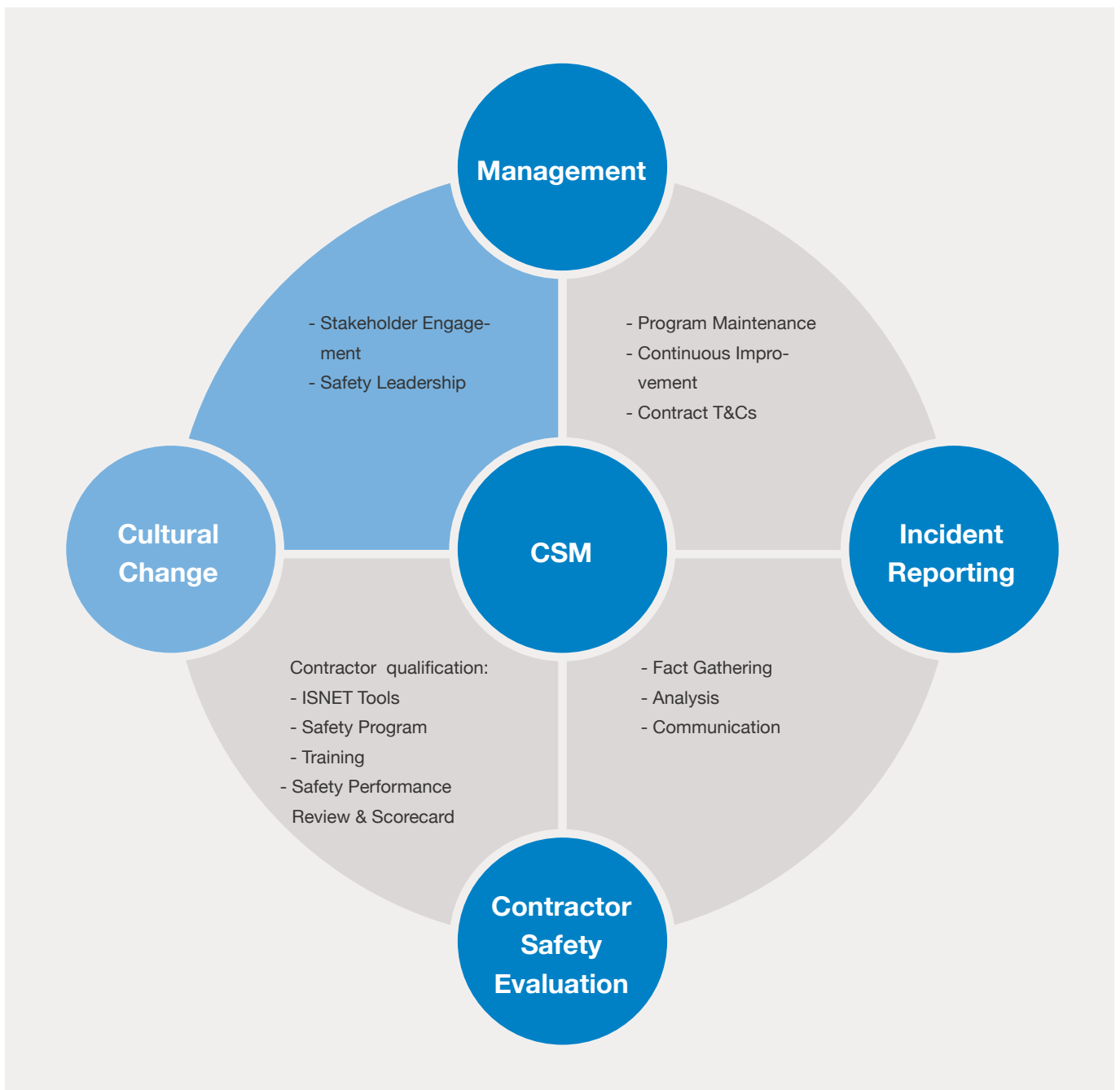
Certain requirements, risks and regulations make it particularly important for employees and contractors to diligently remain informed, engaged, and even change behaviors when it comes to safety. Effective safety programs help employees and contractors understand expectations within the workplace or job site, help them understand how to respond appropriately, and enable them to become better brand stewards who contribute to promoting a safer environment.

A successful contractor safety program requires a holistic system that manages multiple parts simultaneously:

- From collecting to reporting, a process that provides timely and actionable information to decision makers will guard against incidents.
- Ensure that the balance of performance evaluation and cost management incentivizes the right behaviors and safety outcomes in the field.
- Through stakeholder engagement, develop consistency of program content and expectations top to bottom, across the organization.

As shown in the diagram, a successful contractor safety program requires a holistic system that manages multiple parts simultaneously.

It involves incident reporting, contractor safety evaluation, culture influence and management of the safety program.



What about your safety culture? A typical Contractor Safety Management Maturity Model:

The following maturity model provides a scale by which an organization can determine the type of safety culture they currently have, and where they would like to go.



Organizations with a Proactive and Resilient safety culture have high levels of communications, engagement and training. Consequently, contractor safety management emphasizes the importance of people and relationships.

Key Components of a Safety Culture:

Safety Culture is the product of multiple interactions between **People, Jobs and the Organization**.

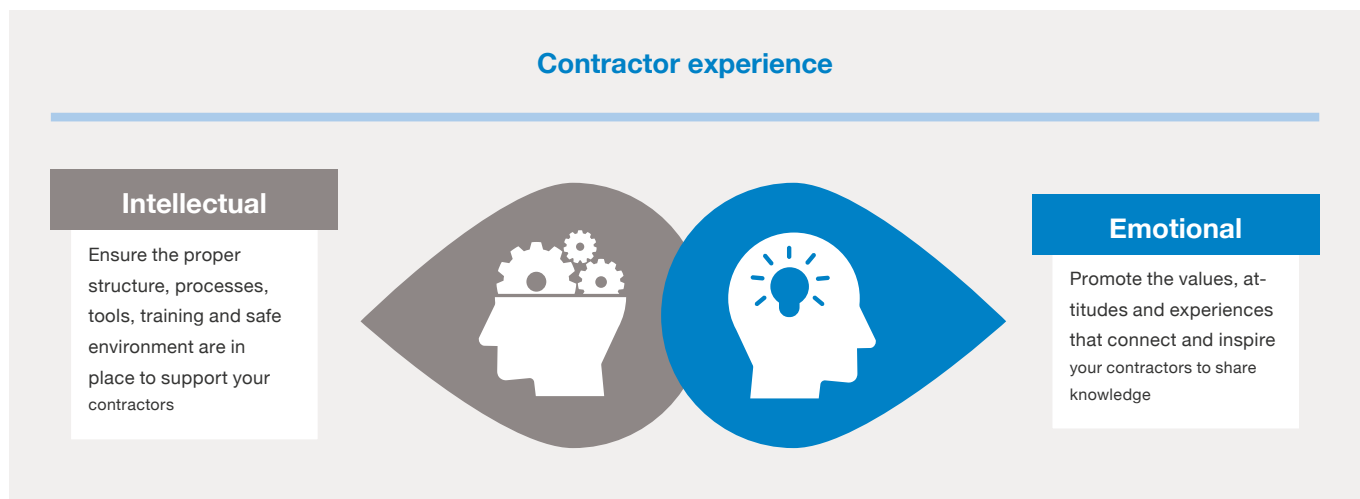
It provides the safety DNA, or makeup, of an organization; in other words, it's the way things are done at every level of the organization. Safety engagement is a critical component of an organization's safety culture. The higher the level of engagement and communication, the more mature an organization's safety culture.

People Component of Safety Culture

The People component of an organization's safety culture focuses on the interaction between the tangible and intangible experiences of its human assets – in this case, contractors. Tangible experiences can include training, enabling processes, tools and formal communications. They are the support mechanisms put in place to enable people to get their work done in the safest, most efficient manner possible. Intangible experiences are built upon daily events or interactions that are not necessarily prescribed or formally documented. This includes fostering an environment where concerns, helpful tips, and knowledge can be shared without fear of repercussion; a work site where the the plant manager, foreman, or operations director greets employees and contractors alike, showing interest in who they are and how they're doing. These intangible experiences provide

the glue that forms connections between people, and contributes to the desire to operate as one team, with the same safety goals and objectives.

Contractors should **feel empowered** to **make emotional decisions** based on **rational information** (i.e. Stop Work Order)



Features of a Positive Contractor Experience:

- Effective two-way communications
- Confidence in the effectiveness of preventative measures
- Meaningful interactions
- Shared purpose and perceptions of safety importance
- Relationships founded on mutual trust

Job Component of Safety Culture

From a safety culture perspective, jobs provide a blueprint for how workers contribute to safe and efficient operations. For each role, position, or job, there is a prescribed set of expectations or responsibilities which provide guidelines for how a person should perform or behave within that job. This performance is typically observable, measurable, and rewarded or punished, to varying degrees. On the surface, some performance can be difficult to measure. However, when performance is broken down to the behavioral level, it can be observed and measured.

A good safety culture consists of an environment where:

- Roles and responsibilities are clear
- Safety goals and expectations are consistently communicated
- Risks are regularly assessed
- Behaviors are enforced (or reinforced) with positive and negative consequences

The most powerful driver of behavior change (or adherence) is the strategic, systematic, and effective application of consequences, which exerts ~80% of influence on behavior. The goal is to create a culture where people “want to” perform as opposed to “have to” perform.

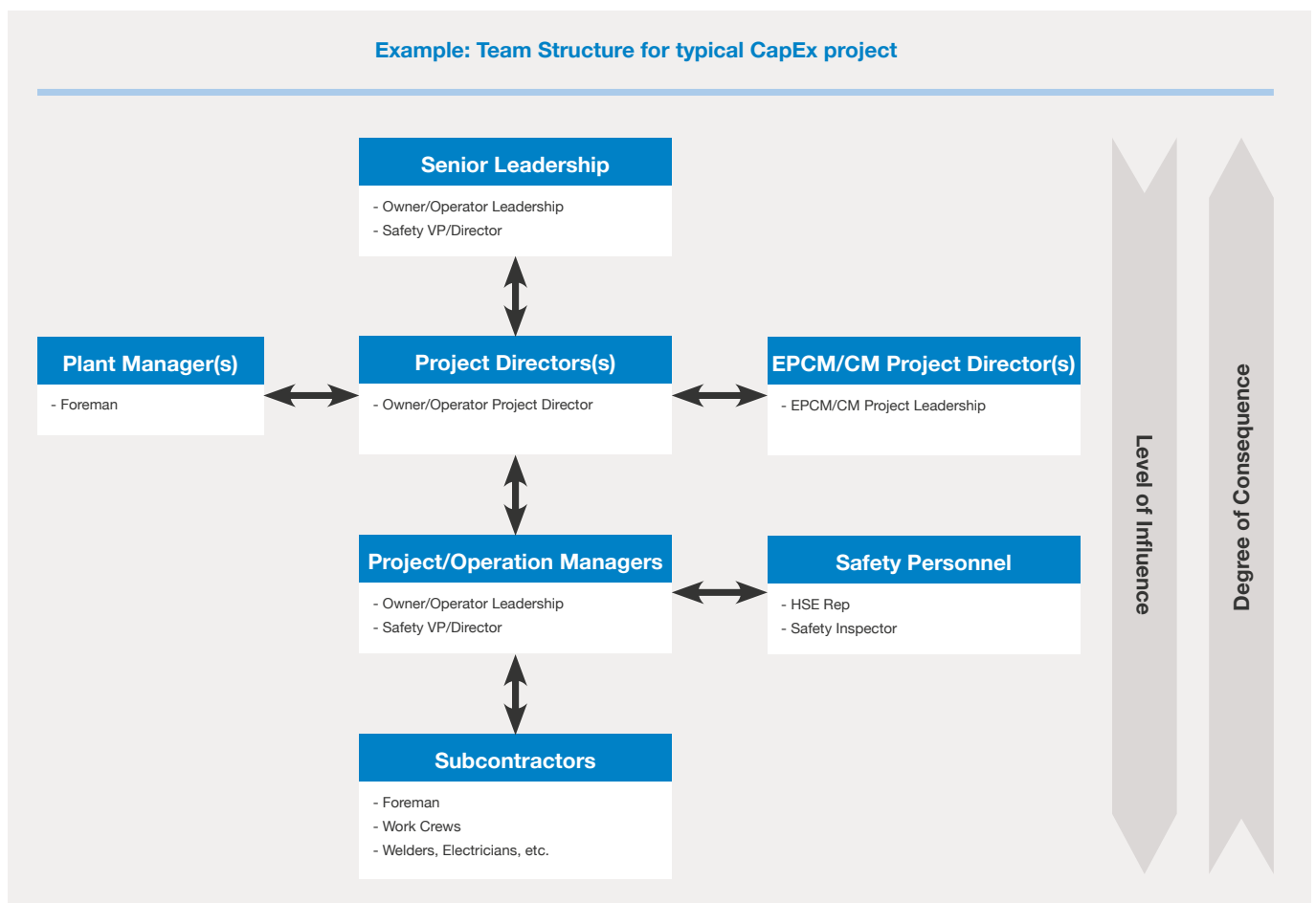
The Job interaction on a work site can often take shape as part of Behavior Based Safety programs. Behavior Based Safety programs are rooted in behavioral science, which emphasize the achievement of results through primarily positive performance levers. They can help to provide a clear line of sight between roles, responsibilities, and tangible results that can occur as a result of those actions.

Organization Component of Safety Culture

Safety culture requires strong organizational leadership – typically from the top down. Leaders must align around safety as a top priority, with the belief that contractors represent an extension of their organization as partners on the constant journey to eliminate safety incidents. It’s important that they also embody the values they promote (“walk the talk”). A leader’s level of influence is the highest but conversely the highest degree of consequence lies with the field.

Key Organizational Attributes / Best Practices

- Leadership commitment and action
- Visible leadership (regular on-site presence)
- Open and honest communication across roles and levels
- Thorough and consistent JSAs
- Proper allocation of resources
- Regular monitoring, controls, evaluation and risk assessment
- Comprehensive safety management system
- Knowledge management and sharing platform / tools
- Company policy/strategy development aligned with safety goals

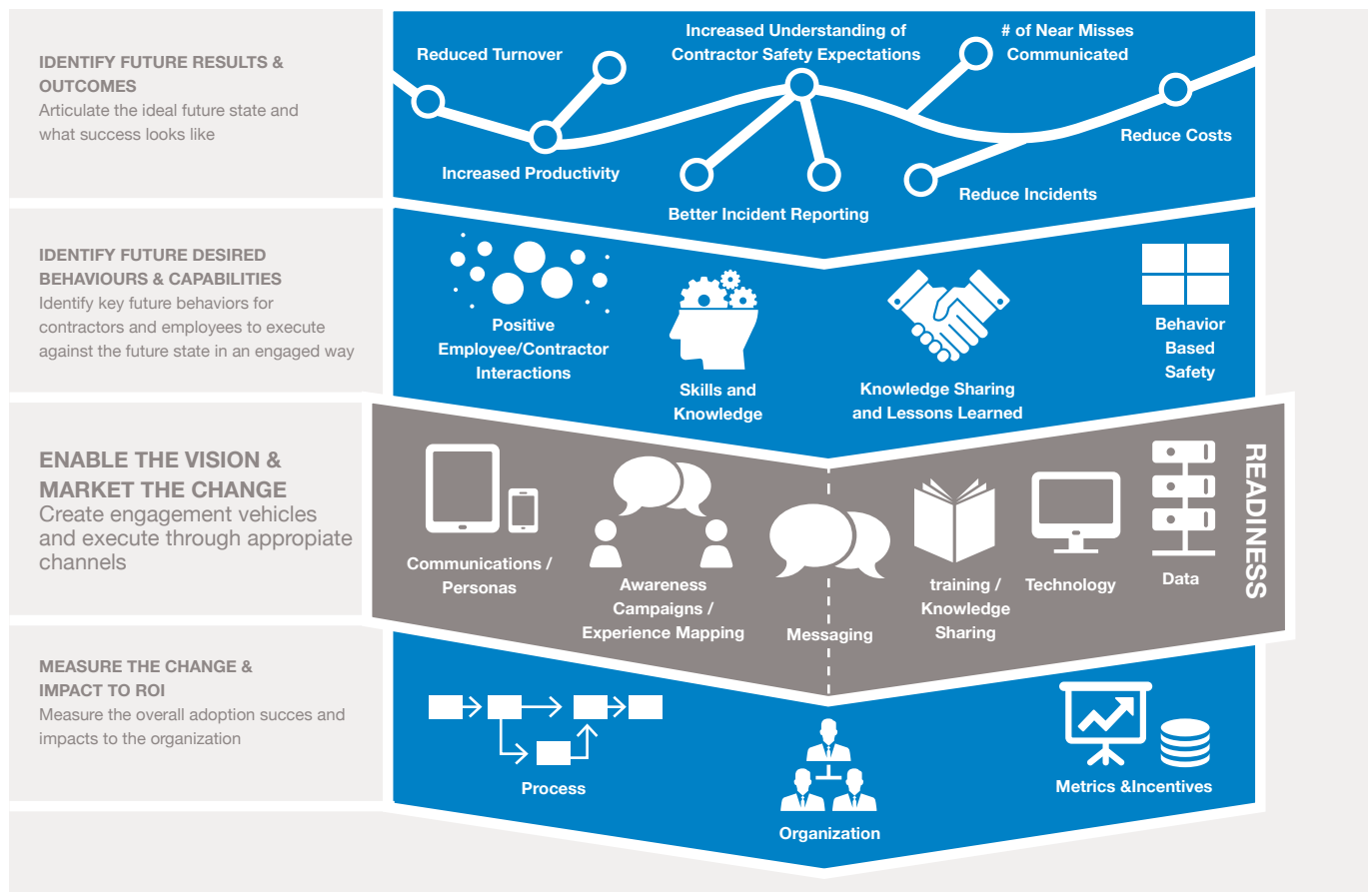


A High Level Roadmap to Improving Contractor Safety Engagement

Stakeholder engagement represents a continual process to set and support safety expectations and the owner/operator’s philosophy about safety. The level of engagement required with a contractor to improve their safety practices depends upon their level of safety culture maturity as well as the value of existing programs.

As with most stakeholder engagements, managing expectations contributes to success and optimizes the value of your contractor safety program. Some owners and operators initially prefer to engage with contractors at an individual level, while others find

benefit by engaging contractor groups in larger forums. Larger contractor forums where contractors engage as a group can provide a healthy sharing of best practices and, more importantly, a healthy dose of competition to raise the bar of safety standards. Contractor engagement for safety takes place in the field and the corporate office. Leadership in both settings establishes the safety expectations as well as the critical importance of adherence. Communication should come from multiple channels by all parties in environment, health and safety; operations; procurement; commercial; and contractors. The figure below provides a high level view of the journey to change a safety culture and increase safety engagement of contractors.



By adopting these practices and continually reinforcing a “culture of care” with contractors, a better partnership is likely to develop which tends to lead towards higher quality, better delivery and safer projects.



About the company

North Highland is a global management consulting firm that delivers unique value, relevant big ideas and strategic business capabilities to clients around the world. The firm solves complex business problems for clients in multiple industries through an integrated approach and offers specialty services via its Data and Analytics, Managed Services, and Sparks Grove divisions. North Highland is an employee-owned firm that has been named as a “Best Firm to Work For” every year since 2007 by Consulting Magazine. The firm is a member of Cordence Worldwide.

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Why the right tools and processes are important!

Systems for effective contractor management.

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Contractors are the key and major work force in all projects in the Oil & Gas sector. The challenges in this sector are tremendous (fluctuation of energy prices, environmental specifications, political pressure) and in order to continue growth and transformation, companies need to ensure their ability for renewal.

It is therefore appropriate to rethink the way of conducting industrial investment (mega-) projects to prepare for the rebound (oil, ...) and sustaining growth (new energies, ...). In this context “tailor-made” and “customized” solutions no longer have their place and need to give way to management methods that focus on unifying, “transversilizing”, streamlining and rationalizing.

Growth and competitiveness of many companies in the Oil & Gas sector are linked to the success of their industrial investment projects. These projects, absorbing sums exceeding billions of dollars and involving numerous stakeholders (including contractors) have essential strategic value for the market leaders.

Successful industrial investment projects and contractor management go far beyond traditional project management and implementing the right tools and processes will ensure successful management and control, and will secure contractual financial and operational aspects as well as the relationship between the client, the EPC (Engineering, Procurement and Construction) and its contractors. These are features that standard project management tools do not cover.

Still today, the measures taken to manage industrial investment projects and their contractors (and project teams in general) are very often relying on rudimentary tools and informal processes causing additional costs, quality issues and constant re-appropriation of documentation.

Our assessment of current Contract Management toolsets is that they are mainly focused on the scheduling, resources, risks and quality management areas found in project management tools.

Currently, the toolsets to handle contractors and industrial investment projects in general still lack effectiveness and consistency at each stage of the project. The result has three main negative impacts:

1. It sends negative signals to analysts and investors, which affects market value and company reputation
2. There is a resulting loss of revenue due to delays in ramp-up and lower production capacity
3. Costs increase due to insufficient management of changes, contracts, and costs throughout project execution

Organizations therefore express the need for an integrated and unified system dedicated to optimizing the execution of their industrial projects. Still very few implement this industrialization / “processization” of the execution of megaprojects, which is nevertheless an effective remedy when following the rules. A unified project execution and delivery management system ensures covering the entire project lifecycle.

The limits of the current management methods of industrial investment projects

The methods and current megaprojects management tools have their limits: delays, additional costs, lack of quality ... Thus, over 70% of major mining development projects do not reach their goals and do not generate the expected profitability calculated by their sponsor when launched. Despite good project management tools, megaprojects managers are faced with problems of a different nature and of greater magnitude.

During the execution phase, the lack of standardization and compliance with processes within different workflows slow down the completion of various tasks, whether technical or managerial. Lack of procedures have the tendency to disempower the actors. When processes exist, they are poorly defined and are a source of disputes and opportunistic behavior (date changes, design changes, unjustified expenditures ...) causing implementation errors and additional costs. Insufficient traceability of exchanges, of the budget and of the decisions taken, further complicate the resolution of these claims. Thus, poor industrial investment claims management can have severe repercussions (disagreement between stakeholders that have to continue working together, financial risk for all stakeholders, additional costs for settlement ...). It is necessary to industrialize and “processize” to secure the implementation of megaprojects

Due to the complexity of industrial investment projects, traditional project management needs to be strengthened and the right tools to be implemented to better trace key information and facilitate anticipation thanks to improved projection capabilities.

There are a number of best practices:

- Due to the complex ecosystem of stakeholders and the sensibility of a megaproject to changes in the environment, technologies etc. it is essential to effectively share information in real time, with all players and give everyone the means to properly support its perimeter (empowerment principle).
- To improve efficiency and traceability, define and implement structured processes while leaving some room for flexibility. This structuring effort must be accompanied by vigilance in respecting its implementation.
- The size of the budget and the frequency of changes call for a more accurate management of financial information (costs, financing ...) via simulations, traceability, their justification and adapted approval loops. Sharing an evolving synthesis thus facilitates control. Similarly, contractual obligations must be clearly defined and shared, with each stakeholder the challenge being to minimize the risk of claims. However, it is necessary to anticipate this issue and ensure robust mechanisms to limit the claims: traceability of the exchanges (changes, complaints ...), analysis of the connection and impacts of changes.

Contractor Management a lever for the success of industrial investment projects



Stakeholders in the Oil, Gas & Energy Sector: your Contractor Management & Industrial Investment Project Action Plan

- Demonstrate the potential of Contractor Management for Industrial Engineering departments, via a Proof of Concept (POC) illustrating its contributions.
- Start industrialization and “processization” of the delivery of your industrial investment projects, outperforming “shadow IT” (Excel ...) in this key development area of your business.
- Start a phased program of implementing Industrial investment Project tools and processes, justified by a business case illustrative of the leverage of such an investment in light of the reduction of operational losses and the positive image effect towards the market.
- Securing the industrialization of the tool, seeking to structure and optimize processes, governance, organization, and operating modes beyond the simple implementation of the tool.

About the company

Leader in management consulting, organization and information systems, ORESYS is an independent firm of 310 consultants based in Paris and acting on global projects. ORESYS helps clients implement their transformation projects, improve their performance and manage their operations. Oresys works with industry leaders to secure the performance of their megaprojects.

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III. Key Take-Aways

- I. **Collaboration:** create the conditions for promising collaboration and thus lay the base for a successful client-contractor relationship
- II. **Contractor Operating Model:** design and implement a win-win contractors management model to lay the foundation for the development of a long-term relationship between the two parties
- III. **Contract Performance Management** has the potential to add significant value to the organization by putting a focus on the operational management of day-to-day performance and not only on the overall contractor performance
- IV. **Contractor Safety Management** is about people and relationships. Creating a common safety culture thus influencing a culture that is not your own will have a positive impact on your company's bottom-line by reducing incidents and safety issues
- V. **Contractor Management Systems:** the right tools and processes put in place that focus on unifying, "transversilizing", streamlining and rationalizing will guarantee efficient and successful contractor management







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