

# Subcontracting safety?

## *Strengthening control of supply chain safety using a culture-based approach*



In the face of relentless and growing pressure for efficiency, companies are increasingly outsourcing to suppliers and contractors, which means that managing safety across the supply chain is more challenging than ever. Control is typically attempted through traditional contracting provisions, yet rising stakeholder expectations for companies to guarantee safety and growing potential for legal liability often test these weak links. The ability to guarantee safety through the supply chain is becoming more influential in decisions of who wins bids for major contracts and, beyond any human, economic and legal losses, just one major contractor accident can ruin a brand. In this paper, based on our extensive experience, we look at how culture-based approaches can strengthen control of safety in the supply chain, reducing reliance on conventional contracting approaches.

### **Safety in the supply chain**

In many industries, companies are facing rising expectations from stakeholders to maximize efficiency and profitability wherever possible (including the obligation to create shareholder value under the Companies Act 2006 in the UK). In the face of these expectations, many companies focus on delivering their core capabilities, while outsourcing the provision of any other specialized services to third parties, including seasonal and temporary work. In this way, many large companies outsource the majority of the services they sell to their clients, and most companies operate at some point in one or more supply chains. Indeed, although this paper chiefly considers the relationship between client and contractor, the concepts may be applied just as readily to the relationship between contractor and subcontractor further down the supply chain.

In addition, companies face rising expectations of safety performance, and can find themselves increasingly vulnerable to liability if operations for which they are responsible fail to meet these expectations. Financial and ethical considerations combine with legal requirements and liabilities (such as those imposed under the Corporate Manslaughter and Corporate Homicide Act 2007 in the UK) to place companies under great pressure to manage safety risk and prevent accidents.

Where companies run their own operations, effective management of safety risk may well be a challenge, but at least it is within their direct control. However, many companies face a growing problem with safety risk in their supply chains, where the implementation of safety management is in the hands of third parties that they may have limited ability to control. Legal, financial and ethical obligations in most jurisdictions often remain at least partially with the client, resulting in liability without full control. An example of this was the Gulf of Mexico oil spill in 2010, which was caused by an explosion on the drilling platform Deepwater Horizon. Although Deepwater Horizon was owned and operated by Transocean, most of the subsequent legal penalties and brand damage fell on BP, the owner of the oil prospect that had contracted Transocean. This high-profile accident demonstrates the importance of assuring safety in the supply chain.

Common problems arising when companies do not adequately address supply chain management, such as high turnover, limited staff training and poor fatigue management, have serious implications for health and safety, as well as productivity and quality of work. However, a well-managed supply chain is both more effective and more efficient in delivering desired standards of safety management.

## Supply chain management maturity model



Source: Arthur D. Little

### "Contract-driven" supply chain safety

The way in which a company typically deals with its supply chain may be thought of in terms of a maturity model. At a low level of maturity, supply chain management is a low priority and clients largely treat safety issues relating to contractor work as exclusively problems for the contractor. At a higher level of maturity, companies typically employ formal structures to obtain the required assurances. The principal means is the contract itself, usually complemented by a procurement process that prioritizes safety considerations.

Effective "contract-driven" relationships are characterized by clear communication of expectations from the earliest stages, clear allocation of responsibilities, and robust provisions for supervision, monitoring and evaluation, based on appropriate KPIs throughout and after the event. All of this needs to be specified in the contract itself, ideally without excessive and highly prescriptive documented requirements. The burden placed on contractors and suppliers prior to, during and after projects should be kept in proportion with the project risk, cost, duration and complexity. Failure to do so risks incurring costs in excess of the associated benefits, deterring potential bidders by presenting too many obstacles, and even encouraging routine violation of contract requirements. However, effective supply chain management can provide the foundation for highly productive, long-term relationships with reliable, high-quality suppliers and contractors.

For some of the companies we have worked with, the greatest challenge in progressing to this level of maturity is overcoming the mindset that contractor safety is "somebody else's problem." In some jurisdictions this mindset is at odds with the prevailing legal framework, but where this is not so, there remains a strong business case for more effective supply chain management. The direct and indirect costs of accidents and poor contractor performance in general impact the client, and the client's reputation always stands to suffer if it is associated with poor safety performance.

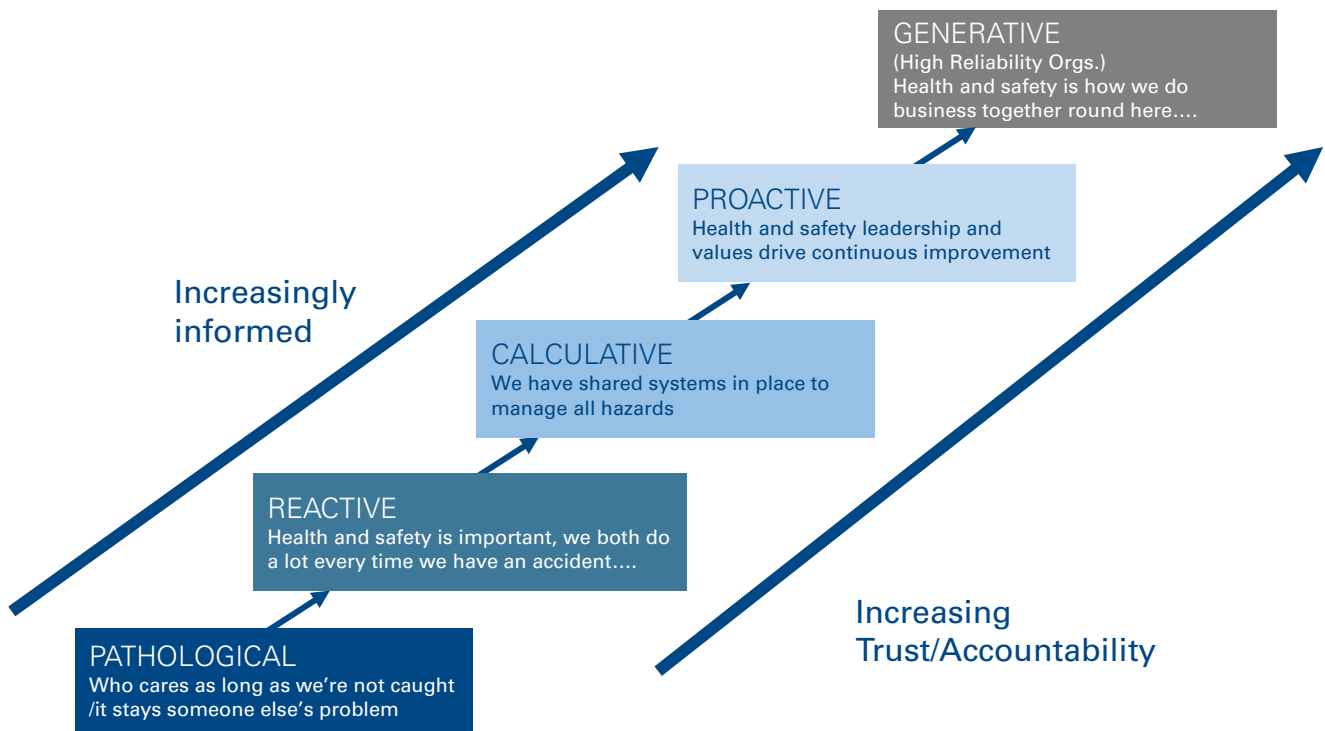
### "Culture-driven" supply chain safety

The "contract-driven" approach to managing the supply chain is popular with many companies, but sole reliance on formal processes and structures means that the client has no leverage outside of the contract. Thorough, detailed checking of the contract and ongoing monitoring of supplier and contractor activity are vital in maintaining assurances of safety. There is also a danger that, once formal obligations have been attended to in a "box-ticking" manner, either party may revert to an attitude of feeling absolved from further responsibility and the "somebody else's problem" mentality resurfaces.

In considering how these limitations may be overcome, the maturity model is extended beyond "contract-driven" management, as shown in the above figure. The most mature supply chain management arrangements do not rely exclusively on formal structures, but on collaborative relationships between client and contractor in which both parties share a common vision and elements of their safety culture. In such an environment, contractors begin to behave more like staff of the client company. Where a positive safety culture is present, contractors are more likely to engage with the safety measures of the client company out of a sense of individual and collective interest in safety, rather than purely out of a sense of obligation to the contract. For one of our client companies, we conducted a series of safety culture surveys across a range of separate business units – those with the best contractor safety performances also saw contractor and company employees score similarly in terms of safety culture, with contractors identifying strongly with and taking pride in working for the client.

For some companies that reach this stage, the significance of the contract may substantially diminish. Although a contract is still used, other channels exist for communication of expectations up and down the supply chain, and contractors and suppliers have other motives to meet those expectations. Communication will not be exclusively channeled through the designated points of contact for the contract, but other staff

## Hudson’s evolutionary model of safety culture



Source: Safety Management and Safety Culture, The Long, Hard and Winding Road – Professor Patrick Hudson, Leiden University

in both organizations will speak to each other, and may often work closely together on multiple projects and over many years. This state of affairs is dependent on, and conducive to, the development of long-term relationships between clients and suppliers or contractors. In addition, the enhanced prospect of future custom for the contractor that results from this is a powerful motive to keep the client satisfied.

In other companies, the contract continues to be the major defining feature of, and driving force behind, the supply chain relationship. Instead of being supplanted, it is supported by shared culture elements, with all parties striving to achieve a degree of collaboration over and above what is stipulated. For companies seeking to develop their supply chain management processes to this level of maturity, a conscious decision is needed as to the role the contract will play.

Companies seeking to progress from “contract-driven” to “culture-driven” supply chain safety management do well to nurture long-term relationships with suppliers and contractors that are known to deliver well. A key factor to success in doing so is effective evaluation, based on suitable metrics, of performance on an ongoing basis. This enables clients to give repeat custom without requiring the contractor or supplier to clear the same obstacles in the procurement process twice, which streamlines the process as the relationship develops and saves time and money for both parties. It also requires management to have a deep understanding of the company’s

own safety culture (in terms of such concepts as safety maturity, “unwritten rules” of behavior, etc.) and the ability to assess it in the supply chain in order to identify suppliers/contractors that will be a good match. Finally, mutual trust between the client and the contractor is essential to the development of a strong working relationship with a sense of shared culture, as trust reduces the client’s need to give the contractor more hurdles to clear in order to secure ongoing work. Often, if these challenges are difficult to overcome, the company will settle at the “contract-driven” stage and fail to mature further.

### Evolution of safety culture

Developing safety maturity is, in general, an ongoing process of evolution of a safety culture – in this case, a shared culture between client and contractor. Hudson’s evolutionary model of safety culture illustrates this progression. Although the model has been developed in the context of the culture within individual organizations, it is also applicable to shared cultures between multiple organizations. We have modified it in the above figure to show this.

Hudson’s “pathological” culture is analogous to the “somebody else’s problem” state of mind that characterizes the lowest levels of supply chain maturity. Over time, the joint activities of client and contractor will be characterized by an increasingly mature safety culture as both organizations work together to develop it.

## Conclusions

Management of safety in the supply chain is a major challenge. Our experience has led us to conclude the following:

- For many companies, contractors are viewed as beyond their control and concern, and moving beyond this mindset is the first major challenge.
- The second challenge is the development of suitable formal structures for managing supply chain safety.
- In general, formal structures are limited, but significant gains can be made through fostering collaborative relationships with contractors/suppliers.
- This relationship hinges on trust, shared safety culture, and the effective harnessing of cultural drivers to shape individual and collective behavior.
- This leads to better safety performance and better value for money, as a high level of maturity in supply chain management is both more effective and more efficient at reducing accident rates.

## Contacts

**Tom Teixeira, Partner**  
teixeira.tom@adlittle.com



**Stephen Watson, Principal**  
watson.stephen@adlittle.com



**Marcus Beard, Associate Director**  
beard.marcus@adlittle.com



**Russell Pell, Partner**  
pell.russell@adlittle.com



**Bernd Schreiber, Partner**  
schreiber.bernd@adlittle.com



## Authors

Stephen Watson and Immanuel Kemp

## Arthur D. Little

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