ISN Analytics™

Data-driven Insights

Contractor Management Strategy White Paper

Insights from a Survey of Decision Makers

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Contractor Management Strategy

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About ISN®

Established in 2001, ISN is the global leader in contractor and supplier information management. We support over 500 Hiring Clients in capital-intensive industries to help manage more than 65,000 contractors and suppliers that have over 15 million employees combined and operations in over 85 countries. Headquartered in Dallas, Texas, ISN has additional offices in Los Angeles, New York City, Calgary, Toronto, London, Sydney, Perth and Auckland. ISN's award-winning Customer Service Team is available to provide unlimited support by email, chat and phone to contractor customers in over 30 languages. ISN takes pride in leading efforts to improve the efficiency and effectiveness of contractor management systems and in serving as a forum for sharing industry best practices among our members.

Our innovative online contractor management platform, ISNetworld®, is continuously evolving to meet ever-changing corporate and regulatory requirements while reducing unnecessary duplication associated with traditional contractor procurement processes. Our Review and Verification Services (RAVS®) group comprises specialized professionals with experience in health, safety, environmental, procurement and other compliance requirements. RAVS provides an added level of due diligence to the process of reviewing contractors' self-reported information.

ISNetworld's dynamic and configurable scoring criteria assist Hiring Clients with measuring the key performance metrics relevant to them, thus promoting transparency, clear communication and opportunities for Hiring Clients to connect with safe and reliable contractors. ISN's Analytics Team publishes benchmarking reports annually, allowing ISN customers to measure key performance indicators (KPIs) which provide insight to areas of improvement in order to mitigate risk and help make strategic business decisions.

By identifying contractors and suppliers that meet their standards, Hiring Clients are able to drive tangible and sustainable performance improvements while strengthening their relationships with their contractors and suppliers.

For more information, visit www.isn.com or contact ISN at +1 214 303 4900 or via email at InfoRequest@isn.com.

Introduction

Contractors and suppliers play a strategic role in the business ecosystem. They enable companies that hire contractors including prime contractors that rely on subcontractors, referred to as Hiring Organizations throughout this white paper, to streamline their operations, manage their risk exposure, optimize their cost structure and sharpen their focus on core competencies. For some companies, it is not uncommon for 80 percent or more of their work activities to be outsourced and completed by third-party contracting companies.

There is growing recognition that Hiring Organizations in both the public and private sectors are challenged to accomplish their organizational contractor management objectives (work being completed in a safe, reliable, and sustainable manner) while working through internal constraints (such as leadership priorities, competing resource allocation, integration of internal systems) and external constraints (such as shortage of qualified contractors and competent work force, subcontractor relationships and regulatory requirements).

This is where an effectivecontractor management strategy comes into play to set a vision, articulate desired outcomes and nurture an environment for executing the strategy.

How are Hiring Organizations managing the intricacies of their contractor management strategies? What challenges are commonly recognized, and what are the top priorities being pursued by decision makers? And perhaps more importantly, what characterizes leading organizations in their contractor management journey?

A survey of Hiring Organizations was conducted by ISN toward the end of Q1 2017 for the purpose of providing answers and insights into these questions. This publication summarizes the survey feedback provided by 204 decision makers across 161 Hiring Organizations. The information provides insights into the attributes of leading Hiring Organizations and helps organizations to benchmark themselves with their peers.

Ultimately, the objective of this white paper is to help companies across all industries that rely on subcontractors drive continual improvement in their efforts toward a zero incident workplace and reliable operations.

WHAT YOU WILL LEARN FROM THIS PUBLICATION

1. *What the landscape for outsourcing work to third-party contractors looks like*
2. *The commonly recognized challenges, and the top priorities pursued by decision makers*
3. *Which functional areas within an organizations are most often responsible for the oversight of their contractor management processes*
4. *How companies are driving continual improvement in their contractor management process*
5. *The characteristics of leading organizations in their contractor management journey*
6. *Where many effective leaders and decision makers in organizations are focusing their attention in their strategic planning considerations*

THROUGHOUT THE PAPER YOU WILL SEE THE FOLLOWING TERMS USED

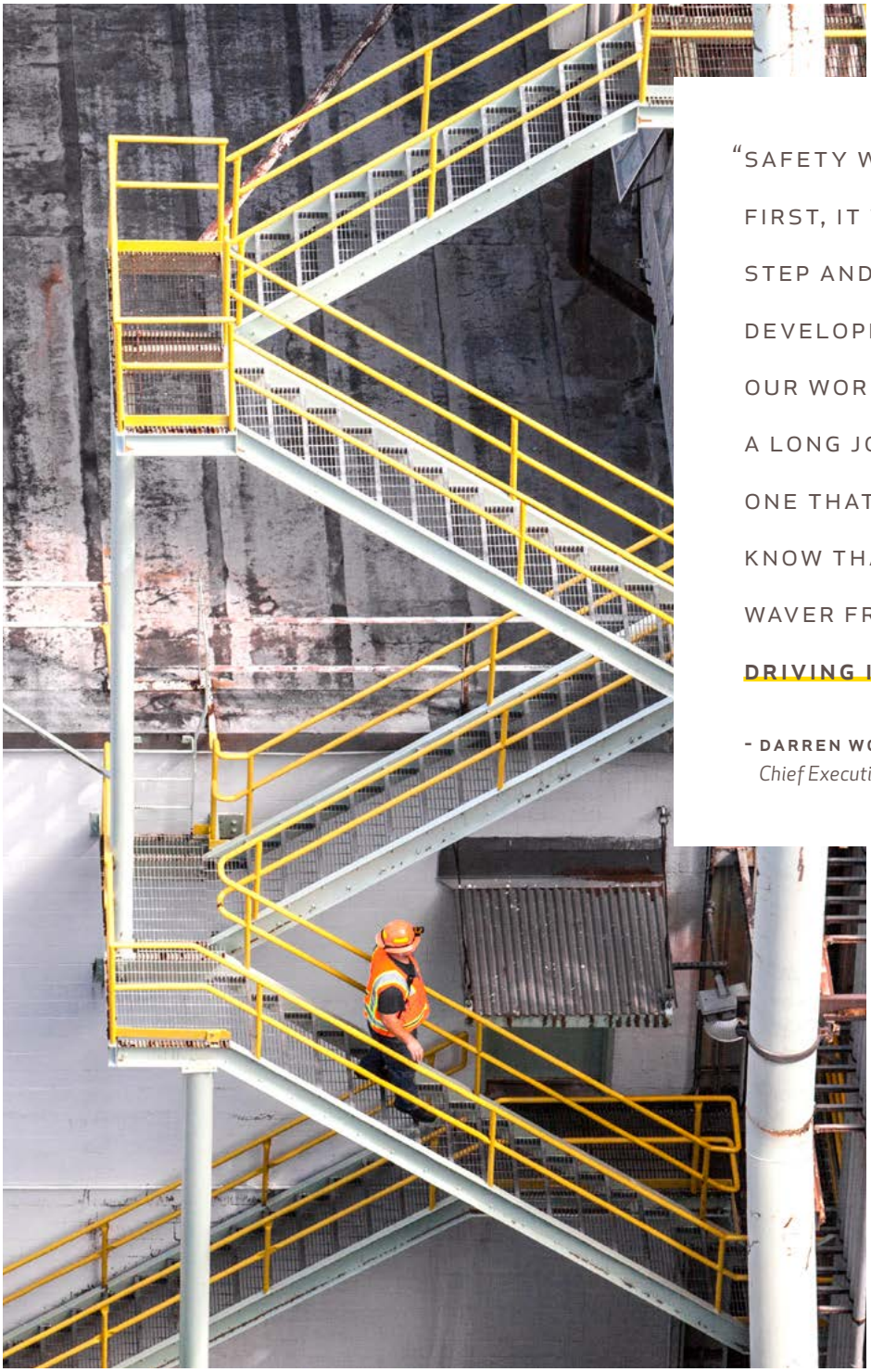
Hiring Organization is any company, including prime contractors that rely on subcontractors, hiring contractors or suppliers for a task or a project.

Contractor refers to a company hired to provide a service to a Hiring Organization.

Leading Organizations in this white paper are companies that rated themselves as 'leading' on the maturity of their contractor management process. These companies treat health and safety as a strategic priority and a way of doing business; and the impact on health and safety is factored into board decisions. Please see section 3.0 for details.

All Organizations in this white paper refers to all respondent companies (including leading organizations), irrespective of the maturity of their contractor management process.

Subcontractor is a company hired by a general contractor to perform a specific task as part of the main or overall project.



"SAFETY WOULD NOT ONLY COME FIRST, IT WOULD PERVADE EVERY STEP AND STAGE OF PLANNING, DEVELOPMENT, AND EXECUTION OF OUR WORK. IT WAS THE BEGINNING OF A LONG JOURNEY FOR OUR COMPANY, ONE THAT WE ARE STILL ON. WE KNOW THAT WE CANNOT REST OR WAVER FROM **THE OBJECTIVE OF DRIVING INCIDENTS TO ZERO**."

- DARREN WOODS
Chief Executive Officer and Chairman of ExxonMobil

1.0 Key Findings

In this section, we summarize the key findings from the survey data analysis.

1. What Does the Future of Outsourcing Look Like?

Fourty-two percent of the Hiring Organizations that completed the survey expect their need for outsourcing work to third-party contractors to increase over the next 12-18 months, of which half anticipate double-digit increases. Fifty-three percent of the Hiring Organizations expect outsourced work hours to remain at the same level over the same time frame. Only five percent of these Hiring Organizations anticipate a decrease in their outsourcing activity. Locating, sourcing and managing qualified contractors, subcontractors and workers could be a key challenge in this positive growth environment. *(See section 5.0 for additional information)*

2. What Are the Two Most Important Priorities That Drive Contractor Management Objectives?

1. Improving the safety performance of contractors and employees
2. Improving business continuity and operational excellence

(See section 6.0 for additional information)

3. How Do Organizations View Themselves in Contractor Management Maturity?

Fifty-seven percent of the organizations described themselves as leading or proactive in their contractor management process maturity. A third of organizations described themselves as being at a managing stage* *(See section 3.0 for additional information)*

4. What Are The Key Challenges?

The shortage of a skilled and competent workforce was cited by Hiring Organizations as the top challenge to achieving their contractor management objectives in the next 12-18 months. *(See section 6.0 for additional information)*

5. What Are The Top Threats?

The use of subcontractors, and ensuring their competency and compliance, is a top threat to achieving contractor management objectives, followed by:

1. Insufficient change management processes
2. Workforce related concerns, including an aging workforce and language barriers
3. The use of temporary, less experienced (short service**) workers

**See section 3.0 for definitions of the proactive and managing stages.*

***A Short Service Employee (SSE) is typically defined as a person with less than six months experience at a company, unrelated job task or working at a new location. They are typically identified by a hardhat sticker, colored vest, etc. Best practice is that they work with a mentor and never work alone.*

6. Process Maturity and Outsourcing

Half of the organizations in the leading and proactive stages of maturity with their contractor management process reported anticipating a growth in hours of work outsourced to contractors over the next 12-18 months. By comparison, only a third of the responding organizations in the managing, reactive or start of journey stage of their contractor management process maturity reported anticipating such growth.

7. Which functional group within your organization primarily owns the process for third-party contractor management?

Contractor management process ownership predominantly resides in the Health, Safety and Environmental (HSE) or Operations/Engineering/Maintenance functions for surveyed Hiring Organizations in the Manufacturing industry. In the Oil and Gas, Utilities, Transmission, Distribution and Power Generation Industries, the HSE or Procurement/Supply Chain functions predominantly own the process for the surveyed organizations. *(See section 5.0 for additional information)*

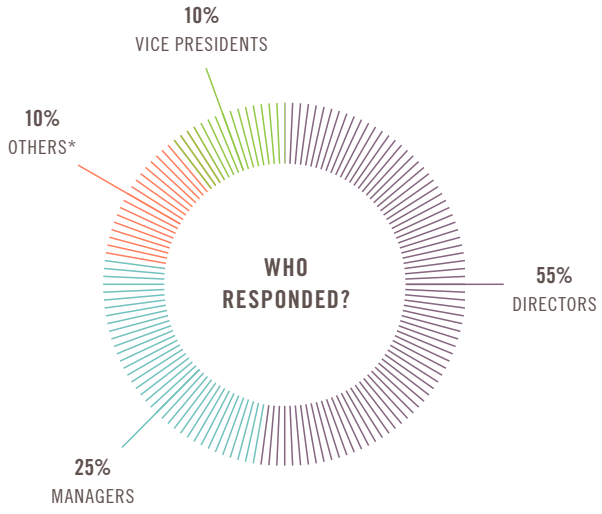
8. How Are Hiring Organizations Driving Continual Improvement?

Improving communication and engagement with contractors (including face-to-face meetings, project planning and performance discussions) as the number one way to drive the continual improvement of their contractor management processes. Driving better integration of HSE, procurement, security and other related internal business processes to achieve end-to-end risk management objectives was the second-highest approach identified. *(See section 8.0 for additional information)*

90%

of surveyed Hiring Organizations believe their ability to effectively manage contractor risk has increased over the past three years

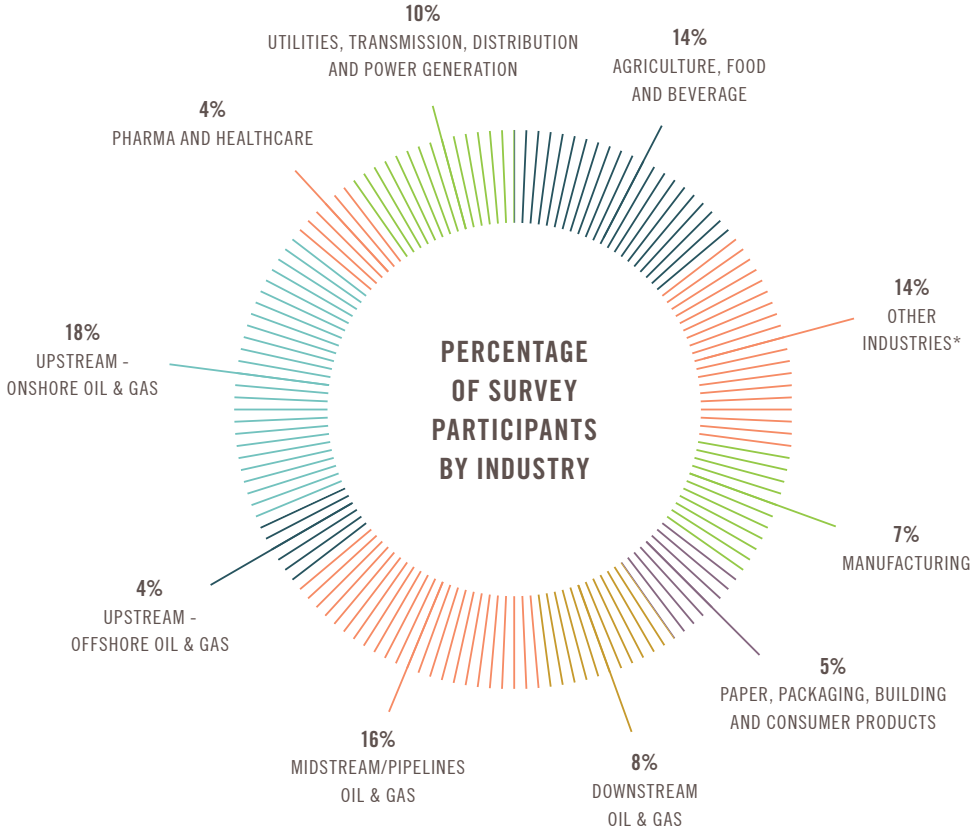
2.0 Survey Methodology



Others includes respondents with titles such as Safety Specialist, Supply Chain Management and Subcontractor Management Coordinator.

The insight and analysis provided in this white paper are primarily based on survey feedback gathered from 204 decision makers involved in contractor and supplier management (Managers, Directors and Vice Presidents) from across 18 industries in North America.

The respondents come from 161 Hiring Organizations in capital-intensive industries that are members of ISNetworld (www.isn.com). These 161 organizations collectively manage over 40,000 contractor companies in ISNetworld, which reported more than 10 billion hours of work activity in 2016 alone.



204
DECISION MAKERS

18
INDUSTRIES IN NORTH AMERICA

161
HIRING ORGANIZATIONS

Other Industries include Chemical, Colleges & Universities, Construction, Facilities Management, Manufacturing - Steel and Other Metals, Mining - Metal/Non-Metal Surface, Mining and Fertilizer Products, Environmental, and Public Sector

3.0 The Journey Toward Contractor Management Process Maturity

Hiring Organizations were asked to describe the maturity level of their contractor management processes, particularly as it relates to enabling the overarching objective of safe operations.

Each of the five stages of the maturity scale provides a foundation on which future improvements can be built upon and a framework for assessing the capability of an organization's processes to sustain its contractor management objectives.

Nearly a quarter of the 161 surveyed Hiring Organizations describe themselves as leading in the maturity of their contractor management process. Over half of these Hiring Organizations consider themselves as either leading or proactive.

There is a strong correlation between leading and proactive organizations and the existence of a documented strategic plan for the organization's contractor management goals. Almost 90 percent of leading or proactive organizations have a documented strategic plan for their contractor management goals, compared to 60 percent of organizations at a managing, reactive or start of journey stage.

A Five-Stage Contractor Management Process Maturity Framework*

How would you rate the maturity of your contractor management process?

5. Leading 24%
Health and safety treated as a strategic priority and a way of doing business. Board decisions take into account the impact on health and safety.

4. Proactive 33%
Active senior leadership involvement and support. Challenges and risks are often identified and addressed in advance.

3. Managing 35%
Focused on managing the day-to-day health and safety. Systems are in place to manage safety.

2. Reactive 5%
Focused on addressing health and safety issues as they arise. Focus remains on incident rates.

1. Start of Journey 3%
Starting to understand what health and safety involves; primarily driven by regulatory compliance requests.

MATURITY

Total of 161 Hiring Organizations responded to the survey. Breakdown by Maturity of Contractor Management Process: Leading - 38, Proactive - 53, Managing - 56, Reactive - 9, Start of Journey - 5

= Survey question

** Several safety management system maturity frameworks exist. Reference one example here: https://www2.deloitte.com/content/dam/Deloitte/nz/Documents/risk/nz-en-2016-NZ-health-and-safety-survey-report.pdf*

4.0 Attributes of Leading Organizations

In the previous section, we discussed the five-stage contractor management process maturity framework and how surveyed organizations classified themselves. Based on an analytical model applied to the survey data, this section attempts to provide insight into what attributes characterize organizations at the leading stage of the contractor management process maturity. The following summarizes the main observations:

1. They have a documented strategic plan for their contractor management goals.
2. The risks to their organization when using third-party contractors are "very well understood" or "well understood."
3. The risks to their organization when using third-party contractors are "very well managed" or "well managed."
4. They report leading metrics of performance (including near misses, audit findings and culture and perception survey findings) to corporate level executives.
5. Communication and setting clear expectations with their contractors is the top area for driving continual improvement in their contractor management process (including involvement in contractor safety engagements, and face-to-face contractor meetings and engagements).
6. They drive a safety-first culture.
7. They do not have a significant number of disconnected internal business processes. They integrate their HSE, procurement, security and other internal processes for end-to-end risk management practices.
8. Improving business continuity and operational excellence is a key priority over the next 12-18 months.
9. Improving regulatory compliance is not a key priority area. This may be because, in general, regulatory requirements are the minimum requirements to be satisfied.
10. Shortage of qualified contractor companies and shortage of a skilled and competent workforce are key challenges.
11. They do not see a lack of management support and commitment as a key challenge.
12. They identify economic, political and regulatory uncertainties as challenges.

"A COMPANY'S PRIORITIES EVOLVE OVER TIME DEPENDING ON BUSINESS CONDITIONS AND OTHER FACTORS. A COMMITMENT TO SAFETY, THEREFORE, MUST BE MORE THAN A PRIORITY, IT MUST BE A VALUE – A CORE VALUE THAT SHAPES DECISION MAKING ALL THE TIME, AT EVERY LEVEL"

- DARREN WOODS
Chief Executive Officer and Chairman of ExxonMobil

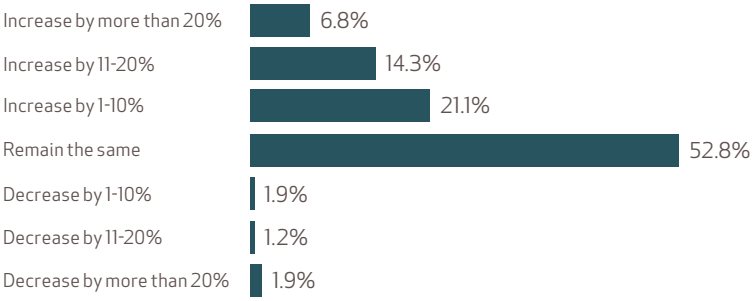
5.0 Organization and Outsourcing Outlook

Almost 50 percent of the surveyed Hiring Organizations reported using contractors to complete between 40 - 100 percent of their on-site work. Moving forward, 55 percent of the leading Hiring Organizations reported that they are planning to increase their outsourcing of work to contractors, as compared to 42 percent of all Hiring Organizations surveyed.

55%

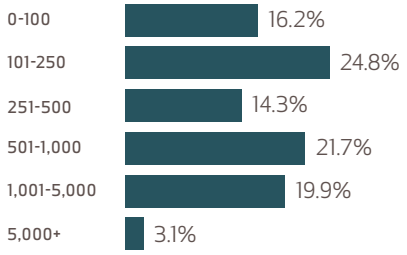
OF LEADING HIRING ORGANIZATIONS PLAN TO INCREASE THEIR USE OF CONTRACTORS IN THE NEXT 12-18 MONTHS

By how much do you expect your organization's need for outsourcing work to third-party contractors (measured in work hours) to change in the next 12-18 months?

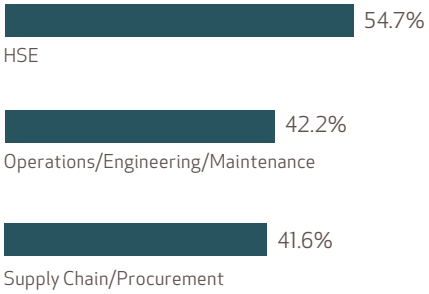


8x *more Hiring Organizations expect an increase in their use of contractors than those that expect a decrease*

Approximately how many contractor companies does your organization use company-wide?



Top three functional areas within organizations that own the contractor management process*



**Percentage breakdown may not add up to 100 percent as respondents may choose more than one category to indicate shared oversight responsibility.*

6.0 Priorities and Challenges

Fifty-three percent of the leading Hiring Organizations identified a shortage of a skilled and competent workforce as their top challenge, whereas 39 percent of the total group surveyed identified this as their top challenge. However, both leading and non-leading Hiring Organizations identified improved safety performance of both employees and contractors as the top priority going forward.

Improved safety performance of employees and contractors and improved business continuity and operational excellence were two top priorities identified going forward.

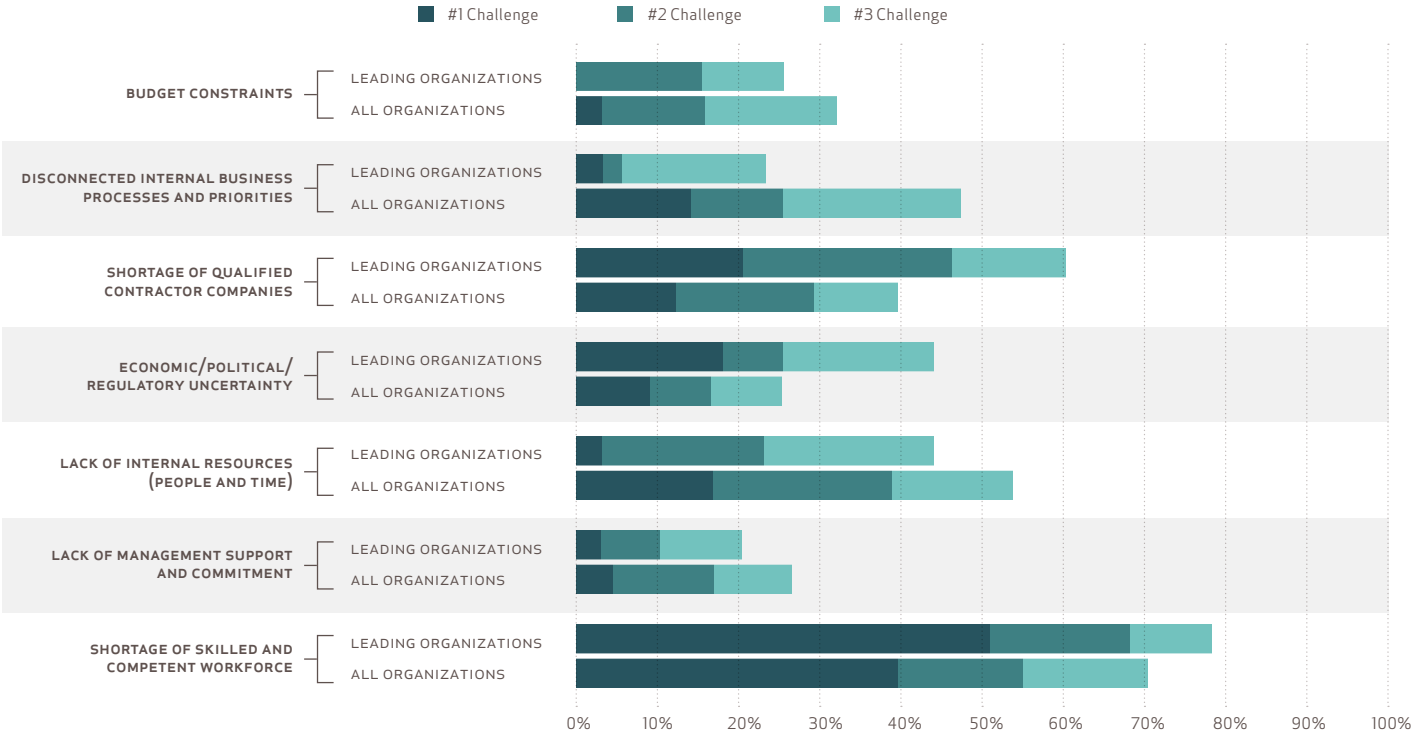
Top Three Challenges for Organizations at Different Stages of the Contractor Management Process Maturity Framework

	LEADING ORGANIZATIONS (38)*	PROACTIVE ORGANIZATIONS (53)	MANAGING ORGANIZATIONS (56)	REACTIVE & START-OF-JOURNEY ORGANIZATIONS (14)
#1 CHALLENGE	Shortage of skilled and competent workforce	Shortage of skilled and competent workforce	Lack of internal resources (people and time)	Shortage of skilled and competent workforce
#2 CHALLENGE	Shortage of qualified contractor companies	Lack of internal resources (people and time)	Lack of internal resources (people and time)**	Lack of management support and commitment
#3 CHALLENGE	Lack of internal resources (people and time)	Disconnected internal business processes and priorities	Shortage of skilled and competent workforce	Disconnected internal business processes and priorities

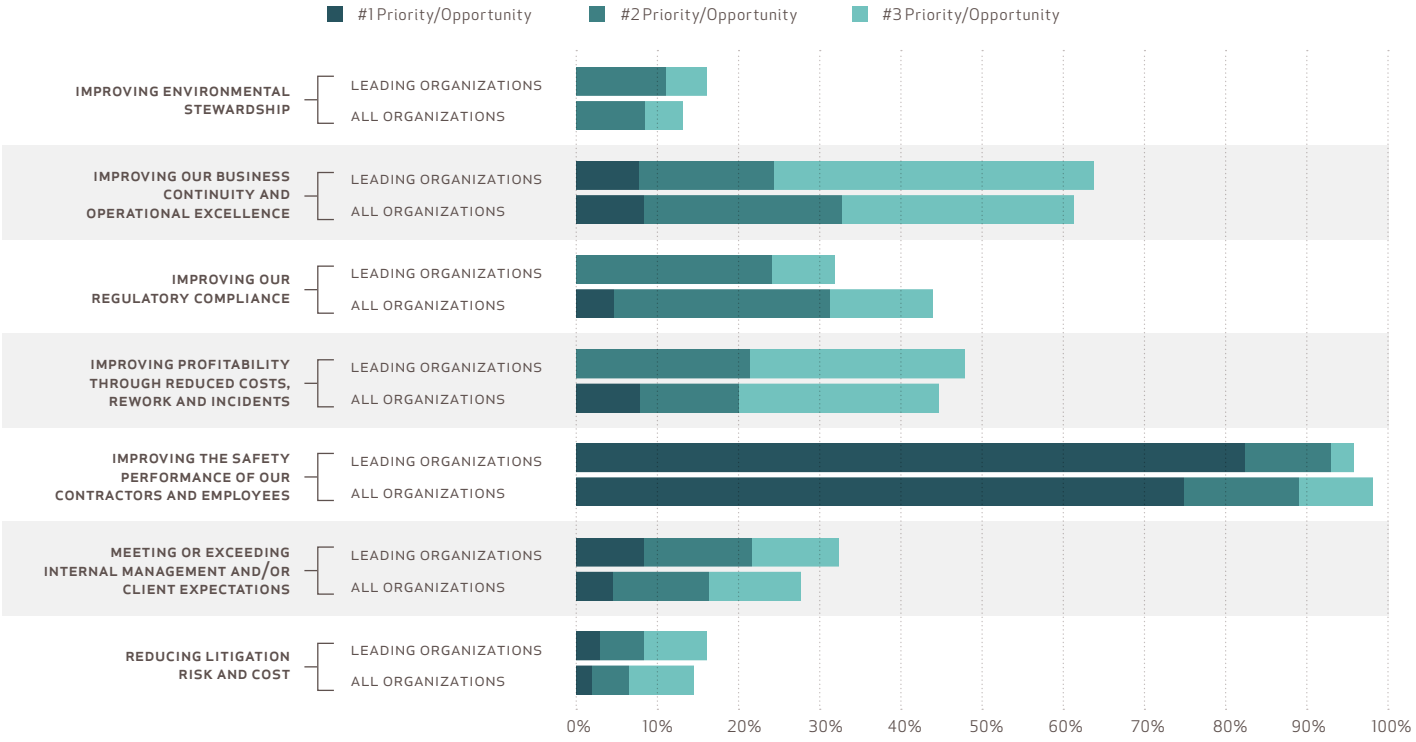
** Number of Surveyed Organizations*

*** Lack of internal resources received the majority of responses from managing organizations as their top challenge. Out of the choices provided, this challenge also received the majority of responses as being a number two challenge for managing organizations.*

In your opinion, which of the following challenges may keep your organization from reaching its contractor management goals over the next 12-18 months?



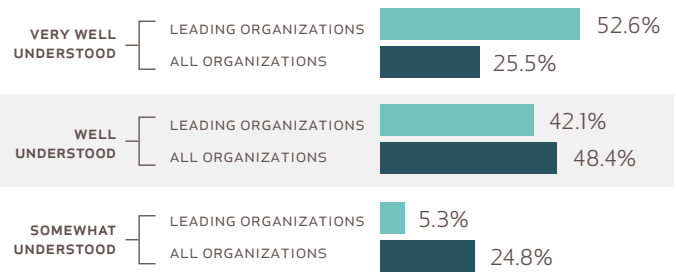
What are the major priorities and opportunities that will drive your organization's contractor management goals in the next 12-18 months?



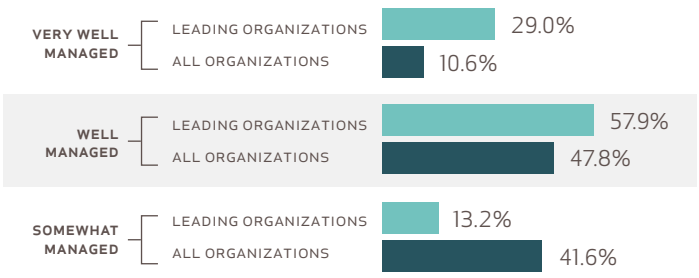
7.0 Risk Management

Leading Hiring Organizations assessed themselves as both having a better understanding of contractor-related risks and being better at managing those risks.

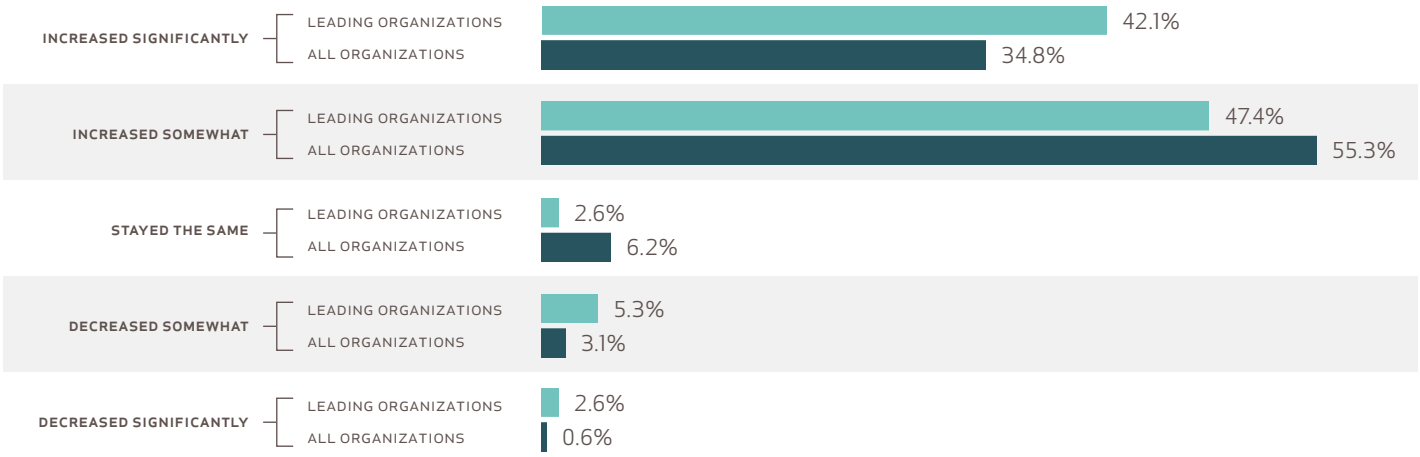
How well understood are the risks involved for your organization in using third-party contractors?*



How well managed are the risks involved for your organization in using third-party contractors?*



In my opinion, our ability to effectively manage contractor risk has _____ over the past three years.

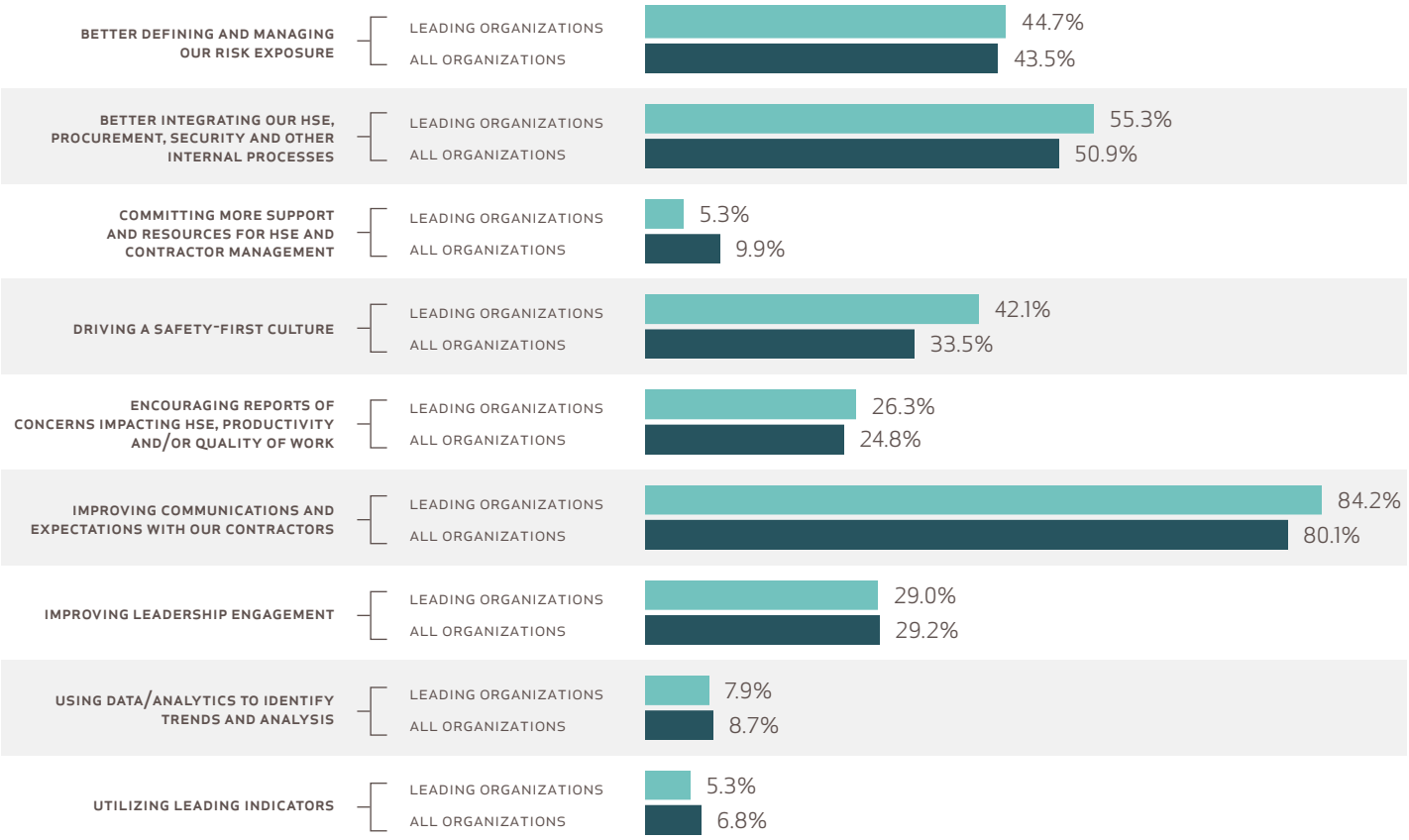


Fewer than 1% of survey respondents selected "Poorly Understood" or "Not Understood"; or "Poorly Managed" or "Not Managed" as their answer choice

8.0 Driving Continual Improvement

Communication and improved integration of internal processes were identified by a significant majority of both leading and all Hiring Organizations as the main keys to driving continual improvement in their contractor management processes.

How is your organization driving continual improvement of its contractor management processes?*



Respondents can select up to three options

9.0 What is Best-in-Class Contractor Management?

A sustainable contractor management system goes beyond a one-time pre-qualification exercise. It requires establishing safety and compliance standards while promoting a culture of transparency, accountability and continuous improvement. To complement the strategic considerations discussed earlier in this white paper, our research has identified 10 essential common attributes we find in best-in-class contractor management systems.

10 Essential Elements of Best-in-Class Contractor Management Systems

1. **Establish a Clear Communication Strategy** that outlines what needs to be communicated to contractors, how to accomplish it and how to proceed to the next step of engaging contractors on a personal level.

2. **Measure Performance** by capturing and regularly analyzing both lagging and leading indicators of contractor performance.

3. **Incorporate a Risk-Ranking Process** to include contractor requirements and expectations (including health, safety, insurance and training competency) tailored to best fit the appropriate risk exposure.

4. **Follow a Four-Step Due Diligence Process** that involves collecting self-reported information from contractors, reviewing and verifying the information, assessing implementation of documented procedures, and undertaking on-the-ground inspections and audits of contractors' worksites, manufacturing facilities or home offices.

5. **Maintain an Approved Contractor List** to avoid playing catch up to approve a contractor that has already been procured and on site providing services.

6. **Establish Consequences and an Exit Strategy** to clean up dormant, redundant or consistently non-compliant service providers.

7. **Address Subcontractor Management** since no matter how robust your contractor management system is, your subcontractor management process could be the weak link.

8. **Follow Standardized and Transparent Guidelines** that will allow you to keep contractor data in a single, well-organized platform, as opposed to maintaining multiple database silos that do not communicate with each other.

9. **Integrate Internal Business Processes** where contractor management is an integral part of extended internal business processes to enable end-to-end risk management.

10. **Take Safety Culture to the Next Level** to ensure a partnership is established and is a win-win for both Hiring Organizations and contractors.

For a detailed discussion of these 10 best practices, go to **www.isn.com/publications** to download your copy of the "What is Best-in-Class in Contractor Management?" White Paper.

Additional ISN Analytics Publications

WHITE PAPERS

Authored by industry experts, ISN white papers provide a helpful resource to both Hiring Client and contractor companies and address industry best practices in training, insurance compliance and contractor management.

BENCHMARKING REPORTS

ISN benchmarking reports deliver analyses of health and safety performance and insurance data across capital-intensive industries, allowing Hiring Clients and contractor companies to assess how their performance compares to that of their industry peers.

CASE STUDIES

ISN produces case studies that use measurable data to demonstrate how ISNetworld addresses common challenges for both Hiring Clients and contracting companies.

To request a copy of these publications, visit www.isn.com/newsroom/publications.

Acknowledgement

ISN would like to thank the decision makers from 161 Hiring Organizations who participated in the survey and provided vauable insight. Thank you.

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