A GUIDE TO QUALIFYING CONTRACTORS:
RISKS AND BEST PRACTICES
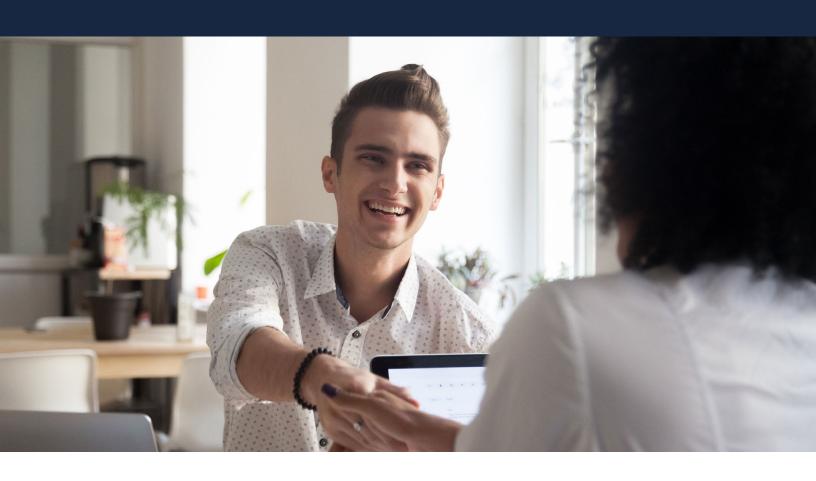
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As more companies outsource work to contractors, contractor safety management becomes increasingly important. Prequalification is a key part of this process.

By prequalification, we mean the preliminary stage in the bidding process where the goal is to determine whether a contractor has the resources and experience required to complete the job successfully. Here we'll examine some of the risks and best practices when it comes to qualifying contractors.

THE KEY ADVANTAGES OF PREQUALIFYING CONTRACTORS

Prequalifying contractors is an incredibly important step in the contractor management process, and an intelligently designed prequalification system should achieve four main goals:

1. Conserve your time
2. Conserve your financial resources
3. Allow you to expand your business opportunities using vetted and reliable contractors
4. Improve and streamline communication, thereby improving your relationships with contractors

There are many compelling reasons why all companies that work with contractors should go through this process.

Prequalification Mitigates Risk

Whenever you hire contractors, you're taking on a degree of risk and liability – no matter how many you're working with. Prequalifying your pool of contractors offers peace of mind that the ones you ultimately decide to work with have knowledge and understanding of the potential risks, can complete the job safely, and have the ability to maintain a safe working environment.

It Fulfills the Legal Concept of "Buyer Beware"

Whether you're purchasing a product or service, it makes good business sense to understand who you're buying from and the type of service and standards they are known for. Prequalification allows you to check out the providers so that you can be confident in your choice.

It Helps Ensure a Safer Job Site

Safety on the worksite depends on each employee or contractor pulling their weight. When you prequalify contractors, you know there is a degree of harmonization of safe work practices on the work site, which is especially important when it comes to high-risk activities.

It Decreases the Risk of Litigation

Doing your due diligence by screening contractors to ensure they are qualified to safely and professionally handle your job reduces the risk of high-loss or workplace incidents and, ultimately, the potential for litigation.

5 RISKS YOU TAKE ON BY SKIPPING CONTRACTOR PREQUALIFICATION

While prequalifying contractors may seem like a tedious, time-consuming job, the end result is well worth the effort. Failing to do this due diligence – to get to know the con-tractors you're considering working with – can have significant consequences for your business down the line.

Let's break down the risks of not prequalifying contractors into two main categories: loss of business opportunities and liabilities.

Risk 1: Loss of Business Opportunities Due to Improper Incident Recording

Clients that pre-screen or assess contractor safety performance typically consider at least these three things:

1. HSE Statistics
2. Workers' Compensation /EMR performance
3. Regulatory compliance responses

Industry incident classification systems are not the same as Workers' Compensation claims acceptability. You may be putting yourself out of consideration for work if you are reporting incorrectly. It is best practice to make sure you know your clients incident classification system.

Risk 2: Loss of Business Due to Poor Safety Performance

People want to work with safe contractors. It goes without saying, then, that if you're working with contractors who have poor safety performance records, it can hinder your ability to get new (and good) business.

To mitigate the risk, it's a good idea to implement an occupational health and safety management program that ensures contractors comply with specific standards.

Risk 3: Loss of Business Due to Poor Regulatory Performance

Poor regulatory performance can also have a grave impact on whether or not you can secure new business. This includes serious OSHA violations, workers' compensation, and insurance requirements, and can result in legal action or penalties from regulators.

Experts recommend getting to know the most frequently cited OSHA violations in your industry and ensuring that you have an effective, well-implemented health and safety system to prevent them.

Risk 4: Liability for Unpaid Contractor Workers' Compensation Premiums

If contractors have not paid their workers' compensation premiums, you could potential-ly be held liable for thousands or tens of thousands of dollars in recovery.

When you mobilize a contractor, it's critical that you get a workers' compensation clear-ance to ensure they have a valid WCB account. If you'll be working with this contractor for any length of time, it's a good idea to get a WCB clearance at regular intervals to make sure they are maintaining the account and keeping it in good standing.

Risk 5: Liability from Unmanaged Contractor Certificates

An astounding 20 percent of certificates in contractor management tracking systems are expired or set to expire within 30 days. This can put you at serious risk for liability if incidents occur without coverage in place, including direct costs and legal liabilities.

This is particularly a risk if you are using a manual spreadsheet to manage your con-tractors; databases and software send out automatic notifications to let you know when certificates are approaching expiry, helping to mitigate your risk.

CONTRACTOR MANAGEMENT BEST PRACTICES

There are a host of best practices you can employ to mitigate the risks of working with contractors. Remember, though, that there is no one-size-fits-all solution and it's important that you implement the best practices in a way that works for you, your business, and the prequalification system you're using.

1. Establish a Contractor Management Standard – And Make Sure Your Executive Leadership Team Endorses It

Having a written document of your processes that the leadership team stands behind is a critical factor in the success of your contractor prequalification system. The document should cover the management of contractors from first contact through close out and the review of the contracted work scope. It should outline roles and responsibilities, required actions, and any practical tools you'll be using.

2. Do the Rights Things, in the Right Amounts, at the Right Time

This best practice is about minimizing overload – preventing you from getting caught up in too many processes and too much data at first contact. It's important to be mindful about how much process is used and at what stage you introduce it.

It's not helpful to implement processes for the sake of having processes. Focus instead on reducing redundancies. For example, ensure that contractors don't have to send in the prequalification questionnaire and upload it to your database. Your aim should be to reduce administrative work, not create more.

3. Use Two-Tier Prequalification

Two-tier qualification consists of a staged approach including general screening and project screening:

1. General screening looks at basic due diligence: safety records, WCB ratings, and the adequacy of insurance components, for example

2. Project screening is linked to the request for proposal and considers the services that the contractor may provide based on the work scope being proposed

This approach is more business-friendly since it simplifies the prequalification process to exactly what you need to do at each stage.

4. Ensure Your Prequalification Team Has the Required Knowledge and Experience

The process of prequalifying contractors is rendered somewhat useless if the team in charge of it lacks the knowledge and experience necessary to ask the right questions and interpret the responses. Team members must possess expertise in their area – technology, safety, finance, and so on – and know exactly what they need to evaluate. It's a good idea to have a central person who acts as the single point of contact, which helps streamline communications with the contractor or client.

5. Make Prequalification Data Available to Those Who Need It

The prequalification information is only helpful if those who need it can see it. So, while it might seem obvious, you must ensure that all members can access prequalification data to save time and prevent duplication.

It's also important to ensure that everyone knows how the process is being used – how it works and when they need to jump in to do their part.

6. Define Your Expectations and Compliance Standards

It's extremely important that contractors understand what is expected of them and what standards they must meet and abide by. Throughout the process, you must ensure they can get clarification and have their questions answered in a timely manner.

For contractors who don't quite qualify, be sure to explain their deficiencies. This allows them to understand where they need to improve and develop their resources for future projects.

7. Use an Internal Database or Third-Party Registry

We can't overstate the importance of using a database for contractor management. And it's particularly critical for businesses using dated documents. While spreadsheet software like Excel might seem like the easiest and most cost-efficient option, these pro-grams lack the functionality needed to properly manage contractors. Primarily, it can't track expiry dates or provide warning notifications.

About 15 percent of the documents initially uploaded into databases do not meet basic criteria (e.g. expiry dates, improper coverage amounts) and many dated documents are either expired or within the 30-day window for expiry. A database that can identify those issues and bring them to your attention is the best way to avoid these issues.

8. Opt for Fit-for-Purpose Questionnaires Instead of Generic Ones

It might be tempting to use a one-size-fits-all questionnaire for your contractors be-cause it seems like it would save time. But would it really?

Best practices dictate that you should create specific questionnaires for specific groups (e.g. high- vs. low-risk contractors, specific services they offer). In addition to being practical and business-friendly, this approach reduces redundant content in the ques-tionnaires, which does save you time. It also means that contractors aren't being asked to create or obtain safety procedures for services they don't even provide – and that saves them time.

9. Establish Minimum Certification Requirements – and Stick to Them

Before you can evaluate whether a contractor meets your requirements, you have to know what those requirements are.

Decide what is non-negotiable for you and establish baseline requirements that every contractor must meet, without exception. Common ones include commercial general liability insurance, automotive insurance and verification of workers' compensation.

10. Consider Financial and Organizational Capabilities

Before bringing a contractor on board, it's important to get a sense of what their finan-cial and organizational capabilities are. Some questions to ask include:

1. Does the contractor have sufficient people? Do these people have the required skills to complete the work properly and safely?

2. Does the contractor have a track record with similar scopes of work?

3. Does the contractor have a track record of delivering on time and on budget?

4. Is the contractor's work high quality?

5. Does the contractor remain in compliance with health, safety and environmental standards on the worksite?

11. Review Contractor Performance Metrics

Performance metrics are also key. You want to look at the contractor's project-specific experience – what have they worked on that is similar in scope to what you need? Review their key personnel and the experience that they have, and don't forget to consider quality, health, safety and environmental aspects.

12. Ensure the Competency of Supervisors

Since supervisors are in the field doing the work, it's absolutely critical to feel confident that they have the skills necessary to run the job. This includes technical and project experience, as well as people management and safety skills.

13. Have a Risk Management and Mitigation Plan in Place

This one is about being proactive. Take some time to review everything and identify any gaps the contractors may have, then put steps in place to mitigate these gaps and ensure you achieve the level of performance you're looking for.

Your risk management plan should be specific to your project and take into account three main things:

1 Where the contractor will be working

2 What conditions the contractor will be working in

3 How the risk management processes can be applied

BUILDING A SUSTAINABLE PREQUALIFICATION PROCESS

No matter what your contractor prequalification process or system looks like, sustainability is key. Businesses should follow this guiding principle: do what you can manage well over the long term.

This requires focusing on three important areas:

RESPONSIBILITY. You must have someone who can oversee the process and take responsibility for the prequalification system as a whole.

BUDGET. Remember that you don't just need the budget to implement the system; you need the budget to last throughout its entire life cycle. Planning for this ahead of time is key. It should be a fixed expense in the budget each year.

OVERSIGHT. This involves ensuring the system is healthy and providing value. It's good practice to review things on a regular basis (annually, for example) to make sure the prequalification system is working as it should and evaluate whether any changes are necessary.

SUSTAINABILITY AND THIRD-PARTY REGISTRIES

When thinking about the sustainability of a contractor management system, we also need to discuss third party registries. Before you take on a third-party service, however, there are a number of crucial things you should consider.

Many businesses find themselves frequently making contractor exemptions or work-arounds, usually for temporary or small contractors. You'll need to ensure that the system you choose can accommodate all your contractors so you're not exempting some due to extraneous requirements.

You'll also want to make sure your chosen registry collects data in a way that works with your contractor database. Many (but not all) registries only allow you to have one set of questions, and this can present a problem for businesses that have multiple questionnaires (the fit-for-purpose approach, as discussed above). Understanding your needs in advance ensures that you only consider systems that match those needs.

Be realistic about your resources. Before switching to a third-party registry, ask your-self whether you have the staff capacity to take on and administer the process you're about to put in place. You'll also want to make sure it's realistic for your contractors to administer the process.

Finally, before you even begin looking at third-party registries, you must determine what's important to your organization. Establish minimum requirements in the areas that are critical to you. If you know the features or components that you can't (or won't) compromise on, you'll be able to narrow down your options quickly, saving you time and frustration.

CONCLUSION

Prequalification in and of itself is a best practice – it's absolutely essential to a successful contractor management program. Skip it and you open yourself up to a number of significant risks and lost business opportunities.

Do it right, however, and you will have a system that saves time, resources and the stress that comes with not knowing whether the contractor you've just selected is really the best one for the job. The best practices outlined above help ensure you do it right the first time, making the prequalification process painless for you and your contractors.

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