

Five steps to effective contractor safety management: sharing the Lonmin experience

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Lonmin has developed and implemented a five-step framework for contractor safety management. This was a necessary part of our drive to improve safety at our mines and facilities. The initiative is delivering precisely what we were targeting – safer and healthier working environments.

Our recent successes are notable and we firmly believe that sharing our strategy might benefit mining industries across the globe – not simply South Africa's.

Back in 2010, Lonmin suffered a marked deterioration in its safety performance. It was clear at the time that we needed to review and re-evaluate our safety procedures. But this was not all. We had social obligations in terms of the Department of Mineral Resources' Mining Charter and the Group's own approved Social and Labour Plan. We were identifying and developing new, local sources for various goods and services – in other words we were taking on more outside contractors and service providers. And it was crucial that their safety and health performance should match up to the improvements we ourselves were aiming for.

Our responsibilities went further. We were, and still remain, well aware that we need to continue to support the efforts of those contractors that we appoint. It's a two-way street. It became clear that the future delivery in terms of these obligations and of progressive safety improvement would rely to a significant extent on Lonmin itself developing and implementing a standardized safety, health, and environmental (health and safety) pre-qualification assessment and engagement framework. The framework would be applicable to all potential and existing contractors. It was to be a framework to create and maintain clear understandings with our contractors of our safety, health, and environmental standards. This paper describes the stakeholder engagement process, the challenges encountered, and the solutions reached in developing and implementing the framework as well as some of the successes that have resulted.

Introduction

We at Lonmin are committed to creating a working environment based on zero harm to our employees, to our contracting partners, and to the communities that host our operations. We also realize that reaching this goal is a journey and not a destination. This paper describes how we have taken the first steps in this journey more specifically as regards our contractor health and safety management. Following the 2003 Mine Health and Safety Summit, commitments were made by the CEOs to achieve the 10-year milestones, as per Chamber of Mines circular no.82/5 of 2005 -- 'in the platinum, coal and other sectors - by 2013 achieve constant and continuous improvement equivalent to current international benchmarks (0.03 fatality frequency rate), at the least'. Figure 1 shows Lonmin's performance compared with the entire platinum industry as well as the 2013 milestone. It should be noted that the majority of Lonmin's fatalities in 2011 hit contractors and their employees.

The first step was to recognize that part of the issue was that much of our work is outsourced on a contractor basis. Furthermore, we had no illusions -- hiring a contractor to perform a service did not absolve us of the obligations to provide a healthy and safe place of work. However, while Lonmin has many years of experience in dealing with

contractors who manage core and non-core activities, these partnerships were proving to be an internal challenge as regards appropriate contractor health and safety management. The main issue was that Lonmin's various divisions tended to have different health and safety requirements. Furthermore, this lack of a standardized approach to contractor safety management increased the risks to the organization. In addition, a non-standardized approach did not promote sustainable performance and



Figure 1. Platinum industry fatality rate

relationships with our contracting community. We thus declared the co-ordination of health and safety activities a priority throughout the organization.

Strategic framework

A strategic review of internal and external processes identified three key focus areas -- fatality prevention, injury prevention, and safe production culture. It became very clear that zero harm is achievable, but that attaining it is a journey.

Lonmin went through an assessment (Figure 2) to determine the level of maturity and incorporate it into the safety strategy. It also became abundantly clear that effective contractor safety management also resided in these focus areas. The strategic review was implemented by a top-to-bottom review of the systems and processes, so as to enable the development of a fit-for-purpose model. From this a five-step framework was developed to operate across the entire Group so as to ensure a clear and standardized approach to contractor safety management.

The successful creation of this five-step framework called for the engagement and buy-in of various departments and champions. The framework clearly defines those departments' roles and responsibilities in the overall implementation programme.

Vendor / contractor relationship: standardization issues

When this process was initiated, Lonmin had relationships with more than 3000 vendors, and this number is still growing annually. Lonmin was, however, well aware that this growth in numbers was undesirable. Lonmin was also very conscious of its obligations in terms of its approved Social and Labour Plan. This plan required that Lonmin identify and develop new, local sources of supply for various goods and services, and support these suppliers on a continuous basis. Lonmin therefore had to develop a strategy to cope with this potential dichotomy.

This called for a critical examination of whether there was value in having so many vendors, bearing in mind that

each new vendor exposed the organization to further risk. It soon became perfectly clear that pre-qualification and approval of potential vendors was essential if the company was to mitigate its health and safety risks and at the same time meet its social and labour obligations. However, the Group itself had no standard pre-qualification processes in place to ensure that its health and safety requirements were met at the contractor level. Furthermore, this lack of standard pre-qualification extended to those already on the existing vendor list. A further consideration was the need for future health and safety assessments of all listed vendors on a regular basis. It was also noted that the earlier lack of Group-wide health and safety evaluation standards had, on occasion, led to frustration among individual contractors serving various business units. In short, we had to ensure conformable measurement of each and every vendor and on a continuous basis that would at the same time build and maintain vendor relationships.

One conclusion was therefore that health and safety performances of on-site contractors needed to be measured against Lonmin's own internal health and safety standards. This would also be taken into account when considering any future relationships with new and existing vendors. The results of these measurements would thus form part of any inter-departmental recommendations or criticisms of vendors i.e. vendor relationship management.

Lack of standardization is not simply a Lonmin issue. It extends across the entire mining industry. Individual contractors who worked for other firms as well as for Lonmin would often chafe at the lack of conformity across organizations on the same issues. The example of health and safety induction serves to illustrate how frustrations could arise. Normally, health and safety induction and on-boarding can take days and even sometimes weeks. The standing time for this process is very costly and at the end of the day the hiring company has to pay. When employees of contracting companies migrate from one mining company to another, their new induction period could be shortened if mines were to agree to accept a common training or induction, as there would be no need to repeat what has already been done. Furthermore, this would

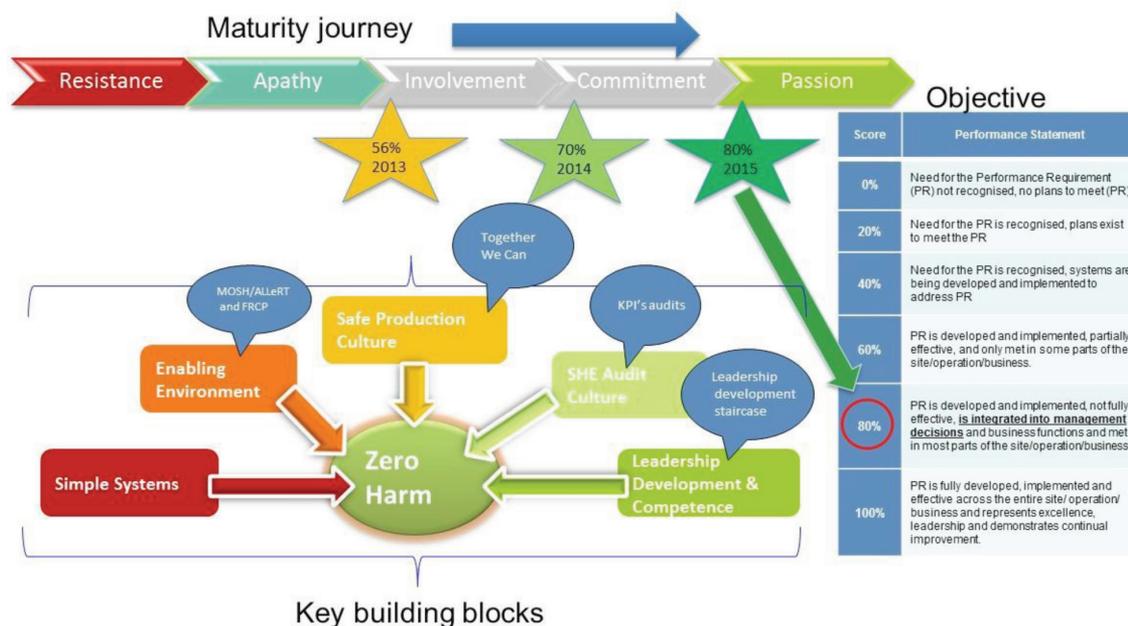


Figure 2. Lonmin growth in maturity to zero harm

provide the potential for appreciable savings of time and money for employees and employers. These frustrations were expressed by the contractors themselves and helped initiate discussions with our counterparts in other companies on the potential for health and safety standardization across companies as well as within companies. Reciprocity became the name of the game, and subsequently the need arose to establish an association to focus on standardization or benchmarking. This association would, however, need to be supported by industry, the DMR, and contracting partners.

Benchmarking

Benchmarking – a mechanistic comparison of our health and safety performances against others – was not seen as simply defining our performance in a league table. Rather, it was seen as a valuable aid in improving not only our own health and safety performance but that of everyone in the industry with a like-minded approach. This, in turn, called for informal as well as formal cross-company interactions. As Lonmin was setting out on its journey, we engaged with various external companies to compare and to share experiences as to the best ways of managing contractors sustainably.

We began by examining and visiting others in the field so as to determine industry-wide best practices and how they might apply to Lonmin. The companies and organizations visited initially were BHP Billiton, Sasol, and Enform (the safety association for the oil and gas industry in Canada). As our ideas started to crystalize, we followed up with visits to Xstrata Alloys, Eskom and, later, to DuPont. The visit to DuPont confirmed what we already knew intuitively -- change has to be championed by a committed leadership receptive to the need for change and determined to drive fresh strategies. An outcome of this benchmarking exercise was the establishment of a basis for a standard contractor safety management framework covering the entire contractor management lifecycle.

Stakeholder engagement and buy-in

It is almost trite to say that any change can give rise to resistance, and this is what we experienced. This is also clear from literature as described by Maltz, (2008), who states: *'since change is an inevitable part of organizational life, we believe that resistance is correspondingly inherent and should be reframed, explored and worked, not eradicated or fixed'*. Lonmin found that the first level of 'resistance' came from senior management as well as from some operational units, who were apprehensive of what change might mean to established relationships with known contractors. One-on-one interactions were a tremendous help in overcoming apprehensions or concerns that proposed changes might have detrimental outcomes.

These concerns were assuaged firstly by highlighting the gaps in the current processes and the risks associated with continuing as in the past. This was followed by elaborating on the benefits of the change process and how each and every stakeholder makes an equal and supportive contribution to the framework's successful implementation. Shortcomings in then-current practices were highlighted, as were the benefits of a standardized approach. This was complemented by emphasizing that inefficient and incomplete contractor management practices significantly increase the Group's health and safety risks and could, at worst, lead to serious injuries or fatalities (Figure 1).

Sharing best practices and the lessons learned was also encouraged. So, too, was indicating the benefits of this process and how every stakeholder makes an equal contribution to the successful implementation of the process.

Some of the other challenges centred on how this process could be integrated into the current supply-chain processes, specifically SAP. The implementation was designed to enable individuals and operations within the supply chain to screen potential vendors. That would ensure that the vendors met and continued to meet Lonmin's relevant health and safety requirements. This, in its turn, would allow individual sections of the organization to recommend to other sections which vendors they might use most advantageously and which they might best avoid. To this end Lonmin, together with Shanduka's Black Umbrellas, embarked on an incubator project for the development of local businesses. This programme would enable Lonmin to ensure that the health and safety requirements would be incorporated into the development programme for broad-based black economic empowerment (BBBEE) companies so as to support Lonmin's social and labour plan.

During the internal stakeholder engagement process a responsibility, accountability, consulting, and informed matrix (RACI) was developed so as to ensure accountability and acceptance of responsibilities by every stakeholder. The framework was piloted in business units that had, from the outset, been enthusiastic supporters of the change process. This helped identify stakeholders' needs that might otherwise have been overlooked, as well as in identifying potential flaws in the framework. The changes to the framework followed a management-of-change process to address all issues that might adversely affect the process.

Roadshows were held to gain inputs and to ensure buy-ins from all stakeholders. This was done at Group-level forums as well as in face-to-face discussions with individuals. Once formal Group-wide buy-in had been achieved, the process itself was formalized in a governance protocol. Ratification of this protocol by all departmental heads ensures a standard approach to contractor safety management and everyone's commitment to the new standards.

From these engagements with the various internal stakeholders – such as supply chain, security, information technology, human capital, health and safety professionals, medical services and, most importantly, operations -- a five-step framework evolved (Figure 3). It also became clear that this five-step framework would benefit the organization as a whole as well, facilitating Lonmin's social and labour plan.

The five-step framework

A five-step framework was developed covering the various stages needed for a satisfactory and complete interaction with a vendor. It covers pre-qualification, tendering, engagement, execution, monitoring, closure, and review. The framework is illustrated in Figure 3.

Step 1: Pre-qualification

Previous pre-qualification processes did not comprehensively include all health and safety requirements. We needed to change existing vendor application processes so as to ensure that health and safety became an integral part of the selection process.

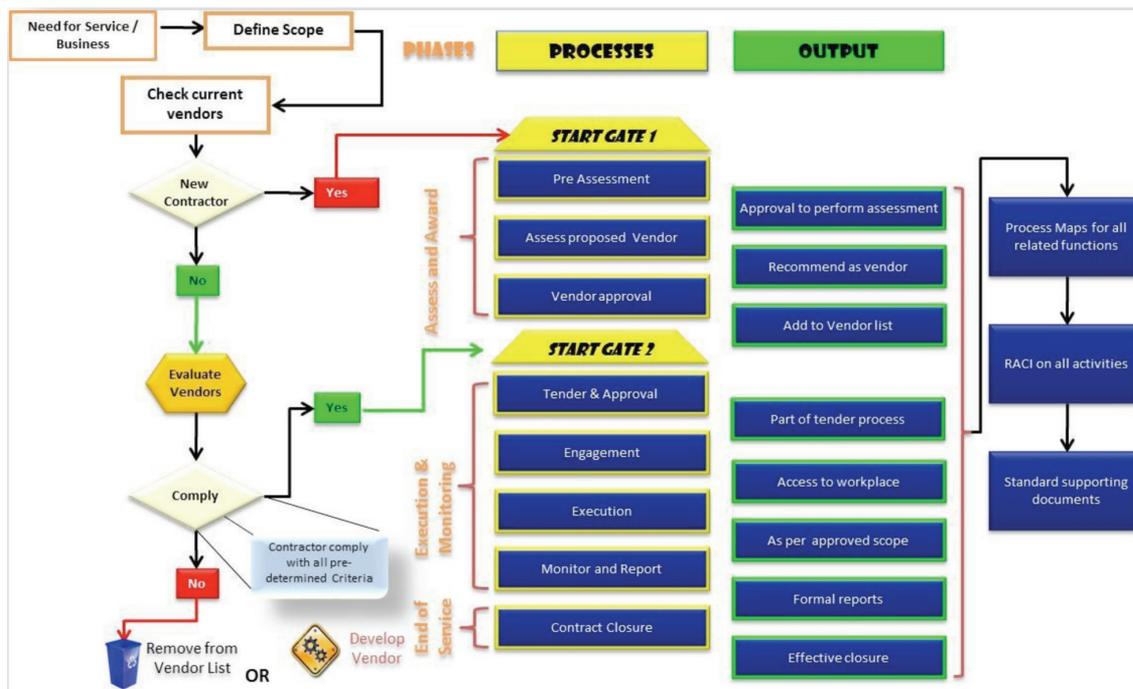


Figure 3. Flow diagram of the framework

The aim of this initial assessment is to screen prospective contractors so as to establish whether they have the necessary experience or the potential to deliver services safely and in an environmentally sound manner. Contractors who pass the pre-qualification stage must be fully capable of managing all health and safety aspects of the job.

The approval process takes into account the degree of risk associated with the services provided by a prospective contractor. Based on these degrees of risk, we developed an audit protocol to evaluate a contractor's ability to comply with Lonmin's health and safety requirements. The risk-based audit protocol is currently being extended to the more than 3000 existing vendors. Everyone is treated equally and this audit protocol has been linked to a compliance grading system that was a critical requirement in issuing what Lonmin terms a 'license to operate'. Any contractor failing to meet the 'license to operate' standard is offered the opportunity to reach that standard within a specified time and, if necessary, given assistance in gaining that acquisition through the Shanduka Incubator, what Lonmin also refers to as 'intensive or high care'.

Step 2: Tendering

Previously, the health and safety performance of a contractor was not fully considered during the tender adjudication process. Considerations were mainly financial, technical, and BBBEE. With the implementation of the framework the health and safety aspects became integral to tender adjudication.

The objective of this phase is to assess whether the health and safety plan/ health and safety requirements and the tender evaluation criteria have been met. Once they have, we are in a position to select (where necessary on the basis of clarification meetings) the successful contractor.

The health and safety requirements were now incorporated into the contractual agreements with the contractor to clarify legal liabilities and compliance

standards. Health and safety roles and responsibilities that are clearly defined in any contractual scope of work remain the responsibility of Lonmin line management. Essentially, we are working towards an ideal situation in which only contractors that have a 'license to operate' can be considered to tender for work.

Step 3: Engagement

The objective of this phase is to ensure that the prescribed engagement process is followed through the Lonmin Contractors Hub. This includes such basics as induction and medical examinations. The Contractors Hub was established in October 2009 to centralize management of the process of granting access to contractors to work at any of Lonmin's premises and to ensure compliance with the Group's safety standards. Lonmin line management is responsible for ensuring that contractors do not allow their employees to perform work or provide services beyond those that they are qualified and competent to perform as specified during the tendering phase. The contractor must then ensure that its employees understand all health and safety risks to which they may be exposed when performing specific tasks. This includes awareness and compliance with Lonmin's safety rules, policies, procedures, and site-specific health and safety requirements. A flow diagram of the Contractor Hub is illustrated in Figure 4.

Step 4: Execution and monitoring

The objectives of this phase are to ensure that the work to be performed is carried out in accordance with the agreed health and safety plan and that additional health and safety needs, which might be identified as work progresses, are properly addressed. Lonmin line management is responsible for monitoring safety performance and for auditing compliance by the contractor with the mutually-agreed requirements.

This phase is important to ensure that a contractor's

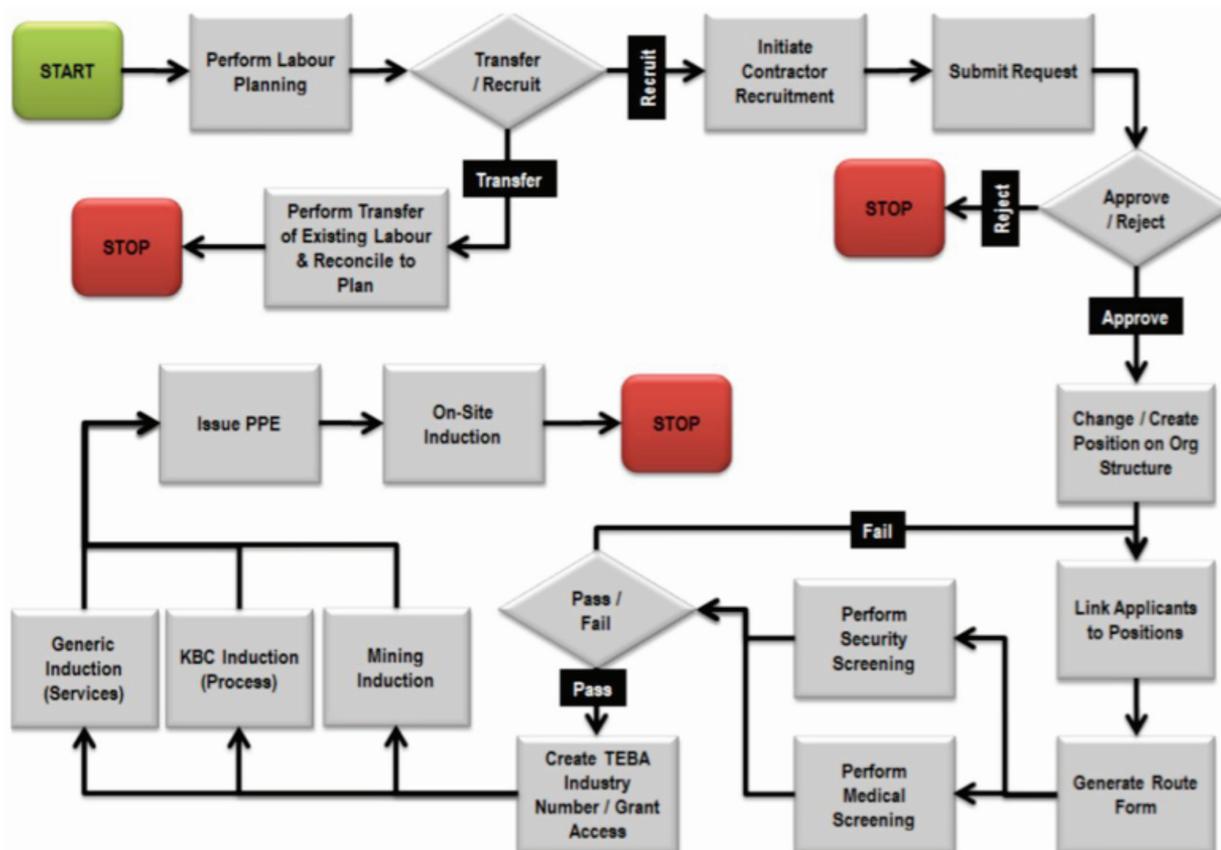


Figure 4. The Contractor Hub process

employees participate in the relevant health and safety initiatives such as safe behavioural observations and planned task observations or toolbox talks. Monthly meetings between supervisors, health and safety representatives, and the contractor are the norm for tracking progress and health and safety compliance. Should any significant non-compliance issues be exposed, the delinquent contractor will be refused entry to the site.

Step 5: Closure and review (performance evaluation)

The objective of this phase is to conduct a joint evaluation of the contractor's and company's health and safety performance at the conclusion of each contract. This will be used to provide feedback to the contractor and to the company as well as to provide information to be referred to when the contractor seeks another engagement. Lonmin will continuously review its relationships with its contractors taking into account the fact that continuation of individual relationships will depend on those individual contractors' satisfactory health and safety performances. Figure 5 is a brief summary of the five-step framework.

Application of the five-step framework

To apply the framework fully to all types of contractors, Lonmin developed a model based on the risks associated with the technical aspects of each task or service, measured against risk exposure based on the number of people and their time spent on site. It is evident that this model is sound and is also used in a similar fashion throughout other industries. This approach, which measured risks associated with different types of contractors, is divided into four different risk levels (Figure 6).

Benefits and best-practice initiatives

The full range of potential benefits has yet to emerge, but is expected to do so over time. However, at this stage of the new process the following important benefits have become clear.

Standardization provides a clear definition of how effective vendor management should be carried out by all departments so as to avoid potential misunderstandings. It also helps in measuring a contractor's performance objectively and militates against poorly-handled appraisals.

Lonmin has a well-established social responsibility programme which incorporates BBBEE initiatives. In terms of this, the group is committed to and understands the need for investing in the development of contractors' technical and health and safety capacities. This is particularly the case in disciplines where Lonmin faces shortages. Our social responsibility programme aligns with the DMR's Mining Charter and Lonmin's own social and labour plan.

An internal supplier-development task team has been formed to ensure that health and safety aspects are incorporated into the supplier development programme. This initiative will further equip the greater Lonmin community's suppliers and service providers with requisite business and technical skills. This is particularly the case in areas that are necessary for compliance and the normal functioning of contractors' businesses. This initiative will be incorporated into the small-business incubation programme.

During the preparation of this framework, interaction with our counterparts at other companies not only provide valuable insights but also led to mutual realization of the potential benefits of standardized approaches to vendor

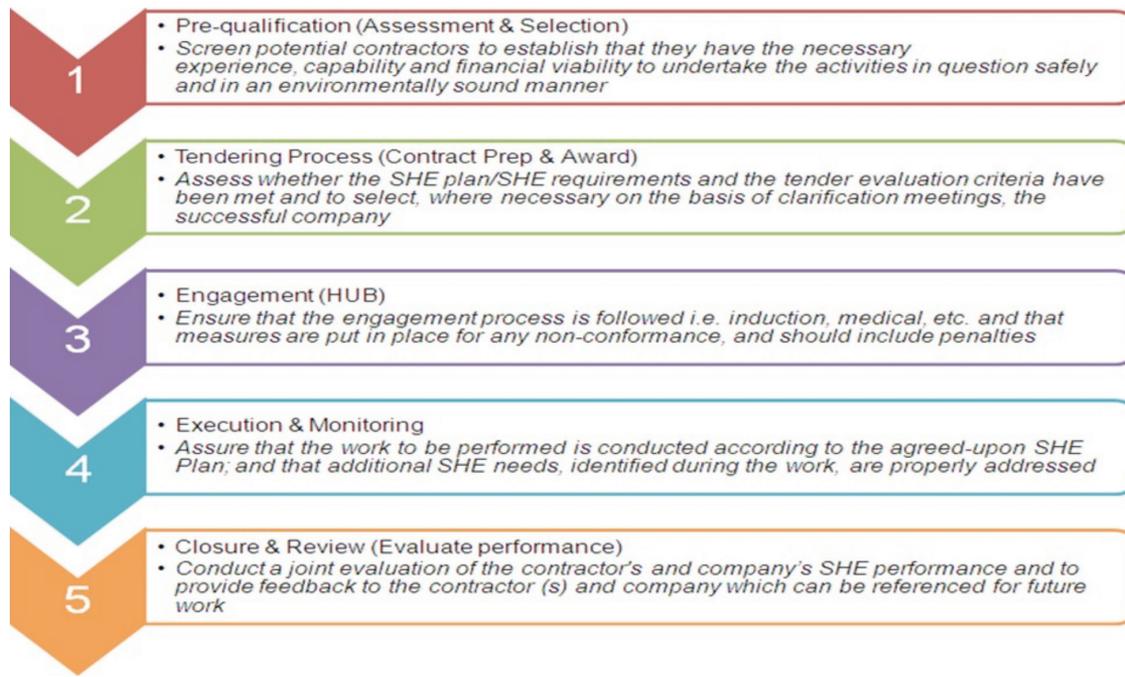


Figure 5. Framework summary

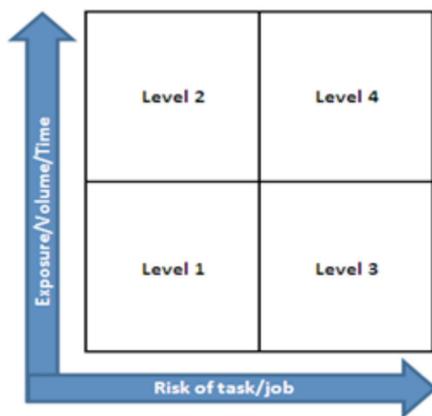


Figure 6. Contractors risk levels model

management. This, in its turn, has helped initiate a contractor management association -- a forum for exchanging ideas and for cooperation in developing new and better management techniques. Potential benefits from the new association emerged during discussions with our contractors and industry partners. Some of the potential advantages also emerged when contractors expressed their frustrations over the waste of time resulting from duplication of the health and safety requirements from company to company. Adopting an industry-wide consistent contractor management system makes good business sense for all stakeholders. It was evident that this collaborative initiative would lead to reciprocity agreements, standardization and, potentially, financial benefits to the industry as well as to contractor partners as a whole.

An additional benefit was the engagement process that improved for the on-boarding of contractors from 52 days to 7 days. This has a huge cost saving benefit to Lonmin

and also has a significant impact on the safety performance. The new framework is already proving beneficial as seen, to cite one example, during the initial as well as subsequent assessments of one of Lonmin's transport service providers. The contractor was under the impression that conforming to the previous health and safety requirements was sufficient. During his first assessment, however, the contractor realized that health and safety requirements had become more stringent and was, initially, somewhat resistant to the changes. When the potential benefits of the new system were explained and how safety performance would be enhanced the contractor became an enthusiastic protagonist of the new system. An improvement in safety performance resulted from adjustments in the way things were done – changes that would incur no additional costs, either to the contractor or to the company. There have been follow-ups by Lonmin management leading to further improvements in safety procedures. Whether the contractor can turn this improved safety record to an advantage in winning other business off the Lonmin property remains to be seen.

Results

Figure 7 depicts the overall contractor performance after the implementation of this framework. Supporting this improvement was the consistency on the performance requirements set by the protocol, monitoring processes, and audit verification tools.

Conclusions

Contractors are, and will remain, fundamental partners in our business, and it is imperative that these partnerships be reviewed on a regular and continuous basis. Lonmin constantly reviews its processes and strategies and makes the relevant improvements where they are shown to be necessary. One of the key outcomes of this process is that success is determined by the input and accountability of each and every stakeholder.

In 2011, most accidents on Lonmin's properties



Figure 7. Contractor performance

concerned contractors' employees, once again underscoring the importance of continuous monitoring and safety interventions. In response to these accidents Lonmin initiated a safety meeting with all stakeholders, including its unions. Among the key outcomes of the meeting was that the contractor management framework became an integral part of Lonmin's health and safety strategy. It goes almost without saying that all necessary energy will continue to be exerted to ensure the framework's successful implementation. To a significant extent the adoption of this framework has created a standardized approach to contractor management with all of the attendant mutual benefits noted earlier in this paper.

Incorporation of the health and safety requirements in Lonmin's development programme once again demonstrates the Group's commitment to the development of small businesses. We at Lonmin realize that we are, as yet, only progressing towards achieving world-class status in the field of contractor safety management. But we firmly believe that the implementation of this framework is an early step on the journey towards fully-effective management of one of the group's highest risk areas. And this, in its turn, is bringing us closer to our overall objective of zero harm.

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