

Risk management black hole in oil and gas supply chain

 By [Chris Bohill](#)

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Chief executives of oil and gas companies might not want to be reminded of this, but typically around 80% of their spend, personnel and HSE risk lie beyond their control, and in the hands of suppliers.

As a result, they are unquestionably exposed, probably personally as well as corporately, to legal challenges and compensation claims. There is, after all, nothing quite like evidence of inadequate management of risk to encourage litigants.

This is all because most operators are totally dependent on their supply chains for the day-to-day running of their business. This exposure, if not monitored and managed, can have disastrous consequences. All too often it is the name of the operator we read about in the press following an incident which occurred as a direct result of a problem within their supply chain.

And yet arguably, insufficient recognition is given to the risk the supply chain poses. The actual management of the supply chain tends to fall under the remit of the procurement / purchasing department who typically focus their efforts in ensuring the best possible contract terms for their company. Ensuring that suppliers continue to deliver on those agreed terms throughout the lifespan of the contract, let alone put in their best performance, is often over-looked or under-valued.

Senior management within the oil and gas companies may be given the clear impression that procurement has got things under control when it comes to the supply chain so the assumption is made that this encompasses management of supplier risk. Indeed it's easy to present onerous reporting systems and a plethora of data as management of risk. However, unless the senior management give supply chain managers and procurement teams their ear, any issues or process weaknesses are unlikely to end up on the board's radar.

We all know how things work in large oil companies. The senior management see the profits rolling in through the supply chain, procurement say they have all the relationships taped so who wants to rock the boat by asking too many questions?

The reality is, however, that this situation should be unacceptable to everyone involved: senior management themselves, procurement, the supply chain and - of course - shareholders, because unmanaged risk is patently toxic.

The root cause of the problem is a lack of understanding of supplier performance management, or perhaps more the rudimentary and blinkered way in what passes for it, is applied in many organisations.

For many procurement professionals, supplier management is synonymous with rigorous and complex contract

negotiations. On-going management is where the huge volume of data comes in. Anything that keeps the supplier on the straight and narrow and helps avoid issues such as regulatory non-compliance or personal and corporate liability claims and disputes, is deemed to be a good thing.

Equally, supplier management is not confined to a piece of software. Any technology is there to enable you to develop and run your own supplier management process. If the software becomes a drain on resources or a barrier to openness, communication and co-operation, then it is not doing its job.

In fact, software - while vital - is only one part of the mix. Proper supplier performance management is much more wide ranging, collaborative and relevant. The starting point should be: how can we work closely with our suppliers so that they share our goals, add value to our business now and over the long-term, help us to manage our risks in all areas and improve total cost of ownership?

The process for doing this should be simple and totally transparent. The only way that you manage the risk within the supply chain properly - or indeed any discipline - is to create visibility.

The next key principle is alignment of goals. The suppliers' goals and values must be aligned with yours. With suppliers having such an impact in the success of your business how can you achieve your corporate goals and objectives if your key strategic suppliers are not rowing in the same direction? The simple answer is you cannot.

At the same time, supplier performance management should drive the sharing of supplier innovation and application of best practices and continuous improvement, with the ultimate goal of becoming 'customer of choice', a key stepping stone in differentiating you from your competition.

KPIs do, of course, have a role to play. But it's important to use them both sparingly and highly selectively. KPIs should be the link between a company's corporate drivers and its large supply chain. They should encompass such issues as risk management/assessment, corporate social responsibility (CSR), health and safety protocols, communications, as well as quality, efficiency and cost expectations. A good supplier performance management partner should work around no more than 10 KPIs per supplier relationship.

It's not just large oil and gas companies that are starting to see the benefits of proper supplier management. In many cases, especially among the big players, the suppliers themselves are adopting systems and presenting them as a benefit to their clients.

This makes perfect sense as this approach offers a modern, co-operative alternative to the systems deployed by many procurement departments who are simply stuck in a rut. It's not their fault; it's just that with so much of a company's operations being run through the supply chain, systems based on complex contracts, numerous irrelevant KPIs and heavy-handed control are simply not what's required now.

The world has moved on and it's time to rethink the relationship between oil and gas operators and their supply chains. When the profits are pouring in, as they are now all over this industry, nobody wants to fix something that doesn't appear to be broken. But management of supplier risk within the supply chain and the development of suppliers as key strategic partners is key to ensuring corporate goals and objectives are delivered, safely and without incident. Supplier performance management provides the foundation for building such a relationship, while equipping supply chain managers with a global view of supply chain risk, and the tools to manage it effectively.

ABOUT CHRIS BOHILL

Chris Bohill is the vice president of consulting and product strategy at Biznet. Biznet specialises in supplier performance management (SPM), helping clients to optimise and continuously improve supplier's performance, by creating transparency, reducing risk and improving operational efficiency.

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