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From BP to Boeing, Supplier Safety Is the CEO's Problem

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By: Ben W. Heineman, Jr.

The current front-page sub-contractor [controversies](#) surrounding BP's liability for the gulf explosion and [Boeing's grounding](#) of its 787 Dreamliner should not obscure an ultimate take-away for corporate leaders: companies must take operational responsibility for ensuring that products and services provided to them by third party suppliers are safe, effective and of high quality.

In this era of complex supply chains and the hiring of expert sub-contractors, taking such responsibility is crucial for preventing events with the potential to adversely affect the corporation and its reputation. Business leaders must establish robust processes not just for qualifying third party vendors, but for making sure that there is integration of those suppliers in a strong safety culture with close company oversight of safety management and processes. This fundamental lesson may be lost on business leaders amidst the high profile excavation of past supplier controversies currently besetting BP and Boeing.

BP is, of course, currently in the eye of a media and legal hurricane as the Justice Department and other plaintiffs begin the trial on penalties under the Clean Water Act. These penalties can be as high as \$17-\$18 billion if BP is found grossly negligent (legally defined as egregious conduct beyond reasonable care with foreseeable adverse consequences) or to have engaged in willful misconduct (defined as intentional acts with adverse consequences). There are myriad legal issues in the BP case as it seeks to show that it was merely negligent and that its key contractors, Transocean (rig owner) and Haliburton (well cementer), were also responsible.

Boeing has been a huge business story this year due to the grounding of its new 787 Dreamliner for fires in ion-lithium batteries made by the Japanese company, [GS Yuasa](#). For Boeing, the questions at the moment are urgent but primarily technical: what caused the fires and how (and how soon) can the new plane become airworthy again. Backed up orders, lost revenue, angry customers, reputational injury and the success of the innovative 787 all turn on resolution of this dramatic problem.

In structuring relationships with third party suppliers, there can often be complex negotiations, and complexly worded documents, apportioning legal and economic risk. BP, for example, has itself sued Transocean and Haliburton seeking to spread the huge costs of the explosion at the Deepwater Horizon rig and the oil spill in the Gulf. But the judge in the current case [last year ruled](#) that BP had agreed to a clause indemnifying both sub-contractors for compensatory damages, while leaving open whether BP could collect from Transocean or Haliburton for fines, penalties or punitive damages imposed on BP.

But for all the effort to structure legal and economic issues after a disaster occurs, it is far, far better to address critical *operational issues* — relating to safety culture, process and management — to prevent one. **BP, or any other primary operator, must treat subs as if they were virtually part of the parent company and must take operational responsibility. Doing this right helps to avoid the endless, expensive, time-consuming and debilitating after-the-fact fights about who was at fault.**

BP has admitted as much in its now long-forgotten [report](#) on the Gulf explosion. As to events and causes, the report was, of course, one sided, admitting some fault but spreading the blame to others. In a little-noticed section on recommendations, BP effectively admitted, however, that it had not supervised key contractors properly. In this section (at p.181), BP said it should be responsible for:

- Developing better, clearer standards and processes for a range of activities in deep-sea drilling from cementing, to testing for leakages, to well control and general risk management.
- Significantly improving education and training of BP personnel to enhance capability and competency.
- *Implementing much greater oversight of contractors' current practices relating to cementing, well control, rig process safety and blow-out preventer design and safety.*
- *Requiring contractors to develop and implement audit-able safety processes, including identification of key indicators — processes which BP can review.*

This point was underscored by Exxon Mobile CEO [Rex Tillerson](#) in his [testimony](#) before the [National Commission](#) on the BP Deepwater Horizon Oil Spill. Following its issues with the Exxon-Valdez tanker spill, Exxon Mobile has the reputation for developing the best safety culture relating to oil and gas operations through what it calls the Operations Integrity Management System (OIMS). Said Tillerson:

And I want to stress that the contractors that we work with are embedded within our OIMS processes as well. We expect our contractors to be as knowledgeable and conversant with our OIMS processes as our own employees. Not every company has this expectation, but we have found that when everyone in the workplace speaks the same language of safety — employees and contractors alike — everyone can work collaboratively, safely and effectively.

Boeing is, of course, a far different situation — with efforts directed now at understanding and remedying the technical problems. But the Boeing case raises similar important questions about quality and safety, even if many, many facts are not yet known. Boeing itself has said that it made a mistake in outsourcing so much of the 787 because it caused coordination issues and delay. But clearly such fragmented outsourcing can also cause unintended and unseen safety and quality issues, despite the high standards to which air frame manufacturers are held.

Moreover, much of this outsourcing relates to suppliers in different nations with large airlines who may purchase the new plane. Although new aircraft have initial bugs which need to be worked out, the question raised by the battery fires is whether Boeing involved the Japanese manufacturer deeply enough in Boeing's own safety culture, processes and management, and whether it devoted enough time for proper oversight. Certainly, just the simple fact of the problem, which will cause a multi-month grounding of the plane, suggests that something was amiss in Boeing's contractor oversight somewhere in the design, manufacturing, assembling and testing processes.

It is unclear at this point what the resolution of the riveting, high visibility BP and Boeing controversies will be. But business leaders should nonetheless act on a core lesson from both examples: they must ensure that their corporations take full operational responsibility and accountability for the safety and quality of the goods and services provided not just by them, but also by third party suppliers.

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