Conducting Labour Risk Audits and Implementing a Labour Risk Management Programme in order to create and maintain Labour Stability

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SUMMARY

The main objective of this paper is to provide significant new knowledge and experience on conducting Labour Risk Audits and the implementation of Labour Risk Management Programmes in order to create and maintain labour stability and strengthen the operation’s social license to operate. Unsatisfactory labour practices and welfare conditions pose an operational and reputational risk to all projects, in addition to potential labour instability and the resultant negative effects on project and operational efficiencies, the perceptions of local communities and their future support during the operations phase could be positively or negatively influenced by the experience of local workers on site, which, in turn, could affect the project’s social license to operate. The Yemen Liquefied Natural Gas project (Yemen LNG) will be, at over $US4 billion, the largest project in the country’s history and utilised Labour Risk Audits and Labour Risk Management in order to create workforce stability and to retain and strengthen their social license to operate. At the peak of construction up to 12,000 workers of at least 60 nationalities were present on site, which in its itself posed unique challenges to the management of labour relations in a culturally diverse context. The Labour Risk Audits covered areas such as organisational design, human resources administration and the terms and conditions of employment, while Labour Risk Management focused on legal compliance in terms of Yemeni Labour Law and related legislation, welfare (i.e. camp standards, living conditions and catering), demobilisation of workers, and the monitoring of labour risk indicators (e.g. grievances). The paper describes the results and ratifies the need for Labour Risk Audits and Labour Risk Management on similar projects, as all could benefit from a stable and productive workforce, which in turn will also enhance the company’s reputation and ensure a continued social license to operate.

1. Introduction and background

In August 2005 the Yemen Liquefied Natural Gas Project was launched. This project involved the piping of natural gas from Marib through a 320km pipeline to the Balhaf liquefaction plant. Construction of the pipeline and plant commenced and thousands of employees were recruited both locally and internationally depending on the contractor and skills requirement. In Balhaf the lead Contractor of Yemen LNG appointed 11 subcontractors to complete the construction of the natural gas plant. At its peak the number of employees on the construction site was up to 12,000 and they were housed in 11 different camps. The financing of the project was done by the shareholders as well as secured loans from various banks and export credit agencies. A lending requirement involved certain labour standards which had to be in place. As the project evolved it became apparent that a number of labour risks would be faced in terms of meeting lender compliance terms. To assess the situation objectively it was decided to conduct labour audits.

2. Labour Risk Audits

In July 2007, Yemen LNG Company commissioned an independent labour relations risk audit of their two main construction EPC contractors, namely the lead contractor including its eleven subcontractors for the plant (Balhaf), and the contractor for the pipeline, including its one subcontractor. The consultants were briefed to audit current human resource and labour relations activities and practices and to provide Yemen LNG with recommendations for
the way forward. The outcome of the first audit was presented to the main contractors and all sub contractors. In February 2008 a follow-up audit was requested by Yemen LNG on the Balhaf Plant.

Both Audits were conducted in terms of:
- The Yemeni Labour Code, Act 5 of 1995;
- Yemen LNG Policies and Procedures;
- International Labour Organisation (ILO) standards

2.1 Approach

A qualitative approach and an adapted hierarchy of needs (Maslow) were adopted by the audits to determine challenges and the level at which these were experienced. “A three-tier approach to the methodology was used: first obtaining the views and perceptions of management, second those of employees and third verifying these views and perceptions against available records and documentation and against physical evidence, photographically recorded, at the campsites” (Golder Associates Report No: 10336/11432/4/E, April 2008).

2.2 Methodology

The following methodology was followed in conducting the audits:

- Preparatory meetings with both Yemen LNG and its EPC Contractor/subcontractors;
- Data collection was done through:
  - “A sample quantitative survey of management and administrative representatives (43) of the main contractor and 11 subcontractors.
  - A sample quantitative survey of 20 employees per main contractor and the 11 subcontractors. This resulted in 240 completed employee questionnaires.
  - Reviewing records, documentation and payrolls made available by the main contractor and subcontractors.
  - Supplementing the audit data with data from Yemen LNG’s Health and Safety Audits (Balhaf) as well as medical statistics.

A transect walk of the campsites, a limited photographic documenting labour-related activities and off-site compilation of a photo library” (Golder Associates Report No: 10336/11432/4/E, April 2008).

3. Welfare Action Plan

After the first audit results were produced, a welfare committee was established at senior level to address the concerns and challenges highlighted in the audit. The welfare committee was seen to be the solution and this committee compiled an action plan to deal with the problem areas highlighted by the audit. The welfare plan sought to address the following areas:

3.1 Organisational Issues
- Job Descriptions and organisational charts
- Policies and Procedures
- Contracts of Employment
- Social Security Cards
- Induction Programmes
- Employee Representative Bodies
- Codes of Conduct

3.2 Administrative Issues
- Payroll and pay slip issues
- Leave tracking
- Overtime and time off rules
- Probation periods
- Minimum wage levels

3.3 Employee Wellbeing
The second audit took place in February 2008 to reassess the situation and whether there had been improvements. The results and comparisons between the two audits follow in Table 1:

Table 1. Comparison between audits conducted.

<table>
<thead>
<tr>
<th>Audit Area</th>
<th>2007</th>
<th>2008</th>
<th>Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational design and structure</td>
<td>Unsatisfactory</td>
<td>Mostly Satisfactory</td>
<td>Improved</td>
</tr>
<tr>
<td>Employee policies and procedures</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory with some progress</td>
<td>Improved</td>
</tr>
<tr>
<td>Communication systems and structures</td>
<td>Unsatisfactory</td>
<td>Fair</td>
<td>Improved</td>
</tr>
<tr>
<td>Employment contracts</td>
<td>Fair</td>
<td>Unsatisfactory</td>
<td>Worse</td>
</tr>
<tr>
<td>Succession, relief, contingency, disaster recovery planning</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td>No change</td>
</tr>
<tr>
<td>Codes of conduct, ethics, values</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory with some progress</td>
<td>Improved</td>
</tr>
<tr>
<td>Time and attendance systems</td>
<td>Mostly satisfactory</td>
<td>Fair</td>
<td>Worse</td>
</tr>
<tr>
<td>Leave</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td>No Change</td>
</tr>
<tr>
<td>Induction</td>
<td>Mostly unsatisfactory</td>
<td>Unsatisfactory but with progress</td>
<td>Improved</td>
</tr>
<tr>
<td>Recruitment and selection</td>
<td>Mostly satisfactory</td>
<td>Mostly satisfactory</td>
<td>No change</td>
</tr>
<tr>
<td>Probation management</td>
<td>Mostly satisfactory</td>
<td>Mostly satisfactory</td>
<td>No change</td>
</tr>
<tr>
<td>Performance management</td>
<td>Unsatisfactory</td>
<td>Fair</td>
<td>Improved</td>
</tr>
<tr>
<td>Disciplinary &amp; Grievance procedures</td>
<td>Unsatisfactory</td>
<td>Fair</td>
<td>Improved</td>
</tr>
<tr>
<td>Payroll systems</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory with some progress</td>
<td>Improved</td>
</tr>
<tr>
<td>Overtime management</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td>No change</td>
</tr>
<tr>
<td>Tax &amp; social security</td>
<td>Fair</td>
<td>Unsatisfactory</td>
<td>Worse</td>
</tr>
<tr>
<td>Vocational &amp; job related training</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td>No change</td>
</tr>
<tr>
<td>Management and HR skills</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td>No change</td>
</tr>
<tr>
<td>Competency profiling and assessments</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td>No change</td>
</tr>
<tr>
<td>Employee wellbeing</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td>No change</td>
</tr>
<tr>
<td>Cultural diversity management</td>
<td>Fair</td>
<td>Fair</td>
<td>No change</td>
</tr>
<tr>
<td>HSE audits</td>
<td>Mostly unsatisfactory</td>
<td>Mostly unsatisfactory</td>
<td>No change</td>
</tr>
<tr>
<td>Accommodation and sanitation</td>
<td>Mostly unsatisfactory</td>
<td>Mostly unsatisfactory</td>
<td>No change</td>
</tr>
<tr>
<td>Food</td>
<td>Mostly unsatisfactory</td>
<td>Mostly unsatisfactory</td>
<td>No change</td>
</tr>
<tr>
<td>Camp maintenance, housekeeping and recreation</td>
<td>Mostly unsatisfactory</td>
<td>Mostly unsatisfactory</td>
<td>No change</td>
</tr>
<tr>
<td>Medical Services</td>
<td>Mostly unsatisfactory</td>
<td>Mostly unsatisfactory</td>
<td>No change</td>
</tr>
<tr>
<td>Employee files and documentation</td>
<td>Mostly unsatisfactory</td>
<td>Mostly unsatisfactory</td>
<td>No change</td>
</tr>
</tbody>
</table>

These audit results did reflect some improvement but many of the challenges remained and were not effectively addressed. In some instances the areas of concern worsened which increased the labour risk for the project. At this stage it was decided that specialised resources be brought in to address the labour risks facing the project.
4. Labour Risk Management Support

4.1 Approach

4.1.1 Prioritising the Audit findings

The Labour Risk Consultants analysed the audit findings in the context of a construction site so as to prioritise which of the labour factors audited posed the greatest risk and what workable interventions should be put in place. The key areas of the audits were therefore analysed in terms of the risks that they posed to:

- **Workforce stability** – the propensity to cause industrial action amongst the workers
- **Reputation** - the affect on the reputation of shareholders and lenders
- **Productivity** – the effect on worker productivity

Combining these three elements would highlight which HR practices posed the highest risk to labour stability at the site. One could argue that all of the areas measured posed a risk and even though this is true to a certain extent the limited resources created an imperative to focus on those issues that posed the biggest risk.

4.1.2 The Balhaf construction site and inherent labour risks

Besides prioritising the labour audits the consultants highlighted a number of inherent risks which provided a context for the later formulation of an action plan. These risks are described below.

Balhaf as a construction site involved the temporary employment of up to 12,000 people at a time. These employees comprised in excess of 60 nationalities. Half of them were local Yemeni employees of which the majority had found employment for the first time. This employment situation with large numbers of employees from different cultures and languages and values and standards all went to creating challenges when implementing plans to improve HR practices. Especially challenging was the difference in accommodation and food expectations and perceptions. Added to this was the temporary nature of the latter which further complicated matters.

The working conditions on site also posed unique challenges. Due to the nature of construction a mass of heavy machinery and equipment is in use at all times posing many challenges for the safety of employees. This coupled with many first time employees such as the Yemenis posed an even greater potential risk. Due to the location of the site the summer conditions were extreme with high humidity and temperatures of up to 45 degrees Celsius.

Project deadlines placed pressure on all employees and management. This pressure was exacerbated by long hours and long work rotations. In some instances sub contractors only allowed their workers their first leave after 12 months. The working hours were such that the only time off was on a Friday afternoon and even then many employees worked so as to benefit from overtime.

Due to the security situation in the country the site was enclosed by two fences. The outer one patrolled by the military and the inner one managed by Yemen LNG. This confined the movements of employees and especially expatriates were not readily allowed outside the perimeters of the fences. This added to the psychological pressure and feeling of a lack of recreational opportunity and freedom of movement.

Outside the fence was a country that was in political turmoil with high levels of unemployment and security risks for foreign workers. Local employees on site knew that their chances of getting employment once the project was completed were extremely slim. This resulted in Yemeni employees doing everything they could to extend their job term and to demand increased benefits.

The Labour Consultants prioritised the labour audits, took into consideration the inherent labour risks on site and then assessed the contextual challenges facing them to bring about change that would reduce the propensity of employees to embark on industrial action.

4.1.3 Contextual Challenges for the Labour Risk Consultants

The responsibility of building the plant was in the hands of the EPC Contractor. As such this contractor had the responsibility of managing all the sub contractors and their activities. Yemen LNG being the operating company had the overarching role of ensuring that the Contractor performed according to contract. In terms of Human Resources this posed a challenge for the labour consultants as one of the major challenges them was one of building trust and getting the co-operation of the relevant Contractor personnel. Without this it would be difficult to implement change as this would be undermined at all levels.
In the light of the labour audits, the inherent Balhaf labour risks and the contextual challenges, the labour consultants set about developing a plan that made business sense and that would mitigate the risk factors described above.

4.2 Methodology

4.2.1 Action Plan to Mitigate Labour Risks

The plan formulated to mitigate risks evolved out of the above and focussed on four key areas:

4.2.2 Camp Management: To monitor welfare indicators to mitigate labour risks in the camps

The single biggest challenge to labour stability revolved around the management and standards in the contractor camps. When food and accommodation were perceived to be sub standard, demonstrations took place by employees to vent their grievances. The camps were areas where large numbers of employees were gathered and hence they posed a risk of mass actions should there be collective dissatisfaction. Even grievances from the workplace could spill over into the camps where employees could use food and accommodation issues to vent overall frustrations and then demonstrate. These factors made competent camp management all the more important for labour stability.

The HSE audits which were conducted by YLNG on a monthly basis reflected many inadequacies in the camps. What these audits failed to do was reflect the causes of the breakdowns. In the light of this the labour consultants together with the Contractor camp personnel set about conducting interviews with all the sub contractors’ camp management. The questionnaire was designed to get to the real causes of the breakdown in standards. Using the results of the interviews and the HSE audits an action plan was developed to address camp management challenges.

Underpinning all the actions as described above was training. It was clear from the interviews with camp management that a lot of the breakdown in standards was due to a lack of competence. A training programme was instituted with all camp management and was attended by on average 42 delegates per workshop. The workshop topics covered the following:

- Basic Management Skills – Role of the Camp Boss
- Conflict Management
- Customer Service
- Maintenance Management
- Catering Management
- Industrial relations
- Camp Safety and Hygiene
- Communications – Conducting Effective Meetings

Following the training a significant rise in standards was evident.

4.2.3 Demobilisation: To manage the demobilisation process to ensure legal compliance and to minimise labour unrest

Due to the temporary nature of the construction phase employees come and go to meet construction demands. In terms of foreign labour this did not pose a serious threat, but in terms of local labour this posed a serious labour risk. Yemeni employees being demobilised would do their utmost to stay on, as well as to demand better conditions of employment. Their chances of being employed once they are demobilised is remote, hence their reluctance to leave the site.

4.2.4 Labour Risk Monitoring: To obtain relevant information on all incidents to understand the industrial relations landscape

Part of understanding the labour relations “temperature” on site would be to monitor incidents relating to discipline, grievances and industrial actions. These statistics would guide the labour consultants as to which areas were problematic for employees and needed to be resolved to reduce the labour relations “temperature”. An action plan to glean these statistics was put in place.

4.2.5 Labour Compliance: To ensure that all sub contractors comply with the Yemeni’s Labour Legislation

The Yemeni Labour Legislation is not well enforced but the labour audits revealed that some of the sub contractors
were not compliant with the law. Shortly after the audits many letters were sent to the delinquent sub contractors about their breaches. The labour consultants continued with prima facie audits as described in the following action plan

5. Lessons learnt

5.1 Camp Management

The concept of acceptable standards as described in the contract between the contractor and the client left much which was open to interpretation. It is of utmost importance for standards as they apply to employees to be clearly defined and that contractors are bound to these standards. This should happen at the contract formulation phase to ensure consistent and acceptable standards to all parties. It is therefore our view that a charter be developed that describes in detail minimum standards that are required by contractors in terms of human resources, human resource practices, camp infrastructure and camp management practices.

Consideration should also be given to establishing certain central facilities, such as recreational and shopping facilities, which could be shared by all on site. This would alleviate the problem of differing standards and costs could for instance be recuperated by directing subcontractors to either contribute on a lump sum basis or to implement a pay per use system. Camp layout also plays a big role in creating a conducive atmosphere for work and recreation.

5.2 Demobilisation

A well defined policy and procedure in place at the commencement of the project would do much to ameliorate industrial action around demobilisations. The policy should include items such as the demobilisation of local employees. Demobilisation of locals should, as far as possible, be done as late in the construction phase as possible. This would demonstrate to the local employees that the company has their best interests at heart. This in turn would strengthen the company’s social license to operate.

The procedure should also be introduced at an early phase and contain a detailed communications plan that contractors would follow to ensure that the Yemeni employees who are to be demobilised understand the timing and reasons for such demobilisation. It should also describe in detail the payments to be expected. This procedure was put in place but only after some 2500 Yemeni employees had already been demobilised.

5.3 Legal Compliance

Contractors should be made aware at the start of a project that they will be audited in terms of the prevailing labour legislation and the company charter as part of their contracts. Sanctions should be in place where contractors break the rules.

6. A Social License to operate

It is undeniable that an enterprise of this nature has a symbiotic relationship with the communities in which it operates. Besides good Labour Risk Management, recruitment and procurement practices need to reflect this relationship in support of other sustainable development interventions. Only when synergy in this realm is achieved, would the organisation also receive a social license to operate from these communities, as Figure 1 clearly illustrates.
Figure 1. Symbiotic relationship between Balhaf and communities

Social License to operate \ Good Neighbourliness

Local Economy
Procurement
Capacitate local suppliers
Source locally

SMME's
ID Potentials
Train & Develop

Jobs
Contractors

Project
Current Labour Risk Mitigations
Camps (ops & contractors)

Inspections
Standards & Indicators
Recreation
Training

Demobilisation
Labour risk indicators

NA
Continue

Grievances
Lost Hours
Disciplinary

Legal Compliance Audits
Strategic Relationships

Continue
Continue
Continue

Balhaf

Operations
New Labour Risk Mitigations
Training

Continue

Managing in a multicultural environment
Conducting disciplinary enquiries
Conducting grievance enquiries
Conflict management\strike handling

Procurement Strategy & Policy
Develop local suppliers\SMME's
Support local business

Contractor Recruitment Strategy & Policy
Strategy
Policy & procedure

Communities

SUSTAINABLE DEVELOPMENT STRATEGY
7. Conclusion

The Balhaf project commenced in August 2005. At the peak of this project some 12,000 people were employed from more than 60 different countries. These people were housed and fed on site and worked long hours in a pressurised work environment with difficult safety and climatic conditions and limited recreation outside the site. In spite of this difficult and challenging human resource environment, initially not one Human Resources specialist was employed on site to offer advice and guide the project management through the quagmire of labour relations risks.

Without any doubt future projects such as the Balhaf one should include Human Resource specialists at the outset. They should be part of a team that sets standards for all Human Resource practices that are in keeping with the relevant ILO Conventions and Human Resource best practice. This should be done irrespective of the prevailing labour legislation in the country of operation.

In conclusion the use of Human Resource specialists at the outset of the project will have the following important business benefits:
- A clear identification of labour risks and then appropriate plans to mitigate these risks.
- Proper and policed standards for contractors that will ensure that the appropriate legislation is adhered to and that employees are treated equitably and fairly.
- Allowing operations to focus on their deadlines with well managed labour risks.
- Maintaining a reputation as a fair employer and thereby sealing a social license to operate.

8. Reference list


9. Biography CHRISTO KLOPPERS

Christo has a Masters degree in Business Administration and has been involved in Labour Risk Management, Organizational Development, Human Resources and Training in the private and public sectors for 20 years. His experience in the private sectors covered the broad Human Resources field and he has conducted management training in the public sector. He has consulted and worked internationally in various industries, most notably in the Oil and Gas and Mining sectors, and his business philosophy is that human resources policy, practices and interventions should be aligned to the organizational strategy and adds value to the bottom line. He is currently consulting for Yemen LNG in the field of Labour Risk Management.

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Robert Hirst

Biographical Details

Robert is presently the Corporate HSEQ Manager for the Yemen LNG Company, based in Sana’a. He manages all aspects of health, safety, environmental, Lender relations, labour relations and quality compliance for the Company. Robert has 30 years experience in the energy industry, having worked in a variety of roles in Design, Engineering, Commissioning and Procurement in both the nuclear and petrochemical fields, before moving into the HSE discipline, first (in 1992) as a part of the UK Government’s Offshore Health & Safety inspectorate, then latterly (in 2001) for Total E&P in the UK North Sea, being responsible for all H&S aspects on UK operated assets, before being expatriated to Yemen. Robert has a BSc (Hons) in Engineering, a Post Graduate Diploma with Distinction in H&S management and a Masters Degree with Distinction in Behavioural Psychology. He is married to Mary and has 3 children (Greg, Fiona & Felicity) and his main leisure interests are collecting rare motoring and motor racing books and restoring and riding his collection of six motorcycles.