

## Using Maintenance Contractors Effectively

Written by Ron Moore, The RM Group  
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In many organizations, a heavy focus on cost cutting has led to a greater emphasis on the use of contractors as a potential solution for high labor costs. In recent years, maintenance in particular has received increased attention for replacing employees with contractors. This strategy is often not as successful as anticipated.

The use of contractors in most manufacturing plants and facilities has been a sore point with the skilled trades, particularly in a strong union environment. While some of this may be normal tension between the shop floor and contractors, particularly during a time of downsizing, the intensity appears to be growing as more contractors come into use. Further, many skilled trades working in chemical plants or other hazardous areas express concerns related to the training and capabilities of contractor personnel.

Are contractors appropriate for a given manufacturing organization? The answer is clearly yes. Contractors play an important role in most organizations. However, caution is urged for those organizations that are simply trying to cut costs, and therefore rely on lower head count and/or lower charge rates from contractors.

The real question is how do contractors support corporate goals related to manufacturing excellence, such as uptime, unit cost of production, safety performance, or maintenance cost as a percent of plant replacement value. What risk is run in using (or not using) contractors relative to these goals? What specific roles are best suited for contractors? How are these integrated into an overall strategy? Does a cost-cutting strategy work?

### **Cost-cutting strategy is weak**

According to a Wall Street Journal article (7/5/95, pg 1) covering several hundred companies over a five-year period, a cost-cutting strategy has only a 50 percent chance of improving productivity and only a 33 percent chance of improving profitability. Similarly, "The Age," an Australian newspaper, reported on August 15, 1996, that the U.S. Conference Board noted that in those companies who have undergone major restructuring:

- 30 percent experienced an increase in costs
- 67 percent showed no immediate increase in productivity
- 50 percent showed no increase in short-term profits
- 22 percent later discovered they had terminated the wrong people
- 80 percent experienced a collapse in morale.

Does a cost-cutting strategy work? Perhaps, but not for most companies, according to these

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data. For example, a cost cutting strategy may be essential if a company is in dire straits. However, a more important question is what practices and processes should be put in place so that costs are not incurred in the first place. That is real and sustained cost cutting.

Some of the best companies long ago changed their focus from traditional cost cutting to managing their manufacturing processes to assure excellence. They also began to view maintenance as a reliability function, not a repair function, and as a core competency for manufacturing excellence. For example, in a presentation at a Strategic Industry Research Foundation meeting in Melbourne, Australia, in mid-1996, Vince Flynn, chairman of DuPont's Corporate Maintenance Leadership Team, stated:

"As a result of our global benchmarking efforts, we have shifted our focus from cost to equipment reliability and uptime.

"Maintenance's contribution to uptime is worth 10 times the potential for cost reduction. Realizing this tremendous resource has helped make uptime our driving focus for future competitiveness rather than merely cost reduction. Through our push for uptime, we want to increase our capital productivity 10 percent, from 80 to 90 percent, in the next several years.

"We value this 10 percent improvement as equivalent to \$4 billion in new capital projects and replacement projects for the global chemicals and specialties portion of DuPont."

Replacing the maintenance function (or any function for that matter) with contractors may not be the proper strategic decision. For example, should a plant replace its operations function with contractors? Its engineering function? Its accounting function? Are these functions considered core competencies? Should not the years (perhaps decades) of experience developed by the maintenance function be considered a core competency?

### **When to use contractors**

At many manufacturing organizations, maintenance is indeed coming to be viewed as a core competency for manufacturing excellence, which is as it should be. Given this, what is the proper use of contractors? Good contractors have a place in most organizations, and these points are offered as a model for when they should be used:

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- For doing the low-skill jobs such as landscaping or custodial duties which are not part of a company's core competency.
- For doing such high-skill jobs as turbine generator balancing or machine tool installation and qualification, where the skill is not routinely used and cannot be justified on a routine cost basis (and the individuals with these skills often leave to make more money working for contractors).
- For supporting major overhauls and turnarounds, when keeping the level of staff required to support annual or biannual efforts is not economically justified.
- For emergency situations, when the workload overwhelms the existing capability.
- For other situations where the use of contractors is clearly in the best interest of the business.

Further, contractors must be held to the same high standards as employees for safety performance, verifying the quality of their installation and commissioning work, and housekeeping at the conclusion of a job.

### **Potential conflict of interest**

Consideration should be given to the potential inherent conflict in using contractors for maintenance. One of the goals with any business is to have it grow, and it is reasonable to conclude that a given contractor's goal is to increase its business by increasing revenue. As a result, there could be considerable temptation to increase the maintenance effort, rather than focus on long-term equipment reliability for reducing the maintenance effort (and revenues) over the long haul.

At the very least, the contractor's enthusiasm for reducing the long-term level of maintenance effort could be diminished by a desire to improve its own business.

This is not to say there is anything dishonest or wrong with this inherent desire. Indeed, in many organizations, the maintenance department often puts forth a large backlog as proof of the need to retain a given number of employees, sometimes without a careful analysis of why such a large backlog exists or of the benefit of actually doing a long overdue backlog. It is just human nature to want to protect one's job and/or to increase business, and caution should be exercised regarding this issue when hiring contractors.

Companies should also consider that a contractor may be less likely to have the same level of

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loyalty to the company as its employees, particularly if the management of a company exercises clear leadership and creates an environment supportive of mutual company-employee loyalty. Such a condition requires mutual trust and respect.

Properly organized and directed, a good operations and maintenance organization can offer greater loyalty to the company, and can outperform a contractor in core competencies over the long term. Measuring uptime or overall equipment efficiency, and defining the causes of losses from ideal performance, in a team environment with maintenance and operations working with a common sense of purpose and toward common goals is more likely to be successful when the company views operations and maintenance as a core competency.

Concurrently, however, employees within the organization must recognize that they are competing with contractors, and therefore must constantly seek to add greater value--better equipment reliability, higher uptime, lower unit cost of production, or improved safety--than might be done by a contractor.

Finally, it is recognized that this article does not cover all circumstances wherein contracting any given function may be appropriate, such as in a greenfield situation, or when costs are truly extraordinary, or in a situation of intransigence with several different unions at one site.

Applied judiciously and integrated with existing maintenance employees, contractors can make an exceptional addition to any manufacturing team, and they must be held to the same high standards as the balance of the organization, one which is hopefully seeking to achieve world-class performance. **MT**

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### Contractor Selection Check List

The following issues are among those that should be considered prior to engaging a contractor to perform major maintenance work:

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- Define the scope of work in light of the specific contract type: lump sum-fixed price, time and material, cost plus incentive fee, among others
- Define the experience or expertise required, including any licenses or skill certifications
- Determine the contractor's track record with the organization, as well as other skills required, such as the following:
  - Business administration
  - Project management
  - Quality assurance
  - Safety management
  - Planning and scheduling
  - Cost control
  - Timely completion
  - Subcontractor relationships
  - Internal conflicts
  - Housekeeping, especially at job completion
  - Engineering and reliability improvement skills
  - Quality of work--equipment life, unit cost, and so forth
  - Define working relationships
  - Functional level
  - Flexibility
  - Personnel compatibility (at multiple levels)
  - Cultural compatibility
  - Determine internal and external union agreements compatibility
  - Record on harmony or disharmony, as in grievances or strikes
  - Process for handling conflicts
  - Determine capability, availability
  - Define terms and conditions
  - Include ownership for results, warranty of quality
  - Payment terms
  - Define scope of work
  - Basic requirements
  - Effect desired and value added
  - Boundaries
  - Investigate financial issues
  - Contractor's reputation regarding contract disputes, add-ons
  - Contractor's financial strength
  - Basis for resolving disputes
  - Research safety, health, and environment issues
  - Historical performance record
  - Current policies and practices
  - Current safety training
  - Check compatibility with company administrative systems
  - Time sheets
  - Work orders
  - Accounts payable
  - Reporting systems

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- Determine accreditation
- Systems in use for company
- Systems in use for individual employees
- Assess attitudes
- Supportive of company business goals--value added
- Measurement systems in place for this
- Protect ownership of intellectual property
- Drawings
- Process technologies
- Patents