

# Getting the most out of your contractors



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**T**HE EFFECTIVE MANAGEMENT of contractors is a major issue for businesses around the globe and particularly in mining today where many companies have seen a 30 to 50 per cent increase in their mining costs.

Are you asking yourself these kinds of questions:

- Are we engaging too many contractors?
- Are we getting full value for the money we're spending?
- Do we know enough about contractor usage across our operations?
- Is there a risk that safety management may not be as good with our contractors?
- Are we seeing regular and useful reports on contractors?

If you are asking these questions then you are not alone. And you are correct in thinking that there are significant risks and costs associated with contractors.

It feels like a complex problem but there are four simple things you can do to control your contractor spend and minimise risks.

## 1. Collect data

The old dictum "if you can't measure it, you can't manage it" applies here just as much as it does to any other aspect of your business. To start the process you need to know how much is spent on what services, on what contractors and by which departments. If the data isn't readily available, then you need to put tracking in place.

## 2. Apply controls

Change your site managers' behaviours and mindsets so they spend money as if it was their own. Depending on the level of cost knowledge and control at particular sites, any combination of three simple controls can be used to help produce a change in culture. They are as follows:

**Gate Control** – work tends to be found for contractors if they are on site. The best way

to control this discretionary spend is to allow only authorised workers onto the site (or onto the plane on fly-in, fly-out sites, and ensure they leave as soon as the work is completed).

**Authorisation Processes** – in order to rapidly embed a culture of knowledge and accountability, institute a lower than normal authorisation limit for contractor spend. Having to "go to the GM" for approval forces managers to get in touch with what they are spending, to coach their subordinates to critique and challenge spend, and finally to reinforce the importance of cost control. Once a "culture of knowledge and accountability" has been achieved, limits can be increased and people managed against budget. Standard authorisation forms also typically need to be modified, and authorisations fed into the gate control system so that access is dependent upon authorisation and restricted to a time frame close to estimations of time required.

**Gate Contractor Tracking** – most sites track contractor spend through the accounts – leading to a significant lag between actual use and reporting and review. To achieve the required behavioural change, this lag needs to be compressed by reporting weekly on a leading indicator like contractor hours or committed spend. In this way, gate tracking enlivens the feedback loop and helps hold managers to account for usage.

## 3. Eliminate root causes of contractor usage

Once behaviours and mindsets have started to change and discretionary contractor usage and spend is under control, move on to systematically removing the reasons for contractor use. Renegotiating key spends and capturing savings through the procurement process is an important dimension. But the real value lies in identifying the key drivers of the total cost of using a contracted service. For example, if a vac truck comes in each week to suck waste out of the sumps, the business should identify and eliminate whatever is causing the material to get in the sumps in the first place. If a bobcat is coming in

each week to clean up the material spills around the main conveyor, problems with the alignment of the conveyor should be identified and rectified.

## 4. 'Wire' the site for sustainable effective contractor management

Locking in the benefits requires 'wiring' being put in place to sustain effective contractor management over the long term. This includes implementing:

- a budgeting process where managers are required to contain their contractor spend within the budget through planning and pro-active management;
- automated tracking and report preparation (to replace the manual tracking that supports rapid behavioural change);
- vendor reviews where vendors and line managers review performance and progress to systematically reduce costs together;
- management training in the basics of effective contractor management;
- an improved process for managing contractors on site (including the establishment of internal reviews of contract owners covering their performance in managing contracts).

These five elements interlock to create a disciplined process for ongoing effective contractor management.

Furthermore, broadening the scope of the contractor management work to include all other site costs gives you better payback on your consulting spend as you better leverage your people. □