

## COMPANY TO CONTRACTOR LOGGING

### THE EFFECT ON PRODUCTIVITY

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#### INTRODUCTION

During the mid 1980's the three largest forestry companies in the Central North Island were all involved to varying degrees in logging and trucking operations using company owned and operated logging equipment. Today however virtually all logging and trucking operations are carried out by outside vendors.

This paper examines some of the reasons for the change and the effect it has had on Tasman's Murupara operations.

#### REASONS FOR CHANGE

Our company objectives were simple, we were to:-

- Maximise efficiency with the minimum use of funds.
- Reduce operating, administrative and overhead costs to a competitive level.

In 1986 Tasman Forestry's Murupara operations employed some 47 management staff, some 150 non supervisory staff as well as 15 contractors and their employees. When we analyzed our operations we found that we were experiencing higher costs than we would incur if we used independent logging contractors. These internal costs were estimated to be at least 3.5 million dollars more than if all the logging was done by outside vendors.

Initially our attention focused on improving the productivity of our company's logging and transport operations. This was done through a joint union company committee which was formed to realise our objectives. An important part of this process was regular education of the workforce, spelling out our competitive position and our future options.

#### 1. LOGGING OPERATIONS

##### 1.1 CO-OPERATIVE LABOUR CONTRACTS

*complex  
admin.*

Under this system, workers were paid by a piece rate system instead of their usual hourly basis. The piece rates were calculated on a per tonne basis and apportioned to individual crew members in relation to the hours worked by each individual. Productivity as measured by tonnes/man hour increased by 36%.

However, machinery maintenance costs were high as crews chased throughput at the expense of machinery care. Absenteeism was still a problem. On some days at least 10% of the workforce was absent.

1.2 INTERNAL CONTRACTING

Following a union/company tour of North American operations discussions were held on a system of internal contracting known as the POD System. This system was developed and introduced by ITT Raynier in their Northwest Forest operations (Bailes and Edwards 1986).

Two crews began operating under this system in 1986 with mixed results - namely:-

- Internal conflict within the crew, each member was effectively a partner.

- High level of company administration was required.
- Pressure from some individuals to set up their own business.

1.3 USE OF OUTSIDE VENDORS

In 1987 it became clear that there was really no alternative but to change the logging operations replacing the company crews with independently run businesses. There was evidence that ITT Rayniers' POD based operations had in fact progressed to this stage becoming independent businesses separated from the company.

Many employees also wished to set up their own businesses as they saw it to be a way that they could progress. They saw it as a challenge, the opportunity to make more money and the chance to establish something for their family.

It was felt that this structure would give:-

- A more effective and cost efficient management structure.
- Greater flexibility.

*Company people set up their own businesses, paid a negotiated rate for their services.*

*Some people - Home owners. More businesses.*

*Group system. Payroll by way of a contract piece (equipment leased from company). wages payment determined by logs themselves.*

*Contractor responsible in terms of productivity. M/C doctrine achieved.*

*could Company spend more time on scheduling & better management. People respond. They dealt with less people -> better administration.*

*Direct cost fell by 20%  
(since more done; less  
gross house used).  
Improved safety record (down to 1/3)*

3

- Lower operating costs.

as any other repair shop.

Twenty separate contracts covering logging, loading and trucking were offered to the existing workforce.

By 1987 we had taken this to the stage where all internal company work was invoiced for and we had purchased a separate accounting and financial package for the workshops alone. This would have been the final stage in the process.

## 2. TRANSPORT OPERATIONS

At the same time our off highway trucking operations were being changed. In late 1985 an improved bonus scheme was introduced. This resulted in a 50% productivity increase, from 2.1 to 3.0 trips/day.

However by September 1987 as a result of other changes it was obvious to all concerned, company, union and workforce that the operation would be best run outside Tasman Forestry. As a result the workshops were sold to an employee and have operated as an independent company known as Transforest Ltd. leasing the old workshop complex at Murupara from October 1987.

In 1986 the trucks were then sold to the existing company drivers who wished to take up a contract. The trucks achieved the equivalent of 4.0 trips/day, as well as a significant increase in truck availability with an average of 14 trucks out of 16 on the road, where the company fleet averaged 12 out of 16.

## THE RESULTS

### 3. WORKSHOP OPERATIONS

Traditionally the workshop was operated as a service centre, their sole purpose was to keep machinery running. From 1983 we began a process of setting up our workshops as a separate business centre. They would sell their services to the logging and trucking divisions in the same way

The effect of the change was dramatic on the town and on the company and on the individuals themselves.

#### (a) THE TOWN

The town structure changed from that of a company town with a large number of employees in rental housing and a few small businesses to a more balanced

*fewer people  
employed.*

community with a higher percentage of home ownership and more businessmen. There were fewer people employed in the logging operations as a result of:-

- Mechanisation of minor species operations.
- Reduction in volume harvested.
- Higher productivity.

(b) THE COMPANY

The role of the company changed dramatically. The management staff were no longer directly concerned with machinery repairs, wage records, issue of stores and supplies etc. Instead they were concerned with the macro view, production scheduling, better logging planning and developing quality and safety programmes. In short creating the environment where logs are produced in the correct place, to the correct grades, in the correct quantities and where each business can maximise its earnings.

(c) SAFETY

Safety is a prime responsibility of the employer who is now working

directly on the site, it is in his interest to ensure that the job site is safe. Freed from some of his other responsibilities the supervisor is able to identify problem areas and help fix them, spend time on safety promotion and awareness training. Our LTIFR is now 1/3 of what it was immediately prior to the change.

The formation of a contractors safety committee has made a number of significant breakthroughs in this area.

(d) QUALITY

Traditionally the contract logging crews performed their work to higher quality standards than company crews. This is attributable in a large part to pride of ownership. The contractors name or crew number is on every log and every load of produce leaving the site. He is therefore directly accountable for any mistakes. The same goes for value recovery, logging sensitive areas and volume recovery. We are achieving higher standards in all of these areas than previously.

(e) COST

The reductions in direct costs were

immediate and significant, with a 20% decrease in logging and loading costs. The fall in indirect costs while not immediate was however even more dramatic. Indirect costs are now under half their 1986 levels.

(f) ADMINISTRATION

There is less administrative work involved, costs can be predicted with a fair degree of certainty. This allows our reporting systems to be far more streamlined than previously. Management is much more effective, problems, trends and solutions are more easily identified and solutions found.

THE NEW BUSINESSES

The logging business owners were selected from the existing workforce. They had good practical logging and man management skills as many were company foremen. Their biggest weakness was in business management. The company provided courses in business and man management to the contractors, as well as providing a list of suitable accountants and other advisors who may assist them. However no amount of counselling and coaching could avoid the biggest hurdle, that of moving from the protected environment of a company

employee to that of running your own business.

The only assistance we could offer in this area was that of providing advice, counselling and backup in a whole range of matters. This role has since diminished to a point where they are now treated no differently from any other contractor.

As a rule most have adapted and apart from one or two exceptions all are trading well, replacing equipment and building up their business. Most still reside in Murupara and continue to draw their labour from the area. The town has a good labour supply, well established repair and other commercial facilities. Geographically it is well located, midway between Kawerau and Taupo enabling crews to shift between forests as the workload changes.

The crews themselves have formed into relatively close units, with two or three family concerns. Generally the contractor and men wanted to work together and so there has been apart from one exception limited turnover of men.

One thing that was readily apparent was that the ex company employees were more receptive to changes and to training than the non company people. This is a result of the educative process carried out as part of the productivity improvement program.

*most have survived + grown. Found close knit units*

*undisturbed cash flow management*

## SUMMARY

In conclusion the current system of using outside vendors to carry out the logging operations is a positive one. It has:-

1. Streamlined company management; controlling overhead costs.
2. Allowed individual bush workers to improve their position through equity participation in a logging business.
3. Reduced the number and frequency of accidents.
4. Improved the quality of our operations.
5. Improved productivity.

There are two main drawbacks however. Firstly, company employees by and large were better informed of their performance, the companies performance and the outside forces acting on the industry. This was the result of a number of regular presentations made over the years by the company to its employees. As a result they were very receptive to changes in cutting patterns and product requirements. Over time these skills will be lost unless:-

- (a) The industry becomes more pro

active in the area of formal logging training.

- (b) The companies continue to play a role in informing people of the industry as a whole and their role and effect in it.

Secondly, in order to maintain or increase our competitive advantage there must be a continued introduction of new machinery and methods. This is a joint process by both the company and businessmen. The company must support the innovative businessmen, and the businessmen themselves must compete to provide the best service at the most competitive price. To do this requires not only acceptance by the company of this role.

The logging businessmen must also change. They are providing a service in a competitive market. Their role is to provide the forestry companies with the best possible service. The days of a production driven operation are over.

The research and training organisations must to a certain extent refocus their approach. No longer are the forest companies a soft touch for research projects. They must tailor their output to the new environment, assist the entrepreneur to give the best service to the company.

Bailes: J.C./Edwards: R.L. - Improving  
Productivity Through Internal Contracting -  
Forest Products Industries - Oregon State  
University - March 1986.

