

Contract Management Reforms in MES- Recommendations on Basis of Research Study

Satish Chandra Omar

*BE (Civil), MBA (Finance) PG Dip (Pub Pol. & Mgt.), PGD (Mktg Mgt)
Director (MES)*

Abstract: MES spends most of its revenue and capital budget through various types of contracts. It is observed that contract management system of MES suffers from several policy and managerial gaps, this is evident from the general users response towards quality of MES Projects and maintenance services, number and quantum of extension being granted in MES contracts, types of deviation orders being raised again and again in MES contracts. The paper presents the recommendations for policy makers, practitioner and other stakeholders on the basis of research study conducted in 2014-15 on contract management system of MES.

1. INTRODUCTION

Military Engineer Services (MES) is an inter service organisation under ministry of Defence. The role of MES is to provide infrastructure support services to three armed forces of India and other organisations under Ministry of Defence. The total annual budget of MES is around 12, 000 crores and it employees nearly seventy five thousand personnel across 400 stations across India. The nature of work of MES involves works like construction of infrastructure (buildings, roads, military stations, airfields, ports, residential accommodation, and provision of electric supply, water supply and sanitation in the cantonments / military stations.

MES has faced criticism from various stakeholders like Ministry of Defence, User services – Army, Navy and Air Force, units and field formations, individuals and their family members about the quality of maintenance services being provided by MES and quality of MES projects including time and cost overruns. As MES does most of this maintenance and projects through contracts, the effectiveness and efficiency of contract management system in MES is one of the key factors responsible for this criticism of MES both at institutional level as well as individual level.

Contracts are important part of MES Supply Chain. A better contract management will result in timely execution of projects, improvement in quality of project and maintenance service and better users' satisfaction. The MES contracts are based on the rules framed more than half a century ago. Whatever changes/ improvements have been made in the contract management system are mostly cosmetic and incremental. While contract management system and practices at national and international level have seen a paradigm shift in approach and nature of contract management, MES contract management system have failed to incorporate the changes and international practices as per the changing needs of environment and technology.

2. RESEARCH STUDY

The research study was conducted under the aegis of Management Development Institute Gurgaon during period July 2014 – Feb 2015. The research study was done under guidance of Prof MK Srivastava, Head Operation Management MDI Gurgaon. The aim of the research study was to identify the policy and functional gaps in the contract management system being followed in MES and suggest solutions so remove these gaps so as to increase effectiveness of contract management in MES. The entire study report/ dissertation is available at MDI Library. This article is based on above research study to reach target audience and wider dissemination of knowledge.

Research Aims

Through review of literature, qualitative interviews with stakeholders, the existing gaps in the contract management system of MES were identified. Attempt was made to understand and indentify gaps in the existing contract management system of MES be it at strategy (Policy), be it at process, people or technology level.

The research study attempted to achieve following objectives:-

- (a) What policy and process gaps exist in the contract management system of MES?
- (b) How these gaps are affecting effectiveness of MES Organisation?
- (c) What are the possible solutions to address those gaps :-

(i) At departmental level.

(ii) At Govt. Level.

3. RESEARCH QUESTIONS

To achieve the research aims, forty two research questions were prepared and put the sample . These questions were identified as result of literature review, study of all the policy and legal framework along with MES manual of contracts, comparative study of the contract procedure of a few similar departments like CPWD.

4. RESEARCH METHODOLOGY

The research methodology used in the present study includes literature review, survey, questionnaire and unstructured qualitative interviews. Both quantitative as well as qualitative method has been used however there was more emphasis on qualitative methodology. A questionnaire was used and distributed through website and e-mail group to deliver the questionnaire to sample population spread all over India. Online responses were obtained through random selection method and successful responses were received from 82 respondents out of a total population of around 1500 officers. Unstructured Interview with a 10 number of officers was conducted and their responses noted to get different perspectives on the issues.

5. DATA ANALYSIS

The analysis of quantitative and qualitative data was done to test the hypothesis of the author. Qualitative responses of the respondents also provided different perspectives of the issues raised. Theoretical Reasoning, primary data based evidence collected during the study along with Value Stream Mapping (VSM) through “As is” and ‘To be’ states of the contract management system are the main tools of data analysis used for all policy and processes related issues in contract management in the study. Each of the propositions of the author has been backed by theoretical reason provided by qualitative data and further backed by evidence of primary data. Collected during the study.

6. RECOMMENDATIONS FOR PRACTITIONERS AND POLICY MAKERS

Recommendations in the different domain areas of contract management have been made based on the result of the study e.g. strategy (policy) and process/ procedures level. These recommendations, if implemented are likely to transform the contract management in MES and bring to paradigm shift in the organizational approach and functioning for achievement of organisational goals of MES. Policy changes both at department and govt. level have been recommended to bring about changes not only at the departmental level but across all central govt. organisations at large.

7. RECOMMENDATIONS FOR IMPLEMENTATION AT MES DEPARTMENT LEVEL

- 1) Term contracts and Percentage Rate contracts should be the main instruments for getting all works executed up to LBW works (Maintenance works, minor works,
- 2) Complete Chapter VI of RMES relating to contract management in MES be redrafted with removal of restriction relating to term contracts and percentage rate contracts.
- 3) Increase of Work order limit of existing Rs. 60, 000/- to Rs. 3.00 Lks min with provision of automatic increase after specified increase in price index related to infrastructure sector. Condition 4A- of IAFW- 2249 should be accordingly amended to free Term contracts form encumbrances.
- 4) Maximum Number of repetitive tenders to be accepted by GE per station per year should be restricted to maximum two to three to achieve economies of scale.
- 5) Establishment of online portal for entering of all site related data including photographic records. All site executives including contractor’s manager and engineer should mandatorily have DSC to reduce paper work.
- 6) Non employment of site engineers as per contract conditions should result in stipulated recovery from the contractor.
- 7) STAR Rate finalization procedure to be revised as discussed in data analysis incorporating provisions of GFR 2005. STAR rates items to be ordered by accepting officer only after finalization of rates during currency of contracts. Reference to SSW/ SW for technical check of STAR rates be deleted as same is part of their routine duties.
- 8) GE be empowered to do TC type E/M contracts to handle E/M emergencies.
- 9) Contract Management portal of MP Water Resources department to be replicated for end to end online contract management including e-MB, e-RAR, e Final Bill and e-payment.
- 10) Role of CE Zone in maintenance services be defined as 80 % of the MES budget is being spent on Maintenance services.

- 11) Amendment of procedure for Omit and Add back DOs. A single DO for variation in quantities in all measurable schedules be placed in reasonable time frame as per stipulated time for completion of work.
- 12) Service level agreements and short term defaults be covered and recoveries be affected from the RAR of the maintenance contractors. All delays where services to users occur should be carry SLA and necessary clauses be there for liquidated damage.
- 13) FIDIC contract conditions such be suitably adopted to make department follow the dictum “time is the essence of contract” in letter and spirit particularly with regard to handing over of encumbrance free site, time for giving decisions and in allocating risks which it is in better capacity to handle.
- 14) MES SSR should be scraped and CPWD Schedule of Rates should be adapted to being the process of having single SSR for all central govt. agencies. (See Policy recommendation for govt level in later part of the chapter.
- 15) Procedure for issue of tenders to un-enlisted contractors should be simplified. No approval of next engineering authorities should be required and tender should be issued based on independent evaluation of a BOO comprising of two officers one from planning/ Arch/ Design/ E/M (as per the nature of contract) and one officer from contract section. Performance Guarantee of 5 % be taken from un-enlisted contractor to safeguard govt. interest. (However in later part of the recommendations for policy changes at govt level, it has been recommended that enlistment/ registration of contractors should be taken away from govt departments and an statutory body should do the same.)
- 16) Defect Liability period for all contracts above 50 lakhs should be increased to two years and performance guarantee of 5 % should be kept for all contracts to be released on expiry of defect liability period.
- 17) The contractor should be allowed an incentive or bonus is up to 5 % of the tendered cost of work payable at the rate of 1% of the tendered value per month for early completion, worked out on per day basis.
- 18) Annual rate contracts zone wise/ command wise directly with the manufacturers (for items not covered in DGS & D) should be done for all types of maintenance supplies / consumables instead of local purchases. GE should have only emergency procurement powers for local purchase.
- 19) To avoid delays and enforce discipline -it should be obligatory on the part of contractor to start the work within one eighth of the stipulated time, and in case if he fails to do so, the contract can be terminated and in such an eventuality, the EMD as well as performance guarantee shall be forfeited. Concept of 5 % performance guarantee will deter the contractors from quoting low unworkable rates, which MES authorities are forced to accept due to L1 concept.
- 20) GE should be allowed to do section/ trade wise term contracts/ parentage rate contracts for two or more sections as required. All revenue, minor and LBW and Special repair works being executed under TC/ percentage rate contracts only. A separate item rate schedule may be included in all percentage rate tenders to include items not covered in SSR.
- 21) To prevent MES projects from slowing down slow down near completion, prima Vera based payment plan should be adopted with provision for penalty for delay in case mile stones are not achieved once the mile stones are achieved same should be refunded also in next RAR.
- 22) To make senior accepting officers like DGMAP/ Zonal CEs/ CWEs more accountable for contracts accepted by them, the payment of RAR at 50 % and 90 % in respect of their contracts should be released by them after only rather than by GE/ PM. Accountability of Accepting officers should be clearly defined for any acceptance of sub standard work by GEs/ PMs under them.
- 23) Complete Chapter VI of RMES (Paras 391 to 520) relating to contract management as well as MES contract manual need to be redrafted a fresh in view of changes in procedure due to e tendering, digital communication, e MBs, e RAR/ FB and e-Payment including paperless audit of digitally signed documents. All communication with contractors should be in electronic form with DSC.
- 24) FIDIC contract system should be adopted / partially incorporated as an step forward toward better contract management practices replacing IAFW-2249 MES general conditions of contract at least in projects costing more than 20 crores.
- 25) Prima Vera / MS- Project etc based contracts with Project scheduling, monitoring and payments should be introduced instead of Lump Sum Contract as pilot project in a few zones to arrive at conclusive result for eventual replacement of Lump Sum Contract.
- 26) Pilot study should be conducted at a few big station by having a few station/ pocket wise maintenance contract as well as complete outsourcing of service centres (including supervisory staff) by CE to collect evidence about the effectiveness

of involving CE in maintenance service and experiment with bringing bigger player in maintenance services as evidence collected in research study have not favoured this claim.

- 27) As contract for maintenances services have huge impact on image and effectiveness of MES. Following additional measures have been recommended for improvement of maintenance services contracts :-
- a. Establishment of Web based portal and launching of android/ I-Phone/ windows phone mobile App for registering and monitoring of complaints for all MES station along with sms/ email based interaction with users along with establishment of Call Centre with single all India toll free number to register maintenance complaints – Through outsourcing.
 - b. Service level agreements (SLA) for all complaint contracts to provide prompt services to users.
 - c. Getting feedback from users online after every maintenance and project transaction in the form of rating the MES services in terms of quality parameters like timely response, quality, behaviour of staff, turn out of staff, ease of lodging of complaints etc. All maintenance complaints to be rates from five star (outstanding) to one star.
 - d. Complete outsourcing of min one service centres in bigger stations and create internal competition within the organisation.
 - e. Redesign of liveries of MES industrial/ contractor's staff involved in maintenance service to make it attractive and professional looking and to make visible impact on users.

8. RECOMMENDATIONS FOR IMPLEMENTATION AT GOVT. LEVEL

- 1) A Central contractor's/ Vendors Registration bureau/ Regulatory body with statutory backing be established at National level similar to SEBI/ TRAI/ CCI which should regulate, control and administer all the following areas pertaining to contractors :-
 - a) Vendor Relationship Management – Registration of Contractors, performance monitoring, Rating of contractors, and up gradation including banning/ blacklisting. All existing procedures about contractors' enlistment with different departments like Railways, CPWD and MES should be withdrawn.
 - b) Mandatory Implementation of Single Standard Schedule of Rates and specifications Common General Conditions of Contract and Types of contracts applicable across all central govt. organisations and PSUs. Formal Designation of one nodal agency to address all technical and engineering aspects related to work being carried out by public works agencies.
 - c) Quality Assurance of govt. projects above a threshold value.
 - d) Incorporation of international practices and latest research in existing govt. procedures, GCC etc.
 - e) Removal of artificial barriers among different govt. departments for better mobility of contractors across different departments.
- 2) Registration of vendors for goods as defined in Public Procurement Bill 2012 should be done only by Central Purchase Organisation i.e. DGS & D.
- 3) Further Development of existing e procurement portal to make single end to end online portal for contract management of all govt departments and PSUs. A few models are already existing viz. MP Water Resources Department.
- 4) Technical Examination wing CVC may be brought under this proposed statutory body for greater synergy or suitable institutional arrangement be made for synergy between CVC and proposed Contractors Regulatory Body as above.
- 5) Institution and Administration of awards / incentives to outstanding infrastructure organisations, engineers, project managers, designers, Architects, workmen and personnel associated with infrastructure development of the country.
- 6) Establishment of Institutes for Skill developments of manpower employed in infrastructure industry particularly at bottom of the pyramid on PPP model.
- 7) Sponsoring of Research in the field of Infrastructure in association with govt. departments, PSUs, private sector and academic institutions.

9. LIMITATIONS OF THE STUDY

The present research study suffers from following limitations:-

- 1) Some of the stake holders like users' view about performance of MES on maintenance services and projects work with particular reference to the contract management system of MES has not been done due to their little knowledge about MES procedures.
- 2) Views of some stakeholder like staff authorities, contractors and users unit could not be considered due to time constraints. While their response to questionnaire was not possible due to their incomplete their inadequate knowledge about MES departmental procedure, never the less they are important stake holders. However their concerns have been addressed through secondary sources.
- 3) Constraints of time and resources.
- 4) Non availability of data in public domain about the performance of contracts with regard to time and cost overrun, quality aspects.
- 5) E-Tendering has been introduced in MES department in 2014, its full impact is not yet visible.
- 6) The powers of acceptance of MES executives like CWE, GE and AGE (I) had been enhanced by a factor of three in Feb 2015 and was effective from 01 Apr 2015. The impact of this increase in power of technical sanction and acceptance will be visible only after end of next financial year.
- 7) Some of the responses may be biased.
- 8) Effect of working in Silos by different sections (E1 to E8) in MES offices not considered.
- 9) Other factors like quality of training imparted, motivation level and personnel policies not considered.

10. CONCLUSION

Organisations need to proactively change with the changing environment, technology and requirements of their client and stakeholders. If they don't change, they will be rendered obsolete and irrelevant to the needs of their client. This is true for MES as well like any other organisation. As MES spends most of its annual budget of Rs. 12, 000 Crores through contract, reforms in existing contract management practices is one of the critical areas that need to be given required attention by top management of MES. It is hoped that recommendations presented in the article on the basis of research study to policy makers and practitioners in MES and government will provide necessary innovative ideas for implementing necessary changes in Contract Management system in MES.

BIBLIOGRAPHY

- [1] Charles Russell. (2012). *FIDIC -Top Ten Things you need to know about*. Retrieved Jan 10, 2015, from www.charlesrussell.co.uk
- [2] *CPWD Works Manual*. (2014). New Delhi: Jain book Agency.
- [3] CVC. (2014, Apr 01). *Procurement of Works, Goods and Services - Guidelines on Tenders/Use of website*. Retrieved Jan 2015, from Central vigilance Commission: http://cvc.nic.in/proc_works.htm
- [4] DGS & D- Govt of India. (2014). *DGS & D- Govt of India*. Retrieved Dec 10, 2014, from DGS & D- Govt of India: <http://www.dgsnd.gov.in>
- [5] E-in-C's Br MES. (n.d.). Retrieved Jan 2015, from MES eProcurement Portal: <http://www.eprocuremes.gov.in/nicegp/app>
- [6] GCC 2014-CPWD- Govt of India. (2014). *CPWD General conditions of Contract 2014*. Retrieved Dec 10, 2014, from CPWD Website: <http://cpwd.gov.in/Publication/GCC14.pdf>
- [7] Hartwell, G. M. (2007). *Overview of FIDIC Contracts*. Retrieved 2015
- [8] IIM Ahmedabad. (2007). *Study on Time & Cost Overruns of Defence Works Projects*. Ahmedabad: IIM Ahmedabad.
- [9] Iyer, K. C., & Satyanarayana, K. N. (2002). Final and binding power clauses in Indian Construction Contracts. *International Journal of Project Management*, 13-22.
- [10] Iyer, K. C., Chaphalkar, N. B., & Joshi, G. A. (2008). Understanding time delay disputes in construction contracts. *International Journal of Project Management* 26, 174-184.
- [11] Manual of MES Contracts. (2011). Manual of MES Contracts. New Delhi: Govt. of India.
- [12] Ramaswamy, B. S. (2013). *Contracts and their Management*. Gurgaon: LexisNexis.
- [13] *RMES*. (2011). New Delhi: Jain Book Agency.
- [14] Talpasai, K. (2005). *An introduction to practical aspects of tendering and contractual operations of Civil Works*. Delhi: JM Jaina & Brothers.
- [15] Tech Mahindra MP Water Resources Department. (2009). *e-Measurement Book ver .10*. Retrieved Jan 20, 2015, from MP Water Resources Department: www.mpwrdd.gov.in/.../18/d910cba4-5049-4b6f-8718-07a7ffd6c1ec.