Outsourcing Comes to Airline Maintenance

The economic tug-of-war between labor and management has a long history in the commercial aviation industry. But one of the latest contests involves workers vying to keep their jobs as companies try cutting costs with foreign maintenance contractors. Last year, National Public Radio reported on one such flashpoint in the debate when it detailed recent in-flight maintenance scares stemming from work at foreign repair stations.

As the debate over the practice rages, what remains clear is that more maintenance work is being completed abroad. According to a U.S. Department of Transportation report, nine major U.S. air carriers surveyed had increased their exported maintenance between 2003 and 2007 from 34% to 71%. At the nine airlines, foreign repair stations performed 27% of outsourced heavy airframe maintenance checks in 2007, up from 21% in 2003, according to the report.

“Economic advantages for companies to outsource maintenance are many,” says Steven Yoho, dean of the College of Business and acting vice president for Academic Affairs at South University. “In many service-focused industries such as aviation, the biggest portion of the cost of delivering a service is labor. By keeping the cost of labor at a minimum, companies become freer to compete on price and other volume-building factors in order to deliver greater company profits.

“When the relationship works and is safe,” Yoho adds, “global outsourcing can strengthen businesses by saving companies labor costs. But manageability and quality control are key to any successful outsourced relationship.”

Among those that have voiced concerns about the maintenance outsourcing trend is the Business Travel Coalition, which in December 2008 published an analysis of the issue. Among the group’s worries: Outsourcing of aircraft maintenance has skyrocketed while regulatory oversight has lagged. In March 2010, the coalition noted that new legislation would increase standards for inspection of foreign-based aircraft repair stations.

“Aircraft maintenance outsourcing is decimating what will be a hard-to-replace national asset: highly skilled aircraft and avionics technicians,” the Business Travel Coalition wrote in the 2008 analysis. “In addition to safety and homeland security concerns, outsourcing is also tied to increased flight delays and cancelations.”

But contract maintenance, whether at facilities in the U.S. or overseas, offers many advantages, according to Christian Klein, executive vice president of the Aeronautical Repair Station Association. ARSA is an international trade group based in Washington, D.C. that represents aviation maintenance and manufacturing companies.

“Because they’re more highly specialized, repair stations can get a better return on their investment in facilities, training, tools, etc.,” Klein says. “Contract maintenance has therefore helped U.S. air carriers reduce costs and become more competitive while maintaining an impressive safety record.”

Klein points out that air travel has continued to get safer over the last two decades as airlines have increased their use of outside maintenance. He attributes this in part to fact that repair stations have to meet federal regulatory standards and are closely monitored by their air carrier customers.

While labor groups have questioned whether the use of foreign contractors poses a threat to aviation safety, Victoria Day of the Air Transport Association of America says the airline accident rate has never been lower.

“There have been no ATA member carrier passenger fatality accidents due to contract maintenance in the past 30 years,” Day says.

During the past decade alone, approximately 5% of aircraft accidents have occurred due to maintenance malfunctions, according to 2009 testimony from an Air Transport Association official. The remaining 95% of airline accidents are consequences of weather interference, traffic control failures, or pilot error or fatigue.
The Federal Aviation Administration has received plenty of criticism for its alleged lack of oversight of foreign repair stations. Although the FAA concedes it lacks the budgetary means to increase inspections of foreign facilities, spokesperson Alison Duquette says inspectors “do not see a big safety issue” with foreign contractors.

As contract maintenance continues to feed U.S. companies, the industry must clearly strive to preserve faultless work quality and stay keenly aware of risk management issues within the complex global network. Yoho notes, “In the eighties, most businesses were simply focused on building quality and integrity within their own operating systems and at the same time getting operators to own their production as well as the quality of their work. Now the challenge is figuring out how to achieve that kind of ethic globally as well.”

“There has to be a conscience within organizational leadership that leads to profitable, sound business practices that don’t leave companies or contractors operating on the edge,” Yoho adds, “because when it comes to the airline service industry, that’s just not the place to be.”