

OUTSOURCING A STRATEGY



For turn around of
Sick Industry

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OUTSOURCING - A STRATEGY

For turn around of Sick Industry

BACK DROP

The Indian economy was highly protected from stiff competition of the global market forces till the mid eighties. Though a strong foundation of the economy was laid by the public sector undertakings, many of the PSUs failed miserably in achieving commercial success and became inefficient units.

Till recently, the Indian market was having limited opportunities because of too many government controls and restrictions. The government introduced a series of reforms in its economic policies from July, 1991.

With rising import cost, inflation and reduced purchasing capacity, many industries are facing recession. To stop excess money supply, government had to cut its expenditure in many areas and this resulted in spiraling recession as government is still the major buyer. Increasing competition from within and abroad has led many companies to reformulate strategies to survive and succeed.

Every individual organization, government face a single choice, that is to think – re-think the future or be compelled to think future. Those who choose the first option have fair chance to prosper. Those who choose second will be overtaken by changes.

With the rapid change in economy, the management of business assumes greater importance and has to adopt unconventional approach to stay in the competition.

Fast change in the market behaviour and accelerated technological advancement has forced business organization to optimize its all activities with maximum utilization of its resources.

The preparedness of organization to meet the growing changes has become the major task and the focus areas. Therefore would be to looking for qualitative improvement in the performances through concentrating on (i) Core business, (ii) Cost control and (iii) to compete with others for the favour of customers.

1. Main objectives of Industries :

- Steady improvement in production both in quantity and quality.
- Improved productivity through effective working system.
- Efficient marketing.
- Adequate return against investment.
- Investment for future growth.
- Constant reputation.

2. Obligations of Nationalised sector and public Sector undertaking:

- To follow guidelines and Govt. directives issued from time to time.
- To be in touch with the concerned Ministry regarding production target, performances and achievements.
- Accountability before public.
- Open for scrutiny and investigations.

3. Effect of globalisation – liberalization:

- Rapid economic transformation and change in business approach.
- Challenges in changing scenarios.
- Competitive market.

Tasks:

- Higher production & productivity
- Reduction in cost
- Customers satisfaction
- Gainful utilization of men at work
- Proper planning, effectiveness, implementation
- Sustained economic gain

4. **Some PSUs have registered high growth and profit:
Results of many PSUs however tell different stories:**

- Low productivity
- Low efficiency of Men-Machines
- Under utilization of manpower
- Huge accumulated loss
- Price hike at regular intervals
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5. **Why out sourcing :**

- For economic benefit
- By loss making companies
- Of certain jobs involved in the chain of production process

What our sourcing of activities means. It is in any business process off loading of jobs to other companies or agencies related to upgradation of

- (a) Technology
- (b) Skill
- (c) Production process

To execute for a certain period on a mutually agreed upon compensation for which industry no longer wish to carry out.

6. **When**

- High cost in running certain production related activities.
- Lack of funds for technologically up gradation of system and production process.
- Inherited restricted work practice.
- Non availability of desired skill, expertise with the employees or equipments, technology.

How

- Risk sharing – with other companies – agencies
- Hiring of equipments with operators
- Deployment of Heavy Machines by company on the basis of agreement

Which

- Outsourcing such work which can be quantified and measured
- Safe and economical
- Logical and will have lesser confrontation with labour laws

7. Out sourcing of services/jobs in major organisation

Jobs off loaded

Railway	Erection, extension, construction of bridge, pool,, catering
Power	Erection, installation of machines, assembling of components and parts
Oil & Gas	Exploration, drilling
Coal, metals, minerals	Exploration of reserves, erection of structures, drilling, excavation
Telephone	Manufacturing of components

Private companies dependent on out sourcing for major jobs :

IT, TV, Radio, Transister, Air-condition, Fridge, shoes : for components, accessories, packaging, etc.

8.	Impediments :
	Resistance from workers' union representatives for :
	<ul style="list-style-type: none">• Apprehension of de-nationalisation or privatization of industry
	<ul style="list-style-type: none">• Provisions of laws
	<ul style="list-style-type: none">• Mental barrier
	<ul style="list-style-type: none">• Fear for redundant of employees

Coal industry has been passing through a critical phase. Production of required grade of coal and its regular distribution has become the major task before the coal Companies. Of late, the coal market has been fluctuating, which has led to financial set back in many coal Companies.

With the shrinkage and less paying capacity of coal consuming industries, a void has been created resulting sudden financial crunch in some of the coal companies. This situation has created vicious circle. To break the vicious circle the company is needed to gear up to meet the situation.

The focus on quality through continuous improvement is the key concept to perceive the production process as an integrated system that originates with the customer and ends with the customer.

This industry of such large magnitude with varieties of problems needs to have clear plan and specific mission which will spell out status of the industry, the structure of organization and the standard of managerial teams of the next few years. The coal industry has to be ready to meet the challenges of future changes.

9. A story of turn around of a Sick Coal Company.

- No. of mines raising coking coal were run by various private companies with the philosophy of “more hole – more coal”
- In 1972, mines were taken over by Govt. of India. Along with permanent workers, a large number of temporary, badli, casual and contractors’ men came into the roll of nationalized coal Company.
- **Coal at any cost**, was the initial philosophy. **Huge manpower, low productivity, heavy absenteeism, revised wages**, poised a severe threat to the Company.
- **In nineties** with budgetary support from Government almost vanishing, modernization and expansion of mines become difficult.
- Not easy to generate huge amount from internal sources making it obligatory to go for price like from time to time.

Major set back

- The reduction of import duties on coking coal from 85% to 35% and later 3% triggered the alarm bell.
- Close on the heels, the prices of coal declining in the international market and reduction in the imported duty made the imported coking coal more attractive.
- Raising of coal of required quality and quantity.
- Accumulated loss led to negative net worth and in 1995 the Company was declared sick and referred to BIFR.

Revival for Survival

Action plan

- Reduce cost on controllable item.
- Increase production & productivity.
- Impose discipline, settle land issues for opening new project.
- Purchase of safety items – given priority.

Due to loss and fund crunch

- Delay in payment of salary, statutory dues of workers.
- Delay in purchase of stores item became a normal feature.

Revival plan was not easily accepted by the union representatives. Alternative suggestions from them were : ask for more subsidy from central government, higher wages to be given to the coal workers in view of implementation of 5th Pay Commission for government employees, resistance to manpower rationalization.

It was difficult for the union representatives to break the barriers to their traditional concept and overcome mental blockade.

The financial position over the years was such that no incremental improvement could save the Company. It needed obviously dramatic improvement in a shortest possible period.

Speed, cost control, quality and drastic steps were the only remedies left.

The management union highest committee started visiting collieries/Areas project and the real picture emerged.

The mind set and attitude changed and employees derived pride on their achievements.

The Safety measures were essential

To tackle fire, subsidence and to stop illegal mining carried out by unscrupulous people

- It was not possible to arrange departmental machines to deal with fire, subsidence and to stop illegal mining – At the first phase.
- Union were convinced and hired machineries were deployed in the affected areas, especially in the patches situated beside river Damodar.
- Drilling machines on hire was also engaged.
- Union representatives were acquainted with the Company's financial position.
- They allowed out sourcing in a few projects on the basis of
 - Risk sharing
 - Hiring equipments with operators
 - Shifting of coal through hired transport from quarry coal bed to surface.
 - Repairing of heavy machineries.

With a view to carry out these jobs, Ministry of Coal was requested to take up with Ministry of Labour for exemption.

Result : The Company has reached break even point from January, 2005.

The average losses were as under :

In 2001-2002	-	Rs. 1200 crore
In 2002-2003	-	Rs. 700 crore
In 2003-2004	-	Rs. 300 crore
In 2004-2005	-	each Break even point (from January 2005)

- The workers were not declared redundant.
- They were trained – retrained and used gainfully against the various jobs caused due to retirement.
- U/G employees trained as – SDL Operators and for other skilled jobs.
- Payment of statutory dues are being made uptodate now.
- Timely wage payment to workers.
- Likely to register profit in the year 2005-2006.
- Determination and joint effort of both management and workers, with proper plan, its effective implementation and co-operation from Govt. Labour deptt. can bring turn around for a sick company faster.

This leads to growth

As active partner, unions contribution toward creating positive working environment yielded result.

With action oriented, in formal team, it will be possible to keep units working together. A positive attitude to risk taking, outsourcing of jobs, freedom to manage with clear frame work of necessary restriction and tight control over the areas that matter, will definitely lead the industry to success.

