

OUTSOURCING STRATEGIES FOR COAL MINING ORGANIZATION

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Abstract

In the present era of globalization, outsourcing is one of the prominent business strategies in view of its proven competence in achieving competitive advantage. With the growing popularity of outsourcing in manufacturing and service sectors, mining industries as well have started capitalizing the possibilities of outsourcing. Outsourcing has now become a strategic tool for mining industries in establishing corporate capability through its effective and efficient ways of value improvement. Considering the potential benefits of outsourcing in terms of meeting customer requirements through reduced time and cost, the Indian coal mining industry is gaining impetus to outsource some of the operational activities to cater to the growing energy demand for coal. Associated with many success stories of such a strategic approach, there are also evidences of several difficulties encountered by the organization along with certain inherent risks linked with such a business practice. So, to achieve the firm's business objectives, it is prudent to consider outsourcing as part of its corporate decisions. Such decisions essentially consider all possible attributes of strategy planning for performance improvement. The present study provides a structured approach to analyze the appropriateness of outsourcing in line with the organizational strategy for performance improvement for the coal mining organization in India.

The present study focuses on developing an outsourcing decision framework to assist the Indian coal mining organization to decide on outsourcing of operational activities. The proposed outsourcing decision framework integrates concepts of value chain analysis and core competency perspective that provides a strategic dimension towards decision-making over the conventional motive of short-term cost reduction. Value chain analysis contributes to better outsourcing decision making in terms of identifying activities and sub-activities within the value chain whereas the approach based on core competency concept enables in the categorization of activities into core and non-core (that are critical to the organizational success). Eventually, the study aims to identify the drivers and their relative importance for the evaluation of organizational performance on account of an outsourcing decision. An integrated BSC-FAHP (balanced scorecard-fuzzy analytic hierarchy process) approach is deployed to identify and determine the relative importance of the drivers to evaluate the organizational performance as a consequence of an outsourcing decision. The approach

overcomes the limitation associated with the vagueness, ambiguity, and multiplicity of meaning linked with the linguistic description of the criteria and sub-criteria influencing outsourcing decisions. Furthermore, in view of the fuzzy (imprecise) nature of information, sensitivity analysis has been carried out taking into account the level of uncertainty and confidence of decision makers for prioritizing the BSC perspectives and their corresponding attributes.

Considering the benefits and risks, short-term as well as long-term concerns associated with the strategic decision of outsourcing, the present study proposes a framework for selection of the best outsourcing strategy (insourcing, outsourcing, and strategic alliance) by integrated BSC-ANP (balanced scorecard-analytic network process) approach for the operational activities of the Indian coal mining organization. Here BSC is applied to understand the impact of outsourcing decision on business performance through its strategic and financial dimensions. Whereas ANP, a multi-criteria decision-making tool, takes into consideration the interaction effects of the BSC indicators within and between the four BSC perspectives, assign weights, and prioritizes them to obtain the final rankings. Furthermore, the robustness of the proposed BSC-ANP decision framework was examined through sensitivity analysis where the importance weights of the criteria were varied under each scenario to observe their effect on the outsourcing alternatives.

Finally, the study identifies the critical success factors for developing and maintaining a sustainable outsourcing relationship between the service provider and the client firm taking into account the risks and also the likely negative consequences arising out of such relationship in the context of the coal mining organization in India. The study determines the antecedents of service provider's opportunism and its effect on a sustainable relationship between the client organization and the service provider with service provider's organization culture acting as a moderator. While the Indian coal mining organization is dependent on third party service providers for coal reserve identification and exploration of new mine projects, utilizing the proposed research model may facilitate in developing and improving outsourcing relationship with the service provider.