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CHANGES IN THE EMPLOYMENT AND INCENTIVE SCHEME AS ELEMENTS OF CORPORATE RESTRUCTURING BASED ON THE EXAMPLE OF PKP CARGO

Summary

The paper presents an example of restructuring in the area of employment and incentive scheme, which was conducted in one of the Polish companies operating in the transport industry. It shows the changes in the remuneration system, the level and structure of employment, and their impact on labour productivity and financial results of the analyzed entity. The analysis was conducted as a case study using data included in annual reports of the audited company. The aim of the paper is to draw the reader's attention to the significance of controlling labour costs in the process of a company's management.

Key words: labour costs, corporate restructuring, labour efficiency

Introduction

PKP Cargo was spun off from the Directorate of Cargo Services of PKP - the Polish state railways, pursuant the Act of 8 September 2000¹. The main area of PKP Cargo activities is providing domestic and international cargo services but the company also offers intermodal transport, sidings, logistic, forwarding and traction services, transshipment as well as maintenance and repair. PKP Cargo has been a market leader for years, it is a holder of a number of safety certificates authorising it to carry out rail freight operations in Germany, Belgium, Czech Republic,

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¹ Act of 8 September 2000 on commercialisation, restructuring and privatisation of state railways company 'Polskie Koleje Państwowe', Journal of laws of 2000, No 84, item 948 as amended.

Austria, Slovakia and Hungary². The high-level target of the company is the growth of its value and maintaining the leading position on the Polish market and consistent expansion into European markets.

Initially, in 2001, PKP Cargo employed nearly 53,000 workers taken over from the PKP Directorate of Cargo Services. It turned out that adjusting such extensive manpower to the size of the market and raising the efficiency of the staff would be the biggest challenge in the restructuring process which was due to start. The process was a necessary element of the intended IPO on Warsaw Stock Exchange which eventually took place in 2013.

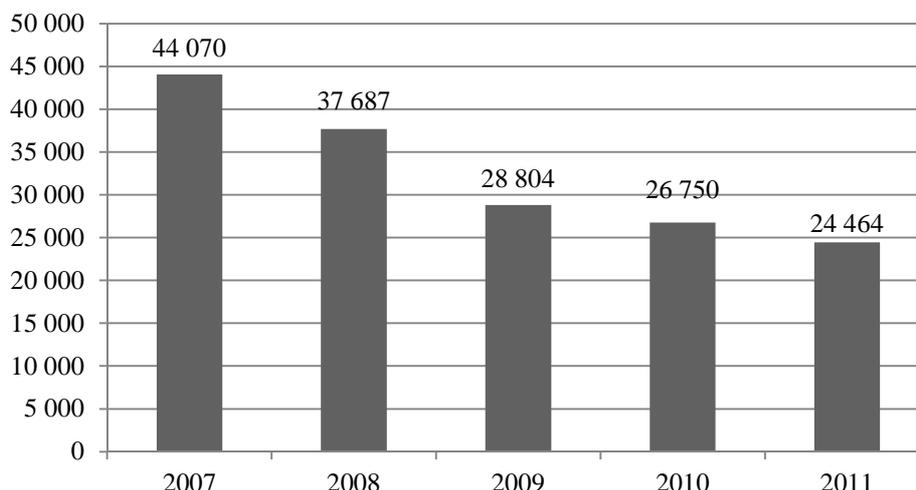
To what extent successfully conducted restructuring in employment and incentive scheme impacts financial efficiency of a transport company? What economic and social difficulties must be overcome on the way? The aim of the paper is presentation of restructuring of labour costs and its impact on financial bottomline of an organisation. The analysis refers to the period from 2007 to 2011 when PKP Cargo was still a state company but preparations for IPO were already under way. The work makes use of analytical method based on comparison of a chain of occurrences and financial relations in the studied organisation. Methodology of research is based on case study and ratio analysis.

1. Changes in the volume and structure of employment

An indispensable element of labour costs analysis is measurement of quantity of employment. Image 1 clearly shows the decline in the volume of employment from 44,070 in 2007 to 24,464 in 2011. The most dramatic wave of redundancies took place in 2008/2009 (reduction by 23,57% y/y). In a five year perspective the volume of employment was thinned by 44,49%, and as compared with the state as of the beginning of the company's activity, by 53,74%.

²*Ocena funkcjonowania Rynku Transportu Kolejowego i Stanu Bezpieczeństwa Ruchu Kolejowego w 2012 r.*, Office of Rail Transport, Warszawa 2013, p. 9. <http://www.utk.gov.pl/pl/analizy-i-monitoring/oceny-roczne> [25.04.2016].

Image. 1 Levels of employment in PKP Cargo in 2007-2011



Source: Own work based on *Z tradycją w nowoczesność. 10 lat PKP Cargo*, p.102 and PKP Cargo Logistics annual report 2011, p. 64.

Dynamics of employment may also be measured by means of staff turnover ratio i.e. mobility of workers expressed in per cent. Negative values of total staff turnover (Table 1) show that between 2007 and 2011 more workers left the company than joined in. The lowest ratio can be observed in 2009 (-23,57%), and the highest in 2007 (-2,26%) before implementation of the restructuring processes.

Table 2. Staff turnover ratio in PKP Cargo

	2007	2008	2009	2010	2011
Ratio of total staff turnover	-2,26%	-14,48%	-23,57%	-7,13%	-8,55%

Source: Own work based on www.pkp-cargo.pl

The next stage of labour costs analysis is examination of the structure of employment with respect to selected criteria. The most popular is the analysis in accordance with education, sex and the character of

responsibilities³. The ratio of employment structure is calculated as a quotient of the number of a particular group of workers and total number of workers, multiplied by 100%⁴.

As far as education of workers is concerned, the most numerous group had secondary school education – their share in total number of employees amounted to 45%. As shown in Table 2, the second biggest group constituted workers with vocational education: in 2007 this group made 43,25% of total workforce; in 2011 this figure was 38,96%. At the start of the analyzed period the third most numerous group of workers were people with elementary school education (6,86%), and the number of workers with university degree amounted to 5,71%. By 2011 the situation was reverse in case of the two last groups of employees: staff with higher education outnumbered those with elementary education by 3%.

Table 3. Structure of employment in PKP Cargo in accordance with education [%]

	2007	2008	2009	2010	2011
Higher	5,71	7,00	7,47	8,12	8,89
Secondary	44,20	43,99	45,75	45,88	46,25
Vocational	43,25	42,51	40,42	39,70	38,96
Elementary	6,84	6,50	6,35	6,31	5,90

Source: Own work based on PKP Cargo annual reports for 2008-2011.

The above findings are confirmed by another analysis carried out by PKP Cargo on the occasion of the company's 10th anniversary. In this study different professional groups were taken into account⁵. Since the foundation of the company, the proportion of white collar jobs increased from 13,6% in 2001 to 19,7% in 2011. Likewise, number of blue collar workers decreased from 86,4% in 2001 to 80,3% a decade later. The blue collar jobs in PKP Cargo include: rolling stock crews, shunter teams, technical revision and traction squads.

³ G. Łukaszewicz, *Kapitał ludzki organizacji. Pomiar i sprawozdawczość*, PWN, Warszawa 2009, p. 121.

⁴ *Statystyka pracy. Wybrane zagadnienia* (ed.) P. Ulman, Wydawnictwo UEK, Kraków 2015, p. 49.

⁵ M. Ryczkowski, P. Sitkiewicz, *Z tradycją w nowoczesność...*, op.cit. , p. 103.

Table 3 presents the analysis of employment structure with respect to age of employees. The dominant group, as it can be seen, were workers between 46 and 55 years of age; young people, below 25, constituted the smallest group of workers. A systematic process of aging of the workforce can be observed between 2007 (average age 47) and 2011 (average age 49). The fall of the proportion of young people in the workforce and increase of the number of workers above 56 years of age is rather an unfavourable trend.

Table 4. Structure of employment in PKP Cargo in accordance with age [%]

	2007	2008	2009	2010	2011
below 25 years	1,03	1,64	0,87	0,64	0,85
26-35 years	6,67	7,01	6,21	5,62	5,4
36-45 years	27,92	26,83	25,68	22,93	21,92
46-55 years	54,98	54,42	58,88	59,83	59,41
above 56 years	9,41	10,1	8,35	10,98	12,41
average age	47,0	46,9	47,2	48,1	48,8

Source: Own work based on PKP Cargo annual reports for 2008-2011.

The changes presented above resulted from natural processes as well as intended HR transformations in PKP Cargo. The company closed 2008 with net financial loss of 178,7 million PLN, but critical year was 2009 when the loss amounted to 497,5 million PLN. In the second half of 2008 the process of relocation of staff to other entities of the PKP group was begun. In the very year almost 6 thousand employees were moved to: PKP PLK, PKP Intercity and PKP Regional Transport. In 2009 the process was continued and affected more than 1,200 employees⁶. In 2009 a considerable cost reduction was achieved because:

- about 4 thousand of the employees were placed on inactive leave, what resulted in 40% savings on wages,
- reduction of basic salary by 5% in case of staff who were outside the corporate collective labour agreement,
- collective redundancies in the company's headquarters,

⁶ Ibidem, p. 104.

- non-extension of temporary labour agreements,
- introduction of the Voluntary Leave Programme: employees who decided to join the programme were entitled to compensation for termination of their work contract, they also received additional severance payment.

Total cost of the employment optimisation programme for that period amounted to 250 million PLN. The programme considerably influenced PKP Cargo's financial result.

Retraining and relocation of staff was continued, to a smaller extent, in years 2010 and 2011. In 2010 a couple of hundreds of staff were transferred to entities of PKP Cargo Logistics Group; in the first half of 2011 more than 2 thousand work contracts were terminated. The changes affected mainly blue collar workers and managers on executive level. Another strongly reorganised area of the organisation was the Department of Finance and Accounting. In 2012 the process of service centralisation was initiated in: internal audit, recovery, HR and payroll, finance, bookkeeping and controlling. To support these processes the company initiated Voluntary Relocation Programme⁷.

2. Changes in remuneration structure

One of the most important factors impacting labour costs in an organisation is the remuneration scheme. In 2007 the existing pay system was completely maladjusted to the company's reality. The organisation employing more than 44,000 staff had a pay policy which was a heritage from the old political and economic system. At that time the company was unable to take on professional staff and pay them the usual market wages.

Calculation of pay was a major challenge for payroll because of very complicated system of additional allowances: for work in harmful, worsened, hazardous conditions, coal benefit, kilometre allowance for drivers, length-of-service allowance, allowance for working at night etc. The remuneration structure of PKP Cargo also included a wide range of bonuses: hourly bonus, percentage-based bonus, point-based bonus,

⁷ <http://www.kurierkolejowy.eu/aktualnosci/14037/PKP-SA-Program-Dobrowolnych-Odejsc-i-Relokacji.html> [09.09.2013].

quota-based bonus, extra-time bonus⁸. It should be noted that as many as 85,5% of the total number of PKP Cargo workforce belonged to trade unions⁹, which means that transformations in the field of remuneration scheme without consent of union authorities was practically unfeasible.

Summary of the most important changes in the pay system in PKP Cargo in 2007 – 2011 is presented in Table 4. Implementation of SAP accounting software replaced the circulation of paper documents. Before restructuring period PKP Cargo consisted of 43 organisational units scattered all over the country and employed more than 44,000 staff. As the result of restructuring processes the number of units was reduced to 11, and the number of employees to 24,000. The reduction of employment was achieved thanks to migration of staff to various entities within the group. It was necessary to enter into books past occurrences (remuneration adjustments, payroll accounting among newly created entities)¹⁰. Implementation of professional system of performance appraisal helped to design a training scheme which was tailored to the needs of the personnel. The training programme was outsourced to a PKP training institution *CS Szkolenie i Doradztwo*. The trainings offered to PKP Cargo personnel included vocational, computer, managerial as well as health and safety courses and among tutors and coaches were specialists from railway companies, university lecturers and scientists of railway research and development units¹¹.

⁸ <http://finanse.nasze-zyski.pl/pkp-cargo-wyplatuje-sie-z-siatki-plac,21366,1,0,0.html> [07.09.2013].

⁹ M. Ryczkowski, P. Sitkiewicz, *Z tradycją w nowoczesność. 10 lat PKP Cargo*, PKP Cargo Logistics 2011, p. 198.

¹⁰ <http://www.gavdi.pl/pl-PL/Strefa-wiedzy/Case-studies.aspx?PID=10083&Action=1&NewsId=180> [07.09.2013].

¹¹ <http://www.csid.pl/index2.php?p=2&s=3> [07.09.2013].

Table 5. Changes in the incentive scheme in PKP Cargo.

Area	Before restructuring	After restructuring
Document circulation	Accounting documents circulating in paper form	SAP financial and accounting system
Performance appraisal and staff training programme	Performance appraisal and staff training programme did not exist	Implementation of performance appraisal scheme, training programme was outsourced and executed by an entity belonging to PKP group – <i>CS Doradztwo</i>
Additional allowance	Large number of various additional allowance which made calculation of pay very complicated	Reduction of the number of allowances, some were incorporated into basic salaries
Remuneration structure	Basic salary + additional benefits: 85% Bonus fund: 15%	Basic salary + additional benefits: 86,5% Bonus fund: 13,5%
Bonus system	Unconditional	Payment of bonus linked to the financial result of the company
Structure of bonus system	Fixed part: 97% Discretionary part: 3%	Fixed part: 80% Discretionary part: 20%

Source: Own work based on PKP Cargo annual reports and www.pb.pl

The biggest wave of modifications hit the remuneration scheme. Following renegotiations of the corporate labour agreement, a large number of additional allowances was incorporated into base salaries. The proportion of bonus fund in total remuneration was diminished from 15% to 13,5%. Moreover, the incentive element of the bonus was increased from 3% to 20%. It was decided that the discretionary part of the bonus would be linked to the positive net financial result of the company. In

case of the management level 100% of bonus was linked to performance and achievements of executives¹².

The next aspect of the remuneration scheme reorganisation was the level of wages and salaries. The average wage including benefits went up from 3310,10 PLN in 2007 to 4061,10 PLN in 2010¹³. In each consecutive year in the study average gross remuneration in PKP Cargo was higher than average remuneration in the Polish economy. The biggest discrepancy could be observed in 2008 and 2010 (26% and 27% respectively in favour of PKP Cargo), the smallest discrepancy occurred in 2009 (17%). Earnings in PKP Cargo were on average higher than average earnings in Polish transport and logistics sector: in 2007 higher by 6% and in 2010 by 22%¹⁴. Although earnings in PKP Cargo were rising faster than average annual inflation in the period 2007-2010, it did not translate into better living standards for all employees. In order to increase the level of identification of a regular employee with the company, additional bonuses related to the process of company privatisation were offered: payment of privatisation bonus in company's shares or guarantee of a long-term employment.

3. Analysis of labour costs and their structure

The analysis presented above offers an outlook on the situation in PKP Cargo with respect to remuneration and incentive system in the period 2007-2011, however in order to get a wider perspective it was necessary to conduct ratio analysis of labour costs.

The main source of revenue for PKP Cargo in the analyzed period was sales of transport services (more than 90% of total revenues). Other activities generating revenue were: traction services (2%), sales of goods and materials (1,3%) and also rent of locomotives, service of railway sidings, repair of railway rolling stock, preparation of expert reports and running railway museums. In 2011 remuneration and employee benefits were the main expenditure in the company's operations (29,8%)¹⁵.

¹²<http://www.pb.pl/1725807,88433.porozumienie-pkp-cargo-zwiazki-zawodowe> [07.09.2013].

¹³ M. Ryczkowski, P. Sitkiewicz, *Z tradycją w nowoczesność.*, op. cit., p. 153.

¹⁴ *Zatrudnienie i wynagrodzenia w gospodarce narodowej w 2010 r.*, Central Statistical Office, Warszawa 2011, p. 35. Due to lack of available data for 2011, the comparison focuses on the period 2007 - 2010.

¹⁵ *Raport roczny 2011*, PKP Cargo Logistics, p.27.

Table 6. Share of remuneration costs in total costs of operations

	2007	2008	2009	2010	2011
Costs of operational activities [million of PLN]	5 557,9	5 694,0	4 341,3	4 577,7	4 698,6
Remuneration and employee benefits [million of PLN]	1 763,0	1 901,0	1 355,2	1 354,8	1 402,2
Ratio of remuneration costs in costs of operational activity	31,72%	33,39%	31,22%	29,60%	29,84%

Source: Own work based on PKP Cargo annual reports for 2008-2011.

The relation of remuneration costs to all prime costs is presented in Table 5. The relative share of remuneration costs in all costs ranged from 30 to 34% despite gradual reduction of workforce from 44,000 in 2007 to 24,000 in 2011. It should be emphasized that a lot of staff employed in the examined period were professionals with higher education, in addition rising average age of workers and, consequently their work experience, forced the company to pay them more and more in seniority bonuses. Furthermore, despite the reorganisation in employment, the average pay was systematically going up surpassing average pay in the Polish transport sector.

Table 6 contains figures related to profitability of labour costs which is calculated as a quotient of financial result and labour costs multiplied by 100%¹⁶. The data made available in PKP Cargo annual reports show that: each 1 PLN paid for remuneration and benefits generated 0,44 gr of net profit in 2007; 9,4 gr net loss in 2008; 36,71 gr net loss in 2009; 4,57 gr net profit in 2010 and 28,43 gr net profit in 2011. Negative values of profitability ratio in 2008 and 2009 resulted from the situation that these two trading years closed with net losses (178,7 million PLN and 497,5 million PLN). Moreover, in 2009 the company had to bear the heaviest load of costs of employment optimisation (250 million PLN). Although in 2011 the company financed from its own means another Voluntary

¹⁶ A. Szalkowski, *Zarządzanie zasobami ludzkimi w organizacji opartej na wiedzy*, University of Economics, Kraków 2008, p. 130.

Leave Programme (90 million PLN)¹⁷, it was then when labour costs were characterised by the greatest efficiency.

Table 7. Labour costs profitability in PKP Cargo

	2007	2008	2009	2010	2011
Gross profitability of remuneration	1,52%	-8,51%	-33,51%	5,09%	24,17%
Net profitability of remuneration	0,44%	-9,40%	-36,71%	4,57%	28,43%
Profitability of human capital	104,28%	87,59%	87,65%	104,33%	126,07%
Added value of human capital [PLN]	41 717,8	44 182,3	41 240,8	52 841,1	72 257,2

Source: Own work based on PKP Cargo annual reports for 2008-2011.

The ratio of human capital profitability informs about the profit obtained from each 1 PLN invested in human capital¹⁸. Investments in human capital were the most efficient in 2011 and the least efficient in the times of global recession 2008-2009. The smallest profit of 41 240,79 PLN fell on a single PKP Cargo employee in 2009; the biggest sum of money per employee (72 257,19 PLN) was generated in 2011. The rising trend with respect to human capital added value gives an indication that profitability of an average employee of PKP Cargo increased in the period 2007-2011.

The next group of ratios important in the study of labour costs is connected with labour productivity (Table 7). PKP Cargo annual reports show fluctuations of average labour costs per one employee: in 2007 the sum was about 40,000 PLN; in 2009 it rose to 47,000 PLN to reach 57,000 PLN in 2011. The fall of the nominal value of employment was accompanied by still high value of labour costs in 2009 and 2010 (1 355,2 million PLN and 1 354,8 million PLN respectively). Furthermore, the labour costs in 2011 were even higher due to co-

¹⁷ PKP Cargo Logistics *Raport Roczny 2011*, p. 26.

¹⁸ A. Szałkowski, *Zarządzanie zasobami ludzkimi...*, op.cit., p. 130.

financing the Voluntary Leave Programme from the company's own means. Secondly, PKP Cargo Group saw an increase in work productivity: from 116,000 PLN in 2007 to 192,000 PLN in 2011. The increase in productivity was brought about by the implementation of a project *Methodology of Employment Determination in Entities of PKP Cargo*, which facilitated adjustment of employment levels in particular divisions with respect to required effort and the level of the workload. New effort norms took into account modernisation and specialisation of work stations as well as technology (e.g. equipping locomotives in GPS systems)¹⁹.

The ratio of increase of labour productivity is calculated as the relation of increase in wages (or increase in labour costs) to the increase of labour productivity (or increase in labour costs)²⁰, amounted to 102,71% in 2008. The optimum value of this ratio should fit in the range from 0 to 1, thus in 2008 the increase in wages overtook the increase of work productivity in PKP Cargo. The situation improved in the following years; in 2011 the ratio stabilised at 90,84%.

Table 8. Ratio of work productivity in PKP Cargo [%].

No.		2007	2008	2009	2010	2011
1.	Average labour costs per 1 employee [thousands of PLN]	40	50	47	50	57
2.	Work productivity in PKP Cargo group [thousands of PLN]	116	129	125	153	192
3.	Dynamics of growth of personnel costs per head (previous year=100,00)	-	125,00	94,00	106,38	114,00
4.	Dynamics of growth of labour productivity per 1 employee	-	121,70	96,90	122,40	125,49
5.	Ratio of payment for labour	-	102,71	97,01	86,91	90,84

¹⁹ PKP Cargo Logistics. *Raport Roczny 2011*, p. 61.

²⁰ N. Grzenkiewicz, J. Kowalczyk, A. Kusak, Z. Podgórski, *Analiza ekonomiczna przedsiębiorstwa*, Wyd. Naukowe Wydziału Zarządzania Uniwersytetu Warszawskiego, Warszawa 2007, p. 182.

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	productivity growth (o) [3:4]					
6.	Dynamics of growth of consumer prices [data: Central Statistical Office]	102,50	104,20	103,50	102,60	104,30
7.	Dynamics of growth of personnel prices per 1 employee/deflator [3:6]	-	119,96	90,82	103,69	109,30
8.	Dynamics of growth of productivity of personnel costs [4:7]	-	101,45	106,69	118,05	114,81
9.	Growth rate of labour productivity per 1 employee/deflator [4:6]	-	116,79	93,62	119,30	120,32
10.	Account in current prices (o ₁)	-	148,87	94,08	33,08	68,91
11.	Account in fixed prices (o ₂)	-	92,00	296,01	16,46	36,48

Source: Own work based on PKP Cargo annual reports for 2008-2011 and www.gus.pl

The meter of payment for growth in labour productivity is a subject to modifications as it depends on current prices (o₁) and fixed prices (o₂). The overview of such modified factors shows that according to current prices, in 2011 PKP Cargo employees participated in 69,91% of effects of labour efficiency growth. For each 1% of labour efficiency growth there was 0,69% increase in personnel costs. When calculated in accordance with fixed prices, remuneration with benefits rose by 9,30%, which means that employees' participation in labour efficiency growth was in fact 36,48%.

Summing up the analysis of ratios linked to labour productivity in PKP Cargo, attention must be drawn to changes in labour productivity related to changes in average personnel costs per one employee and the changes in efficiency of personnel costs. In the analyzed period both of these factors almost always were on the rise (except 2009 when the costs of personnel per one employee fell by 6%) what was a favourable situation for the employer as well as employees.

4. Impact of restructuring on the company's financial results

Key ratios offering information on financial profitability of PKP are presented in Table 8. In 2007 net profit of 7,8 million PLN was made and positive values of EBITDA (303,9 million PLN) as well as cash flow (319,8 million PLN) were noted. However, the years that followed (2008 and 2009) ended with net financial loss (178,8 million PLN and 497,5 million PLN respectively). This dramatic fall in the company's profitability resulted from sudden decrease of orders on transport of freights in the times of deepening financial crisis. Another reason was the costly process of company's restructuring. Much better results were achieved in the years 2010 – 2011 thanks to improvements in transport performance. The net profit of 2011 was also influenced by negative income tax which arose due to recognition of assets from deferred tax for unused tax loss from previous years. The management also decided to reverse provisions for railway travel facilities for employees, pensioners and members of their families.

Table 9. Profitability of PKP in 2007-2011

	2007	2008	2009	2010	2011
Absolute profitability ratios [million PLN]					
EBITDA	303,9	234,2	-149,3	389,3	666,6
Profit from sales	75,5	-235,9	-167,2	58,7	365,5
EBIT operational result	-8,1	-76,5	-449,0	76,1	356,5
Net financial result	7,8	-178,8	-497,5	61,9	398,6
Cash flow	319,8	131,9	-197,8	375,1	no data
Relative profitability ratios[%]					
ROS	0,1%	-3,3%	-11,9%	1,3%	7,9%
ROE	0,3%	-6,4%	-25,6%	2,8%	no data
ROI	0,2%	-3,9%	-11,9%	1,5%	no data

Source: Own work based on PKP Cargo annual reports 2008-2011.

Despite the fact that the main role in PKP Cargo's restructuring processes was played by optimisation of remuneration and employee

benefits costs, certain other actions cannot be overlooked. In the period 2007-2011 the following steps were also undertaken:

- reduction of facilities from 42 to 10,
- reduction of the number of locomotives (3524 in 2007 versus 2525 in 2011) and increase of workload on those that remained, increase in gross average tonnage on trains (from 1,229 tonnes in 2008 to 1,346 tonnes in 2011),
- halving the number of rolling stock maintenance units,
- termination of lease and hiring agreements of unnecessary property (reduction of leased area from 1,513 ha to 849 ha),
- reorganising sales department and change of customer service approach²¹.

The factors mentioned above considerably impacted financial efficiency of the company what was reflected in profitability ratios. Each 1 PLN from sales generated in 2007 1 gr of net profit, but in 2008 3 gr of net loss, and in 2009 almost 12 gr of net loss. In 2010 1 PLN of revenue from sales brought PKP Cargo slightly more than 1 gr of net profit, and in 2011 almost 8 gr of net profit. Another positive phenomenon was changes in profitability of equity: in 2009 1 PLN of equity brought 25 gr of net loss but a year later almost 3 gr of net profit²².

5. Impact of employment optimisation on the company in the years to come

Costs of employee benefits are one of the most important constituents of costs in the whole operational activity at PKP Cargo: in 2012 the costs amounted to 32% of all operational costs, in 2014 they rose to 42%, to fall again to 33% in 2015. Almost 2/3 of employee benefits costs were spent on remuneration but in the period 2013-2015 a considerable amount of money was spent on programmes related to employment optimisation²³.

²¹ <http://www.pkp-cargo.pl/pl/about/472/23/Informacje-o-firmie.html> [14.09.2013].

²² Due to lack of reliable complementary data on structure of PKP Cargo equity for 2011, ROE and ROI indicators were not calculated for this year.

²³ PKP Cargo annual reports for 2013-2015, <https://www.pkpcargo.com/pl/relacje-inwestorskie/informacje-finansowe/raporty-finansowe/> [15.05.2016].

The most important event in the most recent history of PKP Cargo Group was the debut of the parent company on the Warsaw Stock Exchange. The public offering of 1,42 billion PLN turned out to be the first success of a cargo company in the whole European Union. On the first day of trading the company's shares traded at 80,20 PLN (an increase of 18% as compared to the share price from IPO which was 68 PLN per share). The stock market debut was preceded by signing the agreements finishing the collective disputes between trade unions and PKP Cargo and implementation of the Employee Guarantee Treaty. The 2013 financial results included costs of 209,2 million PLN related to payment of a single discretionary bonus and a single benefit in order to finance employee shares scheme.

In 2014-2015 PKP Cargo Group initiated the Voluntary Leave Programme. The programme cost the company 265 million PLN in 2014 and in 2015 more than 70 million PLN. In total, thanks to all employment thinning programmes implemented in 2015, more than 4,000 people left the company which should bring the company as much as 130 million PLN in savings per year in consecutive reporting periods²⁴. It should be highlighted the despite nominal reduction in employment PKP Cargo still offers training programmes for train drivers and promotes the revival of the railway trade. It is planned that by 2020 the company will employ about 2,000 train drivers in order to bridge the generation gap which is more and more visible due to the trend of aging of the staff.

Consistent costs discipline is necessary to survive in a dynamic environment which is not favourable for PKP Cargo. The demand for energy coal is falling, the demand for aggregates and steel is rising, it is expected that there will be dynamic development of intermodal transport (economic growth, development of sea ports).

In 2013-2015 there was a considerable slide in outsourcing costs – thanks to reduction in transport costs, costs of using property and rolling stock, lower rates of access to railway infrastructure paid to PKP PLK. At the same time the company had to meet the challenge of modernisation of railway tracks. Access to infrastructure makes about 15% of operational costs in PKP Cargo Group, that is why all related fluctuations have a considerable impact on the company's bottomline.

²⁴ Management board's report on activity of PKP Cargo Capital Group for 2015, p. 67. <https://www.pkpcargo.com/pl/relacje-inwestorskie/informacje-finansowe/raporty-finansowe/> [15.05.2016].

Success of the IPO and optimisation of employment are just a starting point to the implementation of the company's strategy for the years to come²⁵. It is necessary to diversify the portfolio of transport services due to the decrease in demand for energy coal, exploit the potential of modernisation of transport corridors and extend the range of intermodal services. PKP Cargo strives towards achieving the position of a key operator of international railway traffic across Poland.

Conclusions

The conducted analysis showed that as the result of the undertaken restructuring activities PKP Cargo successfully entered Warsaw Stock Exchange. The optimisation was paid predominantly from the company's own resources and it put a heavy load on the company's financial result especially in 2009. Among positive outcomes in the area of labour costs one should mention the increase in workforce productivity and remuneration productivity. Costs optimisation was accompanied by liquidation of unproductive assets, reorganisation of the company's facilities and outsourcing of certain tasks. Between 2007 and 2011 a loss of domestic market share in freight (from 75,7% in 2007 to 62,9% in 2011) was observed. But even before 2007 when the market share was still higher, the company practically did not generate any profits (data for the period 2003-2007). But thanks to restructuring processes resulting in reduction in employment, reduction of the number of facilities and extending the scope of operations on international markets, the company managed to achieve and maintain healthy condition. In the context of PKP Cargo's debut on Warsaw Stock Exchange which took place on 30 October 2013, it should be added that its IPO was valued at 1,42 billion PLN which was one of the highest values of initial offerings in Poland that year. The historic opening of the first trading session of PKP Cargo was at 80,20 PLN/per share, which was more than 18% with respect to IPO²⁶. PKP Cargo is a notable example of thorough and well-thought optimisation which healed the internal condition of the organisation and gave rise to expansion onto European markets.

²⁵<https://www.pkpcargo.com/media/507479/cargo20-prezentacja-strategii-pl.pdf> [03.04.2016].

²⁶*Sprawozdanie Zarządu z działalności PKP Cargo S.A. w 2013*, Warszawa 2014 , p. 6.

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