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PKP S.A. Group strategy - logistic and organizational elements

Implementing the PKP S.A. strategy shall ensure preparing the Polish railway transport for the upcoming challenges. Macroeconomic trends clearly indicate the necessity to develop multimodality of people and cargo transport. In terms of cargo logistics, Poland must use the great advantage of geographical location at the crossing of European corridors: East-West and North-South. Multimodality of passenger transport should be built through railway station investments, which lead to the improvement of availability and connection of different transport sectors. At the same time, considering the continuous globalization and consolidation processes in Europe as well as all over the world, a necessity of creating a potent and integrated railway infrastructure that would operate as a holding company.

PKP S.A. strategy within the time-frame until 2023 determines development directions for PKP S.A. as well as PKP Group companies [9]. The strategy has been based on knowledge and experience from previous years. It also considers the regulatory environment as well as the dynamically changing market environment. The Strategy assumes specific activities and tools to ensure a long-term development of PKP S.A. economic activity as well as to support continuous growth thereof. As part of the strategy, logistics as a tool allowing to restore a proper position of railways within the flow of cargo streams of domestic and international nature, has a significant meaning. The Strategy draws attention to the necessity of improving the PKP S.A. Group management system. The performance of tasks, within the specified time-frame, assumed in the Strategy is aimed at developing Polish railway infrastructure so that conditions for taking advantage of the competitiveness benefits of this transport sector by the society as well as economy are met.

PKP S.A. Group Strategy Basis

PKP S.A. is one of the largest property owners in Poland. Company assets constitute both objects having functions related to transport and passenger service (railway stations) as well as commercial properties. In order to benefit in a long run, a strategic goal for PKP S.A. is managing properties having a development as well as transport and logistic potential, while cooperating with various external partners. A strategic analysis has proved that the functioning, disintegrated PKP Group management system does not support the coordination of each economic entity operation, and does not ensure social and economic objectives for Polish railways.

A strategic direction of PKP Group activities is further growth within the quality of cargo and passenger services. A development opportunity for railway transport is transport multimodality, meaning cargo and passenger transport using more than just one transport sector [2]. A key element of multimodality, and the condition for success thereof, are nodal infrastructure objects which ensure cargo and passenger transfers between different transport means. Some of those objects are most importantly logistic centers and handling terminals, considering

cargo transport, as well as railway stations acting as multimodal transfer hubs for passenger transport. A railway station should encourage using the collective transport while providing the necessary comfort and enabling an effective transfer between transport means.

PKP S.A. Strategy structure covers defined operation areas, strategic objectives and tasks [8]. The Strategy implementation methodological assumptions are based on the concept of a Balanced Scorecard [5], in accordance with which the strategic goals and tasks have been assigned appropriate indicators. The Mission of PKP Group is „The Creation and development of national railways as the basic component of national logistics system as part of the European railways system that ensures possibly highest quality within the passenger as well as cargo transport and logistic service, implemented while respecting the rules of sustainable growth and the economic operating efficiency under open market economy”.

Logistics dimension synthesis within the PKP S.A. Group Strategy

Among strategic areas of operation, a significant positions constitutes logistics within passenger and cargo transport. It consists in creating innovative transport and logistics products sold on national and foreign markets using the economic potential of companies belonging to PKP Group as well as outside of PKP Group. The Strategy focus on property potential includes the need for creating new business activity within PKP Group in order to realize additional benefits that ensure long-term financing and the growth of Polish railway infrastructure. A significant trend within the passenger segment, in which PKP S.A. Group is involved, are innovative services based on sharing economy (car-sharing, bike -sharing, co-working). A perfect example of implementing objectives of passenger transport logistic nature is the PKP Group project “Combined ticket”. The initiative of a combined ticket is an important step towards ensuring a friendly railway transport offer. A priority task for PKP S.A., necessary in the light of implementing the national transport policy, is improving the technical and functional condition of railway stations. The operation of railway stations is not only a business matter for the railways, but also a matter of implementing a public service mission. As part of the adopted comprehensive investment program (“Railway Stations Investment Program” RSIP) [10] the Company shall reconstruct or build around 200 objects until the end of the current European Union financing perspective. The investments shall mostly be financed by EU, but also using government and Company own funds. A railway station should, in so far as feasible, ensure availability and reduce inconveniences related to transferring, meaning it should minimize the passengers time and effort for the mentioned activity. The answer is building communication and transfer centers (multimodal hubs) that would allow quick, convenient and economically justified, from a passenger’s perspective, transport means switch, and ensure comfort as well as safety, at the same time providing additional/complementary services. A significant objective is also ensuring a customer services standard compli-

ant with the demands of a railway station users (for instance, “InfoStations” serve this purpose), standardization within crisis response procedures, implementation of aid for people with reduced mobility and adjusting the railway stations to their needs. Innovative railway station solutions as part of the so-called *Innovative Modular Railway Stations* concept, in particular, consider the issues of safety, ergonomics, user convenience, digitization as well as energy saving technologies that lower the operational costs of objects. Customer service, from an activity point of view, interpreted as an ability to meet the customer demands in relation to time, dependability, communication and convenience.

An appropriate approach in order to create business activity within cargo transport logistics is the concept of establishing an entity that would act as a logistic [7] integrator, an entity connecting the participants of the logistics system, i.e. clients, various transport sector carriers and handling infrastructure owners, which would make possible shaping a new, non-standard offer of comprehensive door-to-door logistic services provided under the “PKP” brand. An integrator would make possible shaping a new, non-standard transport and logistic services supply offer. A model presentation has been included in fig. 1

The integrator’s objective would be to act as a logistic platform operating based on “stock exchange” rules where every party interested in moving goods or materials would have the opportunity of choosing the preferred method of transport and handling (supply chain configuration). Considering the multimodality within cargo transport, the Strategy refers to the possibility of managing the well-located PKP S.A. properties in order to develop logistic infrastructure objects, such as logistic parks, han-

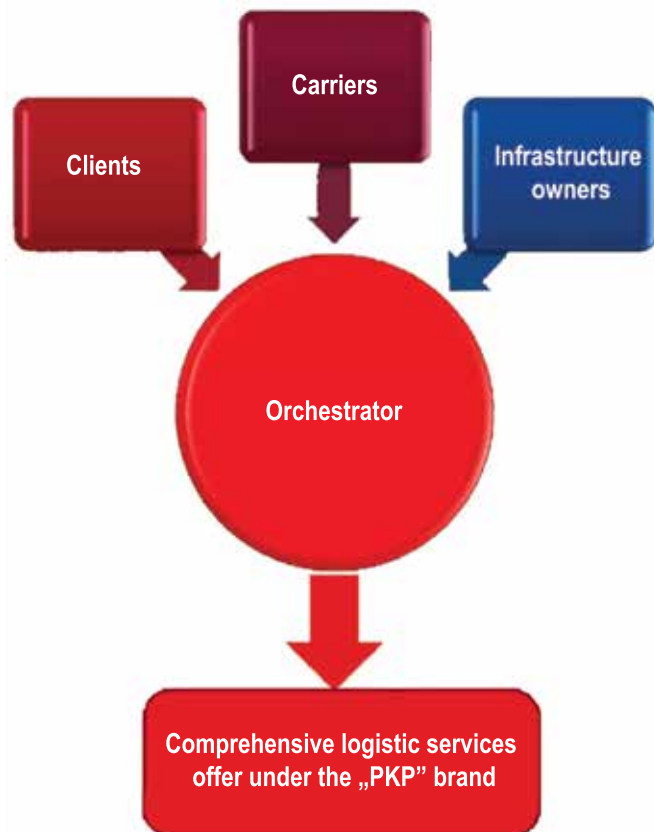


Fig. 1. Integrator operation model
Source : PKP S.A. Group study.

dling terminals, warehouses, sidings and storage and handling points. The defined the PKP S.A. Strategy directions within logistics reflect in the assumptions of the elaborated by PKP S.A., together with the Group companies, Intermodal Transport Development Plan for time-frame until 2030. A model presentation has been included in fig. 2. As part of the Plan, a wide scope of initiatives, related to organizing an intermodal logistics chain, financing, investment technology, transport technology, legal solutions as well as innovations, has been adopted. For instance, the organizational area is recommended to prepare documents which shall describe the development of intermodal transport and establishing an entity that would be responsible for implementation. It is recommended to establish a national service infrastructure railway operator. The financial area indicates the necessity of ensuring a public contribution to purchase tractive rolling stock and the necessity of ensuring public contribution to purchase a wagon fleet, handling equipment as well as construction and modernization of intermodal terminals. The activities aiming at aligning rates within access to railway transport infrastructure and vehicle transport have also been pointed out.

The technical area indicates the necessity of modernizing as well as building new intermodal terminals and adjusting border checkpoints, which shall result in improved availability of national logistic network having the appropriate technical parameters. For instance, in terms of loading/unloading track length should allow handling trains of at least 750 m, proper technical condition and the area layout that would ensure a larger capacity for intermodal unit storage, adjusting railway border crossings in the East to accept 1000 m long trains of axle 26 ton axle load.

Particular attention within the legal area is drawn to the necessity of implementing benchmark legal regulations such as those operating in other European nations. For instance, Austria, Switzerland, Germany where heavy road vehicle combinations are restricted to travel at night and on weekends or introducing regulations that allow intermodal unit road transport, from and to terminals, on a „last mile” basis as well as free of charge.

Other significant tasks as part of the described area include the coordination of implementing The European Union legislation within the PKP Group (Directive 2012/34 and the IVth railway package), in particular within interoperability and railway safety, market opening, as well as PKP Group participation in activities related to the investments of the Central Communication Port (CCP), High-speed rail system (HSRS), the rolling stock park development and railways digitization as part of the Railways 4.0 and Logistics 4.0. The concepts originating from the „4.0 Industry” concept, which is a collective term for technological innovations as well as the concept of value chain organization, which change industrial manufacturing in a revolutionary way.

Management system dimension synthesis within the PKP S.A. Group Strategy

A strategic objective defined by the Strategy is rationalization of PKP Group management system through creating an infrastructure that would operate as a holding company, which would serve both for implementing business objectives of the railway transport as well as the national transport policy. Restoring the PKP S.A. role as an integrator within railway structures shall allow the coordination of strategic, investment, maintenance and carrier processes (for instance, preparing a passenger offer which includes a combined ticket, investment coordinator or

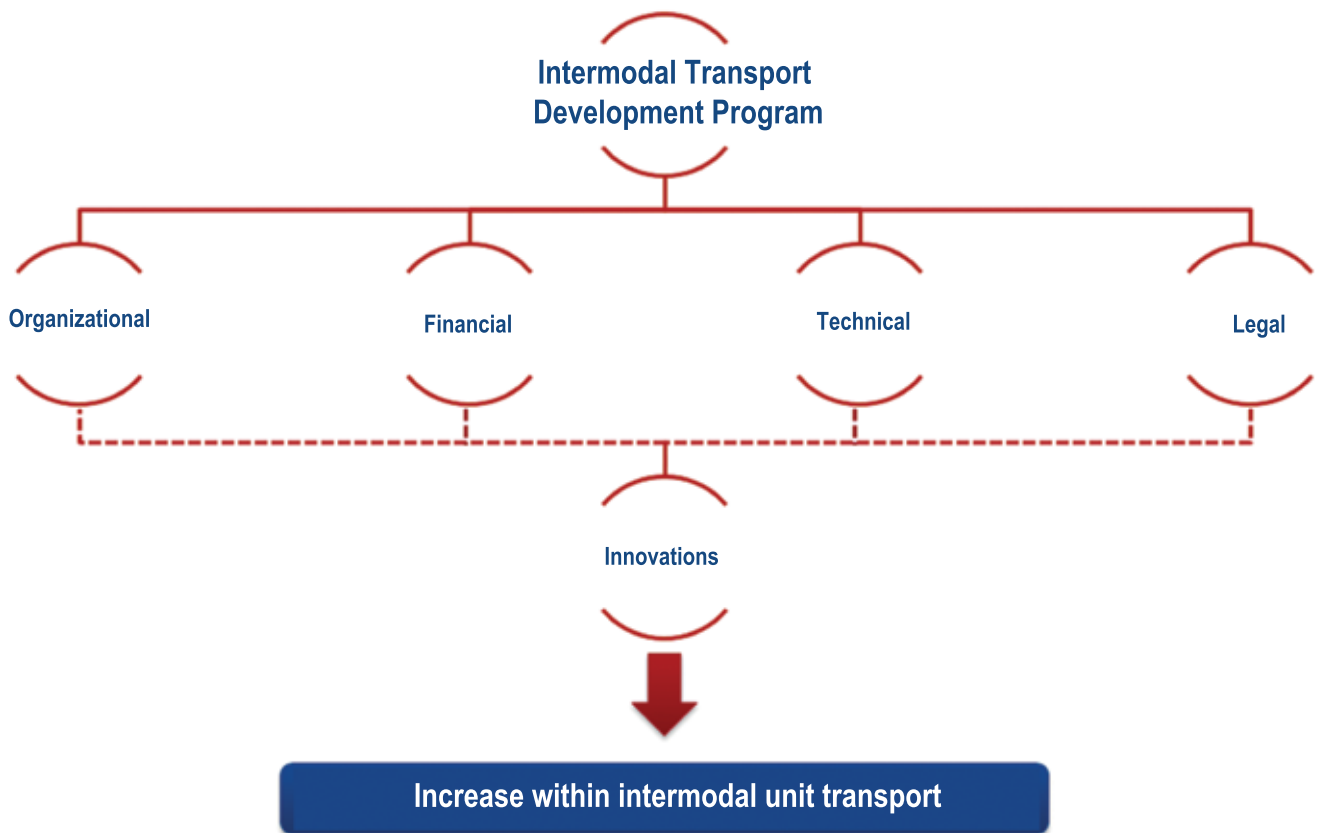


Fig. 2. Activity areas included in the Intermodal Transport Development Plan
Source: PKP S.A. Internal Materials, Warsaw 2018.

a clear responsibility within the passenger service infrastructure). As a result, the activity of the holding companies would be cohesive, which would allow reaching a synergic character optimum effectiveness of an economic, market, and investment nature. Holding company is an organization that groups autonomous business entities considering their legal and organizational state. The dominant entity is a shareholder of subsidiaries, which allows controlling the composition of management boards and the activity of those entities. The essence of a holding company is management and control within the business activity of subsidiaries by a single, dominant organization. This possible through capital or personal dependency. The parent company is usually entitled to strategic management functions related to the entire holding structure, such as: preparing a strategic plan for subsidiaries and controlling of their activity as well as managing their stock (shares). On the other hand, subsidiaries are focused on operational management functions and manufacturing or service activity [11].

PKP holding shall only have a strategic nature. Creating a holding structure shall allow the **activity integration of railway companies in order to ensure the highest possible standard** within services provision by PKP Group. A new structure shall improve the **PKP Group strategic management process and shall raise the competitiveness level of railway transport**. In order to implement those objectives, it is necessary to implement the proper PKP Group management tools at every level of management process, **considering the autonomy of each company**. The new structure does not aim at threatening the independence of entities (companies), but the implementation intends to create a market

power (e.g. using the economies of scale) and use the possibility of systemic cooperation to obtain positive results as part of the activity synergy. Holding structure management aims at accelerating the decision process and increase within activity effectiveness, for instance, through reducing general costs or improving investment cycles. The management process takes place on a strategic level, both within strategic decision making as well as operation control aiming at implementing objectives by the holding, entities and management control verifying the accuracy and effectiveness level of strategy implementation [6]. The undertaken improvement process is a result of recommendations, for instance, prepared by the Supreme Audit Office, which indicated, in the report of 2013 (SAO Report KIN-4101-08/2013. PKP Group Functioning), that the Group's operation objectives have not been defined and set, group operation strategy has not been prepared, the subsidiaries have not been given a holding company agreements. As a result, tasks within holding management have not been implemented, and the structure has not been presenting competences, for instance, allowing monitoring the undertaken by company management boards decisions on achieving objectives at the holding level. It should also be noted that in 2013, the European Court of Justice confirmed in its judgments (Judgment of CJEU dated 28.02.2013 in case C-556/10 European Commission v. Germany and judgment of CJEU dated 28.02.2013 in case C-555/10 European Commission v. Austria) that a holding structure constitutes a permissible organizational model with the EU railway transport sector (the used benchmark was the structure of DB Group, OBB Austria, Swiss Railways, SNCF and FS). As a result pt. 7 preamble to Directive

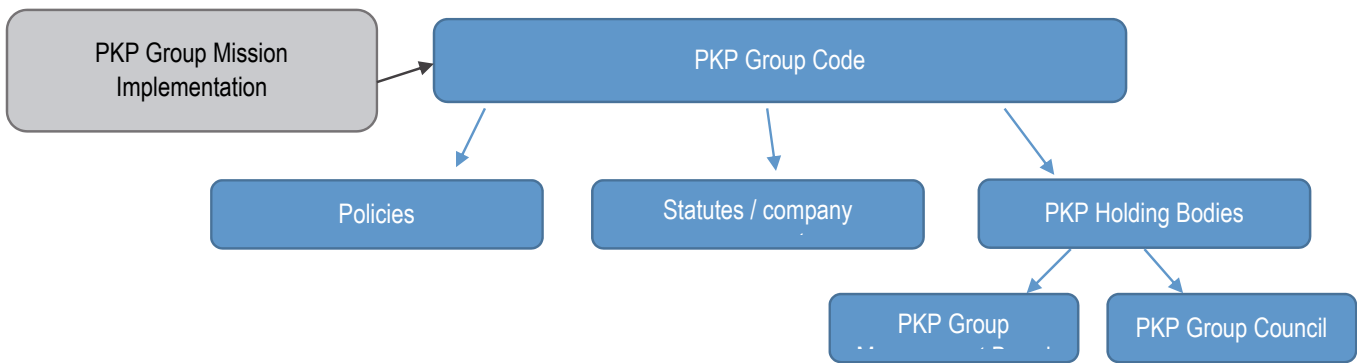


Fig. 3. Significant holding company elements
Source: : PKP S.A. Group study.

2016/2370 [4] on amendments within directive 2012/34 [3] states that the member states should be allowed to choose from various organizational models. **Of course, it means ensuring the infrastructure owner an independence through owner's as well as other legal entities' account separation, exclusion from owner's and carrier's positions within corporative bodies (Management Body and Supervisory Boards), financial transparency, including the restriction of granting loans between the infrastructure owner and the railway companies as well as ensuring the implementation of the most significant matter, meaning no influence of other entities on the owner's decisions related to basic functions, i.e. train path allocation, determining fees and charging for railways infrastructure access.** PKP Group management rationalization also covers the execution of tasks related to harmonizing financial information, and implementing an IT tool that would improve the Group's reporting processes. The PKP S.A. coordinated project of PKP Group computerization shall allow an improved use of IT tools within the Group through integrating teleinformatic solutions as well as technology standardization. It is also regarded as necessary to join as well as to use the European Technology Platform on Logistics.

The existence of basic business activity areas have been assumed, i.e. infrastructure, Logistics and cargo transport, passenger transport, Property and Support as well as the potential areas of cooperation have been determined. The following areas are included: strategy, economic analyses, ownership supervision, organizational and legal activities, procurement, financing and accounting, IT and telecommunication, transport services strategic marketing, market communication policy (promotions, PR activities), human resources management, property management, international cooperation, internal audits and safety. **As part of the indicated cooperation areas, Policies** regulating mutual coordination and management activities shall be defined. Significant elements of the future holding company have been included in fig. 3.

PKP Group Management Board shall supervise the implementation of PKP Group Mission, PKP Group main areas and activity directions, PKP Group Policies as well as PKP Group Member functioning.

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Mirosław Antonowicz holds a PhD in economic sciences. For many years he has been involved with the rail industry, including PKP Group. From 2006 to 2010 he was a vice president of the Office for Railway Transport with responsibility for market regulatory issues. He has written many publications in the area of management, transport and logistics.

In May 2017 he was appointed the Member of the Management Board of PKP S.A.