

# **APPENDIX**

<b>APPENDIX A</b>	<b>Report on Workshop for Human Resources Development of PKP Group Companies</b>
<b>APPENDIX B</b>	<b>Significance of the Privatization of the Japanese National Railways</b>

# **APPENDIX-A**

**Report  
on  
Workshop for Human Resources Development of PKP Group  
Companies**

## APPENDIX - A

### A 1.1 REPORT ON WORKSHOP FOR HUMAN RESOURCES DEVELOPMENT OF PKP GROUP COMPANIES

The mentality transformation of employees becoming customer oriented is necessary to operate efficiently and surviving as a private enterprise.

Changing the mind-set of employees in a limited time is unrealistic. However initiating the transformation process by having the PKP employees becoming aware of the present the mind-set and enlightening them realizing the necessity of mental reform is possible. In the workshop carried out by the JICA study team, particular effort was made to have the selected participants from each PKP Group companies to conduct an environmental scan around them by participatory method. By this method, they could manage to understand how the environment surrounding the PKP companies is affecting the railway business, and become self conscious of the necessity of mind reform on a corporate scale.

#### A1.1.1 Introduction

The “Workshop for Human Resources Development” took place on 3rd and 4th September 2003, with the participation of 27 middle managers from: PKP CARGO, PKP Intercity, PKP Regional, PKP PLK, and PKP S.A.

The objectives of the workshop were as follows:

[Results]

- Confirm the human resources development (HRD) situation by conducting an environmental scan applying the Institutional Development / Organizational Strengthening (ID/OS) method.
- Work out “action plans” adjusting employees of former state owned company to work in customer oriented PKP Group companies in the EU.

[Workshop targets]

- Raise awareness of employees and management for the need of mind reformation.
- Collect analysis of the situation from the point of view of prospective, open-minded middle managers.
- Stimulate participants to become role-models of necessary change in approach to work (starting from alleviating local discontents and resistance for change).
- Participants will learn to use the tools of ID/OS analysis.

[Superior target]

- To contribute to the staff consciousness reform in PKP Group companies during transformation.

96% of participants admitted that the objectives were clearly defined and 79% found that the workshop duly met those objectives.<sup>1</sup> The basic idea behind the workshop was participatory approach; 22% of participants found their involvement very high, 52% high, and 26% sufficient.

The expectations participants expressed in the opening session were: mentality change, professional improvement, satisfaction, frustration, quality, hope (3 counts), customer (5 counts), mentality reform, „lets forget about old good times”, participation, challenge, communication, integration, flexibility, alleviating discontents, development, knowledge, the good of all the group, effectiveness, readiness for change, approach for management, creativity, change (4 counts).

## A1.1.2 Workshop Results – Basic Findings

### A1.1.2.1 Analysis of HRD situation using the ID/OS method

The outputs of the workshop represent the set of independent opinions of PKP Group middle-level managers from different parts of their organizations. The starting point of the analysis was basic question: “What can be done to adjust the employees of former state owned company to work effectively in customer oriented PKP Group companies in the perspective of joining the EU?”

The basic findings of the analysis using the ID/OS method were as follows:

External environment seems to be conducive for change in approach to work and change of mind-sets of the employees, through factors such as: unemployment, possibilities to get trained (corporate sector or abroad), exposure on the competition.

The mission statements<sup>2</sup> of the companies are too detailed and specific. They constrain the development or future expansion of the organizations. In the most cases (except from PKP Intercity) the participants doubted if the employees knew and identified with the mission statements of their companies.

The organizational structures<sup>3</sup> are not flexible and not appropriate for efficient operation. They do not facilitate change in approach to work and will constrain further development; now they hamper quick decision making, information spread, not to mention taking initiative by the employees to respond to customers’ needs. It will be too late to change the structures once companies are privatized. The structures will “not survive” the competition from the EU (in terms of generating excess costs and efficiency – the competitors will beat PKP Group companies). Structures are theoretically correct but do not work efficiently in business practice.

There is a necessity of reinforcement systems for new approach to work. However, most of the participants pointed at lack of appropriate evaluation systems of employees (incentive for improvement) linked with the wage system (money, fringe benefits, rewards, recognition, relevant promotion system), lack of measuring and assessing performance, which all must be consistent with the behavior of the employees that the

<sup>1</sup> Results of evaluation, including comments of participants, presented in Appendix - AA.

<sup>2</sup> Mentioned in the IOM analysis of each company (section A1.1.2.4 Results).

<sup>3</sup> Organization structures of the companies presented in Appendix AA - 2.

company wants to promote (customer orientation).

Most of the participants found the culture of their organizations very strong and not easily adaptable for change.

Importance of the information about the current changes in PKP Group companies, helping people to understand and believe in the overall changes enough to make an effort to change as individuals. Lack of the proper information about the operations, mission, objectives and even relevant job descriptions was also pointed out. Moreover, the need for the information about customers' needs and preferences was also pointed out.

Necessity of skills required for change – appropriate system of professional and “soft” trainings. Transpersonal psychology suggests that the innate desire to develop and grow infuses human beings with energy.

Necessity of consistent role models - employees must see people they respect actively modeling the mind-set change. Participants expressed the need to “make the staff younger” by employing people with new skills and approach to work. Moreover, the participants of the workshop are supposed to promote mentality change and become a critical mass for the organization change.

#### **A1.1.2.2 “Action plans” adjusting employees of former state owned company to work in customer oriented PKP Group companies in the EU**

The action plans were created based on the HR analysis by ID/OS method. The action plans worked out by each respective company are presented in part “IV. Results”.

It must be stressed, however, that the “action plans” might not attempt to be implemented, since:

participants have no sufficient competence for the implementation, and

“action plans” include the basic structure of objectives<sup>4</sup> but do not include the assumptions, time horizon or means of verification<sup>5</sup>.

Therefore the study team is advocating organizing the follow up workshop for the decision makers in order to work out final solution based on the opinions and analysis of the middle-level employees.

65% of participants judged the quality of the workshop results as high; in the opinion of 35% of participants the results would be useful for their organizations, and for 48% - interesting.

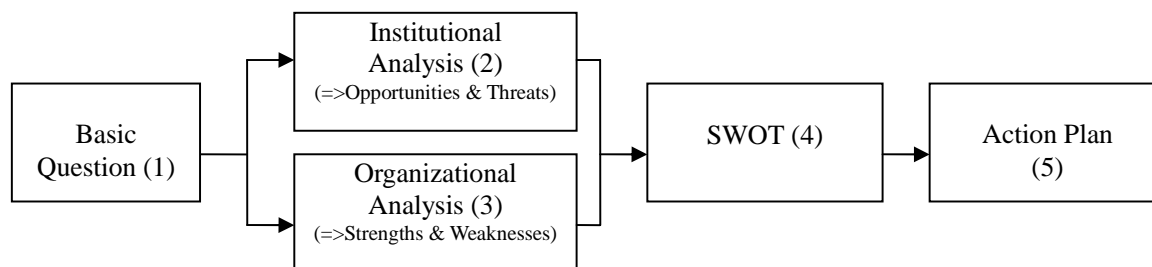
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<sup>4</sup> Superior target – Project target – Results - Activities

<sup>5</sup> Considered as necessary in the « Project Design Matrix » of PCM

### A1.1.2.3 Methodology

The workshop was conducted according to the ID/OS method. Within the ID/OS method, the following framework was selected for the workshop:



**Figure AP 1.1.1 Flow of ID/OS Method**

#### (1) Basic Question

In the beginning the basic question was specified, based on the consultants' observations and interviews with the PKP Group employees:

“What can be done to adjust the employees of former state owned company to work effectively in customer oriented PKP Group companies in the perspective of joining the EU?”

The question was introduced in the plenary session. Than, each group was working individually – analyzing its customers and their needs.

#### (2) Institutional Analysis

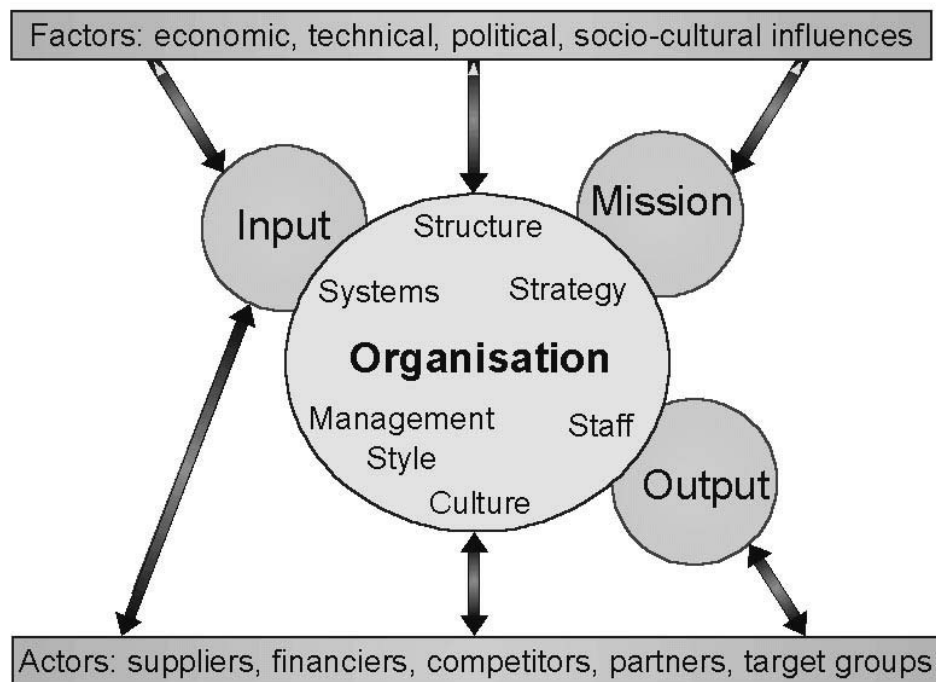
The concept of analysis of external environment (institutional analysis: factors & actors) was introduced in the plenary session, using Integrated Organization Model (IOM).

Than, each group (company) was working individually analyzing opportunities and threats coming from the external environment (economic, political, socio-cultural, technical, competitors, partners, financial partners, suppliers, target groups, etc.). The participants were supposed to refer to the basic question.

#### (3) Organizational Analysis

The concept of analysis of inside of the company (organizational analysis) was introduced in the plenary session, using Integrated Organization Model (IOM).

Than, each group (company) was working individually analyzing strengths and weaknesses coming from inside of the organizations (mission, inputs, outputs, strategy, systems, employees, organization culture, management style, structure, etc.). The participants were supposed to refer to the basic question.



Source: MDF (Management for Development Foundation), Netherlands

**Figure AP 1.1.2 Integrated Organizational Model**

(4) Strength-Weakness-Opportunity-Threat (SWOT) Analysis

Referring to the basic question, the participants were asked to select three most important opportunities, threats, strengths and weaknesses and map them on the SWOT matrix.

		Opportunities			Threats		
		1	2	3	1	2	3
Strength	1	Use this strength to grab this opportunity			Use this strength to fight this threat		
	2						
	3						
Weakness	1	Remove this weakness to use this opportunity			Remove this weakness to alleviate this threat		
	2						
	3						

**Figure AP 1.1.3 SWOT Analysis**

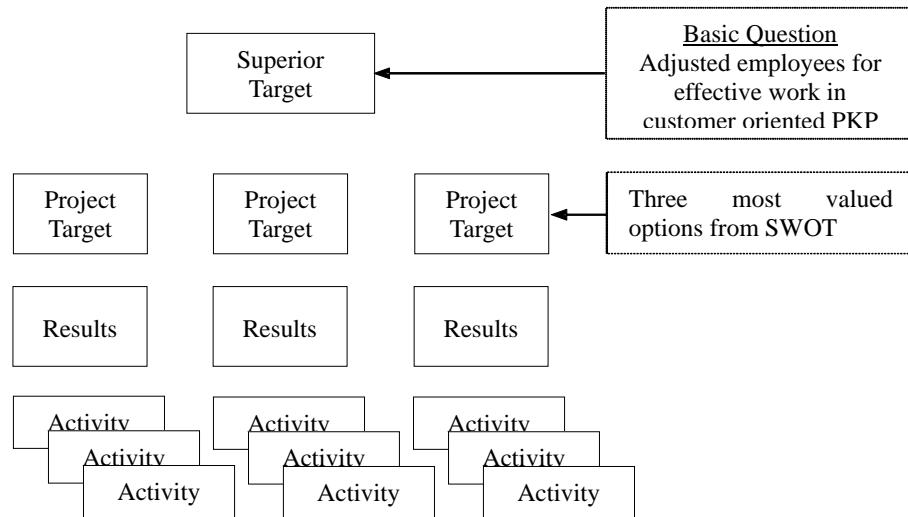
Then, they were asked to select three options using the criteria:

- Can this strength help to use the opportunity or fight the threats;
- Can this weakness hamper the use of opportunity or make the threat more serious.

The SWOT analysis was used to work out the following action plans.

(5) Action Plan

Based on the ID/OS analysis the participants were supposed to work out “action plans” follow to the logical framework of PCM<sup>6</sup> method. The basic question became “superior target”; three most valued options from the SWOT analysis became “project targets”. Participants were working out relevant results and activities, as shown in the following figure.



**Figure AP 1.1.4 Preparation of Action Plans**

(Action Plan)

It must be noted, that the above framework for “action plan” is simplified Project Design Matrix (PDM) of Project Cycle Management (PCM) method. It does not, however, include the assumptions, time horizon or means of verification.



**A1.1.2.4 Results****[PKP CARGO]**

(Participants) 5 persons

(Organization):

Bureau for Organization and Management in Kraków

Bureau for Human Resources Management in Katowice

Regional Office of Freight Transport and Transshipment in Małaszewicze

Rolling Stock Regional Office in Szczecin

Rolling Stock Regional Office in Czechowice - Dzierżyc

(Customers & Customers' Needs)

PKP CARGO has mentioned the following customers: steel mills, coal mills, power stations, cement factories, construction companies, car makers, ports, ship yards, paper factories, fiber companies, refineries, forwarding companies, PKP Group companies. The elasticity (e.g. "just-in-time" services) was emphasized.

Customers' needs	Customers (types)
Volume of transport (bulk cargo, general cargo)	Coal mines, steel mines, ports, heating plants
Frequency of transport (constant, periodical, one time)	Coal mines, steel mines, ports, sugar factories
Speed of transport (important or no)	Forwarding companies
Time of delivery (punctuality)	Car-makers, breweries, ports
Level of specialization (specialized rolling stock, ACTS systems, others)	Army, cars, cement-makers, food producers, ACTS systems, RO-LA, agriculture, refineries, chemical producers
Price of transport	
Safety of transport, security (uranium, etc.)	
Complex information	PKP Group

## (Institutional Analysis: Opportunities &amp; Threats)

Opportunities	Threats
Technical	
SUW 2000	SUW 2000 (threat for one of regional office)
Remote control of the locomotives	Remote control – locomotive drivers redundant
Geographical positioning system of the locomotives and wagons	
Clint service through Internet	
Socio-cultural	
	Social unrests: strikes of professional groups, blocking tracks, etc.
Economic	
Logistic centers	Crisis of hard industry (trend for decreasing freight transport)
Competition (bringing positive stimulants for the employees)	Competition (taking over freight transport)
Privatization (investment capital)	Privatization (employment reduction)
Political	
Environmental protection	State energy policy
Highways construction (favorable for the transport sector as a whole)	Highways construction (taking over transport)
	EU Directive no 440: market liberalization (20% by 2004 and 100% by 2006)

## (Organizational Analysis: Strengths &amp; Weaknesses )

Strengths	Weaknesses
Specialized and trained people	Excess employment
Country-wide operations	Inelastic salary system, not a tool for motivation
High own capital	Lack of work evaluation and assessment (no motivation or incentive for work improvement)
High transport potential	Lack of management of employees competence
Financial liquidity	Systems not sufficiently developed (information, etc. – old, not keeping up with the changes)
	Little knowledge and understanding about operations of the company; weak info-flow
	Too centralized decision making
	Weak marketing, which does not play its function
	Strong organizational culture with weak adaptability
	Short sighted policies
	Undeveloped sales techniques

## (Comments)

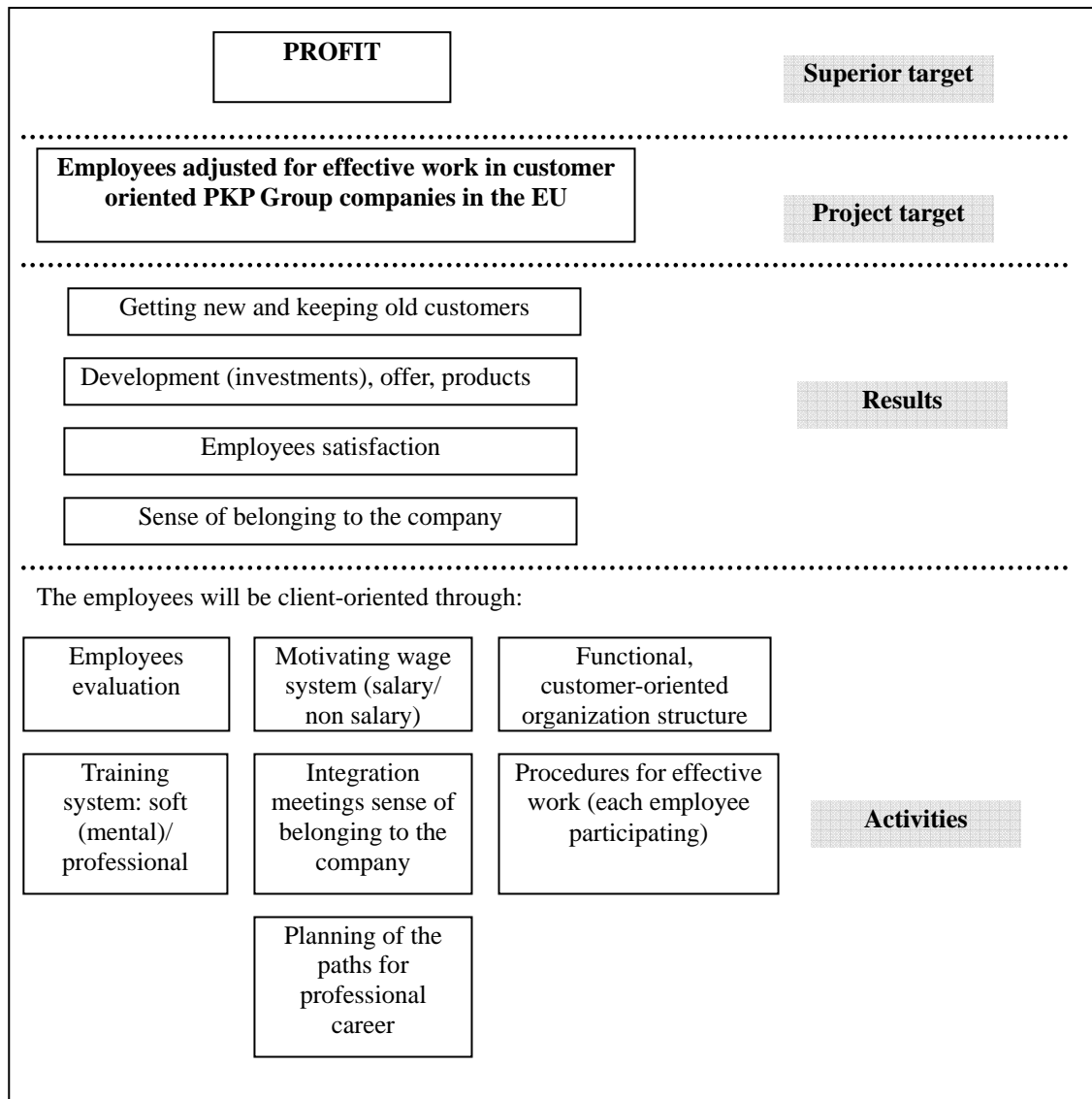
Forwarding services – CARGO still has not emphasized enough.

The capital cannot be allocated – market value close to zero (Regional).

The old rolling stock of CARGO is a threat for Intercity.

“The competition will kill you – with the efficiency and functionality of their structures; you will not survive in the European market; you will not manage with the costs”

(Action Plan)



**[PKP Intercity]**

(Participants) 6 persons

(Organization):

Employees Affairs Department (2 persons)

Marketing Department (2 persons)

Sales Department (2 persons)

(Customers & Customers' Needs)

The participants have emphasized that the operations of Intercity are purely commercially oriented – all the revenues come the clients (passengers) and not based on the agreements with the local governments.

Customers	Needs
Individual customers	
Business trips	Quality, punctuality, catering, possibility to work in the train (quiet), intimacy, quick information about changes in schedule, break downs, cashless payments
Tourism – recreation trips	Time, price, carrying sport equipment and luggage, directness, communication (possibilities of transfer)
Getting to school and work	Price (reductions; multiple trips), travel time, punctuality, information
Private client	Price, comfort, catering, possibilities of transfer
Institutional customers	
Tourism organizers	Service in the same time and place, simplified procedure for tickets purchase, common tariffs packages
Employers sending employees	Price reductions for multiple trips, technology in the reservation and purchase, possibility to work in train
Those who use reductions	Maximal scope of price reduction
General needs	
Safety, punctuality, standard, time of the trip, information, complaints, frequency, esthetics	

## (Institutional Analysis: Opportunities &amp; Threats)

Opportunities	Threats
Economic	
Looking for jobs	Unemployment
Bad condition of roads infrastructure	Political climate
Opening of boarders	Competition – opening boarders
	Transport policy
Technological	
New multimedia technologies – possibility to reach larger number of clients	Development of other means of transport
Modern rolling stock	Modern rolling stock
Interoperability	
Sales techniques	
Socio-cultural	
Higher expectations	Higher expectations
Respect for work (education, self-education)	
European Union – brings adjustment to the European standards by the employees (foreign clients – both from East and West)	

## (Organizational Analysis: Strengths &amp; Weaknesses)

Group presented the mission of the company as the introduction: „We connect the cities and people, we provide with the comfortable transport from center to center of the agglomeration in the most sure and quick way.”

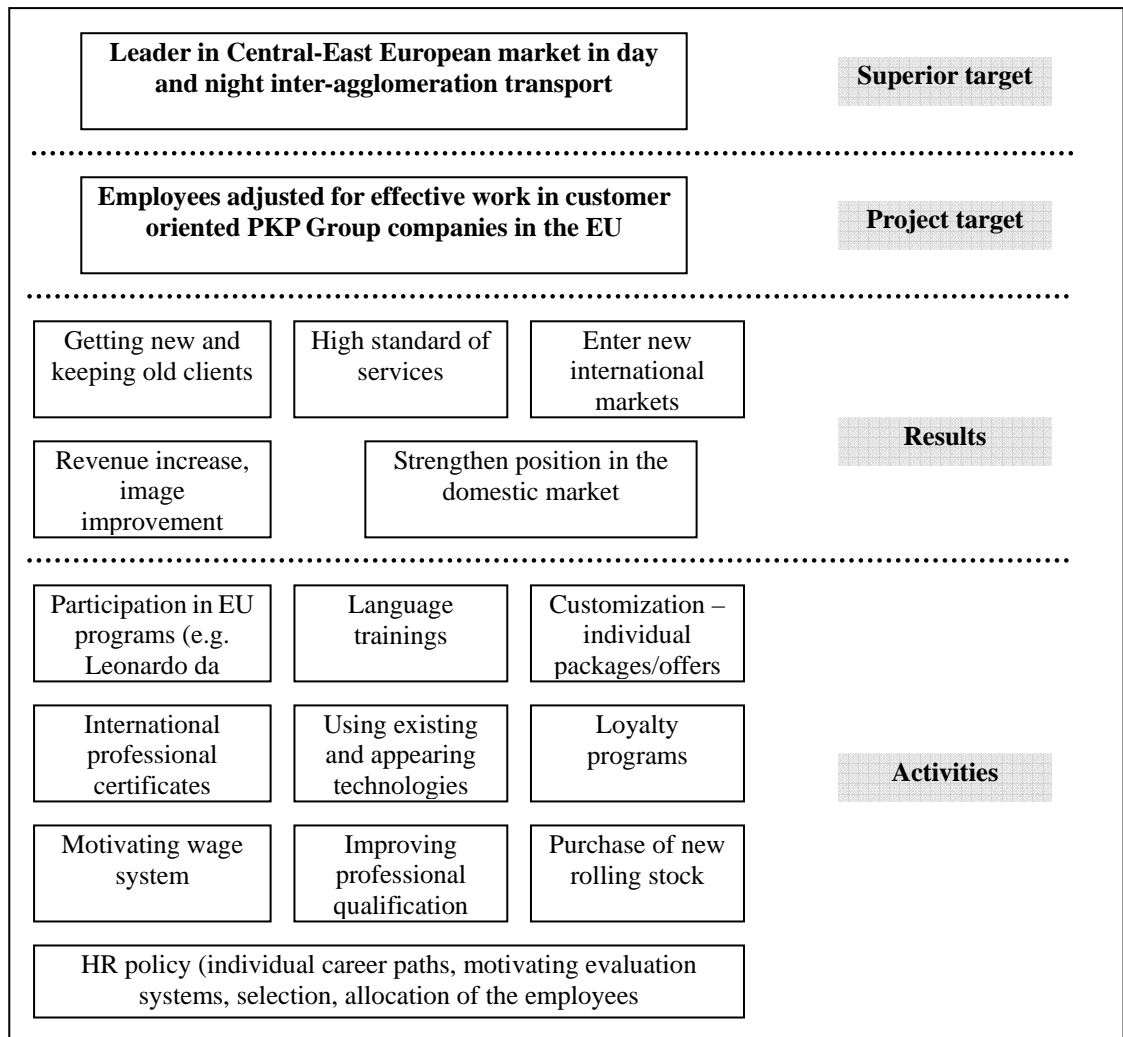
Strengths	Weaknesses
Clearly defined mission	Allocation of the employees
Strategy in line with the mission	Need for the centralized client service
Flat organization structure	The distribution network might be more dense
Employees – with no mental “ballast” of former PKP, people open for changes.	Insufficient competences of the regional offices
Young, well educated employees	Elements of the employees motivation
Systems, procedures, reports, analysis in place	Lack of investment possibilities
Access to information	Foreign languages command
Optimal scope of training	Structures and employees approach: attached to procedures and regulations: the employees do not take the initiative unless it is clearly specified in their obligations.
Possibility of improvement of qualifications	Weak competences in the regional offices
1 year is enough to train and adjust newly employed person.	Flow of information inside of the company
System of trainings and enhancing of qualifications (trainings are just about to start)	Too centralized management style
No excess employment	Wage system – not motivating
Distribution network	Too centralized structure
Newly opened center for clients’ complaints	Service of institutionalized client in the headquarters
Structures and approach of employees: attached to procedures and regulations (safety)	Strong organizational culture
	Self-orientation instead of client-orientation
	Most of decisions taken in the headquarters

“We liked very much – and we are going to implement it from tomorrow: all the employees work in the sales department”.

Comment: the structure is not efficient – not conducive for changes.

IC structure is flat/functional – which makes that the person is not the employee of the company, but the employee of the given department.

(Action Plan)





**[PKP Regional]**

(Participants) 6 persons

(Organization):

Bureau for the Management Board, PKP Regional in Poznań

Marketing Department, Warszawa

Employees Affairs Bureau, Poznań

Employees Affairs Department, Warmińsko-Mazurskie Regional Office of PKP Regional in  
Olsztyn

Economy and Finance Department, Wielkopolski Regional Office of PKP Regional in Poznań

Service Quality Control Department, Mazowiecki Regional Office in Warszawa

(Customers &amp; Customers' Needs)

Customers	Customers' needs
Regional/ Interregional	
Everyday trips to work and school: employees of other companies, PKP Group employees, pupils, students	Trip safety and personal safety, punctuality, price
Professional (business trips)	Comfort (clean trains and train stations), travel time, logistics of other interregional transport/ other means of transport
Tourists; groups	Connections with other railway/ car means of transport
Mass transport (sport events, pilgrimages, etc.)	Information, accessibility of sales network, group tickets, special trains for groups, meeting other special needs of the group, , information
Occasional : family transport, to commercial/ administrative centers)	Possibility of carrying bicycles and non-standard size luggage, attractive price, safety, seating place guarantee
Foreigners	Quality, comfort, foreign languages command
Local administration	Elasticity in negotiations, accessibility to sales network, simplified form of using different transportation means (shared ticket)
Institutional clients: local administration (voivodships), Minister of Transport, institutions getting commercial discounts	

## (Institutional Analysis: Opportunities &amp; Threats)

Opportunities	Threats
Economic	
Looking for jobs	Unemployment
	Impoverishment of the society
	Amount of subsidies
Possibility to sign long-term agreements with the local governments	Partners who do not follow the agreements
	The employees should acknowledge that the client is the "highest good" – not the intruder who damage the rolling stock, etc.
	"The labor unions which protect individual employees with no consideration for the company"
	We cannot think anymore that the railways cannot go bankrupt
	Suppliers – approach in terms of the cost transfer
	Owners should create railway lobby – but now "we are nothing but a problem"
Technological	
New technologies	Development of other means of transport
	Modern rolling stock
Socio-cultural	
People travel to work (longer distances)	Fashion to travel by car

## (Organizational Analysis: Strengths &amp; Weaknesses)

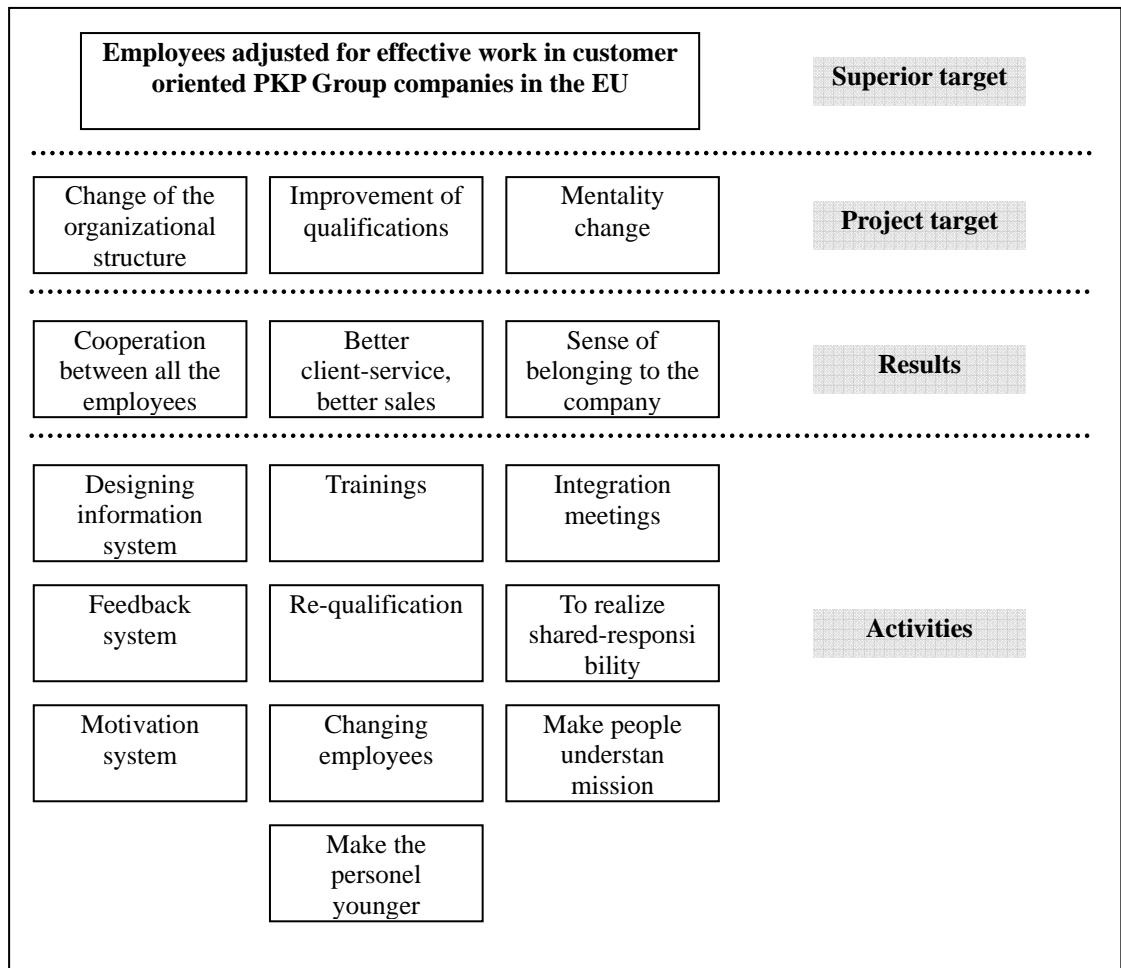
Strengths	Weaknesses
Geographical coverage	Train stations not owned by Regional (big impact on the client satisfaction)
Mass transport, mass services	No own locomotive drivers
Experience, tradition	Employees have no sense of belonging to the company
Guarantees: job security for the employees, following the labor code such as maternal leaves, etc. (which can be the arguments for the future employees, as other employers not always respect those rules)	Not flexible
Reductions in price for trains 99%	Finance
	Little independency of the employees

## Comments:

Who is the customer? The passengers but also the State (through local governments).

What is the constraint for employing and training locomotive drivers by PKP Regional? The division of the PKP's assets. PKP Regional can employ drivers but has no funds for buying the rolling stock.

(Action Plan)



**[PKP PLK]**

(Participants) 7 persons

(Organization):

Employees Affairs Bureau (3 persons)

Automatics and Telecommunication Bureau (2 persons)

Product Sales Bureau (1 person)

Railway Bureau (1 person)

(Customers & Customers' Needs)

The group has emphasized that PLK will not be privatized. The reaction for customers' needs is limited - as it is market regulator (UTK) who is giving licenses for the operators.

Basic direct clients are: PKP CARGO, PKP Intercity, PKP Regional and the operators from outside of the PKP Group. Indirect clients are passengers and freight (general and bulk cargo).

The track access charge (TAC) should cover the cost of providing the infrastructure. There are additional revenues from leasing of the assets, sales of assets, additional services (side tracks, repairs).

Customers	Customers' needs
	Lower TAC
	Higher standard of services
Passengers & Freight	Safety (trains – passenger)
	Punctuality (timetable)
	Shorter journey time
	Protection of the passengers and freight
Passenger	Travel comfort
	Standard of platforms and other information for the passenger service (SOK services)
Freight	Adjusting railway lines for the realization of combined transport; “TIRs on tracks”
	Wider offer for individual clients

## (Institutional Analysis: Opportunities &amp; Threats)

Opportunities	Threats
Monopoly - favorable conditions for restructuring	Monopoly – threat of stagnation
State owned – state responsible for condition of infrastructure; funds for own share in the aid funds of the EU for investment in infrastructure	State owned – unbalanced railway policy; passive in terms of investments, discrimination of railways
Labor unions – cooperation with the management of the company; analyze possible solutions, do not violate the interest of the company	Labor unions – numerous organizations, which cannot reach shared agreement; protecting current conditions; demands escalation; “job description: labor union activist”;
Regulations (UTK – railway market regulator) – clear system of licensing, time, non-discriminatory rules, in line with the EU regulations Legislative procedures	Regulations – potential for discrimination, long time for issuing licenses,
Supporters – environment protection organizations (environment-friendly means of transport), international railway organizations, local organizations, lobbying for railways	
Suppliers (internal: energy, train traffic control) – improvement of the product for the clients (under condition of reasonable business plans)	
ETCS – European Train Control System - interoperability	ETCS

## (Organizational Analysis: Strengths &amp; Weaknesses)

Strengths	Weaknesses
Strong and adaptable organization culture	Management style; competence sharing between management and operation units
Structure adjusted to the regulations and needs of the clients	No resources for trainings
Proper procedures for trainings	Urgent need for EU-related trainings
Procedures in place: financial, administrative, traffic management	No motivation system
The competences are not concentrated in the PLK headquarters – but are distributed between the regional offices as well.	PLK is managing the railway lines – but does not own them; strong expectations to transfer the assets to PLK

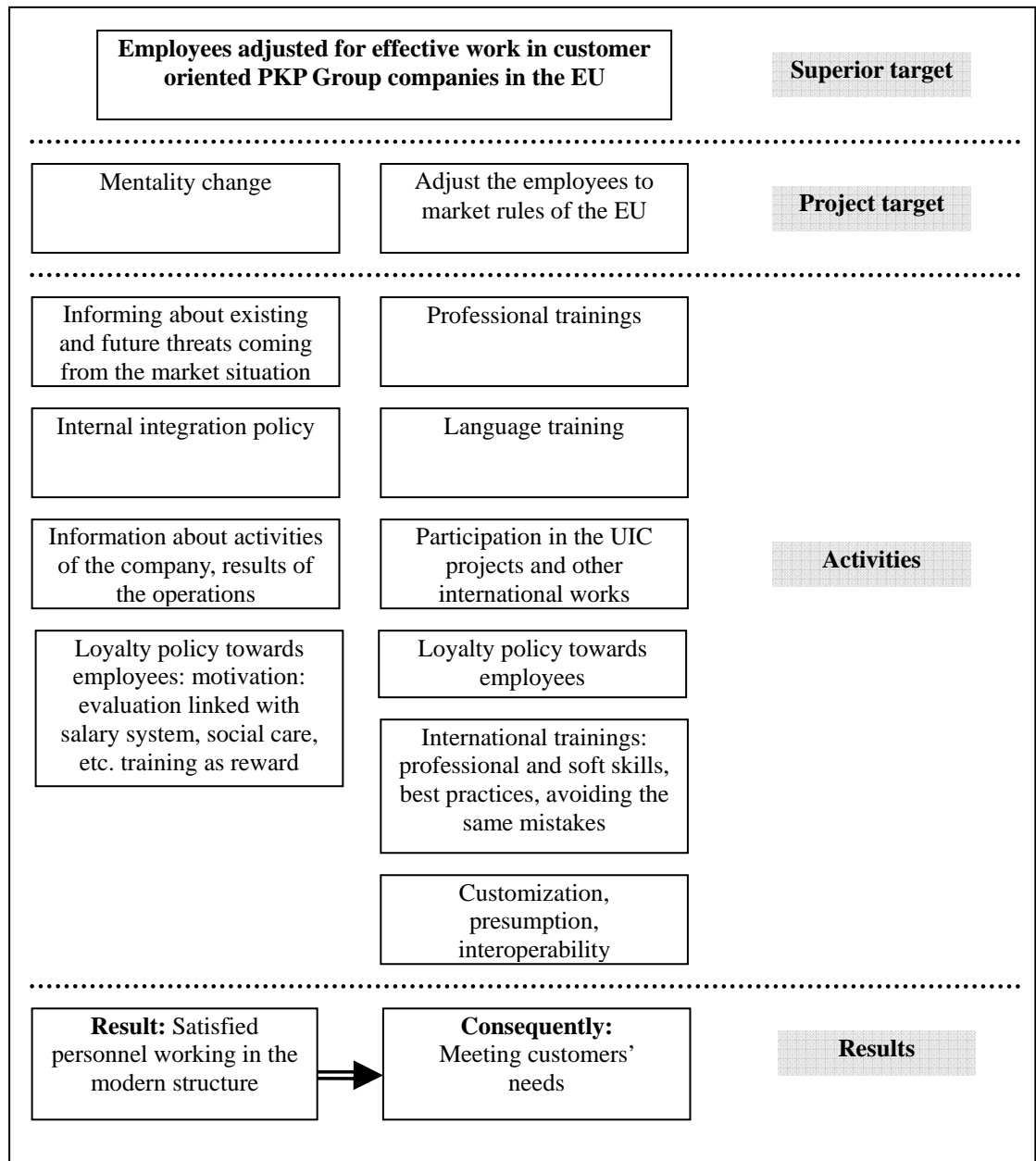
The group was reluctant to judge in terms of weaknesses and strengths

The organization structure and management style is determined by the technical procedures and regulations; the group claimed that the procedures are good (likewise in the EU) and no revolutionary changes can be accepted”.

Most of the staff – especially directly related to the railway traffic – is well trained and examined (according to the internal instructions); there is also strong selection of the candidates for the job applicants.

Comment of PKP Regional relating to the mission of PLK – we are lacking fast not only safe access to the infrastructure

(Action Plan)



Even though PLK will not be privatized and it seems that all the problems do not concern it participants admitted that PLK will be exposed to the competition and therefore mentality change and customer orientation is crucial.

In fact PLK can be taken over by the increase of capital.

**[PKP S.A.]**

(Participants) 5 persons

(Organization):

Management Board Bureau, Employees Affairs Department (1 person)

Management Board Bureau, Employees Development Specialist (1 person)

Management Board Bureau, Employment Planning and Analysis Department (1 person)

Privatization Bureau (2 person)

(Customers & Customers' Needs)

Customers	Customers' needs
PKP Group companies	
Railway users	Quality of service provided
Potential investors	Information, good condition of the company, efficient procedures
Assets buyers	Attractive localization, standard, price (terms of payments)
Assets leasers	

(Institutional Analysis: Opportunities & Threats)

Opportunities	Threats
Competition	Competition
Technological changes (bringing reduction of employment)	Technological changes (specialized software, etc)
Economic situation (educated employees)	Economic situation (budget deficit)
Legal system	Legal system (lack of stability)

Who is PKP S.A. competitor?

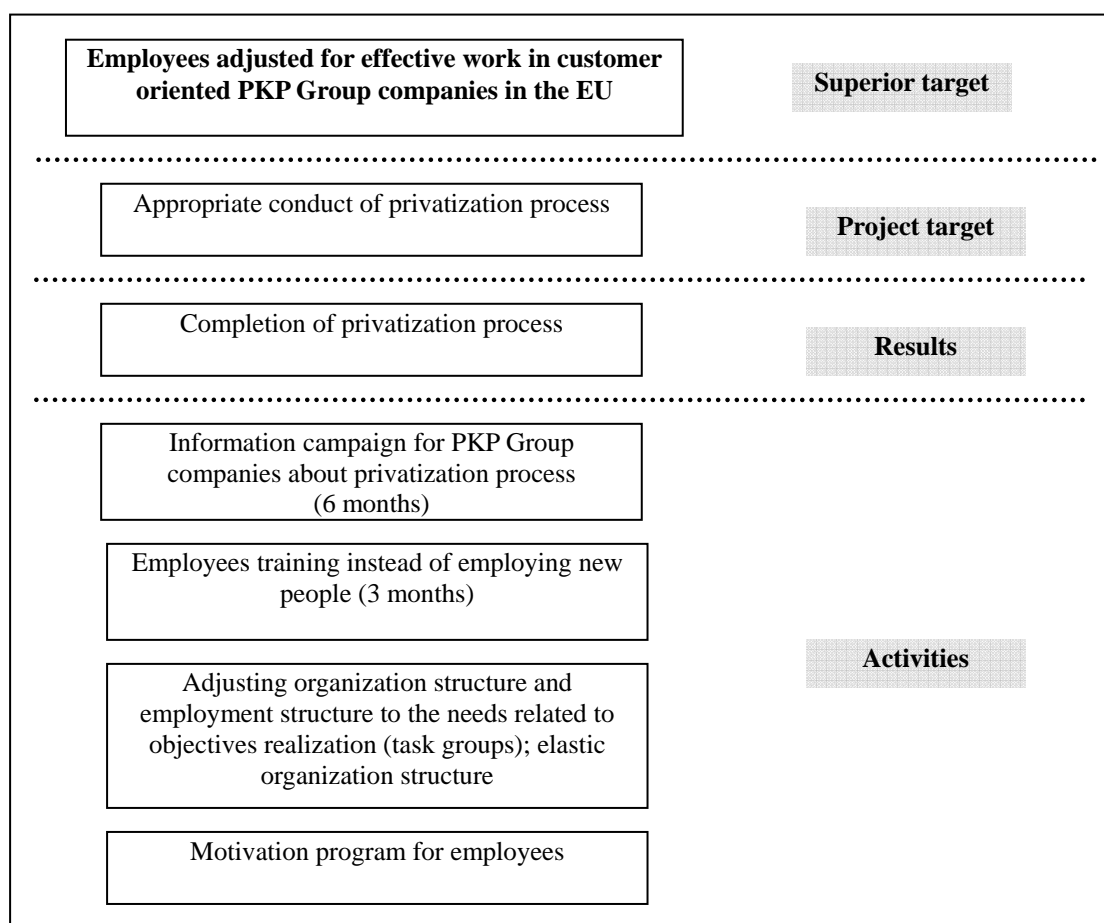
(Organizational Analysis: Strengths & Weaknesses)

Expressed that they do not feel in the position to analyze deeply – better would be people from the management.

The group perceived mission of PKP S.A. as: “Effective and efficient functioning of PKP Group”; they regard it as the role or function of PKP S.A.

Strengths	Weaknesses
Clear organization structure	Organization structure
Employees with higher education	Weak communication between the companies
There are many young employees	All the procedures are very strong
The strategy is in line with the mission	One information has to be gathered from many sources
	PKP S.A. does not see its client orientation – it is more oriented to the operation of the Organizational structure – weak adaptability
	Lack of the motivation for the employees, which has the impact on the efficiency of operations
	Too formalized structure, weak communication

(Action Plan)





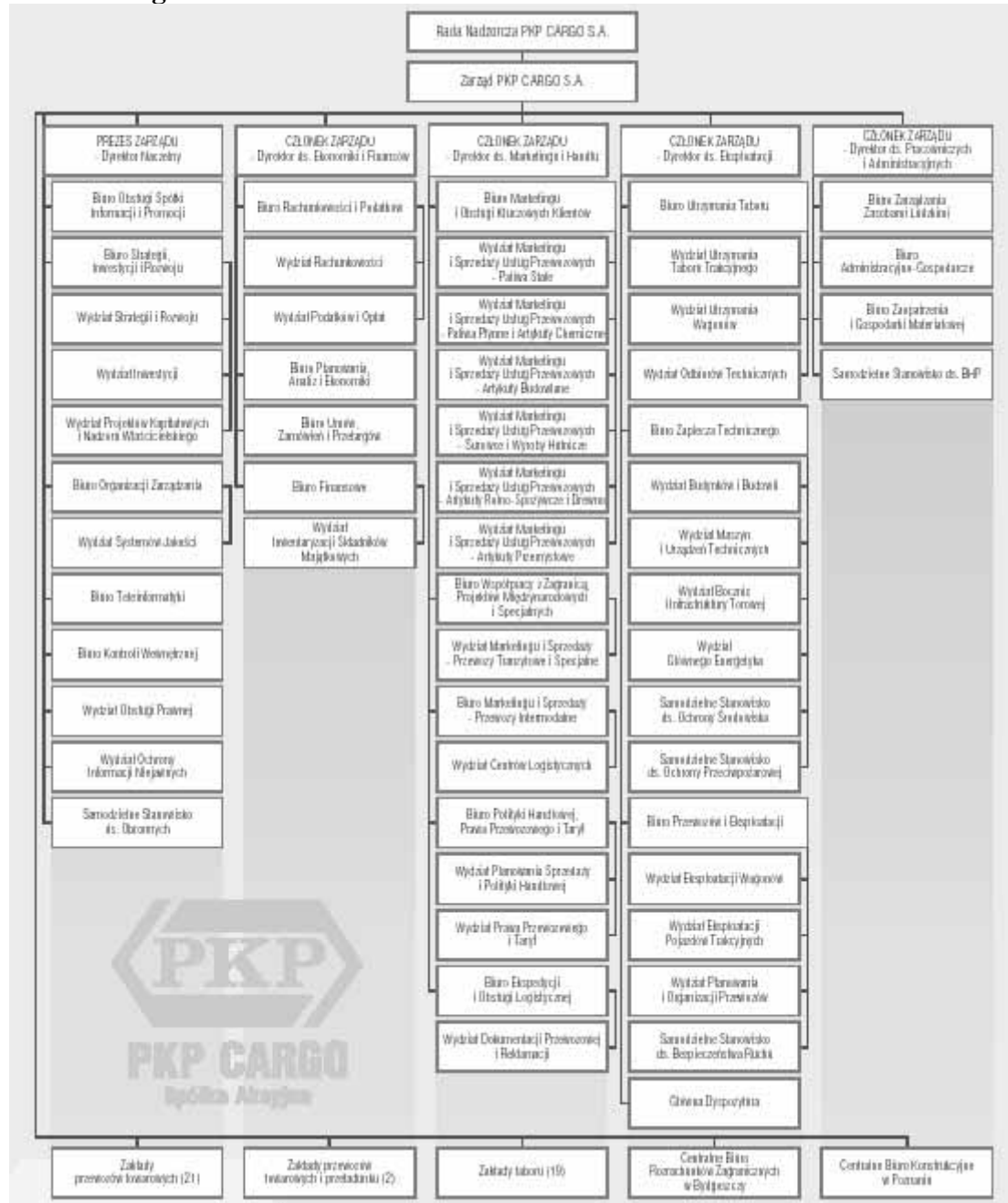
**Appendix - AA****Table AA – 1 Results of the Evaluation of the Workshop for Human Resources Development**

Date	3, 4 September 2003			
How much in advance did you receive the information (invitations, objectives, agenda, etc.) [days]	average: 6.5			
Were objectives of the workshop clearly defined in the beginning?	yes: 96% (22/23) no: 4% (1/23)			
Please, evaluate the following factors:	1	2	3	4
Did the workshop meet its objectives?	fully	to the big extend	average	not at all
	0%	79% (18/23)	17% (4/23)	4% (1/23)
What was the level of involvement of participants?	very high	high	sufficient	low
	22% (5/23)	52% (12/23)	26% (6/23)	0%
What was the level of moderating workshop?	very high	high	sufficient	low
	45% (10/22)	50% (11/22)	5% (1/22)	0%
What was the quality of the results worked out by the participants?	very high	high	sufficient	low
	4% (1/23)	65% (15/23)	27% (6/23)	4% (1/23)
How useful will be the results for the further operations in your Organization?	very useful	useful	interesting	not useful
	13% (3/23)	35% (8/23)	48% (11/23)	4% (1/23)

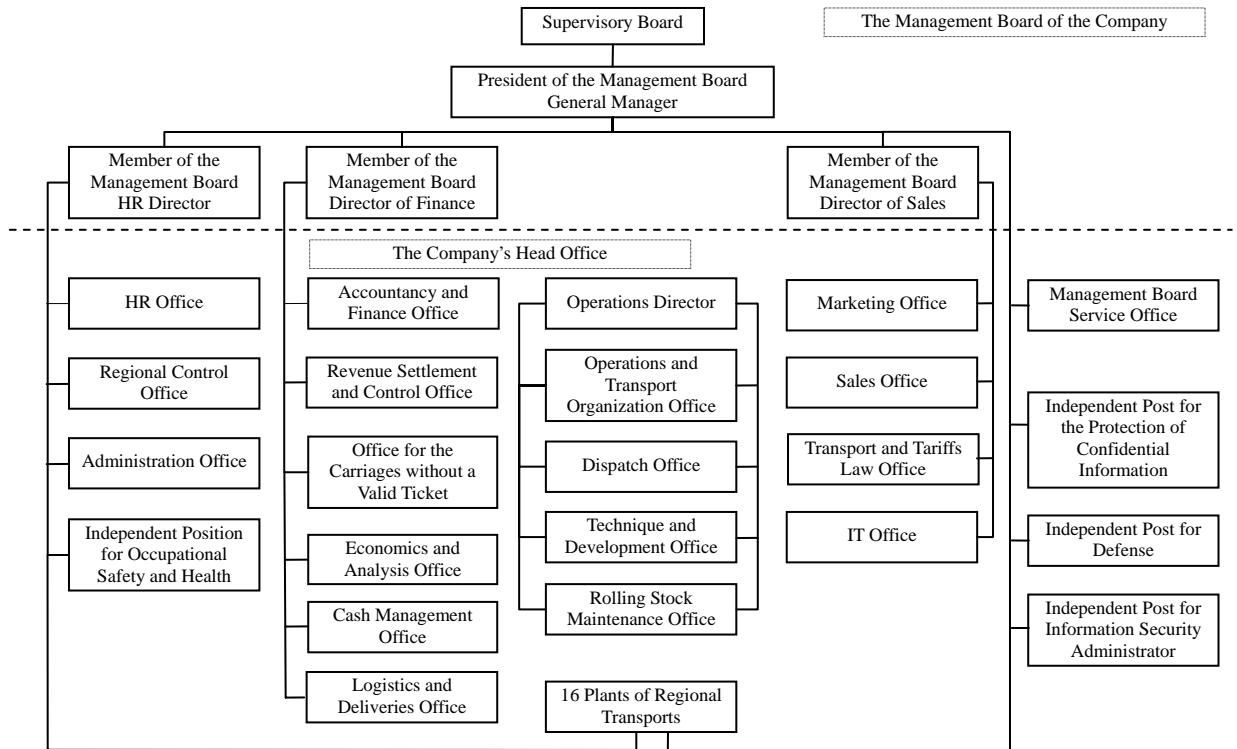
<p>Please, give us your comments</p>	<p>„More, please!“</p> <p>„The workshop was extremely interesting; it introduced new mechanisms and approach to the analysis of the organization and to the problems mentioned. Very constructive meaning; very effective in terms of achieving expected results of the workshop.“</p> <p>„There was little time for the deeper analysis of the problems mentioned. We could not fully answer the basic question. During the workshop, problem was extended to the whole organization – and not only to the employees themselves.“</p> <p>„I think it was a very good idea to chose the method (form) of the training in the form of participatory workshop. Thank you very much for giving me the opportunity to participate in this workshop.“</p> <p>„It is very important to make the employees conscious about the need of changes and about the way that the company is going to realize those changes.“</p> <p>„The workshop was completely out of the scope (maybe except of the last session). Human resources development was mentioned only in the background. Too many moderators were confusing, but all of them were nice and involved. It was very interesting to hear the comments of prof. Ploszajski and the observer from the Ministry. The discussion and confrontation gives the good opportunity to enhance the knowledge about PKP Group companies.“</p> <p>„It was a very good idea to organize this workshop. These kind of activities create the favorable environment for introducing changes. The evolution of the mentality of the employees of PKP Group towards the market economy requires this kind of stimulants (in the form of workshops) much more frequently and regularly.“</p> <p>„Some of the comments were far from the scope of the workshop. No time discipline.“</p> <p>„Very interesting training. It would be very useful to organize it again for the higher level management, who have more influence for the operations of the company.“</p>
<p>Age [years]</p>	<p>average: 36.6</p>
<p>Experience in PKP Group [years]</p>	<p>average: 8.7</p>



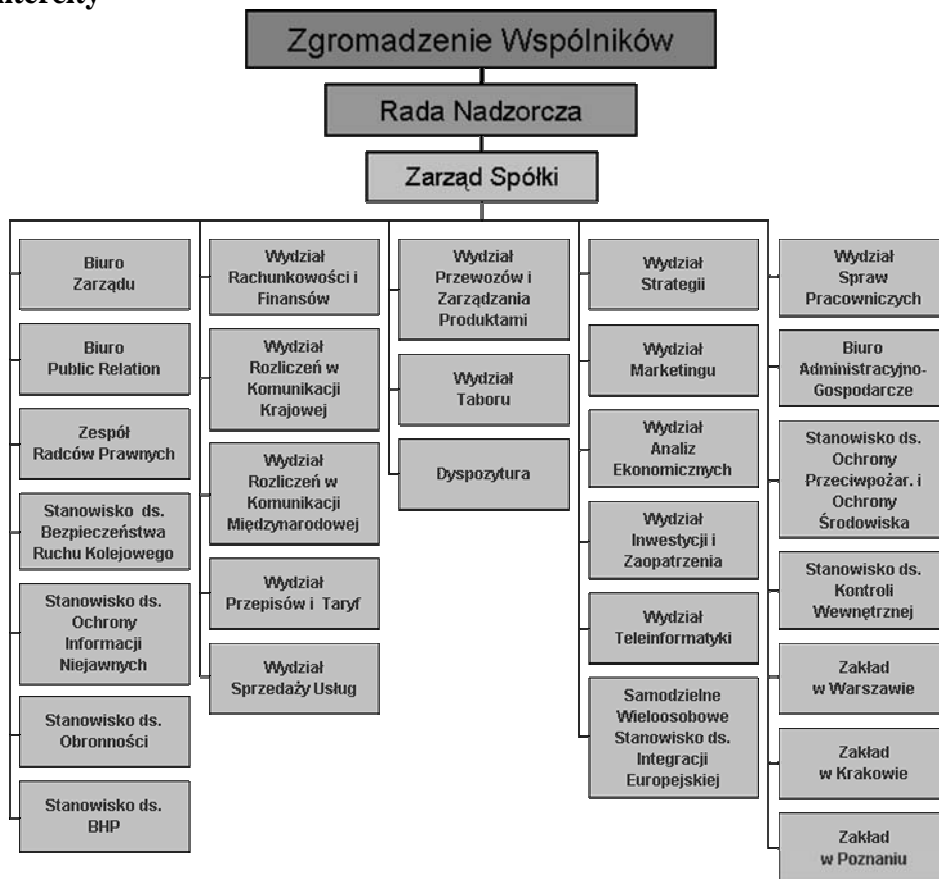
**Appendix AA - 2: Organization Structures of PKP Group Companies:**  
**1. PKP Cargo**



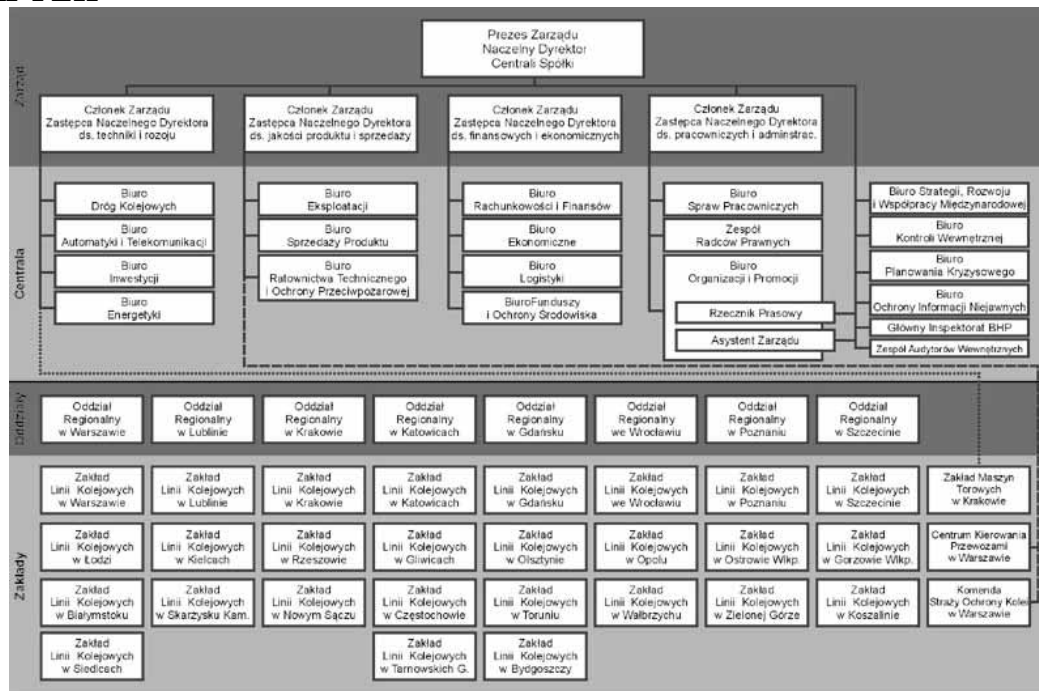
## 2. PKP Regional



## 3. PKP Intercity



#### 4. PKP PLK



Source: PKP PLK S.A., yearly report 2001

Source: PKP Intercity Sp. z o.o., yearly report 2001

# **APPENDIX-B**

## **Significance of the Privatization of the Japanese National Railways**

# **APPENDIX-A**

**Report  
on  
Workshop for Human Resources Development of PKP Group  
Companies**

## **APPENDIX - B**

### **Significance of the Privatization of the Japanese National Railways**

Tatsuhiko Suga  
Chairman, JICA Advisory Committee

Good morning, ladies and gentlemen, I am very happy and honored to be speaking to such a wonderful audience today. I would like to congratulate all of you in the Polish Government and Polish railways for the conscious effort and steady progress you have made towards the restructuring and privatization of the Polish State Railways.

Today, our Study Team will present in detail the restructuring—in other words, the regional division and privatization—of the Japanese National Railways that took place sixteen years ago in April 1987. But prior to that, I would like to talk about the meaning of privatizing railways, which has become a trend in the world.

The railway is the first modern mass transit that became available in history. In every country, because it monopolized the transport market up to a certain point in time, the government made it an important policy objective to regulate the operations of railway companies in order to prevent them from controlling the market, as they liked. Sometimes governments even imposed on their railways to adopt policy-induced fare discount or to construct unprofitable regional lines. In the second half of the twentieth century, the tide turns to automobile. Even after the railway faced competition and lost its monopoly in the market, the regulations that controlled the railways in the era of monopoly and policies premised on monopoly remained, giving rise to various contradictions and inconsistency. In Japan, especially, although the age of motorization came later than in western countries due to delay in road development, once the system was in place, motor vehicles became popular very rapidly. The railways, still tied down by regulations, had an extremely hard time to adjust to a transport market now defined by competition. In Japan, despite the fact that the railways faced competition from automobile and had lost their monopoly in the market, not even the politicians, government, management of the Japanese National Railways (in short, JNR), labor unions, the media, or the public fully realized the situation. Consequently, the railways were too slow in implementing drastic rationalization, resulting in the delay of a reform much needed by the outdated system and organization. I think that motorization will also advance rapidly in Poland from now on and that the railways will face severe competition from the automobile in both the passenger and freight markets. If no preemptive measures are taken, [the Polish railways] is likely to repeat the same failure as the Japanese National Railways. It is, of course, a good idea to study the Japanese National Railways as a success



story of privatization, I believe, however, that it is [more] important [for the Polish railways] to look closely at why the Japanese National Railways failed to adjust to the motorization age and to take heed of not going down the same path.

The Japanese National Railways became a public corporation in the reform after the Second World War. Although the public entity [supposedly] had certain independence from the government, it was not guaranteed full autonomy in management and had many constraints. Every year, after the budget was examined by the government, it had to be voted on by the Diet. The total amount of personnel expenditure, in particular, was strictly regulated. Any fare revision required voting in the Diet and important investment plans required government approval. Because most of these important management decisions required consent from the government and the Diet, management of the Japanese National Railways was always dependent on the government. Politics also interfered sometimes with the management of JNR by imposing on it the construction of unprofitable lines and so on. These kinds of institutional constraints, in the end, could only be removed by privatization.

Another weakness of the Japanese National Railways was its extremely volatile labor-management relations. Because JNR had grown into an organization so huge that it had exceeded its management capacity, it was very difficult to communicate the directions of the management to every corner of the operation sites. The JNR management, which had to rely on the Diet for its budget as well as the setting of fares, lacked the ability to negotiate with the labor unions on an equal basis. Although the labor unions of JNR were forbidden by law to strike, strikes were frequent. Such vicious cycle gave rise to a deep sense of mistrust between the labor and management. Customers, on the other hand, were fed up with the frequent strikes and both the labor and management lost the support of public opinions. It was said that because there were no “bankruptcy” procedures for JNR, the secure feeling that the state enterprise would never go bankrupt led to the recklessness of the labor unions and the laid-back reaction of the management. In the case of a commercial enterprise, because such permissive management and reckless behavior of the labor unions would lead to bankruptcy, both the management and labor unions would exercise moderation and discipline on their own accord. Unfortunately, the Japanese National Railways did not operate by these rules. When JNR was reformed, the public supported the division and privatization because many people realized that there was no other way to stabilize the labor-management relations of the Japanese National Railways.

Of course, the Japanese government and the Japanese National Railways were not looking on without doing anything. Every year, JNR took measures to rationalize [operations], the

government provided financial support, and the fares were raised, which increased burden on the users. However, these measures were all implemented half-heartedly. The fundamental structural problem that caused JNR to operate in the red was not tackled until the reform in 1987 when JNR was split up and privatized. The delay in the timing of a fundamental reform resulted in higher cost and many sacrifices. Because the accumulated debts had ballooned up to such an enormous amount, the government had to assume most of the debts. Some of the debts were paid off by selling sites that were no longer used by the railways; most of the debts, however, fell on the shoulders of the people in the form of tax to be paid in the future. Among the newly established railways, the three profitable passenger companies on Japan's main island also succeeded to large amounts of debts from JNR and they are still repaying the debts today. The debts left by the Japanese National Railways were a huge burden on the government, the railway companies, and the Japanese people. But because JNR continued a high level of investment in facilities and equipment even after it became debt-ridden, some of the debts were left as shinkansen—the bullet train, railway infrastructure in big cities, and a fleet of modern rolling stock. They have been utilized and turned into assets for the new companies.

At the time of restructuring, many JNR employees had to leave the railways to work for other governmental organizations and private industries. Although it could have been worse, the job market at that time was, fortunately, not as bad as today, most of the workers were able to find jobs at other workplaces.

Perhaps you might have already noticed that the restructuring of the Japanese National Railways is different from the restructuring in Poland in many ways.

The restructuring of the Japanese National Railways is a regional or geographical division, it is not the vertical separation or separation of rail operations from infrastructure that is being practiced in Europe. In Japan, the rail freight company is the only one that adopts vertical separation. Japan's rail freight company has almost no tracks of its own; it runs its freight trains on tracks leased from the passenger companies. Such arrangement is exactly the opposite of the arrangement between the passenger and freight companies in the United States and Canada. North America has a very favorable freight market. Railway companies can operate rail freight as a viable business and they can afford to operate as corporations with their own infrastructure. Japan has a very dense population, with big cities developed linearly along the coast. Because railway companies are blessed with a favorable passenger market, they can operate as viable passenger corporations with their own infrastructure. Although the American and Japanese railways seem very different, their forms of

management are extremely similar.

In contrast, European railways face a different set of conditions. They see separating rail operations from infrastructure management as a way to revitalize railways. Since it has been decided that the restructuring of the Polish State Railways will follow the EU policy of vertical separation, I will not discuss whether it is better to have vertical separation or to combine rail operations with infrastructure management. However, I would like to reiterate the fact that Japan's restructuring was premised on the existence of a very favorable passenger market.

In addition, the term "privatization" has a very different connotation in Japan from the way it is used in Europe. In Europe, "privatization" means that the ownership of a company is transferred from the government to the private sector. In other words, through methods such as the listing of stock in the market or direct sale, a state enterprise is transferred at once to the private sector. In this case, the government can benefit immediately from the privatization.

In 1987 when the Japanese National Railways was privatized, it was decided that the six newly inaugurated passenger companies and one freight company would be "organized as corporations but their stocks would be owned by the government for a time." Today, sixteen years after the restructuring, the East Japan Railway Company, which operates railways around Tokyo, is the only company that has completely sold off its stocks to the private sector. Similarly, the Central Japan Railway Company and the West Japan Railway Company have also sold most of their stocks. Once the stock market recovers, the remaining government-owned stocks are expected to be sold completely. Then, these three JR companies can be said to have been "privatized" in the European sense. However, in terms of other JR passenger companies in Hokkaido, Shikoku, Kyushu, and the JR freight company, the government still owns 100% of their stocks and there are no plans for any listing of stock.

Given what I just said, was "privatization" worth the effort after all? Yes, in light of the various conditions of the Japanese politics, society, and culture, it was a significant move. Because the government owned all the stocks, it had more authority over the JR companies than the conventional companies. However, the JR companies have basically the same corporate structure as private corporations, and they make decisions and operate based on the same principles as conventional companies. The society also recognizes them in the same light as conventional private companies.

There are two benefits to this. One is that because the JR companies are treated not so differently from other companies, they are free from the kind of political dependence and political interference characteristic of the JNR era. In the JNR days, the top managers of JNR were often summoned by the Diet when it was in session and they had hardly any time to think about railway operations and management. Now that the new railways are separated from politics, managers can concentrate in their primary mission of business management.

Another benefit from the “privatization” is that people working in the railways have gained a new sense of awareness. In the JNR days, many workers referred to their workplace as a “public office.” Their arrogance towards railway users earned them a bad name. Their baseless optimism that “JNR would never go bankrupt” took shape in the arrogant attitude of railway workers and reckless actions taken by labor unions. Privatization was the wake-up call. There was a newly found awareness in every workplace that railway users should be put on a pedestal as “the customers.” In order to differentiate themselves from JNR, the newly established JR companies put emphasis on employee training, which materialized into better services and customer satisfaction.

In the privatization of the Japanese National Railways, rather than the short-term gain of increasing revenue to the national coffers through the offering and selling of railway stocks, the Japanese government put emphasis on long-term benefits such as separating the railway management from politics, giving managers the opportunity to take initiative and responsibility for their management, reforming the awareness of railway workers, and revitalizing the railways. I am not going to discuss here which approach is better. In view of the fact that railways are national assets and the cost of their construction will have to be born by the users for a long time to come, I believe it is important that railways be developed as a useful transport means for the future.

After the 1987 restructuring, the JR companies continued to make improvements to their operations. The workforce of 200,000 at the time of inauguration has now become fewer than 150,000. A great number of the rolling stock and stations have been upgraded. The three JR companies on the main island, in particular, have made better-than-expected profits and achieved satisfactory results in business undertakings other than railway operations. Thanks to these endeavors, the train fares, which were increased annually in the JNR days, have not been raised once under the JR companies.

To summarize, there are three major reasons that explain why the privatization of JNR was instrumental to the revitalization of railways [in Japan].

1. The railways are free from the various restrictions imposed on them in the era of monopoly;
2. Railway operations are separated from politics, creating an environment for managers to devote themselves to business management; and
3. The awareness of railway workers is reformed, making it possible to make customer-oriented improvements.

The Study Team will explain in more details from now on. I would like to finish with my sincere wish for the successful restructuring and privatization of the Polish State Railways. Thank you very much.