

MANAGEMENT BY OBJECTIVES AND MOTIVATION FOR STRATEGY IMPLEMENTATION

Sorokina, Anastasia V., Moscow State University of Railway Engineering (MIIT), Moscow, Russia.

Epishkin, Ilya A., Moscow State University of Railway Engineering (MIIT), Moscow, Russia.

ABSTRACT

The article deals with problems of management by objectives and development of personnel motivation system for implementation of transport company's strategy. It substantiates the idea that a well-built strategy of involving staff in matters of general interest has a significant impact on efficiency of interaction of

structural units in business processes. The authors pay a particular attention to need for formation of key performance indicators that affect the achievement of objectives at various levels. These indicators should be formed on the basis of comparison of main tasks of individual departments and tasks defined by holding company development strategy.

Keywords: transport, company holding, management by objectives, motivation of staff, key performance indicators, bonuses, decomposition of objectives.

Background. Development and implementation of development strategies of transport companies are associated with the need to attract significant financial resources and require great efforts from corporate and executive management. However, the return on wasted resources and effort is largely determined by the interest of all the company's employees in achieving strategic objectives. Personnel motivation for implementation of development strategies is one of the most important tasks of the company managers [1].

If we proceed from the assumption that the strategy of the transport company is implemented by each employee, staff motivation is central to the strategic management system. In the context of management by objectives roles and tasks of employees in the motivation system can be represented as follows:

- senior managers – form their objectives and embody the company's values;
- managers – cascade objectives, motivate and develop staff;
- employees – are involved, aimed at achieving goals and matching values.

Motivation is internal incentive to act, causing subjective personal interest of the individual in its accomplishments. The motives of behavior are closely linked with such characteristics of ideal action medium, as intention, purpose, commitment, and should be distinguished from external stimulus and the response to them. The problem of motivation of activity can be seen in various aspects. In this case, there will be one aspect – the interest of staff in implementation of development strategies and achievement of strategic objectives of the company.

Objective. The objective of the authors is to consider management by objectives and staff motivation for implementation of company's strategy.

Methods. The authors use general scientific methods, comparative analysis, evaluation approach, economic assessment.

Results.

Motivation to the result

Motivation is a process of creating conditions under which a person has a desire to satisfy the needs, material, financial and other opportunities to do so are formed, as well as knowledge, skills develop, necessary for setting higher goals. In other words, motivation requires conditions under which human activity is activated, and his actions acquire a target orientation [5].

Elaboration of development strategy and formation of strategic objectives is a responsibility zone of company management. But in the process of implementation of the strategy the involvement of all personnel is necessary. This is achieved by decomposition of strategic objectives and bringing

targets to each business unit and individual performers. In this way a tree of objectives is formed, wherein objectives of a higher level are supported by lower level objectives (Pic. 1).

For organization of operational planning and management it is advisable to perform decomposition of strategic objectives on time intervals, that is to establish the purpose of each level for the next year. The degree of decomposition of objectives depends on features of the company and its organizational structure [15]. A set of goals for each level must be sufficient to determine the objective of a higher level. It is necessary to identify officials (employees) responsible for achievement of objectives of each level. Appointment of such persons does not guarantee the expected results. It is necessary to provide in administrative documents rights enabling persons responsible for achieving objectives affect the performance of the relevant indicator. As the documents securing the area of responsibility and rights, may serve an order for allocation of responsibilities, provision on the department, job description.

For each objective, it is necessary to install one or more performance indicators (KPI). KPI model is used by many management concepts:

- Management By Objectives (MBO), Peter Drucker, 1954 [2];
- Total Performance Scorecard of Hubert, 2003;
- Balanced Scorecard of Norton and Kaplan, 1992;
- Total Quality Management (TQM), 1970-ies years;
- Performance management (PM), 1990-ies years.

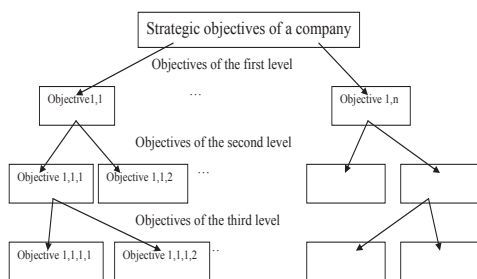
Implementation of target values of indicators should ensure achievement of expected results. Moreover, in assessing effectiveness own conditions act:

- Indicators should not contradict each other;
- The number of indicators for each employee should be no more than three to five, as an excessive increase reduces their significance;
- Target values of indicators are designed to meet the challenges of achieving strategic objectives;
- The person responsible for achievement of target values of the indicator should have enough rights for process management, the results of which affect the indicator.

A key role in the systematic implementation of the strategy and motivation of staff rests with the heads of departments (middle and line management level). They report to employees the organization strategy, discuss objectives and tasks of the department. The employee will be focused on implementation of the strategy of the company, if he:

- knows and understands the strategy as a whole;





Pic. 1. A tree of company's objectives.

- sees his contribution to implementation of the strategy;
- understands the contribution of colleagues to implementation of the strategy;
- participated in development of activities required to achieve strategic objectives;
- participated in drafting of a framework of objectives and targets for his structural unit (job position);
- is motivated (material and / or intangible) to achieve target values of the received indicators;

The main purpose of KPI is criterial assessment of result achievements. As the criteria of result achievement can be used:

- percentages, ratios, absolute figures;
- external indicators – for example, a positive customer review;
- frequency of an event – for example, re-applying for the service;
- time – for example, to increase sales by 30% for 6 months;
- compliance with the standards – for example, to perform work according to the requirements of specific professional rules and regulations;
- criterion of «to get approval of the chief» – to formalize any stage of action toward the goal.

In real conditions of formation of a system of indicators it is necessary to take into account the interaction of process results. For example, timeliness and quality of financial statements of the company depend on timeliness and quality of initial information provided by different departments [20]. If for financial services performance indicator is introduced by the criterion of timeliness and quality of reporting, then for all units – primary information suppliers a relevant indicator should be set. In this case, however, with great probability the number of indicators for many departments exceeds recommended. This problem can be solved by regulation of all relationships and establishment of information transmission order from one unit to another, assuming replacement of a private indicator of timeliness and quality of information transmission with one integrative measure of performance discipline.

More complicated is the task of balancing the established target values of indicators. For example, for managers responsible for the sale of services for carriage of goods, the indicator «revenue growth of 15%» is set. The costs of moving empty rolling stock may be in the area of responsibility of another manager. And revenue growth provided by the manager for the sale of services can lead to a decrease in net income and profitability. The solution of this problem is possible either by complicating indicators, or by addition of indicators characterizing the achievement of objectives of a higher level (Pic. 2).

In accordance with the scheme shown in Pic. 2, a complex performance indicator of a manager

(employee) can be defined as a sum of three indicators based on weighting:

$$K_{com} = \alpha_1 K_1 + \alpha_2 K_2 + \alpha_3 K_3; \quad (1)$$

$$\alpha_1 + \alpha_2 + \alpha_3 = 1; \quad (2)$$

where K_1 is an indicator of achieving objectives that are in the responsibility zone of a manager (employee);

K_2 is an indicator of achieving objectives of a higher level;

K_3 is an indicator of performance discipline.

In turn, indicators K_1 and K_2 may be determined as a sum of several indicators in accordance with their weighting.

The numerical values of weighting of indicators α_1 , α_2 depend primarily on the degree of influence of the manager on achieving objectives of a higher level. For example, for the first deputy general director weighting of α_2 indicators of a high level can be set as 0,6–0,7, since the degree of his impact on achievement of top level objectives is very significant, and for the head of the department the same weighting will be less – 0,3–0,4.

In the scientific literature there are different approaches to modeling and formalization of such dependencies [3].

Top level objectives are formed by company owners who usually want to get a rise in net profit or increase in value of the company. The criteria for these purposes, depending on the market situation are set directly by the owners, the board of directors or other governing board. The responsibility for achieving top level objectives and target values of corresponding indicators shall be borne, as a rule, by the general director of the company. Criteria for lower level objectives are formed by the management of the company, but starting again from the condition of achieving top level objectives.

Decomposition of strategic objectives and establishment of criteria to achieve them at all levels of «objectives' tree» allow:

- to form performance indicators for the persons responsible for achievement of relevant objectives;
- to balance criteria of objectives and performance indicators;
- to establish control over achievement of objectives at all levels and continuously monitor implementation of the strategy;
- to form indicators for motivation of staff to achieve the objectives of the company;
- to ensure involvement of staff in implementation of the company's development strategy.

Bonuses involve assessment

Transformations in the management system of JSC Russian Railways – the largest Russian transport company aim to reach a new level of development. Any changes are made by people, so the success of the reforms depends on each employee, his understanding of the processes, involvement and meaningful participation. The company has made considerable efforts to ensure social protection of its employees, is investing heavily in the development of their professional competence and creativity, in turn, expecting from employees openness to changes, assistance with implementation of innovative programs and large-scale industrial projects.

Today, every employee, no matter what position he takes, has to understand not only his personal local task, but also to clearly see the end result of the entire business process, in which he participates. The need to achieve this result determines largely the nature of his interaction with his own staff and colleagues from related departments. Only consolidation of efforts of all the employees of the holding company in a single process and joint care of how to build and implement it without crashing, lead to stable and dynamic development of the company.

If every employee has a responsible attitude to his work, improves constantly professional skills and competences, and every manager treats a section trusted to him and his team as a responsible and knowledgeable manager, who aims at improving internal and external customer focus, achieving business objectives of the company, then the holding company Russian Railways will be able to achieve long-term efficacy [4].

The state of labor potential of railway transport defines largely strategic development of the industry. The deterioration of the demographic situation in the country leads to a struggle for qualified staff with adequate and decent wages. Inability to keep wages (according to the internal sociological research of JSC Russian Railways – the first factor in motivation of employees) at a competitive level can lead to an outflow of trained personnel from transport companies.

The implementation of the company's development strategy should be ensured by constant training, motivation of staff to achieve targets [8]. Strategic KPI are included in the system of motivation of JSC Russian Railways and its subsidiaries and affiliates. Indicators, as expected, are formed on the basis of comparison of key objectives of departments and tasks defined in the strategy and are designed to reflect the most significant positions of strategic objectives.

It is necessary to form even for ordinary unskilled personnel awareness of importance of their work and impact on economy, technology, transport safety and other aspects of the company. This is not an easy task, given mixed and heterogeneous structure of personnel, cultural background and values of people with different mentality, education, social position. And here, of course, we need a systematic work on formation and development of a strong corporate culture aimed at involvement of employees in conscious activity, identification with the industry, its traditions and priorities [16].

A special place in this regard is given to involvement of staff. The involvement in this context means a high level of emotional connection to the company, urging employees on their own to make more efforts to perform duties entrusted to them. The involvement of staff is based on three main «pillars»: awareness, opportunities to influence the company's development and participate in decision-making.

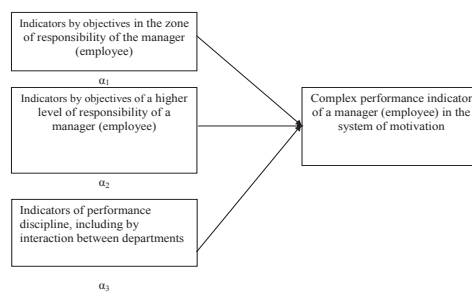
But the involvement of personnel is impossible without satisfaction and loyalty of employees. The main tool for improving the level of these parameters is a financial motivation, suggesting compensation of employees only for the results, which are important in terms of implementing the company's strategy.

From this perspective, it is advisable to critically examine the system of bonuses given to production staff of JSC Russian Railways, which includes current and target bonuses.

Current bonuses of employees of JSC Russian Railways are provided within the three-level system [8]. The first level defines conditions under which people have a right to the premium accrued. The indicators established at this level reflect the degree of train safety (absence of crashes and accidents) and health and safety.

The second level of bonuses indicators is linked to production and economic results of activity and is aimed at strengthening the material interest and responsibility of each employee for implementation of key tasks of his unit or any holding structures. The indicators of this level often include figures showing non-excess of the planned expenditure on all the activities and implementation of a planned target task in terms of traffic volume.

The third level of bonuses indicators describes the results of work of individual employees or labor collective (at the level of shift, department).



Pic. 2. Scheme of the formation of performance indicators: α_1 , α_2 , α_3 – weighting of individual indicators.

Depending on the category of the production staff share of premium attributable to different types of indicators varies. For the workers, 90% of the total premium is determined by the results of individual activities and only 10% – by implementation of key tasks of the all unit (volumetric, financial and economic indicators). For managers, these percentages differ – 60 and 40 respectively.

Target bonuses involve payment of premiums monthly / quarterly, depending on objectives and deadlines. The meaning, purpose of such an additional bonus – involvement of staff in the company's efforts to reduce costs in some areas of activity:

- safety;
- quality and efficiency;
- consolidation of the staff.

Bonuses on such strategic important in the JSC Russian Railways direction as safety includes rewards for ensuring traffic safety, detection of hardly detectable defects of cargo, passenger cars. With regard to efficiency and quality, this area involves the award for saving fuel and energy resources, implementation of lean manufacturing program, reduction of overhead of working time of locomotive crews. Finally, in order to strengthen the staff, increase the loyalty level are applied lump-sum remuneration for loyalty to the company, award for the victory in the competition of workers and employees, bonuses for class rank. In addition, there is also a bonus fund of a master, reward from motivational fund and limit funds of the chief of the railway.

The significant feature of the motivation system of JSC Russian Railways is existence of mechanisms for updating the indicators. The employees have an opportunity to express their suggestions and to influence changes in individual indicators.

An illustrative aspect is motivation of employees at the junction of economies, aimed at reducing the company's expenses. An example here is a system of awarding integrated brigades of marshalling yards.

The collective form of organization and incentives is introduced at 43 stations of the network. The total number of workers of integrated brigades is 25,7 thousand, including 10,7 thousand – people that provide transportation process (transportation economy); 10,1 thousand – workers of rolling stock complex (car economy); 4,9 thousand – workers of locomotive complex (locomotive economy). Until recently, in each economy, participating in activity of a marshalling yard, a separate system of bonuses was used. A conflict of indicators took place – i.e. improvement of «premium» indicator in one economy led to deterioration in other indicator affecting the premium of subcontractors. After introduction of integrated teams workers of three major economies (transportation, car, locomotive) are charged at a single result: reduction of downtime of cars at the station, increase in the number of cars sent from the



station. A doubtless acquisition of a new practice has become improvement of performance and psychological climate in collectives of stations, motivated by another working atmosphere competition of unified shifts of integrated brigades.

Conclusions.

1. Availability of long-term objectives and associated strategic objectives create for a major transport company a solid foundation for all-round development.

2. Each of the objectives needs own indicators, performance criteria and at the same time motivated and responsible executors during its implementation. Existing management concepts offer multilevel guidance to participants in business processes and organizers of achieving objectives, and these points of support help to maintain a balance of strategic plans and involvement of staff in the joint activity.

3. In the balance of corporate interests a special role is played by the system of awarding employees and teams, which possibilities are illustrated by, in particular, the practice of Russian Railways holding company. Its differentiated nature, without removing all the problems in this field, gives an example of a modern approach to the use of interacting market incentives, forms of organization and motivation.

REFERENCES

1. Drucker, P. F. Management Challenges for the 21st Century [*Zadachi menedzhmenta v XXI veke. Transl. from English*]. Moscow, Williams publ., 2004, 272 p.
2. Drucker, P. F. The Essential Drucker [*Enciklopedija menedzhmenta. Transl. from English*]. Moscow, Williams publ., 2004, 432 p.
3. Peresvetov, Yu. V., Epishkin, I. A. Formalization of competitive procurement by analyzing the hierarchy of Thomas Saaty [*Formalizatsiya konkursnykh zakupok metodom analiza ierarhii Tomasa Saati*]. *Vestnik NII zheleznodorozhnogo transporta*, 2008, Iss. 6, pp. 36–39.
4. Website of JSC Russian Railways. [Electronic source]: <http://rzd.ru/>.
5. Sorokina, A. V., Lantsberg, O. N. Program of staff motivation by Saratov Directorate of the Central Communication Station – branch of JSC Russian Railways [*Programma motivatsii personala saratovskoy direkcii svyazi central'noy stantsii svyazi – filiala OAO «RZhD»*]. *Modern problems of economic management of the transport complex of Russia: competitiveness, innovation and economic sovereignty / Proceedings of international scientific-practical conference*. Moscow, MIIT publ., 2015, pp. 337–339.
6. The development strategy of Russian Railways holding company for the period up to 2030 (basic provisions) [*Strategiya razvitiya holdinga «RZhD» na period do 2030 goda (osnovnye polozheniya)*]. [Electronic source]: http://doc.rzd.ru/doc/public/ru?STRUCTURE_ID=704&layer_id=5104&refererLayerId=5101&id=6396. Last accessed 12.02.2016.
7. Order of JSC Russian Railways № 2409r dated 11.11.2013 On approval of monitoring and evaluation of the results of operation of JSC Russian Railways on the basis of key performance indicators [*Rasporjazhenie OAO «RZhD» № 2409r ot 11.11.2013 «Ob utverzhenii porjadka monitoringa i ocenki rezul'tatov raboty OAO «RZhD» na osnove kluchevykh pokazatelej dejatel'nosti*»].

8. Provision on corporate system of bonuses for employees of branches of JSC Russian Railways. Approved by order of JSC Russian Railways dated July 20, 2010 № 1573r [*Polozhenie o korporativnoj sisteme premirovaniya rabotnikov filialov OAO «RZhD». Utverzhdeno rasporyazheniem OAO «RZhD» ot 20 iul'ya 2010 g. № 1573r*].

9. Armstrong, M. A Handbook of Human resource Management Practice [*Praktika upravleniya chelovecheskimi resursami. Transl. from English*]. 10th ed. St. Petersburg, Piter publ., 2009, 848 p.

10. Lievin, B. A., Galakhov, V. I., Zarechkin, E. Yu., Usmanov, B. F. Human Resources of Corporation: Strategy and management practices [*Chelovecheskie resursy korporatsii: Strategiya i praktika upravleniya*]. Moscow, Akademkniga publ., 2005, 670 p.

11. HR Outlook: Winter 2015–16: Leaders' views of our profession. Chartered Institute of Personnel and Development. [Electronic source]: <http://www.cipd.co.uk/research/hr-outlook.aspx>. Last accessed 12.02.2016.

12. Parmenter, D. Key performance indicators. New Jersey: John Wiley & Sons, 2007, 236 p.

13. Spencer, L. M. Reengineering Human Resources. New York: John Wiley & Sons, 2005, 238 p.

14. Hill, Charles W. L., Jones, Gareth R. Strategic Management: An Integrated Approach, tenth edition. Cengage Learning, 2012, 960 p.

15. Roney, Curtis W. Strategic Management Methodology: Generally Accepted Principles for Practitioners Greenwood Publishing Group, 2004, 342 p.

16. Decoene, Valerie, Bruggeman, Werner. Strategic alignment and middle level managers' motivation in a balanced scorecard setting. *International Journal of Operations & Production Management*, Vol. 26, 2006, Iss. 4, pp. 429–448.

17. Balkin, David B., Gomez-Mejia, Luis R. Matching Compensation and Organizational Strategies. *Strategic Management Journal*, Vol. 2, 1990, Iss. 11(2), pp. 153–169.

18. The hay report. Compensation & Benefits Strategies for the Future. Gaining Competitive Advantage Through Strategic Reward Programs. [Electronic source]: http://www.indiana.edu/~jobtalk/Articles/comp/hay_rprrt.pdf. Last accessed 12.02.2016.

19. Pankaj M. Madhani. Aligning Compensation Systems with Organization Culture. *Compensation & Benefits Review*, March/April 2014, Iss. 46, pp. 103–115, first published on July 4, 2014.

20. Wynter-Palmer, Jennifer E. Is the Use of Short-Term Incentives Good Organization Strategy? *Compensation & Benefits Review*, September/October 2012, Iss. 44, pp. 254–265, first published on January 16, 2013.

21. Hart, Timothy A., Parthiban, David, Feibo Shao, Fox, Corey J., and Westermann-Behaylo, Michelle. An examination of the impact of executive compensation disparity on corporate social performance. *Strategic Organization*, August 2015, Iss. 13, pp. 200–223, first published on May 12, 2015.

22. Den Hartog, Deanne N., Boon, Corine, Verborg, Robert M. and Croon, Marcel A. HRM, Communication, Satisfaction, and Perceived Performance: A Cross-Level Test. *Journal of Management*, September 2013, Iss. 39, pp. 1637–1665, first published on April 3, 2012.

23. Zarechkin, E. Yu. Corporate Human Potential: Quality dictates the limits of quantity. *World of Transport and Transportation*, Vol. 4, 2006, Iss. 2, pp. 116–124.

Information about the authors:

Sorokina, Anastasia V. – Ph.D. (Economics), associate professor of Moscow State University of Railway Engineering (MIIT), Moscow, Russia, Avsorokina777@gmail.com.

Epishkin, Ilya A. – Ph.D. (Economics), associate professor of Moscow State University of Railway Engineering (MIIT), Moscow, Russia, i.epishkin@myief.ru.

Article received 12.02.2016, accepted 07.04.2016.