

IMPROVEING TOP-MANAGERS PRODUCTIVITY IN MACHINE-BUILDING HOLDING COMPANY

Problem statement. Business efficiency depends on many factors one of which is the managers' activity of higher level of management – top-managers. The main reason is that this category of workers realizes strategic goals of the company making strategic and operating decisions that influence on each worker without the exclusion. In spite of the deep working theoretical and practical bases of HR-management the process of searching the methods of increasing labor productivity has not been finally completed. This question is increased in a holding structure where managerial company delegates functions to the top-managers of corporate enterprises. In this connection the problem of estimating results of the managerial activity and establishing bonus system depending on the results of realization strategic plans of the company becomes pressing.

Analysis of the latest researches and publications, formulation an aim of the article. The research of frameworks of national authors about the problem has showed that the aspiration of scientists for taking into account objective and subjective features of top-managers' managerial activity [1 – 5] complicated methods of estimation and demanded implementing them for a justice on every level of management. Objective and subjective methods partly justify a low efficiency of top-managers' activity and create favorable conditions for their mildness. It is known that industrial personnel works in harder conditions and the whole sum of loses is compensated by them in the case of committing spoilage. In obedience to the Ukrainian legislation top-managers bear material responsibility according to p.3, 6, 9 art.134 KZpP Ukraine [6]. But in case of constantly unprofitable activity of the enterprise top-managers does not compensate the sum of loses and bonuses are deducted to them. The main reason of this policy is to lead the company through a crisis. Such a widespread practice of deducting bonuses in an unprofitable period of a company is unjust towards others categories of workers that directly realize strategic plans of the company and whose wages depend on the results. This is caused the aim of the article which consists in improving the method of evaluation the results of top-managers' administrative activity on the base of consequence subjects' corporate interests of corporate relations.

Material representation. In the connection with a financial crisis and searching its reasons the question of top-managers' high wages was strained by western economists as well as the necessity of establishing higher level of wages and continuing the term of selling shares by which top-managers of a private sector were motivated. In the Ukraine the process of motivation of top-managers by

selling shares doesn't develop like in the western countries, and stimulation is represented by paying salary. It is necessary to note that the absence of official information about the top-managers' wages of the Ukrainian companies complicates the research of this question. Data of agencies about suggestions of employment has testified that top-managers were the most highly paid category of managers whose wages employers preferred not to divulge. Marketing specialists of B2B portal robota.ua has informed monthly average top-manager's wage in the size of 1 338 dollars at the same time acknowledging this sum was too understated [7]. For comparison the middle workers' salary of machine-building enterprises in the period from 2007 to 2011 was 299,2 dollars (VAT "AvtoKraz"), 355 dollars (VAT "Kh "Luhanskteplovoy"), 406,8 dollars (DAKHK "Chornomorskyi sudnobudivnyi zavod") [8]. It is difficult to lay down the idea about the proportions of wages because the data contains the fund of payment of top-managers, assume 5: 1. The necessity of orientation top-managers' wages on the results of an activity of the company remains debatable in practice of management of foreign companies. According to unstable dynamics of operating and net profit of the investigated holding companies in the period from 2002 to 2012 their owners had the same idea (table 1).

Table 1 – Dynamics of the main indicators of the economic activity of holding companies [done by the author on the base 8]

Year	VAT "AvtoKraz"		VAT "Kh "Luhanskteplovoy"		DAKHK "Chornomorskyi sudnobudivnyi zavod"	
	Operating profit, thous. grn	Net profit, thous. grn	Operating profit, thous. grn	Net profit, thous. grn	Operating profit, thous. grn	Net profit, thous. grn
2002	-39 462	777	49 672	-11 253	-107 455	-109 499
2003	-137 753	1 114	485	-8 565	-28 773	-26 664
2004	344	51 720	19 689	207	167 288	186 449
2005	9 233	83 365	-15 771	-478	-61 472	48 737
2006	138 849	63 394	16 778	13 906	-549	861
2007	75 420	74 229	11 973	-14 754	-53 141	-32 821
2008	33 145	66 118	69 058	1 081	-31 370	-40 210
2009	-65 578	30 942	-66 479	-157 381	7 289	669
2010	27 670	10 435	9 620	-7 457	4 930	869
2011	1 596	-177 142	56 300	71 824	-27 563	1 235
2012	-99 385	15 229	148 746	38 724	21 596	602

Owners paying high wages for top-managers not for the results hope on their professionalism. The structure of loyalty and coefficients of significance have been defined after expert asking of 15 leaders of strategic and middle levels of management of machine building enterprises in c. Kharkov (wages, inter-communication between the top-managers, consequence of personal principals with principals and policy of the enterprise, career, attention and interest of the enterprise to personal, proud feeling, satisfaction, rhythm of the work, previous

experience, working conditions, sense and results of the work, self-perfection) where the satisfaction of salary was on the first place and the self-perfection was on the last place [3]. The low level of leaders' interest to the self-perfection could lead to their disqualification which negatively will reflect on styles and methods of management.

The further research of corporate management of VAT "Kh "Luhanskteplovoy" in the period from 2002 to 2010 has indicated the presence of constant staff of the board of directors of the holding company; changes took place in the supervisory board and the revision committee. Since 2011 changes has happened in the staff the board of directors – the first members has filled the posts of the supervisory board. The same situation has taken place in VAT "AvtoKraz" where the posts of the general director and the chief accountant were filled by the same persons. In the contrast to VAT "Kh "Luhanskteplovoy" and VAT "AvtoKraz" the staff of corporate boards of management of DAKHK "Chornomorskyi sudnobudivnyi zavod" was changed every two years [8]. In spite of a high labor fluctuation between top-managers of the holding company has increased the results of its activity due to efficient work of labor collective of DAKHK "Chornomorskyi sudnobudivnyi zavod" (see table 1).

So, owners not admitting the necessity of orientation top-managers' wages on the result pay high wages unjustly ignoring interests of the others categories of workers. It is necessary to note that the absence of orientation of bonus system on increasing financial result will gradually "deform" mechanism of management of a holding company. It will create unfavorable conditions for corporate culture development – the base of improving competitiveness of a company in the market reform conditions.

Machine building business needs developing on the innovational base and according to this skilled top-managers and workers who are able to provide it. It will be possible in the case of concentration common affords of shareholders, top-managers and workers on increasing a financial result. In this connection the question about consequence of subjects' corporate interests of corporate relations has strained and proposed to examine on individual and collective levels. We have defined corporate interests that depend on a type of the level: personal (shareholders – dividends; top-managers and workers – wages and working conditions); collective (shareholders – economic value added, profitability; top-managers – economic value added, profitability, amount of total revenue and production; workers – amount of production). The term "consequence corporate interests" means a strategic planning the amount of net revenue considering opportunities of production and the market that provides consequence subjects' corporate interests of corporate relations. We have proposed the model of consequence corporate interests (picture 1) on the base of apportioning the margin and the zone of consequence that functioning as fixed regulator of this relations and taking into account correlation of a profit and expenditure nomenclature in measures of net profit in order to achieve the right level of efficiency [9].

This model could be used for consequence corporate interests of managing company and corporate enterprises. While top-managers' labor system of managing company was being under watchful attention, the labor system of corporate enterprises hasn't insufficiently researched. But it is also important for the successes of the holding company because the main sources of increasing economic value added and dividends are in corporate enterprises. Therefore top-managers' bonus system of corporate enterprises should be directed on consequence corporate interests of shareholders. In this connection criterions of determining the size of bonus for top-managers have been improved. These criterions based on the compared evaluation of economic results of activity of corporate enterprises that corrected on the general rejection of expenditure nomenclature in the part of professional development of personnel, improvement of labor organization and upgrading production.

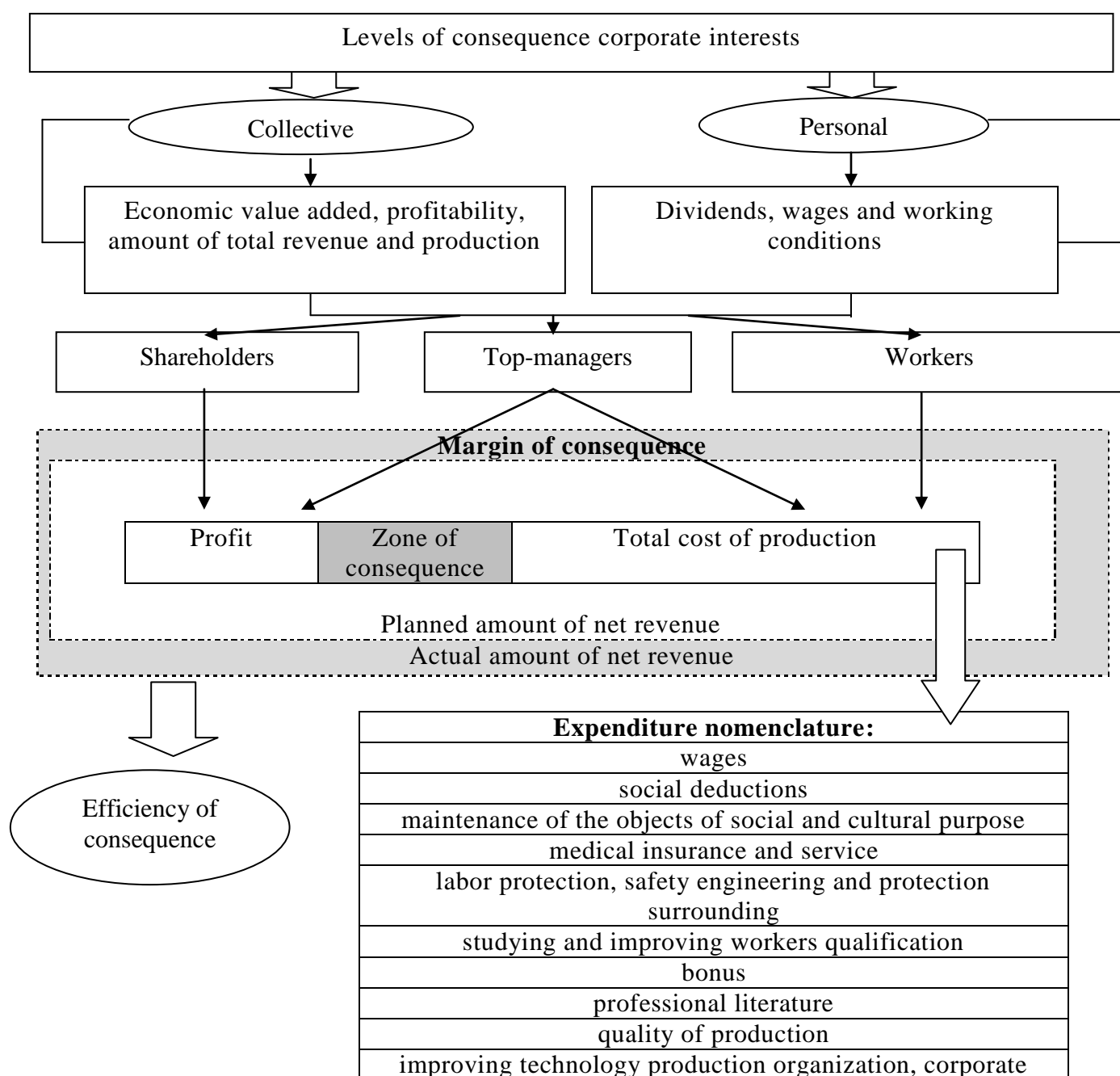


Figure 1 – Authors' model of consequence corporate interests

Proposed correction of the bonus indicators on the expenditure nomenclature is explained by the necessity of defending workers' corporate interests. It stimulates top-managers to look for the sources of creating competitive advantages not through cutting down labor expenditures but through improving quality, service, innovations and business-processes. It is more difficult for competitors to re-create these ways of creating competitive advantages than simply cut down costs [10, p. 153]. In addition, it motivates top-managers to formulate strategies, collaborate in reaching the goals, solving the problems and resisting the difficulties instead of manipulation the size of workers' wages trying thus to carry out the administrative functions [10, p. 66]. Schematic presentation of an algorithm of the calculation of the size of bonus payments to the top-managers of corporate enterprises of a holding company is represented on the picture 2.

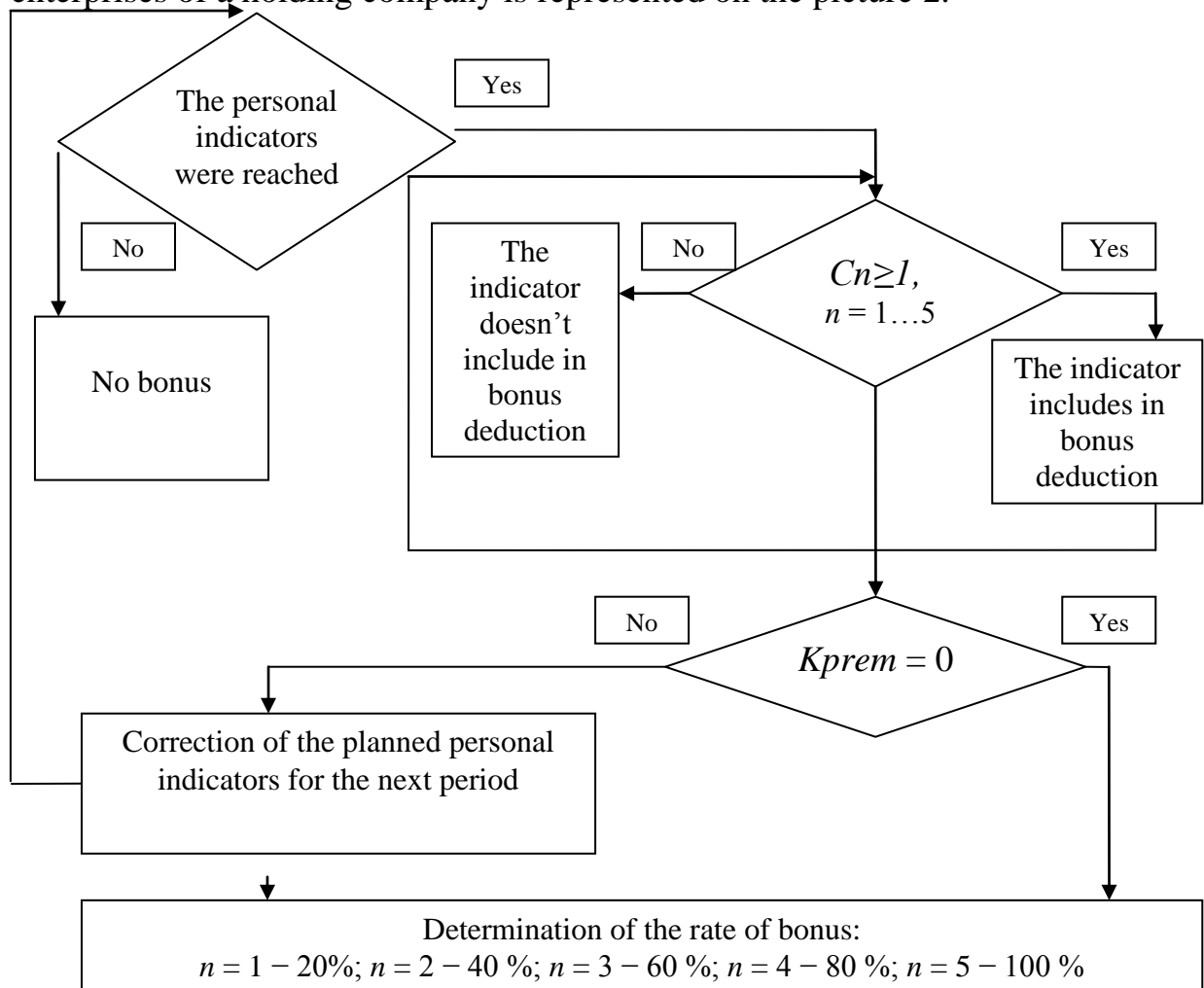


Figure 2 – Algorithm of the calculation of the size of bonus payments
[done by the author]

We propose to calculate bonus deductions in two steps. At first the list of the top-managers that achieved personal indicators and deserved for the part of bonus has defined. Defined for every top-manager personal indicators consist on the bases of key performance indicators of the Balanced Scorecard that provided better

realization of strategic plans of a holding company and connect bonus system on the result. This intercommunication is shown after the example of VAT “AvtoKraz” (table 2).

Then we calculate the bonus coefficient (K_{prem}) in order to make decision about the size of bonus:

$$K_{prem} = \sum_{n=1}^5 C_n - n$$

$$C_n \geq 1$$

(1)

where $C1$ – the coefficient of achieving the planned amount of production; $C2$ – the coefficient of achieving the planned amount of net revenue; $C3$ – the coefficient of achieving planned amount of comparing operating profit or operating profit and amortization; $C4$ – the coefficient of achieving planned amount of comparing net profit, $C5$ – the coefficient of achieving planned amount of comparing economic value added.

Table 2 – Personal indicators of top-managers [done by the author]

Task	Personal indicator	Responsible top-manager	Measuring personal indicator in terms of money
increase economic value added	rate of economic value added growth	general director, financial director, chief accountant	
increase net profit	rate of net profit growth	general director, commercial director, financial director, chief accountant	
increase operating profit	rate of operating profit growth	assistant director, technical director, commercial director, financial director	
increase client's satisfaction	rate of the amount of net revenue growth	commercial director, directors of marketing subdivisions, director of foreign trade, financial director	
increase efficiency of logistics	decrease the gravity of raw materials delivery in the volume of net revenue	assistant director, commercial director, leader of logistics subdivision	
improve quality production	decrease the gravity of claims in the volume of net revenue	assistant director, technical director, director for quality, leaders of industrial subdivisions	
cut down industrial wastes	decrease the gravity of industrial wastes in the volume of net revenue	assistant director, technical director, director for quality, leaders of industrial subdivisions	
raise workers' qualification and satisfaction through self-perfection	rate of labor production growth on the single worker	general director, financial director, commercial director, assistant director	
	fulfilling expenditure nomenclature	HR-manager	
save collective integrity	rate of labor fluctuation growth	HR-manager	

It is necessary to note that personal indicators have to be equal or above 1. On contrary this indicator doesn't include in the calculation of *Kprem* and the sum of bonus cuts down on 20 % for unfulfilling every indicator. The part of personal indicators for the same top-managers duplicates with bonus indicators *C1 – C5*. It allows taking into account the influence of the top-manager on the result of activity of corporate enterprises. As long as indicators intercommunicate with each others it will stimulate commanding work. As a result of having defined *Kprem* the decision is made about the correctness of dimensions of the personal indicators in the period under review. In the case of considerable deflection planned personal indicators for the next period will be corrected, bonuses are deducted.

Conclusions. Growing requirements to functioning large business demand increasing its value a source of which is in corporate enterprises. One of the possible decisions of this problem may be the consequence of corporate interests of subjects of corporate relations which the top-managers of corporate enterprises are responsible for. Therefore we have suggested to improve criterions of defining top-managers' wages on the basis of correction of the coefficients on the size of expenditure nomenclature. It will assist searching a new competitive advantages not through reduction workers' wages and their quantity but improving the technological component. The research of million workers of noncommercial organization of CARS (Consortium of for of Alternative Reward Strategies Research) has confirmed efficiency of stimulation of workers and stated that expenditures in personal were recompensed in middle proportion one to three [10, p. 73] Efficiency is not reached by reduction but due to a fruitful collaboration of subjects of corporate relations, effective exchange and usage of information, participating workers in the management.