

Evolution
of
Railroad Management Philosophy

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EVOLUTION OF RAILROAD MANAGEMENT PHILOSOPHY

Shortly after the Burlington Northern merger three years ago, as a part of its long-range planning process, the company developed a brief statement of Corporate Purposes, which reads as follows:

It is the purpose of Burlington Northern Inc. to grow as a privately owned enterprise enhancing the present value of its owners' investment.

Burlington Northern Inc. is an asset oriented enterprise whose mission is to fulfill the transportation and distribution needs of the shipping public it serves and to develop a sustained profitable expansion from all the Company's physical and financial resources.

The owners and management of Burlington Northern Inc. aim to generate a fair profit from the business it performs and to discharge in a conscientious and superior manner its responsibilities to the employees, customers, stockholders, suppliers, and society.

While such statements may or may not have meaning, depending on the implementation which follows as corporate strategy is developed and carried out, they do tend to indicate the prime areas of interest which will consume the Company's talents and resources.

Such a statement is quite far removed from the "Public be damned" philosophy that characterized a dominant theme implicitly expressed before the turn of the century by the leaders of the industry. What does the Burlington Northern statement of corporate purpose, for example, really mean as far as today's railroad management philosophy is concerned? How did that style develop over the years from the time of the "robber barons?"

What are the implications for the future?

There can be little argument about the extremely powerful personalities who dominated the railroad scene up to about the turn of the century. Harriman, Gould, Hill and Morgan, to name a few, moved with strength and relatively few impediments as they helped to develop the country and build transportation systems that controlled the economic health of various sections of the country. The ability of these individuals to affect the lives and fortunes of many people is demonstrated in the Northern Securities case where the stock market suffered a crash which "in the violence and extent of the decline was undoubtedly the worst experienced since the Panic of 1873." But even as the fight raged between Harriman and Hill for control of the Northern Pacific, these two gentlemen had quietly sat down and established the Northern Securities Company, indicating that American railroad leaders could arrive at reasonable solutions to their conflicts - at least in their minds.

The Interstate Commerce Act in 1887 demonstrated earlier that the public would decide what it considers abuse and evil requiring correction. The industry, by ignoring the public interest, was to learn that public indignation in the form of new laws and new regulations would force the industry to operate within a new framework.

The value of service theory of rate making in a monopolistic situation, without either maximum or minimum rate regulation,

produced unfair and unethical circumstances for the customers of the railroads. Large volume shippers had been wooed with reduced rates or generous rebates which worked a hardship on competing rail lines. It also put the small shipper at a disadvantage, as he was hard put to obtain transportation for his product at rates that would enable him to compete equally with large volume shippers. Rate discrimination in the form of high rates at noncompetitive points, preferential credit arrangements, nonuniform accessorial charges were all examples of the unfair practices in effect prior to the enactment of the Elkins Act in 1903 and Hepburn Act in 1906. Public sentiment against these practices ran high and gave birth to a welter of laws and regulations, some of which were so oppressive as to work genuine hardship on the railroads.

Price fixing is morally and ethically wrong. If businessmen had taken a more ethical view of what was expected in the way of honesty, common decency, integrity and the overriding necessity of observing the public interest, there is no doubt that there would be much less obnoxious and harmful regulation in this area today.

In the old days railroad managers' relations with their customers and the public was inconsistent and unenlightened, as we have seen. These men appeared to be predominantly oriented toward the stockholder. This emphasis, at the neglect of the companies' other "publics," probably did more than anything

else to cause the bad image and adverse regulation.

Another public that was neglected, and for which little concern was exhibited, was the employees. It was inevitable that a strong union movement would develop if for no other reason than that many interests of employees were not the same as the interests of managers; however, the strength, militancy and craft separation existing in railroad unions were prompted to no small extent by what we can now look back on as the unenlightened approach taken by managers of old. A look at several acts passed over the years in this area tells the story of needs apparently requiring correction:

Power brake law

Automatic coupler law

Hours of Service Act

8-hour day

Locomotive Inspection Act

Employee protection

Railroad Retirement Act

Railway Labor Act

While the railroads may have had a monopoly on transportation, a review of the history of many other industries reveals that the railroads had no monopoly on lack of understanding and foresight. The history of American business is replete with examples - Maritime Labor Law was written to stop "impressment" of men to fill out a ship's crew, and legislation was necessary to halt steel

manufacturers from setting steel prices, to name a few.

There is little question but that the reaction to the various abuses to customers, the public and labor was excessive and that the laws and regulations which were passed, while correcting these problems also set up conditions some of which were to become intolerable very shortly after their enactment. Herbert Croly, commenting in 1909 about the bureaucratic approach to the running of big business, wrote "It tends to deprive the peculiarly capable industrial manager of any sufficient opportunity to turn his abilities and experience to good account. It places him under the tutelage of public officials and in case this tutelage fails . . . (as it assuredly will), the responsibility for the failure will be divided . . . and the constructive economic work of the past will be undone Such obnoxious regulation has been not unjustly compared to the attempt to discipline a somewhat too vivacious bull by the simple process of castration."

Regulation, necessary as it may have been, in part was a failure. Albro Martin in his fascinating book "Enterprise Denied" (New York 1971) has stated the reasons clearly. "Regulation, as practiced under archaic Progressivism, sought to ignore two of the most fundamental principles of social organization. The first - that responsibility for a given task implies the authority to command the necessary resources - is so self-evident that if it were not for the fact that it is

constantly contravened, it would hardly be worth mentioning. The other principle, which William Graham Sumner elucidated so well at the peak of the Progressive era, is that reform measures which ignore the deep-grained mores of a society are bound to fail When the railroads were deprived of the freedom to follow their own self-interest in a society in which all others retained that right, the ultimate failure of regulation was assured."

What then happened? What were the effects on where we are today? According to Mr. Martin, "The great tragedy of this failure of human beings intelligently to order their economic environment lies in the long-term effects on the railroad system as an enterprise. American railroads, quite literally, never got over the shock which archaic Progressivism's cruel repudiation of their leadership produced. It was not just that the country had lost a few billions of dollars in railroad investment, which could eventually be made up. What was lost was something much more precious. What was lost was the spirit of enterprise which had produced such remarkable results from 1897 to 1907, and which had seemed then to stand on the threshold of even greater accomplishments." What posture should railroad management assume in the present and for the future, taking into account what has gone on in the rich and sometimes ambivalent history of American railroading, and where do we see society moving in the 1970's?

Management philosophy is not the product of the desires or discretions of the manager of today to the extent that it was in the past. The social, political and economic environment in which today's business operates places restrictions and limitations on the manager that guide his management framework to a greater extent than formerly. While this could be considered unfortunate and an undue restriction on managerial action, many of the present day influences are of a positive nature, for the good of society as a whole, and as such can be looked on and dealt with productively.

The general thrust of the first period we have discussed was heavily weighted toward the owners of the enterprise, with considerably less concern being shown to the other railroad "publics" - the employees, customers and society in general. The owners were out to make as much money out of their investments as possible, which in and of itself is a basic principle of the free enterprise system, but not at the expense of the other multitude of private interests which combine to make up the so-called public interest. Today we see much greater concern about the quality of life for all of the citizens, which includes interest in the environment, conserving natural resources, education, health care, housing and recreation. As we move toward greater concern for these social needs, individuals and corporations - particularly quasi-public corporations, like railroads - still have freedom to operate in their own self

interest. The degree to which this freedom can be maintained has not been resolved, but there is little question that it will be reduced at an accelerating rate compared with the distant or even recent past.

Therefore, the railroad manager, regardless of what his personal desires may be, will not be satisfying the wishes of the owner to the extent that was possible in the past because the demands of his other publics are growing in strength.

There has been a considerable change recently in management philosophy concerning relations with employees. There is acceptance of the fact that the union member working for the railroad has as much at stake in the enterprise as the manager who, in reality, is also just an employee. This, then, begins to call for more participation in decision-making areas that have traditionally been solely reserved for management. Contrasted with the complete communication breakdown involving "feather-bedding," we now see high level discussions between management and labor on broad issues of the industry. On the local scene where good communication and a high trust level exist, progress is being made to resolve local problems, leading to a more satisfactory arrangement for all involved. Many more benefits for employees exist today, such as promotion of safety, closer inspection and maintenance of track and equipment, social counseling of employees with drinking and other emotional problems, shorter working hours, stock purchase plans, good retirement and medical

arrangements, training programs, minority employment and more. While it is true many of these programs were not willingly accepted by railroad management, many were voluntarily instituted as managers began to value the need for developing more enlightened human relations techniques.

We have heard much about productivity as a subject of prime concern in the future. However one argues whether productivity is mainly a function of men or machines, he cannot escape the fact that the human contribution will be critical and continuing. Railroad productivity is closely related to the motivation of the employees. Therefore, railroad managers must become skilled in human relations in order to understand the needs of employees and to motivate them to desire higher productivity. In ways this is a much more difficult and sensitive role than the independent manager of the past had to face.

The "Public be damned" attitude rather bluntly expresses the feeling that railroad managers of old had toward society in general. This has radically changed, where today's manager finds himself very intimately involved with the general public. Strong community relations programs - formal and informal - have evolved as a result of this new management philosophy. No longer can we ignore society in general, as we are an intimate part of that society. A great deal of railroad-governmental cooperation has grown up in the area of reducing the hazards where railroad operation comes in conflict with the public, such

as at highway grade crossing. Rules and regulations affecting railroad operations which are dangerous to individuals - both employees and the public - have been developed. While the development and implementation of such restrictions were resisted by many in management, and in many cases appear to be over-restrictive beyond the limits of reasonableness, there can be little doubt but that some regulations were necessary as railroads and people came closer together with the growth in population.

Perhaps the most obvious result of the new management involvement in the public sphere occurs in the environmental area. The Burlington Northern, for example, is in the process of reclaiming hundreds of acres of old strip-mined land in Montana - not because it is forced to, but because of a real conviction that today such action is part of a corporation's social responsibility. Extensive work is being done in the area of noise pollution, particularly around hump yards. In other areas, such as burning old ties, control of right of way fires, controlling oil leaks and smoke emission, concerns for the environment are being dealt with.

No doubt if we fail to accept our social responsibility, public confidence for private operation of the railroads will be lost. "In my opinion the American electorate will largely dismantle the free-enterprise system in the next ten years if we businessmen continue to stand mute," stated Richard Gerstenberg,

Chairman of General Motors.

Finally we come to the prime reason for existence of a railroad - its ability to solve the distribution needs of its customers profitably. The old philosophy of railroading required the shipper to fit his requirements into what was being offered by the railroad as far as service, equipment and rates were concerned. Perhaps the most radical changes in management philosophy are taking place in this key area - again not entirely on a voluntary basis. Substantial changes in organizational structure are required, and in some cases are slowly beginning to evolve.

The organizational structure that has generally existed up until the present, after the passing of the strong individual manager, has been called the "unit" system which is basically a line and staff arrangement similar to what is found in the military. Everyone in the structure will know very clearly what his job is, the criteria on which his performance will be based, and that he will run his area of responsibility without any interference from others.

This structure does not lend itself either to a customer or a profit orientation. Profit must be the value judgment in the long run - whether the carrying out of a specific task is a socially useful endeavor or not - but the avoidance of an orientation toward the customer and profitable operation has been responsible to a great extent for the serious financial

condition in which many railroads now find themselves. The change of the structure will be slow in coming, and it is questionable whether it will come fast enough, with enough quality, highly-motivated people to allow for continued survival of the free enterprise system in railroad transportation. While it is true that the changes suggested here may not be sufficient to insure survival by themselves, and that changes will be needed in the areas of regulation, taxation, line abandonment, and financial assistance, the proposed "external" changes also by themselves will not insure survival without the "internal" changes just mentioned.

There is a great need to understand the customers' environment and distribution requirements. We are no longer talking of a railroad being in the railroad or even transportation business, but being in the distribution business. James L. Heskett, in a recent Harvard Business Review article, states "Increased breadth, in terms of both the background of individuals attracted to the field and the scope of responsibilities which they have been given, has facilitated a trend toward purchase of carrier services, physical facilities, and logistic equipment as elements in a broader system of related activities." Railroads must adopt a marketing philosophy in order to respond to this new systems approach to distribution which is growing within customer organizations.

The first requirement is the research ability and technical

knowledge residing within the railroad to develop an understanding of the shippers' marketing and distribution philosophy. Only with this information on industries in general and specific companies within those industries can the next step be taken. This step consists of the designing of individual programs utilizing service configurations, equipment and rate innovations, coupled with adequate controls. These programs obviously must meet the customers' distribution needs but also must be profitable for the railroad. This implies the understanding of applicable costs at a level far beyond that which exists today. This also suggests the emerging of a philosophy of the uncommon common carrier - that is a railroad cannot be all things to all people in transportation, and must be selective in order to continue in existence in today's multimodal environment.

The impact of a strong marketing orientation of the organizational structure becomes substantial, as the old "unit" system cannot respond with enough speed or comprehensiveness. Old lines are broken down as new groups with commodity and customer profit responsibility are formed. We find groups consisting of sales personnel interfacing with the customer, research, equipment and operation design, cost and pricing personnel, working as a group. These groups work horizontally across the rigid vertical lines of the old unit system. Will railroads be able to remodel as suggested here? Such restructuring will come about only when top railroad management accepts

the marketing philosophy as a prime management belief and insists that controls be established to insure that proper responsibility and accountability are placed in the profit control groups.

We have seen a considerable shift take place as management philosophy has evolved over the years from a reliance on strong individualism to an understanding and response to the environment in which management must operate. While in certain aspects this may have caused a reduction in enterprise as suggested by Mr. Martin, it is generally a beneficial move considering today's world and the need for balance among the various "publics" facing today's railroad managers.