

# THE CONRAIL MANAGER

Volume 1, No. 4

★SPECIAL EDITION★

December, 1979

## A message from the Chairman

*On December 13, an important Telex message was wired to locations throughout Conrail's 16-state system. That message announced several organizational changes affecting certain Conrail departments—changes made after long and intensive analysis of the Corporation's organizational structure. The message below, from Conrail Chairman and Chief Executive Officer Edward G. Jordan, lends perspective to those changes by explaining the organizational philosophy underlying them.*

An extensive amount of organizational analysis has been undertaken during the past year throughout most parts of the Corporation. This work has involved most departments, required considerable time and effort from department heads and many of their subordinates, and necessitated visits to the regions, divisions and terminal areas to be certain that all dimensions were examined.

In its initial years, the Corporation experienced a series of major structural changes in which departments and sub-units were either realigned or reorganized; I believe this was an inevitable consequence of the start-up. Examples include the reorganization of Car Management with its regional centers, the development of the Business Groups, and the realignment of the former Rehabilitation Planning and Mechanical function. With such changes, an era of Conrail's development which might be characterized as "renewal" came to an end.

We began 1979 anticipating the resolution of major strategic issues which would importantly affect how we need to organize in order to run the business more effectively and efficiently. Among these issues are investment strategy and financing, deregulation and marketing programs, and the crew consist agreement. Progress on many of these issues now provides a reasonable

basis for determining the organizational shape best suited to moving Conrail through an extended period of transition.

Accordingly, a number of organizational announcements have recently been made, representing execution of the principles discussed below.

### **The pace and character of organizational change**

As anticipated at the outset, structural changes in the organization at this time are relatively few in number. After several years of major changes in reporting relationships and reorganizations of functional units, it is now important that the line departments in particular be permitted the organizational stability necessary to ensure closer coordination.

The most pressing need today is that of true collaboration among our managers—who have different kinds of expertise, varying perspectives on Conrail's work, different problems, and the command of different resources.

Control of management habits and processes is a most powerful tool to command attention and influence organizational behavior—provided the processes stress execution, reflect consistent themes, and are maintained on an ongoing basis. With such criteria in mind, major changes in organizational habits and processes are required to

achieve:

- **better integration** interdepartmentally and intradepartmentally, as well as between line and staff functions, and between system and the field;
- stronger and better use of the Corporation's full range of **planning and control capabilities**; and
- understanding and acceptance by all employees of managerial relationships, in particular "**functional authority**" as compared to line authority.

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The pace of organizational changes is now, and will continue to be, governed by our ability to improve management skills and develop more people capable of handling new and expanded kinds of responsibilities. Whatever the rate or nature of change, we expect full participation from our present managers so as to facilitate orderly assimilation of new concepts and new ways of implementing them.

Two prevailing themes, reinforcing one another, underlie the recent

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If we are to capitalize on the changes of the last three years, it is essential that we elevate our entire view of the process of managing Conrail. The fundamental challenge for Conrail's managers will be to **integrate** functions as well as **differentiate and balance** the competing requirements of the business. Only by doing this can we gain the command and control essential to the successful operation of a flexible, integrated railroad.

organizational changes: increasing integration of the various intra- and interdepartmental functions and activities of the Corporation; and strengthening key staff functions so that they can better serve the line.

#### Service planning and control

One of the principal innovations contained in the recent announcements is the creation of a Service Planning function within the Marketing and Sales Department, and a corollary Service Control function within Transportation. A primary responsibility of Service Planning will be to sort out, prioritize and transmit to Transportation the various service demands defined by Conrail's business groups and sales units.

The strong link between the Service Planning and Service Control units provides an example of the greatly increased level of interdepartmental communication and action necessary to make the railroad function smoothly. It will provide a channel of communication and a process of implementation for evolving marketing strategies, as well as a mechanism for resolving disputes and for making final decisions on services consistent with the capabilities of the organization. Most important, it will provide a major mechanism for delivering our ultimate product—better service to the customer at a fair price.

Another important step toward integrating and improving depart-

mental capabilities is the creation of a strengthened Transportation function to be headed by a new Vice President. The establishment of this office will noticeably increase the ability of the Transportation staff to provide direction on a functional basis to line transportation, while also improving the planning and analytical capabilities in the department. Service Control will report to Transportation, with responsibility for Service Control and Transportation Analysis activities. In this role, it will ensure that the Service Planning unit's recommendations recognize operating capabilities and constraints; convey to Service Planning creative initiatives of its own for improving service; and control and monitor execution by regional units of the agreed-upon operating plan.

#### Human resources

The Human Resources function is being restructured at the system level to provide better integration of all functions for agreement and non-agreement people. Additionally, and more importantly, we have created a new position in the field—that of Regional Director of Human Resources—through which the Human Resources Department will provide General Managers with broad-gauged support in managing people-related needs and programs necessary for smooth operations.

#### Planning and Control

One of the crucial elements in im-

proving the Corporation's overall operation is continued and increasing emphasis on planning and control. In this regard, the Planning, Control and Information Systems unit is being strengthened through expanded corporate planning, budgeting, capital planning, and performance analysis functions.

In the future, planning and control within Conrail will focus much more heavily on integration of corporate strategies and goals, budgets, plans, and the assessment of performance versus plans. Implementation of these changes requires a

sharpened definition of how the Planning and Control function will relate to other departments, accompanied by a strengthening of related capabilities in the line departments, particularly in Operations.

The success of this effort will depend more on the dedication of our managers to using our planning and control mechanisms effectively than on organizational structure or new people.

#### Recognizing functional authority

A continuing concern has been that too many of Conrail's people

and organizational units hold a fragmented or parochial view—rather than a “corporate” view—of Conrail's activities. Managers often fail to appreciate or understand the implications of their actions for other departments, to recognize the legitimate demands of other departments, or to seek and use the counsel of staff expertise as it relates to their problems.

This problem has been compounded because management directions received and followed by most of our employees are limited—more than they should

be—to the authority exercised through the direct line chain of command from superior to subordinate. This concentration of line authority sometimes results in insufficient communication of, and attention to, interdepartmental needs—thereby reducing the effectiveness of Conrail's staff groups in working together in what is essentially an interfunctional organization.

To combat this tendency, it is essential to recognize an increasing role for “functional” authority throughout the Corporation. Just as

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## Line, staff, and functional authority. . .

Conrail, like most railroads, is organized primarily around certain sets of **line** activities—Marketing and Sales, Operations (including Transportation and Maintenance of Way), and Maintenance of Equipment. An inevitable consequence of this grouping is that certain support functions, such as budgeting, are conducted by similar units in each department. In addition, in the Operations Department, certain line activities—Maintenance of Way, and Car Inspection and Repair, for example—must be so coordinated with Transportation activities that these functions report to the General Manager of each region, rather than to a higher executive of their own function.

Where units support other activities or report to an executive of another function, there is a **dual** responsibility: to serve the line department of which these units are a part, while ensuring that the particular **function** they are engaged in is competently and professionally carried out. For Conrail to succeed, both responsibilities must be met. In order to ensure that this happens, Conrail uses two

kinds of authority: “line authority,” the familiar superior/subordinate relationship; and “functional authority,” a less understood—but still vitally important—relationship.

**Line authority**, the most common and best understood type of authority in railroad management, provides a manager with the right to command or give direct orders to a subordinate, although persuasion is often the best means for getting work done. The line executive is concerned with determining the need, time and place for action and with issuing direct orders to subordinates to get things done. Sanctions or controls at the executive's disposal vary from mild disciplinary measures to decisions or recommendations on compensation or promotion, to ultimately the right to hire or fire. An example of this at Conrail is the chain of command relationship that stretches from the Senior Vice President - Operations, through Regional General Managers, through Divisional Superintendents, through Terminal Superintendents, to the train and yard masters.

**Staff Support and Advice** consists of fact-finding analyses and the development of conclusions and recommendations on a purely advisory basis. This function is normally performed by staff units reporting to line managers, using only powers of persuasion. For example, Regional Superintendents of Operations Improvement serve the Regional General Managers in this way. Certain “staffs” at Conrail carry line authority as described above. These are staffs to whom the Chairman has delegated exclusive responsibilities for carrying out certain functions—such as Law, Public Affairs, Government Affairs, and Labor Relations. Even though these units are referred to as “staffs,” they have exclusive authority over their functions. No other units are permitted to conduct activities of these kinds; no one is to practice law, for example, except the Law Department.

**Functional Authority** is simply the right to see that activities carried on in other departments—or other organizational units, such as in the case of Maintenance of Way activities in the regions—are conducted in accordance with the requirements of the department or

organizational unit that has functional authority. Functional authority is based on the greater technical or specialized knowledge of the executive, department, or unit that exercises it. It is the authority of knowledge. Just as the holder of line authority says, “Do it,” and “Do it now,” the holder of functional authority says, “If and when you do it, do it this way—or in accordance with this policy or standard.” This authority holds regardless of whether functional authority is designated by a solid line or by a dotted line on organization charts.

There are three principal benefits of the use of functional authority at Conrail. It can provide an effective means of:

- **making technical and specialized knowledge more productive, especially in identifying ideas and making them work;**
- **ensuring that key line executives and top management are apprised of, and therefore in command of, major issues, through the “checks and balances” process; and**
- **balancing the competing demands of rapid decision making with accurate decision making.**

the holder of line authority says "Do it," the holder of functional authority says "When you do it, do it this way." Examples of this include the functional responsibility of System Maintenance of Way over regionally controlled tie and ballast gangs; and the Finance Department's nominating and quality control role in the execution of the Planning and Control functions in the regions.

The concept of functional authority may superficially appear to be at odds with the traditional concept of strong line authority, which is central to the operation of

any railroad. In my judgment, it is not. While functional pressures and authorities have always been present within our current structure, they do not yet have the weight or force they need if the railroad is to operate successfully. We underscore this need for better functional control now, concurrent with the strengthening of some of our major staff units and the increasing role they will have in improving the professional execution of our management responsibilities.

In conclusion, if we are to capitalize on the changes of the last three years, it is essential that we

elevate our entire view of the process of managing Conrail. The fundamental challenge for Conrail's managers will be to **integrate** functions as well as **differentiate and balance** the competing requirements of the business. Only by doing this can we gain the command and control essential to the successful operation of a flexible, integrated railroad. □

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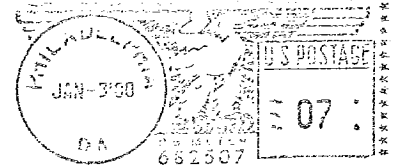
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