RISK **vs.** REWARD

**LAST MONTH’S COLUMN** (“Debatable Ideas,” Aug. 2) generated significant feedback. One reader questioned whether it was intended to be critical of the military, asking, “Have you confused respect for the chain of command with the inability to encourage creativity and debate?” This was certainly not my intention. I have a great deal of respect for the military. It may be the only true meritocracy in our society.

My intended point was that in contrast to the military — which trains its leaders to make decisions understood to have potentially “life-and-death” applications — today’s transportation industry leaders are often unwilling to make high-stakes decisions, for fear of a career-ending performance. Stifling debate to avoid conflict has led our industry to a lack of innovation.

Many readers called me to task on the last point and cited specific numerous innovations. (See “Tracking Rail Innovation,” by Ed Hamberger, Sept. 6). Most examples were engineering-based and had been sufficiently tested to justify politically risk-free implementation. Ironically, two readers cited examples of innovative technology that were languishing because the railroad industry refused to adopt them widely.

One reader pointed out Bob Downing, a former Burlington Northern chief operating officer, died the day my column appeared. Bob was instrumental in one of the great “bet-the-company decisions” when BN built a new railroad into the Powder River Basin. Today, this is one of the great franchises in the railroad industry. However, 35 years ago, after the BN board approved the line’s construction, Chairman and CEO Lou Menk told Downing, “You know, Bob, I hope this works, because if it doesn’t, you and I are both going to be looking for a job.”

The Wall Street Journal's Alan Murray has written a new book entitled the “Essential Guide to Management.” Murray seeks to update business guru Peter Drucker’s observation that management was “the most important innovation of the 20th century.” The most successful recent management stories, Murray maintains, involve triumphs over the corporation, rather than successes of the corporation.

Still, the problem isn’t always bad management. Good management that listens to customers and seeks to allocate resources for initiatives promising to generate the highest returns may miss disruptive innovations that develop blockbuster products, albeit at lower margins.

The intermodal industry in the 1980s certainly experienced disruptions. When APL was ready to launch double-stack train service, it wanted to use BN and Santa Fe as its underlying rail carriers. Those railroads, however, weren’t interested in a product that might lower their margins. With nowhere else to turn, APL worked out a deal with Union Pacific, which had no real intermodal franchise to protect. Both companies grew more profitable, with lower costs, lower rates and higher volumes.

BN responded. Shortly after losing the APL business, it established an intermodal business group. Under the leadership of Bill Greenwood, the BN team routinely bet their careers by focusing on competing with trucks, rather than perpetuating a disapproved railroad model. Profit grew — even with more competitive rates — because of successful cost reductions and dramatic business growth.

The fin de siècle of the 1980s was the Santa Fe-J.B. Hunt deal. Santa Fe was reeling from a decade of bad intermodal decisions. Although the railroad enjoyed a high service network, it was finding fewer customers willing to pay for it. J.B. Hunt already had transformed the trucking business in the early 1980s. By developing the advanced truckload firm, Hunt achieved higher profit with lower margins. However, new players were applying a similar strategy and attacking Hunt’s long-haul truckload market.

Both companies found higher profits from lower margins. Santa Fe was able to fill underutilized capacity. Hunt was able to transform its business again by developing an intermodal product that was much harder for its competitors to emulate.

Since the 1980s, intermodal has grown astronomically without any innovations of similar magnitude to those occurring 20 to 30 years ago. We may wish to heed the advice of Gary Hamel, a leading business thinker, who believes the major cause of business failure is that companies “overinvest in what is, as opposed to what might be.”

Murray believes the new model for management is one of venture capitalists making a lot of bets. Hopefully, one or two pay off to make up for all the rest failing. Still, this is not the existing model of finance departments in capital-intensive transportation companies protecting scarce resources. Here’s hoping our industry finds a way to resume transformational growth.

**TODAY’S INDUSTRY LEADERS ARE OFTEN UNWILLING TO MAKE HIGH-STAKES DECISIONS, FOR FEAR OF A CAREER-ENDING PERFORMANCE.**

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