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DAVID R. GOODE: RAILWAY AGE'S RAILROADER OF THE YEAR

The WORLD’S BEST FREIGHT RAILROAD and the MAN at the TOP

Norfolk Southern's mission is "to be the safest, most customer-focused, successful transportation company in the world." David R. Goode is the man leading that mission, and he is Railway Age’s 1997 Railroader of the Year.
By William C. Vantuono, Executive Editor

The award citation for Railway Age’s 1997 Railroader of the Year reads: “For forging the agreement that strengthens rail transportation in the East and levels the playing field between eastern and western railroads.”

That’s the main reason why Norfolk Southern Chairman, President, and CEO David R. Goode is Railroader of the Year. But there’s much more to the story than how Goode, and NS, prevailed, and forged a fair deal in the struggle for control of Conrail.

NS is arguably the best-run freight railroad in the world. There’s much to back that statement up:

In 1997, NS employees won an unprecedented eighth straight Harriman Gold Safety Award. For the first nine months of 1997, NS posted a reportable injury ratio of 0.85, the lowest in the industry among Class I railroads.

For the first nine months of 1997, NS’s operating ratio was a record 71.6, the lowest among major railroads. By comparison, Burlington Northern and Santa Fe reported 78.6, CSX Transportation 79.2, Conrail 80.2, and Union Pacific 83.5.

NS’s loss and damage payout as a percentage of revenues is $0.22 per $100 of gross revenue for...
the first nine months of 1997. This figure has been consistent
ly low for the past three years: $0.20 (1994), $0.16 (1995),
$0.19 (1994).
In terms of efficiency, car utilization for the first nine
months of 1997 is up 4.6% for the merchandise fleet, 7.7% for
the coal fleet. Locomotive utilization, on a steady climb since
1992, is at 63.8%.
For every year since 1992, NS has posted a derailment ratio
per million car-miles well below the industry average. In 1996,
NS led the industry with a ratio of 200.
For the first nine months of 1997, the number of grade
crossing incidents on NS decreased to 378 from 467, for the
same prior-year period.
For the third time, NS was named America’s Most
Admired Railroad in Fortune magazine’s corporate reputa-
tion survey.
What makes Norfolk Southern, the “Thoroughbred of Trans-
portation” as it calls itself, different from other Class I’s, David
Goode, though he does not offer many direct comparisons with
other railroads, is eager to point out what he feels sets NS apart.
“I would say that we have a tradition of pride and trying hard to
excell,” he says. “I think you’ll see it throughout the organiza-
tion. It has to do mostly with our tradition of believing we have
to work harder than the other guy. It’s also a tradition of really
being focused on safety, almost as a tenant of our company. It
affects everything we do, and it’s something on which everyone
here has worked together.”
Are these characteristics unique to NS? Not really, says
Goode: “I think these are the elements I see among railroaders
in general. It’s a tradition in this industry.” But one thing is cer-
tain, he says: “The people that succeed in our company are the
ones who make a commitment to put the company first on the line
for our goals.” And that’s where the difference may lie.
It may also stem from being, in a sense, the underdog. “We
have a history of success,” says Goode, “but we’ve always been
the smallest guy around—the little kid on the block with some-
thing to prove. We’ve proved it by trying to push hard and run a
good organization. We’re geographically limited, so we’ve
worked hard to find ways to build out of that, to develop part-
nerships—Triple Crown is a good example. We’ve always
thought we’d have to work a little harder, to execute a little better.
We’ve competed head to head with CSX for many years, and we
don’t begin to have the revenue base CSX has, so we’ve had to
work harder with what we’ve got.”

The Man at the Top

When conservative Norfolk & Western Railway and innova-
tive Southern Railroad came together under the banner of
Norfolk Southern Corp. in 1982, David R. Goode was
named assistant vice president-taxation. Ten years later he
was chairman, president, and CEO. Now he is the Railway
Age’s Railroad of the Year.
When he had cast his lot with railroading, Goode took a
modest job as a tax attorney with N&W. He had a degree in
accounting from Duke and a J.D. from Harvard Law. That
was in 1951. By 1982, while he had moved up the promo-
tion ladder on the financial/taxation side, there was little to
distinguish him to the outside world what lay ahead for David R.
Goode at NS.
But he was truly on the fastest of fast tracks. He became
executive vice president-administration in 1991. That same
year he was elected president and CEO. In 1993 he added the other
two titles, chairman and chief executive officer, to his busi-
ness card.
He was running what (and still is) arguably the world’s
most successful freight railroad. But he was about to face—and
face down—his biggest challenge, when CSX Corp. proposed to
swallow Corroll whole, leaving NS hanging by itself in the East.
Through his career, David R. Goode has earned a reputa-
tion as a man who says what he means and means what he
says. And with all due respect to his predecessors, there are
those at NS who firmly believe that only Goode could have
prevailed in the battle for Corroll.
—Gary Wolfe

Railway Age * January 1998

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accomplished. It started from a series of failures, and built a really good railroad organization, a successful company, from a standing start. Conrail people are very proud of that. They’re good railroaders who have accomplished a lot.”

The Conrail acquisition, says Goode, will not be a wholesale absorption of one railroad by another. Rather, it will be a gradual melding of operations. It will, in effect, create a new railroad—maybe even a new corporate culture. “If you look at our integration plan, it’s somewhat different than that of other railroad mergers and acquisitions,” says Goode. “Ours is an incremental acquisition. We’re adding Conrail to NS, and NS to Conrail. There’s little or no overlap in the systems, and we’re not planning abandonments. For the most part, we’re not planning people reductions. It’s an incremental situation based upon growth, development, and expansion. It’s based upon the absolute need to execute the combination of these two systems. The whole thing is dependent upon the successful integration of the two cultures.”

Are there significant differences in management styles? Maybe, says Goode. “I don’t ride motorcycles and David LeVan does. I play golf and David doesn’t. But those are all superficial things. Here at NS, we do try to run a tight, efficient organization, but I believe Conrail does, too. We’ve both concentrated hard on customer service and quality issues. Neither one of us has done as good a job of addressing customer service as we’ve liked, or as our shippers would expect, but the point is that we feel—very hard.”

Not surprisingly, safety—aside from the Federal Railroad Administration’s call for a safety implementation plan—is foremost in Goode’s mind. It’s another area of similarity between NS and Conrail. “We’re both strongly conscious of the need to improve safety,” he says. “There may be differences in management style, but I’m convinced that Conrail is just as committed to safety as we are. Our numbers are better than Conrail’s, but I think we both want to make sure that when we combine, we have the safest possible operation. Safety, of course, is the linchpin of our operating philosophy. The cornerstone of good railroading is running a safe operation, and we believe that having everybody concentrate on safety—through all levels of our operation—is key to running an efficient, customer-service-directed organization. The same elements of concentration and dedication are required.”

Goode says he has every confidence that the two systems, and their people, will mesh well together. “I’m sure that, at the end of the day, the ‘new’ Norfolk Southern/Conrail will look different than either railroad, because it will be a completely different organization. I’m dedicated to having the best of both organizations, and combining them into what I expect to be the finest transportation company in the world. I’m worried about integrating the cultures, but with the right attitude on the part of everybody—which I’m satisfied we’re going to have—I believe it will happen.”

“We’ve devoted a lot of resources to this transaction,” says Goode. Much of the work involves preparing for a Surface Transportation Board decision that, though most likely favorable, will be laden with conditions. Goode remains the optimist, preferring to see, as he puts it, “a silver lining in every cloud.”

“There is an advantage to the STB’s extended schedule,” he says. “It’s 45 days longer than the original—and we didn’t want that to happen—but we’ve utilized the extra time to make sure that we have the right safety and service plan in place. It has given us an opportunity for training. We’ve set up over 100 teams that are now on the ground at Conrail, working with Conrail people.”

Equally important as the integration of Conrail is NS’s relationship with CSX, and the timing and coordination that will be required as three railroads become two. “It’s a unique situation because it does require very careful coordination between NS, CSX, and Conrail,” says Goode. “We all need to execute carefully, mainly because we’ll be operating the Shared Asset Areas [Northern New Jersey, Philadelphia, and Detroit] in partnership. There are patterns we can follow, but it’s certainly going to be different from a normal operating situation, because we are going to share a large area and manage it together. We’ve done a lot of advance planning so that we can hit the ground running as quickly as possible. It will be hard to execute, because it requires a much more extensive management structure than other models of shared asset areas. But we’ll make the investments necessary, because the success of the SAs is crucial to the ultimate success of NS and CSX.”

Along with 58% of Conrail, NS will be inheriting more
Amtrak and commuter trains. In the past, NS, like CSX, has not been known as the most passenger-friendly freight railroad. But this, too, will change.

"The relationship with passenger railroads for the 'old' Norfolk Southern was one thing," says Goode. "But now we look at the new NS, it is a totally different situation. We need to develop a new paradigm for our relationship with Amtrak and the commuter railroads, and we're working on it. As we look at the rail infrastructure, and the highway infrastructure—specifically, the highways that are not going to get built in the future—it tells me that the freight and passenger railroads need to develop new partnerships. We're both going to have to get more out of our rail system than we have gotten in the past. We're not going to be able to do that with an antagonistic relationship. The only way will be to cooperate on the issues of scheduling and control, and on the use of technology, to free-up capacity."

Amtrak stands to benefit from this "new paradigm," says Goode. "We're going to try to work with Amtrak as a partner and a friend, because Amtrak needs NS, and we need Amtrak. We want to operate freight over the Northeast Corridor—we have a wonderful opportunity. RoadRail technology, for example, is in view tailor-made for the Northeast Corridor, and Amtrak can have a role in that. The same is true for the commuter roads, which are intensely concerned with the need to provide for growth. It probably means making some investments, in both infrastructure and control system technology."

An Industry in Transition
As the Association of American Railroads chairman for 1998 (his second time in that role), David Goode is charged with stewardship of an industry that is struggling to recover from a black eye. Public perception—if the public is aware the rail industry exists at all—is leaning toward the negative side. The service problems in the West have only made things worse.

What needs to be accomplished? Says Goode: "It's a pivotal time for the AAR just as it is for the industry. Everything has changed dramatically in the last few years—far more than the general public knows, maybe even more than what we have reflected upon ourselves. It's going to be an interesting year for the AAR. [AAR President] M. B. Ogleby is new. We have made some very dramatic changes within the organization, and we're going to make more. We've been working hard to make it more efficient and responsible in serving the industry's needs."

Public perception? "We are going to concentrate more in this area, because recent public perception has been negative, with the failures in the system." On the other hand, he says, "The public now has a better idea of how important the operation of our rail system is to the national, even the global, economy. AAR has an important role to play in focusing public perception on what's right with the railroads. The industry really has come a long way, and has done a lot of things that had to be done to be the core of the nation's transportation system—which I believe the railroads are. We need to do a better job of expressing that. With all our warts and blemishes, with all our flaws, the U.S. still has the best rail freight system in the world, and that is a national competitive advantage for our whole economy in terms of distribution capability."

NS is one of the few railroads that advertises media, "and that has served us well," says Goode, "in the battle has also helped us become a better known company."

Looking at the bigger picture, Goode says that the most recent problems, now is the time for the industry to address its priorities. "Problems are opportunities, addressed as such," he says. "Certainly, at a time like this, it's time for the industry to stop and reflect, aren't we? How far have we come? If we think about the things that we've had to do, in the system illustrate a lot of needs that have to be addressed. Have we made the right investments in capital? In
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NS is one of the few railroads that advertise in the general media, "and that has served us well," says Goode. "The Conrail battle has also helped us become a better known company."

Looking at the bigger picture, Goode says that, in light of all the recent problems, now is the time for the industry to re-evaluate its priorities. "Problems are opportunities, and should be addressed as such," he says. "Certainly, at a time like this, it’s a good time for the industry to stop and reflect, and say, ‘Where are we? How far have we come?’ If we think about it carefully, the disruptions that we’ve had in the system illustrate a lot of needs that have to be addressed. Have we made the right investments in capital? In people! We also need to make sure that we are using every advantage that information technology offers. If we’re going to move a million tons of steel over the rail network, we have to be brave enough to make investments in this technology that will position us to do what our customers require. The circle has to be completed, with the right vision and the right strategies for rail being the basis of the nation’s logistical network.”

Part of that is adapting to the changing distribution needs of traditional railroad customers. The motor vehicle mixing center NS is opening in partnership with Ford are a good example. "They will change the way finished automobiles are delivered," says Goode. "We’ve developed a wonderful strategy, but we’d better be damn sure we execute it. We’re going to see similar distribution revolutions in other industries, so we need to think about how we can work with our customers to shorten their delivery times and improve their inventory needs."

What about the capacity, efficiency, of the nation’s transportation network? The railroads, says Goode, are best suited to

"It’s a good time for the industry to stop and say, ‘Where are we? How far have we come?’”

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