# BEYOND COLLISION: HIGH INTEGRITY LABOUR RELATIONS

## CPR SHORT LINE RAILWAY CASE STUDY[1]

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Companies are continually facing the dilemma of either keeping or selling peripheral components of their business. The railway industry is no exception. Throughout the 1980s and 1990s major railroad companies in the United States and Canada were selling or abandoning branch lines considered peripheral to the main or core rail lines. By 1994, Canadian Pacific Railway (CPR) had already abandoned several lines and was in the process of selling a significant section of track in eastern Canada. Union leaders from the Brotherhood of Locomotive Engineers (BLE) and United Transportation Union (UTU) suggested that there might be another way to handle marginal lines.

A subsequent, extensive study, jointly conducted by the unions and CPR, showed that turning branch lines into internal, semi-autonomous profit-centers, or *short line railways,* was viable. To attain viability, union and management agreed to dramatically change how work was done and realize 30% a reduction in labour costs. As a result, two internal short lines, Kawartha Lakes Railway (KLR) and Kootenay Valley Railway (KVR), were launched in 1996 and 1997, respectively.

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[1] This case study is based on interviews and company and union documents. The short line case study is featured in the documentary film "Beyond Collision: High Integrity Labour Relations" produced by Bert Painter and Allen Ponak. For film information, visit www.moderntimesworkplace.com

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**Background**

The Canadian Pacific Railway (CPR) was built in the 1880s to bind the nation. Today it is a publicly traded, Class 1, North American railway providing freight transportation services over a 14,000 mile network in Canada and the US. The CPR workforce is comprised of 15,000 employees, which is less than half the number in the 1980s. New technology is the main reason behind the smaller workforce, but there has also been downsizing from track closures and the sale of branch lines.

Changes in the National Transportation Act of 1987, specifically the reduction of subsidies for rail lines, made it much easier for CPR and other Canadian railways to sell or abandon branch lines than in the past. For example, CNR (Canadian National Railway) sold off an apparently profitable line from Truro to Sydney, Nova Scotia, with what the union regarded as a "tremendous disruption of employees". Similarly, CPR rationalized its operations east of Montreal, selling off about 600 miles of track, displacing a large number of employees and some managers.

Having seen the dislocations that had taken place, and sensing that more upheaval was on its way, the United Transportation Union (UTU, representing conductors and train service employees) and the Brotherhood of Locomotive Engineers (BLE, representing engineers) approached both CNR and CPR to join them in a study of what could be done to address this problem. Eventually, only CPR agreed to participate. The goal of the joint study was to examine other operations in Canada and the US to see if solutions could be found to keep marginal branch lines within CPR. They focused on branch lines that could be turned into internal, semi-autonomous profit-centers, or *short line railways*, as they are known in the industry.

**Short Line Study**

With a grant from Human Resources Development Canada (HRDC), the two unions and CPR management launched the study in 1994. The study committee reviewed relevant literature, conducted surveys, explored the reasons of CPR management for jettisoning branch lines, and interviewed employees and management of other short line operations. The study revealed that selling branch lines often led to non-union worksites and reduced wages, benefits, and pensions for employees. Even then, once these changes were implemented and accepted, short lines were often abandoned within five to ten years.

According to Mike DeGirolamo, CPR's Assistant Vice-President of Industrial Relations, "after about a year of research, they came back and presented to our executive committee. They suggested that if we were to establish an internal short line labour agreement, we should be able to reduce our labour costs by about 30%". Mike Hone, Vice-President of UTU (now retired), who was part of the study committee, made it clear to the executive committee that "the union wanted to maintain pensions, benefits, vacations, seniority, and wage levels at relatively the same levels".

In order to reduce labour costs by 30% while keeping employee wage rates and benefits at current levels, the study committee recommended revolutionary changes to turn two branch lines into successful internal short line operations. The key to these changes was that "employees would jointly manage the new internal short line". The committee referred to this concept as *co-determination*.

Co-determination meant senior labour-management participation on an advisory board overseeing the business, and local self-managed work units of unionized employees that would work with a reduced core of management to run the day-to-day operation. Work rules were to be "reduced to a minimum", and unionized workers would break out of their traditional work roles to engage in multi-tasking ("flexible specialization"). A new pay structure would be comprised of a salary and a profit sharing plan. The short line organizational culture was to have an "entrepreneurial spirit" with a mission: "innovative customer rail service through an involved workplace".

These changes were set against a hundred years of tradition that included a hierarchical management structure and sharp job demarcations. However, with the assistance of Mike DeGirolamo championing the initiative, these bold suggestions were accepted by the CPR executive committee. The potential benefits to the core CPR business included retaining feeder rail traffic from the two routes and not introducing a competitor into the market. The executive committee authorized management to negotiate short line agreements for the two marginal branch lines that would otherwise be sold or simply abandoned -- one in central Ontario (Peterborough area) and one in the interior of British Columbia (Nelson area).

**Planning the New Short Lines**

The executive committee placed an important requirement on the new short lines: they must maintain the level of service at CPR standards in order to retain customers. To keep service levels high and substantially reduce labour costs, management and union leaders knew that they would have to fundamentally change how the new short lines operated. As a start, they set the collective bargaining agreement aside and agreed to treat the creation of the new short lines as a *greenfield* site. They would revisit the collective agreement once the structure and operations had been resolved. In the words of one of the union leaders, Mike Hone: “It wasn’t that difficult a process…I think it was because we really understood the issues, jointly.” At this stage, the planning also directly involved employees from the properties that had been identified as internal short line possibilities. “By bringing the employees in…we were able to find savings that weren’t possible if it was handled at the main bargaining table”.

The first step was for management to establish a unique profit centre for each short line so its performance could be measured and tracked independently from the rest of CPR, a first within the company. There was a full sharing of all financial and commercial information with the unions, and, by extension, the employees. For the first time, employees could see the revenues and costs for their branch line. Armed with this information, employees challenged 100 years of history by “sitting down and saying--ok, we have to find a better way to do our jobs, we have to figure it out and we have to operate the line ourselves”. They began by applying what they had learned from the study of other short line operations in North America.

Each employee would have to be a multi-tasking, multi-purpose worker within their own general skills and trade. For example, a conductor or a running trades employee would perform multiple tasks within the running trades but would not cross over to perform maintenance functions. The emphasis on everyone being a multi-purpose worker fit well with the new concept of group decision-making. Unionized employees on site at the short line would meet at least monthly as a group with management to make decisions by consensus on key operational matters.

The number of managers would be greatly reduced. Each short line would have only one manager, versus up to four in the past, who would act more as a facilitator or leader. For example, current KVR manager Bill Ross describes his role as managing "the property", while the crew "manages the operation". In the spirit of co-determination, a joint union/management committee selects the sole manager for each short line property; in other words, the unions hold a veto over who becomes the short line manager.

The new arrangement succeeded in creating an entrepreneurial spirit among the workers. Knowing they could design and run their own operation, they further scrutinized the short line, looking for cost-saving opportunities. At one site, they tore down several old buildings to save on property taxes. Ways were found to operate without having to bring in spare people. Employees became extremely fuel-conservation conscious while continuing to fill customer demands. One of the biggest areas of cost saving was the removal of work rules such as *dead heading*. As locomotive engineer Arnie Nesbitt describes it: "Dead heading is if I ran out of hours and I was two miles from home, I got another day's pay. For example, I would take a taxi from Nelson to Castlegar to run an eight-hour shift. For that, I would get paid one day to get there, one day for the shift, and one day to come home". Dead heading was replaced by a system where costs would be lower and more predictable. Each job (or "run" from location A to B) would have a fixed rate of pay, regardless of how long it took. This effectively put the unionized workers on salary.

Wage rates remained constant but the overall result was a drop in employees' regular take-home pay. To compensate for that, and in alignment with the entrepreneurial spirit, profit sharing was added to the employees' benefits[3]. The details of financial incentives were to be developed by each negotiating committee, but in concept, the new

[3] The profit sharing plan was actually a combination of profit sharing and gain sharing. For this case study, we will refer to this bonus system as profit sharing.

system would provide a payout based on financial and safety performance targets set jointly by employees and the site manager (and approved by the advisory board) at the beginning of each year.

**New Collective Bargaining Agreement**

With the new structure and operations of the short lines agreed upon by management and union leaders, the next task was to negotiate a collective agreement to enable each operation to begin. Given that union and management had jointly planned the two short line startups, the collective agreement was a formalization of those intentions. However, the changes from the core CPR collective agreement would be dramatic. As one union representative acknowledged: “A lot of what we put in the agreement was a giant leap in the dark”.

The parties understood that a lengthy and detailed agreement similar to the main line agreement would not work for the short line railways. Instead, the new collective agreement simply had a number of guiding principles and lacked the detailed work rules of the core agreement. In the end, the agreement was a “pretty thin, little book”. While there were details on rates of pay and grievance procedures, there was just as much text on the philosophy of the new short lines and how co-determination would work, focusing on the opportunity for employees to be involved.

For example, in contrast to the traditional disciplinary approach under the main line collective agreement, the short line contracts took a different approach in cases of poor performance or misconduct. Discipline is the last resort. First, the employee’s peers are expected to talk to him/her. Second, if unresolved, the manager will counsel the employee privately on an informal basis with no documentation placed on an employee’s personnel file. If still unsuccessful, the manager may formally counsel the employee on the performance or behaviour issue, including a written Positive Action Plan, jointly developed by the manager and employee, with involvement of a union representative if requested. Finally, if these steps fail to accomplish the needed improvements, the formal (demerit-based) Brown System of discipline, used throughout CPR operations, may be invoked.

To accomplish a 30% labour cost reduction, compensation and work rule changes were made. Running trades employees took a five-year wage freeze and the work day was set at a standard of 12 hours, instead of 10. Dead heading was eliminated; workers got paid to complete the shift, regardless of time taken, and they drove their own cars to the job site instead of taking a taxi. Seniority and staffing were altered so that there would be only two employees, not three, on every run. Profit sharing was introduced based on three factors: operating ratio, earnings, and safety targets. Jurisdictional lines between road and yard service employees were eliminated. With these changes, CPR agreed to keep the line running and not sell it for the duration of the five- year contract.

The Peterborough area short line agreement was signed in the spring of 1996. All four unions including UTU, BLE, Brotherhood of Maintenance of Way Employees (BMWE), and International Brotherhood of Electrical Workers (IBEW), signed the contract. In the spring of 1997 the Nelson area short line agreement was signed by UTU and BLE, with 80% of members in favour of the new agreement. However, BMWE did not sign on to the agreement, preferring to retain the previous contract within the core CPR. The absence of formal BMWE participation cooperation did not impede the launch of the Nelson short line, but it did weaken some of the opportunities for employee involvement in that location.[4]

**Launch of the Internal Short Lines**

In 1996, the Peterborough area short line was launched with 19 employees as *Kawartha Lakes Railway* (KLR). In 1997, the Nelson area short line, a larger operation with 21 employees, was launched as *Kootenay Valley Railway* (KVR). Both the KLR and KVR had advisory boards, consisting of senior management and union officials, who met periodically to review results, discuss challenges, approve the annual plans, and generally assist the teams in running an efficient, customer-friendly railway. The advisory board also selected the manager for each of the new railways. In both cases, Greg Geddis was picked as the first manager. After a ten-month stint setting up KLR in Ontario, Greg was chosen to run KVR in BC.

The first challenge for Greg and the workers was to learn the new approach to decision-making that replaced the traditional command-and-control structure. There were multiple weeks of training, with the help of an outside consultant, on conflict resolution, consensus decision-making, and customer service at the outset of each launch. This training occurred amidst the inaugural operations of the new short line. The next challenge was to begin tracking revenues and expenses to measure performance changes and to provide rapid feedback to employees. As Greg Geddis observed “there is no one that is better equipped to find ways to eliminate waste than the men that work day to day on the property”. Now workers’ ideas were not only brought forward, but were enthusiastically acted upon.

[4] There were no IBEW members at KVR.

Each operation established committees to focus on specific areas: finance, engineering, safety, operations, and property. These committees have made recommendations to the whole group of employees and manager for decision and action. As engineer Arnie Nesbitt puts it, “the biggest thing was we got our hands on managing the place and had a really good look at how the operation runs, rather than just going out there and getting your paycheque”. For example, according to track maintenance foreman Kevin Geen in Peterborough, maintenance employees “do more of our own fencing and basic repairs. It is cheaper when we do it ourselves as opposed to getting a contractor, even if we do it on the week-end at time and a half.” In another case cited by Geen, there was a need to replace 200 ties. Their solution was to get three crews to work on the task and hire a backhoe. The result was that the employees laid the ties themselves at a low cost, in record time.

With the excitement of running the operations for themselves, also came the difficulty in changing over to the new systems. There was a lot to learn and assimilate in the early months. A consultant was hired to help not just with the training, but with the day-to-day implementation in the early months. At KVR, with only two unions formally involved, the workers included the other union workers as much as possible in the improvement efforts, but not all potential improvements were captured.

**Results**

The payoff for union workers is clear. According to Arnie Nesbitt from KVR, “it’s paid off 10 times over, just being able to still live here and have a good secure job. The boys here wanted to stay and they made it work”. To encourage younger employees to remain, senior employees voluntarily gave up their right to take all their vacation time in the summer. This allows junior employees with young families to vacation in prime periods.

Mike DeGirolamo also sings the praises of the short lines: “They have a tremendous safety record on both properties. That is coupled with a high, high level of customer service”. Grievances and arbitration have fallen dramatically. In 2004, an external auditor assessed KVR. After a three-month review, his report endorsed both the financial and labour relations results at KVR. Since their establishment, both KLR and KVR have made a positive contribution to CPR’s bottom line.

A major ingredient, if the not the major ingredient, in the success of both short lines is the commitment of the employees. For example, KVR lost their main customer with the closure of a large Cominco smelter. The result would normally be layoffs. Instead, the KVR team used a reduced hauling schedule, vacation time, voluntary layoffs, and juggling of staff to achieve a reduction in labour costs that matched the revenue losses.

KVR manager Bill Ross provides another illustration of how the short lines have built their success. “When a conductor is taking his train out and he realizes that there isn’t something on his work list that he thinks the customer needs, he has a cell phone and he’ll just call the shipper directly and check to see if they need something spotted”. In another example of customer service and commitment to the operation, the employees of KVR went five months being 20-25% shorthanded to give enough time for local people to be hired and trained for key positions. They didn’t miss a shift in the process. In summary, Bill Ross believes that the objectives of the short line have been met both financially and in using the employee involvement philosophy.

Management now clearly sees the potential of engaging employees in the process of running the railways. In fact, many of the innovations at KLR and KVR have been rolled out elsewhere in the CPR properties. This includes multi-tasking, hourly rates, and the positive performance system that defines the profit sharing for employees. As Mike Hone explains, “management looks at it as a breeding ground for change, a breeding ground for a new attitude toward employee relations and a new attitude towards customer service”.  The new manager at KLR, Les Kohlman, shares these sentiments: “We have our own railway. The employees show through their dedication, the long hours that they put in because of emergency situations. They take a lot of pride and ownership in the rail line. I don’t think there is anyone out there that doesn’t want to see KLR succeed. We are continually working on the property”.

**Future**

Working with its unions, CPR has managed to retain two properties that would have been lost. Workers have kept their jobs and their benefit levels, and continued to live in their chosen communities. Along the way, the company and unions learned valuable lessons on how to create internal, autonomous railways, and enhance peripheral business operations.  Development of the short line railways has also been a labour relations learning experience for management and union representatives.

Everyone’s efforts were recently rewarded when both KLR and KVR received another five-year mandate from head office in 2004. Despite this vote of support, challenges remain.  Internally, they need to continue to increase revenues and decrease costs to remain competitive with alternative modes of transportation. With only 50% of the original 1996/97 staff remaining, KLR and KVR need to invest in training and a reaffirmation of the short line system and philosophy. According to Greg Geddis, one-third of employees are really active, one-third participate positively, and the final third are indifferent. In addition, there are times when the manager or the workers will use peer pressure to force each other into decisions, deviating from their agreement to govern by consensus. Geddis observes that the "implementation of *out-of-the-box* ideas that are homegrown is essential to survival". These ideas drive costs down, in turn leading to lower fares, better service, and increasing the customer base amid competition.

Externally, Greg Geddis is concerned that middle and senior management within CPR need to actively nourish the short line operations. The semi-autonomous short line railways have discretion to make operational decisions, but the senior managers at head office are still ultimately responsible for their performance. In fact, short line employees and managers sometimes feel abandoned by head office. Given that capital allocation, car supply, and marketing--three key gripes of both KLR and KVR, are controlled by management outside the short lines, some closer links need to be developed between CPR head office and the short lines.

The national union leaders also struggle with managing these two relatively small groups of union members who work under very different conditions, compensation structures, and job descriptions than other members within CPR and the railroad industry in general. Further adding to the complexity, recent union restructuring resulted in the UTU, BLE, and BMWE all becoming part of the Teamsters Canada Rail Conference. Ultimately, the union amalgamation may simplify decision making as now there is only one union executive to confer with, rather than three.

Based on the generally positive results of the two short line railways, CPR has developed five criteria to judge potential, additional short line railways at CPR: (1) the potential for the property to be self-managed, (2) the ratio of capital investment to potential revenue, (3) the degree of self-containment of the property, (4) the profits from the property must be low enough to make it desirable to convert to a short line and potential profits must be high enough to make it viable on its own, and (5) the interests of the unions and the company must be in alignment.

In hindsight now, a senior representative of CPR management can say we did some “rationalizing that probably wasn’t even necessary”, and “we have probably come to realize that just engaging employees presents a whole lot more potential than we had in the past”. For their part, some experienced railway union leaders can admit the need “to learn to sit down and talk”. In the words of Mike Hone: “We thought it was almost impossible when we started out…sometimes when you are at loggerheads in negotiations, you are not able to get the best agreement…I think by working together, by doing a joint study…we were able to deal with all the issues and all the competing interests…I think that is how it proved out”.

**For additional information:**

Canadian Pacific Railway: http://www8.cpr.ca/cms/default.htm

Teamsters Canada Rail Conference: http://www.ble-canada.ca/
(formerly Brotherhood of Locomotive Engineers - BLE)

Brotherhood of Maintenance of Way Employees (BMWE): http://www.bmwe.org/

International Brotherhood of Electrical Workers (IBEW): http://www.ibew.org/