



“The Company could not take complete advantage of its bigness”: Managerial Culture and the Pennsylvania Railroad’s 1955 Corporate Reorganization

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The 1955 reorganization of the Pennsylvania Railroad (PRR) illustrates that firm’s periodic attempts to reinvent its corporate identity. One such transformation occurred in 1920, when the PRR joined Lines East and Lines West into a “Three Region” organization. The railroad’s “Nine Region” plan, which took effect on November 1, 1955, created an even more decentralized organization, with each region controlling its operations, marketing, real estate, and engineering. PRR president James Symes is widely credited with personally advocating the 1955 reorganization, but the management consulting firm Robert Heller and Associates played an even more significant role. The new organization merely exacerbated the PRR’s problems by tripling the PRR’s overhead at a time of declining revenues and plummeting employment. The company’s marketing efforts suffered, because the people who solicited business and those who ran the trains reported to two separate lines of authority. The PRR reverted to the old Three Region plan in 1964.

Forty years ago, Alfred Chandler’s pioneering studies of the railroad industry revolutionized our understanding of business history. Chandler’s examination of the Pennsylvania Railroad (PRR) provided a compelling snapshot of an organization at a particular moment in history, yet it did not fully reflect the continually evolving nature of that railroad’s structure. In 1955, coincidentally at the very time that Chandler was beginning his research into the railroad industry and wondering why contemporary railroad management had seemingly gone to seed, the PRR decentralized its operations in a manner that mimicked modern industrial corporations.

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The PRR in some sense had thus reversed the patterns of a century earlier, when emerging manufacturing firms had copied the organizational methods pioneered by the railroads. That 1955 reorganization illustrated the ways in which public policy, business culture, and individual initiative could reshape corporate structure, even though corporate strategy had barely changed at all.¹

Before 1955, one of the most significant organizational changes in the Railroad's history had taken place on March 1, 1920, contemporaneous with the end of USRA (United States Railroad Administration) control.² Under this new system, "the detailed supervision formerly handled at Philadelphia was done away with to a large extent, and the company's general officers were left with more time to consider the broad questions [of policy] which affected the system as a whole."³ Or, as one executive later described the situation,

The Regions were formed in 1920 for the sole purpose of decentralizing power, basically putting the Vice President and General Manager in charge of what could be considered a separate railroad, and they only refer matters to the system office that pertain to policy and money.⁴

¹ The title phrase is from "Announcing The New Organization of The Pennsylvania Railroad," 1955, Pennsylvania Railroad Collection (RG 1810), Hagley Museum and Library, Wilmington, Delaware (HML), box 1418, folder 5; Alfred D. Chandler, Jr., "The Railroads: Pioneers in Modern Corporate Management," *Business History Review* 39 (Spring 1965): 16-40, reprinted in Thomas K. McCraw, ed., *The Essential Alfred Chandler: Essays Toward a Historical Theory of Big Business*, (Boston, Mass., 1988), 179-201

² While the PRR established the multi-regional organization in order to improve the flow and coordination of traffic through Pittsburgh, the company actually created a decentralized administrative structure with minimal coordination between the regions. As the railroad acknowledged, "one of the original theories of the business organization was that the Regional Vice-Presidents were the Chief Executive Officer of the Company in their territory." The regional vice-president served as the "head of all the departments for 'contact' within the Region." While the Railroad noted, "The Central Region, particularly the Pittsburgh area, as far as the Pennsylvania Railroad is concerned, likes to be considered of itself and separate from "Broad Street" in Philadelphia," the same could be said for each of the Regions. Each Region boasted "a Regional Vice-President, a General Manager, a Freight Traffic Manager, a General Passenger Agent, and a General Attorney."—in other words, all of the basic line-and-staff departments traditionally found in a centralized unitary corporation; Martin W. Clement to John F. Deasy and Walter S. Franklin, 6 Oct. 1944; "Memorandum—Public Relations", 29 Sept. 1948 (quotes); both in the Pennsylvania Railroad Collection of the Pennsylvania Historical and Museum Commission, Harrisburg, Pennsylvania (PHMC), box 44 (9-1640), folder 100.01.

³ George H. Burgess and Miles C. Kennedy, *Centennial History of the Pennsylvania Railroad Company, 1846-1946* (Philadelphia, 1949), 567.

⁴ S. R. Hursh to J. P. Newell, 24 June 1954, HML, box 1494, folder 1.

Following the 1920 reorganization, two overarching issues constrained the company's organizational structure. First, it did little to stem the growing influence of Operating Department personnel within the railroad's senior management. By the early 1950s, the Operating Department oversaw fully 94 percent of the railroad's employees, ensuring that most of the PRR's senior executives were more attuned to running trains than soliciting business for the railroad.⁵

Second, despite the decentralization introduced in 1920, a kind of creeping re-centralization occurred over the following decades. The Great Depression encouraged the consolidation of maintenance facilities as an economy measure. As traffic levels declined and train speeds increased, the number of operating divisions declined to nineteen, effectively reducing decentralized authority. Public policy played a more important role, however. As the railroad emphasized,

. . . a great portion of [the renewed centralization of authority] was caused by the war and the many restrictions that were placed not only on the railroads but on other industries by the many and various control boards instituted by the Federal Government, which were continued after the war and to a great extent during the Korean conflict.⁶

The PRR's precarious financial condition also worried senior executives, particularly after the railroad lost money for the first time in its history, embarrassingly in its centennial year of 1946.⁷ As traffic levels declined, the railroad attempted to become more efficient through technological innovation, yet acknowledged that research and development efforts were often "poorly coordinated."⁸ The railroad also struggled to cut costs by tackling such politically sensitive issues as layoffs, regulation, the discontinuance of passenger services, and "unfair" competition from other modes of transportation.

Efforts to reform the Railroad's organizational structure assumed critical momentum after Walter Franklin assumed the presidency on June

⁵ The high percentage of Operating Department employees reinforces Chandler's assertion that the end of the era of system-building, the growing routinization of railroad operations, and the rate-setting abilities of the ICC had combined to ensure that "by the early twentieth century, the duties of the railroad central offices assumed more of a routine character and the men occupying these functions handled anew operating functions." Alfred D. Chandler, Jr., "Recent Developments in American Business," in *The Essential Alfred Chandler*, ed. McCraw, 124; "Memorandum for use of Vice President—Operation at Staff, 11-24-53," HML, box 309, folder 5.

⁶ S. R. Hursh to J. P. Newell, 24 June 1954, HML, box 1494, folder 1.

⁷ Overall, Symes listed a dozen problems facing the PRR. "Remarks of J. M. Symes, Executive Vice President, at Joint Meeting of Operating and Traffic Officers, Pittsburgh, Pa., 23 April 1952," HML, box 1494, folder 3.

⁸ Walter W. Patchell to J. P. Newell, 15 Jan. 1957, PHMC, Symes/Saunders papers, box 126 (9-2277), folder 110.01.

16, 1949.⁹ Franklin expressed considerable admiration for reorganization efforts at two companies outside the railroad industry, U.S. Steel and General Electric. In 1950, U.S. Steel executive Leonard T. Beale seconded Franklin's assessment that the PRR's organization was "a bit antiquated" and praised the latter's efforts to reorganize the railroad.¹⁰ Franklin responded with preliminary reorganization sketches, based in part on U.S. Steel's corporate structure.¹¹

Franklin's executive vice president, James M. Symes, soon took charge of the reorganization discussions, and subsequent changes bore his unmistakable imprint.¹² Many of the railroad's most innovative managers came from areas west of Pittsburgh, and Symes was no exception. Symes rose rapidly through the ranks to become the vice-president of the Western Region in 1942. From his office in Chicago, Symes had observed the advantages that western railroads had obtained from the use of diesel locomotives. When he moved to Philadelphia in 1946, as "Deputy Vice President—Operation" and, the following year, as "Vice President—Operation," Symes served as a tireless advocate for dieselizing the PRR. Symes ordered steam locomotives to be eliminated as rapidly as possible, a decision that saved the railroad from financial collapse. This vindication came at a cost, however, because Symes apparently developed the attitude that he was the savior of the company, and that executives who had spent their entire careers east of Pittsburgh were little better than marginally competent.¹³

Even before Symes became executive vice-president in January 1952, he began to develop his own ideas regarding the railroad's corporate structure, starting with the Operating Department. Franklin and Symes understood that ongoing efforts to reduce the number of operating

⁹ PRR Press Release, 11 May 1954, HML, box 271, folder 11.

¹⁰ Beale agreed with Franklin that "As you say, the chart you sent me is a bit antiquated and I am sure that the one on which you are working will be a vast improvement." The U.S. Steel chart, about which both Beale and general solicitor R. M. Blough swore Franklin to secrecy, specified executive vice-presidents for Commercial, Operations, Law and Secretarial, Engineering, and Accounting divisions. Walter S. Franklin to Leonard T. Beale, 7 Nov. 1950; Beale to Franklin, 8 Nov. 1950 (quote); Franklin to R. M. Blough, 30 Nov. 1950; all in PHMC, box 47 (9-2079), folder 110.01.

¹¹ Mark W. Cresap, Jr., letter, 19 Jan. 1951; Richard M. Paget to Walter S. Franklin, 7 March 1951; Franklin memorandum, 9 May 1951; Richard King Mellon to Franklin, 14 Dec. 1951; PHMC, box 47 (9-2079), folder 110.01.

¹² PRR Press Release, 11 May 1954, HML, Box 271, folder 11.

¹³ Under Franklin, Symes also pushed for TOFC (trailer-on-flatcar) service and assumed a leading role in restarting the on-again, off-again Penn Center development in Philadelphia. His redevelopment experience served him well (although not necessarily the cause of architectural preservation) when he used his presidency to begin drafting redevelopment plans for Penn Station in New York City.

divisions had created a severe mismatch with the railroad's Traffic Department.¹⁴ Under the 1920 organization, the Operating and Traffic departments had similar territories, and the railroad had assigned a division or district freight agent to the headquarters of each superintendent. Thirty-two years after implementing that organizational structure, the railroad had incrementally eliminated one Region, one zone, thirteen general superintendents' territories, and twenty-five superintendents' divisions; yet, despite the transformation of the Operating Department, the organization of the Traffic Department remained almost unchanged. This situation produced some unusual problems of coordination. The single Operating Department superintendent at Indianapolis worked with five Traffic Department division or district freight agents, in St Louis, Terre Haute, Peoria, Indianapolis, and Louisville. In Detroit, the staff of the Traffic Department reported to Western Region headquarters in Chicago, while Operating Department employees housed in the same building reported to Central Region headquarters in Pittsburgh. In addition, Operating Department and Traffic Department personnel in New York City answered to two different sets of managers in Philadelphia—the former to Eastern Region headquarters and the latter to the corporate offices. Throughout the system, Traffic Department agents solicited freight without contacting the Operating Department personnel who were to transport it; Operating Department superintendents were forced to allocate cars among multiple agents; and advertising and marketing campaigns were difficult to coordinate.¹⁵

The solution to these problems, it seemed, was not to reorganize the Traffic Department, but to reorganize the entire railroad. After the board of directors elevated Symes to the presidency on June 1, 1954, reorganization discussions began in earnest. Like Franklin, Symes envisioned a new organizational structure modeled on successful manufacturing firms outside the railroad industry. He indicated that the new organization was “somewhat revolutionary in the railroad industry but is similar in many ways to the new line and staff plans of organization which some of our leading manufacturing companies have adopted in recent years.”¹⁶

Just as Symes had once assisted Franklin with changes in the organizational structure, Symes assigned his own right-hand-man, James P. Newell, to implement decentralization planning. Like Symes, Newell had gained most of his experience in the western part of the system, well removed from the insularity that characterized the Philadelphia headquarters.¹⁷

¹⁴ Frank Carpi to Walter Franklin, 27 June 1952, box 47 (9-2079), folder 110.01.

¹⁵ James M. Symes to Walter Franklin, 3 June 1952, PHMC, box 47 (9-2079), folder 110.01.

¹⁶ Symes quoted in PRR Press Release, 29 Sept. 1955, HML, box 1418, folder 5.

¹⁷ Newell, certainly being groomed for the presidency, probably would have risen to that office had he not made enemies with other PRR executives, most notably

At Symes's request, Newell began soliciting opinions from senior executives regarding the proposed decentralization. Few agreed with Symes that decentralization was an urgent necessity, and some presciently pointed out the obvious: that railroads were inherently ill suited to decentralized operation, particularly in the arena of labor relations, where system-wide agreements were commonplace. Moreover, the railroad could hardly allow divisional personnel to set their own engineering standards, train rules, or operating practices. Added one executive, with considerable understatement, any such deviation from system practices "can only lead to trouble."¹⁸

Some executives argued that the railroad already was adequately decentralized, more so than at any time since 1920. Newell made clear to Symes that "the prevailing opinion among the staff is that, so far as formal organization or action is concerned, decentralization of authority has already gone as far as practicable or necessary."¹⁹ These dissident executives assigned the blame for the railroad's difficulties to system officers rather than to regional or divisional personnel, insisting, "authority is [already] decentralized to a great extent on the Pennsylvania Railroad and our problem is to encourage the exercise of the decentralized authority now existing."²⁰ Overall, there was a general consensus, expressed most clearly by assistant vice-president in charge of personnel James W. Oram, that the railroad suffered from "a problem of education rather than [requiring] any important changes in the organizational setup."²¹

Despite these objections, Symes pushed ahead with his decentralization plan. In July 1954, he hired the Cleveland management consulting firm, Robert Heller and Associates to evaluate the railroad's organizational structure. This constituted the first time in the railroad's history that it had employed consultants for to consider organizational issues, although the railroad had paid Heller nearly \$1 million to study methods for reducing passenger-train losses between October 1951 and January 1954.²²

Fred Carpi. "Pennsylvania Railroad: Management Organization, Effective 1 Nov. 1955," HML, box 1646, folder 1.

¹⁸ Other executives argued that the railroad could establish a mechanism for coordinating passenger and freight train schedules, train consists (car types), train rule standards, and labor policies among various divisions—similar, perhaps to the long-vanished Association of Transportation Officers. E. E. Ernest to J. P. Newell, 21 June 1954; H. L. Nancarrow to J. P. Newell, 24 June 1954 (quote); J. W. Oram to Newell, 19 June 1954; A. F. McIntyre to Newell, 17 June 1954; all in HML, box 309, file 011.1.

¹⁹ Pennsylvania Railroad, "Summary of Staff Views with Regard to Decentralization of Authority in Operating Department," Aug. 1954, HML, box 309, file 0110.0.

²⁰ T. C. S. to J. P. Newell, 23 June 1954, HML, box 309, file 011.0.

²¹ James W. Oram to J. P. Newell, 19 June 1954, HML, box 309, file 011.0.

²² PRR Press Release, 19 July 1954, HML, box 1418, folder 5.

As they had done in their passenger studies, Heller interviewed PRR employees, ranging from senior executives to trainmasters and station agents. Even though many PRR executives had complained that the railroad's much-publicized one-billion-dollar postwar betterment program had not even come close to modernizing the physical plant and equipment, Heller concluded that the investment was more than adequate—they need only use it more effectively. Even though some employees had expressed concern about the youth and inexperience of many of the railroad's managers, the Heller report concluded that, thanks to “a lot of foresight in recruitment and development over the years,” the railroad was “fortunate to have good people to do the job. The main problem is to fully utilize . . . manpower resources with the right plan of organization and up-to-date organization policies.” According to the Heller report, improvements in communication, equipment, technology, and operation had combined to render the 1920 organization obsolete, and excessive centralization had retarded individual initiative, precisely as Symes had maintained.²³

Symes presented the final reorganization plan to the board of directors in June 1955 and, on November 1, 1955, the railroad's three regions and eighteen divisions gave way to a new nine-region system. Each of the nine regional managers had virtually complete control over operations, sales, maintenance, and real estate, yielding authority to the central office only in matters of scheduling and other elements of system coordination.²⁴

At the system level, the railroad created twelve new vice-presidential positions, along with the offices of secretary, comptroller, and director of real estate. In place of the traditional offices of vice-president of operation and vice-president of traffic, the vice-president for freight sales and

²³ Heller report quoted in “Announcing the New Organization of the Pennsylvania Railroad,” HML, box 1418, folder 5.

²⁴ David Bevan, the vice-president of finance, and probably the only person in the entire organization with a Masters of Business Administration, believed that the regional managers should have control only over operating and traffic issues, and not real estate, industrial relations, public relations, and maintenance; he was overruled, however. The nine regions were: New York, Philadelphia, Chesapeake, Northern, Pittsburgh, Lake, Buckeye, Northwestern (later, Chicago), and Southwestern. Not all of the nine regions shared equal status. The managers of the Chicago and Pittsburgh regions had vice-president status and, at New York, Pittsburgh, and Washington, resident vice-presidents represented the central office. The Washington vice-president had a particular set of responsibilities—namely, “keeping the President and his staff informed regarding all national and state legislative matter of interest to the Company.” This description prompted “grave doubt in the minds of some of [the railroad's] officers as to the advisability of spelling out in detail the anticipated functions of this department.” PRR Press Release, 10 Oct. 1955; “Announcing the New Organization of the Pennsylvania Railroad,” both in HML, box 1418, folder 5, “Draft No. 4, Organization for Conducting the Business of the Pennsylvania Railroad Company, Effective 1 Nov. 1955,” HML, box 233, folder 22 (quotes).

services combined operating and traffic functions in one office. For the first time in the railroad's history, then, one executive would have direct authority over freight train operations, rates, service, and marketing. The counterpart role, the vice-president of passenger sales and services, embodied a similar consolidation of authority.²⁵

Other staff offices—the railroad generally referred to them as “service departments”—included the new Research and Development Department, which coordinated R&D activities in the nine regions. At the same time, the railroad established formal R&D programs in each region without one, creating a significant added expense. The research was not strictly technical in nature, and included the new position of business analyst, responsible for long-range forecasting and planning. The R&D Department also oversaw, in cooperation with the Legal Department, public policy and regulatory issues, as well as commuter transportation and urban regional planning.²⁶

The railroad retained the System Personnel Department but delegated local labor issues, including grievances, to the regional offices. This practice allowed system executives to concentrate on labor policy, particularly negotiations with the Brotherhoods over such thorny issues as attrition, crew size, state full-crew laws, and “featherbedding.”²⁷

Vice-President Newell occupied an unenviable position at the juncture between the nine regional organizations and the staff offices. Or, as the railroad described the arrangement, “In the organization of 1955, there was created what might loosely be termed an hourglass form of System-Regional contact, with the Vice President at the junction of the upper and lower segments of the glass.”²⁸ In practical terms, the “hourglass” imposed a crushing workload on Newell, who made continual efforts to instill some measure of system policy on the regions while simultaneously transmitting

²⁵ PRR Press Release, 20 Sept. 1955, HML box 1418, folder 5; *Business Week*, (8 Oct. 1955), 80.

²⁶ “Memorandum for the File: Mr. Symes Talk to Stockholders on May 8,” 28 March 1956, HML, box 326, folder 8; “Memorandum Covering Developments of, Recommended Changes in, and Additions to the Research and Development Organization,” 17 Sept. 1956; W. W. Patchell to Newell, 5 Oct. 1957; both in PHMC, Symes/Saunders papers, box 125 (9-2276), folder 110.01. Patchell called for a division of responsibilities that “would separate what GE [General Electric] calls their service functions from their manufacturing functions” and believed that the new Research and Development Department could “produce the results comparable with those being produced on the C & O, Southern Pacific and Canadian National.”

²⁷ PRR Press Release, 10 Oct. 1955; “Announcing the New Organization of the Pennsylvania Railroad;” both in HML, box 1418, folder 5; J. W. Oram to J. P. Newell, 2 Jan. 1957, PHMC, Symes/Saunders papers, box 126 (9-2277), folder 110.01; C. E. A. to Newell, 21 Jan. 1957, HML, box 1874, folder 22.

²⁸ “Proposed Change in Organization of the Pennsylvania Railroad Company,” 21 Feb. 1958, PHMC, Symes/Saunders papers, box 126 (9-2277), folder 110.01.

regional concerns to his fellow staff officers. As the company later acknowledged, "That has at times created bottlenecks, by throwing an almost impossible burden on one man."²⁹

It quickly became apparent that the results of the reorganization were little short of disastrous. The number of system staff officers reporting to the president had ballooned to fourteen, confirming the "fear in the minds of some of our Directors and officers that the group reporting to the President was too large for effective administration."³⁰

Since the railroad had assigned long-range forecasting and analysis to the R&D Department, that office was soon overwhelmed. The railroad had initially envisioned temporary assignment of R&D staff from the various regions to system-level projects in Philadelphia, but that created constant pressure to finish such projects quickly, so that the personnel involved could return to their regions and to their families. Procedurally, Walter W. Patchell, the vice-president of R&D, questioned whether his department should "function as a Service Department for all other Departments and the Regions (as is the case with General Electric)," and whether the "work that is now being carried on independently in little niches and crannies elsewhere throughout the system can be assigned here, . . . similar to the action taken by U.S. Steel." Either approach would require a substantial expansion in funding and personnel.³¹

As some executives had predicted, coordination among the nine regions proved difficult. Because 80 percent of the railroad's freight traffic traveled across more than one region, the railroad belatedly realized that "policies adopted in one Region looking to its own individual good, could conceivably not work for the full benefit of the other Regions or the System as a whole." Furthermore, since large shippers frequently transcended regional boundaries, the railroad now considered it "essential that a strong centralized System contact be maintained with these industries."³² It also became increasingly difficult to coordinate inter-regional engineering, communications, and signaling work, and the railroad soon gave several of the more important regions authority over their less important counterparts in these matters.³³

At the regional level, the railroad had "recognized that possibly more positions were being created than were necessary but that this would be

²⁹ Ibid.

³⁰ Ibid.

³¹ "Memorandum Covering Developments of, Recommended Changes in, and Additions to the Research and Development Organization," 17 Sept. 1956, PHMC, Symes/Saunders papers, ox 125 (9-2276), folder 110.01; Walter W. Patchell to J. P. Newell, 15 Jan. 1957 (quotes), PHMC, Symes/Saunders papers, box 126 (9-2277), folder 110.01.

³² "Proposed Change in Organization of the Pennsylvania Railroad Company," 21 Feb. 1958.

³³ J. P. Newell to Symes, 10 Oct. 1958, PHMC, box 126 (9-2277), folder 110.01.

desirable in order to ensure the successful operation of the new organization.”³⁴ This situation soon got out of hand, however. Supervisory personnel in the individual regions soon began requesting additional staff, as well as increases in pay for those already on the job.³⁵ The problem was that “Each of these . . . individuals . . . have, in the interim since the jobs were created, justified their existence,” whether or not their services were actually vital to the Company.³⁶ Many of the intended corresponding reductions in personnel were never carried out, because the railroad created sinecure positions for employees who were no more than eighteen months away from retirement. Once such workers retired, however, regional administrators neglected to abolish their positions, instead hiring or promoting personnel to take their place. By early 1957, Newell worried that the railroad was “beginning to be ‘top heavy’ on executives” and contemplated a blanket prohibition on further promotions and hiring.³⁷ By this time, although the railroad had anticipated that the 1955 reorganization would save \$900,000 per year in personnel costs, the actual result was a \$2.7 million annual increase.³⁸

The reorganization also proved less than successful at improving communication between the system and the regions. Newell noted “a great variance in the content and approach” employed by the various regions in appraising their 1956 performance and developing a set of objectives for the following year. The Philadelphia Region focused on “transportation efficiency and monetary savings”; the Northern Region submitted a detailed outline of staff responsibilities; and the Buckeye Region somewhat audaciously suggested ways that the system officers could better serve the regions. With the exception of a single manager, no one adequately addressed “one extremely important item . . . the delegation of greater responsibility and authority to the Regional and supervisory forces,” which was ostensibly the entire reason for the reorganization in the first place.³⁹ Moreover, even as late as 1959, the regional managers

³⁴ Newell to H. H. Pevler et al., 28 Feb. 1957 (quote), HML, box 1874, folder 22.

³⁵ For example, J. W. Oram to J. P. Newell, 12 March 1957, regarding a request from the Buckeye Region for promotion of a Senior Claim Agent to a District Claim Agent, with a corresponding salary increase from \$612.90 to \$661.50 per month. Oram did not see “any exceedingly strong arguments in favor of the change” and was “loath to favor the creation of this additional position of fairly high rank.” Also, Newell to G. C. V., 25 March 1957: “It would appear that supervision on first trick is entirely too heavy.” Also, Newell to A. J. Greenough, 4 March 1957; Newell to J. B. P., 1 March 1957; Oram to Newell, 12 March 1957; Oram to Newell, 11 March 1957; all in HML, box 1874, folder 22.

³⁶ A. J. Greenough to Symes, 16 Jan. 1963, PHMC, Symes/Saunders papers, box 125 (9-2276), folder 110.01.

³⁷ Newell to M. S. S., 27 Feb. 1957, HML, box 1874, folder 22.

³⁸ Newell to H. H. Pevler et al., 21 Dec. 1956, HML, box 1874, folder 22.

³⁹ The manager in question was not named. Newell to H. H. Pevler et al., 14 Feb. 1957, HML, box 1874, folder 22.

still had not fulfilled their original charge to develop master plans for their regions.⁴⁰

The solution to these problems was a return to the three-region system in effect between 1920 and 1955. President Symes, on reaching retirement age in June 1962, was given the largely honorific position of chairman of the board. The new president, A. J. Greenough, provided the same rationale for centralization that Symes had provided for decentralization in 1955—namely, that technological innovations and shrinking revenues rendered the old operating units too small to perform effectively. The new organization, effective March 1, 1964, assigned four divisions to each of the three new regions: Eastern, Central, and Western. The three regional managers retained control over transportation, sales, maintenance, accounting, industrial engineering, and labor relations functions—just enough authority to allow the railroad to claim that the organization was retaining its decentralized structure. The fact remained, however, that by 1964 activities pertaining to public relations, industrial development, industrial engineering, accounting, real estate, storekeeping, medical care, claims, and the all-important coal and ore sales had been stripped from the regions and assigned to the central office.⁴¹

Despite the company's claim that the 1964 reorganization had created "a complete, closely-knit operating team," the railroad's fortunes continued to decline.⁴² As nine sets of regional managers competed for the three sets of jobs, morale plummeted and the railroad became even less able to attract promising executive talent. Senior management held fast to its *idée fixe*, the ongoing mantra that a merger with the New York Central was the only conceivable solution to the Pennsy's disastrous financial situation. Four years later, when the merger did occur, the PRR entered the Penn Central system with a badly demoralized managerial structure, stripped of promising talent by two poorly conceived reorganization schemes within less than a decade.

In a critique of an article co-authored by Chandler and Fritz Redlich, Leland Jenks argued that "the relative retrogression in railway organization alleged to have taken place in the twentieth century cannot be attributed to a change in the principal product but also to other factors."⁴³ The Pennsy may not have changed its traffic base, although even that is

⁴⁰ James M. Symes, memorandum, 8 Oct. 1959, HML, box 818, folder 5.

⁴¹ *Pennsylvania Railroad Management Letter*, 2-3; Greenough to Symes, 16 Jan. 1963.

⁴² *Pennsylvania Railroad Management Letter*, 3, HML, box 1418, folder 7.

⁴³ Leland H. Jenks, "Early History of a Railway Organization," *Business History Review* 35 (Summer 1961): 153-79; "Comment, Leland H. Jenks," reprinted in McCraw, ed., *The Essential Alfred Chandler*, 149-51. This comment was a response to Chandler and Redlich, "Recent Developments in American Business Administration and their Conceptualization," *Business History Review* 35 (Spring 1961): 1-27, reprinted in McCraw, ed., *The Essential Alfred Chandler*, 118-39.

debatable, given the secular decline in coal, steel, LCL (less-than-carload-lot loads), and passenger traffic, as well as the concomitant increase in TOFC services. However, as Jenks suggested, the railroad did indeed react to other, external forces, including changing competitive patterns within the railroad industry, increasing regulation, and most important, the idiosyncratic personalities of its executives. Based on his experiences on the western part of the system and on his crusade to banish the steam locomotive culture from the railroad, James M. Symes believed that he knew better than his junior executives what really needed to be done. Despite warnings from those executives, Symes pushed ahead, commissioning Robert Heller and Associates, not so much to study dispassionately the organizational structure as to lend credence to his preconceived belief that decentralization was the only correct course of action. His efforts to model the railroad's new, decentralized organizational structure on such non-railroad firms as General Electric and U.S. Steel proved counterproductive, as did later efforts by David Bevin, vice-president of finance, to adapt the PRR to the then in-vogue conglomerate structure. It is certainly true that, in corporate America, form follows function, and strategy dictates structure. For the PRR, at least, it is equally true that structure followed external forces and managerial intent, rather than business strategy.