



June 8, 2007

Watco Team:

As we practice our Foundation Principles and strive to improve every day, it is vital that we use processes to reach our goals. One of most important processes that will insure that you and your team are reaching for the same goals is the basic management process.

This process has four main components:

- 1) Clear communication and understanding of performance expectations
- 2) Measurement systems that compare actual performance to plan
- 3) Evaluation and communication of performance and ways to improve
- 4) Accountability-reward or discipline

Clear communication is key in all aspects of our lives, but in a management setting, it is required to provide specific expectations for performance. Without a clear understanding of expectations, people will do what they “think” you want them to do. This may by chance, be what we need as a company or most likely be something less or even totally different.

Once you have made your expectations clear, you must have a measurement system in place to measure your team’s performance against your expectations. This measurement system may be an electronic metric that calculates the number of man-hours per move or a white board where you write down the number of carloads in a certain timeframe. There is no wrong way to create a measurement as long as it is efficient and works for you and your team. The key is that it provides those responsible and those accountable for the performance with a way to understand where they are, relative to the expectation and that this information is provided to them on a timely and consistent basis.

The results you find from your measurement system are only beneficial if you use them for improvement. When you have your results it is crucial that you communicate both the negative and positive results with your team. To do this you should agree on a well-defined communication channel. Perhaps it is e-mail or a weekly phone call. We operate from a philosophy that people want to be successful. The key to this step is to open communication channels to provide feedback, to understand the reasons for success or areas needing improvement, and to set a plan to change actions to achieve the improved result. It is our responsibility as managers to remove the hurdles to achieving results and to enable our people to be successful. We must give everyone the support they need through patience, counseling and education to reach their fullest potential.

The final step is accountability. The responsibility resides with all of us. It is never pleasant to assert discipline for poor performance. In most cases, people want to be treated with respect and in a fair manner. But if we as managers have done all we can to support our people in an effort to achieve success and we have followed the basic management process, then poor performance should never be a surprise to anyone. It is equally important to recognize accomplishments as well, which is something that is frequently overlooked. We need to be sure to compliment and recognize people for the good work they do and take time to celebrate this success with our teams.

Recently a member of the Watco Team was struggling with performance and this was recognized by management. A member of our management team met with this team member and followed the four steps of the management process, being very clear and precise. In just one day the team member who was previously struggling had marked, noticeable improvement that was even realized by co-workers. Just one day.

All of us want to succeed and see our co-workers succeed as well. As managers, it is imperative for us to provide the support for our people to achieve success as we define by our Foundation Principles: Customer Satisfaction and Profitability over the Long-Term. Following this process is an easy way to make sure we're all heading in the right direction.

Thanks for being a member of the Watco Team.

A handwritten signature in black ink, appearing to read "J. D. [unclear]". The signature is written in a cursive style with a horizontal line above the main text.