Bell
TELEPHONE MAGAZINE

1983 NO. 2

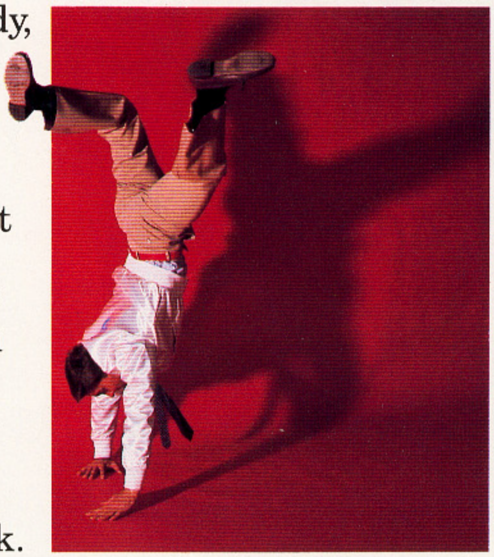
-30- AND FAREWELL: DOWNSIDE UP AT A HEADY TIME

THE REGIONS: BEYOND THE OPENING DOORS

CSO: REVVING UP FOR A QUICK START

-30-

The magazine you hold in your hands is the last regularly scheduled edition of *Bell Telephone Magazine*. A special commemorative edition will be published later in the year, but for all intents and purposes, this one writes *finis* to more than 61 years of attempting to fulfill the magazine's chartered mandate "to address, and often interpret, emerging critical issues and matters of vital importance" to managers throughout the Bell System.



The occasion is both somber and heady, but so are the circumstances that give rise to it. Like many other System employees, those of us on the magazine are a bit "downside up"—somewhat disoriented by the end that is at hand, yet eager to tie up loose ends and starting to think about new beginnings. Some of us will stay with AT&T's corporate management, while others will go elsewhere in the Bell System; some will stay in the employee communications field, others will head off to different kinds of work. But despite the certainties and uncertainties of the times, there has been, for us, a role to play — and work to be done.

To paraphrase something that AT&T chairman C.L. Brown said in another context, it may be true that it is an honor to be part of an historic occasion, but it can also be a singular burden. The editorial staff of *Bell Telephone Magazine* can testify to the validity of that observation because we have struggled long and hard with the problem of what to say about this final edition. There was the impulse to try to find a few choice words that would neatly encapsulate heritage, tradition, and what a friend has called the Bell System's "infraculture." But so much already has been written — at length, and in summary; indeed, a great deal of what has been written has appeared in these pages. And more will be written as January 1, 1984, comes closer and closer to reality. So, for now, we will spare our readers our attempt to epitomize more than a century of growth and service.

Yet there remains the task of saying farewell to more than 50 thousand readers on behalf of a publication that is one of the few of its vintage still publishing in the United States. Here again the nearly irresistible temptation was to comb through our files of

(continued on page 37)

Bell

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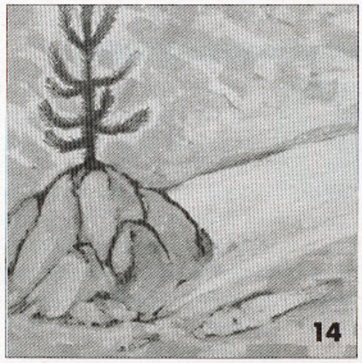
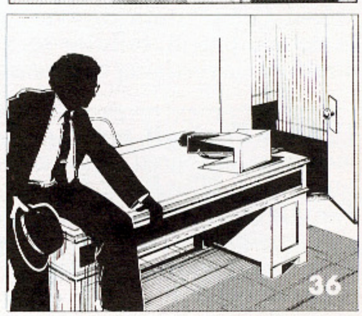




THE ROAD AHEAD

BEYOND THE OPENING DOORS

BY C. ANNE PRESCOTT

The prospective regions ready themselves to seize new opportunities. (Last in a series.)

On January 1, 1984, seven multi-billion-dollar corporations will be born, like Athena springing full-grown from the forehead of Zeus. If the regional Bell companies were classified as industrials, any one of them would leapfrog at once into the *Fortune* 15, for none of the seven currently has less than 16 billion dollars in assets.

The regional companies will start their new lives with significant advantages — an estimated 2.7 million share owners, established customer bases, experienced managements, skilled employees, and technologically advanced facilities. Their communications lines lead into the bulk of the nation's homes and offices, providing the vital link to local exchange service as well as access to the facilities of interexchange carriers. And among the market opportunities immediately open to them on Day One will be the marketing of customer premises equipment, cellular mobile phone service, and production of the highly profitable Yellow Pages. Athena, in comparison, had only Zeus.

The U.S. Department of Commerce estimates that the market for telecommunications and information handling in this country will top 400 billion dollars by 1990. Also by that year, data transmissions are likely to exceed voice traffic. Inasmuch as 90 percent of all phone calls go through a local exchange area, the regional companies are poised like rockets; they can lead and take off with an explosive market.

Not that some measure of risk isn't involved. Competitors are everywhere — in the equipment, cellular-service, and directory-advertising businesses and, increasingly, in the intra-LATA toll arena, which will be the regions' major market. Cynics speculating that former franchised monopolists can't adapt to competition should heed the words of Boston attorney Edward B. Hanify, who retired this year as AT&T's senior director. "Any competitors who expect they're going to be dealing with a lot of hamstrung dodos are absolutely crazy," he asserts. "Telephone people are natural competitors. The only monopoly they've had is a monopoly on service."

As the following region profiles show, the new entities plan to launch a three-pronged offensive to retain and enrich their operations. They'll beef up their voice and data information-distribution channels, turn support services into profit centers, and participate in ventures not directly related to their core business.

Increasingly, they'll rely on digital and fiber-optic technology. Their competition, after all, encompasses everything from carrier pigeons carrying daily computer updates on microfilm over mountains in California to such technological exotica as infrared transmission and customer-constructed communications systems. The trick will be to squeeze as much profit as possible from in-place switching and transmission equipment and maximize local-network use. In this context, old favorites take on new meaning as revenue producers: centrex service, WATS/800 Service, Expanded 800 service, local measured service, Enhanced 911 service, Custom Calling features, Touch-Tone® service, and Dataphone® Digital Service.

Future enhancements can provide greater functionality and efficiency by building on such coming changes in network architecture as increased bandwidth for more speed to move more information, simultaneous transmission of voice and data traffic to bring down data-transmission costs, the addition of greater signaling capability to give customers more flexibility, and the emerging reliance on carrier circuits to extend digital electronics to customers' premises without having to rearrange and change loop plant.

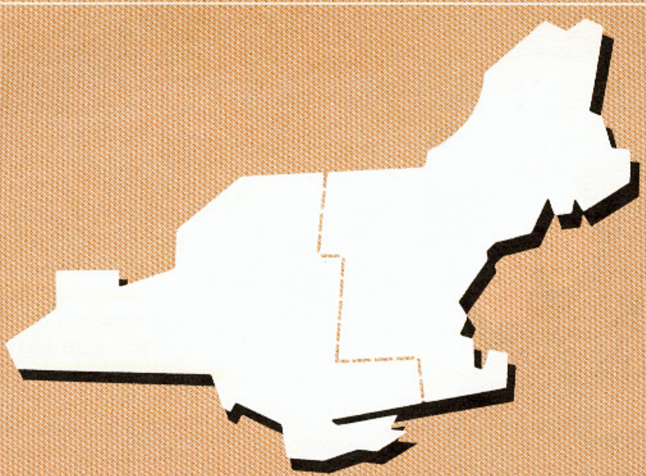
As the regions ready their technologies and marketing plans, their organizational structures are falling into place as well. Each will have a holding company to ensure the financial stability of the operating companies they will own. The holding companies will issue stock, be the hub of strategic planning, and own subsidiaries for deregulated ventures. Most regions also will own a service company to ensure economies of scale across the region.

Brand new to the regions will be the task of investor relations — dealing directly with Wall Street to raise and retain investor capital. The regions' designated chief executive officers already are talking to analysts in all the nation's major financial centers. Top regional policymakers also are preparing to announce dividend plans in the fourth quarter. "When-issued" trading of regional company stock will begin at that time, providing the first glimpse of how the market rates the new companies.

Meanwhile, firmly lodged at the top of every region's get-ready list are two imperatives: Implement divestiture successfully without abandoning the identities and traditions of the Bell operating companies, and, at the same time, begin thinking and acting as a single, spanking-new corporation. Alexander Graham Bell himself might have presaged these twin objectives in an observation he once made: "When one door closes, another opens; but we often look so long and so regretfully upon the closed door that we do not see the one which has been opened for us."

Yet the regional companies about to be born seem not to share that shortcoming. Judging from their conviction of purpose demonstrated in the following profiles, they see not one but many open doors.

C. Anne Prescott, senior editor of this magazine, authored the seven articles comprising "The Road Ahead" series. For this installment, research assistance was provided by ***Gary A. Morgenstern,*** *AT&T staff manager-employee communications.*



NORTHEAST REGION

Operating companies:	*New England Telephone* *New York Telephone*
Number of states:	*7*
Headquarters location:	*New York City*
Customer accounts:	*10.1 million*
Access lines:	*12.6 million*

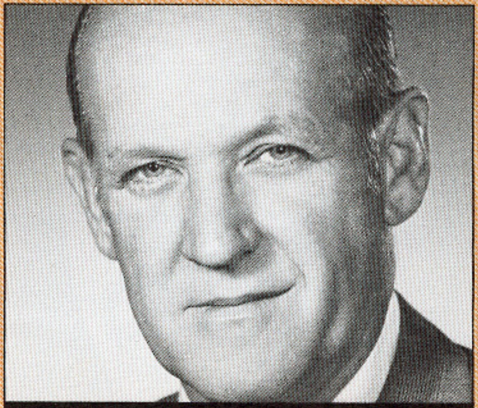
Demographic projections to the contrary, the Northeast region is poised for growth amidst a market diversity and economic stability that is unique to the nation. In a nutshell, that's the message D.C. (Bud) Staley is delivering to financial analysts across the country as part of the region's opening campaign to woo investors.

(Editor's note: New York Telephone and New England Telephone jointly announced in June that the name of the region will be NYNEX — NY [New York] and NE [New England] reflecting the region's roots and X representing "the unknown and exciting future of the burgeoning information market" and the "unlimited quality" of the new concern.)

As Staley, the region's designated chief executive officer, explains it: "Because population centers in this region are concentrated, we have targeted our capital investment over the years to get the 'biggest bang for the buck.' Look at the optical-fiber 'expressway' that rings New York City. We've got one in the works for Boston, too. And New York Telephone has the highest fiber-optics development of any of the Bell operating companies. In fact, 37 percent of all Bell System lightwave installations are in New York Tel territory. As we prepare to strike out on our own, we find that we're well positioned.

"Our technology also has developed hand in hand with the growth of the region's premier businesses — educational and financial institutions, computer firms, and other high-technology industries. In the future, we plan to take full advantage of the growth in these industries to make our business more profitable. And we're fortunate that our two operating companies haven't been strongly affected by downturns in the business cycle, because this region of the country has remained stable. We've even seen net employment increases throughout this recession. Vacancy rates in commercial buildings in New York and Boston are under five percent, and construction plans are bullish. Other areas of the country haven't been as lucky during sluggish economic times."

> "We plan to take full advantage of the growth in the region's premier businesses to make our business more profitable."


D.C. (Bud) Staley

The region currently is focused, he says, on how best to capture the profit potential. In February, the region embarked on a line-of-business planning process that will structure the region to function in a new market environment and maximize its capital investment. The lines of business place greater emphasis on market analyses and segmentation, on the financial opportunities and risks involved in allocating resources and developing strategic plans. "The process will let the companies shift from managing primarily on a revenue requirements basis to a system of managing based on contribution or profit," Staley says. "The separate lines of business are intended to be self-supporting and have prices driven toward costs. Within this framework, managers can develop a mind-set that says, in effect, 'Excellent, innovative service — at a profit.'"

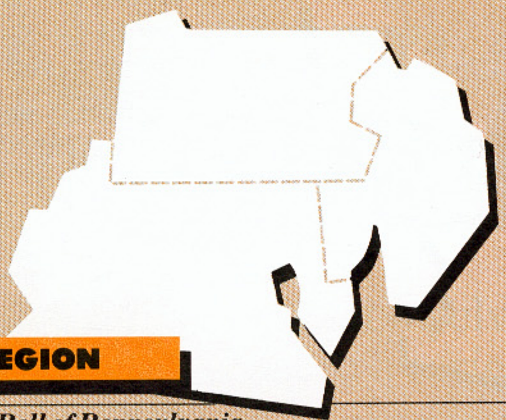
The region has adopted 13 lines of business: customer premises equipment (CPE), premises services, customer access, mobile services, carrier access, public services, operator services, usage services, central office services, special services, non-traditional services, Yellow Pages, and new-venture development. Within each line of business, the region will offer "only the best and most profitable products," Staley says. "For example, our CPE subsidiary will offer highly reliable products, not all supplied by Western Electric. Of course, many of the products will be. But the point is this: We will buy the best to maintain our image and to provide our customers with the *very* best."

The region also has applied to the FCC for construction permits to offer AMPS in nine markets within the seven-state area. The first service is scheduled for the New York metropolitan area, beginning in mid-1984. The region's cellular subsidiary of AMPS will be located in Rockland County, New York. A location for the region's directory subsidiary has not been finalized.

While declining to enumerate specific services to be offered within other lines of business, Staley did point out that line-of-business planning helps turn cost centers into profit centers by changing the perspective managers bring to marketing considerations. For instance, certain operator services, such as telephone-answering and wake-up services, are potential profit-makers if priced competitively.

For the moment, however, regional planners are concentrating on "getting this business off the ground properly," he stresses. "The trick is to keep to our schedule at minimal cost. When we open for business on our own January 1, we intend to have the products and services in place that can make the best use of our capital investment and technology." ▶

McGUIRE STUDIO INC.



MID-ATLANTIC REGION

Operating companies:	*Bell of Pennsylvania (sole owner of the Diamond State Telephone Company) The Chesapeake and Potomac Telephone Companies New Jersey Bell*
Number of states:	*6 (plus the District of Columbia)*
Headquarters location:	*Philadelphia*
Customer accounts:	*10.5 million*
Access lines:	*13.9 million*

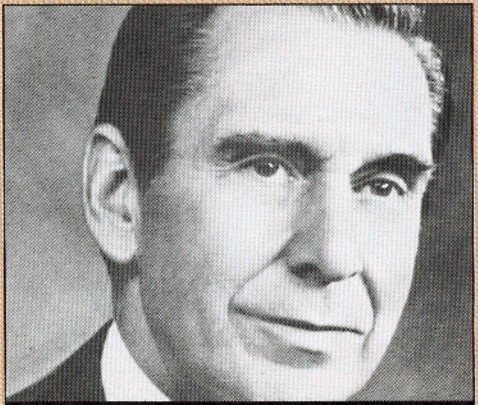
Ask Thomas E. Bolger why an investor should put money into the Mid-Atlantic region and be prepared for a staccato list of reasons: stability and moderate growth, realistic regulatory treatment, the lowest expense-to-revenue ratio of any of the seven regions, the lowest debt ratio, strong internal financing, prudent fiscal management, heavily regionalized staff and line functions, large LATAS, significant metropolitan areas, a regional structure that's already in place and working, and an "outstanding" management team.

All these attributes will be deployed to create what the CEO-designate terms "a total high-value communications corporation." As Bolger describes it: "We will entertain opportunities to enter other segments of the communications market in which we feel we have the expertise and the resources to meet customer needs and to offer a greater return on investors' money. We're looking principally at opportunities to multiply our lines of business within the core enterprise. We're also examining joint ventures, acquisitions, and new ventures that 'fit' our key strengths and strategies and that provide synergies with our existing businesses."

There is no doubt in Bolger's mind that the Mid-Atlantic region is well positioned. The region's growth rate has leveled off, allowing for the lowest investment in access lines and the lowest maintenance cost of any of the seven regions, thus freeing up money to be invested elsewhere and taking some of the pressure off local rate increases. Perhaps most telling is the operating ratio, which, at 65.88 percent during the first quarter of this year, is also the lowest among the regions. "Put simply," Bolger explains, "this ratio commends our management efficiency. It means that our expenses are the lowest as a percentage of revenue. We'll be able to spend less to generate more revenue." And the region will boast the lowest debt ratio as well — "not much over 40 percent" — and strong internal financing, two leading indicators of self-sufficiency and financial flexibility.

Not content with these laurels, however, the region has hired proven outside talent in the areas of finance and marketing. A former chief financial officer of Air Products Corporation, who is skilled in acquisitions and dealing with the financial community, has been named treasurer of the prospective parent company, based in Philadelphia. And a former division president of Bausch & Lomb, whose credentials also include IBM and AT&T sales experience, has been hired as the regional marketing vice president. "That's good evidence that we are serious about serving our customers at a profit by giving them better value and better service," Bolger says.

In order to offer customers consistency and strength, all marketing functions — as well as most other line and staff functions — will be unified under a management services company based in Arlington, Virginia. Unification is intended to produce "a single strategy, a cohesive approach to customers, and quick decision making," he says. Though most of the region's marketing employees will remain in their current locations and have revenue commitments to their individual operating companies, they'll report to the regional management services company. "Clearly, the relationship between the management services company and the operating companies must be a joint partnership in order for strategy to be executed," Bolger points out. "And just as clearly, we'll have a strong need for matrix management and for managers who feel comfortable operating in a matrix. We have to streamline the decision-making process and encourage initiative and risk taking."



Thomas E. Bolger

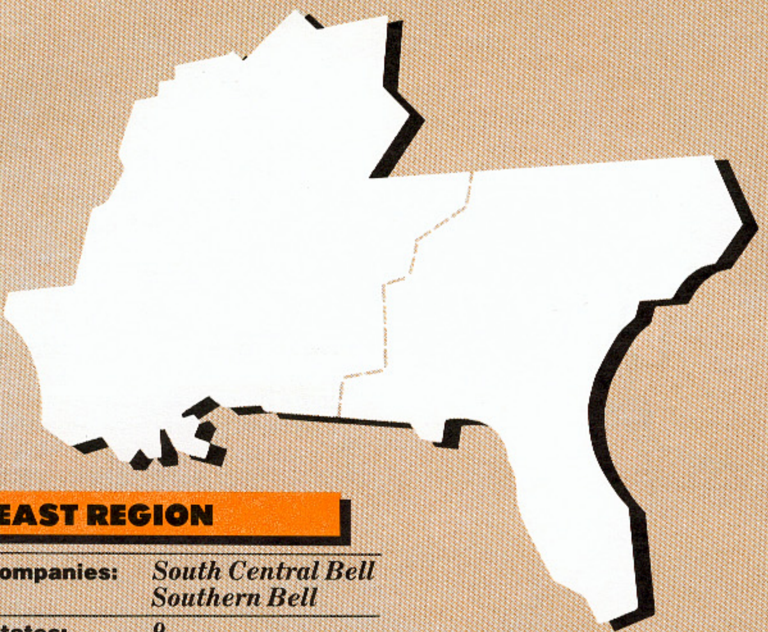
In the months remaining before divestiture, the region's planners are spending their time aligning products and services with market opportunities. A spectrum of offerings is being studied, from the provision of simple and complex customer premises equipment, to the construction of cable-television systems, to the establishment of new ventures.

Chief among the priorities, however, is the need to reprice existing services to make them more profitable — but not simply by raising prices. "That's not acceptable," Bolger says flatly. "We must increase the value customers receive from them so that customers will be willing to pay more. We can't count on a tremendous influx of new customers, based on the demographic projections for this region, but we can — and will — look to existing customers to increase our profits by enhancing the value and variety of our services."

The majority of the region's customers are concentrated in three major metropolitan areas that also form the region's largest LATAS: the "corridor" area in New Jersey that rings New York City; the Philadelphia/Camden, New Jersey/Wilmington, Delaware area; and the Baltimore/Washington, D.C., area encompassing the close-in Virginia suburbs. Rich in new prospects for local-network usage, these locations are also ripe for intra-LATA toll competition — a possibility not lost on the region's planners. "We're not afraid of it," Bolger says, "but we do want to make sure that everyone competes on the same terms."

In the meantime, the region is polishing its marketing staff and services to deal with its largest customer body after divestiture — the interexchange carriers that will provide fully one-third of the region's revenue in the form of access charges. "We view serving them the same way we see serving all of our customers," Bolger says. "We want their business, we value it, and we intend to earn it."

ZELTSMAN STUDIO



SOUTHEAST REGION

Operating companies:	*South Central Bell* *Southern Bell*
Number of states:	*9*
Headquarters location:	*Atlanta*
Customer accounts:	*13.1 million*
Access lines:	*13.2 million*

The divestiture process can't move fast enough to keep pace with the Southeast region's get-ready activities. The post-divestiture operation was put into place April 1, and most functions are already staffed. As Wallace R. Bunn, the region's designated chairman, notes with a touch of pride, "We're moving fast." Twelve "baseline strategies," as he calls them, have been developed, and senior managers have been named to guide the organization and implement the strategies.

The region's structure was formed early in the planning process. A holding company, based in Atlanta, will specialize in financial and strategic planning, overseeing new ventures and subsidiaries for AMPS and directory operations. A regional service company, based in Birmingham, will centralize a large number of support functions.

Bunn describes the service company as a "high-technology firm," employing engineers and computer science experts adept at devising strategic network plans and establishing information systems. Procurement, marketing support, personnel management, and administrative services also will be regionalized. About 10 percent of the region's employees will be assigned to the service company. The region's two operating companies will continue to provide telecommunications service.

> In view of Sunbelt growth projections, "we'll have our hands pretty full just meeting the new demands for voice and data services."

The four lines of organization will funnel into a corporate policy council headed by the designated regional chief executive officer, chief operating officer, chief financial officer, service company president, and the two operating company presidents. "Our operating structure insures that our planning process is both broad and deep," Bunn says. "That way we can find long-term solutions, not short-term panaceas."

Underlining the region's strategic plan is the conviction that "we must concentrate on doing what we know how to do well," Bunn says. "We can't count on new ventures to meet all our revenue needs. In view of the growth projections for the Sunbelt, we'll have our hands pretty full just meeting the new demands for voice and data telecommunications services." For that reason, the verdict is still out on whether the region will market customer premises equipment.


Wallace R. Bunn

One thing is certain, however: The region is counting heavily on the installations of new technology dotting the nine-state area. "In the last five years, we've spent 15 billion dollars on our plant," Bunn points out. "Some 65 percent of our region will have access to electronic switching systems by the end of this year. And we're the largest users of SLC-96 systems, giving us digital capability." Significant lightwave installations also are under way in Miami and are planned for Atlanta. And the first commercial application of a videotext system—in which Southern Bell provides transport services and Knight-Ridder newspapers provides the text—will go into operation in south Florida this Fall.

Casting his mind toward the future, Bunn also shows interest in providing transmission services to cable television companies, and in plumbing the revenue possibilities inherent in the mass-distribution features of the local network. "With good technology and well-conceived marketing strategies, we can increase network usage by our local customers and by the interexchange carriers," he says.

Critical to the profitable use of the local network, however, is the implementation of measured service, a task especially challenging in some of the region's regulatory jurisdictions. "We do think we can convince our regulators that measured service is the fairest way to price our offerings in a competitive marketplace — fair to our customers and fair to our investors," Bunn says. "I know that regulators realize we have to maintain our earnings results, and one of the ways we can do this is to offer customers a menu of services at a range of prices. The crucial thing is to make all parts of the local network profitable so that we can grow with the Sunbelt."

Clearly, in actions as well as in words, Bunn wants to take advantage of the region's location. Though the name of the regional holding company has yet to be unveiled, it may very well include a geographic reference, much as "US WEST" does. But the name will not include a reference to "Bell," in view of uncertainties over using that name. "What we know for sure," Bunn says, "is that the name must be short and meaningful. It must convey an image that is modern, that indicates a new age. And it must indicate to potential investors — who tend to invest in their own geographic areas — that we have a lot going for us: excellent technology, competitive prices, good earnings, and proud and resourceful employees." ▶

JIMMY WILSON STUDIOS

MIDWEST REGION

Operating companies:	*Illinois Bell* *Indiana Bell* *Michigan Bell* *Ohio Bell* *Wisconsin Telephone*
Number of states:	*5*
Headquarters location:	*Chicago*
Customer accounts:	*11.3 million*
Access lines:	*14 million*

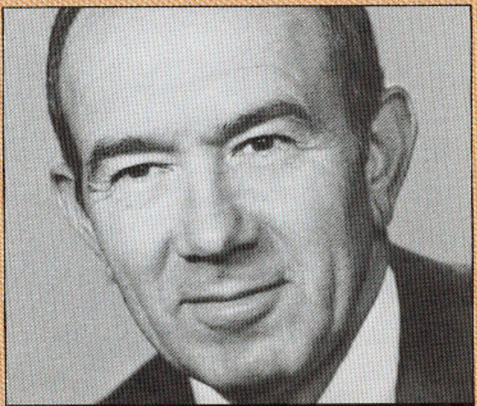
The bond raters from Standard & Poor's were impressed. "When they finished hearing our presentation," recalls William L. Weiss, the Midwest region's designated chairman, "they told us they'd never seen a marketing plan with such a clear view of the future."

What the Standard & Poor's representatives saw was a system in which the region's financial, operating, and technological capabilities were applied to all its customer segments. The business strategies that resulted were developed into business plans — again, according to market segments — that are aimed at sustaining current profit operations and defining the potential of new ventures in all their stages of development.

"What our marketing plan tells us is that the future of our industry lies in the 'exotic' services we can provide — in the explosion of usage associated with Information Age services," Weiss says. "We're talking about high-capacity facilities and unique networks to serve individual customers and communities. Basic exchange and transport services will be the cornerstone of our business in the near and intermediate future, but our future need not be limited to the telephone business as we've known it."

Funneling into the region's marketing plan were data from a diversification study that also recommended developing discretionary services — those the region's operating companies aren't obligated to provide under franchise, which, as a business choice, they can take or leave. Such products and services could include customer premises equipment, billing services, and joint ventures with cable operators. In the cable market, for example, "most of our operating companies are actively negotiating with cable TV vendors to transport pay-per-view services," Weiss says, "and one trial is already under way."

Fueling the region's strategic directions is what Weiss describes as an "enviable" balance sheet. The region is totally self-financed, which means that next year's construction program of more than one and a half billion dollars can be funded entirely from internal sources — depreciation and retained earnings. "We may choose to go into the debt and equity markets to raise funds," Weiss says, "but the essential point is that we can finance our basic business ourselves." Consequently, when the region's planners look at new ventures, they tend to focus on those that can be started from within as opposed to those borne from mergers or acquisitions. An example is AMPS, a service initially tested in Chicago. The Midwest region will be the first of the regions to provide AMPS, beginning in November.



William L. Weiss

Another advantage of such financial flexibility is that the region can spend more money on plant modernization and less on expensive exchange line growth. "Even though we're in the midst of a slow economy, we can be a growing company," he points out. "And there are signs, too, that the economy is turning around. High-technology firms and computer-based financial-service industries are emerging here, and they'll be the basis of our future economy."

The region's strategic plan also sets out the region's structure, which is based on the well-known organizational dictum that "structure follows strategy." Decentralization and autonomy are the bywords. The operating companies will make commitments in terms of broad service capabilities and financial performance. Within those commitments, "company executives will have the freedom to deploy their resources as they see fit to help them achieve their objectives," he says. "This philosophy gives people the opportunity to use their creativity; if they don't, they'll have to step aside, because we really need creative people." As few as 200 people will staff the regional holding company, located in Chicago.

A service corporation, also located in Chicago, will be owned by the five companies and directed by the company presidents, who will act as a board of directors. The board will decide what operations—such as procurement—should be centralized in the service corporation for cost efficiency. The corporation also is considering establishing profit centers — selling software development and consulting services to outside vendors, for example, or purchasing equipment and materials that could be resold to the companies with a small profit returned to the region.

"We're going to be a competitor in every sense of the word, looking to provide products and services that bring a profitable return on our investment," Weiss says. "Our service territory will be regional, but many elements will be national — our share owners, our financing efforts, our search for products and services to offer. We'll be serving about one-seventh of the country geographically and more than one-seventh of the access lines. Our size alone will give us national prominence. And so will our reputation for quality."

MOFFETT STUDIO

SOUTHWEST REGION

Operating company:	*Southwestern Bell*
Number of states:	*5*
Headquarters location:	*St. Louis*
Customer accounts:	*8.3 million*
Access lines:	*10.2 million*

So rapid is the growth in the Southwest region that it wasn't uncommon last year for customers in Oklahoma to want telephones installed in their tents. And that growth, avers Zane E. Barnes, the region's designated chief executive officer, is one of the region's foremost strengths.

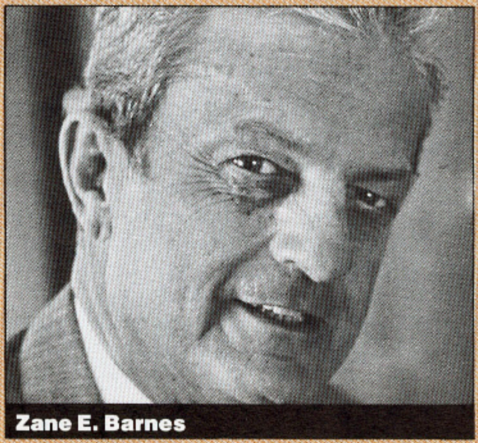
"Our five states have been growing faster than the nation as a whole for many years in terms of population, employment, construction, and gross product," he notes. "Twenty percent of the Bell System's gain in access lines last year was in Southwestern Bell territory, and our toll calling volumes — even during this recession — have been two to four percent higher than the System average.

"True, our states aren't without vulnerabilities. Some bank heavily on one industry. But the region as a whole is diverse, which helps it show a better long-term trend than the nation's. We've got energy in Oklahoma, agriculture in Kansas, a variety of small manufacturing in Arkansas, and auto production in Missouri. Texas represents half our company, and it, too, is diverse. In addition to oil and gas production, Texas has one of the nation's largest concentrations of electronics firms."

Though growth is no free ticket to prosperity, Barnes is convinced that growth and diversity have helped Southwestern Bell be a revenue pacesetter, and he expects no dip in the trend once the region is on its own. "We've long been the revenue leader in the Bell System," he says. "We serve about 12 percent of total Bell System access lines and telephones, yet we produce between 14 and 20 percent of total System revenues in most markets. Just since 1979, our revenue has increased nearly three billion dollars. And we've made a quantum leap in net income, which has gone up 300 million dollars during the same period. Our return on equity has shown steady improvement as well, moving from the 10-percent range in 1979 to an average of 12 percent in 1982. Furthermore, regulators seem sensitive to their increased responsibilities as we become a stand-alone company."

In addition to a strong financial base, the region's structure is already in place. Because it will be a single-company region, its territory and management team can stay intact. "That makes divestiture planning much simpler for us," Barnes agrees. "We will have a small holding company, and we'll staff it with current employees; we're also looking at ways to put some regional staff functions in locations outside St. Louis. We don't need a regional services company, but we will centralize the purchasing function, though not necessarily geographically."

Aside from a telephone company subsidiary and an AMPS subsidiary that will be owned by the holding company, potential subsidiaries — such as one for directory production and the marketing of customer premises equipment — still are being studied. In the time remaining before divestiture, region executives have turned their attention to what Barnes calls "our two most significant market advantages": an established customer base and a modern technological plant. "We provide a two-way communications link to roughly 80 percent of the homes and businesses in our states," he says, "and we're making sure that our customers have state-of-the-art technology. Between 1970 and 1980, we devoted 20 percent of our construction budget to modernization. We've installed the largest number of ESS access lines in the System — 70 percent — and almost all the lines between our switching offices in metropolitan areas are digital. Now we're beginning to upgrade the network with lightwave."



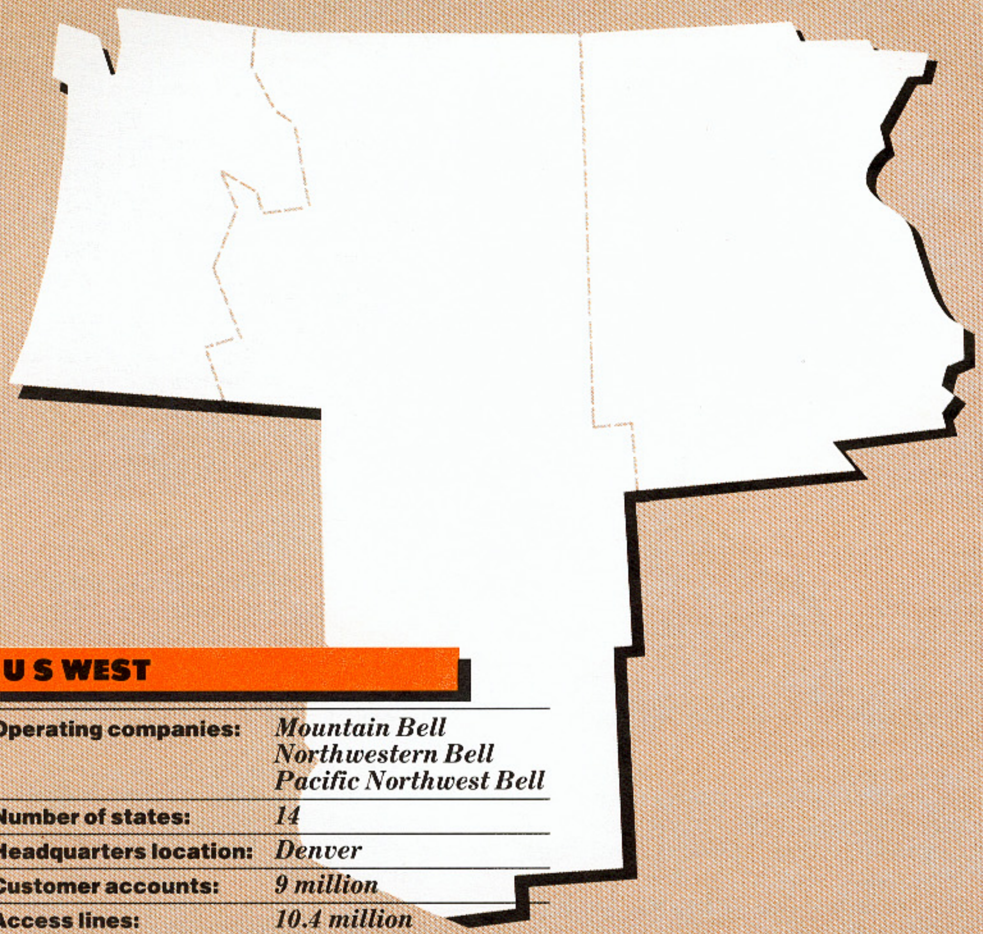
Zane E. Barnes

Supporting the technology are some 400 computer-based systems, expected to pay off in higher productivity and ongoing expense savings. "Thanks to our mechanization program," he says, "we've been able to take advantage of attrition and reduce the number of people needed to support our access lines by more than nine percent. And we haven't sacrificed service. We had the System's first on-line service order distribution and retrieval system, which sped up customer service, and the first automatic intercept feature for customer lines. We're also a leader in mechanizing Yellow Pages production, including graphics."

Many of these systems — and the services they provide internally — could be expanded or reconfigured to become market offerings after divestiture. Telephone market research similar to TELSAM surveys, for example, could be provided to other companies, along with airline scheduling, vehicle fleet maintenance, and promotion work for conventions, among other functions.

"But I want to stress that we do not intend to rush off willy-nilly after exotic pursuits," Barnes says. "I don't anticipate external financing for new ventures at this time. We will expand, but at a practical pace and in the direction of our strengths. The local telecommunications business is the business we know, it's what we're already good at. Our main source of earnings for some time to come will be voice and data transport; local central office services, such as Custom Calling services for residence customers and centrex for businesses; and cellular mobile phone service. Our first priority is to keep our main business strong and to look for ways to improve its profitability. We will take no existing service or area of expertise for granted. We will consider how each might be repriced, retooled, or repositioned to improve earnings. And always — we will keep service as our guiding value." ▶

WILLIAM BORNEFELD



U S WEST

Operating companies:	*Mountain Bell* *Northwestern Bell* *Pacific Northwest Bell*
Number of states:	*14*
Headquarters location:	*Denver*
Customer accounts:	*9 million*
Access lines:	*10.4 million*

Gone are the days when Jack A. MacAllister tried to open a charge account at a Denver department store — and was advised to say he was unemployed rather than try to convince the credit department that he worked for a company that didn't have a name.

The 14-state Mountains and Great Plains region, of which MacAllister is the designated chairman, became U S WEST INC., in mid-April. In becoming the first of the seven operating company regions to announce its new name, it is also the first to decide not to include the name "Bell" in its regional designation. "We did not make that choice lightly," MacAllister says. "The name 'Bell' is honored and valuable. But we believe it properly belongs to our three operating companies, which have helped build its character, value, and traditions. Also, we plan to form additional subsidiaries, and we want a name that will work for them, too."

Indeed, U S WEST already has announced three subsidiaries: for Advanced Mobile Phone Service (AMPS); for directory publishing and Yellow Pages advertising; and for premises wiring, installation, and maintenance of telecommunications systems. The region also seems eager to enter unregulated business ventures — as MacAllister puts it, "to take full advantage of opportunities in the communications business and outside it as well."

The AMPS subsidiary, to be located in Bellevue, Washington, near Seattle, plans to begin serving three of the region's top four metropolitan areas by the end of 1984. Its name will be announced later this year. The publishing subsidiary, to be headquartered in Denver, will enter into contracts with the three operating companies to publish their directories, a consolidation that MacAllister expects will produce savings. Yellow Pages revenue for these companies last year was 400 million dollars. The directory subsidiary also plans to move into new markets. The premises-wiring subsidiary, temporarily located in Omaha, is what MacAllister terms a "low-tech" business that is nevertheless "absolutely necessary to the Information Age

Jack A. MacAllister

and, we think, profitable." Among its first customers could be cable television operators, who have "expressed a desire to work with a local company" in the installation and maintenance of their systems, he says.

And what about offering customer premises equipment (CPE)? "Frankly, we don't have an emotional attachment to CPE," he says. "Our strategic planners are objectively examining this market solely from the standpoint of our ability to serve customers and make a profit."

A shared regional staff serving the three operating companies — and supervised by them — will aim for economies of scale in the areas of purchasing, data systems, and materials management. The staff is intentionally small and distributed throughout the region to save relocation expenses and to remain close to the companies and their customers.

Overseeing the three subsidiaries, the three operating companies, and any unregulated new ventures is a regional holding company that is also small by design. Only 100 employees will staff it. Operating autonomy is expected. "We'll negotiate tough but fair objectives — particularly financial ones — with each of our companies," MacAllister says. "We will collaborate on standards, strategic planning, and resource allocation. But we don't intend to run their jobs. If we are to succeed in the newly deregulated marketplace, we need to deregulate the workplace, too. We want our people to have room to grow."

"Room to grow" is a theme MacAllister stresses whenever he talks to employees and, more recently, to financial analysts. Geographically, the region is the largest of the seven, carving a "T" that stretches from the Mississippi to the Pacific, from Canada to Mexico. Demographically, the Rocky Mountain states and those of the Southwest and Far West will grow faster than the nation as a whole in population, personal income, and job expansion, the U.S. Department of Commerce predicts, because the nation's population will shift from the Northeast to the West.

"The word 'west' always has meant more than just a direction in this country," MacAllister maintains. "It suggests a setting forth, a setting free, an opportunity to control one's destiny. When I look at our region, I see wide-open opportunities. We want to expand our services to customers and give our employees bigger jobs at the same time. We're already expanding participation in decision making, and we intend to make strategic planning a part of our day-to-day corporate culture at all levels of our businesses. Above all, we intend to enhance the value of our share owners' investment through long-term profit and capital growth. We're in the ideal place at the ideal time, and we intend to make the most of it."

STUART ALLEN SCOTT

FAR WEST REGION

Operating company:	*Pacific Telephone (sole owner of Nevada Bell)*
Number of states:	*2*
Headquarters location:	*San Francisco*
Customer accounts:	*8.5 million*
Access lines:	*10.7 million*

Surely no other Bell operating company has suffered the constant sling of arrows that Pacific Telephone has been prey to in recent years. Long-standing tensions between the company and the California Public Utilities Commission over back tax liabilities and inadequate rate relief have given financial analysts the jitters, sent bond ratings spiraling downward, and bestowed upon the company such unflattering epithets as "the weakest Bell System sister." Speculation in the financial press only heightened over whether the region would survive divestiture — let alone thrive — when it was announced that Pacific Telephone would be the sole company comprising the region.

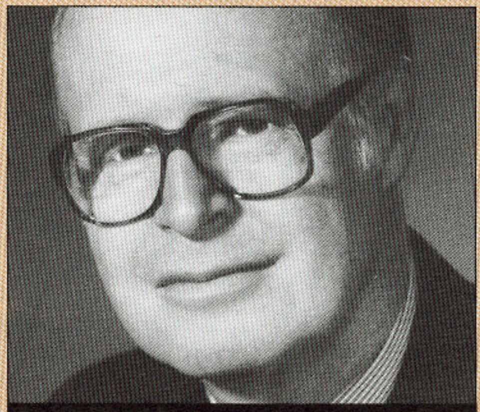
But the fortunes of Pacific Telephone have turned around, and its future now beckons with promise. Standard & Poor's upgraded Pacific Tel's debt rating, and Moody's Investors Service raised ratings on all the company's senior debt. "We're not the financial stepchild of the Bell System any longer," affirms Donald E. Guinn, the region's designated chairman.

Thanks to a Christmas present from Congress last year that erased the 1.2-billion-dollar federal tax liability, as well as assistance from AT&T and a large rate award from the state commission, "we are now in a significantly better financial position," Guinn notes. "Our debt ratio has declined from 59 percent to what we hope will be just below 47 percent at divestiture. And we generated 81 percent of our construction funds internally in 1982, up from 44 percent in 1980. We've been very successful with our capital recovery program, and we've improved our net income. In 1979, we had a net income of 360 million dollars. In 1982, after adjustments to reflect the impact of the recent tax legislation, it was 631 million dollars."

Guinn also counts it fortunate that few structural changes have been required to turn the company into a region; the time needed to study organizational structures is being used, instead, to analyze competitive positioning and market offerings. As a result, the Far West region was the first to announce the formation of a subsidiary to provide customer premises equipment. "We have already talked to every major domestic and international supplier," Guinn says, "and we're now in the process of narrowing them down. We'll have more than one supplier because we want to take the best of their product line. That's the major reason we announced our CPE plans early."

Befitting its configuration as a single-company region, its structure is simple. Guinn, as chairman, will head a holding company. A president will be responsible for the regulated business. There will be two vice chairmen — one overseeing finances and one spearheading strategic planning and new ventures. There is no need to announce a regional headquarters, Guinn says, because Pacific Tel's current headquarters in San Francisco will be the region's as well. There will be no regional service company.

The region's planners spend most of their time nowadays studying new ventures and formulating business-case analyses. "This much I can tell you," Guinn says. "We are not looking at capital-intensive businesses. We want to lead from our strengths, building new ventures into our profit stream over time."


Donald E. Guinn

The region will concentrate on marketing "core" services — such central office functions as centrex and Custom Calling services — and on upgrading the technology of its existing transmission facilities. "About 60 percent of our equipment is digital right now," Guinn says, "and by 1992, almost all of it will be. That means we have a high-tech network that will expand as rapidly as our marketplace is expected to grow."

But crucial to the development of new technology and services is the company's ability to get timely, adequate rate awards. Guinn readily acknowledges that tensions lingered between the company and the state commission for the six years that the tax-liability issue was in question, because the commission wanted the company to flow through to customers a portion of its tax deferrals. Pacific Tel argued that the method the commission developed was inconsistent with IRS rules; if the company followed the commission's method, it maintained, it could be ineligible for the benefits of accelerated depreciation and investment tax credit. While the issue was debated, rate relief didn't keep pace with the company's financial needs.

"But now those difficult times are behind us," Guinn says. "In 1981, the commission granted us the biggest rate award ever, including the highest rate of return on equity we've ever received. The commission also allowed us to recover the expenses of station connections immediately, rather than over time, which saved us from raising millions of dollars in the capital marketplace. Together, these steps represented close to one billion dollars in rate action." Guinn is equally confident that the commission will give Pacific Tel a fair hearing on its position against intra-LATA toll competition, a prospect the company has been fighting vigorously.

With its regulatory relations improved and its balance sheet brightened, the company is turning its attention to future investors. An investor relations group has been established, a financial-relations consulting firm has been hired, and Guinn, like his regional counterparts elsewhere, will begin telling his region's story to financial analysts across the country.

What does he plan to say? "I'll stress the positive improvements in our financial performance and point out that we're modernizing our network, trimming our work force, refining our strategic planning, and honing our marketing strategies. We intend to pay our share owners the appropriate yield on investment that they expect, and we're eager to capitalize on our improvements to earn their loyalty." ■

WILLIAM J. RADER

TRANSITION

REVVING UP FOR A QUICK START

BY BOB KINKEAD

The CSO gets set to be a technological pit crew for seven sleek new companies racing into a more competitive future.

The Central Services Organization (CSO), its founders believe, is an innovative new enterprise dedicated to telecommunications efficiency in an environment being rapidly changed by the advent of the Information Age and by divestiture itself.

Conceived to help keep the national telecommunications network the best in the world, the CSO has been assigned the mission of providing expert support to the regional telephone companies. It will focus primarily on the technical aspects of exchange telecommunications services and other services that can be efficiently centralized. Among these services will be research and systems engineering that support operating company efforts in the exchange telecommunications marketplace.

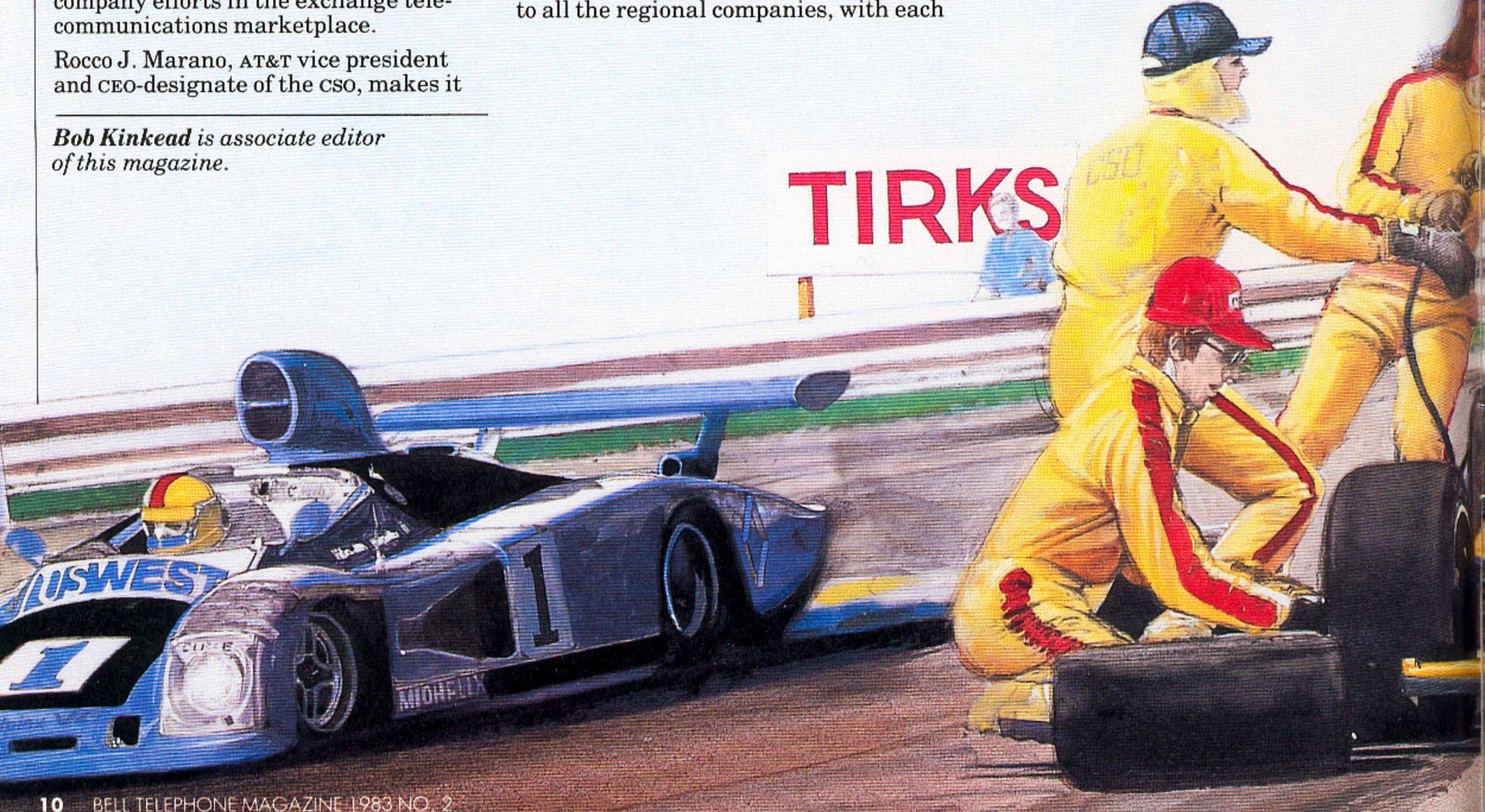
Rocco J. Marano, AT&T vice president and CEO-designate of the CSO, makes it clear that the new organization is "very much an owner-built organization. The seven regions — represented by their CEOs and their planning officers — will own the CSO and will decide what functions it should handle, what size it should be, and how it will be funded." A principal officer from each region will sit on the CSO board of directors and each will be involved in giving direction to the CSO's overall operations.

Marano adds that the funding scheme developed for the CSO makes it clear that the regional companies will call the tune regarding the future direction of his organization. Two methods of funding will be used.

The first — called core funding — will be employed on projects of universal value to all the regional companies, with each of the seven owners contributing an equal share toward the project. Systems engineering work on fiber-optic systems is an example of a project that might be core-funded.

The second funding method is, according to Marano's label, "menu" funding. In this mode, the regional companies will decide whether or not to participate in proposed projects, based on their appraisal of benefits. The cost of a project would be shared only among those companies that opt for it. Marano explains that while, in some instances —

Bob Kinkead is associate editor of this magazine.



particularly in information systems and software — it would be feasible for the CSO to perform work for an individual region, such projects would still require approval of the regional board members.

Since the creation of the CSO, Marano has emphasized that funding and all other major aspects of the CSO have been tailored by its owners. "A committee composed of operating company presidents began examining the concept of a CSO shortly after the Modification of Final Judgment was announced," Marano explains. "The question was examined from a zero-base perspective. That is, they began by asking if there is a need for any central organization at all. Essentially, they started with a clean slate.

MOST EMPLOYEES IN TECHNICAL SERVICES

"They analyzed the general staff functions performed for the operating companies by AT&T, Western Electric, and Bell Labs. Beyond the MFJ requirement for a single contact for national security and emergency preparedness, they made no assumptions about the usefulness of any centralized functions." On the basis of this careful analysis, the CSO was authorized a workforce of about 8,800 people that is expected to require an annual budget of about 750 million dollars in 1984. This staff and budget will support more than a half million operating company employees in companies with about 100 billion dollars in total assets.

The majority of this workforce will be in the technical services area under Irwin Dorros, executive vice president-technical services. Dorros sums up his group's mission succinctly: "Our job is to make sure the regional Bell operating companies have the right technology available to them at the right time."

Fully half of Dorros' workforce will be involved in information systems now in use or projected for use at the operating companies. Such computer-based systems include inventory, billing, and record-keeping software—systems like the trunks integrated record keeping system (TIRKS). The information systems division in Dorros' domain will have software and systems specialists to handle the burgeoning information-systems needs of the regions, he says.

The other half of Dorros' organization will focus on providing research, systems engineering, network planning, quality assurance, and operating methods to support the application of technology in the local operating companies, particularly in local switching systems, local distribution systems, operator service systems, and interoffice transmis-

FRANK MORRIS

sion systems. "Systems engineering will be one of our critical responsibilities," he says. "The systems engineer will be responsible for insuring that new technology is compatible with existing network architecture." Dorros cites as an example a set of five thick binders entitled *Local Switching System General Requirements*. "This is a generic, non-brand-name description of the operating features required to design a local switching system," he explains. "These are not the design specifications; they are for the manufacturers to produce. This set of binders is used by the operating companies to describe their local switching needs to a supplier — any supplier."

Because the local networks will continue to evolve at an ever-more-rapid pace, systems engineering is essential to ensure an orderly, efficient evolution, Dorros maintains. "Without centralized systems engineering and network planning services, each of the regions would have to set up its own technical groups to handle these functions. That would involve a lot of time, cost a lot of money, and result in expensive duplication. Further, their networks and the use of those networks would evolve differently around the country, a prospect not beneficial to the efficiency of the nationwide network."

Recommending technical standards for operating company technologies and network interfaces, and assuring quality are other important functions for Dorros' group.

"With our own research, we will not become captives of the technology the manufacturers decide to develop."

WORLD-CLASS RESEARCH, A UNIQUE WORK CULTURE

Dorros says the CSO will establish its own world-class research group, staffed with selected top-notch researchers, many from Bell Labs' research area. He points out: "No manufacturer makes telecommunications networks. They merely make components for networks. Only the operating companies design and build networks, and their subsidiary, the CSO, will have enough network experience to know what is technically feasible and desirable for the existing Bell operating company networks. But to know what direction the networks must take in the future, we must know what is possible. With our own research area, we will not become captives of the technology the manufacturers decide to develop. We will be able to decide what we need and where we want to go and not have to wait until the manufacturers decide to introduce new products before we specify their need and value to the company.

"Through our own applied research, systems engineering, and network planning we can recommend the general requirements and evaluation criteria for the operating companies, which then can ask suppliers and manufacturers to fulfill these needs," Dorros explains. "Helping the operating companies describe to their suppliers precisely what they need is far better than trying to adapt someone else's ideas to fit the operating companies' needs. It's an advantage that the Bell operating companies enjoy now and one they believe essential to preserve following divestiture."

Many of the technical functions the CSO will perform are being fulfilled at Bell Labs, at least until divestiture draws closer. Dorros points out that both Bell Labs and the CSO will have many of the same requirements for engineering and technical talent after divestiture. "We may be in competition for new people on college campuses, but I think that's healthy," he says. "In order to attract the most qualified recruits, we'll match the competition in terms of excitement, challenge, and pay. And we'll provide a high-quality, professional work environment, second to none."

Work environment — or "culture" — is also a key issue for many of the Bell System people assigned to or imputed to the CSO. In briefing sessions, especially at Bell Labs, observers report that inquiries regarding the quality of the CSO work environment are among the most often-asked questions. Designated CSO senior managers acknowledge the importance of the issue, but, says J. Kenneth Looloian, vice president-finance and administration, the CSO will not try to duplicate the culture of any single entity. Rather, it will draw upon the best elements of the variety of cultures its employees will bring with them to their new jobs. "We will have a unique culture of our own," he asserts, "a culture that fits the character of our new organization and complements the new culture of the regional companies."

Looloian, whose responsibilities encompass personnel and a range of support services, points out that the CSO will draw its staff from AT&T, Western Electric, and the operating companies, as well as from Bell Labs. Sitting in his office near a prominently displayed poster proclaiming that "Change can be beautiful," Looloian observes that no business style imported from another company could satisfy the diverse employee body slated for the CSO.

"I recently spoke to a prospective employee from Bell Labs who told me the thing he would regret most is leaving the Bell Labs culture," Looloian relates. "I replied that we want to avoid any unnecessary change, but Bell Labs isn't standing still either. That company also is changing and evolving as fast as any in the Bell System. One thing that won't change as people move from other companies to the CSO is the opportunity to contribute to national leadership in communications. We'll still be a pacesetter."

Looloian adds that he is sensitive to the discomfort attending job shifts. All change, he points out, involves some kind of individual anguish, but, he contends, for people moving into the CSO, there never will be a better time to make a job change. "Here we are all new, all trying to learn the ropes and adjust to new bosses, new subordinates, and new responsibilities," he points out. "We all share a little discomfort, but we also share the fun and excitement of starting something new."

Not all of his challenges are generated by internal change, however. In addition to human resources, his responsibilities embrace the study of carrier access charges and related tariff and cost questions as well as the establishment of an FCC-mandated exchange carrier association. The association, eventually to be a separate industry association, will, among other things, bill all interexchange carriers for local service connections and distribute the resulting funds to local exchange carriers serving high-cost areas.

"We are breaking new ground in all of these areas," Looloian notes, "and we have a lot of different interests to take into account." State and federal regulators are involved, as well as the prospective regional companies, the interexchange carriers, independent telephone companies, telephone users, and numerous special interest groups. Looloian stresses that it is important for all these groups, particularly the regulators, to understand the mission and work of the CSO and recognize that more than 90 percent of the work to be done for the regulated companies is technical in nature. "We are studying how to integrate carrier access into the operating company product line while preserving the universal service concept, avoiding local-network bypass, satisfying the requirements of the Modified Final Judgment, and steering clear of antitrust entanglements," he points out. "We don't have all the solutions yet, but you could say our wagon is fully loaded with repect to challenge."

When it comes to challenge in the CSO, however, James E. Hennessy, vice president-marketing, will compare his with anyone's. Since the formation of CSO marketing, the rationale for such a department has been debated. Numerous observers questioned the need for a marketing function in a service organization with no products to sell and only seven customers — the regional holding companies. Hennessy says he understands the skepticism and has built his approach accordingly. First, he explains the benefits of such functions as centralized market research, product-management support, and marketing-operations support. Then he asks what level of support the regional companies desire and tailors his staff to deliver it.

"We began building the CSO marketing organization in June of 1982," Hennessy recalls. "We borrowed people from the operating companies to study 15 marketing areas that were identified beforehand by an intercompany marketing task force. We studied what could be done by the CSO in each area at six different levels, ranging from supplying information about the area — the lowest level — to implementing the plans we would develop, the highest level. Then we asked each region to vote on the level of involvement they wanted for each area." As a result of this process, the regional companies have endorsed a marketing staff of about 270 for the CSO. The CSO will provide studies, analyses, and consulting services based on a broad understanding of the marketplace, customers, competitors, and regulators.

One of the marketing group's most important jobs will be to identify customer needs and develop new exchange telecommunications service concepts and product ideas to meet them. The results of this work will be shared with Dorros' technical group for possible development and with the regional company marketing departments.

A second marketing division will work with current products and services — central office centrex service, intra-exchange WATS, and E-911 service, for example. This group will work to ensure that the operating companies have the best options available in terms of exchange telecommunications product improvements and price flexibility.

A third division will provide support for operating company marketing operations, study sales operations, and develop training modules and other programs requested by the operating company marketing departments.

Smaller divisions will perform marketing studies for directory services and develop plans for coordinating national security and emergency preparedness services. To keep the marketing divisions in touch with each other, Hennessy conducts quarterly meetings with his entire staff — management and non-management — to discuss such issues as work location, job stability, and the future of the CSO.

"At our first meeting, one of the hottest topics was, 'How committed are the regional companies to the CSO?' " Hennessy reports. "There was a perception that the regions are lukewarm about the CSO and that the organization might shrink away after divestiture. That's just not true. The regional CEOs are enthusiastic supporters. Furthermore, the increasing volume of requests for our services indicates that we will be a valuable asset for the regions after divestiture."

"ABSOLUTELY ESSENTIAL" TO HAVE CSO SERVICES

At his office in St. Louis, Zane E. Barnes, president of Southwestern Bell and CEO-designate of the Southwest region, confirms the regional companies' need for CSO services. "It is absolutely essential that we have a CSO," Barnes states. "Clearly, the kinds of services it will provide are most efficiently done on a centralized basis." Barnes was one of five operating company presidents on the task force that studied the feasibility of the CSO shortly after divestiture was announced early last year. From the outset, he reports, the task force deemed the CSO concept vital for maintaining continuity in technical support for the operating companies. What debate there was centered on non-technical functions.

As Barnes explains: "The operating companies depend on Bell Labs, Western Electric, and the AT&T General Departments for guidance in network and switching technology. Without a CSO to take their place, we each would have to build separate staffs to provide this technology after divestiture. A single, central staff is much more cost-effective than maintaining separate staffs. We will depend on the CSO heavily to guide us as the operating companies evolve from analog to digital local networks and from copper wires to fiber-optic distribution systems."

While most of the CSO's internal, organizational issues have been resolved, one important external issue is still under deliberation, Barnes reports: how to handle requests from independent telephone companies for CSO services. "The fact that some companies have expressed interest reinforces our convictions about the value of these services," he says. But no decision has been reached on how to satisfy the requests. "I think it would be in everyone's interest to accommodate the needs of the U.S. telecommunications industry, but it must be carefully thought out."

A related concern involves Cincinnati Bell and The Southern New England Telephone Company. Both companies have expressed very strong interest in CSO services. Unlike the other Bell operating companies, these minority-owned AT&T affiliates will not have a proprietary interest in the CSO, but their needs after divestiture will parallel those of the wholly owned companies in many, if not all, areas the CSO will serve. Marano feels that a contractual agreement can be reached to satisfy these needs, but he concedes that the negotiations will take time. "We are breaking new ground, establishing a new enterprise, and the CSO is still taking shape in certain respects," Marano explains. "That means we have to learn and develop new rules as we progress. That's a slow process when you are determined to do it right the first time."

Marano understands that this "make haste slowly" style generates some anxiety, not just in negotiations with clients but within the CSO workforce as well. But, he says, "If we make snap decisions that we have to change later, we will just prolong and redouble the anxiety. Our strategy is to tolerate some anxiety now to avoid creating more later. We'll make prudent decisions as quickly as possible and communicate those decisions without delay."

Among the as-yet-unmade decisions is the precise business relationship between the CSO and its owners. The CSO might be organized as a partnership or joint venture, or it could become a corporation with seven share owners. Various tax rules and other regulations apply to different organizational structures. But regardless of the structure chosen, Marano expects that employees will rotate between the CSO and the operating companies, much as they do now between Bell System entities — a significant benefit, he believes, for the companies and their employees.

Another unsettled question — that of a new name for the organization — will be resolved by testing the most promising of the dozens of suggestions that have been submitted to Marano. He declines to tell his favorite name for fear of prejudicing the testing process, but he points out: "The name we choose has to describe a company that will become the world's foremost consultant on Information Age services, within the boundary of the Modification of Final Judgment. It will be an exciting, growing company with an almost unlimited future. It's got to be quite a name." ■

CORPORATE PLANNING

FROM SHADOW TO SUBSTANCE

BY BERNICE CHU

Ripening in shape, form, and dimension are the organizations that will emerge, clearly distinct, at divestiture.

In a little over six months, the world will witness a Bell System feat that would do any alchemist proud—the transformation of shadow into substance, whereby a collection of once-sketchy organizational outlines will emerge as full-blown legal entities in the telecommunications marketplace. Foremost among the new legal entities being formed are the interexchange entity, central services organization, and seven regional holding companies, which, at the moment, are described by W. Brooke Tunstall, AT&T assistant vice president, as "shadow organizations."

Although the term "shadow organizations" hasn't found its way into the Bell System lexicon yet, it nevertheless turns out to be a particularly striking way to describe the prospective entities; "shadow organizing" is an equally effective way to visualize their formation. "We've taken shadow-like glimmers of organizational concepts and given them shape, form, and dimension as we staff them through transfers of employees and through dotted-line matrix management arrangements," says Tunstall, whose corporate planning group is coordinating divestiture implementation activities. "The shadows, metaphorically speaking, will become darker and darker as the year wears on. And so, on January 1, they'll be so prominent that they'll become embodied and take on a legal and operational stature of their own."

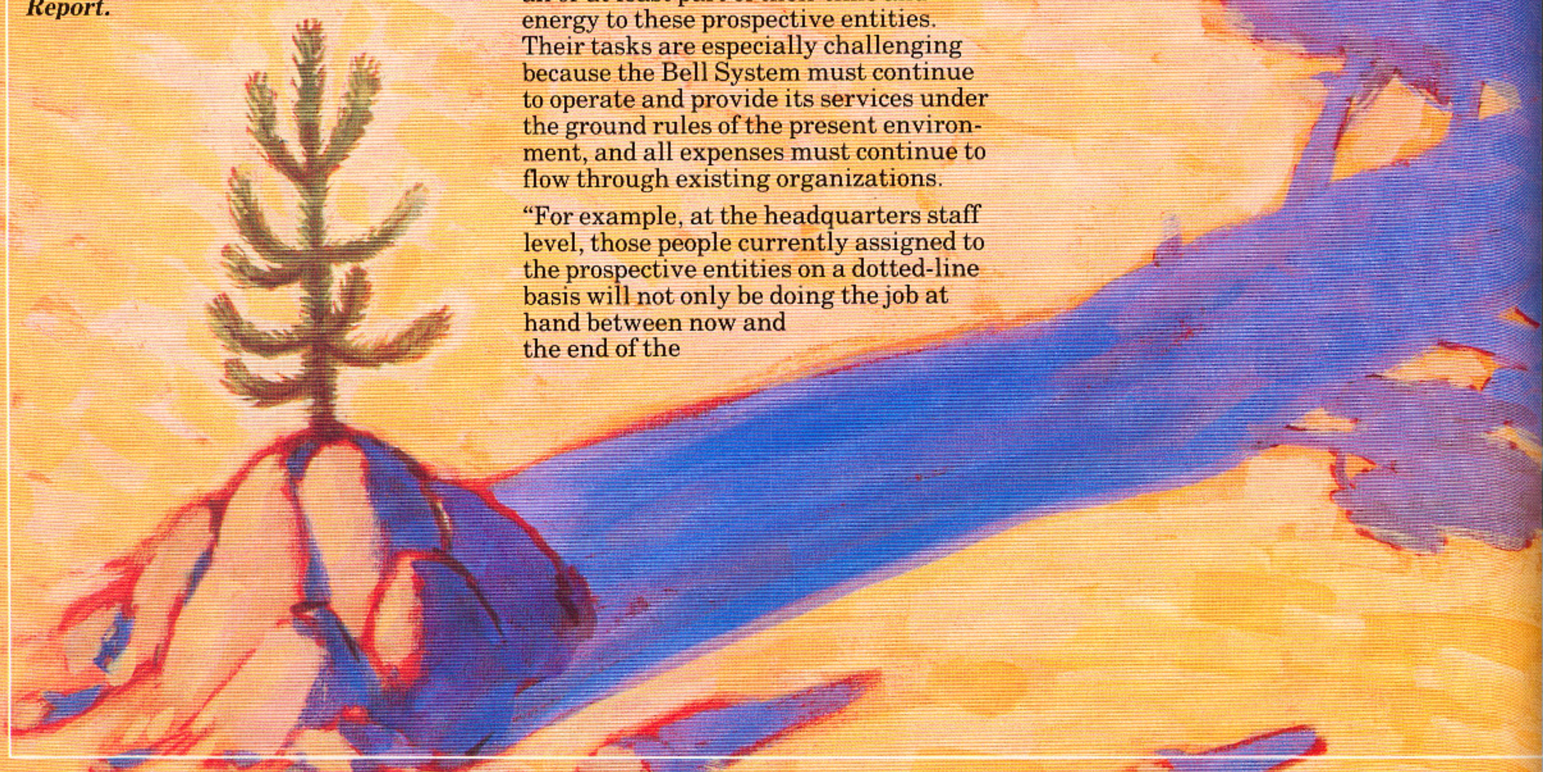
***Bernice Chu**, an AT&T district manager, is editor of **AT&T Management Report**.*

CRITICAL FOURTH QUARTER

At the moment, the structures of the interexchange entity, central services organization, and the regional holding companies are in various stages of formation. In many cases, officers and middle managers already are devoting all or at least part of their time and energy to these prospective entities. Their tasks are especially challenging because the Bell System must continue to operate and provide its services under the ground rules of the present environment, and all expenses must continue to flow through existing organizations.

"For example, at the headquarters staff level, those people currently assigned to the prospective entities on a dotted-line basis will not only be doing the job at hand between now and the end of the year, but they'll also be addressing, to varying degrees, the needs of the prospective entities on a post-divestiture basis," explains Kenneth J. O'Brien, AT&T director-corporate planning. "However, at the operating level there won't be two sets of organizations running in parallel—one in the traditional mode, and the other in a simulated mode."

Instead, the *Plan of Reorganization,* in a simple but comprehensive manner, designates the last three months of the year as marking the end of a 21-month planning period and the beginning of a special divestiture implementation stage. According to the *Plan*, the Bell System will conduct its business in a



"divested mode," meaning that the public switched network will be operated with a management reporting structure "that simulates operation by independent companies" to avoid the possibility of any disruption of service at the stroke of midnight on December 31.

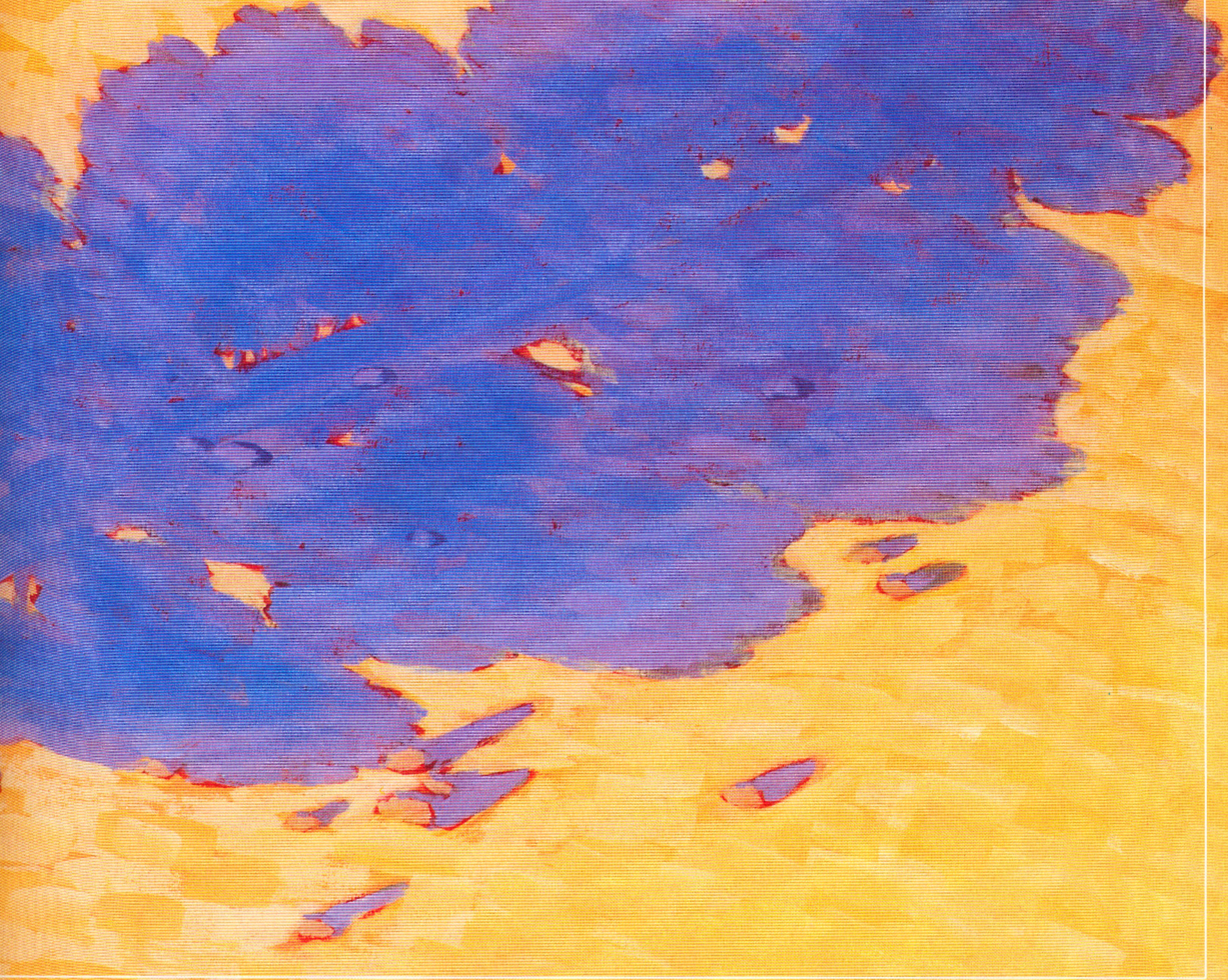
Conducting business "in a divested mode," according to the *Plan,* means that the Bell System entities will begin to treat each other as totally separate companies, insofar as is practicable. Operating company installation and maintenance forces associated with the provision of customer premises equipment (CPE) will begin to operate as though they were already transferred to American Bell. TSPS operators and supervisors, although technically still on the payroll of the operating companies, will carry on their jobs as if working for the prospective AT&T interexchange entity. And service representatives will begin advising "surrogate" customers that they can get long distance service and terminal equipment from a number of sources—including non-Bell carriers for long distance, and local suppliers other than PhoneCenter Stores for terminal equipment. Service-order handling, as just a single example, will be completely revised to reflect divestiture requirements.

PROGRESSIVE REALIGNMENT "ONLY PRACTICAL APPROACH"

"Functional divestiture" is the term used throughout the Bell System to describe this process of converting over to a divested mode. Functional divestiture has three distinct components: realigning all non-customer contact operational work to a divested mode; converting all customer contact functions to a divested mode wherever possible; and establishing new entities—or shadow organizing, a process well on its way to completion.

The progressive realignment of operations to a divested mode and the provision of a period of time for fine-tuning changes are the two key strategies underlying functional divestiture, according to Lawrence F. Mead, AT&T acting assistant vice president-operations, who has been closely connected to the operating-company side of divestiture implementation.

"Progressive realignment, rather than a flash-cut or a drawn-out transition, is the only practical approach to implementing divestiture-related changes, given their magnitude and complexity," Mead says. A flash cut at divestiture, he explains, may cause service anomalies and would not fulfill commitments made in the *Plan of Reorganization.* Echoing O'Brien's observation, Mead adds that the kind of gradual transition often used for lesser changes in the Bell System may prove hopelessly slow and far too costly for the mammoth task of divestiture. "A progressive approach,"



BARRY ROOT

he explains, "allows us to ensure a smooth transition in terms of service performance while permitting an adequate shakedown interval to identify and iron out problems and stabilize operations by January 1, 1984."

Converting customer contact functions to a divested mode consists of simultaneously converting related, interdependent centers—such as residence service centers and billing centers that support them, for example—and implementing all the new procedures and practices required for post-divestiture operations. Mead points out that a significant number of trial conversions already have been made in a variety of departments in different operating companies. Based on information gained from these trials, procedures will be modified to gain maximum efficiency. Many more conversions to divestiture-simulated operations are set for the third quarter of 1983. The last three months of the year will see the conversion of all remaining operating company centers and entity groups.

The job of reconfiguring the network and splitting apart customer service functions and related information systems to create the new interexchange entity provides one vantage point for appreciating the real complexity and scope of the divestiture effort.

In tandem with the establishment of the interexchange entity is the restructuring of operations in the operating companies — all of which must take place before the interexchange entity is able to market and provide its inter-LATA (Local Access and Transport Area) services and before the operating companies are prepared to handle the marketing and provision of the whole range of intra-LATA services after divestiture. This operational realignment can be considered complete when the companies reach agreement on the allocation of personnel, put matrix management arrangements in place, reconfigure operations-support systems, establish new interfaces, start up new processes, and test the processes to ensure that they are workable for all telecommunications suppliers and that they provide efficient service for the customer.

Functional divestiture is moving ahead; rehearsals of post-divestiture network operations and customer service methods, procedures, and operations are under way in earnest. "However," says O'Brien, "we don't want to suggest that we are actually moving assets, changing books of accounts or making payroll changes prior to schedule, or that we will render separate interexchange and local telephone bills to all our customers this year. Instead, to the extent possible, we want every major organization to begin post-divestiture functions, even though the traditional Bell System continues through to January 1."

By October 1, the entities should be in a position to operate in a divested mode; they will begin stabilizing operations and introducing procedures to customers. Corporate planners, however, are quick to emphasize that some operational groups will be prepared to do business in a divested mode as early as July, while others will need to wait until December to put new processes to the test.

Among the first groups able to try out divested operations are TSPS operators, many of whom already report on a dotted-line basis to managers in the prospective interexchange entity, although they remain on operating company payrolls until January 1. At Southwestern Bell, for instance, the head of TSPS operations has been named for the region, reporting on a dotted-line basis to the interexchange entity. "Our plan to simulate divestiture is signed, sealed, and waiting to be put into action once the *Plan of Reorganization* is approved," says Hubert Jones, Jr., Southwestern Bell assistant vice president for divestiture implementation. Once entire units simply change the signs on their doors to read "interexchange entity," TSPS operators can begin simulating divested operations as early as July 1.

SOME DAILY ROUTINES HAVEN'T CHANGED MUCH

Other network services disciplines also have been in the forefront of operational realignment efforts. A trial involving the Southern Region of Long Lines and Southern Bell—in which central office assets, facilities, and employees needed to provide switched services and special services were allocated between the operating company and the interexchange entity—was successfully completed in the first quarter, paving the way for functional divestiture in other areas. The main difficulty encountered so far for the 137 people involved has been the increased paperwork and record keeping needed to handle work orders. Otherwise, notes Andrew D. McCahill, AT&T district manager-switching control centers, employees have taken the changes in stride. "We've talked with them about the changes, and they understand that inasmuch as most of them will still be working at the same locations, their daily lives haven't been affected that much."

At Michigan Bell, some 230 management and non-management switching systems employees — amounting to about six percent of the company's total switching force — perform functions that will be transferred to the interexchange entity. Beginning this Summer, these employees will report to management in the prospective new entity on a dotted-line basis. They will function as interexchange entity employees for the rest of the year, although they will remain on Michigan Bell's payroll. "Because divestiture is so big and so complicated, and because the switching-systems function is so critical to Michigan Bell and AT&T, we think a simulation starting as soon as possible makes sense," Clifford Van Eaton, Michigan Bell division manager for switching systems, told the Michigan employees. "A trial allows us to test our force allocations and work assignments and make any necessary changes months before the changes become legally binding under divestiture."

Errol Unikel, AT&T division manager-operations, reports, "As we get closer to the October 1 target, we are working hard to reach a common understanding among all the prospective divested entities on just what functional divestiture entails. This will involve a clear specification of the extent and penetration of the operational realignment that should exist on October 1 and beyond. To do this, AT&T will meet during June with operating company and interexchange managers to exchange viewpoints and complete plans."

Most employees making up the operating companies' CPE installation, maintenance, and engineering force will be assigned to American Bell upon divestiture or upon the detariffing of all customer premises equipment. Like the network operations employees, many of the installers, maintenance technicians, and engineers will do much the same work after divestiture as they have done. According to William Bugera, Jr. —director for business services, installation and maintenance, and engineering at Michigan Bell—the CPE installation and maintenance forces will not really be affected in the last quarter by functional divestiture programs. However, he notes, the "massive upheaval and change" associated with divestiture is bound to have some effect. "In the past, our forces worked clearly defined territories. In a competitive environment, that won't be true. These people were hired into what they thought would be a pretty solid, stable organization. It's fairly disturbing for a lot of them—who signed up for a baseball game—to be asked to play football."

Because of the complexity of customer contact services, the reconfigured business office functions of the operating companies, interexchange entity, and American Bell won't be broadly tested until the fourth quarter. During that period, as part of an overall functional divestiture effort, service center functions will be split among the three entities. Today, a customer can call an operating company business office and speak to a service representative who is able to answer inquiries about local and long distance services, bills, and terminal equipment obtained from the company, explains Robert D. Dalziel, AT&T assistant vice president for planning and implementation. After divestiture, service representatives in the operating company will provide the customer with local access. They also may act as an agent for securing long distance service from AT&T, if they are requested to do so by the customer, and they could handle monthly billing for customer premises equipment provided by American Bell under contract. There will also be new interexchange service representatives to negotiate tie-ins to AT&T's long distance network; other representatives at American Bell will be able to handle inquiries about terminal equipment. "These customer service functions are really the nexus of our business," Dalziel points out. "We need to make sure that new customer and employee interfaces, service records, and operational support systems and software in all the entities will efficiently serve our customers without disruption."

Across the System, some 350 business service centers in 287 cities will be disagggregated, with an average of 56 percent of the 34,000-member force allocated to the operating companies, 35 percent to American Bell, and 9 percent to the interexchange entity.

At New York Telephone, as in all the operating companies, planners are in the process of reaching an agreement with American Bell and interexchange company representatives on each party's responsibilities, procedures, and data systems that will be shared under contract. The New York company also is negotiating its force requirements with the interexchange entity and American Bell. Frederic V. Salerno, New York Telephone vice president for transition matters, foresees an increased need for service representatives after divestiture, when split bills will be prepared by the company under contract for both the interexchange entity and American Bell. Adding to the complexity of preparing for divestiture, New York Telephone—like other operating companies—will need to set up separate service centers to handle work relating to in-place terminal equipment that will be transfered to American Bell. "We plan to start simulated operations for residence customers beginning October 1," Salerno says, "but we'll have to push to make that happen."

Separating customer bills to display intraexchange as well as interexchange calls is a relatively complex operation and will be simulated only on a limited basis before divestiture. Another factor limiting the tests is a shortage of experienced personnel to handle the work necessary to apply the access charges that will be billed to interexchange carriers. And until the level of access charges is approved, revised computer programs for the billing system can't be finalized. The massive job of creating new programs for the new Carrier Access Billing System likely will continue even past divestiture.

A trial of some of the new billing and customer service arrangements is scheduled to begin in Dallas as early as July. Billing systems are being programmed to indicate to the thousands of customers in the Dallas LATA that an interexchange entity is now responsible for handling long distance service. About 100 employees handling account inquiries will be trained to refer calls about interexchange services to interexchange employees. "During the fourth quarter, we'll have to get customers involved in the realignment of our operations, too," says Southwestern Bell's Jones. "There can only be true functional divestiture when customers start dealing with the company in a new way, realizing that they can get dial tone and negotiate for local service from us, obtain telephones from American Bell or another vendor, and arrange for inter-LATA service from AT&T or another carrier."

Marketing sales forces throughout the System also will be split among three entities and begin operating in a divested mode this fall. Some 20 thousand marketing people will be allocated either to the operating companies, the interexchange entity, or American Bell through an employee information and personnel selection process similar to ones conducted last year to split marketing sales forces between the operating companies and American Bell.

NEW ASSIGNMENTS BY JULY 1

Getting an early start on operating in a post-divestiture fashion will be the sales people at New England Telephone, who will begin new assignments on July 1. Under the functional divestiture scenario, three different salespeople would conceivably call on the same customer to offer different services and products. "During 1983, the customer won't receive separate bills but may receive split bills reflecting a breakout of embedded CPE charges, intra- and interexchange charges, and installation and maintenance charges," says John Powell, AT&T division manager-sales operations. "In addition, salespeople from each of the three entities will be distinctively identified for the customer."

The personnel assignment process for about 800 marketing people at New England Telephone was completed at the end of May following a two-day session jointly organized by representatives of AT&T, the central services organization, the interexchange entity, and New England Telephone. For other operating companies, the sales force selection process is scheduled to begin later in June and continue through August. By October 1, it's planned that sales people throughout the System will have been advised of their assignments. Although results of a study exploring employee reaction to the assignment process weren't available as *Bell Telephone Magazine* went to press, several of the managers involved sensed that the extensive efforts to explain job opportunities in the entities went a long way toward relieving anxiety. "Marketing sales people might be more comfortable about the process because they went through a similar experience when American Bell was being staffed," says P. Kevin Mooney, AT&T district manager-transition management and communications programs. Adds R. Andrew Horsley, an AT&T district manager involved with the personnel selection process at New England Telephone, "I think many employees realize that another company could very well lay them off during a major restructuring. We're not doing that. We're saying that we want to try to offer everyone a job—a job that is the employee's preference in terms of the nature of the work and job location. Of course, not everybody is going to end up happy, but life is not fair all around anyway."

TO OUR READERS

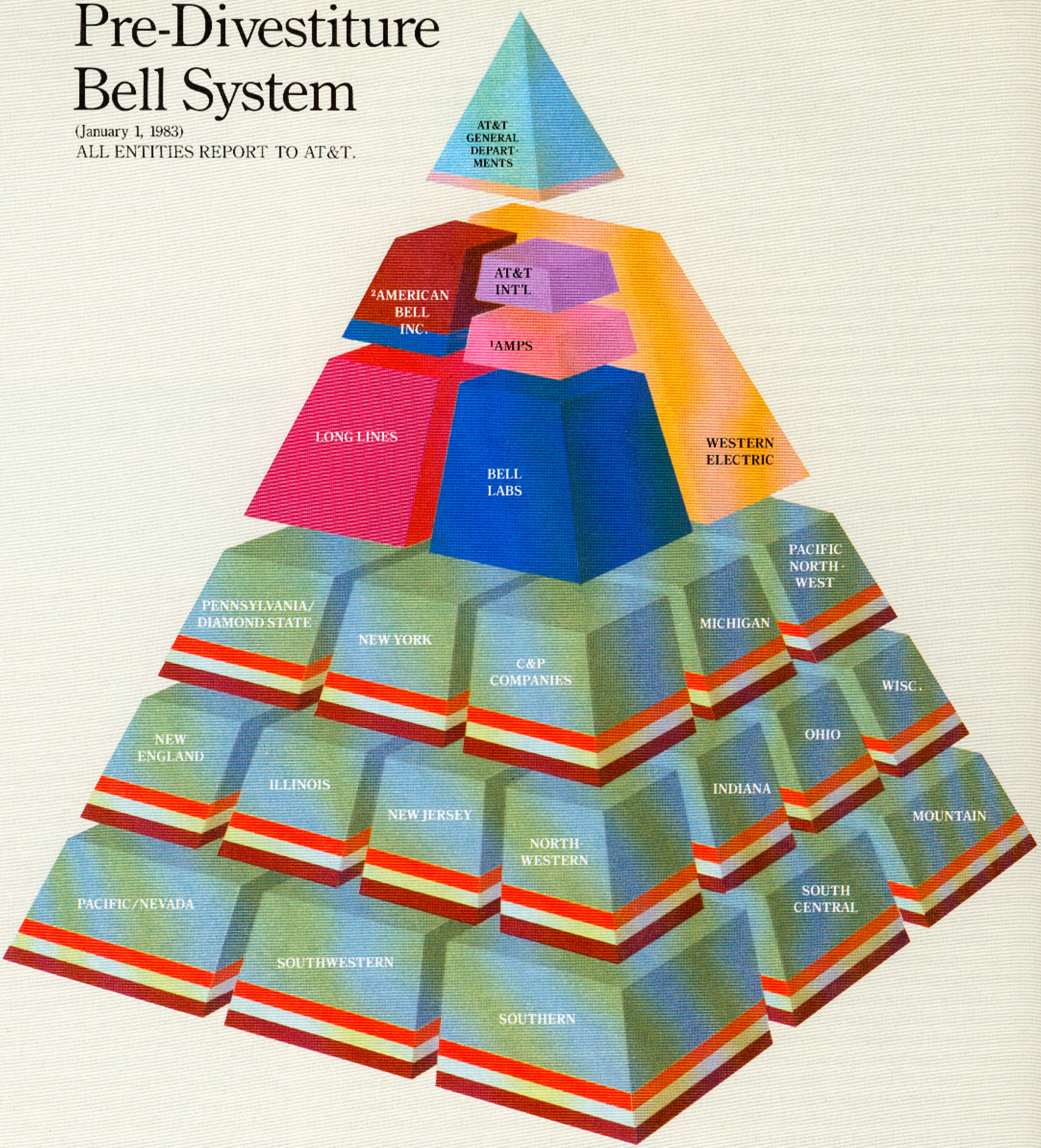
Charts showing the updated view of pre- and post-divestiture organizational structures appear on pages 18 and 19.

Sara Jane Koperski, a division manager in AT&T's corporate planning group who recently returned from a series of regional meetings convened to assess divestiture implementation progress, offers her general impression of what employees throughout the System are feeling as the final countdown approaches for functional divestiture: "So far, everyone I've come across in the companies believes that the divestiture is being managed as well as it can be," she observes. "The divestiture architecture is in place, and managers in the field appear to feel confident that divestiture can be accomplished."

She also notes, recalling her own experiences and those of others: "Everyone goes through a period of reconciling themselves to the fact that the Bell System isn't 'One Bell System' anymore. And they have to adjust themselves to the piece of the Bell System that they will be associated with. Naturally, that causes a lot of anxiety and apprehension, but I think people also realize that if any company in the world can accomplish a divestiture as complex and extensive as this one in such a short time frame, it's the Bell System." ■

Pre-Divestiture Bell System

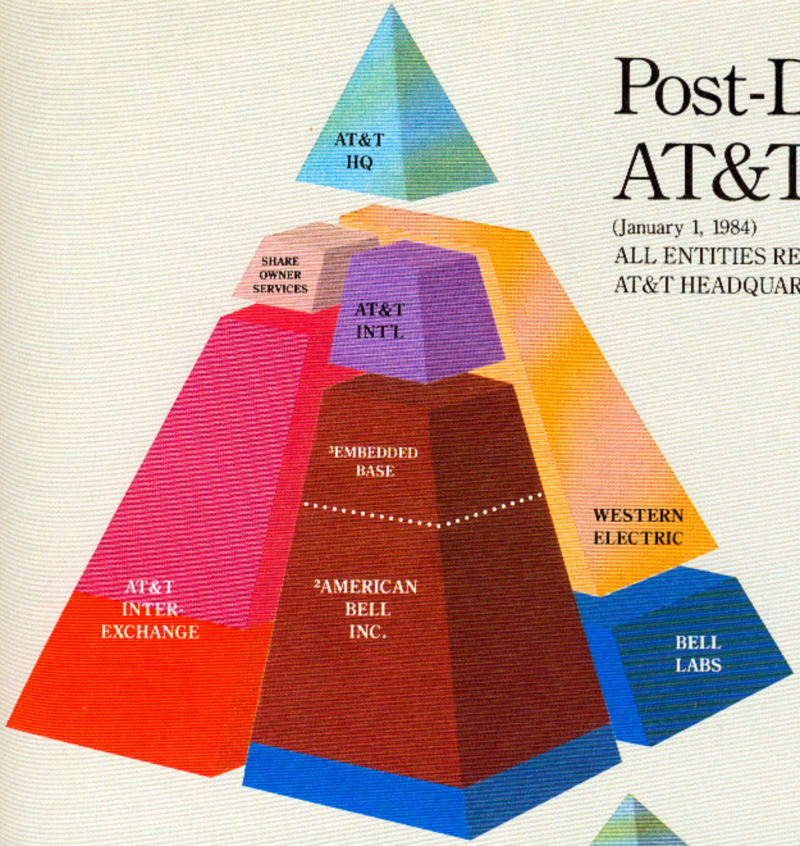
(January 1, 1983)
ALL ENTITIES REPORT TO AT&T.



CORPORATE HEADQUARTERS
RESEARCH AND DEVELOPMENT
CELLULAR SERVICES
MANUFACTURING
INTERSTATE INTEREXCHANGE
INTRASTATE INTEREXCHANGE
INTERNATIONAL
EXCHANGE SERVICES
DIRECTORY
CUSTOMER PREMISES EQUIPMENT
SHARE OWNER SERVICES

[1] AMPS–ADVANCED MOBILE PHONE SERVICE
[2] INCLUDES ENHANCED SERVICES
[3] FINAL REPORTING RELATIONSHIP TO BE DETERMINED

The purpose of this chart is to provide a perspective of restructuring. The pre-divestiture structure represents the Bell System on January 1, 1983. The post-divestiture structures present a broad outline of organizational arrangements after January 1, 1984, as perceived on March 31, 1983.



Post-Divestiture AT&T

(January 1, 1984)
ALL ENTITIES REPORT TO AT&T HEADQUARTERS.

Post-Divestiture Companies

(January 1, 1984)
REGIONAL COMPANIES JOINTLY OWN CENTRAL SERVICES ORGANIZATION.

+ Provided at the option of each regional corporation.

*A separate staff organization will serve the regional cellular services subsidiaries.

ILLUSTRATION BY PETER GUY ROSS

DECISION MAKING

WE'RE NOT TALKING LOOSE CHANGE HERE

BY KIT STINSON

No matter how you slice it, the stakes are high and the pace fast in cash management. AT&T vice chairman and chief financial officer William S. Cashel, Jr., knows *that* better than anyone. (Last in a series.)

As fast as runners cross a trading floor, enough money changes hands every day to buy and sell several nations of the world many times over. Billions of dollars are borrowed and paid back again in five minutes. Cash management is a fast, hot game.

Once upon a time, those financial institutions that prided themselves on their stability and studied risk-taking kept to the sidelines, watching the rollover activity as a cautious parent might watch a rambunctious child. But no more. Companies have discovered the need for a new tempo in managing money in the '80s, and the Bell System is no exception.

Though the times continue to demand the long-term strategies that have traditionally shaped a company's financial future, the times also mandate the need to seize the economic moment. The split-second flash of the selling floor has come to corporate finance. And the frenzy of corporate finance is swirling just outside the Bell System's door.

For the past six years, William S. Cashel, Jr., AT&T vice chairman and chief financial officer, has steadied Bell System ventures into the high tide of high finance. This ex-Marine is a man of eminent practicality, who peers out from under what has been called "the last crew cut in the Bell System." Why that style? Because "it combs well," he says simply.

Cashel has few theoretical preconceptions about money management, perhaps because he grew into the job over a period of years at Bell of Pennsylvania, where he rose to become company president. He appears to have little trouble envisioning new ways to finance the business; indeed, he insists that a new financial-management philosophy must be instilled in both operating company and AT&T managers. Stated succinctly, that philosophy is, "Stop spending more than we make."

Bell System presidents, with whom he has established net income commitments each year, know him to be a tough but fair negotiator who has a sense of humor. Among his memorabilia is a plaque of a ceramic turnip presented to him as "The Last Drop Award" by an operating company president — who nevertheless met the commitment. But another memento is perhaps more revealing: a page of New York Stock Exchange listings mounted as a dartboard, with the dart firmly planted on the AT&T listing. As a quintessential chief financial officer, he has displayed an unblinking devotion to share owners' interest, to the proverbial "bottom line."

In the spirit of that devotion, he spent a number of hours in May — on the brink of his July 1 retirement — talking with Bell Telephone Magazine, *eager to outline the kind of financial planning and managing that will set the divested companies and the new AT&T on a profitable course. Excerpts from that conversation follow.*

Kit Stinson is a free-lance writer who often writes on Bell System matters.

Bell Telephone Magazine: After a year of relative inactivity in the public debt market, the operating companies have come back full force during the first half of 1983. How strong do you feel the Bell System's financial position is at the moment?

Cashel: The South Central and Southern issues were very well received, and there appears to be a great deal of interest in the Southwestern, C&P [of West Virginia], and New York offerings. Our absence from the arena doesn't seem to have had a negative effect on our strength.

BTM: The downgraded ratings of some of the Bell company issues have not appreciably shaken confidence, then?

Cashel: You'll remember that even immediately after the ratings came out, there was very little effect on bond prices. While any downgrading is disappointing — and in the case of Moody's ratings, we believe unjustified — the ratings overall were still very strong, especially Standard & Poor's ratings. [*See "The Road Ahead" article in Edition #1, 1983, of this magazine.*] It was appropriate to have a reassessment, frankly. Our almost universal Triple-A ratings resulted from the structural strength of the Bell System: the implied, though not present, guarantee that if something went wrong, say, in Ohio, the Bell System would bail them out. There's no more umbrella, so our strength is being viewed differently.

BTM: Some elements of the financial press seem to view the bond-rating agencies as a vaguely capricious force — "Wall Street's version of the Gong Show" was one phrase used. What do bond ratings really mean?

Cashel: First, the fact that the agencies differed in their views isn't any more surprising than two brokerage houses writing different reports on the same company. It's like two people looking at the same information but interpreting it differently. As far as what the ratings mean, they mean something about the cost of money. When we were virtually all Triple-A-rated, we could contend that we got the most favorable rate, which was a real advantage to the ratepayer. A lesser cost of debt is a substantial thing in a regulated utility that requires constant financing. Any falling off from the best credit rating implies that it will cost the companies more to raise money.

BTM: Five companies went after more than one billion dollars in debt during the first few months of 1983. Does that signal a major return to external financing?

Cashel: Certainly not. As you say, 1982 was a year in which the associated companies really did not go to the marketplace for debt. It was a remarkable difference from prior years. The saying has been that every three weeks we're in the marketplace. Well, in 1982, it wasn't prudent to send the companies to market because of the uncertainties surrounding divestiture. And yet we were able to do very, very well in terms of capital recovery, reducing our debt ratio, keeping the money flowing. We financed about 90 per cent of our construction program internally; the figure was around 75 per cent in 1981. The shift from external to internal funding is probably the fundamental change that will be taking place in financing as we go into a combination mode — that is, a constellation of businesses that are part deregulated, part regulated.

BTM: Do you mean that we'll have to stop spending more than we make?

Cashel: We've always spent more than we've made in the sense that we had to access the capital markets each year for funds to complete our construction programs. That's how the business has been run throughout history. But it's not necessarily good for the kind of business we appear to be moving toward. What's needed may be a fundamental approach to business that says: Here is a finite amount of money that we're going to have to operate within. We simply won't go out and borrow or raise more money. And that forces a lot of choices on people with respect to what we do, what we can support, and what businesses we go into. It shapes our whole operation, so that the financial management of our business in the future could be quite different. We may go that way, or we may not, or we might gradually move toward that over some period of time as the nature of our business changes. We still have a large regulated piece of business that we hope will be a very successful source of earnings for us.

BTM: You're talking about a long-term shift in the way the business is financed. Don't the companies have to be equally concerned with the short term?

Cashel: One feeds the other. The objective is to meet the financial

NEIL SELKIRK

requirements of the overall organization. In terms of meeting the debt-ratio requirements mandated by the Consent Decree, the regions' debt can be balanced out in a number of ways. In some instances, AT&T may have to assume debt to achieve the appropriate ratio. In others, it's possible that the companies will have to do the reverse: Return equity to AT&T. Just how the balancing will be done is still unresolved. But it means that meeting the debt-ratio guidelines at divestiture will be a complex job. We will, of course, see to it that all of those ratios come out as required.

BTM: The general public will neither see nor understand that balancing process.

Cashel: No, but they will see that the divested companies are financially healthy.

BTM: In the interim, though, they also see earnings that are still basically flat despite a rising stock price. At the last Annual Meeting, we had to secure share owners' confidence while announcing reduced per-share earnings.

Cashel: Our share owners are a notoriously loyal bunch. I think that most people look to our business and see a reflection of the general economy. Our volume is down. Construction is down. Both line growth and toll-business growth are gaining, but gaining more slowly than before. As the chairman said, given the general state of the economy, it speaks extremely well for the Bell System that our earnings are as good as they are. Still, there is a lot of uncertainty about who and what we are — there's no way to hide it. We will need to address that uncertainty. We've never estimated our earnings before, for instance, but now there's a great deal of pressure on us to do so. At some point, it won't be enough to say, as we have in the past, "This is our best honest estimate of our financial condition." Eventually, we'll have to provide financials for the future. We have to give investors some idea of what to expect.

BTM: Loyalty isn't enough anymore?

Cashel: Too much is at stake. Clearly, the success we have with our earnings determines a lot of things. Most important, it has a bearing on the quality of the companies as perceived by the investment community. But these things don't always work in a linear way. Sometimes, positive moves have a negative effect on confidence. In terms of earnings per share, we're currently churning out more shares through dividend reinvestment and equity offerings. Share owners write to us about dilution, concerned that there will be more shares for their dividends to be divided among. It works the other way, too. Events that you wouldn't expect to have a positive effect can surprise you. At the beginning of this year, a flurry of articles in the business press suggested that after divestiture the sum of the parts might be greater than the whole. The stock price went up. The effects of these things can be elusive. We can't control the future of the divested companies, but we can to a reasonable degree control it for our own company. Our 1983 earnings will be a critical predictor of what will occur in 1984. A lot depends on them.

BTM: I've heard it said that you're going to be pretty tough to live with in 1983.

Cashel: It will be a hard year in which to achieve good earnings. I've said this before. It's no secret that I've set a difficult target for this year, including rate awards of some 2.7 billion dollars. I've called in a lot of favors to get people to achieve the results we need.

BTM: You're presenting operating company people with high earnings requirements at the same time that you're telling them they won't be able to continue raising money the way they used to—by relying on outside financing. Do you think that long-time Bell System managers will be able to adjust to new ways?

Cashel: I haven't found any real difference in financial discipline between our home-grown people and people who come to us from other places. Those people are no more money-conscious than we are. I haven't seen anybody hold back more simply because of not having grown up in a regulated enterprise.

BTM: You mean that everybody spends money once it's in hand?

Cashel: Well, everybody tends to believe that his or her project is worth spending money on. And traditionally, we have encouraged that. We have supported new enterprises whether they were winners or losers at the beginning, in the expectation that they would be good for us in time.

BTM: Do you mean that we may not be quite so willing to encourage initiative in the new environment?

Cashel: We may have to be more selective about which businesses we can go into, which we can support. But we won't be able to survive without taking chances. We've begun to venture into the Far East and Europe; we're still learning the ropes. But there appears to be considerable interest in our stock on the London Exchange, and I imagine that we will have a growing interest in European markets. The Philips venture [a limited partnership with N.V. Philips, a diversified multinational firm based in the Netherlands] is interesting, too, because it's a large, prominent manufacturer. It has market access and we have technology it needs. It's good that we're learning how to handle overseas business, and I think we'll learn pretty fast.

BTM: What about domestic acquisitions?

Cashel: That goes against the historical Bell System grain. We've been, if not legally, at least morally, bound from acquiring other telephone companies. Soon, I suppose, when we don't have the telephone companies, it may be a different situation. But I would suspect that a more successful approach would be to buy components and leave the company supplying them on its own. I see no reason why we couldn't do something of that sort. Suppose we found some component manufacturer that was really very good at what it did. Western Electric, for example, buys components from all over the world for its end-products. Still, although we traditionally haven't thought this way, it's really just an extension of that idea to say that a company that uses large quantities of a given manufacturer's product would simply acquire them.

BTM: How do you, as someone who has been a part of the Bell System for 37 years, come to terms with a way of doing business that "goes against the historical Bell System grain"?

Cashel: Well, the point of any enterprise, in the financial sense, is to improve the value of the owner's piece of the business. Your responsibility is the enhancement of the share owner's value. If you use that as any kind of measuring stick, you come out saying, Why not do the best you can? I don't see any law that says you can't build a better mousetrap.

BTM: Would we ever go so far as to set up an overseas plant for the sole purpose of getting equipment made more cheaply?

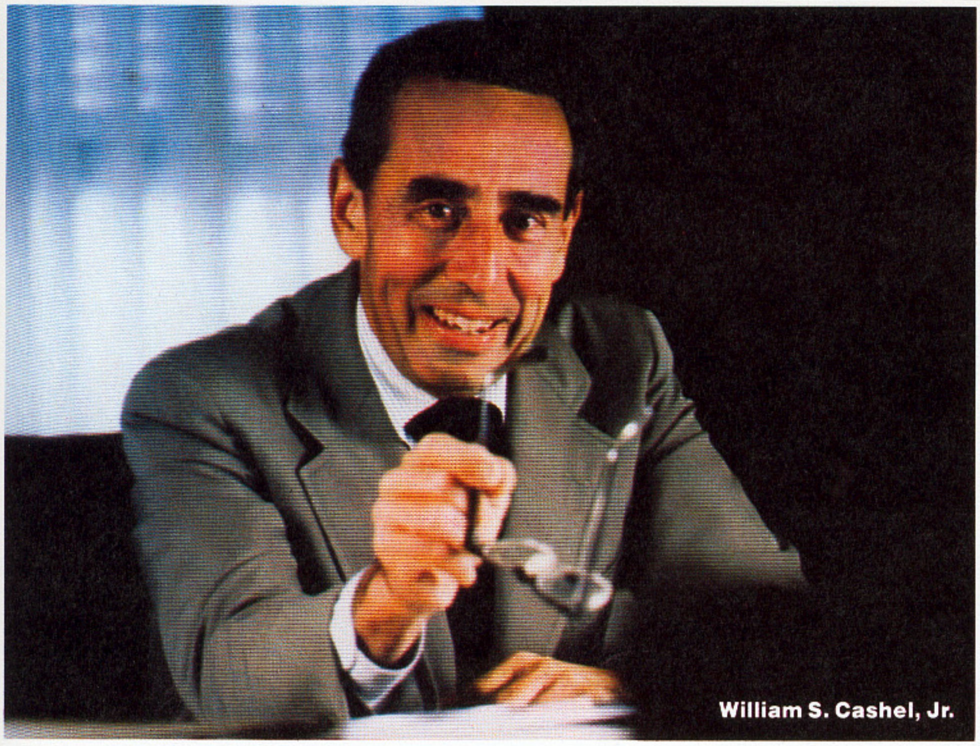
Cashel: That's a little different. I was talking about components before. We buy components — either completed or in part — for our equipment from a lot of places, whether it's copper, or chips, or something in between. But we have tended to manufacture in the United States.

BTM: As we talk about manufacture and supply, and about the logic of how and where these things get done, some financial analysts find it surprising that we didn't combine Western with ABI.

Cashel: That question has probably occurred to many people. It comes down to a philosophical issue which is, frankly, as yet unresolved. The question is, should a line-of-business manager have an integrated business, meaning R&D, manufacturing, sales, and distribution? There are strengths in that autonomy for the LOB manager. Or do you get any synergy out of saying, "We have a manufacturer who can manufacture a switcher, say, for ABI and for ATTIX"? A switcher is a switcher, whether it happens to be on the customer's premises or whether it's in a central office. Certain manufacturing and development advantages can be gained by having them apart.

BTM: If they were combined, and if Western and ABI were competing for the end-user's dollar, Western might be hampered financially.

Cashel: Well, you have to make up your mind what you want to do. Maybe someone would be at a disadvantage, but you're not interested just in Western or



William S. Cashel, Jr.

proof: cordage and chewing gum. I wrote paper after paper on them. Then I left grad school after three semesters to join the Marines, and I never went back. When I came home, American Chicle on Long Island wasn't hiring, so there went my career plan. In New York City, I wandered into 195 Broadway by mistake one day, but the telephone business sounded all right. They said I'd have to start in one of the companies, so I went to Philadelphia, where I was hired at 40 dollars a week.

BTM: We've been reading about "number crunchers," or "core analytics," if you will — electronic financial decision makers. You and I have been talking today about long-range decisions, with the latitude to experiment and make a mistake here and there. But the financial world doesn't always offer the luxury of time.

Cashel: No. In money management, many things get done pretty quickly. You have to take immediate advantage of market conditions when you're raising equity money, for example. You're on your way to the syndicate manager's office, figuring out what to do as you ride uptown. At one point the decision is, let's talk this over, here's the last concession we'll make — and you hold out your hand and shake on it. Nothing quicker. And you've done a billion-dollar deal. That's not to say that you didn't think long and hard about why you would want to go and raise a billion dollars — what your needs will be over time, how you can contribute to those needs, what's left over that you have to get somewhere else. And sometimes you guess wrong. We went at 60. We thought it was a great time. But within 60 days, the stock was at 70. You use your best judgment and you don't sit on it. There comes a moment when you have to say, "It's time to pull this stuff together and go."

BTM: When you were growing up in Brooklyn, did you see yourself making billion-dollar deals one day?

Cashel: I never thought in terms of numbers. Years ago, when we had our first hundred-million-dollar construction program at Bell of Pennsylvania, the figure seemed staggering. But you soon get over those mental barriers. Regardless of the amount of money you manage, the important things to learn are these: You must master the art of making investment decisions, not just establishing budgets and controlling costs. If you invest wisely, you'll maximize the value of share owners' assets, have stable growth over time, and increase asset turnover. Here at AT&T, we also have other goals. We must reduce our debt, lower our break-even points, and discipline ourselves to make the hard choices regarding market opportunities among our various lines of business. But I have no doubt we'll make these choices and reach our goals. Our very success depends on it. ■

in ABI. You're interested in AT&T and in maximizing the share owner's investment. Which way does it come out best for the corporation?

BTM: What about responsibility to our own managers? Might they not feel that they're being forced to compete with one another along lines of business?

Cashel: You see that kind of thing in other companies sometimes, where one manager infringes on another's market territory. Maybe senior management simply will have to say, "That's not something you're going to run. It's someone else's to do." It may be a question of limiting one person's creative thinking or managerial enthusiasm to protect the interests of the share owner. It's going to be up to senior management to sort it out, to see to it that the share owner's benefit is optimized.

BTM: You don't have an MBA. Where did you pick up your financial expertise?

Cashel: I just pestered people. I used to say that we needed to get people into the comptroller's organization and learn about company books, the tax impact, how we really handle money. To be a good manager, you do need to understand more than just how to manage people. Think about what happened when we closed our books last year. Two things. One was a write-down of certain assets in Western Electric, which had to be reflected on the books as a downer. At the same time, an accounting change took place that was a corresponding offsetting positive. This wasn't creative accounting in any sense of the term, but those changes really made more impact on the "bottom line" than anything else that happened during that year. A massive change per share resulted, and almost no amount of operating efficiency could offset it.

BTM: Accounting intimidates most people.

Cashel: It shouldn't. Accounting is simply a way to bring order to the process. Certain conventions are followed, the same as in any other game. But I wish more young managers would make an effort to tackle some of these things. Particularly now as we go into foreign lands, where there will be a whole new set of conventions. We're going to have to learn all about currency transactions, just to pick a simple thing. And financing conventions are different in different countries. Borrowing in Europe, for example, is relatively short-term. They're more cautious about their lending practices. I don't think anybody in Europe would touch a 40-year piece of paper, and here we sell them like peanuts. We're going to need people who learn very fast.

BTM: You learned as you went along. Do you regret not getting all of this in school?

Cashel: Not at all. I've never felt that it was necessary to get an MBA. If you think in terms of the development of a young person's mind — or a middle manager's mind, for that matter — anyone who goes through the process of getting an MBA is going to benefit. But whether that pays off for the company is questionable. I've always felt that a liberal arts education is probably the best basis on which to build a business career. And my colleagues are starting to agree with me.

BTM: You picked up the telephone business as you went along, too, I understand.

Cashel: I never had any intention of going into the telephone business. When I was in graduate school, I had selected two businesses that seemed Depression-

VINCENT NANFRA

OUTSIDE, LOOKING IN

GOOD GRIEF

BY KAI ERIKSON

The dramatic changes in the Bell System's corporate landscape may leave some people blue. But that's the way it should be, says a noted sociologist and System watcher.

Even among those who have come to believe that divestiture may be a good thing in the long run, there seems to be agreement that breaking up the Bell System will be traumatic. The corporation is not just a huge assembly of parts that can be dismantled by loosening a few organizational rivets here and there, or by changing the terms of a corporate charter. It is an organic entity, a body held in trust by managers who keep it intact for the sake of others.

Thus, it was a momentous January 8, 1982, when AT&T agreed to a U.S Department of Justice proposal to modify the 1956 Consent Decree and divest itself of all 22 of its operating companies. "Divestiture," as it is conveniently known, sounds awesome enough on its own. "Modification of Final Judgment," as it is officially known, sounds almost biblical. (I can report that even the halls of Yale, down which countless ponderous phrases have rolled over the past 300 years, seem to tremble ever so slightly at the sound of those syllables!)

Quite a few things have been happening in the Bell System, in fact. It has been or is being divested and bifurcated, resized and reorganized, regulated and legislated, litigated and investigated. There must be times when employees — of what was once thought of as not only the largest but also the most secure of all corporations — begin to suspect that scores of different congressional committees and federal agencies and judicial bodies are competing for the distinction of leaving the most pronounced mark on Bell. Whatever the terminology and whatever the origins of the change, the old System we have taken for granted for so long is now being broken into parts.

The next few months, then, should witness what may well be the biggest corporate overhaul in the history of the world. On that score alone, it would be easy to imagine that the people caught up in such change are going to experience a good deal of anxiety and insecurity and other symptoms of distress. These changes are going to wrench apart a familiar, hospitable world. Why shouldn't they be traumatic?

Still, that may be only a part of the problem. Even after divestiture, I gather, the same work is going to be done by largely the same people in largely the same places throughout most of the organization, though everything obviously will be structured differently. And this would suggest that many of the feelings of sadness and loss accompanying divestiture stem from something beyond the immediate practical dislocations and uncertainties of a system undergoing change.

There are those throughout the Bell System, of course, who recognize divestiture as a source of potential opportunity as well as disruption, and who feel excited about the new era soon to open up. A general image within the System, though, from what I have learned as a result of talking to a large number of Bell System people, is of an intact entity being dismembered. Those who work higher up and nearer the center of the organizational pyramid seem to feel as if the larger body of which they are a part is being tampered with, resulting in a diminishing of the whole. People who work in the operating companies and in other parts of the System sometimes feel as though they've been cut adrift.

The main point here is that throughout the vast organization, some people are likely to suffer in small (and perhaps not so small) ways as a result of the breakup — no matter how great their optimism about the future. It means the end of an age, and for many it suggests the end of a familiar social world with its own cultural identity, its own patterns of meaning, and its own sense of special purpose.

Among the things about the Bell System that most impress a visiting sociologist like me is the strong sense of community found among the million or more employees. This feeling seems to extend up and down the many administrative tiers into which the System is divided, at all levels of responsibility and in all types of work, as well as reaching out geographically to every part of the far-flung Bell landscape.

THE MYSTERIOUS BELL COMMUNITY

A sense of community — a reassuring feeling of belonging — can be found in many workplaces, but it has always been stronger and more pervasive throughout Bell. In a world as cynical as ours seems to have become, it may verge on the embarrassing to speak affectionately of something so abstract as a corporation, or to describe Bell employees, as someone recently did in these pages, as "a vast and indivisible family, united by the concept of universal service." Yet a visiting sociologist is bound to report that something of the sort does seem a tangible part of the Bell "culture." How anything so vast, so bureaucratic, so dedicated to efficiency, so tightly organized, can still retain the feeling of a close community is something of a mystery. In part at least, this community feeling must be breathed into the System by the warmth and goodwill of the employees who have invested so much of themselves in their places of work. But, whatever its origin, it *is* there. Even a casual visitor can see that many are joined by the kind of shared identity, and even kinship, that lies at the heart of true community.

The people who make up the Bell System seem, on the whole, to have a clear sense of the past—a sense of common heritage and tradition—and they also seem to know that something special will be lost with divestiture. Bell people reflect that sense of past—and loss—in a number of different ways, but I think many would understand what the president of my home telephone company—Southern New England Telephone, which is not even a wholly owned Bell company — meant in remarks made at the company's Annual Meeting in April. Walter H. Monteith, Jr., said:

> "Whatever our complex relationships with AT&T and the regional companies in the future, whatever business ventures we decide to explore, wherever we do business—we always will carry with us, and bear with great pride, the traditions and values of the Bell System: the belief in being a business worthy of trust, the commitment to service, and respect for the individual —those values that have been the hallmark of the Bell System. It is appropriate to be a little saddened by what we're losing, even if we're thrilled by what we've gained."

When people are separated from things and people and ideas they feel attached to, a sadness as well as a vague anxiety sometimes comes over them; sooner or later, those emotions may develop into a deeper sense of loss, a longing for times past, a feeling of helplessness, a tendency toward depression, and a conviction—hard to describe and harder still to shake—that the world has become a less predicatable, less orderly place in which traditional ways of operating become inexplicably alien. The name for these disquieting feelings, psychologists tell us, is "grief"—the natural outcome of being separated from something familiar and dear and meaningful. But the problem is that *grief* is not a word we use very often in such a context.

We expect people to grieve when someone close to them dies. Many of us, in fact, come from cultural backgrounds where it is customary for the bereaved to observe fairly elaborate mourning rituals to help them cope with and gradually accept loss.

Grief also is used — though less commonly — when other sorts of tragedy strike. A community to which one is strongly attached, say, is literally scraped off the face of the earth by a natural disaster or because of a human decision to raze a decaying sector of a city. Or a way of life with which one identifies is changed abruptly because of an invasion or a revolution or some

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***Kai Erikson**, a professor of sociology at Yale University and editor of **The Yale Review**, has been an AT&T consultant. His most recent book, entitled **Everything in Its Path**, concerns the violent breakup of a West Virginia community in the aftermath of a flood.*

Bell employees who have been the most devoted to the System, who feel the strongest kinship with it, who are most dependent on it for a sense of identity, may be hurt the most as a result of divestiture and may grieve longest.

other political or economic shift in the flow of history. We are not surprised when the emotions that follow such traumatic events are described as *grief.* People *do* grieve for lost homes or homelands, for lost communities and patterns of living; and although, in doing so, they mourn dead *things* rather than dead *people,* we do not ordinarily find any problem in recognizing and sympathizing with their feelings.

It is much less customary, however, to resort to the term *grief* when talking about feelings that follow the breakup of an institution. People often feel depressed when a marriage fails, for instance, but rarely refer to their sense of loss as *grief.* In the same way, people often feel disturbed when some other rupture occurs in the social fabric — divestiture can serve as more than just a passing example here! We do not easily recognize disturbed feelings of that kind as a form of grief. The thought is not likely to occur to us very often, to begin with; but even then, we probably would feel that it is not quite fitting, when there is so much death and pain in the world around us, to regard anything less as cause for true grief.

Still, such a response *is* true grief, and those responsible for planning an orderly breakup of the Bell System should appreciate that a number of employees in different corners of the organization are apt to experience feelings of grief — the emotional result of a perfectly legitimate form of bereavement.

Grief is a complicated emotion that has long puzzled behavioral scientists — in part, because one cannot always be quite sure who is grieving for whom or for what. People invest something of themselves every time they enter into a relationship or become part of a community — or, yes, participate wholeheartedly in a work setting that has meaning for them. And when the person or thing to which they have become so attached disappears, for whatever reason, it feels, for the moment, as if that part of themselves they originally had invested in the other person(s) or activities has disappeared, too. People will generally say (and, of course, mean it deeply) they are mourning the loss of a person they loved or a way of life they believed in and relied on. But they are also mourning the part of themselves that is missing. It is as if they were somehow mourning the loss of themselves.

That may sound like a strange and selfish reaction at first. Imagine grieving for oneself! But, on reflection, it becomes clearer that to give of oneself, to invest an important part of oneself in someone or in something is a noble impulse. In a sense, the degree of loss one feels is proportional to the amount of caring and devotion one has invested in the lost person or thing in the first place.

Grief-stricken people, as you may have noticed, can talk about themselves at great length (even if they sometimes feel a bit guilty later for having done so). They may make remarks such as: "A part of me died when my (husband/

wife) died" or "I feel as though something is missing in my life somewhere" or "I simply can't find the rest of me." These expressions of grief are so conventional that normally we only half listen to them; but if we did listen more carefully, we would realize they are not about the persons whose loss is being mourned but about the speakers themselves.

The same happens, it is interesting to note, when people grieve for lost things. Here, for instance, are some comments made by men and women forced to leave an area of Boston known as the West End, which urban planners had called "slums" but which the residents themselves had called "home":

"I felt as though I had lost everything."

"I felt like my heart was taken out of me."

"Something of me went with the West End."

"It was like a piece being taken from me."

Or, here are comments made by some people from West Virginia whose community was literally swept away by the terrifying force of a flood:

"It was like something was wiped over me and left me changed."

"There's a part of us all missing somewhere."

"I feel like a part of me is gone."

"I haven't been a complete person since the flood."

"Well, it seems like everything just don't go right no more. There's a part of you gone and you can't find it. You don't know what that part is. It's just a part that's gone."

These people are talking about themselves, to be sure; they are lamenting the loss of a part of themselves that had reached out to relate to others and to make lasting commitments of some kind. Their grief, then, even if focused on themselves, is a real measure of their essential humanity.

As in a family, people grieve in different ways and to different degrees. So no single rule can serve us here. But the moral of what has been said so far may be that many of those Bell employees who have been the most devoted to the System, who feel the strongest kinship with it, who are most dependent on it for a sense of identity, may be hurt the most as a result of divestiture and they may grieve longest.

These people may experience moments of depression, perhaps, and come to think of the world as a more arbitrary and capricious place than it used to be. They may idealize the past, allowing a sense of nostalgia to filter their memories of the work life they once lived. And most important, they may feel for some time to come that a part of themselves has irretrievably disappeared. Unless they recognize and acknowledge that reaction as one of the signals of grief — a grief they are suffering because of divestiture — they will have a much harder time coping with it.

What should, or can, be done about feelings of loss—of grief? Experts invariably say that talking about grief and indulging in periods of real mourning are as good a therapy as nature knows. The first step in the healing process, however, is to know the emotion for what it is and to accept it as a wholly natural and wholly human way of reacting to a loss as profound as this one will be for many. ■

CREATIVITY

TO FLEE THE MADDING CROWD

BY RANDY YOUNG

Making a convincing plea for perspective is, to paraphrase the song, nice work if you can do it. (Last in a series.)

"We are so buried in interests and excitement that we often fail to see the fault in it: We have no time to simply sit back and appreciate what we have done. We accomplish so rapidly, so relentlessly, that it becomes like running from one meal to another without ever truly enjoying the food."
—from Leap Year *by Christopher d'Amboise*

At the tender age of 23, Christopher d'Amboise already has had enough powerful mentors to last a lifetime. A soloist until recently with the New York City Ballet, d'Amboise honed his creative talents with the help of choreographic masters George Balanchine and Jerome Robbins, and even more important, with his father, Jacques d'Amboise, who for years has been regarded as the prototypical American ballet dancer.

Having practically grown up with the City Ballet, where the father has been a principal dancer since the son's pre-teen years, the younger d'Amboise settled — not surprisingly — on a career in dance. In the 10th grade at Manhattan's prestigious Collegiate School for Boys, he shifted his concentration and energies from basketball to the ballet; at 18, he was asked by Balanchine, co-founder and artistic director of the City Ballet, to join his father as a member of the distinguished company.

Initial exhilaration soon faded in the wake of an exhausting regimen of practice and performances. There was also the loneliness and despair that dancers easily fall prey to early in their careers, and the susceptibility to injuries that puts ballet dancing in a class with football and formula-car racing as a high-risk, potentially short-lived profession.

***Randy Young,** a free-lance writer whose credits include **New York** magazine and **Rolling Stone,** has been a frequent contributor to this magazine.*

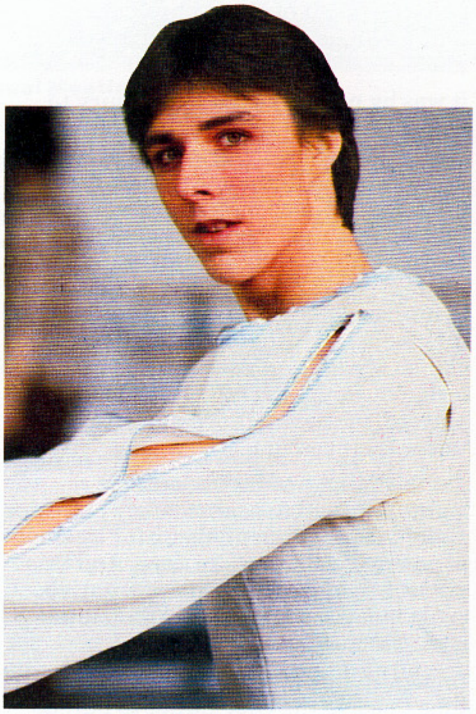
D'Amboise described his experiences as a neophyte dancer in his book *Leap Year,* which he began outlining when he was 18. "I was so afraid I was going to spend my life being a talker, not a doer," he explains, that he made time in the next two and a half years to write the book. Jacqueline Onassis was his editor at Doubleday, which published the book last year.

One of d'Amboise's biggest challenges was in how to emerge from the shadow of his famous father. "I was aware that everybody watched me very closely and that I got special attention, which I didn't like at all," he recalls. He was handed a generous number of roles his first few seasons with the City Ballet — sometimes before he felt he was ready for them — and often looked to his father for technical advice "because I knew there was nobody better." But it rarely became a familial *pas de deux.* Teeming with boundless energy and enthusiasm for his craft, d'Amboise began developing his own artistic style. "Just getting out there, day after day, and handling a lot of roles forces you to develop your own style," he notes.

'B'-GRADE STEPS OF SUPERIOR QUALITY

He also received invaluable help along the way from George Balanchine. "I don't know of anybody else whose ballets inspired greater creativity in the dancer than Mr. B's," d'Amboise maintains. "He didn't want to see how you imitated your predecessor. He wanted to see how you did his steps in your own original way. Every performer offers something special and has to be encouraged to bring it out. That's what Mr. B did so beautifully."

Indeed, Balanchine for 48 years was the guiding force behind the City Ballet and the companies that preceded it. He was responsible for many of the masterpieces of 20th-century dance. Shortly before his death in late April, the company's artistic reins were turned



Christopher d'Amboise

over to Peter Martins, a principal dancer and choreographer with City Ballet, and to Jerome Robbins, a company ballet master. Robbins has worked with the company for years and is internationally recognized as one of the greatest living choreographers in the fields of both classical ballet and legitimate theater.

D'Amboise feels fortunate to have studied under both Balanchine and Robbins on his way from the ballet corps to being named a soloist, an honor he was accorded in his third year with City Ballet. He coupled this tutelage with an intense concentration and devotion to the ballet that demanded endless practice and serious self-sacrifice. "If I'm really interested in something, I can work all day and night at it," he explains. "I think you have to have this devotion at certain points in your career."

What he acquired in technique, however, he paid for in other ways. "I went two years without a single friend," he remembers. "I just didn't have the time

ARTHUR ELGORT

or the energy." He says he now realizes that such slavish dedication can actually run afoul of creativity. "The danger is that you can end up as a technician — not as an artist," he points out.

Bodily wear-and-tear is another pitfall that has affected d'Amboise — and virtually every dancer. "This past season I was in the best shape I've ever been in, jumping higher than ever, not getting tired, and not hurting myself in any way," he says. "And then suddenly one day in the middle of class, something began to ache in my calf, and by the end of class, I couldn't walk. What happened was that my muscles were so tense and tired that I suffered a slight pull as a result of sheer physical exhaustion. So I took a week off and it was fine."

It was by no means the only injury to befall d'Amboise during his budding career. While rehearsing for one of his first major roles, in Jerome Robbins' *Fancy Free,* he mistimed a leap and was sidelined for six weeks with a twisted ankle. He remembers similar injuries happening to other dancers. In one vivid scene in his book, d'Amboise describes his injury-racked father dancing Balanchine's *Meditation* with injured ballerina Suzanne Farrell: "Like football players, they were taped and wrapped under their costumes."

Yet the ballet had its undeniable rewards for the tyro soloist. "Any pain you suffer is more than made up for by the pleasure you derive," he says. And this past season found him at his creative peak. "I felt a control of my dancing I never felt before."

Ironically, however, he also felt it was time to leave the City Ballet to pursue other interests. "I've always followed my instincts," he notes, "and one day in class, the clouds cleared and I knew it was time to leave." With a book to his credit and several screenplays in the works, d'Amboise now sees writing as his career path.

By his own admission, though, music and dance are irrepressible passions, and he does not rule out a return to the New York City Ballet. At 23 years of age, anything is possible. ■

Thomas L. Rami

Thomas L. Rami's graduate training at a special fiction writer's workshop at the University of Iowa has yet to yield a best-selling novel, but it has provided some valuable lessons for the somewhat less rarefied world of employee communications.

Rami, a Southwestern Bell district staff manager with responsibility for all employee communications and advertising in Missouri, has had ample opportunity to apply those lessons in his 14 years with the Bell System.

"We're a company that talks many languages," he observes. "The engineers talk one language, the lawyers another, and the accountants still another. It's our job to go in there and, like the fiction writer, emerge with a clear voice that somehow interprets what all these people are saying — and in a way everybody can understand."

THE NEED FOR IMPASSIONED OBSERVERS

That job, Rami concedes, can at times be as daunting as getting one's name on the best-seller list. "It's very important for the person who's writing information for employees to stand back and say, 'I don't care how the lawyer says it, I'm going to fight *not* to say it that way because no one will understand it.' You can get into some real wars that way." And therein lies another lesson from his fiction-writer's apprenticeship: the need to become, as he puts it, "the impassioned observer, to know what's going on but not become so caught up in the corporate existence that there's only one way you can think and one language you can speak."

Rami's own language is one of disarming candor and wit. Regarded as something of a maverick among his peers, the 39-year-old Mid-Atlantic expatriate believes that the temperateness of Bell System public relations has tended to restrain the development of what he feels would be more imaginative, innovative ways to communicate with employees. "Being moderate has worked so well for us for so long that not many folks want to stick their necks out now and be the first to say, 'Let's not do it this way, let's do it differently,'" he believes. "Because we're moderate, we're going to use the traditional ways of communicating with people; chief among these is print because we can reach a lot of people economically and efficiently."

Not that Rami is opposed to print. As a former editor of Southwestern Bell's Missouri *Telephone Times* and other internal publications, he feels the Bell System's newspapers play an important role in developing employee pride and in bestowing recognition. But he also feels that these publications should provide much more in-depth interpretation and a livelier pick-me-up-and-read-me approach. "There are different levels of creativity," he observes. "There's the Fourth-of-July creativity that you see once in a lifetime. And then there's the kind that requires taking this little mundane message I have and presenting it in such a way that people will want to read it regularly. *That's* really hard."

The challenge becomes even greater, he stresses, in the current divestiture environment, as employee mailboxes are assaulted daily by bulletins, reports, updates, newsletters, and other printed material from headquarters, sectors, entities, lines of business, and departments. While he feels management is doing its straightforward best to keep people informed, he also senses that employees are far from satisfied with the message. "The feedback we get is that employees don't feel it's the right kind of information," he says. "People don't want to know about the 'big picture' right now. They want to know what's going to happen to them. If you can't tell them that, they won't trust you, and that becomes a major problem."

Face-to-face, manager-to-employee communication is the most effective information link, Rami mantains, though he adds that this, too, is circumscribed by the "human limitations on managers who simply don't have the time to respond to all their subordinates' questions, concerns, and anxieties." What's really needed, he affirms, is a program that sensibly combines the various communications options — such as print, face-to-face, video, and the emerging field of electronics — with the potential to keep employees informed via easily accessed display terminals right at their desks. "The creative challenge is to work in the environment we have, with the resources we have, to capture the audience's imagination," he emphasizes.

Could that be a portent for the future? "I don't think traditional communications methods will be enough," he says. "We'll have to make many changes in the ways we communicate with people because there's going to be so much more to communicate. It's our job now to find those ways." ■

NEIL SELKIRK

PACKWOOD EYING LOCAL-RATE SUBSIDY

Senator Bob Packwood (R-Oregon), chairman of the Senate Commerce Committee, has called for the Congress to establish a subsidy to ensure that any increase in local phone rates remains reasonable. Packwood believes that revenues for the subsidy should come from charges to interconnect companies and on all forms of long distance service, rather than from taxes. Packwood has indicated that cable TV should, in his opinion, also help with the subsidy where cable provides some form of local telephone service.

Meanwhile, three senators from rural areas — led by Senator Ted Stevens (R-Alaska) —already have introduced a bill that would cap basic service rates in an effort to preserve universal service. The bill, known as S-1382, the Universal Service Act of 1983, defines basic service as local and long distance voice communications, and limits increases in rates to 110 percent of the national average for those rates. It also authorizes the FCC to regulate or deregulate basic telecommunications services that are developed in the future. The bill likely will be assigned to the Packwood committee.

AMENDMENTS EXPECTED FOR CABLE TV BILL

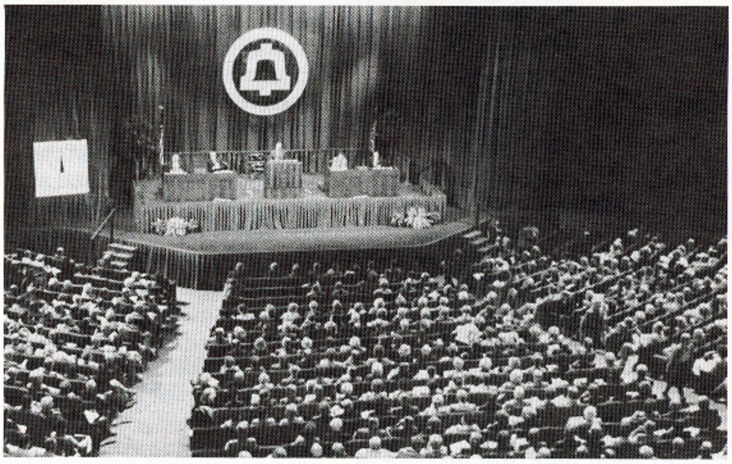
A Senate debate and possible vote are expected by mid-June on a controversial cable TV deregulation bill. In its original form, the bill would permit cable companies to provide lucrative data transmission and other information services without being regulated. AT&T, the National Association of Regulatory Utility Commissioners, the Communications Workers of America, and others hold that such unrestrained competition would threaten the viability of regulated operating companies and put upward pressure on local rates. Meanwhile, Senator James Abdnor (R-South Dakota) has announced he will offer amendments to the bill that would, in effect, subject cable companies to the same regulatory restrictions that apply to the telephone companies in the provision of local services, including data transmission.

SECTOR ORGANIZED TO COMBINE LINES OF BUSINESS

AT&T has organized a new sector, comprising some of the resources and functions managed within Bell Labs, Western Electric, American Bell, and AT&T International and composed of six customer-oriented lines of business focusing on the markets each serves. The lines of business and their markets are:

— Consumer products: developing, manufacturing, and marketing telephones and other communications products for the consumer market.
— Network systems: selling transmission, switching, and central office products to operating companies and interexchange carriers.
— Components and electronic systems: selling integrated circuits, semiconductors, high-capacity chips, and electronic systems to a variety of business users.
— Processors: selling information-processing equipment through other AT&T lines of business to the operating companies, AT&T's interexchange company, and other business users.
— Government: selling network and other products and military systems to the federal government.
— International: selling products and services to users throughout the world.

James E. Olson, AT&T vice chairman, also has become chairman of Western Electric, retaining sectorwide responsibility for Western Electric, Bell Labs, and AT&T International. He will continue overseeing American Bell, business services, and AT&T public affairs. Donald E. Procknow continues as president and chief executive officer of Western Electric. Ian M. Ross, president of Bell Labs, and Robert E. Sageman, president of AT&T International, continue in their current posts.

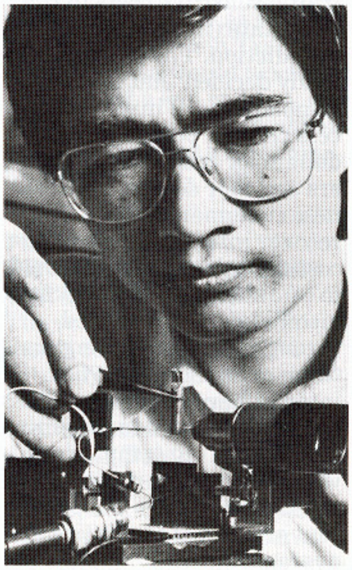


A view of AT&T's Annual Meeting in Atlanta

STILL ANOTHER LASER BREAKTHROUGH

Bell Labs' scientists have announced the invention of a radically new laser that has been sought by lightwave researchers around the world since 1965. Called the cleaved coupled-cavity (or C3) laser, this new solid-state device can generate pulses of ultrapure light at 10 or more different wavelengths. Because the C3 laser can be tuned to generate light at the wavelengths that travel most easily through glass fibers, early this year it was used in an experiment that set a world distance record for unboosted transmission. Error-free signals, at a digital rate of 420 million pulses a second, have been transmitted up to 75 miles.

The cleaved coupled-cavity laser, shown below being tested by its inventor, Won-Tien Tsang of Bell Labs



END OF AN ERA FOR ANNUAL MEETING

Approximately 2,660 share owners participated in AT&T's 98th Annual Meeting, the last such meeting to be held for the integrated Bell System. AT&T chairman C.L. Brown assured share owners that, regardless of the impending divestiture, Bell people will do all they can to protect and enhance the reputation for quality that telephone service has achieved over the Bell System's more-than-100-year history. Brown told the audience assembled at Atlanta's Georgia World Congress Center that the company's mission in the future will be broader than ever. "With advanced technology and vigorous marketing," he said, "we seek now to make commonplace the use of innovative telecommunications and information services. Our aim is to bring the Information Age to all the homes and offices we serve."

BELL FIRST-QUARTER NET INCOME DROPS

The Bell System reported net income of 1.74 billion dollars for the first quarter of 1983, compared to 2.04 billion for the first three months of 1982. The 1982 first quarter included an accounting change for certain deferred taxes, without which net income for last year's first quarter would have been lowered to 1.72 billion. Revenues for the quarter increased 7.4 percent to 16.8 billion, compared to 15.6 billion a year ago. Earnings per share in 1983 were $1.87 on 908 mil-

VINCENT NANFRA / BELL LABS

lion shares, down from 1982 first-quarter earnings of $2.40 on 823 million shares.

CEO-DESIGNATES TESTIFY ON REORGANIZATION ISSUES

District Judge Harold H. Greene on June 2 criticized the FCC's access charge plan, saying that it could jeopardize the universal service objectives of the Consent Decree. He also indicated that the FCC has left the incorrect impression that rate increases related to access charges would be caused by divestiture. Judge Greene's comments came at the beginning of a day-long hearing called in order to gain more information about certain aspects of AT&T's *Plan of Reorganization*.

Among the witnesses at the hearing were three regional operating company chief executive officer-designates: Zane E. Barnes (Southwest region), Thomas E. Bolger (Mid-Atlantic region), and William L. Weiss (Midwest region).

Barnes and Bolger urged the court to remove restrictions on operating company use of the Bell name in the marketplace. Both said they would want the ability to sell CPE in markets beyond their geographic territories. Although Barnes, Bolger, and Weiss all expressed satisfaction with the *Plan*'s outline for operation of the Central Services Organization (CSO), Judge Greene expressed reservations about whether it is proper for the CSO to set technical standards.

All seven regional companies had earlier filed separate memoranda with the court, voicing virtually unanimous support for the concept and structure of the proposed CSO.

"Reasonable," "desirable," and "necessary to ensure high-quality exchange service" were the ways the companies characterized the proposed size and responsibilities of the CSO in their comments filed with the court May 31. The companies emphasized that the benefits and cost-savings to be derived from centralizing systems engineering and technical support functions will significantly benefit the regions, operating companies, and, indirectly, ratepayers. The regions stressed that they agreed to both the functions and the size of the CSO only after rigorous analysis by operating company and regional task forces.

ACCESS CHARGES: THE BEAT GOES ON

A joint state-federal board, composed of four state regulators and three FCC commissioners, has adopted major changes in the telephone industry's separations process — an accounting procedure for allocating the total costs of providing telephone service between the state and federal jurisdictions. The board changed the method of allocating non-traffic-sensitive costs, mainly costs associated with wiring that connects a telephone to a central office. At present, an average 25 percent of these costs are assigned to the interstate jurisdiction. The percentage varies widely among individual phone companies, however, with some local companies assigning substantially more of their non-traffic-sensitive costs to the interstate jurisdiction and thereby gaining a larger share of revenues on long distance calls. The board plan calls for a gradual shift of allocations, so that by 1988 all local companies will allocate a flat 25 percent of non-traffic-sensitive costs to the interstate (interexchange) jurisdiction. The FCC has already decided that local companies will impose an access charge, per line, of two dollars for residence customers and four dollars for business customers to help recover interstate access costs. The board also decided to establish a Universal Service Fund to be financed through charges on long distance calls collected by interexchange carriers. The fund will be used to subsidize local operating companies whose interstate non-traffic-sensitive costs are 115 percent or more of the national average.

GREENE APPROVES LATA BOUNDARIES

AT&T's *Plan of Reorganization* took a giant step forward in late April when Judge Harold H. Greene approved, with several modifications, the Bell System's proposal for local access and transport area (LATA) boundaries. Judge Greene ordered that eight of the proposed 161 LATAS be consolidated into four LATAS. He also granted exceptions allowing 61 LATAS to contain more than one standard metropolitan statistical area but refused similar exceptions for six other areas. The judge withheld approval on nine other LATAS, pending additional information or modifications. He added that final approval of all LATAS is contingent on the filing by the operating companies of commitments regarding their providing of equal access to all interexchange carriers.

ARCH McGILL RESIGNS

Archie J. McGill, president of American Bell Advanced Information Systems (AIS), resigned June 7. "American Bell Advanced Information Systems has been well launched, and essentially what I set out to do has been accomplished. Now is the time to move on," McGill said.

In accepting McGill's resignation, AT&T chairman C.L. Brown said, "Arch McGill joined the Bell System 10 years ago at a time when we needed to understand in detail how competition in the marketplace together with newly emerging technology would require us to fundamentally alter many of our basic concepts. In the ensuing decade, he has been a persistent catalyst for change and he has been uniquely influential in positioning AT&T and the Bell companies to compete effectively. He has put in place in American Bell a strong marketing organization which will sustain for years to come our leadership position in advanced information systems for business customers."

Also announced June 7 were the appointments of Robert J. Casale and Frank S. Vigilante as AIS division presidents. Casale, formerly AIS group vice president-national business systems, is division president for marketing and sales; Vigilante, formerly vice president-large and intermediate systems, is division president in charge of product planning and development. Both report to Charles Marshall, chairman and chief executive officer of American Bell.

Marshall will direct a further restructuring of American Bell's headquarters and AIS organization to consolidate staff responsibilities at the headquarters level and to integrate the work of AT&T's business services organization into American Bell as part of efforts to implement the Consent Decree.

GOODBYE, 195 BROADWAY

AT&T has signed an agreement to sell the headquarters building at 195 Broadway in New York City and will use

the proceeds of the sale to create a philanthropic foundation. The foundation, already chartered by the State of New York, will administer charitable, scientific, cultural, civic, and educational grants. It will be responsible for overall management of the principal philanthropies of AT&T, Western Electric, Bell Labs, American Bell, and the proposed interexchange entity (ATTIX). The foundation will derive funds from earnings on its invested capital, which will include a contribution of assets from the Western Elec-

VINCENT NANFRA

tric Fund, an existing foundation. AT&T will also provide periodic contributions to augment the foundation's available funds. An estimated 600 company-sponsored foundations are active in the United States. Alcoa, General Motors, Ford, Prudential Insurance, and Standard Oil are among the major corporations that sponsor such foundations. AT&T will continue to occupy the 195 building as a tenant until its scheduled move, later this year, to its new headquarters building on Madison Avenue in Midtown Manhattan.

CI-2 APPEAL REJECTED; PROPOSAL OKAYED

The U.S. Supreme Court has refused to hear appeals of the FCC's Computer II decision from state regulators in Louisiana and California and from the National Association of Regulatory Utility Commissioners. The court rejected the appeals without comment. Observers said the high court action clears any further roadblocks in the path of deregulation and increased competition. An FCC spokesman termed the appeal rejection "a very important step forward in the new telecommunications environment."

In what has been variously described by different observers as a "major hurdle" or a "minor transitional step" in implementation of the Computer II decision, the FCC has approved a proposal that state regulatory commissions be allowed to require independent local phone companies to be "providers of last resort" for customer premises equipment. The FCC reserved decision with respect to applying the ruling to Bell operating companies following divestiture, pending a decision on whether separate-subsidiary requirements will be imposed on the companies.

256K CHIP READY FOR PRODUCTION

Western Electric will begin production of a 256K random access memory chip for sale to the general commercial market in the Fall. The solid state device can store more than 256 thousand characters of information, about enough to fill a newspaper page. The most widely used chip today is the 64K. Total sales of 64K chips are expected to exceed 900 million dollars in 1983. The 256K chip is smaller than the 64K, has four times the storage capacity, and is faster and more efficient in operation.

LONG LINES SET TO PROVIDE BASIC PACKET SWITCHING

The FCC has approved a Long Lines application to provide Basic Packet Switching Service for digital data transmission. Last Fall, the FCC rejected a similar application on the grounds that the service might give American Bell exclusive access to the packet switches. The new application assures that, in addition to American Bell, other companies will have access to the service. Designed to transport data more quickly and efficiently than existing facilities can, the new service will handle enhanced data offerings such as American Bell's Advanced Information Systems/Net 1000 offering. However, the new packet switching service will provide only transport functions, not enhanced services such as protocol conversion (translation of one computer language into another computer language).

TELSTAR III LAUNCH REQUEST BEFORE FCC

AT&T has asked the FCC for authority to launch the first in a series of company-owned-and-operated domestic communications satellites, dubbed the Telstar III series. The first satellite is scheduled for launch in late July, the second in 1984, and the third in 1985. The Telstar series will replace satellite facilities that AT&T has leased from Comsat General Corporation. AT&T pioneered the use of commercial satellite communications, transmitting the first domestic and international television signals in July, 1962, via Telstar I, the country's first active communications satellite.

LONG LINES BIDS FOR TAT-8 PROJECT

AT&T has submitted a proposal to a multinational consortium of North American and European communications companies for construction of an undersea cable project, TAT-8, the first laser-powered lightwave system to span the Atlantic Ocean. The bid for the entire project, from cable manufacture through installation, was submitted by Long Lines. The system was designed by Bell Labs. Western Electric would build the undersea signal regenerators and manufacture the glass fibers to be fabricated into cable by the Simplex Wire and Cable Company of Newington, New Hampshire. TAT-8 will carry up to 40 thousand phone calls simultaneously. Firms in Great Britain and France have also submitted proposals for the system. The joint owners of TAT-8 are expected to announce their selection of a supplier in November.

MEANWHILE, IN THE PACIFIC...

A transpacific optical-fiber link between the United States and Japan is to be built in 1988 under an agreement reached by 27 organizations in 17 countries. A joint proposal by AT&T and KDD (the Japanese international communications enterprise) was reported agreed to during an April meeting in Morris Plains, New Jersey. KDD officials were quoted by *Communications Daily* as saying that KDD, AT&T, and Transglobe Canada would work out a plan by the end of June, redefine the plan in September, and hope to have a final plan by January.

FOR COMMENT: PROPOSED EMBEDDED CPE DETARIFFING

The FCC has called for comments on an AT&T plan for detariffing Bell System customer premises equipment (CPE) and transferring it to American Bell by January 1, 1984. AT&T has urged that "embedded CPE"— equipment in use or included in operating company inventories on or before December 31, 1982 — be detariffed before divestiture so that the company would not have to form a new organization, separate from American Bell, to provide CPE under tariff. If the detariffing plan is approved, the company has assured the FCC that it will continue a monthly charge option for residence customers for at least two years after divestiture

JONES, FOGARTY, SHARP LEAVING FCC

The FCC will have at least three seats to be filled this Summer. Commissioner Anne P. Jones announced her intention to resign after four years to return to the private sector, although her term was to run until June 1985. Prior to joining the FCC, Jones had served on the Securities and Exchange Commission and at the Federal Home Loan Bank. Joseph R. Fogarty, an FCC commissioner since 1976, will become head of a new communications department for a New York law firm when his term ends on June 30. During his term, Fogerty specialized in regulatory policy toward the telephone industry. Also leaving at the end of June is Stephen A. Sharp, an FCC commissioner since 1982. Prior to his appointment as a commissioner, Sharp had served as general counsel of the FCC. Under federal law, Jones, Sharp, and Fogerty may not practice before the FCC for a full year after leaving the commission.

LOS ANGELES HOST TO TELETEXT TRIAL

The FCC has authorized, on an experimental basis, the broadcasting of pages of teletext for reception by properly equipped TV sets in the Los Angeles area. The service allows viewers to select news reports, sports information, restaurant menus, stock quotations, and other data.

EXCHANGE CARRIER ASSOCIATION FORMING

In compliance with an FCC order issued in connection with interstate access charges, AT&T is organizing an Exchange Carrier Association — made up of Bell operating companies and independent companies — to file access-charge tariffs for member companies and administer the revenue pools resulting from these tariffs. AT&T is responsible for developing and filing, on behalf of all participating companies and no later than October 3, 1983, three basic tariffs. Participation in one of these — the tariff for common-carrier line access charges — is mandatory for all exchange carriers. Participation is optional for end-user access charges and for carrier traffic-sensitive access charges. Companies declining to participate in the optional tariff filings are expected to develop their own tariffs. In compliance with FCC rules, membership in the association will be through one of three subgroups: first, all Bell operating companies except Cincinnati and Southern New England; second, all other telephone companies with annual revenues of more than 40 million dollars; and third, all remaining telephone companies. The association will have 15 directors — five from the first group, three from the second, and seven from the third.

LONG DISTANCE COMPUTER GAMES

Telegames — playing computer games against opponents via telephone lines — may be a future source of income for operating companies. One idea is to develop and sell inexpensive modems that could be plugged into existing computer game terminals to allow players to communicate with and play against remote competitors through the local network. Representatives of telephone companies and leading video-game companies are said to be negotiating to "co-develop" the concept.

A QUESTION OF TRIPLE DAMAGES

The Reagan administration has proposed that Congress amend the antitrust laws to eliminate the right to sue for triple damages in most cases. Observers say the proposed change is intended to strengthen American technological competitiveness in world markets by allowing competing companies to set up joint research and development projects without fear of incurring the most stringent antitrust penalties.

EXPERIMENTAL LD RATE PLANS OFFERED

Beginning in June, AT&T will offer three experimental rate plans for selected long distance customers in New York, Iowa, and California. Participating customers will pay a monthly subscription charge that will enable them to pay rates as much as 50 percent lower than ordinary rates during the night/weekend calling period. The experiment, scheduled to run until the end of the year, will permit the company to gather data on customer preferences in preparation for filing a nationwide offering early in 1984.

NEW LASER ROUTES ON AUGUST AGENDA

Construction is scheduled to begin in August on five new Long Lines lightwave communications systems totaling 1,200 miles. These laser-powered long distance routes will provide varied communications services between the following cities: Philadelphia and Pittsburgh; Pittsburgh and Cleveland; Dallas and Houston; San Antonio and Seguin, Texas; Atlanta and Charlotte/Greensboro, North Carolina.

WE SIGNS UNIX PACT WITH 4 COMPANIES

Western Electric has announced agreements with four manufacturers — Intel Corp.; Motorola, Inc.; Zilog Corp.; and National Semiconductor — to produce UNIX™ System V operating systems for microprocessor products made by the four companies. The UNIX system is a complex series of coded instructions that directs the operation of various parts of a computer, such as memory devices and printers. It also organizes information for storage and delivery to the computer's data processor. UNIX was developed at Bell Labs in 1969 and was first licensed for use in 1972. It soon became a favorite in laboratories and at universities around the country. Bell Labs maintains a UNIX Development Laboratory that studies and produces new, updated versions of UNIX systems software, thus ensuring that System V is the latest, but not the last, generation of UNIX. Analysts speculate that the sale of UNIX systems to these major manufacturers could establish Western as an important factor in the microcomputer market.

TELECOMMUNICATIONS POST PROPOSED

The U.S. Senate is considering a bill that would create a new cabinet-level post entitled the Special Representative for Telecommunications. The position would be filled by presidential appointment and would have the power to negotiate with other nations on telecommunications matters. The bill would also establish a special International Telecommunications and Information Task Force composed of officials from the Attorney General's office, the FCC, and the Departments of Commerce, State, and Defense. The bill is seen by observers as a response to criticism that the United States is losing ground in world communications because it has no central government agency overseeing trade, export, and other matters concerning telecommunications policy. The bill would also deregulate international telecommunications, permitting carriers to offer competitive, unregulated services through arm's-length subsidiaries.

COMPETITION FOR BELL LABS?

Researchers at ITT's Advanced Technology Center (ATC) in Shelton, Connecticut, have announced that ATC intends to become "the Bell Labs for the spun-off operating companies." During an April presentation to a group of trade journalists and newspaper reporters, one ITT vice president said that ITT will not hesitate to compete with Bell Labs because "I don't think you are going to be able to teach that elephant to dance very quickly." During the same press conference, the director of ATC, Ivan A. Cermak, said that ITT's S12 digital switch compares favorably with the 5 ESS™ switch and added, "We think we have a shot at becoming the number one telecommunications supplier to the BOCs."

OMBUDSPERSON IS BELL'S FIRST

The Bell System's first ombudsperson, Martha Maselko, is helping the Wharton School to plan a national convention of ombudspeople later this year. Maselko, who works at the Holmdel location of American Bell's engineering design and development group, says one purpose for the convention will be to stimulate business awareness of the ombudsperson's role. "It's a concept that is beginning to take hold," she says, noting that General Electric, Anheuser-Busch, and the Massachusetts Institute of Technology, among others, now have ombudspeople. Maselko, on the job for about a year, says employees come to her with concerns ranging from career development to clarifying company policy to where they can shower after jogging. "I consider it all important," she says. "Anything that affects people and can improve their work climate is important. I deal with the human side of work." ■

Martha Maselko

VOX POPULI

BUT NOW, TOMORROW

Just finished reading Edition #1 [1983] and for my money, the most significant article was the "Viewpoint" piece done by Steve Lang, entitled "But Now, Tomorrow."

If the Bell operating companies are going to survive, the BSP (Bell System Practice) and Index orientation is simply going to have to change. Trouble is, I see little evidence that our middle- and upper-management team is even aware of this need, much less encouraging that anything be done about it. In my company, a typographical error in a results summary will get a note and phone call demanding a retraction *and* iron-clad guarantees that it will never happen again. Perhaps such managers only comprehend the clerical aspects of their work. Perhaps such individuals tend to see result measurements as an end in themselves rather than a means to an end, i.e., higher productivity or profitability. I feel, however, that such behavior exists because it continues to be rewarded financially and promotionally. As long as our corporate culture is numerical-objective-oriented, we all will continue to manage to the needs of these index plans rather than to the needs of the business.

I disagree with Mr. Lang on one important point. He says that "such a [risk-oriented] climate can't be established by executive fiat." On the contrary, unless our very top-management people make it unmistakably and abundantly clear that occasional failure as a result of risk-taking will not result in financial punishment and/or career oblivion (as is the case now), very few in the management hierarchy will crawl out on the limb of innovation.

Should the BOCs fail to survive the remaining years of this decade, it most likely will not be because we tried and failed to meet the requirements of a fast-evolving telecommunications industry. Rather, I suspect, it will be because we failed to try. I have a specter in my mind of the last person out of the last Bell operating company closing the door on a room full of people who are in the final stages of drowning — in red tape, reports, job evaluations, indexes, and measurement plans. The last words being faintly heard are, "But, the Practice didn't *say* I had to…"

It's to be hoped that the above vision will not become reality. And that there are enough managers out there who are secure enough in their personalities and job situations that the behavior of the past will not carry forward. In the meantime, we should all be willing to be self-critical enough to avoid complacency.
K.C. Walker,
Michigan Bell

WILL QWL SURVIVE DIVESTITURE?

Michael Maccoby's article, "Question: Will QWL Survive Divestiture?" in Edition #1, 1983, was both disturbing and helpful. But I guess it has to be disturbing to learn that an acknowledged SME [subject-matter expert] considers you and me to be a big part of the problem!

The helpful part was getting some reinforcement that QWL *is* difficult to pin down to a tight definition. *Finally,* some empathy! I couldn't help but speculate on whether at least part of the sought-after connection may be viewed through the lens of the McKinsey 7S model, which was touted in at least two books discussed in *Bell Telephone Magazine* (*In Search of Excellence* by Peters & Waterman and *The Art of Japanese Management* by Pascale & Athos). While both texts effectively drive home the point that the "hard" and "soft" S's comprise very divergent managerial viewpoints, the former really gets down to the pragmatic specifics in "the rational model."

From Maccoby's description, it appears that QWL is beyond the rational model. It's not irrational; rather, it's non-rational; that is, it can't be effectively dealt with on the rational/irrational scale. Like most other American managers, we have been nurtured on rational skills: numbers, flow charts, operations research, econometrics, and so forth. Bumping into a very real problem that doesn't yield to the "collect data/design algorithm/program/execute/publish binder/give presentation/create documentation/write general letter/assemble task force/train field forces/measure results/adjust/write final report/document MBOs" way of doing things is somewhat of a mind-blower. While we certainly are not alone in this, Maccoby suggests we may be more "programmed" than most because of our history as a technology-oriented franchised monopoly.

The result is that a process like QWL can get shunted aside because the skills needed to deal with it are underdeveloped. It's like Pizza Town getting McDonalds' supply order by government proclamation. They are all geared up for flour, tomatoes, and mozzarella, but aren't quite sure what to do with beef patties, special sauce, and sesame-seed buns — no matter how valuable the shipment is. Making matters worse, consulting the Pizza Town Practices (PTPs) gets one nowhere; there are no entries for sauces, patties, and buns. And the support staff says there "never will be." Pushing further, you find all kinds of advice on what you *can't* do with the stuff. Finally, you find the SME; an outside SME no less (which makes him more credible). But your joy, and visions of filled-up blocks on accomplishment forms, is short-lived. Said guru anoints you with the knowledge that patties, sauces, and buns are "a way of life" and that "success lies in the attitude and style of each manager." Then, recalling that you got into this mess in the first place because your managerial "algorithm" couldn't cope with the non-rational (read non-numbers), you realize that you have closed the loop (or chased around a circle to the starting point). A long-quiet neuron fires, and, with a shudder, you realize that you are caught in a paradox. (Something you figured only the Bell Labbers had to grapple with.) To deal effectively with patties and buns, you need to modify your behavior. Yet, to modify your behavior effectively, you need patties-and-buns knowledge. You contemplate either rereading Lewis Carroll's *Through the Looking Glass* or reporting to medical. You decide that both responses are non-rational and decide to pen a letter-to-the-editor instead. After all, why get all stressed-up alone?

My compliments for a fine article. Truly disturbing. But helpful.
Frank Chappa,
AT&T

A LITTLE CORNER OF THE BELL SYSTEM

A good friend of considerable experience and wit once confided, "I feel blessed that my childhood was spent in Alabama. A rite of passage was listening to grandparents talk of grandparents' graciousness in prosperity and resilience to adversity." In "A Little Corner of the Bell System" (Edition #1), C. Anne Prescott captured that spirit. For any but the most insensitive, consolidation of services has been a painful — albeit necessary — step. But the ordinary people of Anniston, Alabama (managers and craft employees alike), have reacted with extraordinary class. A fine story.
Steve Fox,
American Bell

I understand the need to focus on the effects of consolidation, but "A Little Corner of the Bell System" was a ridiculous story. In light of the fact that large numbers of people will have to transfer to locations far from home in order to keep their jobs, I found it difficult to feel sorry for people who have to commute only 30 miles *and* for a telephone manager who does business at the golf course and weddings. You must be kidding!
Not a "Good Ole Boy,"
AT&T

BOOKS, FILMS, &...

FOR MacNEIL/LEHRER, REPORT EXPANDS TO NEWSHOUR

A September premiere has been set for the new hour-long news show that will succeed *The MacNeil/Lehrer Report.*

AT&T has committed 10 million dollars in support of the program, *The MacNeil/ Lehrer Newshour.* It will be the first 60-minute prime-time network newscast.

Revising a successful format is a rare and risky business in prime-time television. Well-received programs with sizable audiences most often are content to leave well enough alone and enjoy prosperity while it lasts. But the MacNeil/Lehrer team has a history of setting precedents. Not content with having created *The MacNeil/ Lehrer Report* — the award-winning, half-hour public-TV news program that has enjoyed a seven-year run, garnering a larger audience each year — Robert MacNeil and Jim Lehrer are preparing to launch this more ambitious project.

Report introduced a new dimension to depth of coverage for television news. The program has devoted its full time on air each weekday evening to a probing look at a single important issue via a mix of information, expert opinion, dialogue, and debate. The *Newshour* program will add breadth to the current *MacNeil/Lehrer* format. Expanding the program to an hour will allow the treatment of more than one important issue per program and will permit new flexibility for reporting on continuing and supplemental news stories.

AT&T has underwritten numerous public broadcasting programs in the past. And it currently is underwriting, along with Exxon, *The MacNeil/Lehrer Report.* However, *The MacNeil/ Lehrer Newshour* presents a special opportunity for a corporate underwriter, according to Edward M. Block, AT&T vice president – public relations. He explains, "We will be able to concentrate our underwriting resources around a single program that represents the highest standards of broadcast journalism. And we will enjoy the public relations benefit of a daily underwriting credit viewed by a very selective audience representing a wide range of social and economic backgrounds."

Block notes, "It is trendy these days to complain about the quality of business journalism on television, but that's a negative approach. *Newshour* allows us to do something positive — to support journalistic excellence."

Block adds that many companies recognize the vital role public television plays in the overall media mix in the U.S. In response to recent cuts in government financial support, a number of major corporations, including AT&T, have joined together to form Corporations in Support of Public Television, a group founded to encourage new underwriting support. In an editorial comment on the formation of the corporate group, *Advertising Age* observed, "There are important business reasons why many corporations should put some of their public relations money into public broadcasting... Isn't it fortunate that companies that have benefited from identification with public broadcasting have spread the word?"

To help attract viewers to the *Newshour* program, AT&T has developed a coordinated promotional campaign that includes newspaper, magazine, radio, and television advertising, as well as editorial promotion. "The originating stations (WETA in Washington and WNET in New York), together with all of the PBS affiliates and the MacNeil-Lehrer staff, will contribute resources to this concerted effort to build and sustain an enlarged audience for the program," Block says. "Robin [MacNeil] and Jim [Lehrer] and Les Crystal, the executive producer, along with Al Vecchione, executive vice president for the program, certainly have the know-how to put together an intelligent, informative news show, and I have no doubt that *Newshour* will be a great success, *and* an important influence in the evolution of broadcast journalism."

ORCHESTRA PROGRAM'S CONCLUDING CRESCENDO

The Bell System's American Orchestras on Tour Program will end when existing agreements expire. According to a prepared statement, AT&T said:

"The tour program was conceived as a means of supporting the great orchestras of the United States while also promoting the business interest of the Bell companies. Now, with the Bell companies being separated from AT&T and from each other as well, the underlying basis for the program will no longer be valid. Moreover, it will not be appropriate after divestiture for the Bell companies to coordinate their promotional activities. We have, therefore, reluctantly decided that we have no choice but to discontinue Bell System American Orchestras on Tour when the existing agreements expire. It is our hope that in time we will find a new basis for linking AT&T's business plans to orchestras in some fashion that would be mutually beneficial."

AN ENCORE FOR MICHAEL NOVAK

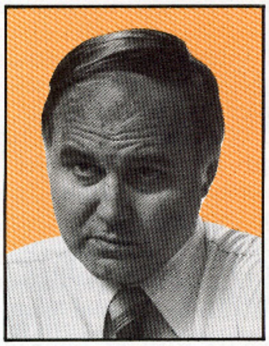
When Michael Novak, active in religion, politics, and economics, granted *Bell Telephone Magazine* permission to print an excerpt from his then book-in-progress, neither he nor the editorial staff could have predicted how the words would touch readers.

But "Giants Die, Too" — published in this magazine in late 1980 — triggered extraordinary reader enthusiasm. And even today, every once in a while, a reader will comment on the piece, asking for more from Novak.

As reported in these pages in mid-1982, the book we excerpted from was published under the title *The Spirit of Democratic Capitalism* ($17.50, Simon & Schuster). In the book, Novak, a Catholic philosopher who once espoused democratic socialism, illustrated his belief that capitalism, correctly understood, can wear a Christian face.

In his newest book, *Confession of a Catholic* ($12.95, Harper & Row), Novak has come up with a contemporary *Pilgrim's Progress* — it is a statement of personal belief that will certainly raise eyebrows and hackles. He tells readers why God is Father and Son, not Mother and Daughter, and why the struggle between conscience and the church's teaching authority is necessary as well as fruitful. He zeroes in on what he calls the "neoliberal tradition" and the "New Idealism" and expresses his finding that "the world and its church look far different now in 1983 from the reality in 1965."

Coming from Novak, considered to be one of the brilliant young theologians to emerge at the time of the Second Vatican Council, and one of those who led the fight for updating the theology and practice of the church, the book is certain to stir a great deal of argument.



Michael Novak

Why did he write it? "As I approach the age of 50 and look ahead either to death at any moment chosen by God or to a body of work yet to be accomplished, I believe I ought to clear my own decks," says Novak. "I want an account of my faith, written in the presence of God, which can be sized up by myself and others. A public person owes his readers as much."

Novak is resident scholar at the American Enterprise Institute in Washington. His other books have included *Ascent of the Mountain* and

ERIC POGGENPOHL

Flight of the Dove. And he is a contributing editor to *The Christian Century.*

THE SAGA OF SWITCHING

Switching Technology (1925-1975) is the third in the *History of Engineering & Science in the Bell System* series of reference books.

The story of the development and growth of automatic telephone switching systems appears to be largely unknown to the general public and even to many of those who take an interest in technological progress and how it affects society. Thus, in his foreword to the book, W.O. Fleckenstein, formerly vice president of switching systems and subsequently vice president of operations systems and network planning at Bell Labs, characterizes that development as "one of the great technological adventures of the 20th century." The book ranks switching development among the nation's largest and most complex achievements, not excluding space programs and computer systems.

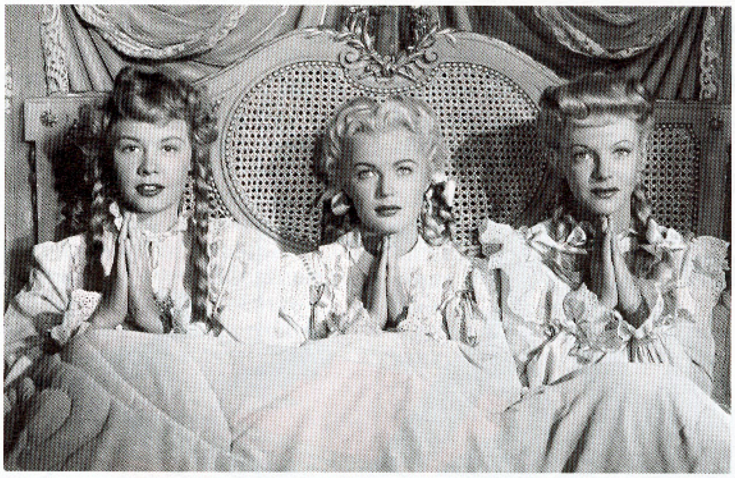
The 639-page book (with index), published by Bell Laboratories, was prepared by Amos E. Joel, Jr., and other members of Bell Labs' technical staff. George E. Schindler, Jr., was the editor.

The first book in the series presented an overview of Bell System service operations; the second dealt principally with military systems.

AS AN ANTIDOTE, ADD POPCORN, THEN SERVE

Much ado is made these days about the impact of stress — job-induced or otherwise. And only slightly less attention is paid to ways of coping with stress or, more precisely, ways of coping with the obstacles it raises. "Relax!" urge the mavens, as they offer a variety of diets, exercises, and strategies designed to promote relaxation.

It's about time, however, for someone to stand up for a simpler, more accessible means of dealing with stress. I refer, of course, to movies. Movie movies.



Real corn: Vera-Ellen, June Haver, Vivian Blaine (l-r) in *Three Little Girls in Blue.*

For the young, culturally pretentious, or otherwise insecure, movie movies were what Hollywood produced during the era when film was something one placed inside a camera. To belabor the point, movie movies are what non-cable television stations broadcast on the Late Show or on inclement summer weekend afternoons when baseball games are rained out. Movie movies do not contain symbolism, allegory, or a message. Nor do they require an excessive amount of thinking — they leave that to films — although good movie movies are anything but mindless.

I was reminded of the salubrious effect of movie movies recently when I ran across a 1946 musical called *Three Little Girls in Blue,* which I first saw on television in the mid-1950s. In a nutshell, this is the story of the three Charter sisters — played by June Haver, Vivian Blaine, and Vera-Ellen — who leave their little Red Bank, New Jersey, poultry farm in 1902 in search of wealthy (and handsome) husbands.

Where do they go? Well, in turn-of-the-century America as seen by Hollywood, there is only one place for such respectable young ladies to go: the Millionaires' Playground. Atlantic City!

The plot of this movie is, as they say, predictable. The music, except for the song *You Make Me Feel So Young,* is short of memorable. (After all, such lyrics as "Cinderella, you will find your fella" from *On the Boardwalk in Atlantic City* are not exactly the stuff of which classics are made.) And yet, it is difficult not to be caught up in this frothy little story or its not-quite-classic songs. Which is what makes it a real movie movie.

For those buffs who must intellectualize, it can be observed that *Three Little Girls in Blue* stars not only the three actresses already named, along with George Montgomery, then known primarily as Dinah Shore's husband, but also Atlantic City itself (or a Hollywood studio set passing itself off as Atlantic City). This is, to be sure, pre-sleaze, pre-casino Atlantic City, and the contrasts with the Atlantic City of the stark films *The King of Marvin Gardens* (starring Jack Nicholson) and *Atlantic City* (starring Burt Lancaster) are inevitable if not obvious.

At the risk of taking too seriously a movie that never meant to take even itself too seriously, one is tempted to remark that there may be a message in this reel of celluloid after all. Calvin Coolidge's pronouncement to the contrary notwithstanding, the business of America is not always business. Occasionally, it is the pursuit of fun. Movie movies may not move us, but they do entertain us; and as an antidote for stress, that alone should justify their existence.

*(**James I. Lader,** an AT&T staff manager who has written for the magazine on several occasions during the past year, most memorably about E.T., wrote the foregoing piece. He is, of course, a movie-movie fan. He says that, by actual count, he has seen* Auntie Mame *21 times on TV and often on inclement summer weekend afternoons when baseball games were rained out.)*

EDITOR'S NOTE: BUT NO KISSING

Yes, readers, there is life after (and even *living with*) word processors.

Having read "For Starters" in this magazine's last edition, several readers were eager to let the "beleaguered editor" know that there were several books available to help him "love" his "recalcitrant word processor."

So the editor began reading and found that, for him, the best of the lot is *Writing with a Word Processor* by William Zinsser ($12.95, Harper & Row), which does, as advertised, "demystify the machine." Frankly, though, it doesn't encourage the editor to love the machine. Or even to like it a little bit.

He tends to agree instead with Roger Rosenblatt, who, in a May 16 *Time* magazine essay, pointed out that "there is always something heroically decisive" about a person's plunking himself down before a typewriter. "The typewriter itself becomes an instrument of integrity, which may be one of the things we miss when the typewriter finally disappears," Rosenblatt said.

He went on to say that writers will miss their old typewriters greatly, even as they flirt with Apple IIs and CPT 6100s: "They will even miss the mistakes they used to make. This sort of msitake."

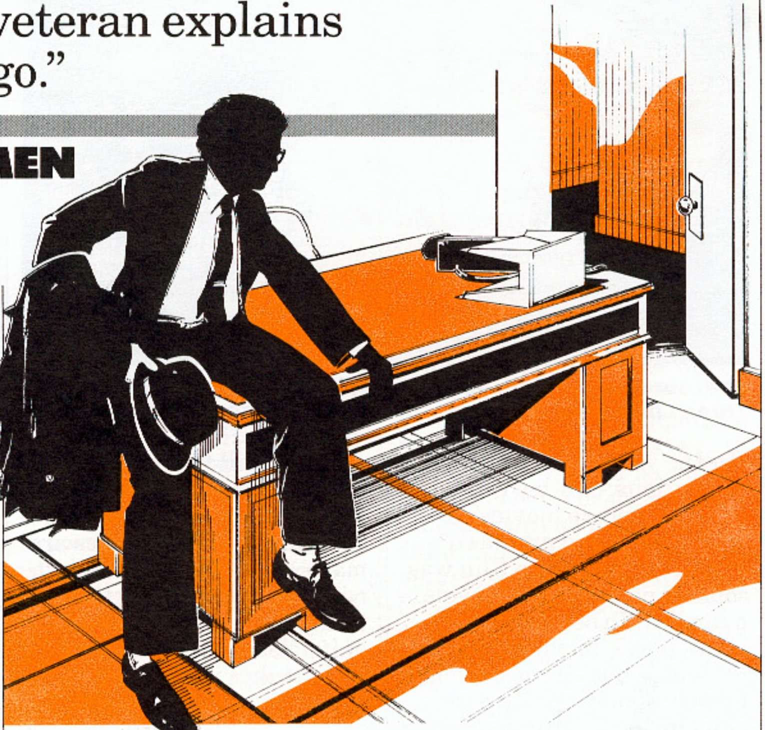
Concluded Rosenblatt, "Still, what may be missed most is the companionship of the machine. There it sat, waiting patiently for you to get hold of yourself, seize an idea, find a right word. Then you went at it together, two stained, tired antiques of the future, giving and taking, the way friends are supposed to." ■

20th CENTURY-FOX – CULVER PICTURES

COMMENTARY

Like the innkeeper who gives notice to customers that the pub is closing for the night, an AT&T veteran explains why it's "time to go."

TIME, GENTLEMEN



BY L.K. O'LEARY

I knew it would come, of course. But I always figured my Time to Go would come sometime around 1990. And when I started in Traffic back in 1953, 1990 sounded as far away as Arcturus.

(Most people know that Arcturus is a distant star — but you might have to ask an old-timer about Traffic. It was Department Number One, where all the operators worked — light years ago.)

I'm 56, with 30 years' service, so I can retire at my own request. I requested. Not in sorrow, nor in anger, nor in desperation. But because it was — for me — Time to Go. Since my decision, it has hit me that it is time for many of us to go. Not *all* of us postwar hires, of course; the outfit needs experience and continuity. But it also needs more youth, now, for the Big Change.

How do you know when it's Time to Go? In listening around, it seems each of us has a personal sort of test. Maybe you suddenly find you simply can't read one more striped binder on divestiture (or help write one). Maybe one morning you wake up in a hotel room and can't figure out why you are there and not back home. Maybe you sit in a late afternoon meeting, about 20 percent asleep, and suddenly realize that you've been talking and hearing jabberwocky for several hours.

With me, it was an unsettling awareness of unexcitement. These are crazy times in our company, with few certainties and all sorts of possibilities. Most of us (not all) are excited about the Big Change. Nervous, too — maybe even a little scared. Agitated and tense, but at the least, anticipatory. Something like all those other Big First Days — the first day in school; the first day at college, in the Army; that day at church, waiting for the bellowing notes of the wedding march; the first day home with the first new baby, after the grandparents leave the three of you alone together, and you suddenly realize this is no mere houseguest. You know — the "life-will-never-be-the-same-again" feeling — always a little sad for what has been lost, a little excited for what new thing is opening up to you.

At first, I was surprised and even concerned that I was unexcited about the Big Change. I read all the executive talks about the excitement of the future; I even wrote a few of them myself.

But those talks sounded like a description of Arcturus; a nice place to visit, but it wasn't really home.

Yet I've been lucky enough to be in a number of new organizations and places in the System. I always relished the new and was happy to be in the First Wave when it happened. Why not now, with the biggest Big Change of them all?

It should be said that the Big Change is cataclysmic for those of us who have been building the outfit since World War II. After all, when we joined the company, we signed up for the infantry, came up through the ranks, and learned the foot soldier's trade. Now all of a sudden, the outfit turns into the Green Berets Amphibious Parachute Underseas Ranger Regiment, operating behind enemy lines. (Who ever had enemies in the good old days? Maybe The Union or The Commission could be *slow* to see the sweet reason and ultimate validity of The Company Position. But who could steal our customers, mock us in print, or sue us, merely for doing our job well?)

It also should be said that the telephone men and women of my generation did the job. We built it right and with pride. We knew how to make the damn thing work. In the '60s, we were actually looking forward to the Universal Nickel Phone Call — to the day when a customer would pay five cents to call across the street, or to Anaheim, or to Arcturus. Bell Labs automatically came up weekly with breakthroughs, Western made everything better, cheaper, and easier to use and maintain, and we, by god, made the thing work, come rain or Hurricane Camille (in fact, we were at our best when everything else was at its worst). For most of us, this meant a quiet satisfaction on Friday nights and a mild feeling of anticipation on Monday mornings.

I'm saying that most of the telephone men and women of my generation are acutely aware of the fine thing we helped build and are now losing — and we grit our failing teeth at the loss. Yet we are by no means completely consoled by the dazzling future that glints from the Business Plans, Market Analyses, and Organization Charts of the New Entities. This is not due to lack of vision or failure of imagination. It is caused, I believe, by the sense that our comfort, pride, and satisfaction in a life's work are unconnected to the future of the Emerald City of Oz, as envisioned in a mountain of stripy binders. Our lives are not, of course, so unconnected to that future. My generation built the space platform and first-stage engine of the Star Ship New Jerusalem, which will be launched on January 1, 1984.

You're off to Arcturus, buddy — comrades and gentles, all. Our hearts are with you, but I, for one, am not making that trip. I'll be watching, and even praying a little. I'm still a stockholder — but more important, a lifelong stakeholder in your future. Now and then on a Friday night (may you someday also have quiet satisfaction on Friday nights), remember you couldn't be Out There without us — and all the other phone folks who went on before. Have fun and beat the hell out of the competition. We're with you — in all ways except one.

As they say at closing, "Time, gentlemen." ■

L.K. O'Leary, an AT&T *assistant vice president, will retire in September.*

DAVID FEBLAND

(continued from C2, the inside front cover)

back editions to find just the right quotations and illustrations to characterize each era of our publication history — and perhaps to comment on each with just the right literary reference. Fortunately for our readers, we resisted that temptation also — for two reasons.

First, a *Bell Telephone Magazine* retrospective appreciation was published shortly after the magazine began its 60th year of publication (Edition #2, 1981). So, it seemed to us, even though the occasion was different, not enough time had gone by to justify another recapitulation. Second, and more important, is the advice given to the current editor when he was named to the post in 1977. The advice, from an AT&T vice president who himself had been at the helm of a highly regarded Bell System employee publication, was this: "Try to steer clear of editorial writing. Trust your readers. A magazine's content says more than an editor's additional comments can ever say."

We've tried to follow that advice (not always successfully, as some of our readers will attest), but this time around we're setting aside the hubristic impulse to explain something our readers can figure out for themselves from their own experience by reading the material presented in the magazine.

A FRAMEWORK TO BUILD ON

It is very clear from what managers have written us that although the Bell System *Plan of Reorganization* is still to be approved by Judge Greene, and many other issues regarding divestiture are still to be resolved, employees are turning their attention toward the task of forging new identities even as they lament the dissolving of the System that once was "One" and that "Worked" so very, very well. And they understand that tradition is not a static monument, but a framework to build on.

So — what more is there for *us* to say?

We are, of course, proud to have worked on a magazine that has played a special role in the Bell System culture, that has contributed to and recorded the heritage of the enterprise. It is true that 61 years is a long time to have been in business, and the magazine would have found a spot in Bell System history if only because of its longevity. But — and again, we hope our readers will forgive us the hubris of the moment — we doubt that the magazine would have stayed in business if it had not demonstrated its ability to help top management meet a major corporate commitment — namely, to inform and communicate with its managerial employees. What we can affirm, however, is that management entrusted us with that mandate in a very special way.

Over the years, *Bell Telephone Magazine* has enjoyed an editorial latitude that is rare, if not unparalleled, in the annals of American employee publications. That latitude was bestowed on us in the belief that candor and credibility would go a long way toward maintaining the morale of a highly effective corps of managers. And we have reason to believe that, at least to some extent, we have fulfilled that mandate.

While the magazine has had its detractors at all levels of management, it has had, among its admirers, an "embarrassment of riches" (there is no better way of putting it). Many of our readers have taken the time to tell us what the magazine has meant to them. We'll quote from just one letter:

"If Judge Greene only knew what the magazine represented to us! The lack of a unifying magazine like *Bell Telephone Magazine* and the lack of a nationwide network of personal associations are the undocumented but very real losses that will result from divestiture. It truly is a new world with lots of great opportunities, but there will be lots of sadness associated with the breaking up of old ties. It rather reminds me of graduation time at school — full of hope and optimism but tinged with sadness about the happy times that will probably never be duplicated. Anyway, it seems an appropriate sentiment for this time of year. I just wish January would hurry up and get here."

January, of course, will be here soon enough. And while *Bell Telephone Magazine* will retire from the scene, divestiture doesn't have to mean "the breaking up of old ties." As Mr. Brown has pointed out, there is nothing in the Consent Decree that says we need to divest ourselves of our friends. We here on the magazine staff know that to be true, and we believe that our readers and friends elsewhere in the System feel the same way.

So, for now, we'll close with the symbol that news writers use to tell the typesetter that one particular story, at least, is ended:

–30–

The official historical files yield neither photographs of James D. Ellsworth, *Bell Telephone Magazine*'s first editor, nor of the editorial staff of the magazine (known at the time as *Bell Telephone Quarterly*). For the record, then, here is the magazine's *last* editorial staff — left to right: Rick Wilbins, managing editor; R. Z. Manna, editor; Rosalind McDonald and Ben Passantino, research associates; Gary Osland, design director; C. Anne Prescott, senior editor; Bob Kinkead, associate editor; and James T. Ryan, design associate.

ANNIE LIEBOVITZ

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MIKE KANE

American business is a major runner in the relay to prepare for the 1984 Summer Olympic Games in Los Angeles — and few businesses are as involved as the Bell System. An agreement announced last September joined AT&T, Long Lines, Pacific Telephone, and Western Electric in partnership with the Los Angeles Olympic Organizing Committee to become official sponsors of the Games. In addition, Western Electric and Teletype Corporation will provide the Olympic community with one of the world's most sophisticated internal communications networks. It includes an electronic messaging system that will allow athletes, officials, and members of the media to instantaneously communicate with each other, get updates and background information on events and athletes, and transmit information, particularly news stories, to all parts of the world. All told, Bell is already on the fast track for the XXIII Olympiad.

ANNEE MONDIALE DES COMMUNICATIONS
WORLD COMMUNICATIONS YEAR
AÑO MUNDIAL DE LAS COMUNICACIONES
1983