

A Statement of Policy



“Our purpose is to seek—
at every point of decision—
the highest and best
use of the organizations
and resources
we call the Bell System.
The highest and best.”



Cover: This statue, known to generations of telephone people as "The Spirit of Communications," long has symbolized the special sense of purpose—service to the public—that has guided the Bell System. The photo was taken prior to the statue being refurbished for installation in the lobby of AT&T's new headquarters at 550 Madison Avenue in New York. From 1916 to 1980, it stood atop the 195 Broadway headquarters building.

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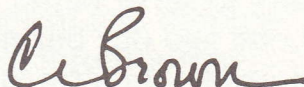
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This is a time of change—change in technology and change in the needs of the society we serve. And it is a time of change in national communications policy as well. Indeed, the past dozen years or so have been marked by accelerating change in almost every aspect of our business, change so pervasive that not unnaturally the question arises as to whether policies that may have served the Bell System well in the first century of the telephone's history can be expected to serve as well in its second. In the following statement the management of the Bell System has undertaken to set down—in a time of change—its sense of the mission of our business. In essence this is a statement of our commitments to our customers, to our employees and to our share owners. These commitments, we recognize, we can only redeem through performance—and this we earnestly pledge ourselves to do.

No less, however, in the telephone industry's second century than in its first is the Bell System ready and willing to conform its technology and its services, its organizational structure and its practices to society's changing expectations.

What further changes the future will bring is beyond knowing. Indeed, how the Bell System will be configured ten years from now I cannot predict. But I can say what standard will apply to the decisions we'll be called upon to make on the way to that unknowable destination. It is the standard of excellence. Our purpose is to seek—at every point of decision—the highest and best use of the organizations and resources we call the Bell System. The highest and best. With that as our standard, I have not the least doubt that, unknowable as the future is, it will be a great future.

A handwritten signature in dark ink, appearing to read "C. L. Brown". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

C. L. BROWN
AT&T Chairman

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The Bell System's first responsibility today remains what it has always been—service to the public.

Service dictates the size and shape of organization and the principles that guide its management. Our responsibilities to share owners and employees do not limit or qualify our commitment to service. Rather they support and sustain it. Only so long as we maintain a competent and well-motivated work force can we serve well. Only so long as we achieve good earnings can we attract the capital necessary to maintain good service and to enhance our ability to serve better.

Long ago our business accepted—indeed it endorsed—the principle of public regulation of so vital a service as that we provide. That universal service—the Bell System’s goal through nearly all its history—has now to all intents and purposes been achieved is attributable to the incentives that derive from the

now proven concept of private enterprise operating under public surveillance.

Today, however, public policy looks to marketplace competition as the most efficient regulator of telecommunications services. And we ourselves look forward to the early enactment of legislation that will specify regulation only to the extent necessary to assure the continued universal availability of affordable service.

Accordingly it appears that in the future the Bell System will be operating in two modes.

Under regulation we will continue to provide basic telecommunications services to and among individuals and institutions in those sectors of the United States the Bell operating companies are franchised to serve and to provide as well for nationwide and international access and communication.

At the same time, we will be afforded increasing opportunities to compete in new markets and to seek the profitable application of the Bell System's technological and marketing skills to the larger realm of information handling. Accordingly, today we are aiming at a global market—the information market—the dimensions of which we had hardly begun to perceive a half-dozen years ago. Today we're not just in the telephone business. We're not just in the telecommunications business. Ours

is the business of moving information—voice, video, data, graphics, etc.—from just about any place in the United States to just about any other place in the United States—or, for that matter, the world.

However, as we seek to enlarge the scope of our business, we must carefully define its limits, too. There is just so much we can manage and manage well. We need to focus our energies. Accordingly, it is our policy to undertake only those activities which support and enhance our business' service objective and none that compromises or impairs it.

It would be a mistake to assume that any aspect of our business, regulated or otherwise, will be exempt from competition. That means that in every aspect of our business we must act—as indeed our responsibility to the public requires us to act—competitively.

There is nothing that we know about the increasingly competitive environment we confront that warrants the least compromise of the Bell System's commitment to deliver products and services that are in every respect the best possible. Whether we serve alone or compete with others, our aim is to be best.

From its beginnings, the Bell System has sought to match its organization structure to the requirements of the environment in which it operated. For most of our history, that environment was a highly regulated one. Universal service was the goal and to that end each of the operating companies—and AT&T itself—was organized along functional lines. Each operating company was responsible for results in the territory it served. All, however, employed standard technology, standard operating methods.

It was the concept of a nationwide association of companies, each separately managed but all joined in common purpose and sharing common operating procedures, that permitted our business to achieve coordination on a national scale at the same time that it remained responsive to the unique needs of each community it served.

Common standards consistently applied are no less vital today. Without them the nationwide telecommunications network simply would not work. But what principally characterizes that network today is the diversity of services it supplies. Today we are accelerating the transformation of a network that not so

long ago provided a more or less uniform service to all its customers to one that not too many years hence will serve no two of them alike.

It was in response to this trend that in the last couple of years we have restructured our operating organizations along lines, not as heretofore of the jobs we do, but of the market sectors we serve. The aim of this restructuring is to permit us more readily to perceive—and more alertly to respond to—the diverse needs of our customers. In short, our aim is service.

Now we are confronted with the need for a further restructuring that will represent an historic change. Public policy now calls for us to undertake a restructuring of our business in a way that will clearly separate our regulated operations from our activities in unregulated markets and thereby provide clear public assurance against cross subsidy between them. In the years immediately ahead, then, the Bell System will be restructuring itself into two major profit centers, one providing regulated services, the other pursuing opportunities in unregulated markets.

Operating in two modes, we remain nonetheless one Bell System. Tomorrow as today what opportunities we will be afforded will depend on the public's perception of the character of

our business. Thus, no unit of the Bell System will be relieved of the necessity of taking conscientious account of the impact of what it does on all the other units of the business, the impact on the whole.

III

With the Independent telephone companies, the Bell System provides the nation a network of communications by which any user of the service may communicate with any other at any time across the country or across town. To accomplish this end, this network must be—and is—designed as one, a single nationwide facility available to the entire public and accessible as well on equitable terms by other carriers, other networks. It is a unique national resource and matching its capabilities to society's needs is our continuing responsibility. It is this responsibility that requires us to set as our goal nothing less than the continuous expansion of the network's capabilities, the continuous improvement of its efficiency and the continuing strengthening of its reliability.

No less in telephony's second century than in its first is universal service the Bell System's goal. Now that just about every United States home and business has a telephone, some say that goal has been achieved. We don't. We remain a long way from achieving the universality of communications in our society that our technology can accomplish. Accordingly the Bell System will continue to conduct a program of research and development, including fundamental scientific investigations, sufficient in scale and kind to assure its continued leadership in the technology of information handling. Realizing the potentiality of our technology—matching our services to the diverse needs of the individuals and organizations we serve—is our continuing goal.

IV

But technology is not the only measure of our service. What counts most is the individual customer's perception of our performance. For service is not a static goal. Yesterday's standards of service are not sufficient for today. Nor will today's suffice tomorrow. In the face of society's ever more sophisticated and individualized communica-

tions requirements, we must demand of ourselves—because it will be demanded of us—ever higher standards of proficiency in every aspect of the service process—from design and development through manufacture and supply to marketing and operations.

The Bell telephone companies handle hundreds of millions of messages every day. What makes our responsibilities unique is that each one of these messages—to someone—is more important than all the others. In short, our obligation to the public requires that we never forget that, although we number our customers in the millions, we serve them one at a time. We can, then, set ourselves no lesser goal than that each one—individually—should feel well and courteously served.

The obligation to treat our customers as individuals applies not just to the services we provide but to our every action and transaction. In credit or collection matters, for example, it requires that our response in each instance be based on relevant considerations alone and not on race, sex, creed, color or place of residence.

We recognize, too, that having been entrusted with a service that is uniquely personal,

we have a special obligation to preserve its privacy. We will, therefore, do everything we reasonably can to preserve the confidentiality of the calls we handle and of our customers' calling records. We will disclose our customers' calling records only in accordance with valid legal process. In fewest words, our aim is to provide services in every particular worthy of public trust.

V

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he United States is almost alone among the nations of the world in entrusting the development and operation of its telecommunications service to private enterprise. Thus the realistic need to insure profitability through improved efficiency and continuous innovation is as strong a motivation in our business as it is in others. And it is largely to this motivation that our nation owes the present scope and versatility of its communications services and their low cost. In short, to serve well we must earn well.

Accordingly the management of the Bell System pledges itself to seek out every opportunity for improved efficiency that new technology and new operating methods afford.

And wherever opportunities exist profitably to enhance the usefulness of our services we pledge ourselves to do so.

The Bell System is committed to an extraordinary and determined effort—and a continuing one—to hold down price increases for our services. However, wherever and whenever the earnings of our regulated services fall short of achieving the level investors have the right to expect of a growing well-managed business, we pledge ourselves to a direct and candid representation of our needs to regulatory authorities. Pledging to our share owners that we will seek in their behalf no less than what we believe is necessary, we pledge at the same time to our customers that we will seek no more.

While operating conditions may vary throughout the country, it is expected that none of the Bell companies will represent a financial burden to the others and that each over a period of years will earn at a level sufficient to attract the continued investment required for the growth and improvement of its services.

As we are permitted to venture in unregulated markets, it will be our aim to seek returns to investors commensurate with the risks involved. Fairness to investors requires

that regulators be precluded from using profits earned in unregulated markets as an offset to revenue requirements in regulated markets.

Over the long run, it is our commitment to service that requires that we earn profits that will justify the continuing confidence of investors in our business. It is this commitment that requires that our financial policies take first account of the interest of our existing share owners and the need to maintain the integrity of their investment. It requires that we set as our goal earnings that are competitive with those of other leading United States enterprises with whom investors compare us before they decide where to put their money. It requires that we continuously increase the earning power of our shares by profitably reinvesting that portion of our earnings that remains after dividends. It requires that we strive continuously to maintain the value of our share owners' dividends in the face of inflation. Finally, it requires that we shun any action that is merely expedient, offering temporary advantage or momentary favor at the cost of sound long term progress. When all is said and done, however, our responsibility to investors places no greater obligation on us than that we address ourselves continuously to the enhancement of our business' capabilities and the value of its services.

Down through the

years it has been our business' commitment to serving the public that has shaped its distinctive character, drawing people to its ranks for whom service was an important personal goal and who in turn transmitted it, enhanced by their accomplishments, to their successors. Maintaining the vitality of this tradition is the first responsibility of management.

It requires that the Bell companies offer wages, benefits and working conditions sufficient to bring into the business people who have the will and can learn the skills necessary to meet our customers' needs.

It requires that we offer opportunities for employment and advancement without discrimination because of age, sex, color or creed.

It requires that we commit no less energy to the development of our human resources than we do to our technical resources and that we provide employees—through effective supervision and good training—the means and—through good pay—the incentives to enhance continually their ability to serve.

It requires that we provide our employees jobs that are big enough to be worth doing well.

And—perhaps most important of all—it requires that we provide our employees, regardless of their number, a job in an organization where they are known and respected as individuals, where their voices can be heard and their work appreciated.

But no more than other businesses is ours immune from the ups and downs of the economy and no more than jobs in other businesses can Bell System jobs be considered permanent jobs. Indeed by the very nature of its responsibilities to the public the Bell companies are obligated to pursue every increment of efficiency that technology and good management afford.

Nonetheless, to the degree that conscientious planning can accomplish it, Bell System management will seek to minimize the dislocations that might arise from economic fluctuations or the introduction of new technology and operating methods. Only when other alternatives have been exhausted will we resort to layoffs. In short, we shall exercise every management skill we have to assure the continuity of employment that has been our business' long-standing aim.

W

e in the Bell

System recognize our responsibility to be good citizens in the communities we serve. Accordingly we extend every reasonable effort to be sure that our facilities enhance and do not impair the physical environment in which we operate. And as much as we have a responsibility to our customers and share owners to pay no more than our fair share of the community's taxes, we recognize our responsibility as corporate citizens to pay no less. Beyond that, we have a responsibility to the future—to do what we can to restore where it has been lost—and maintain where it has not—a social environment conducive to the community's security and health and to its progress. It is to this end that each of our Associated Companies conducts its own conscientiously administered program of contributions—of time and talent as well as money—to community welfare organizations and educational institutions. And it is to this end that Bell System employees are encouraged to take an active role in community improvement undertakings.

We have responsibilities, too, to the larger community, the nation at large—first, to take

scrupulous account of the impact of what we do on the general economy; second, to respond to the nation's needs whenever and wherever our skills are truly needed; and third, to give our wholehearted support to the goals our country has set for itself: a strong economy, a decent order in society, the conservation of resources and the maintenance of an environment that will sustain the continuing enhancement of our national life. And, finally, for our government, we stand ready to apply our skills and resources to whatever work the nation's interest may require of us.

VIII

In the Bell System marketing is service.

Today the Bell System is unreservedly committed to a sustained initiative aimed at discerning—indeed anticipating—the communications requirements of an increasingly diverse and fast-changing market and to the shaping of products and services matched to those requirements. Our aim is to assure that

we know our customers' objectives and their needs and that we are ready to apply communications solutions to helping them fulfill those objectives and meet those needs.

We shall compete vigorously. To this end, we shall continue to urge that the public interest requires that regulators impose no arbitrary hindrances that might bar us from the timely introduction of new services that meet our customers' needs or preclude the realization of the full potential of our technology.

Doubtless in the more and more competitive era ahead, ours must become a business more and more profit-minded. That does not mean, however, that we can abandon the idea that we are in some measure stewards of a public trust, accountable for the efficient delivery of one of society's most vital services. Thus we are not free to regard ourselves simply as the managers of an investment portfolio whose only responsibility is to position the business in whatever markets will profit it most. Others may compete simply for competition's sake; we must have a reason and that reason that the public would not be so well served if we did not.

The Bell System seeks—because it needs—the regard of its competitors. We respect the competences that make them our competitors.

No action of ours is aimed at their disadvantage. Rather is our aim to serve customers better. In short, we seek no advantage in the marketplace except through performance—the quality of our products and services and the economy with which we provide them.

We shall be fair competitors, in letter and spirit abiding by the laws of fair competition as they have been set forth by legislatures, commissions and courts. Not even by inadvertence do we want to provide our competitors a basis for questioning the integrity with which this business is conducted. Unfairly charged, we shall defend ourselves with all the skill and energy we can muster.

IX

Down through the years it has been the Bell System's policy to establish rates that would bring telecommunications services within the economic reach of more and more people, thereby enhancing their usefulness to everybody. To this end certain services—mostly services for business and discretionary services for residence customers—have been priced so that their revenues help to offset the joint and common

costs of their services, particularly residential exchange service.

No longer is this policy tenable. Today public policy looks to the marketplace—competition—to decide what telecommunications products and services the public will be supplied, who will supply them and at what price. More and more, therefore, we must relate the rates for our regulated services to their costs—service by service, even customer by customer. No longer burdened with a share of the costs of local service, long distance rates will come down. Deprived of that contribution, local rates must go up.

But the transition to a competitive environment requires careful planning by management and by regulatory authorities to minimize its impact on customers who might be adversely affected. So long as Bell's long distance services bear a share of local exchange costs, for example, so must the services of competing carriers that access the local exchange network.

It must be recognized, however, that in the competitive long run, subsidy of one service by another, however socially desirable its

objective, will no longer be feasible. Prices must track costs. Clearly, this is the aim of public policy now evolving—and, because it is, it is ours as well.

The Bell System recognizes its obligation to demonstrate that its rates for services it offers in competition with others are fully compensatory. But in no instance, we believe, should regulators require us to set higher rates simply to protect competitors or preserve “competition.”

In recent years, the Bell System has been moving more and more in the direction of pricing its services to reflect the amount of usage its customers make of them. The cost of directory assistance, for example, should be borne by those who use that service—and in proportion to their use—rather than by the general body of customers. As it becomes practical to do so, this concept of “measured service” will be extended to local calling as well. By separating the costs that only some people occasion but that hitherto have been spread over everybody’s bill, we—again—help keep the price of residential exchange service down.

The nationwide telephone network consists of millions upon millions of separate parts, each compatible with all the others and the whole adapted to constant change and improvement. This vast integrated network came into being—and constantly grows in service to the nation—because the people who develop its facilities, the people who manufacture them and the people who operate them all work to common standards and share a common purpose. It is to this end that our business is structured as it is.

In turn, we recognize, the Bell System's unique organizational structure imposes certain unique obligations upon us. It obliges us to be constantly alert to assure that it is the customer's interest and not merely our own that dictates what we will make and what we will buy. Certainly it obliges us to assure that we neglect no opportunity to achieve efficiencies in production and innovation that vertical integration affords. That is why Western Electric and Bell Laboratories are units of the Bell System. At the same time, we recognize that the world of telecommunications is not "ours" and that today there are a great many

organizations besides our own whose talents can efficiently be brought to bear on the growth and improvement of the nationwide telephone network. Accordingly, it is the policy of the Bell telephone companies to buy from whatever suppliers can provide them the products they need, when and where they need them, at the lowest cost over their entire service life. In our purchasing decisions, no other criterion applies than our customers' interest in dependable service that is economical over the long run.

XI

From the earliest days of the business, the leaders of the Bell System have felt it part of their responsibility to keep the public informed about the policies they believed crucial to our ability to serve the public well. That is still our responsibility today. More particularly, we believe we have an obligation to forward to the extent we can a consensus on the issues of national telecommunications policy that have beset our industry for so long and that, once resolved, will open the way for the full application of

our industry's energies and skills to the nation's needs.

We recognize that we are not the final arbiters of the public interest. In the future as in the past government decisions will be made that run counter to positions we voice. In these instances it should be clear that it is the Bell System's policy to abide—in letter and spirit—by what has been decided.

As the times change, as technology changes and society's needs change so doubtless will national telecommunications policy. In this process, the Bell System will continue to speak out for policies we believe will help service and against those that might impair it. For only as we are ready to speak out for what we believe and to test our convictions against the convictions of others can we do our part in assuring that what is declared to be the public interest actually is.

Finally, we recognize that what responsibilities the public will be ready to entrust to us in the future depends upon its judgment not only of our competence but of our business' character as well.

It is for this reason that we seek to instill in all our people how important it is that we use our strength fairly and that we apply scrupulous objectivity in all our relations with others.

It is for this reason that we strive to make sure that the men and women we advance to positions of greater responsibilities are men and women of the highest character who have demonstrated their qualifications for advancement not only on the basis of the results they have achieved but on the way they achieved those results. Our business simply cannot afford to have among its leaders people who for expediency's sake are ready to accommodate themselves to conduct of which we might be less than proud.

And it is for this reason that we have set for ourselves no lesser standard than excellence in the performance of our responsibilities to the public. What makes service a goal worth striving for is that not at the end of ten years or a hundred can we tell ourselves we have achieved it. Over the long pull, Bell System policy calls for constant improvement of the quality of our service and constant improvement of its usefulness. We have no other business and no greater source of strength.

XIII

Our aim over the decade ahead is to achieve the most effective application of the Bell System's technology and skills to the needs of the nation and the world:

- to provide ever-improving communications services between and among individuals and institutions in the United States and other countries
- to improve the productivity of the economy
- to strengthen the nation's security and that of its citizens
- to facilitate man's access to information

- to enhance his capacity to manage complexity
- and to help bring people together.

To these ends, we must strive continuously—

- to match our products and services to the characteristic needs of each of the markets we serve and—within those markets—the unique needs of every customer
- to lead in the technology of communications and information handling and to continue to enlarge our own capabilities
- to operate with the disciplined efficiency that our responsibilities to both investors and customers require
- to conform our enterprise to society's needs and its conduct to what society expects of us
- and to change—or to remain unchanged—in whatever ways will assure that throughout the 1980s our business continues to be an enterprise useful to its customers, profitable to its proprietors and to its employees worth working for.

*American Telephone and Telegraph Company
and Associated Companies*

