

The Road Ahead – Part 3

Now the corporation is able to move from plans to action.

BY C. ANNE PRESCOTT - *C. Anne Prescott is this magazine's senior editor.*

For those Bell System employees who have worked literally seven days a week for the past few months, the AT&T chairman's closing remarks, made at the Spring conference of operating company presidents, could provoke a ready smile of agreement. Acknowledging the unsettled state of the company's environment-with plans proceeding to implement both the FCC's Computer Inquiry II decisions and a behemoth of a divestiture--C. L. Brown concluded: "Planning is a symptom of disorder. When the future seems reasonably predictable..., planning goes by another name: 'management.' When times are changing, there are planners everywhere. In our current situation, *all* of us are planners."

Admits L.L. Hendrickson, "March and April were 61 very hectic days." Hendrickson is an AT&T director-strategic planning, whose job is to coordinate all divestiture planning activities. These include the six company-president-level study groups, appointed in January to delve into the stickiest issues, as well as the array of advisory boards, operations divestiture boards, task forces, and other committees that such intricate planning naturally spawns.

The planning effort is so massive that Hendrickson keeps a large chart on his office wall to track operations, making changes in pencil because even a computer can't keep pace with everyone's work. The level of activity gives force to Brown's observation at the presidents' conference that "we have set about breaking up the Bell System in the same way that we approached the problems of making it work in the past. We are doing it *together*."

Hendrickson specifies: "We have groups taking apart all the operations of the business, right down to how to handle trouble reports and service orders and how to test circuits. All the way down the line, managers are fine-tuning recommendations. There has been an incredible amount of input from everyone. The result is that now we're able to move from conceptual planning to implementation."

Untold hours of work are producing tangible results. Divestiture planning guidelines--in five three-inch-thick binders--were sent to the operating companies July 1; the companies' bottom-up implementation plans are due back to AT&T September 1 for review and possible adjustment before any go-ahead is given. Concurrent with divestiture planning, guidelines for Computer Inquiry II implementation--spelling out, in more three-inch binders, the plans for providing customer premises equipment under bifurcation--were sent to the operating companies May 21. Based on the companies' responses, due in late July and early August, implementation guidelines for Computer Inquiry II will be issued sometime in August.

But the frenetic labor and brain-draining concentration such planning ultimately engenders also has produced its share of grumbling.

Hendrickson acknowledges that fuses are likely to be shorter during periods of pressure-cooker planning, but he also observes "a closer sense of team-playing the higher the level of meeting I go to." He says, "People farther down the line can't always see the big picture, the trade-offs the company presidents are willing to make. Lower-level managers feel they have to fight for everything they can get, they feel they can't give an inch, so they're not sure they've done their jobs well enough when they don't get it all. But I think everyone ultimately has the same goal: to make sure that all the plans make good business sense when they come together."

WHO GETS WHAT?

Toucheiest of the "turf" issues is the subject of asset assignment--what entity gets what equipment to do what jobs as proposed in the Modification of Final Judgment. Many industry commentators maintain, as *Public Utilities Fortnightly* editorialized, that "the Bell operating companies [may] not be [be] fully capable of defending their own interests on these issues" because operating company interests "are plainly adverse to those of AT&T on the valuation issues." On this basis, some state regulators recommend that the companies be divested first and their assets "sold back" to AT&T once the companies are independent.

Asset assignment is also a factor when the provision of customer premises equipment is bifurcated January 1, 1983, and new equipment is offered only through American Bell Inc., AT&T's new fully detariffed and unregulated subsidiary. Looming over the subject is the regulatory worry that ratepayers could subsidize unregulated customers if assets are undervalued when assigned to the subsidiary.

No one denies that the fully separate subsidiary wants to pay "no more than is right" for transferred assets, as Emmett J. McMahon, an executive assistant in AT&T's federal regulatory matters department, explains. And state regulators want to be sure that the companies' rate bases--and rates--are lowered sufficiently when equipment is transferred. "But the point to remember," McMahon stresses, "is that no one wants to make any decisions that are valuable only for the short term. The question is, What *is* the right price for the equipment that will be transferred to the subsidiary? That question is what makes horse races."

The asset assignment that divestiture requires is a much different situation because assignment and valuation shouldn't be issues at all. "Only a small proportion of the assets would be subject to any judgment; most are clearly related to the business of either the operating companies or AT&T," Hendrickson observes. "Where judgments would be required--for the multi-function facilities used for both intra- and interexchange calling--committees are now determining the criteria for assigning those assets. The rest of the assets would still be used to provide regulated services after divestiture. That

means that *regulators* determine the value of assets--not AT&T or the operating companies--by deciding how much the companies can earn on them."

Historically, regulators have decided to use book value--what the equipment originally cost, depreciated by whatever rules they set. By using book value, state regulators can set the rates and earnings levels to make book value equal market value--what a buyer would pay for the equipment. Consequently, the focus of current studies in the companies and AT&T is not on asset assignment but on valuation, to determine the book value and provide state regulators with supporting documentation so they can set the value in their rate case decisions.

But the complexity of asset valuation is just beginning. "To figure the value of assets, you must first know how many assets you have," Hendrickson says, "and an inventory isn't always the simplest solution." In fact, where the assets of the largest corporation on earth are concerned, an inventory is "absolutely impossible," he says. Assets would have to be compared against the records of their original cost, and then the cost of installing the equipment_not to mention the effect of adding or deleting equipment components_would also have to be calculated. It's a job that could last a century.

Instead, the asset assignment study group will use statistical samples to determine the value for types of equipment and apply that value to all the units within the type. This method will be supplemented with spot-check inventories of equipment also selected by statistical sampling. When the aggregate value of assets to be assigned to AT&T has been determined, that value will be subtracted from the total value of operating company assets to compute the book value of equipment remaining with the companies. "That's the only practical thing to do," Hendrickson says.

Public debate may well continue over whether the operating companies--or AT&T--can get a fair deal from one another, but those inside the company most involved in negotiations view the arguments as typical and tired. As chairman Brown told Chesapeake & Potomac managers in late April, "You can't do anything but say it's not so."

The most compelling argument in favor of teamwork remains the same: to produce results that are good for the share owners, the customers, the employees, and the companies. "I think the key is this," Brown pointed out to the C&P managers. "We have high integrity in this whole business, and we are working for the same share owners. This [debate] is merely something concocted by our enemies to make it tougher for us." Hendrickson puts it on an even more personal level: "Most of the planners think they know where they're going to end up, so they're going to make sure that whatever side they go to has the best possible equipment to do the job. At the same time, everyone knows they're still on the same team, committed to cooperation, compromise, and sound decisions on service and earnings."

THE BIG QUESTIONS: WHO GOES WHERE? AND WHEN?

Equally vital in the face of divestiture is what planners call the proper allocation of employees--making sure that the right people with the right skills are doing jobs that are right for them. Most departments are months away from assigning their employees to particular positions. And deciding who goes where and when encompasses much more than those areas normally considered within the jurisdiction of the personnel department. The allocation of the sales force, for example, "may be the most important factor in determining each entity's near-term financial results if divestiture is approved," Hendrickson observes. And the allocation of software designers at Bell Labs and Western Electric--those "resources who are always in short supply"--could be critical in determining financial results for the new entities in the years 1985 through 1990, he believes.

Though personnel needs are still being determined for software research and development, Computer Inquiry II regulations require that designers working on prospectively deregulated or unregulated products and services be transferred to American Bell Inc. by January 1, 1983. Late in 1983, if divestiture is approved as proposed, Bell Labs employees will be allocated to serve the R&D needs of the subsidiary, the operating companies, Western Electric, and interexchange operations. The operating companies also will be involved in developing the Labs' 1983 budget so that it reflects their post-divestiture needs.

On the question of separating the sales force, marketing organizations hope to allocate their employees early next year, if the Modification of Final Judgment is approved, to give enough lead time to iron out working arrangements in the prospective structures. Under the terms of Computer Inquiry II, the sales force for American Bell Inc. must be expanded by January 1, 1983, to sell customer premises equipment. Those employees selling and servicing the subsidiary's first offering--Advanced Information Systems/Net 1--were assigned in early*July.

Presuming the divestiture plan is approved, the sales force will be divided into four groups marketing intraexchange services in the operating companies, enhanced services through American Bell Inc., interexchange services in the remaining AT&T, and existing equipment in a new embedded base organization, also to be located in the remaining AT&T. Conceivably, Hendrickson notes, as many as four salespeople--one from each group--could contact the same customer after the planned divestiture. "Yes, they'll all be going after the same customer's attention," he says, "so we'll have to work to minimize customer confusion."

Though sales staffs haven't been divided yet, the results from a Northwestern Bell trial in Minnesota, which began July 1, may well establish the prototype force requirements, structures, and procedures for compliance with Computer Inquiry II. In the process, lessons learned in Minnesota may also apply in a divested world.

The Minnesota trial splits business marketing sales and service employees into two groups: those serving customer premises equipment (both new and embedded) and

those marketing network services (including services for the prospective intra- and interexchange). Account executives from the network and customer premises equipment sides jointly serve the same customer, in preparation for the day, under Computer Inquiry II, when the customer will have to make two calls--one to the subsidiary for new equipment (presuming the customer wants to buy Bell products) and one to the local company for network services.

"What we're going to find out in this trial is whether our goals and objectives, our methods, are the ones that customers will react to positively," explains Wayne E. Christensen, acting general manager of Northwestern Bell's network marketing. "If they don't react well, we'll modify the arrangement. We want to make sure this is a reasonable split, that we end up with a workable arrangement for customers and employees."

HOW MUCH WILL CUSTOMERS PAY?

While study groups and legions of managers fine-tune personnel and asset assignment plans, another Goliath of a subject demands attention as well—the issue of access charges, or how the FCC should equitably distribute the cost of access to the local exchange to all competing interstate carriers. A fresh look at access charging just began to be contemplated in depth May 27, when the FCC advanced four proposals. Comments are due by August 6 and replies to the comments by September 15. FCC action is promised by year-end. The four proposals "cover the waterfront" and reveal two separate--and significant--charging philosophies, according to Harold E. D'orazio, formerly executive assistant in charge of separations and division of revenues in AT&T's federal regulatory matters department and currently general manager-switched services at Illinois Bell. Two proposals would place the access charges solely on the intercity carrier, and two would put a significant portion of the access costs directly on the customer.

"Both philosophies assign the traffic-sensitive costs--those costs that vary, depending on usage--to the carrier," D'orazio points out. "But non-traffic-sensitive costs--which stay the same regardless of the number of calls customers make--would be charged under one philosophy to the carrier, and under another to the customer. This is a critical point, because non-traffic-sensitive costs are three times greater per minute of use and can have a major impact on the rates customers will pay." Under current rate structures, for example, heavy long distance users pay not only for the use of their local loop but also for the local loop of occasional long distance users. If heavy users paid a flat rate to use only their loop, occasional users would necessarily pay more than they do today.

What is at stake for customers, then, in formulating equitable access charges is nothing less than the preservation of universal service at affordable prices. At stake for the operating companies are billions of dollars which would replace the money they now receive through the division of revenues process. Added to the problem is the fact that state commissions could develop access charges for intrastate toll calls which differ

radically from charges the FCC will develop for interstate toll calls. The states, for instance, could decide that carriers should pay by usage, while the FCC might opt for customers to pay a flat rate, possibly undermining the economic advantages of both systems. A joint board of federal and state regulators now considering revisions to traditional cost separations procedures will wrestle with coordinating the access charging plans decided by the states and the FCC. In the meantime, the operating companies plan to file all access tariffs, for intrastate and interstate, on January 1, 1983, so that the tariffs are in effect on the date of divestiture.

"There are winners and losers in any access scheme," D'orazio says. "There's no way to keep everybody whole or we'd have the schedule we have today. We'd like to have a plan that increases both interstate and local calling, preserves universal service, and places the costs on the customers or carriers who cause them. our objective is not to tell customers or carriers that they *must* buy vanilla-type access, or even chocolate. Our job is to be in the Baskin-Robbins business of providing access."

Indeed, there seem to be as many critical issues surrounding divestiture as there are flavors of ice cream, but one electrifying event rarely discussed—would melt divestiture itself: namely, if federal judge Harold H. Greene fails to approve the Modification of Final Judgment. Divestiture would simply disappear, the 1956 Consent Decree would remain in force, and the Justice Department could reinstitute its suit.

Some observers are concerned that the unthinkable could happen in that the judge could say no -- because Greene held two more days of hearings on the proposed judgment in late June. While some see the prospect of considerably more proceedings and possible changes in the modification agreement, others believe Greene is raising all possible queries so that later appellants cannot allege they were not considered. As *Bell Telephone Magazine* went to press, the two days of hearings had ended with a promise by Greene that he would rule "expeditiously" on whether the Decree is in the public interest "so as not to prolong the period of uncertainty." Meanwhile, state regulators contend that they could preempt the judgment and allow the divested companies to participate in competitive markets to help ensure their viability. Bristling at the notion, the Justice Department, in its 141-page reply to the initial round of public comment, countered that local regulators cannot "block compliance with a decree designed to prevent conduct unquestionably within the purview of a federal statute" Further, permitting the divested companies to enter competitive markets, the Justice Department concluded, "would undermine the rationale for the divestiture" AT&T, equally alarmed at the states' contention, emphasized in its own reply to the comments that Greene must act quickly on what the states call their "unassailable authority" so that state approvals do not deter the pace of asset and stock assignment and delay the entire reorganization.

Still gnawing at the fringes of judicial proceedings are the legislative proposals embodied in H.R. 5158, a bill drafted by the U.S. House of Representatives' telecommunications subcommittee and attracting fiery controversy ever since the

subcommittee approved the bill March 25. Hundreds of thousands of letters have deluged congressional offices, leading the subcommittee chairman, Representative Timothy E. Wirth (D-Colorado), to take the unusual step of meeting with AT&T's board of directors to discuss the legislation. A markup process begun in mid-June in the subcommittee's parent House commerce committee--chaired by Rep. John D. Dingell (D-Mich.)--was scheduled to continue after the Independence Day recess. The start of the markup process saw the committee scrutinizing the nearly 300 pages of legislation and amendments to H.R. 5158 on a line-by-line basis. Though some committee members have said that the amendments "address AT&T's concerns," the company remains convinced that the legislation is a "bad bill" and that Congress should withhold action until Greene has ruled on the Modification of Final Judgment. Fourteen top economists also warned that H.R. 5158 would impede productivity advances, undermine America's competitive position in international markets, and imperil both economies of scale and Bell Labs' basic research by further fragmenting the company.

Though the threat of H.R. 5158 persists, and though Greene must still consider thousands of pages of comments and replies, the company must presume divestiture will occur. It must make a number of moves to strengthen current planning efforts to be ready for the day, within 18 months after Greene makes his pronouncement, when one million employees, three million share owners, and millions upon millions of customers could break a century-old tradition in the ways they do business with one another. Accordingly, the following events of import occurred in May and June:

- Chief executive officers were designated for seven proposed regional holding companies.
- Applications for permits to construct and operate cellular radio systems in the nation's largest cities were filed with the FCC by Advanced Mobile Phone Service, Inc., an AT&T subsidiary.
- Elements of a reorganization plan were disclosed in a 138-page filing AT&T made with Greene in response to initial public comments on the proposed judgment. The disclosure contained prescriptions for establishing local exchange areas--or what are now called local access and transport areas--which, in turn, define the areas of operations for the divested units and determine how assets will be assigned. The operating companies have proposed some 200 local access and transport areas, each bound together by social, economic, or other communities of interest.
- Preliminary recommendations were unveiled on the overall function and corporate structure of the centralized staff organization for the prospective regional companies. The centralized staff would provide technical advice, software development for business information and operational support systems, and be the central point of contact on communications for national security matters. Future central staff planning will focus on personnel staffing and the redefined interfaces between the centralized staff and AT&T, Bell Labs, Western

Electric, and the operating companies.

- AT&T also announced how it will split the companies' assets after they are identified so that AT&T can spin off stock and divest the companies. The five-step plan begins with each operating company forming three wholly owned subsidiaries for interexchange services, customer premises equipment, and directory advertising. The appropriate operating company assets—including a portion of their debt—will be transferred to the subsidiaries, and the subsidiaries' stock will be distributed to AT&T. In turn, AT&T will transfer to the operating companies or to their centralized staff all the facilities, employees, systems, and rights to technical information that will enable them to function independently. Finally, seven separate regional holding companies will be formed to own the 23 operating companies; AT&T will distribute the stock of the holding companies to AT&T's share owners, and divestiture will be complete.

Though they might feel considerably smaller if they were to stand on their own, the divested companies would be giants in their own right, members of the *Fortune* 100. Even the smallest of the seven regions would rank 23rd, according to a study prepared by the North American Telephone Association. The trade group's rankings figure the South region at 14th, the Midwest at 17th, the Northeast at 19th, the Mid-Atlantic at 20th, the Northwest at 21st, the Southwest at 22nd, and the West at 23rd.

In addition to their new-found size, the operating companies would take with them upon divestiture the sign of what has been tantamount to a sacred trust, what Angus Hibbard, AT&T's first general superintendent, in 1888 called "not alone a sign of the telephone but an emblem of public service"—the familiar, simple, and ubiquitous Bell logo.

The Bell logo is "a symbol of our intangible assets which cannot be owned by both families," Edward M. Block, AT&T vice president-public relations and employee information, told the operating company presidents assembled at their Spring conference in mid-May. Woven into the behavior and conduct of every Bell System employee though its intangible assets may be—and recognized by an astonishing 90 percent of the public—the logo must project the identity of its new business to its customers at the same time that it "provides a strong sense of continuity in this time of transition," Block said.

The Bell service mark sets the operating companies apart—from other utilities in the communities they serve and from other telecommunications companies. Its image bespeaks a quality of service that customers expect will continue. As Block pointed out, "Our image is a product of the way we behave—or seem to behave. It is the public's impression of our policies, personnel, and operations. Our visual identity is part of that image. How it is perceived—what it evokes in the public mind—depends largely on our performance, our standards, our conduct, our overall behavior To the Bell operating companies I say, wear the Bell mark with dignity and enrich its value. On divestiture day, the new AT&T... will part with it—reluctantly, but with trust."

As for the new AT&T, it will be left with the task of defining and projecting its own identity. It will be the responsibility of the new company to interpret itself in terms of the future it wants to achieve. But that, as Block said, is "another story for another day."