
MANAGING
THE BELL SYSTEM
BREAK-UP:



AN INSIDE VIEW

Disconnecting Parties

W. BROOKE
TUNSTALL

"Disconnecting Parties is a most important book..."

-PETER F. DRUCKER

DISCONNECTING PARTIES

Managing the Bell System Break-Up: An Inside View

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Foreword by
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This volume is dedicated to the tens of thousands of Bell System employees who responded so admirably to the enormous task of dismantling the enterprise that they had helped to build and sustain and that they had served so well. I only regret that space will not permit the special tributes that could be paid to so many organizations and individuals for the extraordinary nature of their contributions.

Foreword

During 1982 and 1983, those of us who earn our livelihoods endeavoring to advance the practice of management had to content ourselves with sideline perspectives on the epic corporate drama then unfolding within AT&T.

From the outside we could, of course, track the main events of the government's suit leading to the divestiture agreement. And due in no small part to excellent reporting in the nation's media, we could follow the manifold financial, organizational, and marketplace consequences flowing from the accord.

What we did not have were any real insights as to how divestiture, in all its daunting complexity, was being planned and organized, or how it might ever be managed in so short a period under such extreme pressures.

Now, with Brooke Tunstall's fine account, we at last have a firsthand perspective—a highly readable chronicle of the management of divestiture. *Disconnecting Parties* provides an insider's viewpoint on events that will be of intense interest to the management community: the planning and execution of the break-up,

the vast corporate restructuring, the impact of events on a historic corporate culture, the lessons to be learned.

But beyond the management audience, I suspect this book will find the broader audience it deserves—a general public already feeling the effects of divestiture, a public still puzzled as to why (and how) Bell was dismembered, a public keenly interested in the human dimensions of this unique corporate happening.

I believe this is an important story. Beyond question, it will be a significant contribution to what ultimately will be a rich literature on the break-up of the Bell System. More immediately, it will answer many lingering questions about the events leading to the divestiture decision and the ways in which this monumental task was carried out.

Richard Tanner Pascale

*Coauthor of The Art of Japanese Management and
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Preface

This is a book about the break-up of the Bell System. While it focuses on how this monumental task was planned and implemented, every attempt has been made to ensure that it is neither a dry historical account nor a recitation of meetings, status reports, and statistical data. Rather, *Disconnecting Parties* attempts to capture the drama of the government's divestiture order, the managerial challenges to AT&T and its responses, and the lessons that managers and students of business might glean from the experience.

Above all, this is a story about human beings, a family of one million employees who in the critical hour turned the extraordinary spirit that had built and sustained the Bell System to the awesome job of dismantling it. There is a powerful irony in such a positive spirit being applied to an act of corporate self-destruction.

Finally, this is an account of how a historic corporate culture, shaped to function by one set of rules, turned to face a future in which not only its business environment but also all of the rules would change.

For whom has this book been written? It is for those who were part of the action—so that they might see more clearly in these pages how their involvement fit into the larger tapestry of events.

It is for the diverse membership of the managerial community—practitioners and consultants, academicians and their students—who wish to understand the myriad forces leading to the decision to divest and the process by which AT&T executed the agreement. In achieving this understanding, they should be able to extract insights and perceptions that may be useful in conducting their own affairs.

Finally, this book is for a broader audience of general readers who have been increasingly (and not always cheerfully) affected by divestiture, whose interests have been piqued by limited accounts in the media, and who are eager to share an insider's view not only of what happened but also of what it all means.

By virtue of having written this work, I recognize perhaps more than most that no one could have described the entire divestiture scene in every detail and nuance; it was too epic, too turbulent, too multidimensional. What I have managed to assemble, then, represents a singular perspective, one derived from the fortunate central staff vantage point I was assigned at AT&T.

Clearly, there is substantial potential for bias and oversight in telling such a story. Thus, this book is—and should be read as—a narrative of events and opinions from one manager's perspective, not as an official AT&T account. As such, all opinions and observations expressed, unless otherwise noted, are solely the author's.

Acknowledgments

As a reader, I have often been impressed with the degree to which authors have gone out of their way to credit others with assistance and support. Having completed this work, I now understand their gratitude.

People inside and outside the former Bell family have been uniformly generous in filling in bits and pieces of information and helping with my attempt to be as accurate as possible. That I am unable to recognize each does not diminish my appreciation.

I would like, however, to acknowledge the support of Ron Bern and Len Moran and my daughter, Tricia, for editorial assistance. Without their efforts, this book would be considerably less readable.

And to my wife and daughters I will be forever grateful for their understanding, in light of the interminable hours I have had to spend apart from them, laboring in the divestiture vineyards.

W. Brooke Tunstall

Summit, New Jersey

September 15, 1984

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Chapter 1

The Historical Context: AT&T Under Siege

Hindsight is always 20/20. In 1984, as the divestiture announcement of that “fateful Friday” in January 1982 receded into the past, it was gradually possible to see the events leading to it as comprehensible, if not predictable.

When the announcement was made, of course, its effect upon all but a few people was one of shock and bewilderment. As Adlai Stevenson once wrote, “Man is the only animal who cannot read the handwriting on the wall until his back is up against it.”

The historical handwriting on the Bell System’s wall comprised complicated graffiti indeed. As AT&T began its new life in the post-divestiture incarnation, it became possible to examine the record of events that led to the Bell System’s demise—to read, translate, and ponder that record in order to approach the future with a sure grasp of the lessons of the past.

Comprehensive historical analysis is not within the scope of a book devoted to AT&T’s management of the divestiture process. Divestiture cannot be addressed, however, without some understanding of the complex combination of environmental forces brought to

bear on the company in the years preceding. In essence, it is a story of the world's largest company under siege, a chronicle of increasingly successful attempts to limit the Bell System's market presence and constrain its mission. Equally important, it is an account of wrenching ideological conflict between the deepest beliefs of a tradition-proud senior management and the very different priorities of policymakers in the federal government.

A UNIQUE HERITAGE

For the better part of a century the Bell System occupied what must be termed a unique position in American corporate life. Almost from its inception it was identified with an uncommon mission and pursued that mission with exceptional integrity.

The Bell System's unique position, simply stated, was that of a private enterprise with a public trust. The company was responsible to a vast body of shareholders. At the same time, it was responsible for certain interests of the nation as a whole. Seldom, if ever, has an enterprise operated in the public and private spheres with such resounding success in both.

What made this position possible was the astute foresight of those building the telephone system in the early years of this century: regulation would serve as a substitute for competition. It was recognized that the peculiar value of a telecommunications system lay in its universal interconnectivity—a quality achieved far better through coordinated, integrated system building than through the play of competing interests. An alternative had to be found, however, for the financial discipline imposed by the rigors of the market. That alternative would be regulation.

Upon this premise, relationships were forged over the years between the company and its regulators that recognized AT&T's needs as a private enterprise and promoted a set of mutually agreed upon public policy goals. The Communications Act of 1934 formalized industry objectives and established the Federal Communications Commission (FCC) to protect them.

What were those objectives? No one has stated them better than Bell System leaders through the years. In the AT&T Annual Report of 1910, Theodore Vail, revered as the company's founding father, first defined its basic credo this way:

The telephone system should be universal, interdependent and intercommunicating, affording opportunity for any subscriber of any

exchange to communicate with any other subscriber of any other exchange . . . that some sort of connection with the telephone system should be within reach of all . . . that all this can be accomplished . . . under such control and regulation as will afford the public much better service at less cost than any competition or governmental-owned monopoly.

From Vail's day on, the goals he articulated were the touchstone of all Bell System policies, the motivating vision of all its leaders, the common understanding that linked its employees in their dedication to the famous "spirit of service"—a phrase deriving from an early and exemplary episode in the System's history that fixed the service standard permanently in the corporate culture. Over 60 years later, in a Corporate Policy Seminar in 1975, Chairman John deButts could affirm essentially the same ideals proposed by Vail:

The Bell System's goal, as I see it, is to ensure "the widest availability of high-quality communications services at the lowest cost to the entire public." That is my definition of the basic social purpose for which this business exists. It is my definition of the public interest.

Noteworthy is deButts's very choice of terms: there are few companies in whose mission statements "social purpose" and "public interest" would be mentioned, much less elevated to the level of central intent. Yet such terms characterized the thinking and indeed the actions of the Bell System throughout its long history.

For those who built the Bell System, the concept of public interest involved above all the twin goals of *universal availability* and *superior quality*. In the service of those goals and of their essential corollaries—service reliability, network efficiency, technological excellence, affordable prices—basic regulatory and corporate policies were established over the years.

Two policy areas in particular stand out as perhaps the critical instruments for realizing the goals outlined above. First are those related to pricing. There could be no more powerful tool for ensuring universal service than the structure of Bell System rates, which set prices below costs for basic residential phone service and covered those costs with revenues from higher-priced long-distance and business services. Thus the service costs were averaged and the charges for them apportioned in such a way as to make reliable telephone service available to the greatest possible number of people.

Equally central was the Bell System's principle of "end-to-end service." The ideals of superior quality and efficiency could best be realized if the entire telecommunications system—from customer

terminal through local loop, central office switch, and interstate network—was operated and managed as an integrated process, with unitary responsibility for the whole.

The results, although widely known, are worthy of brief reiteration here. They include a communications infrastructure that links virtually every member of a notoriously scattered, transient population; a scientific laboratory from which some of the major inventions and discoveries of the century have emanated; a vertically integrated manufacturing process of prodigious capacity; and a unified network that, for quality and reliability was the envy of the world. By its own standards, the unique government-corporate experiment that was the Bell System must be judged an extraordinary success.

THE BEGINNING OF CHANGE: NEW TECHNOLOGIES

Why, then, did it come to an end? Most accounts agree that transformation in the telecommunications industry was spurred initially by technological progress. Indeed, the seeds of recent turmoil were latent in technological advances that occurred long before changes in the industry began to make themselves evident.

One such series of advances was the 1948 invention of the transistor and the subsequent development of solid-state electronics. Solid-state capabilities led to a revolution in computer design and operation, and thereby to the explosion of the electronics and computer industries. At roughly the same time, nationwide construction of high-capacity microwave radio relays began. This major new transmission technology held vast potential for both the telecommunications and television fields. Finally, during the next decade there was extensive development of satellite systems. Here was yet another powerful alternative technology for telecommunications.

It is a remarkable fact that all three of these breakthroughs were the fruit of Bell Laboratories scientific research. It was at Bell Labs that the transistor was invented, an achievement honored in 1956 with the Nobel Prize. It was Bell Labs that pioneered the development of microwave radio systems. And in 1962 Bell Labs' Telstar was the first active communications satellite to be placed in orbit.

Even more remarkable, however, is the historical irony that those momentous new technologies were eventually enlisted in the campaigns to undermine and finally to dissolve the Bell System. In the words of a prominent Bell commentator, H. M. Boettinger, in *The Telephone Book: Bell, Watson, Vail and American Life* (Riverwood Publishing, Ltd., 1983):

While each is a major event in the history of telecommunications, we can now see that they were also the tools which would be used to dismantle the Bell System itself. Seldom, outside warfare, can there be such examples of spectacular technology being used for the destruction of the institution which produced them.

That this could come to pass was a function of Bell Labs' long-standing legal obligation to make its patents readily available to all comers—as codified in a Consent Decree with the government in 1956, ending an earlier antitrust action. This, too, as will be seen, was an important feature of the Bell System's special, public-interest-oriented covenant with the public sector. Treated by legal charter as a national resource, Bell Labs disseminated its scientific knowledge and technological achievements. Not surprisingly, many companies and industries looked for ways to take commercial advantage of the new expertise.

In the field of electronics, as the line between computer and communications technologies began to blur there was increasing interest in crossing that line on the part of computer-related industries. Competitive challenge began to appear in markets that had traditionally been considered Bell's domain.

Similarly, in the burgeoning microwave radio industry there emerged potential contenders for competitive entry into the arena of specialized long-distance services. This trend was intensified because the market for such services was itself growing rapidly as large corporations became national in scope.

It should be emphasized that, although technological change alone did not determine the future of the industry, it was one of the sponsors of that future. It encouraged rapid growth in the market for long-distance or interexchange services and made possible the improving cost performance in the various forms of communications. To be sure, the new technologies were bound to be destabilizing. With radically new ways of providing and even conceiving of telecommunications, the field could not have remained the same. Shifts in industry structure were inevitable.

But what shifts would occur and how they would be administered was an open question. There was no single, inevitable telecommunications scenario inherent in the very nature of the new discoveries. Technological advance cannot dictate industrial policy. *It can, and does, offer policymakers new alternatives and choices.*

In the mid-1950s the nation's telecommunications policymakers began to confront such choices. At stake was essentially a political question; the new technologies did not necessarily require full com-

petition any more than the old ones had necessarily required monopoly. It had after all been social function, not technological character, that gave the industry its monopoly status in the first place. As Alvin von Auw writes in his recent study of the Bell System, *Heritage & Destiny: Reflections on the Bell System in Transition* (Praeger, 1983):

Exchange telephone service and interexchange services have an even more basic claim to being natural monopolies than does the supply of water and gas. That claim is based on the interactive character of both services. Every telephone in every exchange must be able to call and be called by every other telephone in that exchange and in every other exchange. They can do that economically only if they share a common switch or system of switches. The cost advantages of servicing interactive terminals through one network rather than through two or more may change with changing technology. Always, though—the cost advantage is there. It is intrinsic. Exchange service and interexchange services are intrinsic natural monopolies.

Telecommunications had been accorded monopoly status, then, because maximum interconnectivity was the goal. As long as that goal prevailed, some version of monopoly status would need to be maintained and new technologies would need to be implemented accordingly. That was the basic decision before the policymakers. Should preservation of the “interactive character” of telephone service continue to be the highest priority? If so, deployment of new technologies should go forward in a monopoly context. Alternatively, should greater opportunities for competitors now become the top priority? Was there any way to reconcile these conflicting priorities between various areas? What might those areas be? The options were numerous. Only one option—stasis—was not available. The genie of technological innovation, and the questions emerging with it, could not be stuffed back in the bottle.

THE REGULATORY ARENA

It was logical enough that questions would first surface in the regulatory arena. The Federal Communications Commission had been created by the 1934 Communications Act for the purpose of regulating telecommunications in the interest of universal service. By the middle of the 1950s its formal mandate had acquired the dual force of national law and legal fiat. Its role was reaffirmed in court when a