AT&T 1876–2001 R.I.P.

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On a recent visit to lower Manhattan, many of its streets blocked by police barricades and buildings covered with an awful pall from the trauma of September, a banner hanging from the old AT&T headquarters proclaimed, "195 Broadway Is Open for Business." Looking at that chins-up notice, it was hardly a stretch to think that a similar proclamation from AT&T itself would need to add, "... temporarily."

AT&T's phone lines still carry many millions of calls each day for business and residential customers, and its cable network serves more homes than any other, but we must not kid ourselves: we have already witnessed the pitiful demise of a strong and noble – if flawed – American institution. Other great American companies have dissolved, of course – Pan Am and Eastern Airlines, and Western Union Telegraph come to mind, and others, such as Bethlehem Steel, are in trouble. All hold lessons, including AT&T. Maybe hindsight can help us better understand what might have been done differently to sustain and rejuvenate a company with such a proud heritage of quality service and rock-solid investment with unfailing dividends; what might have prevented the sad spectacle we are now witnessing.

Through most of the last century, AT&T planned and built its nationwide network and its fundamental business strategy as a sole-source monopoly, largely the Bell System. The motto was, "One Company, One Mission: Universal Service." There was one nationwide long-distance carrier, AT&T itself, linking 23 local Bell companies, most wholly owned, and hundreds of other mostly small, some even tiny, so-called independent or non-Bell companies. AT&T steadfastly defended its monopoly against all comers – would-be competitors and government alike – only to surrender at long last, not just to the U.S. Government, but to the technologies it had done more than any other to develop and to business demands for the advanced services that those technologies made possible.

When competition came, in the late 1970's, AT&T's facilities and people were ill-prepared. Astute Bell System minds had designed and engineered a sole-source end-to-end network of mythical proportions and they saw competition as posing a direct threat to the integrity of that network. More than that, AT&T's overwhelming dominance in the industry engendered among its managers and employees attitudes of self-entitlement, dismissal and even disdain for competitors and a seeming indifference to costs. It is a mindset that has been slow to depart from AT&T and its offspring even today.

Over the decade and a half since the 1984 divestiture and even more since the Telecommunications Act of 1996, as AT&T has been given more and more freedom to compete, the company has been unable to articulate a clear business strategy in telecommunications or in any of the many other areas of service it has entered. It has moved in and out of wireless services, personal computers and corporate information systems, with limited success in wireless and no success in the other markets, and in each case at enormous cost to shareowners. AT&T paid top dollar for McCaw cellular and for NCR, but in each case wide differences in corporate cultures and con-

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flicting management strategies made it impossible to build and manage a united team.

More ironic even than the lack of a business plan to incorporate newly acquired companies, AT&T was unable to structure a workable plan for its own manufacturing unit, formerly the Western Electric Company, more recently dubbed AT&T Technologies. Its technologies and products were respected worldwide, but it had found it increasingly tough going to sell to service providers who saw any purchases they might make from AT&T Technologies as directly benefiting AT&T itself, their main competitor. In the spring of 1996, AT&T spun off NCR, acknowledging the already obvious failure of the corporate information venture it represented, and split off its manufacturing unit and its renowned Bell Laboratories as well, both of which the company had argued for decades were essential to its operations.

If microwave transmission, out-of-band signaling and other technologies helped open the door to competition for which AT&T was not prepared in the 1960's, as they did, digital technology and the Internet found the company similarly off guard in the 1980's and early '90's. Both Bell Laboratories and Sandia National Laboratories, which was then managed by AT&T, contributed importantly to the development of advanced high-performance computers and a national, high-speed research network during this time, but for die-hard telephone engineers the unmanaged Internet was just not on a par with telecommunications.

Divestiture or acquisition seemed to be the answer to every problem at AT&T. Just two years after the 1996 divestiture of NCR, AT&T Technologies and Bell Labs, and with a new chairman, Michael Armstrong, in place, AT&T was again back in the acquisition game, this time paying more than $100 billion for TCI and Media One. The lavish expenditure shrouded another serious problem: the TCI facilities were of notoriously low quality, ill-suited for the far-reaching broadband applications Mr. Armstrong had in mind.

AT&T has now made significant headway in upgrading these facilities to offer an increasing number of customers the intended broadband applications, along with cable TV. But it has been a technical challenge, time consuming and costly. The cable and other acquisition costs, upgrading and reorganization expenses have taken a toll on resources and on the stock price, leading to yet another dismantling and reorganization, now in process. Reversing a century of uninterrupted dividends, even during the Great Depression, and irrespective of the consequences to millions of its shareholders, AT&T has slashed its dividend to a fraction of what it was. The company is trying to reduce its debt by selling off various business segments, including the very cable operation, or AT&T Broadband, as it is now called, for which it paid so handsomely. AT&T Wireless already has been let go and a buyer is being sought for business and consumer services. Recently, AT&T withdrew from Concert, its global services venture with BT, which it entered just two years ago. And Mr. Armstrong has announced that the Basking Ridge, New Jersey, headquarters will be sold or leased.

A different view of competition, as sharpening the competencies of service providers as well as benefiting customers, might have made a difference. Paying more attention to a transformed industry environment, the impact of advancing technologies and true customer demands might have helped. A board of directors that has seldom challenged senior management might note that if you think it ain't broke, take another look.

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