

Gift: Gilliam

Annual Dinner
SpheX Club
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John D. deButts

Assignment: Tomorrow

It's good to be back in Lynchburg and to visit once again with so many friends of long standing and - hopefully - to make some new ones, too. As much as any town I've lived in since joining the telephone business over 30 years ago, I truly feel at home here - not just because the half-dozen years I spent here were the longest period my betters have allowed me to stay on any one job, not just because our youngest daughter happened to be born here, but simply because Lynchburg people are wonderful folks and because this city offers opportunities for satisfying living that few other communities do.

Now my job here in Lynchburg back in the 1940's was to see that Lynchburg got good telephone service. It was my job not only to see that Lynchburg got good service while I was here but to plan ahead to see that its future needs also would be met. How well I did I shall leave to your judgment, but I take some comfort in the fact that I've been invited back.

Incidentally, I should tell you that my service performance here owed not a little to the promptings of Jim Gilliam, a man I admire profoundly, because of his own accomplishments surely, and because of his understanding of the concept of service and his tremendous contribution to the success of your telephone company as a director. You will recall that - back in the '40s - Lynchburg's local telephone calls were all handled by operators and we carefully measured the length of time it took the operator to answer you. No more than 3 per cent over 10 seconds was our objective. But I didn't need any mechanical reporting device to alert me when we slipped. The day we let slow answers climb over 3 per cent, my 'phone would ring and Jim Gilliam would be at the other end saying, "Service is getting a little slow, isn't it, John?"

The job I have now calls for looking ahead, too - somewhat farther ahead than I was required to look back in Lynchburg and on a somewhat broader scale. I don't want to create the impression that my job consists solely in gazing into the remote perspective of the 21st century. Indeed, my

problem like that most people in business seem to face today - is finding enough time to give the future the attention it really deserves. Somehow each day seems to offer its own apparent "crisis" that demands solution now.

But these distractions do not alter my basic conviction that there is no more important aspect of the management job than assuring the long-term vitality of the business. Our business is more than 90 years old - and we're looking forward to our second century. It's about some aspects of our responsibilities to that second century that I'd like to talk with you this evening - the planning and the doing we must undertake today so that we will be able to serve tomorrow's world.

You will forgive me, I hope, if I talk in the context of the business I know best, the telephone business. I believe, however, that much of what I shall be saying is equally applicable to other businesses as well.

II

The Bell System's job - its very reason for being - is to provide the kind of communications service its customers need and want and do it at reasonable cost. This is not a static responsibility. Our country's - our world's - communications needs are constantly growing and changing. It's our job to anticipate these changes - to be ready, when new needs emerge, to meet them with the right services, the right facilities at the right prices. And it's our job, too, to do all we can to extend the limits of communications capabilities, to probe everlastingly for new potentialities in the art that may one day be translated into new services beyond current imagining.

There have been too many prophets ahead of me to warrant my spending much time projecting the communications prospects ahead. Much of what you have read and heard sounds like fantasy - the cashless, checkless society, for example, in which electrical impulses carried along telephone wires will take the place of paper and coin. It's been prophesied, too, that one day our homes will be equipped with communications centers from which we may not only telephone - or rather Picturephone - but also dial up a facsimile copy of the evening paper or consult a computerized library to help with the children's homework. These and like developments in communications, the prophets say, are going to alter our society profoundly. To cite just one example, it's said that cheap, abundant communications is going to accelerate the decentralization of business and industry, reversing as a consequence the long-term trend toward greater and greater concentration of population and the problems that go with it.

While I am not ready to join in the specifics of some of the more visionary forecasts I've heard, I'm not ready to risk dismissing them either. It was only a decade or so ago that the fantastic prospect of intercontinental communications via satellites was first broached. Today it's an actuality. And the span between conception and actuality seems to get shorter all the time.

Suffice it to say, then, that we are now on the threshold of an era of explosive growth in communications - not only more people talking more often to more people, but people talking with machines - i.e., computers - and machines talking among themselves.

To maintain Bell System leadership in fulfilling the potentialities of the communications art, we are now spending each year upwards of \$175 million for research and development. We are working right now on the systems and the system hardware that will provide the futuristic services you have read about and others that have yet to be dreamed about.

Today, for example, we are installing a cable between Boston and Miami that has a capacity for carrying 32,500 telephone conversations at once. Looking beyond the immediate future, though, we have proposed to the Federal Communications Commission what we call a Space/Earth Communications System, employing both satellites and terrestrial facilities in optimum balance, that is designed to meet all the growth requirements in long-haul common carrier communications in the continental U.S. between now and 1980. Looking beyond that, our Laboratories scientists are working on laser and wave guide transmission systems with capacities - potentially - hundreds, even thousands of times the capacity of current systems.

But we must also look beyond the most advanced hardware we can currently imagine. Today Bell Telephone Laboratories scientists are probing aspects of nature, the application of which to communications technology we can only vaguely sense. Why, for example, are Bell Labs scientists exploring the mysteries of the DNA molecule? Because the genetic code embodied in this molecule is in fact a memory system of fabulous capacity and may have lessons for us in the design of our switching facilities. And why is another group of scientists at the Laboratories studying the relationship of stimuli to response in biological neuron systems? Simply because Nature's signalling system operates with an elegant efficiency that might provide clues to new economies in electrical communication.

When or even whether these studies will "pay off" is beyond current conjecture - and I confess it takes a certain amount of faith on the part of the management of a business that counts its dollars pretty carefully to underwrite some of these expeditions into the unknown. But I submit that this faith is quite as vital to the long-term future of our business as the tough-minded results-oriented direction of more concrete, near-term development projects. Should my faith waver, all I have to do is remind myself that it was not quite 20 years ago that some apparently quite abstruse studies of certain phenomena of matter in its solid state led to the invention of the transistor and to new dimensions of accomplishment in communications, in computer technology, and in the exploration of space that would have been impossible without it.

To put what I've been trying to say in a very few words, leadership depends on going first where nobody else has been before.

Let me list just a few advances in telephone communications that are now being introduced or will be coming along in the years ahead:

- World-wide direct distance dialing - already 80 of our large business customers in New York are dialing their own calls to Paris and London.
- Electronic memory services that will alert you when your line is busy and a second party wants to reach you - or transfer your calls to another number when you're away from home - or dial your frequently called numbers with just two or three turns of the dial.
- Computerized number services that will tell you immediately that your friend's number has been changed from - for example - 555-3428 to 555-2196.
- Touch-Tone service that will permit store clerks to query a central computer for customer credit information or bank tellers to do the same to confirm the balance in your account.
- Picturephone service that will permit you to see and be seen while you talk - but, let me assure the ladies, only if you want to be seen.

All of these services are technically feasible now. As a matter of fact, all are currently in operation somewhere in the Bell System. How soon or whether they'll be universally available depends on how useful they are to telephone customers. In short, it's up to you.

III

But science and technology alone, however fruitful, won't assure our future for us. In large measure that future will depend on the political environment of the years ahead and whether it will foster the innovative spirit I've been talking about or - contrariwise - inhibit it through constraints on our ability to apply it. This is an area that cannot be ignored in looking toward tomorrow.

Ours, as I'm sure you all know, is a regulated business - and it's only right and proper that it should be. In the territories where we operate, we are the exclusive purveyors of an essential public service. Long ago the leaders of our business recognized the public's need - indeed, its right - to assure itself that its interests are well met in the services we offer, the prices we charge, the profits we earn.

There's not much we can do today about the regulation we'll confront ten, 15 or 20 years from now. But there's a whole lot we can do about the seedbed from which regulation springs - and that is the public's sense of how well we serve its interests and whether in fact we deserve to fulfill the opportunities that lie ahead.

We recognize that all day, every day the public - as customer, as share owner, as employee, even as competitor - is making up its mind about us, developing opinions and attitudes which, translated into regulation and legislation, will not only determine the level of our prices and profits but define as well the limits to our abilities to realize the full potential of our own technology.

This process - in the broadest and best sense of the term - is a political process. For no business, including ours, can stand higher in the regard of a Senator or Congressman or regulator - the men who write the rules we're going to have to live by - than it stands in the eyes of the people he represents. This means that the authority with which our business speaks on public policy matters as well as the consideration given to the impact on our business of proposed legislation depends in the final analysis on the kind of job Bell System people are doing back home. We are a valued business citizen in the eyes of the conscientious politician in Washington or Richmond if - and only if - we are a valued citizen back home.

What can we do about it?

First and most fundamentally, we in the Bell System recognize that we must do our job just as well as we know how to do it. Consequently, we have set as our goal a standard of

communications service that is no less than superb. Admittedly we fall short of this standard from time to time, as some of you might no doubt remind me. But I assure you it's not for lack of trying. As our TV commercials say, "We may be the only telephone company in town but we try not to act like it." In short, our opportunities tomorrow will depend on our performance today.

More and more, however, it's becoming apparent that the public's appraisal of our business takes account of aspects of our performance beyond the quality of telephone transmission and the quickness of connection. Perhaps as much as our service performance - which increasingly appears to be taken for granted - it is our citizenship performance that characterizes our business in the public's mind.

Time was when it was a sufficient show of business citizenship simply to keep the grass kept in front of the factory and to participate from time to time in support of such important but unexceptionable causes as the Boy Scouts or the United Fund.

Today, it appears, business citizenship is a factor in almost every management decision we confront - from the pace and dimension of our construction expenditures and their potential impact on the national economy to our hiring practices and their relationship to our national commitment to equality of opportunity for all Americans. We speak informally of "our" business, but we recognize that it will remain ours only so long as we operate it as what in fact it is - a public trust.

But today's business citizenship, as we see it, means more than simply running our own show with due regard for the public interest implications of what we do. It calls - among other things - for business support in enlarging the availability and advancing the standards of education, especially higher education. And it calls, it seems to me, for initiatives on our part to help resolve the crucial socio-economic problems of the communities in which we operate. This commitment is as pragmatic as it may sound idealistic. We have a responsibility to ourselves to help create the kind of community environment in which we can serve best.

I make no claim that Bell System employment somehow mysteriously endows telephone company people with the wisdom to bring - for example - order and dignity to our crowded cities and hope and opportunity to the millions we so delicately describe as the disadvantaged. But I believe we can help, as I believe business people everywhere can help. I am proud of the Bell System people, some in positions of leadership, some modestly

in the ranks, who are giving their time and talents to community efforts to help solve the agonizing problems of our urban centers, to help reverse the trend of those statistics of despair with which we are all too familiar. And I am convinced that our readiness and ability to do what we can to solve these problems will help determine, not only the future vitality and freedom of our business, but the vitality and freedom of our whole society.

Let me say at this point that I believe that as much as ever in the past America's strength derives today from the initiative and enterprise of her individual citizens, their freedom to seek the rewards of that initiative and their readiness to solve their own problems. Of course, we need rules to protect the public against exploitation. And of course, we must provide for the weak and the unfortunate and the dispossessed. But I would hope that such programs can be carried out without impairing corporate and individual initiative and without destroying motivation and incentive. In this regard, business can most effectively demonstrate the vitality of our free tradition by its own performance - not only through its innovative enterprise on the job but by its commitment to community citizenship, to making democracy work - where it counts, where the problems are.

IV

This is a very broad concept of public responsibility and some may question the wisdom of such a commitment. I've found the answer in history.

More than a half-century ago, when Theodore Roosevelt was castigating some of the leaders of business as "malefactors of great wealth," Theodore N. Vail, then the head of our business, set down his thoughts on business responsibility to the public.

"The present attitude toward all utility companies," he wrote, "has been largely created by the past attitudes of corporations toward the public by assuming to be acting as if they were masters of the situation. The public are awakening to the fact that they, the public, are the masters of the situation, that the utilities have their plant in situ, fixed and immovable, dependent on public consent to operate and, without that consent, of small liquidating value relative to its value as a going concern or its cost of creation."

These were remarkable words for a contemporary of the Robber Barons. I happen to believe that these words - or rather the concept they express, the priority of the public interest - have been a more important factor in the growth and continued vitality of our business than any other aspect of our history - more important than any technical advance I can think of except the invention of the telephone itself. Clearly Mr. Vail took tomorrow for his assignment. I hope we today can do as well.

V

Some of you who are veterans of after-dinner speeches by businessmen are probably asking yourselves "When is he going to start talking about profits?" The answer is "Right now."

As you may know, for the past year or so the Federal Communications Commission has been conducting an investigation of Bell System interstate earnings. Tomorrow and again on Tuesday, the lawyers representing the various parties to this case will have their final say before the Commission. Then the Commissioners will retire to weigh the contesting viewpoints and - perhaps sometime in early summer - will render a decision on the rate of return they consider appropriate for the Bell System to earn on its interstate business.

Seldom if ever have the economics of an American business been so rigorously examined in a public forum. The hearing transcript alone runs to more than 10,000 pages. I won't burden you with the details of our testimony. But I would like to acquaint you with our basic contention - and that is that the Bell System needs earnings on its investment in facilities for interstate business that are comparable with those of other businesses with which we must compete for investor interest. Under current conditions the rate of return called for by this so-called "comparable earnings standard" would be in the range of 8 per cent.

Now there are two observations I'd like to make with respect to this position:

The first is that we are not asking the FCC or anybody else to guarantee our earnings for us. The earnings we seek we intend to earn in the strictest sense of that term, not by a general increase in rates - the opposite is more probable - but by our own initiatives in improved technology and operating efficiency.

And the second point I'd like to make is that earnings are not an end in themselves but a means. Only a business with good earnings can support the long-range research and development

programs from which tomorrow's communications services will derive. And only a business with good earnings can undertake the very substantial capital expenditures it takes to translate that research into hardware to serve you. In large part this capital must come from investors, investors who have a choice as to whether they're going to put their money into AT&T or put it somewhere else. Our construction budget this year - for growth, for service improvement - amounts to about \$4.2 billion, of which almost half is going to have to come from investors. In short, only as we are able to meet the investor's interest can we meet the customer's interest.

It may seem odd to you that - in a talk presumably concerned with charting the future - I address myself to so current a preoccupation as the FCC hearings. I won't attempt to deceive you: for more than a year now, the preparation and presentation of our case before the Commission has been "assignment: today" for a good many of us at AT&T. But it is precisely because of its implications for the future that this proceeding demands so much attention today.

Perhaps you are wondering to yourselves what significant long-term difference will it make whether AT&T is permitted to earn a few tenths of a percentage point one way or the other. In point of fact, it can make a great deal of difference - the difference between research and development fully realized in continuing service improvement and a merely interesting laboratory exercise, the difference between new construction planned with a view to long-term economies for the customer and construction trimmed to the limit of currently available dollars, the difference between a really creative outfit, making vital contributions to society, and one that must be content merely to make do.

It would be presumptuous of me to predict the outcome. I admit, though, to a certain hopefulness - on two counts. First, I believe we have presented a strong and convincing case. And second, it seems to me that a more constructive view of the role of profit has been one of the positive consequences of the active dialogue between business and government over recent years. I sense today a developing consensus - in circles liberal and conservative - that sees profit no longer as a vaguely discreditable evidence of self-seeking but as the means and incentive to the progress of our economy as a whole - a vital stimulus to the more abundant society we all seek.

VI

Science, Politics, History, Economics - thus far in this talk - in deference to the interests of this club - I have given you a little bit of each. Only "X" remains. Let "X," then, stand for what is by far the most important factor in my Assignment: Tomorrow, the ingredient without which all the other aspects of our planning for the future would be in vain - and that is people.

In my view the management of our business has no more important chore than the identification and development of its successors. I can look ahead only so far as 1970 and realize that in that short span of time the inexorable operation of our retirement plan will call for the replacement of a dozen men at the level of telephone company president. Where will these new leaders come from? I suspect that when the time comes, if we're really honest with ourselves, we'll recognize that it is not we in our superior wisdom who will make these appointments but the men themselves - through their demonstrated performance. We talk about developing leadership, but I doubt that there ever was a real leader - in business, in government or any walk of life - who was developed by anyone but himself. We can plan - and we must plan - to provide outstanding managers with the range of job experience they will need to cope with the complex responsibilities of leaders in the future. But beyond that I suspect that we serve the future best simply by doing all we can to create a climate of opportunity within our business that challenges its people to do their best.

How do you motivate people to invent a transistor, design a satellite system, plan a communications system for a city?

Good pay may help and so may pleasant working surroundings and sympathetic supervision. But if there is a single insight of consequence that we in the Bell System have developed from our research and practical experience of work motivation over the years, it is that there is no more powerful incentive to high performance than the challenge and excitement of the job itself.

It is on the basis of this insight that we are altering our whole approach to the training of young college graduates entering our business. Once carefully nurtured through apprenticeships on closely supervised assignments and classroom training, they are now being placed immediately on jobs that are for real. We hope the young graduate will find it a tough job, perhaps a little bit over his head, a job with real responsibility for results.

The good ones thrive on it - and I think our business will thrive on it, too. Admittedly we risk mistakes, but at the same time we open the way for innovation, for venturing on untried ways.

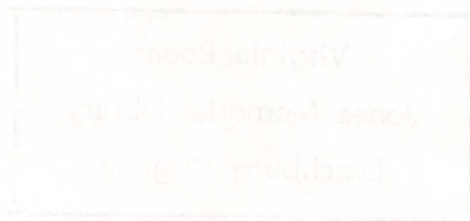
It's not easy to create challenging jobs that stretch the minds and talents of people, that give them the freedom to excel. There are more comfortable ways to run a business. But I submit that no business can grow except as its people grow.

One final observation: I happen to believe that our stakes in developing challenging prospects to bright and promising young people are very high indeed. I read recently that we are now entered upon what the writer called the Post-Industrial Society. This new society, the author says, is one in which business decisions will be subordinated to other forces in society and new institutions, perhaps the university, will supplant the corporation as the major source of innovation and new knowledge. Inevitably, the author theorizes, these new institutions will become the focus of the aspirations of the young people who will be tomorrow's leaders.

Perhaps this is so. Perhaps - even - it is good. I would only say this. Business is going to need its share of innovators, too - if only to provide the economic foundation for the intellectualized society the author projects. Nor am I ready to admit that our business does not have a vital role to play in that society - and on its own terms. To do so we shall have to demonstrate a capacity for organizational innovation matching our capacity for technological innovation. And we shall need to demonstrate to young people - as I hope in some degree I have to you in this talk - that business isn't a crude and unsubtle pursuit of power and profit but a creative agent of progress in our society, a calling that will challenge the best that is in the best of them.

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