



Pamphlet written by Page that discusses the Bell System's future
July 1943

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Summary

Page discusses the impact material shortages caused by World War II has had on the company. He talks about increasing the value of service to the public, having good wages and working conditions for employees, and giving dividends to the stockholders during the post-war period. He compares the company's performance in 1929, just before the depression set in, to 1942 and gives details on how the company's performance increased during this 13-year period. He talks about how AT&T plans to conduct business with employees, stockholders, and the public in the future.

Key topics

Internal Relations - investor relations

Page Principles

Realize a company's true character is expressed by its people

Research

Bell System Prospects

Pamphlet
July 1943

BELL SYSTEM PROSPECTS

The country is at war and the Bell System is doing its part. Because of material shortages, there is much work that the System would ordinarily be doing which will have to be deferred until the close of hostilities; such as continuation of the dial conversion program, furnishing service to all civilians who request it, replacing plant with new and better equipment, etc.

What does this mean?

The first big item in the picture is that if the country fills the void in consumers' goods caused by the war, the Bell System will probably need from one billion to one billion and a half dollars of capital after the war for work in sight now.

Can such a program be carried out?

It can if the investing public thinks the Bell System is a good prospect and they are willing to put up the money, if management has the plans ready, and if employees are teamed together to carry out the plans as soon as the money is available. There is no reason why the employees and management should not be ready. As to new money, that depends on the success of our business. To be successful our business must pay good

wages, must give good service to the public and must have adequate earnings to pay dividends to stockholders.

What has been done in the past?

In 1929, just before the depression set in, 344,000 Bell System employees (including large construction forces) got \$520 million dollars in salaries and wages. In 1942, when there were fewer construction workers, 324,000 got \$635 million dollars—and the basic workweek was from four to eight hours shorter.

Better plant and equipment, better tools and methods have made it possible for competent men and women to do more and better work, which in turn has made it possible to have the Bell System level of wages equal the best in the community for comparable work. In the long run, higher wages can come only from performance. There is nowhere else for them to come from. In order to meet a standard of rising wages, increasing production is essential. Perhaps a good way to picture this performance in the past is to compare certain overall measurements since 1929.

1929 Compared With 1942

It so happens that the number of operating people (omitting an estimated number engaged in construction work) was about the same in 1942 as in 1929, in round numbers 300,000.

At the end of 1929 there were 51.0 telephones for each employee. By 1942 there were 65.9. That is an increase of 29.2%. In 1929 there were 230.4 miles of wire per employee; in 1942, 321.6. This is an increase of 39.6%.

In 1929 there were 224.3 conversations a day per employee. In 1942 there were 296.6. That is an increase of 32.2%.

In other words, in 13 years the apparatus, methods, training and experience improved so that about the same number of people could care for and handle 29% more telephones, 40 % more wire and 32 % more calls.

Nor is that all of the story, for everyone in the business knows that the basic work week of 1942 was from four to eight hours shorter than the work week of 1929.

How did our customers fare?

The public up to the war when materials became scarce got a constantly improving service, faster connections, fewer errors, fewer telephones out of order, much faster toll service, better transmission on both toll and local calls. Moreover, in most communities they could reach a larger number of telephones at the same or a lesser exchange rate. And the toll rates have been reduced very greatly. In the period from 1930 to 1940, the cumulative savings to the public on its telephone bill as a result of Bell System rate reductions amounted to well over \$300,000,000.

And what about the stockholder?

All during the period 1929-1942 the stockholder got \$9 per share every year on his American Telephone and Telegraph stock, or about 6.5 % on the book value of his stock. Some years it was more than earned and some years it was not entirely earned. In summary, the employee now makes more money for less hours of work, the public gets more for its money than it used to, and the stockholder gets a fair return.

Well, why isn't that a good system to continue—to raise wages, improve and lower the cost of service, and the company continue to show satisfactory earnings?

It is, and that is the program the management of the Bell System has in mind.

The Program Is Not Self-Working

However, it isn't automatic. It is not a self-working program. In the first place, the Laboratories, the engineers or someone in the management as a continuing process has got to design new equipment and develop improved operating practices that will enable competent men and women to get more work done in less time and provide better service at less cost.

In the next place, the stockholders who own the business must find the money for it to make or buy the new equipment after it is designed.

Then, the management must reorganize the work to use the new equipment to best advantage, and then the employees must learn to operate it. And then, sometimes the public has to become accustomed to its merits as was the case with the dial system.

Now, if all goes well and everything works as planned, the answer comes out that employees have more money, the public pays less for its calls or gets more for its money, and the stockholders get a fair return on the money they contributed.

Now, let's examine the process step-by-step and see where difficulties may arise. The first question is, how do you guarantee that there will be new developments? In the earlier history of industry people seemed to trust that management would just think of something out of its experience, or that some employee would, or that someone outside the business would think of something and that the business would buy it.

For many years that worked, but it worked spasmodically—you couldn't be sure of it. Steamboats, locomotives, automobiles, the telephone itself—all these things came into being that way. They all helped raise the standard of wages, they all helped the public get more for their money. They all paid dividends to stockholders.

Organizing Progress

But there were spells of little progress. To insure progress, as far as that can be done, many large enterprises organized a new element to make the chances for new equipment or new processes much better. That new element is the research laboratory. The Bell System, which has always had an engineering department and a development laboratory, was one of the first organizations to take this step and it started a research department in its laboratory unit in 1911.

We cannot promise just what our Bell Laboratories will develop in the future, but our experience in the last thirty years is pretty good evidence that it will keep a flow of improvements coming. The Laboratories takes a long time view of our business,

improving and redesigning to keep ever up-to-date and to take advantage of every scientific advance. Its personnel is a highly organized team that has the know-how of working things out.

In addition, the Bell System is always on the lookout for any improvements, which may come from the ingenuity of outsiders or from members of its own operating personnel outside its laboratories. Any new ideas that are brought to the Laboratories' attention are handled by engineers experienced in developing equipment to meet future needs of the Bell System.

The prospect, therefore, looks pretty favorable. Although one cannot say that it is a certainty and that some one might not conceivably invent something which would hurt our business, we can feel as sure as one ever can about the future that our business of communication services is fundamental to human needs, that our laboratories are alert and experienced, and that the advances which they have been making in their war effort will have valuable peacetime applications.

On the whole, therefore, the picture looks good; but every man in the Bell System who looks forward to the future has a good solid reason for a keen interest in Bell Telephone Laboratories. What it achieves has plenty to do with his paycheck five years hence. And the Laboratories is equally important both to the public and to the stockholder.

New Money from Stockholders Needed

Now, the next step is to get the stockholder to put up the money with which to buy and put in the new developments which are produced. The stockholders have been doing that for more than fifty years and perhaps it's reasonable to expect that they will continue to do so. But it is worth while pointing out that they have been getting dividends all these years too and that is what has encouraged them to keep on putting money in the business.

And, of course, they all haven't always agreed to put in new money when needed. Some haven't it. Some have other reasons for not investing and some sell out. You can tell pretty much what the stockholders have thought by looking at the average market price of A. T. and T. stock over a long period of years.

Whenever the market price of A. T. and T. stock indicates that the investing community feels that the current and prospective earnings of the business are satisfactory, you can issue more stock and raise money to pay for new improvements. When the market price reflects doubts as to the future of the business, it is difficult or impossible to issue more stock. The market may feel this way because it is scared by general business conditions, by regulation, by labor controversies, or because investors think the management is inefficient, or for forty other reasons. But whatever the reason there is a certainty that when the flow of stockholders' money dries up, the day of increasing wages and reducing rates is pretty close to a dry spell too, for you can't grow much without new capital, neither can you grow safely by continuously increasing the mortgage on the property.

The state of mind of the stockholder and the judgment of the market is something for all who work in the Bell System from management to office boy to watch with care.

Good Management Is Essential

Then you get to the management. Do the investors trust its capacity? Does it see that it gets improvements from the Laboratories and from other sources? Is its judgment on what to improve good and are its operations skillful? Can it train people to use equipment effectively so that there will be the more work done easier which ultimately produces the more wages and the greater values for the public?

No one knows for certain exactly how good management is, for you can't measure it except by judgment. Nor can anyone insure that the constant change of personnel will continue to produce good management. But the Bell System has a policy, which tends to insure good management as near as may be. It has a practice of keeping records by districts, divisions, areas and companies, of all manner of service criteria. This means a comparison of performance, one with another, a competitive test of merit by which men can be tested for increasing management responsibilities. This means that its management is selected on a competitive basis from the ablest men who grow up in the business so that they know intimately the problems it has to face. All of the operating heads in the System are graduates of the school of telephone experience. And again, good management, like good credit with the stockholders, is one of the essentials to achieving a continuous record of paying good wages and increasing the value of the service to the public. And now we come to the satisfaction of the public.

The Public Must Be Pleased

The program of constant improvement of facilities so that employees can accomplish more in a given time and get higher pay while giving the public more for its money, is certainly in the public interest. On the face of it, the public ought to be satisfied. Generally, it has been. But the public may at any time through its spokesmen, the commissions, decide to try for even lower charges for the service it gets. It may think that dividends are too high or wages too high and want to cut rates accordingly, just as the employees might figure that they wanted more at the expense of the stockholders and the public. Of the three, the public is by far the most powerful. If the public really gets mad at a business it can cut the income so that the whole program collapses. That may not be in the public interest in the long run, but none the less it has happened in the history of American business.

There is one thing that stockholders in particular are concerned with, namely the maintenance of good public relations. It is a thing that all employees ought in their own interest to watch. And it is a thing that is largely in the hands of the employees, for the relations of the Bell System with the public are through its commercial offices, its operators, installers, linemen—in fact, the entire personnel. If the public likes them and likes what they do and how they do it, the public relations of the Bell System will be good.

Results So Far

With this picture in mind, let's look again at the results of the last 13 years a little in detail, and then look at the prospects for employment, wages, service to the public and return to the stockholder, which the post-war period holds out.

In 1942, some 20,000 less people got \$115 million dollars more in pay from the Bell System than in 1929. The hours were shorter and conditions of work better.

Even in the war the American public had in 1942 the best and most adequate service in the world and it provided one of the elements of national speed, which has greatly helped this nation to get its production for war where it is. The plant of the Bell System and the know-how and effectiveness of its employees are a vital national asset. Also the public has been saved hundreds of millions of dollars during the 13-year period.

The A. T. and T. stockholders as a group, although they have received \$9 per share per year in dividends, were not quite as well off at the end of the period as they were at the beginning since the book value of their stock was \$142 at the beginning of 1929 and \$134 at the end of 1942. During this period these stockholders had put up \$724, - 751,000 of new money; and due to the larger number of shares of stock, the total dividends in 1942 were \$168, - 181,000 while in 1929 they were \$116,379,000, or an increase of \$51,802,000. This new money helped to buy the new equipment, which has enabled the employees to accomplish so much more work.

Bell System Policies

Mr. Gifford stated the policies of the Bell System soon after he became president, as follows:

“ . . . The fact that the responsibility for such a large part of the entire telephone service of the country rests solely upon this Company and its Associated Companies—imposes on the management an unusual obligation to the public to see to it that the service shall at all times be adequate, dependable and satisfactory to the user. Obviously the only sound policy that will meet these obligations is to continue to furnish the best possible telephone service at the lowest cost consistent with financial safety. This policy is bound to succeed in the long run and there is no justification for acting otherwise than for the long run.

“It follows that there is not only no incentive but it would be contrary to sound policy for the management to earn speculative or, large profits for distribution as ‘melons’ or extra dividends. On the other hand, payments to stockholders limited to reasonable regular dividends with their right, as the business requires new money from time to time, to make further investments on favorable terms, are to the interest of both of the telephone users and of the stockholders.

“Earnings must be sufficient to assure the best possible telephone service at all times and to assure the continued financial integrity of the business. Earnings that are less than adequate must result in telephone service that is something less than the best possible. Earnings in excess of these requirements must either be spent for the enlargement and improvement of the service furnished or the rates charged for the service must be reduced. This is fundamental in the policy of the management. . . .

“While the Bell System seeks to furnish the public the best possible service at the least cost, the policy which recognizes this obligation to the public recognizes equally its responsibilities to its employees. It is and has been the aim to pay salaries and wages in all respects adequate and just and to make sure that individual merit is discovered and recognized. . . .

“Undoubtedly a very great factor in the continued progress and improvement of telephone service is the intangible but quite real spirit of service that has become a tradition in the telephone business. . . . It is fundamental in our plan of organization to have at headquarters and in our laboratories several thousand people whose sole job it is to work for improvement. They are engaged in studying what is used in the telephone business and how it is used and endeavor to find a better thing or a better way. Of course, the people who are engaged day by day in trying to maintain a high standard of telephone service are doing their part, and a most important part, in increasing the quality and keeping down the cost of service, but progress is assured by having a large group of scientists and experts devoted exclusively to seeking ways and means of making the service better and cheaper. . . .

These policies have been followed with good results for the public, the employees and the owners, and these policies are still the policies of the Bell System.

The Prospect Ahead

Now we are in a war and wages probably have gone up faster than the improvements in plant and economies in operation but in keeping with other wages. Still neither the stockholder nor the public has fared badly. The abnormal volume of business since we entered the war has kept the net earnings per share of A. T. and T. stock about equal to the dividends paid, and the public has had more service although not quite such good service as usual, and at rates which have stayed stationary or gone down during a period when the prices of most other things have gone up.

On the assumption that both wages and prices will be more or less stabilized by the Government from now to the end of the war and that the amount of new and improved service to the public will be limited by material shortages, what are the prospects of the business in the post-war period and what are the prospects of employees, stockholders and the public? As stated in the beginning, the Bell System will probably need a billion and a half dollars of money for work in sight after the war.

This work is largely putting in those improvements, which are the basis of good prospects for all three parties. Such a program will provide work, wages, dividends and increased service to the public.

Can it be carried out?

It can if the investing public thinks the Bell System is a good prospect and is willing to put up the money. Everything else should be ready.

Nothing is certain in a changing world, but so far as matters in the control of Bell System management and employees are concerned, the System ought to be able to get the needed money to put the billion and a half dollar program into operation when the war is done.

And that ought to insure another period of increasing value of service to the public, good wages and working conditions for employees, and continued dividends to the stockholders.