

Atandt business analysis flashcard



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Executive Summary

The world is experiencing a communications revolution. The Internet, e-Commerce and other developments (including the convergence of communication technologies) are profoundly reshaping economic and social life. AT&T must position itself to meet the challenge of this revolution. The strategic development of information-based industries is a key to the future social and economic development of the world.

The telecommunications industry is of vital importance to the development of the information-based economy. AT&T need to supply access to cost efficient, timely and innovative telecommunications services.

AT&T had developed a reputation for providing high-quality long distance telephone services. It moved rapidly to exploit this reputation in the newly competitive long distance market by aggressively marketing its services against MCI, Sprint, and other carriers. Also, AT&T had traditional strengths in research and development with its Bell Labs subsidiary. To exploit these strengths in its new global competitive context, AT&T shifted Bell Labs' mission from basic research to applied research, and then leveraged those skills by forming numerous joint ventures, acquiring NCR, and other actions. Through this process, AT; T has been able to use some of its historically

important capabilities to try to position itself as a major actor in the global telecommunications and computing industry.

Effective competition is widely seen as a key to the development of telecommunications services. The ability of new telecommunications networks to interconnect fairly and efficiently with existing networks is critical to the development of competition. AT; T has undergone numerous changes since its inception in the late 19th century. The McKinsey 7 S framework as applied by Pascale is recommended to manage the changes they are facing to adopt a greater competitive presence in the global economy. In conjunction with this framework, numerous other models were applied to analyse the global competitive position of AT; T.

Recommendations for a revised strategy and direction for AT; T have been made throughout this document including two scenarios of how the telecommunications industry might develop towards 2000, while outlining the impact on AT; T.

Question 1 – Analyse AT; T's strategic position

1. 1Introduction

AT&T Corp., incorporated in 1885, is engaged in providing voice and data communications services to large and small businesses, consumers and government entities. AT&T and its subsidiaries furnish domestic and international long distance, regional, local and Internet communications services. AT&T's primary lines of business are AT; T Business Services and AT; T Consumer Services.

For most of its history, Ma Bell (AT; T) functioned as a legally sanctioned and regulated monopoly. When AT; T entered the global arena, the dynamics of classical competition changed and AT; T had to reshape and change their strategy to meet the new challenges of a global economy.

1. 2Strategic position of AT; T in 1994

After the divestiture of 1984 – 1988, CEO Robert (Bob) E. Allen started to rationalise the business. He broke up the giant functional organisation into 21 manageable business units to help drive responsibilities and accountability. Up to 1994 Allen reorganised AT; T's crown jewel to be its core telecommunications network and his strategy was to focus AT&T's expansion only on the areas wich enhanced this core. Allen explained, " Everything we are doing is designed to put more traffic on our network, to enhance the value of our network."

With increasing competition, convergence of industries, deregulation and international trust laws, Allen soon realised that this strategy had to change. The BU structure and strategy of 1989, did not match the business needs for 1994 and the new millenium.

A thorough analysis to reshape AT; T's strategy was executed and this report contains its recommendations

1. 3Current situation analysis

1. 3. 1Internal enviroment (SWOT, TOWS)

The SWOT analysis (Appendix 1) revealed internal positive and negative attributes of the organisation, while the TOWS analysis (Appendix 2) identified external weaknesses and strengths that may influence growth. The analysis will be incorporated in the new strategy

1. 3. 2 External environment (PEST)

Various factors in the environment can have a significant impact on AT&T, even more so if they want to gain and maintain the competitive advantage in a global sphere of operations. The PEST analysis were conducted as per Appendix 3 and will be applied when formulating a new strategy for AT&T

1. 3. 3 Competitive environment (Porters five forces, diamond, value chain and BCG Matrix)

Porters five forces (Appendix 4) can act continuously and adversely against AT&T unless it defends itself or influences them in its favour. The Porters diamond (Appendix 5) was used to show how AT&T's international success within the industry depends on four specific attributes which promote or impede competitive advantage. The value chain (Appendix 6) was used to identify which functions and activities, through their interrelationship, can be used to improve the competitive position of AT; T. It also helps to determine synergies, analyse customers needs, and identify potential partners for joint ventures – A strategy that AT; T should seriously consider. The BCG matrix (Appendix 7) was used to analyse how the market growth rate and market share affect profitability and cash generation potential within the product range of AT; T

1. 4Financial analysis

An extensive 10 year analysis for AT; T was conducted as per Appendix 8

In 1992 and 1993 AT; T took advantage of favorable levels of interest rates to extend debt maturities by refinancing a substantial amount of long-term debt. In 1994 they refinanced McCaw's debt.

AT&T use certain derivative financial instruments, mainly interest rate contracts and foreign currency exchange rate contracts for purposes other than trading. This allow them to limit the effects of changing interest rates and protect their margins on existing transactions. In the writers' view, the risks to AT; T from their use of these derivative financial instruments are small and their benefits include more stable earnings in periods when interest rates or currency exchange rates are changing.

For the past three years (prior to 1994) they have issued new shares of common stock in their shareowner and employee plans. The dilution in earnings per share from these new issuances was not material. They should sell equity interests in AT; T subsidiaries only when opportunities or circumstances warrant.

The ratio of total debt and preferred stock to total capital (total debt, preferred stock and equity) declined to 58. 3% at December 31, 1994, compared with 64. 4% at December 31, 1993, primarily because of higher equity from 1994 earnings. Excluding financial services and leasing operations, the debt ratio declined to 34. 1% at December 31, 1994,

compared with 49.1% at December 31, 1993. Their long term goal should be to bring this ratio down to less than 30%.

The raise in cash balance as well as higher inventories and receivables, which are primarily associated with the growth in revenues, boosted net working capital to \$6.7 billion at the end of 1994 from \$4.3 billion at the end of 1993 so they could act quickly on new opportunities outside the U. S. Inventory turnover was 3.4 times in 1994, the same turnover rate as 1993. Operating cash flows increased in 1994 mainly because of higher income.

1.5 Conclusion

Although AT; T had a comfortable revenue stream from long distance services, senior AT; T management knew that if the company were to have a future, it would have to transform itself from just being a long distance company as new technologies reshaped the marketplace. AT; T's strategy was to become an integrated provider of communications services, products, network equipment and computer systems.

One by one, AT&T was forced to recede from each market segment as a loser, falling back to its mainstay product – long distance. Despite massive changes in strategy and structuring, the expectation that AT&T would find a dominant role in the telecommunications industry did not come to pass. It has become clear that for AT&T's business to take advantage of the incredible growth opportunities it has to separate into smaller and more focused businesses. The problem is that it's a long-term strategy in a short-term world, as investors want to see return of their investments. The public's relationship with AT; T has always been fickle, but investor capriciousness

has grown rapidly by 1994. AT; T has reached the point where the advantages of their size and scope will be offset by the time and cost of coordinating and integrating sometimes conflicting business strategies.

Question 2 – Identify and evaluate strategic options facing AT; T in 1994

2. 1Introduction

The telecommunications industry has moved into the 90's at a critical technical and regulatory turning point. The fixed wireline system was at a crossroad of mixed protocols while the mobile wireless system emerged as the single most important area of growth. Additionally, increasing numbers of economies were trying hard to find the most appropriate approach to convert the monopoly operation of telecommunications into a more efficient and market-orientated competition. As a result, the landscape of telecommunications operation and regulation have been and will continue to be revolutionarily reshaped.

2. 2The architecture of strategy as applied to AT&T

The architecture of strategy rests upon six pillars which are:

Financial performance

Competitive advantage

Structural position

Process execution

Enterprise synergies

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Organisational capacity

Each of the above mentioned pillars are interdependent with the others and to determine and evaluate strategic options the architectural structure of strategy must be taken into account. The appendices indicate how this can be applied to AT&T to identify strategic options facing the company in 1994.

2. 3Hierarchy of strategic intent

One of the most important factors one has to consider when identifying and evaluating the strategic options facing AT&T in 1994 is that of its strategic intent. If a company doesn't have a properly defined vision, mission, goals, objectives and plans, even the best of strategic or visionary processes are doomed to failure. An analysis of the strategic intent of AT; T as defined in 1994, with growth strategy for the years ahead can be found in Appendix 9

2. 4Growth strategy

Since the late 1980's the the telecommunications industry has seen explosive growth. More trans-Atlantic telecommunications circuits were installed between 1991 and 1994 than in all previous history. The Internet then connected some 25 million people worldwide. Electronic mail, voice mail and portable phones have become everyday staples for many. At the same time, half the world was still waiting to make its first phone call, and the waiting period for a phone line in some third world countries was 10 years. Developing countries now recognise the indisputable links between communications capability and economic development. For AT&T this spelled

opportunity. In 1994 this industry was worth well over \$1 trillion and was growing 8 to 10 percent annually.

Companies and business sectors were and are still converging into one gigantic information technology sector. This include businesses from the following industries:

Telephone services

Broadcast distribution

Cellular communications

Computing (hardware/software)

Paging, messaging

Information services

Entertainment

Publishing

Systems integration

Consumer electronics

Communications products/systems

Catalog/retail sales

Business equipment/systems

AT&T can, with the right strategy, as indicated in Appendix 10, be at the very heart of this convergence, which gives them the ability to greatly expand their current 5 percent share of the global markets created. As computers, phones, TVs and fax machines merge to produce intelligent hybrids like home “ information appliances,” multimedia systems and personal digital assistants, they should concentrate to train expertise in virtually all the technologies employed through their highly renowned Bell Labs

As the world clamors for everything from basic telecommunications to palm-held information devices to home shopping, they should offer a full range of supporting products and services — from integrated circuits to switching systems, and from voice and data communications to audio processing and messaging systems. They also have considerable expertise in software, the enabling technology behind many “ information age” products and services. One out of every 10 AT&T people were engaged in software development. in 1994. The projected growth opportunities in 1994 were legio

As the biggest growth potential is foreseen in infrastructure equipment and systems and communications services, AT&T should focus on these two niches in the market, with the emphasis on communication services, as the global economy of the 21st century will be primarily service based. With the advent of the information age, markets shrink, so that any products are freely available everywhere, anytime. The competitive advantage will be in the service associated with the product.

2. 5Strategic partnering (Joint ventures)

Besides technical expertise, AT&T have the skills to provide and engage in customised, integrated ventures — either initiated by them or in concert with partners attracted by the strength of their brand, the power of their technology and the skills of their people. Growth opportunities have a way of attracting formidable competitors.

Bob Allen declared their strategic intent to participate in joint ventures as follow in 1994: – “ We can’t predict exactly how the information industry will evolve, but we know that the breadth of our participation greatly increases our chance to capitalize on its growth. “

2. 6Strategic options

Evaluating AT&T’s divisions in light of the company’s overall market cap, one can clearly see that Wall Street is according a negative value to the long-distance business. The writer believes that some of the strategic options that AT&T should exersize include, but is not limited to, breaking the company up into three separate blocks, to force a positive valuation of the wire-line business. The parts are more valuable than the whole. In addition to wireless and long-distance, the third block would be AT&T’s cable assets. The company should show to investors that it can execute its long-term strategy, however this is going to require time, which the demanding investors are not likely to give to AT&T.

One of the ways AT&T could quickly boost its value would be to spin off the AT&T Broadband business, which includes its cable acquisitions. As a growth business beholden more to earnings before income tax, depreciation, and amortization (EBITDA) numbers, it would make sense to separate AT&T

Broadband from the more earnings-per-share-oriented long-distance business.

That would give the pure long-distance company a chance to refocus on the foundering AT&T Business Services unit, which is badly trailing competitors Worldcom and Sprint .

Investors like spin-offs. If AT&T breaks itself in three, stock gains of up to 15 percent can be possible. This should quiet down investors so that Allen and his team can revisit their strategic options and set a long term strategic plan in motion

2. 7Conclusion

The strategic options that faced AT&T in 1994 and the consequent actions smacked of desperation, but desperate measures were in order. The main challenge for Bob Allen and his team was to keep investors happy, while at the same time having to implement their strategic vision, position the company for the new advances in technology, preparing the company for the new millenium and to become a global leader in all aspects of the global converging infocom business. The immediate challenge was to return value on shareholders interest, which could be done by reshaping the business, and then focus on the long term strategy and partnering in joint ventures to gain the competitive advantage in the global infocom economy.

Question 3 – Consequences of global telecommunications development for AT&T

3. 1Introduction

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In 1994 U. S. vice president Al Gore remarked: “ As technologies and industries converge, what is emerging is a new ‘ global information industry.’ The new marketplace will no longer be divided along current sectoral lines. There may not be cable companies or phone companies or computer companies, as such There will be information conduits, information providers, and information appliances and information consumers.”

3. 2Development of the telecommunications industry – 2 scenarios

3. 2. 1Scenario 1 – Development towards a social responsibility

The telecommunications industry will be playing an increasingly influential role in reshaping trade, growth, employment and production in large parts of the world. A merged information and communications industry (infocom) will present unprecedented opportunities if they are to focus their strategy on social responsibilities rather than maximising profit. If the infocom sector develops this way – and it is indeed a viable option as the world bank is pumping billions into the industry – it will combat poverty by increasing income, opening markets and providing a channel through which the voices of the poor can be heard. Developing countries now recognise the indisputable links between communications capability and economic development. The world bank is already planning mergers with some of the large telcos with a focus towards closing the digital divide. This will in turn open up new markets, especially for the poorer third world countries, whilst at the same time produce a steady revenue stream

3. 2. 2Scenario 2 – Development towards technology

It is apparent that growth in the telecommunications sector – especially from within the wireless segment – will drive the demand for related components to an unanticipated high. Sectors will converge into one gigantic infocom business. Manufacturers and service providers of handheld voice and data products as well as internet driven appliances will have difficulty in keeping pace with the rate of consumption. Massive growth in broadband communications, networking and also the conversion of cellular/PCS infrastructures to the next generation packet data capable system are to be expected. Heavy emphasis on developing handheld products is expected. In response, leading manufacturers will focus on bringing high-capacitance products, specifically tantalum replacement ceramics, to the market. They will also focus on manufacturing smaller, higher performance multifunctional components with increased electrical performance. Beyond developing new products the clients of the infocom sector will also require improved service offerings from its suppliers and service providers

3. Consequences for AT&T

3.3. Scenario 1

Should the infocom industry develop in a way where they focus primarily on the social responsibility the main challenge for AT&T will then be to broaden the reach of the infocom sector to reach those who risk being left behind. This is the essence of the “ Digital Divide”. AT&T should realise that this gap exists and start joint ventures in especially Africa, Eastern Europe, and some Asian – Pacific countries to bring the telecommunications infrastructure to those emerging markets and therefore become partners in opening up the

global markets to these countries. They should consider mergers and acquisitions to become a new global telecommunications and technology giant , and generate synergies that will enable them to better accomplish their mission and adapt their vision to create a world free of digital disparities, where equal access to communication networks becomes a vehicle for development and market participation on a micro and macro level.

3. 3. 2Scenario 2

AT&T will no longer call the shots on which technologies and standards will dominate the phone systems. Instead, a plethora of new and unproven transmission systems, internet calling, digital wireless, low-orbit satellite services, and broadband networks will jockey for the customer's calls. The Telecom Act of 1996 will set the stage for hordes of new competitors to enter the long-distance market, among them the powerful Baby Bells. AT&T could also be facing electric utilities, cable-TV operators, and even corporations in other industries. This will diminish the AT&T-dominated oligopoly with a consequent shrinking market share.

Deregulation will mean AT&T has no choice but to offer local calling – all its competitors will – but it is a market with a daunting risk/reward ratio. AT&T must spend billions getting in, and it could still take years to break the dominance of today's monopoly local phone companies. In this highly competitive global market the only distinction will be in the service levels of providers. Technology is available to all, but higher service levels and support of that technology will set AT&T apart from the competition. Working

closely with key customers to communicate to manufacturers the nature and extent of short and long term demand for new products will become imperative. Vertical market integration and supply chain logistics will become more and more business critical, and hence AT&T will have to reduce total cost of inventory ownership, increasing working capital and maximizing the bottom line without compromising production and service levels.

3. 4Conclusion

As the new millenium approaches AT&T will face real and ever changing challenges to their strategy. The telecommunications industry can develop into two mainstream directions, either focusing primarily on new technology to maximise profits, and thereby widening the gap between first and third world countries and potentially closing or cutting off emerging markets, or with a focus on closing the digital divide by adhering to the social responsibility, and getting the communication systems and infrastructure in place to enable poorer countries to trade and compete in the global market. AT&T should encompass both these possible developments in their new strategy as customers, manufacturers, shareholders, and distributors alike will be carefully watching critical markets like the infocom industry for product and service supply fluctuations and will continue to pursue partnerships with only those companies that offer high value services and returns

Question 4 – Strategic change management

4. 1Introduction

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Markets and competition in the information industry are increasingly global in scope. Some of the fastest growing markets are outside the U. S. To measure the organisational effectiveness of AT&T the Mckinsey 7-S Model is a valuable tool to initiate change processes and to give them direction. AT&T should use this to determine the current state of each element and to compare this with the ideal state. Based on this it is possible to develop action plans to achieve the intended state and become competitive in the global economy. The application of the model and subsequent recommendations is discussed in Appendix 11

4. 2 Strategic organisational change for global competitive advantage – The McKinsey framework as applied by Pascale

Pascale found that corporations with a high degree of fit amongst parts, like AT&T, had a lot of focus, but they were often threatened with stagnation. Where organisational parts meshed together less well, the resultant contradictions and tensions made them somewhat more adaptive. The contentions in AT&T tend to arise in predictable domains. These vectors of contention each correspond to the 7 S's identified by McKinsey as explained above. Each domain captures a paradox or polarity that needs to be reconciled. The polarities provide an ongoing vehicle for sustaining constructive disequilibrium. The implications of the application for AT&T is attached as Appendix 12

4. 3 Changes in the organisation, its structure, culture and systems

The changes in the structure, culture, and systems of AT&T that must be implemented to gain the global competitive advantage is tabled in Appendix 12

4. Mapping and recommendations for change

Mapping AT&T

In change processes, many organisations focus their efforts on the hard S's, Strategy, Structure and Systems. They care less for the soft S's, Skills, Staff, Style and Shared Values. Peters and Waterman in "In Search of Excellence" commented however, that most successful companies work hard at these soft S's and that is what make them successful. The mapping is attached as Appendix 1

4. Conclusion

Change always creates resistance and in a company like AT&T, with thousands of employees, resistance can be futile. It is of utmost importance for AT&T to apply the soft factors as discussed and mapped in the document. Participative management can make or break a successful change process, since new structures and strategies are difficult to build upon cultures and values not supported by the very people who will be affected by it. AT&T will need to change their structure (SBU's), culture (boundaryless), and systems to implement the preferred strategy and secure AT&T's global competitive advantage in the future.

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6. Appendices

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Appendix 11 – Mckinsey 7 S Framework

The model starts on the premise that an organisation is not just Structure, but consists of seven elements:

The Hard S's

Strategy Actions AT&T plans in response to or anticipation of changes in its external environment.

Structure Basis for specialisation and co-ordination influenced primarily by strategy and by AT&T's size and diversity.

Systems Formal and informal procedures that support the strategy and structure. (Systems are more powerful than they are given credit)

The Soft S's

Style / Culture The culture of AT&T, consisting of two components:

Organisational Culture: the dominant values and beliefs, and norms, which develop over time and become relatively enduring features of organisational life at AT&T. Management Style: more a matter of what managers do than what they say; How do AT&T's managers spend their time? What are they focusing attention on? Symbolism – the creation and maintenance (or sometimes deconstruction) of meaning is a fundamental responsibility of managers.

Staff The people/human resource management – processes used to develop managers, socialisation processes, ways of shaping basic values of

management cadre, ways of introducing young recruits to AT&T, ways of helping to manage the careers of employees

Skills The distinctive competences – what AT&T does best, ways of expanding or shifting competences

Shared Values / Superordinate Goals Guiding concepts, fundamental ideas around which a business unit is built – must be simple, usually stated at abstract level, have great meaning inside AT&T even though outsiders may not see or understand them.

Appendix 12 Mckinsey 7 S framework as applied by Pascale

The contending opposites are:

Strategy Planned Opportunistic

Structure Elitist Pluralist

Systems Mandatory Discretionary

Style Managerial Transformational

Staff Collegiality Individuality

Shared Values Hard Minds Soft Hearts

Skills Maximise “ Meta-mise ”

The recommended strategy that AT&T should follow to gain the competitive advantage in a global economy is tabled below:

Strategy Planned versus Opportunistic AT&T need both planned and opportunistic tendencies, but the key to success lies in the dynamic synthesis thereof. Opportunistic responses often shape the content of a new thrust whilst strategic thinking identifies the underlying context. Strategic planning is about asking questions, more than attempting to answer them. Strategy formulation entails a search for a different frame of reference. It is the quest for their new business paradigm. There are two types of paradigms that apply to management, namely the business and the organisational or managerial paradigms. Strategic thinking involves the understanding of basic economics of business; identifying AT&T's sources of competitive advantage like the wireless market, and allocating resources to ensure that ones distinctive capabilities remain strong. Strategy's most important contribution is searching for, and redefining, context. Strategic thinking also creates a readiness to exploit unforeseen opportunities.

Structure Elitist versus Pluralist Functional excellence can only be achieved if there is sufficient integrity and focus within each business unit in AT&T. The term " elites" describes those specialised organisational units with proximity to power and/or superior competence when compared to competitive benchmarks. In AT&T this is the highly advanced Bell labs. These functions represent a AT&T's distinctive capability. It is, however, important that more than one such elite function exist. They need to be complementary in order to ensure that they serve as a check on another. The term " pluralist" describes these vital forces that play a key role in decision making. The tension that is created amongst these forces stimulates thoughts and lead to self-improvement and competitiveness. Elite functions will bring core

strengths to AT&T, but it must co-operate with the whole (plurality) to achieve collective results. The stronger and more competent the elites are, the more difficult it is to achieve cross-functional teamwork. AT&T's challenge is therefore to ensure that Bell labs are on a par with that of the competition, but at the same time they need to ensure that they respond to market demands by cutting across these functional compartments.

SystemsMandatory versus Discretionary Although AT&T try to eliminate inconsistencies by creating good fit, they must guard against inward-centredness, which could stifle the business. The change management initiatives and conflict management procedures that Allen instituted supported the other legacy systems

StyleManagerial versus Transformational "Managerial" can be defined as the administrative orientation whose aim is to get the maximum out of the AT&T whilst a transformational orientation aims at quantum leaps in performance. The focus is on creating a new order of the things. The managerial approach is more project than process focused.

StaffCollegiality versus Individuality Collegiality refers to supportive relationships and teamwork in AT&T where this is present communal tendencies in the form of coherent social rules and common identities exist. Such a well-constructed network can make employees feel autonomous but yet still part of the coherent whole. The 'Common Bond' that all employees in AT&T must adhere to is an excellent strategic tool to achieve this, however it should constantly be revised and updated to adapt to the changing tide.

Shared Values Hard Minds versus Soft Hearts” Hard minds” refers to the financial performance of AT&T. An enterprise, or SBU in AT&T that cannot generate a profit is not adding enough value to perpetuate its right to exit, but when short-term profits are over-emphasised, AT&T’s long-term competitive position can be sacrificed. Hard minds, like Allen, drive for financial results and this drive manifest itself in a preoccupation with concrete, bottom-line results. Hard-minded values are tied to goals that are unambiguous and quantifiable. Soft hearted values, on the other hand, pertain to intangibles that are tied to higher-order ideals that affects employees (treating them with dignity), customers (treating them with fairness) and society (making a social contribution). Soft hearts act as a counterweight to tangible financial goals.

Skills Maximise versus “ Meta-Mise” AT&T’s skills includes hard assets such as financial strengths and dominant market share, but it takes the human and managerial input to translate these into sustainable competitive advantage. The terms “ maximise” and “ meta-mise” describe AT&T’s decision to decide whether it should be getting better at what it is already good at or whether it should be looking toward higher order capabilities that are beyond the old. The strategic vision of AT&T must be adjusted to reflect their intent of being boundaryless’ and to become the leader in the infocom industry. It must become the companies culture.

Appendix 13 – Mapping AT&T’s Strategy

The soft factors can make or break a successful change process, since new structures and strategies are difficult to build upon inappropriate cultures

and values. These problems often come up in the dissatisfying results of spectacular mega-mergers. The lack of success and synergies in such mergers is often based in a clash of completely different cultures, values, and styles, which make it difficult to establish effective common systems and structures. Based on the case study, extensive research and annual reports of AT&T the writer has mapped AT&T in the different domains. AT&T should strive to attain a perfect circle as close to the centre as possible, which indicates total synergy, order and equilibrium. Where the circle is skewed drastic change is needed as it moves closer to the outer ring of chaos: