

## **III - ORGANIZATION AND EXECUTIVE MANAGEMENT**

This chapter addresses the range of issues that fall under the broad umbrella of organization and executive management. The organizational structure and overall management processes and procedures of Verizon New York (Verizon NY) have a profound effect on its service delivery and its service quality. Organizational and management processes have the critical responsibilities of setting the strategic direction of and managing Verizon NY into the future. These management processes provide the structure, direction, focus, policies, procedures, and controls that will allow Verizon NY to fulfill its intertwined corporate and public missions. The organizational structure—with its various local, regional, and corporate layers of management (all of which provide direction as well as administrative and support services to designated service areas)—must function efficiently and truly take advantage of local involvement in decision-making.

### **A - BACKGROUND**

This background is divided into four main sections as follows:

- ***Organizational Structure*** – This first section discusses organization and management as a whole as well as their combined effect on service quality. It is more difficult to directly tie a company’s overall organizational structure to specific service quality measures; however, to the extent that the organizational structure permits the assignment of service quality responsibility to specific individuals within that organization, a solid organizational structure provides a greater assurance that actions will be taken to meet or exceed the service quality objectives. In short, if responsibilities for service quality are not clearly assigned to individuals within the organization, the probability of success is diminished.
- ***Corporate and Strategic Planning*** – This second section discusses Verizon NY’s Corporate Planning. To the extent that the corporate and strategic planning processes place the appropriate emphasis on the attainment of service quality goals and objectives, planning processes can have a direct impact on service quality measurements. Furthermore, to the extent that strategic and corporate planning is a longer-term activity, it can impact the ability to attain a certain level of service quality into the future. In short, if service quality is not “part of the plan,” it will be difficult to achieve.
- ***Human Resources Management*** – In any organization, “it is the people who make it happen.” Human Resources management is an important element in the overall picture of service quality. The extent to which an organization builds individual and team incentives and rewards around the attainment of service quality measures determines the likelihood that the sought-after results will be achieved.

- **Labor Relations** – Labor relations is a key issue that can affect service quality indicators. Management/associate relationships can have an indirect effect on service quality measures, especially in the telecommunications industry, which historically has had a significant percentage of unionized employees.

### ORGANIZATIONAL STRUCTURE

Verizon was formed by the merger of NYNEX, Bell Atlantic, and GTE, which themselves represent numerous prior Bell Company mergers, and acquisitions of numerous independent Telcos, mostly by GTE. Verizon Domestic Telecom reports to the Vice Chairman, who reports to the Chairman and Chief Executive Officer. Verizon Domestic Telecom is structured in five major components: Enterprise (large Businesses), Finance, Information Technology, Network Services Group, and Retail Markets.

Each major operational unit, such as Network Services Group, has three major market areas: Verizon Northeast, Verizon Mid-Atlantic, and Verizon West Operations. Verizon Northeast includes the prior NYNEX properties, Verizon Mid-Atlantic includes the former Bell-Atlantic properties, and Verizon West includes mainly ex-GTE properties. Verizon New York, the subject of this review is part of Verizon Northeast Operations.

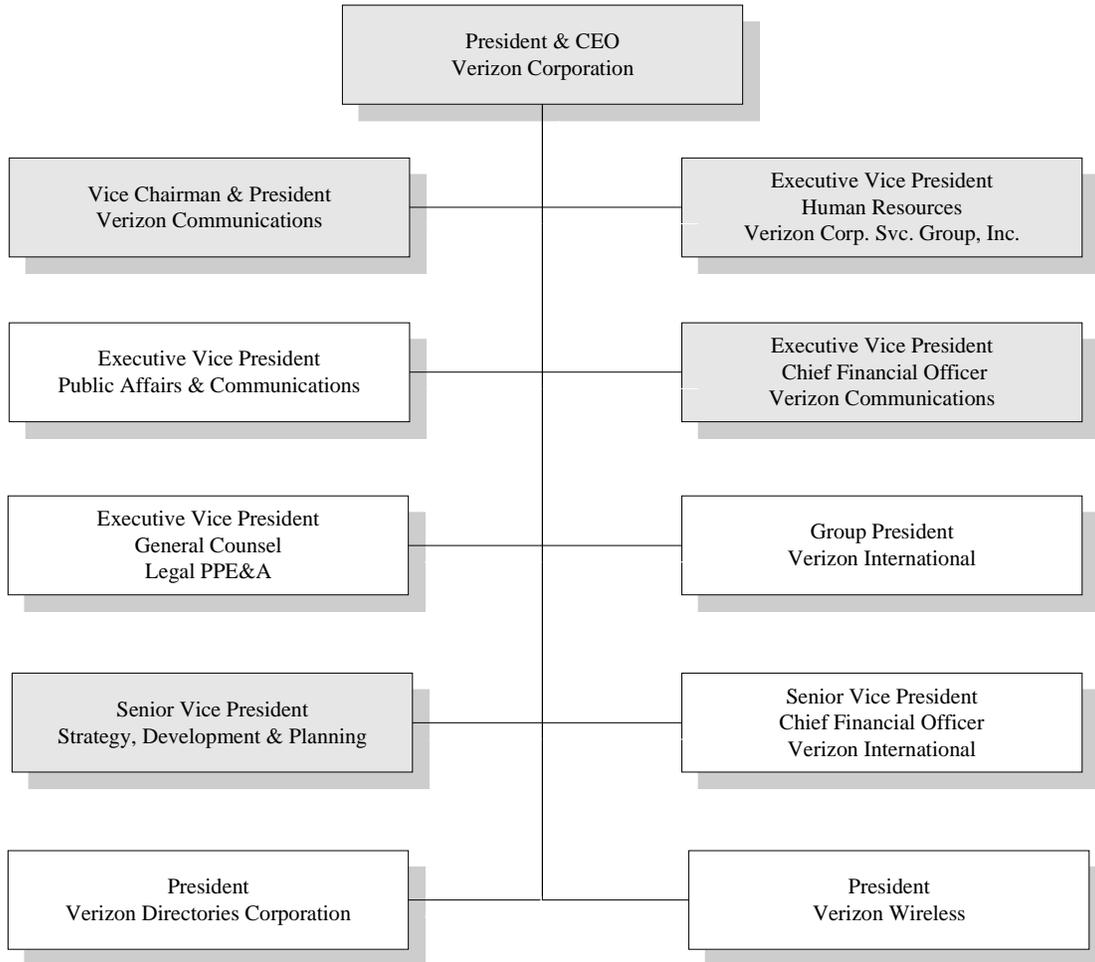
At the highest level, Verizon Corporation's management and organizational structure is shown in *Exhibit III-1*. The most relevant entities contained in this organizational chart, relative to DCI's review of retail service quality, are those that are responsible for what can be referred to as Domestic Telecom (Verizon Communications). These entities (shaded boxes on *Exhibit III-1*) are the:

- **Chairman and CEO** – This position is responsible for establishing the overall direction of Verizon Communications, of which Domestic Telecom is the largest part.
- **Vice Chairman and President, Domestic Telecom** – This group holds overall responsibility for ensuring service delivery and service quality to all domestic telephone companies (Domestic Telecom) across the Verizon footprint, including Verizon NY.
- **Senior Vice President Human Resources, Domestic Telecom** – This organizational group is responsible for establishing human resource policies and procedures, including labor relations, that apply to Domestic Telecom (Verizon NY included) activities.
- **Executive Vice President and Chief Financial Officer, Domestic Telecom** – This organizational group is responsible for financial activities, including capital and expense budgeting, within Domestic Telecom.
- **Senior Vice President of Strategy, Development, and Planning** – This organization is responsible for all strategic, developmental, and planning activities within Verizon Corporation that impact Domestic Telecom activities.

Verizon Communication’s senior management establishes the corporation’s overall direction, including its operating telephone companies.

Exhibit III-1

**VERIZON CORPORATION ORGANIZATION**

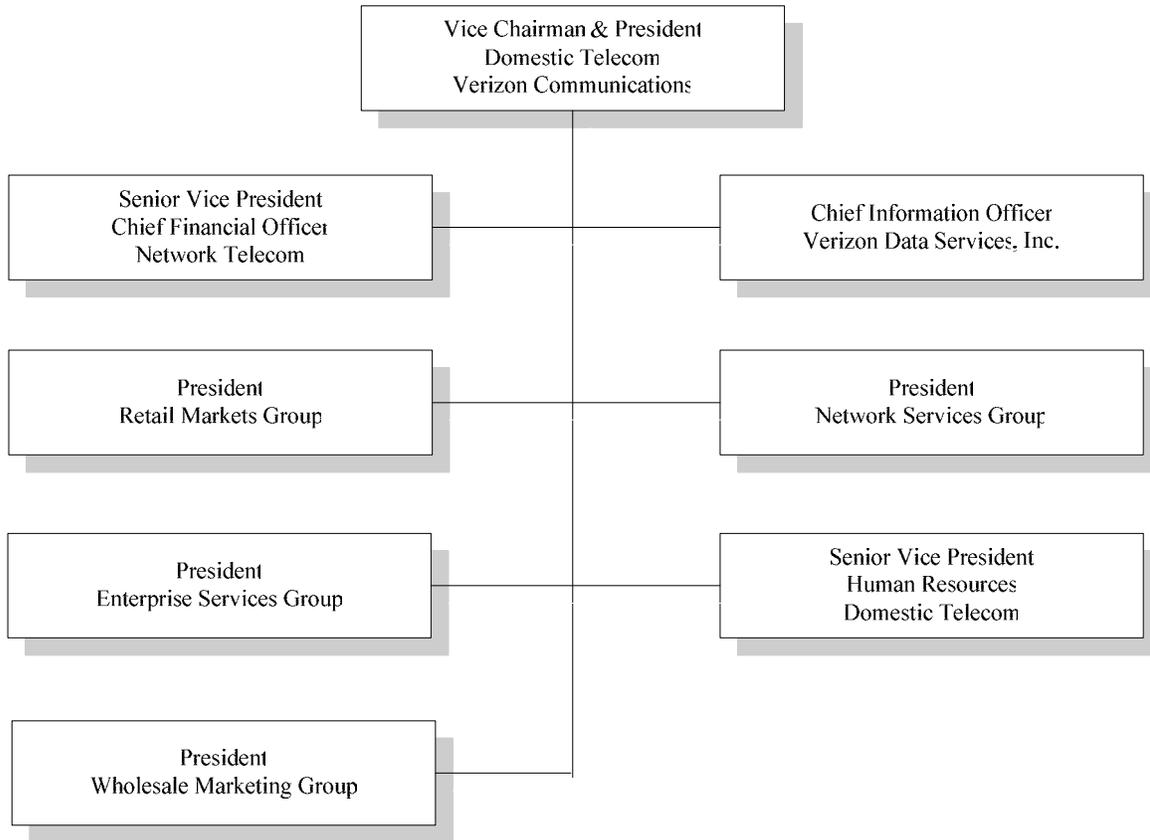


Verizon Wireless, Verizon International, and Verizon Directories are not relevant to this service quality review. For purposes of this review, the responsibilities for service quality delivery for the wireline business fall under the auspices of the Vice Chairman and the President of the Domestic Telecom of Verizon Communications. This organizational area, for all intents and purposes, represents Domestic Telecom.

**Domestic Telecom**

The Domestic Telecom group of Verizon Communications serves consumer and business wireline customers in 29 states and the District of Columbia. The Domestic Telecom organizational structure is shown in *Exhibit III-2*.

Exhibit III-2

**DOMESTIC TELECOM ORGANIZATION**

The most relevant Domestic Telecom entities, relative to DCI's review of service quality, contained on this organizational chart are the:

- ***President of Retail Markets*** – This organizational group is primarily responsible for Verizon NY consumer call centers where service levels are subject to performance measures. This group also holds responsibility for sales and billing inquiries in the consumer market.

- ***President of Network Services Group*** – This organizational group is responsible for many of the engineering and planning activities in support of service quality measures. This group also holds responsibility for all domestic network functions for Verizon’s wireline local, long distance, data networks, and long distance international transport off domestic gateway switches. In addition to its network role, this entity also runs the corporation’s technology groups and handles real estate management and procurement for Verizon. The Network Services Group also consists of the former National Operations Group, which is responsible for many of the installation and repair, maintenance, and construction activities in support of service quality measures. This latter organizational entity was merged into the Network Services Group in December 2003.
- ***President of Enterprise Solutions*** – This organizational entity is responsible for supplying end-to-end solutions to large business and government customers. This group manages the design, operation, and maintenance of end-to-end, total-integrated network solutions for large business and government customers across the United States.
- ***Senior Vice President of Human Resources*** – This organizational entity was recently created, in April 2004, within Domestic Telecom for the purpose of managing human resource strategies associated with the wireline business. Previously, the Verizon Corporation Service Group, Inc. provided programs, policies, plans, systems, and technology for personnel management. This group operated as a shared service (Shared Services Model). Each of the business-unit lines is supported by human resource individuals (local HR) who report up through the Domestic Telecom Senior Vice President of Human Resources.
- ***Chief Information Officer*** – This organizational entity is responsible for information technology systems and software that support operations.
- ***Senior Vice President and Chief Financial Officer*** – This organizational group is responsible for Domestic Telecom’s finance and accounting activities. The majority of this organizational entity is aligned with the telecommunications business to set financial and operational objectives, to allocate resources, to track and analyze performance results, and to provide value-added analysis to their client groups. Its departments support all lines of business through the delivery of revenue, the regulation of data, and the development of strategic alliances and new business.

In that this is an evaluation of retail service quality, wholesale markets were not considered within the scope of DCI’s review. Within Domestic Telecom, volume and revenue projections are available at the state level, but expense and capital are conducted by lines of business, not by state. Capital is reported on a state basis, but the business units allocate their budgets to the operational level within the state.

Each of these organizational entities is briefly discussed in the following sections.

### Network Services Group

During the course of the DCI review and shortly after the November 2003 Management Voluntary Separation Plan offer, the Network Services Group was restructured, according to Verizon management, to:

- Establish regional accountability for service delivery (including CO operations, construction, installation and maintenance, and customer satisfaction for the consumer and small business segment)
- Create one national organization for service delivery to enterprise and wholesale customers
- Continue a national focus on data products (DSL, ATM, Frame Relay) and network surveillance
- Continue to improve efficiency and to control costs

As part of the restructure, Network Services established three regions, each with the responsibility of serving the mass markets in a specific geography. These are smaller regions with comprehensive operations functional authority, joining the Installation and Maintenance (I&M) group, the Cable Maintenance (CM) group, and the Construction Organization (CXM) with Network Operations and Engineering under one Regional President. The Network Services Group is organized as shown in *Exhibit III-3*.

### Northeast Region Operations

The Northeast Region consists of New York and New England only.

Verizon NY operations are located in the Northeast Region as shown in *Exhibit III-3*. The Northeast Region is organized as shown in *Exhibit III-4*. There are three Market Areas within New York: Capital, Island Metro, and Liberty. A separate subsidiary also exists that manages conduit for the five New York boroughs. The Region Customer Services Team (RCST), which is chaired by the Region President, is the coordination focus point. Region presidents are responsible for all results within their geographic areas of responsibility. The Verizon NY regional organizations are further described in *Chapter VII – Field Operations*.

Within Verizon NY, districts were added back into the Liberty Market Area (where one Director was also added back) and the Island Metro Market Area (where two new Directors were also added back). This reorganization divided certain districts in two, thereby creating smaller spans of control within those districts and allowing for more focused attention on service in those areas.

### Engineering Organization

Although the Engineering organization is included in the Network Services Group, the Vice President of Network Engineering for the Northeast Region has solid line reporting responsibilities to both the President of the Northeast Region and the Senior Vice

President of Network Engineering. In addition to the regional organizations, the Engineering organization is responsible for establishing the capital program that the regional organizations implement. The Engineering organization also conducts analysis of network capital results and reviews monthly actuals against budget at the regional level. The Engineering organization is organized as shown in *Exhibit III-5*.

### **Retail Markets Group**

The Retail Markets Group is organized as shown in *Exhibit III-6*. All of the business offices (call centers) for both consumer and business customers are located within the Retail Markets Group. As such, the responsibility for achieving New York State Telephone Standards regarding call center service level resides within this organizational group.

### **Enterprise Solutions Group**

The Enterprise Solutions Group is organized as shown in *Exhibit III-7*. The Enterprise Solutions Group has primary responsibility for many of the special services performance measurements that are contained in the Verizon Incentive Plan (VIP). Some call centers are also located within this organizational entity, although they primarily deal with larger customers.

### **Domestic Telecom Finance Group**

The Domestic Telecom Finance group is organized as shown in *Exhibit III-8*. This organizational entity holds responsibility for Domestic Telecommunications' financial planning and analysis. This area is responsible for reporting to the SEC, for making 10Q and 10K filings, and for developing Domestic Telecommunications' consolidated reports that are then provided to Verizon Corporate. Revenue booking and analysis, adjustments and accruals, analysis of lines of business results, and reviews of monthly actuals versus budgets are also conducted by this organization. This group also partners with the business units in the development of annual force, expense budget, capital budget and performance metrics requirements, and monthly and quarterly Best Views.

Exhibit III-3

**NETWORK SERVICES GROUP**

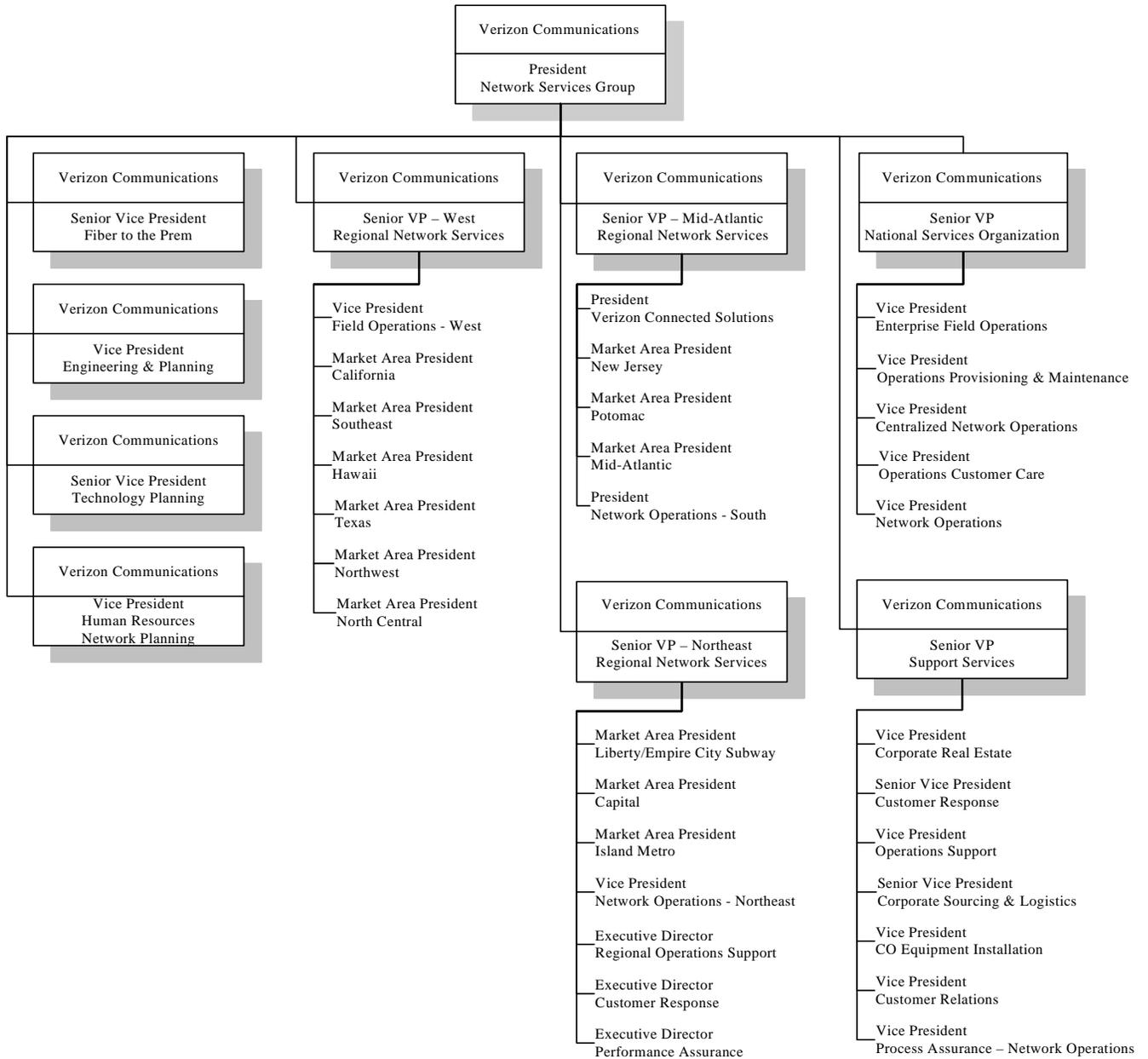


Exhibit III-4

**NORTHEAST REGION ORGANIZATION**

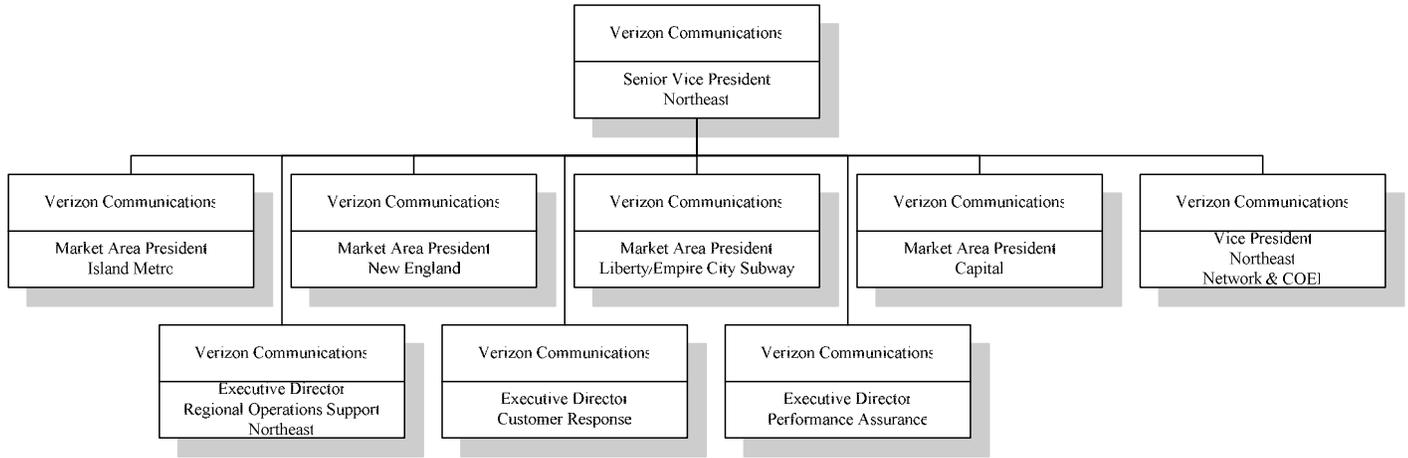


Exhibit III-5

**ENGINEERING ORGANIZATION**

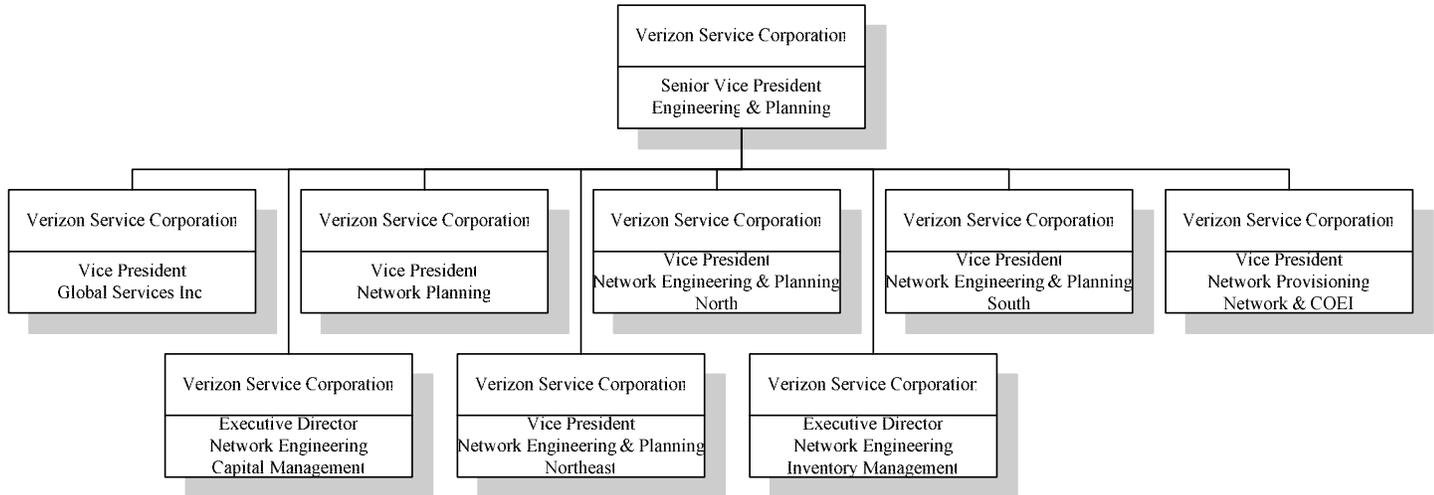


Exhibit III-6

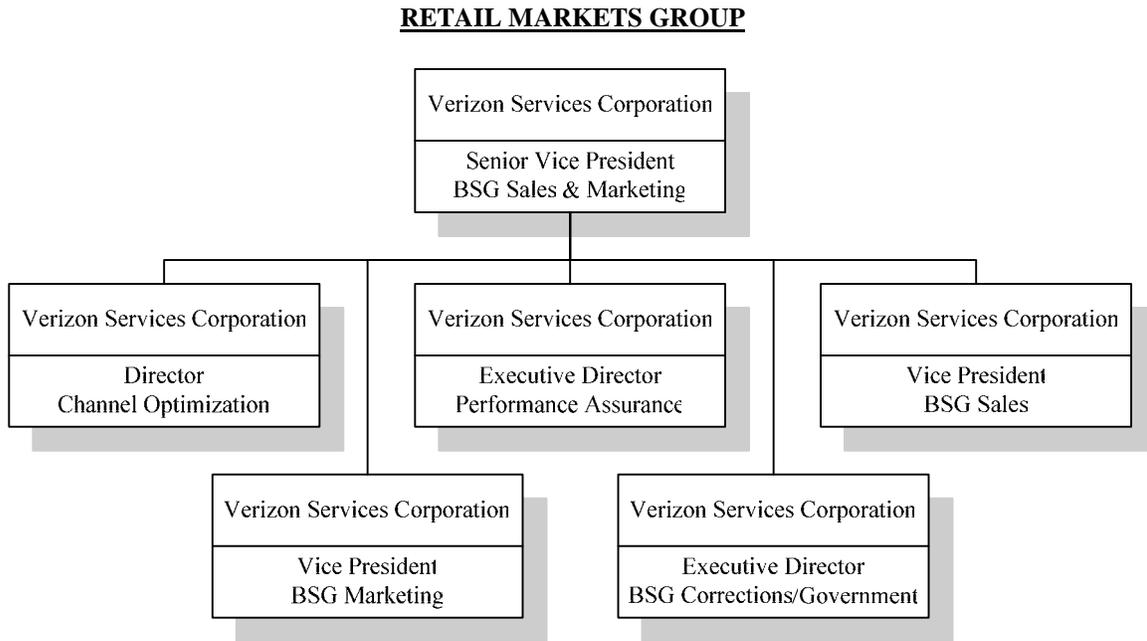


Exhibit III-7

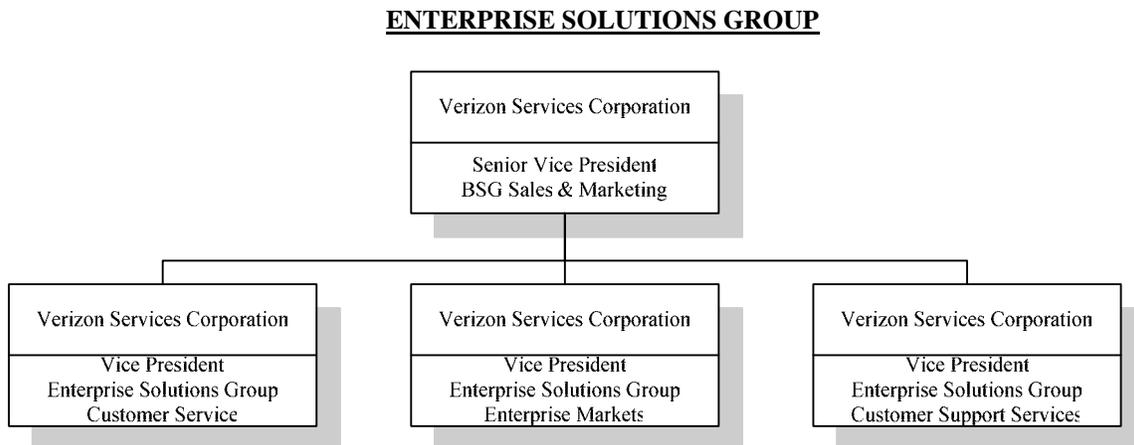
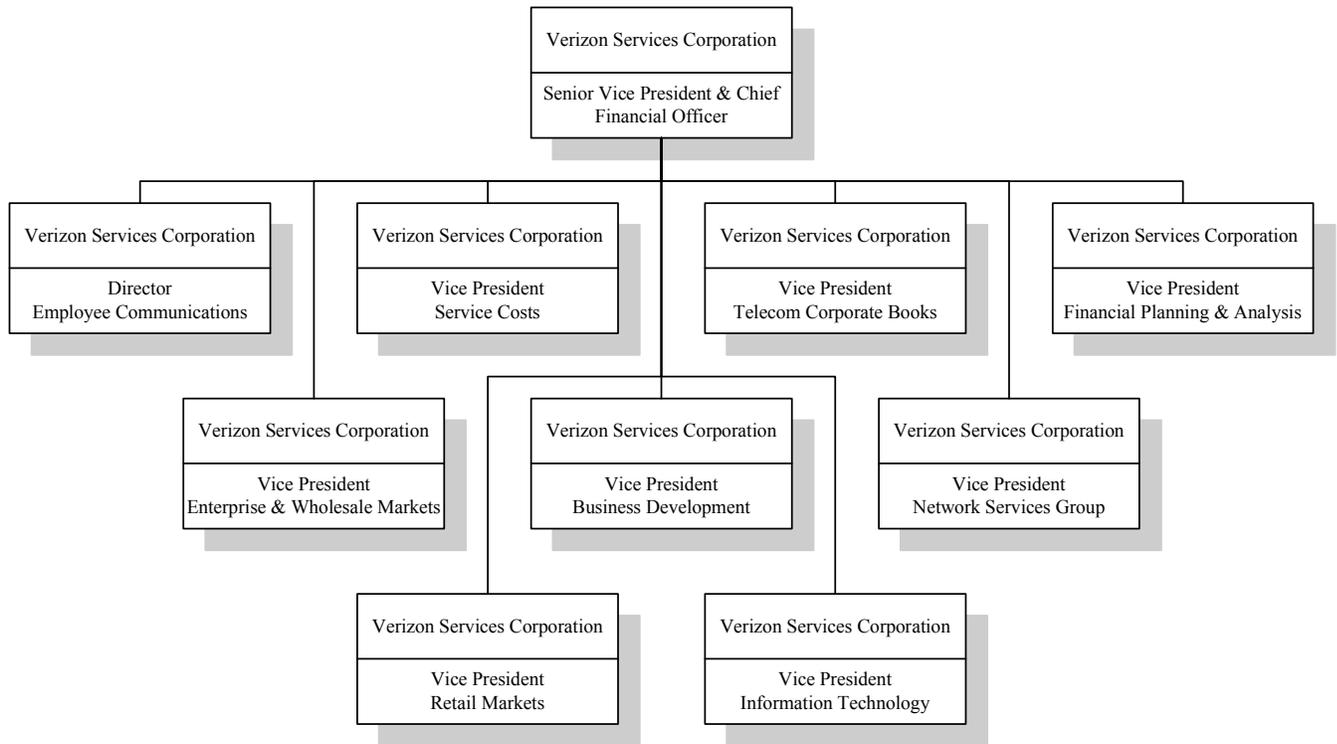


Exhibit III-8

**DOMESTIC TELECOM FINANCE GROUP**



## CORPORATE PLANNING

Corporate and Strategic Planning, for the purposes of this report, addresses the subject of such planning for Verizon Communications as opposed to the Verizon Corporation, although it must be integrated with that of the Corporation. Within Verizon Communications, Corporate and Strategic Planning focuses specifically on Verizon Domestic Telecom. Verizon Corporation's other sections include Verizon Wireless, Verizon International, and Verizon Directories as previously shown in *Exhibit III-1*.

### Current Strategy

As stated earlier, Verizon Communications is comprised of four major businesses: (Domestic) Wireline, Wireless, International, and Directories. These lines of business (LOBs) compete for capital. The wireline LOB is trying to transform the business in response to technological and competitive developments that have transformed the industry. As part of this effort, Verizon is significantly extending initiatives into wideband, consumer, and small business services. The current emphasis is on digital subscriber loop (DSL) and fiber to the premise (FTTP), the latter of which will represent a complete business transformation and major related investments for years to come.

Verizon is a market leader in wireless telecommunications, with third-generation broadband applications on the horizon. There are currently approximately 40 million subscribers on the Corporation's wireless network. In contrast, the wireline business is losing access lines and customers. In trying to protect its existing customer base, Verizon is posing some key questions. Among these inquires are:

- Where are the market and competition driving the wireline business?
- What do wireline customers want?
- Can wireline provide these services at a competitive rate?

The Domestic Telecom Strategy is not captured in a single document. Rather, a management committee exists at the Vice Chairman and President of Verizon Communications level. This committee consists of top managers who meet weekly to review plans, results, and direction. The key strategies for Domestic Telecom are:

- [ redacted ]
- [ redacted ]
- [ redacted ]
- [ redacted ]

### **Operational Support System (OSS) Strategy**

Operational Support Systems (OSSs) are the software systems that instantiate the desired methods and procedures directly supporting the daily operations of the telecommunications infrastructure. The average local exchange carrier (LEC) has hundreds of OSSs, including automated systems that support order negotiation, order processing, line assignment, line testing, and billing. The mergers of NYNEX, Bell Atlantic, and GTE resulted in three very different Operational Support Systems architectures, with little communication among them. Systems in need of replacement were reviewed, and a strategic examination was undertaken on how to obtain a common-platform OSS architecture that would meet the overall company's needs. An effort was made to choose the best OSSs from the combined companies for each of the major process areas and to enhance or expand these selected systems across the footprint. Systems were to be replaced based on the needs of the business, as determined by improving the "business as usual" operations as well as considering other strategic programs that would be a catalyst for change. It was agreed that there would be no random replacements that could not be cost-justified from an ROI perspective. From this work came the 2006 architecture plan for the OSS for operations. One of the first and largest initiatives moving the company toward a common OSS architecture was replacement of the loop maintenance operation system (LMOS). LMOS was an old technology and needed to be replaced. A decision was made to deploy an internally developed system, vRepair, which could support the entire company.

### **Technology Strategy**

Verizon's technology vision is transitioning the core network to an optical-transport infrastructure. The strategic thrust is to develop a cost-effective, feature-rich broadband optical network in a seamless service environment.

Overall LOB requirements and accompanying engineering and operations initiatives drive technology's direction. Verizon's overall strategy is formulated by the Corporate Planning organization, with technical support from the Verizon Labs. The Chief Technology Officer (CTO) has input into the corporate strategic plan and reviews the plan from a technological perspective. Technology selection is accomplished by an amalgam of Verizon Labs, Engineering, Sourcing, and Operations, all of whom work cooperatively on specific projects.

Verizon Labs addresses the network architecture that supports the enterprise, consumer, and small business segments. It also provides systems integration and a test laboratory, which provides oversight of vendor-provided equipment and infrastructure to ensure they perform according to specifications. A Center of Excellence (part of Verizon Labs) is responsible for: 1) network and service performance modeling; 2) assessment of network security; and 3) identification of emerging technological opportunities. The Labs also participate in program management, an arrangement that draws personnel resources from various organizations to facilitate programs on an as-needed basis.

[ redacted ]

To support the network evolution, LOB requirements, engineering methods and procedures, and operational support system capabilities are factored into the technology selection process through the creation of cross-functional teams that represent key technical and business perspectives. This strategy is followed by systems integration and testing to ensure engineered product performance and evaluation of next-generation technology through the progression of releases.

#### Recent Plan Accomplishment

The 2003 and 2004 program portfolios support the move to the 2006 architecture described above. A number of enhancements and replacements, however, have not yet been programmed into the budget since they were lower priority than those that were funded at the time. Business units periodically perform internal reprioritizations (and consult with IT for estimates). For 2003, there were 24 budget-approved programs that were identified as requiring additional work. The biggest of these programs was vRepair, which completed deployment for plain old telephone service (POTS) in New York and New England. A global positioning system (GPS) was deployed that placed tracking devices on the technicians' trucks. This GPS provides reports on vehicle movements and stops. The proactive preventive maintenance tool (PPMT) was developed based on best practices from the merged companies and its deployment began during 2003.

[ redacted ]

#### Integration with Other Processes

[ redacted ]

Business plans support high-level financial objectives. The business plan model evaluates the expense levels necessary to support the business, based on forecasted work units and productivity improvements. The Office of the President's role is to provide the guidelines and constraints as to what can and cannot be done to support the business.

Responsible organizations build more detailed commitment views. A top-down look is developed at the corporate level as to what is viable, and a negotiation process ensues. Top-down and bottom-up perspectives often need to be resolved.

LOBs in the retail groups hold revenue responsibility for retail programs (such as, for example, residential and small business growth). Volumes associated with revenue forecasts are just one of the inputs used for estimating capital and expense needs (only for the Network Growth component of the budgets) and for both Retail and Wholesale volumes. Considerations include growth in external (total) markets, strength of competition, general economy, etc.

### Capital Planning

Engineering controls the network's capital dollars, which are allocated on a regional basis and are directly related to the Network Strategic Plan. The Senior Vice President of Network Services sets objectives for customer service, regulatory plans, productivity, and expense budget accomplishments in coordination with Network Services Finance. The applicable objectives are assigned to the first-level manager and are rolled up to the second level, etc. These managers are responsible for accomplishing individual objectives, which implies the implementation of a planning process to establish these objectives.

The capital program is internally financed. Verizon has had as much as \$62 billion in debt on its balance sheet. Debt has now been reduced to the low \$40 billion range. The company has continued to fund the lines of business and service improvement efforts in New York, even as this debt reduction is taking place and significant access lines are being lost. The keys to success in the face of competition are cost-effectiveness and trouble-free service. Verizon is attempting to provide value-added service while reducing costs. The value proposition is to provide bundled service, including local service, long distance service, and DSL.

FTTP, a strategic initiative for 2004, was developed taking into consideration the competitive environment and, in particular, the need to stay competitive with cable companies that are rapidly deploying new technologies (such as Voice over Internet Protocol, or VoIP) to compete even more intensely with traditional local exchange services. Although Verizon considered the extent to which bundling/unbundling requirements would apply to broadband technologies such as fiber when it decided to launch FTTP, by far, the dominant consideration was the need to respond to competitive and technological developments. The uncertainty surrounding unbundling requirements has required Verizon to proceed deliberately with its FTTP deployment. The decision was made to establish an overlay network (that is, a fiber network overlaid on the copper network) to keep pace with emerging technologies and to enhance Verizon's ability to

deliver a full array of services, including voice, broadband, and video products that competitors, particularly cable companies, are already offering today. Verizon is proceeding with this initiative with the expectation that unbundling will not be required.

The FTTP strategic initiative is funded by Verizon Corporation as a program overlay. The capital budget for Verizon NY was developed independently of FTTP and was based on a specific examination of forecasted needs for each individual capital program (which include Loop Growth, Public Requirements, Asset Restoration, Infrastructure Improvement Program (IIP), and Operating Programs (such as funding to provide facilities for political conventions)). FTTP is an overlay to that process.

Funding for strategic initiatives such as FTTP is achieved through a variety of means, including the implementation and achievement of operating efficiencies, increased buying power as a result of the former Bell Atlantic and former GTE (fBA/fGTE) merger, and the completion of Transition and Merger requirements in 2003.

According to Verizon NY management, access lines are being lost to the cumulative effects of competition, regulation, wireless substitution, DSL impact on second lines, and the general economic slowdown. As a result of the substantial loss in access lines, the company has developed short-term, expedient means, described as Adaptive Engineering, to meet service commitments. As access line losses have continued, growth jobs have been suspended, reduced in size, or cancelled (if appropriate) to account for the negative growth Verizon NY has experienced in the past few years.

For 2003, [ redacted ] in VIP volume reduction program capital was requested, and [ redacted ] was allocated to New York and was intended to address IIP backlog issues for VIP results improvement. A significant portion of this money ([ redacted ]) was not spent; however, funding for this program has been allocated for 2004.

### Expense Budgets

[ redacted ]

## HUMAN RESOURCES MANAGEMENT

Effective management of Verizon NY's workforce, both management and associates, is of critical importance in providing and maintaining high service levels to Verizon NY customers. This section will discuss: (a) staffing levels at Verizon NY; (b) compensation and benefits; (c) employee training; (d) organization and leadership development; (e) the performance appraisal process; and (f) employee health and productivity, including safety and absence management programs.

### Staffing Levels

As of October 31, 2003, the total headcount at Verizon NY was 35,623. This figure consisted of 26,497 (74.4%) associates and 9,126 (25.6%) management personnel. Verizon, like other telecommunications providers, has been reducing staffing levels in a similar fashion. Overall staffing levels at Verizon and within New York have been reduced over the last ten years. These reductions in staffing are due to a variety of factors, including new technologies that require fewer people, reductions in overall volumes (access growth—i.e., negative growth), and financial constraints (i.e., as competition has been introduced, revenues and profits have been negatively impacted). Verizon Human Resources is responsible for workforce planning and for managing these reductions in workforce. The two most recent force reduction programs of significant note were the 2002 Associate Income Protection Plan/Income Security Plan and the November 2003 Reduction in Force.

#### 2002 Temporary Reduction in Force

In the fourth quarter of 2002, following the steps of the contract, Verizon declared a surplus in New York State. As part of that process, the Income Protection Plan (IPP) was offered. This layoff resulted from a downturn in workload that was attributable to substantial competitive line losses and increasing wireless and broadband substitution. The union went to arbitration and Verizon lost. As a result, all but 82 of the 2,309 laid-off employees had to be brought back in July 2003. The remaining 82 had either found other jobs or opted not to come back.

#### November 2003 Reduction in Force

The November 2003 reduction in staffing was accomplished through two separate offers:

- **Management Voluntary Separation Plan (MVSP)** – This offer was available to management personnel and a small number of associate personnel.
- **Enhanced Voluntary Associate Offer (EVA)** – This offer was available to associate personnel. It was an enhanced version of the Income Protection Plan/Income Security Plan as contained within the union contract

The MVSP was the first voluntary management separation offer made by Verizon Corporation. However, the former NYNEX Corporation had made voluntary management separation offers

and had implemented a Force Management Plan. In the past, voluntary separation programs had also been offered to associates.

According to Verizon NY management, the company took this step of offering the MVSP and EVA to: (a) fundamentally reduce the overall labor-cost structure of its business; (b) reduce organizational layering and redundancies; and (c) stay competitive and preserve financial strength.

The MVSP and EVA had an acceptance window spanning October 1, 2003 thru November 15, 2003, which was extended by one week (to November 22<sup>nd</sup>) for individuals to rescind their decisions. Individuals had to be off the payroll by November 25, 2003. The results of the offer are shown in *Exhibit III-9*.

**Exhibit III-9**

**NOVEMBER 2003 VOLUNTARY SEPARATION OFFERS**

[ redacted ]

[ redacted ]

**Compensation and Benefits**

**Management Compensation**

Management Compensation is composed of two components: base salary plus an annual compensation bonus.

- **Base Compensation** – Management compensation is targeted to the 50<sup>th</sup> percentile of the external market. All management employees are placed in career bands with specific market ranges that reflect external market pay for the respective job.
- **Incentive Compensation** – All management employees participate in an annual bonus program (known as the Verizon Incentive Plan). The VIP is an annual incentive plan that provides employees with a cash payment that is directly linked to corporate, business unit, individual, and/or team performance. Each eligible management employee has a VIP target based on his or her career band. The targets are established based on the 50<sup>th</sup> percentile of the market. Funding for the incentive pool is tied to financial and customer service objectives. Individual awards may be more or less than the funded amount, based on individual or team performance, but the pool may not be exceeded.

In addition, a stock option program exists at the Director level and above. Currently, approximately 2,500 management personnel are eligible. In addition to the stock option program, management personnel receive restricted stock, known as performance share restricted units.

Overall incentive plan targets are set at the Verizon Corporation level. These overall targets are translated into one of five lines of business targets: Wireless, International, Information Systems, Corporate, and Telecom. Each line of business has target objectives comprised of the following:

- Customer Service Target, Customer Care Index (CCI) indicators, etc. (includes Diversity) – 30%
- Financial Measures (Net Income, Revenue, and Earnings Per Share (EPS)) – 70%

The Verizon Board of Directors approves the targets at each line of business unit. These targets are cascaded down within the various lines of business organization. In addition, stock option and restricted stock programs exist for Directors and above. Currently, approximately 2,500 employees are eligible.

### Associates' Compensation

Associates' pay rates are determined by union contract. In addition, Verizon has incentive programs that have been negotiated for all associates. Slightly different programs exist between the Verizon West and the Verizon East organizations.

- **Verizon West** – Verizon West has a Team Performance Award (TPA), which amounts to 4% of base pay. Receipt of this award is based on 30% financial measures and 70% customer service and operational measures. Measures are linked to the Verizon business unit measures but are made more specific to each organization so that the employees have improved line of sight.
- **Verizon East** – For Verizon East, the minimum payout is \$500 for performance year 2003, increasing by \$50 each additional year of the contract to \$700 for performance year 2007. This reward is based on financial performance at Verizon Corporation's CEO level—not just the Telecom line of business. Customer service components are subsumed in the overall performance of the CEO, although there is no discrete customer service component in the associates' incentive measures.

### Stock Purchase Programs

There are no stock purchase programs for either management or associates.

### Founders Grant of Stock

With the Bell Atlantic/GTE merger, all employees (management and associates) were given a Founders Grant of stock options. These options vested at the end of three years at an option price of \$43 per share, which was roughly the price at the merger. The options expire in ten years. All employees were treated the same at the time of the merger.

### 401K Plan

All employees are eligible for the 401K program. Verizon matches 100% of the first 4% and 50% of the next 2% invested in Verizon stock. There is no profit-sharing component in Verizon. Self purchased shares can be sold at any time. Employees over the age of 50 can sell ½ of their Verizon shares that are matched. Employees over the age 55 can sell all their Verizon shares that were matched.

### Stock Option Programs

Executive-level employees are eligible for periodic stock option programs. These programs are typically structured on a three-year basis (vesting 1/3 each year) and expire in ten years. The strike price is set at fair market value at the time of the award. The last stock option program was comprised of 60% stock options and 40% performance units. The performance units require Verizon to beat their competition, with competitors being defined as the S&P 500 and a peer group of telecommunication providers.

### Training

The Vice President of Workforce Development is part of the Domestic Telecom HR organization and reports to the Senior Vice President Domestic Telecom HR, who is located in New York City. This position has responsibility for employee development and centralized training, including standard associate and management training courses

that are provided in New York. Leadership Development, located in Texas, holds overall responsibility for employee development and all training across the Verizon footprint. This corporate HR function has a dotted-line relationship with the Vice President of Human Resources for Network Services, also located in Texas. The Vice President of Human Resources for Network Services' input provides the necessary support to HR personnel within Verizon NY.

All training information is maintained in the Training and Education Development System (TEDS).

### Management Development Training

A wide variety of Internet-based and facilitated management development training courses, including a comprehensive course catalogue, are available online to management employees. A few of the key programs are:

- **Leadership Development** – This program provides leadership skills training (Choosing to Lead) and targeted leadership development programs to first- and second-level management. It also provides a six-course, instructor-led coaching curriculum for management as well as strategic learning experiences and 360° assessments for Directors and Executive Directors.
- **Professional Development** – This program provides consulting services as well as online and facilitator-led learning solutions for Attendance, Labor Relations, Communication, Conflict, Change, Stress, Team Building, Quality, and New Employee Orientation.
- **Information Technology** – This program provides learning opportunities (instructor-led, self-paced, and learning resources) for the following curriculum areas: UNIX, Internet, Programming Languages, Network, Windows, Lotus Notes, Software Engineering, z/OS, and Database.
- **1<sup>st</sup>- and 2<sup>nd</sup>-Level Performance/Training Plans** – These training plans were developed for Network Services Group supervisors/management employees in conjunction with HR and line management. The training plans include courses such as New Manager Orientation and Functional Excellence, with content that addresses roles and responsibilities and performance metrics.
- **Telecom Technology** – The Telecom Technology curriculum provides information regarding current and emerging Telecom technologies that are now or will be utilized in daily operations.
- **Employee Development and Online Learning** – This program includes employee development (competencies, assessments, linked-learning resources), manager-level 360° surveys, eLearning solutions (organizational initiatives, 2000+ NetLearn online courses, NetBooks), career management tools, resources, high-potential manager development portfolio, and consulting (eLearning, competencies, career management).

- **Sales and Marketing** – This program focuses on sales skills, field sales management, center sales management, sales leadership, new sales employee/manager development programs, sales process and account management tools training, product training, and customer applications.

Special emphasis has been placed on the specific management training programs for first-line supervisors (including new employee orientation, basic management tools, functional excellence program, coaching for performance programs, labor relation, grievances simulation, etc.). Line management is responsible for monitoring management development training for the employees. End-of-course evaluations are routinely conducted to maintain the quality and effectiveness of the courses' content. In addition, impact analysis is sometimes conducted on a selective basis.

### **Technical Training**

There are currently about 330 technical training instructors across Verizon, with about 10 assigned to Verizon NY. Training centers are located throughout New York State so individuals do not have to travel far for training. Training is conducted primarily in 15 training centers within Verizon NY, including major centers in Brooklyn, Manhattan, and Garden City. Each instructor is typically expected to provide 1,150 hours of training each year. Occasionally, outside contractors—primarily retired Verizon employees—are used to augment technical training resources. Verizon has a Statement of Work with four suppliers to provide additional instructional resources to augment internal technical training resources and to respond to needs promptly. In addition, field operations provide on-the-job and small group training (sometimes in small lab set-ups) to address local procedures and practices.

During the past several years, craft technical training has been explicitly linked to associate performance levels in the field. Instructors are expected to stay linked with field technicians after the completion of training to ensure continued job performance enhancement. Technical training is designed to mirror real-world job activities and “hands-on” practice comprises a large percentage of all technical training. During 2003, associate training was temporarily halted in July/August, in anticipation of the strike, and contingency technical training was provided to others.

The delivery of technical training in Verizon NY is coordinated through two to three Training Delivery Managers (TDM), all of whom are located in Verizon NY territory. These individuals work closely with Training Coordinators within the Region Presidents' support organization. The Training Education Data System (TEDS) tracks training hours by employee and is also used to track individual employee training history as well as future needs. The Training Coordinators use TEDS extensively. A course development group is responsible for continuously updating course content and for developing new curriculums to meet the changing technical training needs at all levels across the footprint.

### **Organizational and Leadership Development**

Human Resources is responsible for providing advice and counsel to line of business units relative to organizational development. Most of the advice and counsel is delivered via the Workforce Performance Director within the line of business. However, Verizon has published organizational design guidelines that address span of control and layers of management. These guidelines were recently reissued, following the management offer.

Verizon is evolving into a smaller overall organization. The merger of Bell Atlantic and GTE has been shaken out over the last three-and-a-half years. The new thrust is to reorganize areas of the company to better “face the customer”—aligning the organizational structure and business processes to better meet customer expectations.

### **Performance Management and Appraisal Process**

Verizon provides policies, practices, and online tools that support a year-round performance development and assessment practice for management employees and associates. This process encompasses the establishment of performance objectives/standards, creation of performance development plans, ongoing performance coaching and feedback, and year-end performance assessments. Online performance management systems are available for Verizon management employees (Online Performance Management Tools on the EDGE site of the eWeb) and former Bell Atlantic associates (Performance Management Online (PMO) system).

The evaluation of performance under the Bell Atlantic Associate Performance Appraisal Plan is based on the assessment of performance in three core-result areas (Quality, Customer Satisfaction/Service, and Quantity/Productivity) along with the evaluation of skills and behaviors for developmental purposes. First-line supervisors are responsible for establishing performance standards and for monitoring performance results throughout the year, for identifying development activities to enhance performance, for providing ongoing performance coaching and feedback, and for completing both mid-year and year-end performance evaluations for associates. The performance evaluation process for associates is not tied to individual compensation.

The performance management process for management employees combines the assessment of results achieved with the evaluation of employee proficiency in four Verizon competency areas: Business and Industry Focus, Customer Focus, Leadership Focus, and Results Focus. Performance assessments are linked to compensation treatment in the first quarter following the performance year. For merit-increase determination purposes, a 60% weighting is assigned for actual results achieved relative to established objectives, and a 10% weighting is assigned for each of the four competency areas. Determination of the Verizon Incentive Plan (VIP) award is based on results achieved, in combination with a competency threshold.

### **Work Environment Initiatives**

Twice a year, an outside vendor (Travis Research) is used to conduct surveys relative to the field’s work environment across the Verizon NY footprint. Associates and

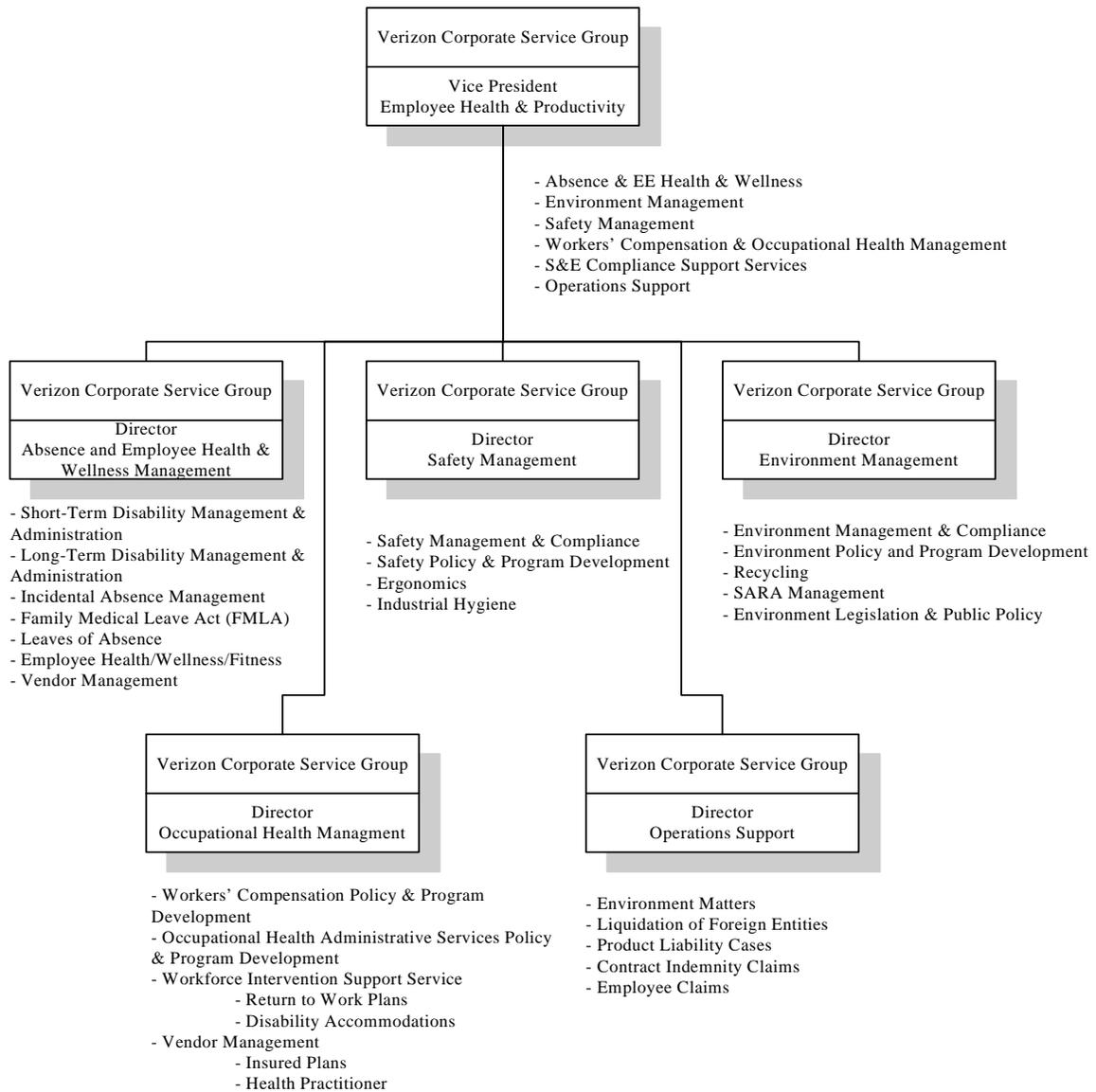
management personnel participate in two separate surveys. The results are summarized and distributed to local field management, who are then charged with the development of work environment improvements.

**Employee Health and Productivity**

As shown in *Exhibit III-10*, a single organization exists within Human Resources that consolidates several important employee-safety and productivity-related activities.

**Exhibit III-10**

**VERIZON EMPLOYEE HEALTH AND PRODUCTIVITY ORGANIZATION**



There are approximately 200 people organized into the following five groups:

- ***Absence Management and Employee Wellness*** – There are approximately six employees responsible for vendor management, one employee responsible for health and wellness, fitness, and internal health, and approximately 60 people responsible for Family Medical Leave Act (FMLA) administration. There are two people focused on systems and data issues for Absence Management.
- ***Workers' Compensation and Occupational Health*** – Approximately 50 people are responsible for these functions. Some of their activities have been contracted out (into other areas) but not in New York State. Verizon is currently using a Workers' Compensation vendor for all but New York. There are two Brooklyn locations that handle workers' compensation for New York.
- ***Safety Management*** – Forty-five people located in the Market Area and Headquarter locations provide illness, injury vehicle crash incident prevention, and regulatory compliance expertise and support.
- ***Environmental Management*** – Thirty-five people provide environmental services, regulatory compliance, and technical support. Seven people are directly responsible for managing environmental activities in New York. This group is also supported by the Environmental Program Development group, which is comprised of five people.
- ***GTE Operations Support*** – Approximately three people handle some legacy environmental issues in the former GTE area.

#### **Family Medical Leave Act (FMLA)**

Prior to 2002, some FMLA administration was handled by outside vendors. In the mid-2002 timeframe, Verizon moved all of its FMLA administration inside the organization. Verizon's FMLA administration is currently handled in two locations, specifically White Plains, NY, and Chapel, Texas.

#### **Disability Programs**

Also around the end of 2002, Verizon pursued the integration of all its disability programs. The goal was to integrate short- and long-term disability programs for greater synergies and better case management. Bids were solicited and proposals were received from various vendors. MetLife was chosen for the associates (craft) and Unum Provident was chosen for management. Verizon cut over both disability operations in the March to May 2003 timeframe.

#### **Quality Programs**

In the early 1990s, Verizon NY conducted several different quality-initiative programs similar to those other corporations were implementing in the early 1990s, when Total Quality Management, Six Sigma, and other such programs were in vogue. Since that time, quality has been incorporated into various methods and procedures (M&Ps) and other management and business processes. At this time, there is no free-standing quality organization within Verizon NY. All managers received quality training from the

Quality Institute before it was discontinued as the centralized quality organization. The functions that had been performed by the Quality Institute are now embedded in operations, with implementation by Regional Operational Support (ROS) groups within operations in each region. The ROS groups are currently responsible for performing many of the functions that would be involved with a quality organization. Each ROS group is responsible for performing quality reviews or audits. Some examples include:

- ***M&P Compliance Reviews*** – Every year, ROS will take an M&P and develop a work plan for auditing its compliance in the field. The 5 Points of Customer Contact was one such recent review. ROS might do five or six of these reviews a year.
- ***Quality Audit Operational Review (QAOR)*** – ROS has developed generic templates in the I&M, Dispatch, Cable Maintenance, and Construction areas that are used for performing QAORs. ROS will take a sampling of jobs recently completed within an area and evaluate the job based on the template. ROS decides what areas to go into to sample the work.
- ***Perpetual Rides*** – Perpetual Rides is another program whereby individual managers ride with first-level managers to observe actions and to identify issues. This program was started in the Liberty Region and has now been moved to the Capital Region.

A Director of Quality Management, who works within NSG Network Support Services Staff, provides additional resources to the quality control efforts conducted by operations and ROS staff. The Director supports any requested pursuit of Baldrige and International Standards Organization (ISO) qualification by any operation.

### **LABOR RELATIONS**

All of the key labor relations functions for Verizon NY fall under the overall responsibility of the Vice President Labor Relations, who is now a part of the Human Resources organization with Verizon Domestic Telecom, as previously shown in *Exhibit III-2*. An Executive Director of Labor Relations for New York and New England, who reports to the Vice President Labor Relations of Domestic Telecom, has the focused responsibility for Verizon NY's labor relations functions. The labor relations organization is primarily responsible for: (a) contract negotiations and administration; (b) offering advice and counsel to Verizon field management personnel on labor relations issues; and c) participating on all key union/management committees. Currently, there are approximately 90 different union contracts throughout the Domestic Telecom group.

Prior to the employee buyout offer, there were approximately 100 people in Verizon Labor Relations. However, 43 people took the employee buyout offer. Verizon is looking to backfill approximately half of these positions. If approved, Labor Relations will consist of 80 management employees and two associates.

### Labor Relations History

Since 1989, Verizon has been operating on three- to four-year contracts with its various labor unions, with the most recent contract actually being a five-year contract. Some key occurrences during the last 15 years include the following:

- There was a four-month strike in 1989.
- In 1991, Verizon worked at getting an early contract and succeeded.
- In 1994, Verizon negotiated the 6 and 6 as part of an early contract agreement.
- Verizon also negotiated the combined title for both outside work (field technician) and inside technical work (central office technician). The Central Office titles were similarly combined and the clerical groups were consolidated from 50 or more titles down to six clerical titles.
- In 1994, a training provision was negotiated with the combination of titles and the ability to have bargaining-unit employees train other employees without additional compensation. For formal training, the requirement is that the majority of training will go to the senior volunteer who is qualified for such training, consistent with the needs of the business.

The largest union at Verizon NY is the Communications Workers of America (CWA), which has over 25,000 members. In addition, the International Brotherhood of Electrical Workers (IBEW) represents approximately 2,000 workers in upstate call centers. Bargaining is accomplished via many different regional and local bargaining tables as shown in *Exhibit III-11*:

**Exhibit III-11**

#### BARGAINING TABLES

<b>Local Tables</b>	<b>Union</b>	<b>Approximate Membership</b>
Plant Table	CWA	18,051
Downstate Commercial	CWA	4,430
Upstate Commercial	IBEW	1,099
Downstate Accounting	CWA	159
Upstate Accounting	CWA	148
Downstate Traffic	CWA	595
Upstate Traffic	CWA	380
Telecom Resources Group (TRG)	CWA	200 (included in Plant table)

Local issues are bargained at the local tables. Individual presidents or officers of the various locals are elected to participate at the local tables. With the exception of the plant area (primarily field and central office technicians), all of the local tables are comprised

of one local. The commercial tables represent primarily call center personnel. Wages and benefits are addressed at the Regional Table. Officers of the national unions (CWA and IBEW) sit on the Regional Table along with selected presidents from the local unions. The locals elect individuals to sit on the Regional Table.

Work rule issues are negotiated at the local tables. Work rule items include daily travel, shift differentials, allowances, etc. One example concerns overtime, where the company can generally require up to ten hours of overtime per week for most of the year and up to 15 hours of overtime in the summer months. However, emergencies override those limits. By scheduling non-assigned, or “N” days, during the work week, the company can schedule a Saturday, but not a Sunday, as a regular work day. A 25% premium must be paid when Saturdays are scheduled as part of the scheduled tour.

### Latest Contract Negotiations

Across the Verizon – East area during 2003, contract negotiations involved 24 different contracts covering 80,000 associates, of which approximately 60,000 were Communications Workers of America members and 20,000 were International Brotherhood of Electrical Workers’ members. They initially had 24 different local bargaining tables and four common-issues bargaining tables for New York, New England, New Jersey, and the Mid-Atlantic. All of these tables were collapsed into one common-issues table and discussions took place under the auspices of the Director of Federal Mediation and Conciliation Service. Major issues included new provisions in the job-security contract—existing employees are grandfathered under the old provisions, whereas new employees do not have the same job-security protection. The overall results of the bargaining were:

- Wage increases – 3% lump sum in the first year that is not added to the base salary and then 2% for each of the next four years, with the possibility of Cost of Living Adjustment (COLA) increases in years 4 and 5 of the contract
- Job-security provisions for existing employees
- Healthcare savings of \$500 million over the life of the contract

Putting this information in historical perspective, contract negotiations in 2000 resulted in a 12% wage increase over three years, whereas contract negotiations in 2003 resulted in an 8% wage increase over five years. Work rule changes were part of the original discussions but were dropped when the negotiation teams were consolidated.

### Verizon NY Service Excellence Plan (SEP)

In 2001, Verizon NY management negotiated a Service Excellence Plan with its unions. According to Verizon NY management, the Service Excellence Plan is designed to monitor and improve employee productivity in field operations. The plan involves an evaluation of each field employee’s productivity against a set of established performance standards for similar work, based on average performance over a previous period. The Service Excellence Plan only applies to the plant area (not commercial). The plan can be

changed without affecting the contract; however, any plan change would have to be coordinated through the Labor Relations organization and negotiated with the union. SEP changes do not have to be negotiated to agreement but must reach impasse before being implemented. At this time, the SEP is unique to New York.

The standards are established for one year and are reviewed for each subsequent year of the SEP. The standards of productivity and quality were to be based on averages from the period spanning January 1, 2001 thru June 30, 2001. Standards for subsequent years are to be based on the prior year's averages or the initial standards, whichever is higher. The most recent modification of these SEP standards was made effective November 1, 2003. These modified standards were based on the average of each work group's January – June 2001 data or the average of the July 2002 thru June 2003 performance, whichever was higher.

The following districts have suspended imposition of disciplinary action that might be taken for failure to meet individual productivity requirements in the SEP:

- Island Metro Market Area (Suffolk only) – suspended 12/03
- Capital Market Area (Northeast only) – suspended 3/04
- Liberty Market Area (all districts) – suspended 3/04

Other aspects of the individual productivity process embodied in the SEP are still in place in these districts. That is, individual performance data (on jobs completed and hours worked) are still collected and tracked in these districts and managers are still providing feedback to individual technicians using these performance data. In fact, the individual productivity initiative is being supplemented in all parts of the state with practices that were first developed in Philadelphia, Pennsylvania, aimed at improving individual productivity. These practices involve the use of GPS information and prior days' work completion information to analyze prior days' performance, as well as follow-up training of individual technicians as required. Supervisors will work with individual technicians to improve their individual productivity. This modified initiative will, if successful, complement a new team-based SEP program as a more effective means of increasing average worker productivity.

The team-based SEP initiative focuses on team productivity performance measured at the Area Operations Manager (AOM) level. Should an AOM fail to meet the team productivity objective, the AOM may revert to the individual SEP productivity measures, complete with imposition of disciplinary measures. The new team SEP process will provide teams with incentives to exceed productivity and quality targets, which will be based on common standards established at the AOM level. It will stress the objective of improving productivity on demand work (that is, installations and repairs) so that technicians can spend more time on other activities (such as targeted rehabilitation, air systems, lock-ups, plant updates, and training).

The next steps in the implementation of the team-based SEP process involve: conducting local negotiations with union leaders in an attempt to obtain union buy-in to the new

approach; confirming team objectives; and communicating the team SEP process and objectives to the entire team. On June 17, 2004, Verizon senior management reviewed the team SEP approach with union presidents and sought union cooperation in the successful implementation of the approach. Union feedback is expected shortly. The aim of the joint management/union effort is to improve productivity while creating a better working environment for both associates and management. In implementing the new process, managers will focus on communicating the status of the process to involved employees, providing feedback to those employees, and increasing the focus on service, timeliness, and proactive actions.

## **B - FINDINGS**

### **Finding III-1      The Strong Functional Orientation Of Verizon NY Creates Coordination Problems For Service Delivery And Adds To Operational Inefficiencies.**

The overall organization of Domestic Telecom has undergone a dramatic change during the time when DCI consultants were onsite. The organization and key management personnel DCI dealt with in performing this review changed significantly from the beginning of the project in the October 2003 timeframe to the end of the project in the June 2004 timeframe (after the November 2003 Voluntary Separation Offer) and continue to change even as this final report is being written.

Verizon is evolving into a smaller overall organization. Verizon NY, like other telecommunication providers, has been reducing staffing levels. These reductions in staffing are attributable to a variety of factors, including new technologies that require fewer people, reductions in overall volumes (access growth—i.e., negative growth), and financial constraints (i.e., as competition has been introduced and revenues and profits have been negatively impacted). The merger of Bell Atlantic and GTE has shaken out over the last three-and-a-half years and has also impacted staffing levels. The new thrust is to reorganize areas of the company to better “face the customer”—aligning the organizational structure and business processes to better meet customer expectations.

During its review of various organizational areas, DCI consultants identified the following issues that, going forward, need to be addressed in the organizational structure:

- ***Strong Functional Silos*** – Verizon NY has been historically organized along a functional structure (i.e., central office, installation and maintenance, etc.). Several areas exist where this structure results in a focus on organizational objectives to the detriment of service quality and operating efficiency.
  - ***Engineering and Operations Coordination*** – Previously, the Engineering function and the Operations function fell into two different organizational areas of Domestic Telecom. To DCI understands that in an effort to address this issue, Verizon recently made changes in the reporting of the Vice President of Network Engineering for the Northeast Region to have solid-line reporting responsibilities to both the President of the Northeast Region and the Senior Vice President of Network Engineering.
  - ***Field Operations and Central Office Coverage*** – Field operations and central office operations had been organized on a functional basis. DCI observed and was informed of a lack of coordination issues regarding central office coverage in general and, in particular, on weekends. Field forces and central office forces need to be able to work as a team to effectively deliver service quality.

- ***Business Processes Not Consistent in the Regions*** – The business processes and practices, including test equipment, use of cell phones, irregular plant reporting (T-zone), IIP process, use of CATs, use of GPS data, etc., are not consistent throughout the regions.
- ***Follow-Through on Business Process Improvements and Systems Implementation*** – DCI observed numerous problems with the Craft Access Terminals (CATs), the test equipment, DATU usage, GPS implementation, testability of customer lines served by DLC, etc., most of which are discussed in *Chapter VII – Field Operations*. It is our understanding that these problems have existed for some time, and yet, no organizational group or person is responsible for resolving these issues. They appear to be simply falling through the organizational cracks. Indications are that Verizon NY is not placing sufficient emphasis on coordination required to meet NYDPS standards for service objectives in the special services area.
- ***Follow-Through*** – During the project, DCI reviewed several operational reviews that had been internally performed by Verizon personnel. These reviews were very thorough and well done. They identified many of the same operational issues that DCI has identified in this report. However, DCI found little evidence that the findings and recommendations from these earlier internal studies have been implemented or in any way followed up. This is an indication that the responsibility and accountability that is embodied in the current organizational structure has difficulty incorporating the types of findings and recommendations identified in these internal reviews.

**Finding III-2**                    **The Verizon Workforce Has A Very Low Level Of Employee Morale.**

Low levels of employee morale can contribute to lower levels of productivity and quality in the work performed (i.e., lower levels of service quality). In the interviews and ride-alongs with Verizon NY associates, DCI identified a general sense of very low employee morale and an overall poor attitude on the part of many of the workers. Associates were generally not content with their state of affairs within Verizon NY. Their complaints included frequent references to the following topics:

- A lack of respect and appreciation on the part of Verizon NY management toward the contributions made by associate employees
- Lack of a cohesive direction, as developed and presented by management of Verizon NY, in relation to the daily operations of the field forces and the future direction of the company
- Concerns related to conflicts between the union and Verizon NY management, especially following the contract negotiations of 2003
- Significant concerns related to the announced intention of Verizon NY to sell its upstate New York service territory and operations

- Lingering doubts resulting from the 2002 layoff and the resulting court reversal, particularly in relation to the future sizing of the field workforce
- A lack of available training opportunities for the field forces
- A deteriorating state of the field facilities resulting from a lack of maintenance investment
- Problems with safety conditions related to the deteriorated state of outside plant
- Problems with obtaining and maintaining tools, supplies, test equipment, and communication devices (CATs and cell phones)
- A higher-than-expected absence rate among associates in certain areas of the state

These morale problems were borne out statistically in the results of the semi-annual VZ Viewpoints survey of managers and associates, as conducted by the Verizon National Operations Group. These surveys included a series of questions related to the general topics of work environment, communications, and overall indicators and were distributed to Verizon NY managers and associates in each of the three regions. The employees were asked to respond to various statements concerning their attitudes and feelings toward their jobs, company management, and the overall company. Responses were to fall into one of three categories, specifically:

- Favorable to the presented statement
- Neutral to the presented statement
- Unfavorable to the presented statement

The responses were tabulated and presented with percentage response to each question (i.e., % favorable, % neutral, and % unfavorable) for each of the three regions of Verizon NY. Responses to each question were further categorized by manager, associate, and total.

A review of the survey summary documents provided in response to a DCI information request revealed significant problems in relation to those questions relevant to the morale of Verizon NY associates and their attitudes toward their jobs, management, and the company as a whole. DCI consultants extracted and analyzed the results of eight specific questions from the last three surveys, which were conducted in 4Q 2003, 2Q 2003, and 4Q 2002. These eight questions were selected because they were most specifically focused on employee morale and attitudes. Generally, all eight of these questions dealt with the topics of employee perceptions as to: 1) the effectiveness of Verizon NY senior leadership or management; 2) their confidence in senior management; 3) management treatment of employees; and 4) the business direction and strategy of the company. In general, the scores for these questions were significantly lower than those recorded for questions that related to other topics, such as internal job advancement opportunities, performance feedback effectiveness, training, workloads, corporate ethics, benefits, and salary levels.

Among Verizon NY employees, the lowest scores came from Verizon NY associates. However, while the scores recorded by Verizon NY managers on these eight questions were higher in general than those recorded for associates, they were still lower in general than managers' scores on the remaining questions. This indicates that the problems of employee trust and confidence in senior management and the strategic direction of the firm are ubiquitous throughout the employee ranks of Verizon NY.

A review of the responses by the Verizon NY associates to these questions results in the following summary findings:

- A very significant majority of the associates do not believe that Verizon NY management is taking the proper steps to create a positive working environment.
- A very significant majority of the associates do not believe that Verizon NY senior leadership is providing a clear direction for the company.
- A very significant majority of the associates do not have confidence in the decisions that are being made by Verizon NY senior management.
- A majority of the associates do not agree that Verizon NY management treats employees with respect.
- A majority of the associates do not believe that information is openly shared among the employees of Verizon NY.
- A majority of the associates do not feel that they have a good understanding of Verizon NY's business direction and strategy.
- A significant majority of the associates do not believe that Verizon NY values them as employees.
- A significant majority of the associates have not been hearing more positive comments about Verizon NY from their fellow employees in the last six months, and the observed trend is moving in the wrong direction.

This data, taken in concert with the results of the associate interviews and ride-alongs, reveals a significant problem with employee morale and attitude within the associate ranks.

**Finding III-3      Verizon Has A Well-Defined And Comprehensive Organizational And Leadership Development Program That Includes Verizon NY Personnel.**

The Verizon Corporate Human Resources Group provides advice and counsel relative to organizational development issues to the individual lines of business units within the Domestic Telecom organization. In addition, the Center of Excellence programs in the human resource functions also provide organizational development support to senior managers relative to the definition of roles and responsibilities for Verizon NY management personnel as well as guidance on appropriate "spans of control" at various levels. Verizon has published organizational guidelines that address span of control and

layers of management within the company. These guidelines were recently updated following the November 2003 MVS and EVA offers.

Verizon has well-established guidelines to identify employee leadership potential at various levels of the organization. Based on these guidelines, each manager conducts an annual review of his or her subordinates relative to their leadership potential. This process extends from the top of the organization down through the associate level. First-level managers review associates in the field on an annual basis to assess their potential as future managers. However, currently only about 20% of new first-level managers are filled from the ranks of associates.

There are well-defined processes for the identification, design, and development of the leadership development training programs for the senior management team as well as for the directors and the first- and second-level supervisors. All are part of the Center of Excellence Workforce Development Process and include such programs as “Choose to Lead,” “Building Training Paths,” etc. Recently, as a result of employee job shifts emanating from the recent management offer, much focus has been devoted to Leadership Training for first-line supervisors. Specific steps taken include:

- Interview checklist for departing supervisors to jumpstart the knowledge base of incoming supervisors
- Orientation checklist to be used by second-level supervisors
- Updating On Line, the list of available courses, programs, and availabilities, including training for business planning, safety, performance measurement, etc.
- Developing a delivery schedule for this training at various locations
- Decision by the regional-line personnel as to the extent and natures of the supervisory training needed for each supervisor

**Finding III-4**            **Verizon NY Has Comprehensive Employee Training And Continuing Education Programs That Span All Levels Of The Organization.**

The associates and management employees are provided with a comprehensive array of formal technical training, continuing education, and self-improvement programs at Verizon NY. Several of these formal training programs are conducted at New York-based, Verizon-owned and operated, training centers. In addition, several key programs (like NEXT STEP for associates, Web-based NET LEARN, and continued education access to a variety of educational institutions within and outside of New York) are available to Verizon NY employees.

**Verizon-Owned New York-Based Training Centers**

Training is conducted primarily in 15 training centers within Verizon NY, including major centers in Brooklyn, Manhattan, and Garden City. Training sessions encompass a

wide variety of curriculum topics, including installation and maintenance, central office, engineering, sales and marketing, etc.

### Continued Education Programs

Verizon NY employees are encouraged to attend educational institutions within New York, and even outside of New York, as part of the Continued Education Program at Verizon NY. Company employees, both management and associates, participate heavily in this program. For example, during 2003, over 3,200 unique participants with associate status and over 900 unique participants with management status attended a wide variety of educational institutions within New York State. Similarly, over 1,875 unique participants with associate status and over 375 with management status attended educational institutions outside of New York State.

Verizon, in partnership with CWA and IBEW, jointly manages the NEXT STEP fully accredited Associate's Degree in Applied Science, with a concentration in Telecommunications Technology. NEXT STEP classes are conducted at community college campuses throughout New York State. Students attend school one day each week in lieu of coming to work. The Associate's Degree is awarded upon successful completion of 60 credit hours over a four-year period. During 2003, about 780 Verizon NY associates were enrolled in the NEXT STEP program.

### Self-Improvement Programs

As part of a Web-based self-improvement program, a comprehensive set of courses and training programs are available to all Verizon NY employees on employees' personal time. These curriculums, including the course descriptions, are available as part of the Training Education Data System (TEDS), which also tracks the training hours for each employee within Verizon NY. TEDS also tracks all the various kinds of training opportunities and course offerings across Verizon NY and is heavily used by Verizon NY employees.

### **Finding III-5      Verizon NY Training Hours Have Decreased Over The Last Three Years.**

As shown in *Exhibit III-12*, during the last three years, there has been a steady decline in the total number of training hours provided at these 15 key training centers within Verizon NY.

Exhibit III-12

**NY STATE TRAINING HOURS AT VERIZON-OWNED LOCATIONS**

<b>Year</b>	<b>Locations</b>	<b>Total Training Hours</b>	<b>Installation and Maintenance Training Hours</b>
2001	15	630,209	186,919
2002	15	526,181	118,410
2003	15	442,375	137,140

There is also a sizable reduction in the Installation-and-Maintenance-related training hours conducted at these 15 locations during 2001 through 2003. Some of this reduction may be due to the reduction in I&M associate levels during the 2002 through 2003 workforce reduction under the Income Protection Plan.

**Finding III-6 Verizon NY Management Has Recognized The Continued Problem Of High Levels Of Absenteeism Among Its Non-Management Personnel And Has Implemented Several Corrective Measures.**

Verizon NY has been experiencing high levels of absenteeism rates (attributable to incidental illness and long-term disability) among its non-management personnel, including field technicians and other customer-service-related employees, during the last two to three years, as shown in *Exhibit III-13*.

Exhibit III-13

**VERIZON NY NON-MANAGEMENT ABSENCE RATE (AVERAGE PERCENT ABSENTEEISM)**

<b>Region</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Capital	7.49%	8.47%	8.00%
Island Metro Region	10.98%	11.78%	10.30%
Liberty	12.36%	12.63%	11.30%

Rate based on scheduled work days in a given month  
2004 numbers through February 2004

During 2002 and 2003, the absenteeism rate in each of the three Verizon NY regions was much higher than the usually acceptable norm of 5%. This high level of absenteeism continues to be a challenge for Verizon NY management, especially in Island Metro and Liberty Regions, where the absenteeism rates are above 10%. These high absenteeism rates, which are often unpredictable on any specific work day, negatively impact the effective scheduling of the field workforce and, in many cases, result in unplanned overtime. Several management personnel believe that the current FMLA policies

encourage personnel to stay out longer and currently account for a significant portion of the overall absenteeism at Verizon NY.

The Absence Management and Employee Wellness group, under the Corporate Employee Health and Productivity Group, has the overall responsibility for tracking and controlling employee absenteeism across the Verizon footprint. Several programs and initiatives have been used to manage and reduce absenteeism at Verizon NY. These include the following:

- ***FMLA Administration*** – Prior to 2002, most of the FMLA administration was handled by outside vendors; in the mid-2002 timeframe, Verizon moved all of its FMLA administration in-house to two locations: White Plains, NY, and Chapel, Texas
- ***Disability Program Consolidation*** – During May 2003, Verizon streamlined and consolidated the management of all its disability programs under MetLife for craft personnel and under Union Providence for its management employees.
- ***Health and Wellness Action Teams*** – Teams created within specific work areas to benefit employee wellness and address absence related issues.
- ***Managers Attendance Improvement Network*** – Individual managers getting together to address issues regarding absence reduction.
- ***Absence Reporting to Supervisors*** – Currently, employees report absence on an 800 number. As an experiment in certain work areas, absence reporting was changed to a supervisor. However, that change did not alter absence levels.
- ***Focused Case Management*** – HR regularly works with individual supervisors on particularly difficult absence issues.
- ***Absence Management Committee*** – A committee that meets via conference calls to discuss absence issues.
- ***Wellness Action Teams*** – Onsite teams the promote wellness initiatives; Verizon offers the Mayo Clinic Website as an available reference to all employees.
- ***Fraud Policy Revision*** – Recently revised fraud policy, which is placed on the Verizon Website.
- ***Greater Emphasis on Return to Work Program*** – The Verizon Corporate HR organization increased by two employees to put greater emphasis on absence-related issues; Verizon and vendors are now regularly tracking return-to-work results.

Various home-grown absence control system have been used in the past to track and manage absenteeism at Verizon NY; however, this problem has recently begun to receive added management focus. Several key steps that have been implemented recently include the following:

- ***Absence Tracking System*** – The initial phases of a new comprehensive Absence Management Tracking System (AMTS) have been implemented across Verizon as of January 2004. This is one system that pulls all employee absence-related information across all of Verizon. AMTS is a PeopleSoft application with Cognos as its report writer. Supervisors have already undergone training and other key phases of the system deployment are planned. Several key features of AMTS include:
  - Provision of simple, secure, user-friendly service for reporting absences via the Web at the time they occur
  - Generation of e-mail absence notifications to supervisors and key departmental contacts
  - Determination and notification of supervisor of FMLA administrative eligibility when absence is reported
  - Document discussions pertaining to absences, step changes, and step follow-up dates
  - Receipt of payroll feeds and daily input from supervisors
- ***Formation of Absence Committee with CWA and IBEW*** – Verizon had tried to get some changes made during the last round of negotiations that would help with controlling absence levels. Once the contract was settled, those issues were dropped and all that survived was an agreement to form joint management/labor absence committees. The committees have now been established on a regional basis (i.e., New England, New York, old Bell Atlantic, etc.). The New York committee consists of 10 representatives from the unions and five to six Verizon representatives. Management hopes that these regional committees will strongly contribute to an improved control of absenteeism at Verizon NY.
- ***Establishing Employee Absence SPOC Position*** – Verizon NY has begun to implement a new position of Absence Control Single Point of Control (SPOC) in each region. These SPOCs report to second-level managers in the field and have the responsibility to: (a) consolidate all the absence-related data tracking and control for their organizational unit; and (b) provide this information on a timely basis to their supervisors so that all the steps of the Absence Management Program can be properly followed.

### **ASSOCIATE MEETING FOLLOW-UP**

Verizon NY associates (CWA and IBEW members) were solicited for input in the service quality review. To ensure that the associates of Verizon NY were given ample opportunity to provide input into the DCI review of service quality, a series of three after-hours off-site meetings were held between members of the craft union and representatives of the DCI consulting team. These meetings were as follows:

- Meeting with representatives of the Communications Workers of America (CWA) in Buffalo on February 17, 2004
- Meeting with representatives of the CWA in Westchester on March 9, 2004
- Meeting with representatives of the International Brotherhood of Electrical Workers (IBEW) and the CWA in Syracuse on April 20, 2004

These meetings were arranged and facilitated by representatives of the union and were intended to provide a forum for a free flow of information between Verizon NY associates (union personnel) and members of the DCI consulting team. Associate representatives of many different areas of Verizon NY were in attendance at the meetings, including: Installation and Repair, Cable Maintenance, Construction, Customer Service (call centers), Distribution Resources Center, and Central Office.

The following findings and recommendations result from discussions that came directly from the *Off-Site Associate Meetings* and are not addressed elsewhere in this report. Many of the issues raised in the *Off-Site Associate Meetings* are addressed in other areas of this report, specifically *Chapter VII – Field Operations*; however, the specific items discussed in this section did not logically fit into those areas of the report. A complete listing of the associate issues is contained in *Appendix A*.

**Finding III-7**                    **Installation Codes Are Being Properly Applied On Installation Orders.**

An issue raised at each of the associate meetings concerned proper coding of installation intervals on customer requests for new (N) and transfer (T) service. In that this issue was mentioned in several meetings, DCI decided that further investigation was warranted.

In particular, Verizon NY is required to meet a performance standard that is contained in both the New York State service quality standards for telephone companies and the VIP as “basic service installation—80% installed within five days.” Specific definitions apply to the numbers to determine what activities are included or excluded in the performance metric, such as “basic installation,” which is defined as the first line installed for residential customers and the first five lines installed for business customers. Furthermore, if the customer requests a specific installation date that, for their personal convenience, is beyond the company-offered date, those orders can be coded differently for exclusion from the calculation of the performance metric. In short, a “W” order is an order that gets counted in the performance metric and an “X” order is one that is done at the convenience of the customer and therefore not counted. A complete listing of all primary appointment date codes is contained in Verizon NY documentation, but the relevant information for the two codes pertaining to this issue is summarized in *Exhibit III-14*.

Exhibit III-14

**PRIMARY APPOINTMENT DATE CODES**

Appointment Code	Premise Visit Yes	Premise Visit No
X	Use on any order that has a due date later than the company-offered green light date. Under no circumstances should an order with less than the green light date carry an “X” appointment code. These orders should have either an “M” or an “S” appointment code. Note: service orders with an “X” appointment code are excluded from CISR calculations.	Use on an order when the date is later than the company-designated interval. Under no circumstances should an order with less than the green light date carry an “X” appointment code. These orders should have either an “M” or an “S” appointment code. Note: service orders with an “X” appointment code are excluded from CISR calculations.
W	Use on any order that has the company-offered green light date that appears on the SMARTS clock/Livewire. Note: new service installation orders with a “W” appointment code will be included in the CISR Summary and will impact Verizon’s service quality results.	Use when giving the customer the company-designated interval. Note: new service installation orders with a “W” appointment code will be included in the CISR Summary and will impact Verizon’s service quality results.

DCI performed an analysis to investigate the validity of this concern. In so doing, the company observed the operation of the software used in the business offices (consumer and business) by associates to determine the nature of this concern.

First, DCI observed Customer Service Representatives (CSRs) at three different business offices to identify the process actually followed in negotiating installation orders. All observed CSRs followed Verizon NY negotiation procedures, specifically:

“During the negotiation process for appointment scheduling, consultants will advise their customers first of the appointment date, then the appointment time, if applicable. Consultants should always begin the negotiation by first offering the green light date (*emphasis added*), then backing down to a customer-requested date.” DCI recognizes that during times when the green light date is beyond five days, there is nothing (aside from the procedure outlined above) that would prevent the CSR from initially suggesting a later date, such that the date would be coded with an “X” (excluded) code. However, we did not observe such a practice. Furthermore, there is nothing in our analysis of the data, as discussed below, that suggests the first green light date is not being initially offered.

In addition, it became clear from these observations that the software used by the Customer Service Representatives (CSRs) actually performs the coding of the order based on the rules in *Exhibit III-14*. That is, the “W” or “X” code is set within the software, based on the date chosen by the CSR. For instance, if the CSR schedules a date

beyond the first green light date, the order is automatically coded as an “X” order. In short, the “X” and “W” codes are being properly applied.

Next, DCI investigated over a period of time the frequency which “W” and “X” codes occur within the orders taken. DCI obtained all the provisioning information for the year 2003 and for January 2004. DCI then analyzed this information for all “N” (a new service) and “T” (a transfer of service order) orders for consumers and “N” and “T” orders for businesses where the line count was five or less. DCI consultants analyzed this information using RECEIPT\_DATE to determine whether an order was received in winter or summer; however, only 16% of the relevant orders were selected, as the rest had missing RECEIPT\_DATES in their data feed. DCI had to rerun the analysis using ORG\_DUE\_DATE instead, which covers 87% of the data. DCI then used the offered interval to determine when the order was installed.

DCI first looked at the average intervals for “X”- and “W”-coded orders. The results across all of New York and by individual region are shown in *Exhibit III-15*.

**Exhibit III-15**

**AVERAGE INTERVAL RESULT HIGHLIGHTS: RESIDENTIAL, NEW**

<b>Region</b>	<b>Application Code</b>	<b>Winter</b>	<b>Summer</b>
All	W	5.59	5.88
All	X	8.31	9.28
Island Metro	W	7.64	6.94
	X	9.91	10.96
Capital	W	4.93	5.89
	X	7.77	9.06
Liberty	W	3.84	4.36
	X	5.63	6.31

Averaging over the five-day interval, the Island Metro Region reported the longest intervals for both “X”- and “W”-coded orders. It should be noted that these intervals were calculated only for dispatched orders. Anywhere from 58% to 70% of Verizon orders can be performed without a dispatch (Those orders are typically installed within two days.), which brings the overall averages down.

However, by looking at the distribution of “X”-and “W”-coded orders by time of year (summer and winter) and by duration, DCI noted differences in the numbers across New York. In the Bronx, there are more orders “X”-coded than “W”-coded (i.e., more dispatched installation orders excluded than included). This discovery is also true in Queens, although only in the summer. However, within the Liberty Region, there are more “X”-coded than “W”-coded orders in North Manhattan, South Manhattan, and West Brooklyn, but not in Midtown or East Brooklyn/Staten Island. Within the Capital Region, there are generally slightly fewer “X”-coded than “W”-coded orders, except in Northeast NY in the summer, when there were 6,584 “X”-coded (9.68 days) versus 3,959

“W”-coded (5.03 days) orders. To a large extent, “X”-coded orders occur when a customer negotiates an installation date and time for their own personal convenience.

There are three other observations that can be made from the data analysis:

- There are times of the year when the green light date exceeds the five-day period. This contingency is shown by the number of “W”-coded orders of six or greater days within each of the regions.
- Summer appears to be a more difficult time for meeting the five-day performance metric than winter, in particular for the upstate areas when compared to Manhattan.
- The Bronx area appears to have more “X”-coded long duration orders than other areas within Verizon NY.

In short, DCI did not identify anything in the data that suggests something unusual is occurring in the “X” and “W” coding of orders.

The next area investigated was how these “X”- and “W”-coded orders are used in the calculation of the performance metric. A strict reading of the documentation in *Exhibit III-14* would indicate that all “X” orders are excluded from the calculation of the performance metric. However, if that were the case, why would Verizon want to exclude “X” orders that are completed within the five-day period? In fact, the documentation is incorrect. DCI obtained the structured query language (SQL) code that is used in the calculation of the performance metric. A review of that code indicates that, in fact, “X”-coded orders that require less than six days are included in the calculation of the performance metric. In short, the performance metric is being calculated correctly.

**Finding III-8**                    **Repeat Report Rates Do Not Identify Any Specific Problems Associated With The Verizon NY Front End Close Out (FECO) Process.**

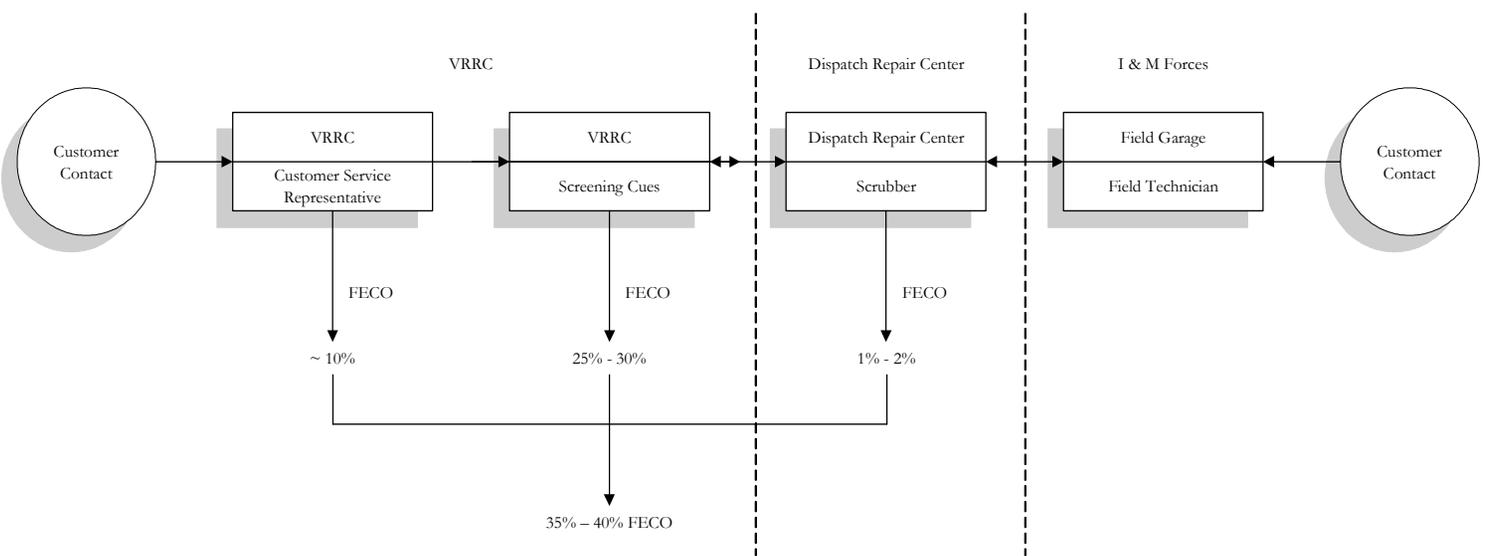
One of the issues raised at each of the meetings had to do with an issue identified as FECO. This process is important in that approximately 35–40% of all troubles are closed out via some form of FECO and, as a result, are not dispatched to a technician. The specific issue raised was that a “substantial” number of these trouble reports had to be reported again, thereby causing undue customer frustration that finally resulted in a dispatch that, if made on the initial report, would have resolved the customer’s trouble and provided them with “good” customer service.

The simple definition of a FECO is the closing of a trouble before it is dispatched to a field technician for resolution. These troubles are closed to several customer report disposition codes, including the following: 0528, 0631, 0633, 0741, 1244, and 1247.

This process is illustrated in *Exhibit III-16*. The flowchart also shows the rough percentages that get closed out during this trouble-reporting/resolution process, based on a review down by DCI consultants.

**TROUBLE REPORTING/RESOLUTION PROCESS FLOW**

Exhibit III-16



As can be seen from the preceding process flow, when a customer calls the Verizon Repair Response Center (VRRC) call center to report trouble with his/her telephone service, a Customer Service Representative works with the customer to diagnose the particular problem. Once the problem is analyzed, certain troubles can be closed out while the customer is on the line, including:

- ***Feature Issues or Updates*** – Problems associated with voicemail, call forwarding, etc. can be resolved by the associate while the customer is on the line.
- ***Customer Premises Equipment Problems*** – diagnosis that the problems are with the customer's equipment and are not a Verizon problem.
- ***Long Distance Issues*** – improper changes in long distance carriers, primary interexchange carrier (PIC) changes, etc.
- ***Customer Instruction*** – education of the customer on the use of certain features that are available to him/her.
- ***Service Recovery*** – removing or adding call forwarding or other items.
- ***Mechanized Loop Test (MLT)*** – The line can be tested while the customer is online (on a different number) to verify whether the problem is with the line.

Based on the results of this discussion and interaction with the customer, if there is no indication of a trouble condition, the trouble report could be closed out to a disposition code (as defined above) that indicates a FECO. However, if the above items do not apply or if the results of the MLT indicate a trouble, or are inconclusive (e.g., noise on the line), the trouble report could either be passed to VRRC-screening queues or directly to another organization, such as the Dispatch Repair Center (DRC), for further handling as an open trouble report. In the VRRC screening queues, an offline (not answering incoming repair calls) CSR reviews the troubles in the queue and performs additional tests to determine the nature of the problem and/or where to further route the open trouble report. Typically, these reports include line in use, busy line, no test results, inconclusive test results, and probable customer-provided equipment (CPE) problems. If the offline representative can resolve the problem with further testing and evaluation and can confirm that result with the customer, the trouble report would be closed out at that time to disposition codes that indicate a FECO.

The VRRC's standard operating procedures entail that open trouble reports are to remain in the screening queues no more than two hours for residential customers and one hour for business customers. vRepair (the system used by VRRC CSRs) is designed to manage the trouble load to meet these objectives. The average time during which troubles have remained in the various queues in recent months is shown in

Exhibit III-17.

## Exhibit III-17

**VRRC SCREENING CUE TIME FOR MARCH AND APRIL 2004**

	<b>March 2004 Minutes</b>	<b>April 2004 Minutes</b>
Residential	28	30
Business	17	17

If the representative determines that the customer has noise on the line and the line tests OK, the representative will not FECO but will work with the customer to eliminate possible causes, which will be noted on the trouble report before it is routed for dispatch.

If the trouble report cannot be closed in the screening queues, it is passed to the DRC—passing from vRepair to Work Force Administration System – dispatch out (WFA-DO). There is an application in WFA-DO (called SCRUBBER) that periodically tests the outstanding troubles (the live load) to see if they have already cleared. If SCRUBBER successfully verifies that a particular trouble has come clear (TEST OK), SCRUBBER will automatically make three attempts to call the customer. If the customer is contacted and agrees the trouble is clear, the trouble report is closed out as TOK. If the customer cannot be reached, the trouble is passed back to the VRRC for contacting of the customer. If the customer is reached, the report is then closed or reentered as appropriate. If the customer is not reached, the trouble report is closed out as TOK. As shown in *Exhibit III-16*, each step in the process flow is accountable for removing a portion of the trouble load, with the net result being that approximately 35–40 % of the incoming calls are closed as FECO disposition codes.

DCI assessed the effectiveness of the FECO process by analyzing the number of repeat reports that occur on FECO troubles compared to troubles that had to be dispatched. Various Verizon documents have estimated the cost to dispatch a technician at around \$300 per dispatch—a cost that can be avoided without impairing customer service if FECOs are effectively handled. Thus, if the company can resolve a problem without having to dispatch a field technician, a significant cost savings can be achieved. However, if FECOs only result in a later dispatch of a field technicians (a repeat report), then the cost savings can disappear and the customer will suffer.

DCI obtained all the customer trouble report information for the year 2003 through January 2004 from the data warehouse that is used for reporting various results on both a wholesale and retail basis. DCI performed an analysis of this information. Initially, DCI had trouble identifying FECOs but in working with Verizon personnel determined that Verizon systems were frequently incorrectly identifying non-FECOs as 0741. DCI made an adjustment for that issue (and Verizon corrected their system) by performing an analysis of repeat rates of FECOs versus other troubles (showing repeat rates for all disposition codes as well), using a definition of FECO as any trouble clearing within 15

minutes. In addition to the 07s, DCI also included disposition code 12s and showed their results separately.

The results of this analysis are shown in *Exhibit III-18*. They indicate that FECOs do not have higher repeat rates than non-FECOs of dispositions 07 and 12, in that the corresponding results are within 1% of each other. To say it another way, for a code 07 trouble, a FECO will generate a repeat report in seven days in 23.50% of the cases whereas a non-FECO (dispatched trouble) will generate a repeat report in 23.65% of the case—rates that are essentially identical to each other. By this comparison, the use of FECOs is a good business practice and is not a problem.

**Exhibit III-18**

**ANALYSIS OF FECO RESULTS FOR 2003 AND JANUARY 2004**

Disposition Code	Number of Troubles	Number With Repeats in 7 Days	Number With Repeats in 30 Days	Percentage With Repeats in 7 Days	Percentage With Repeats in 30 Days
		Close-2-Close	Close-2-Close	Close-2-Close	Close-2-Close
FECO 07	16,820	3,395	4,103	20.18%	24.39%
FECO 12	87,140	19,708	22,222	22.62%	25.50%
All FECO	103,960	23,103	26,325	22.22%	25.32%
07 Non FECO	219,375	39,981	52,758	18.22%	24.05%
12 Non FECO	484,069	104,314	126,802	21.55%	26.20%
All nonFECO	3,058,441	451,261	567,909	14.75%	18.57%

FECO = Troubles of Disposition Codes '07' and '12' whose ACTUAL\_DURATION\_RUN <= 15 minutes

**Finding III-9      Verizon NY Irregular Plant Conditions Reporting Is Not Being Used.**

One of the issues raised at each of the associate meetings dealt with irregular outside plant conditions. CWA has provided pictures of irregular outside plant conditions—many of which are reportedly not resolved—to New York Department of Public Service (NYDPS) staff. In fact, over the past couple of years, CWA associates have been submitting pictures of irregular plant conditions to NYDPS staff. These pictures have been passed on to Verizon NY for resolution.

Additionally, after DCI was awarded this project, NYDPS staff had specifically asked DCI consultants to investigate the CWA pictures. Our project scope did not allow for a detailed investigation of each and every picture (which we now understand is close to over 700 pictures). Instead, DCI adopted an approach of reviewing some of the pictures, in combination with our “on-the-ground” experience gained from our “ride-alongs” and “walk-alongs,” to obtain a better understanding of the origin and nature of these pictures.

Specifically, 79 pictures contained in March 21, 2003 and April 3, 2003 letters were forwarded to Verizon NY for response. Verizon responded that of the 79: seven were temporary closures; 15 awaited power or cable television company action; six awaited the granting of rights-of-way from consumers before the work could be completed; 13 were associated with jobs in progress that have since completed; 24 were jobs in progress that will complete later in 2003; 13 were not sub-standard and no work was required; and one could not be located. After receiving Verizon NY's response, the NYDPS performed their own independent field inspections, which largely corroborated Verizon NY's findings.

In addition, during this service quality review, 146 additional pictures were passed on to Verizon NY by the NYDPS for response. These pictures were reviewed by Verizon NY personnel, resulting in a summary disposition as shown in *Exhibit III-19*.

**Exhibit III-19**

**146 ADDITIONAL PICTURE STATUS**

	<b>Number of Pictures</b>	<b>Percentage</b>
Completed	77	53%
Inconclusive	3	2%
Engineering Required	25	17%
Construction In Progress	22	15%
Future (2004) no further details	19	13%
<b>Total</b>	<b>146</b>	<b>100%</b>

As shown in *Exhibit III-19*, slightly more than half (53%) of the irregular plant conditions have been resolved. However, there are still a number of outstanding irregular conditions.

Furthermore, during DCI "ride alongs" with field technicians, DCI consultants observed plant conditions that need to be addressed. However, it was not possible to determine how long these conditions had existed, if they had been identified as an irregular plant condition that needed to be corrected, or when they were scheduled to be corrected. However, from the informal observations made during the "ride alongs," it is clear that irregular plant conditions exist that need to be addressed—recognizing that this could probably be said of most LECs.

DCI recognizes that many of these conditions may have to do with jobs that are in progress or jobs that have completed since the pictures were taken. In fact, in the initial 79 pictures, the NYDPS found:

"Overall, we found that the vast majority of the observations, about 73%, are associated with jobs in progress or jobs completed since the pictures were taken. These do not

require intervention by the Department of Public Service. Many pictures identify double poles. Such situations normally arise when outside plant jobs involve multiple utilities, as each needs to complete transfer work before eliminating the double pole. In general, we do not find the double poles you identified a cause for concern from a public safety or service quality perspective.”

Although performing a statistically valid sampling of the irregular plant conditions to determine the degree to which these conditions are being addressed was beyond the scope for this project, DCI did observe conditions in Buffalo during our “ride alongs” that needed to be addressed. In particular, telephone facilities on broken poles (reinforced by 4X4s lashed to the poles) were observed in February of 2004. Some of these conditions still existed in July of this year, when the same DCI consultant did a follow up field visit. However, the broken balconies that were observed in Buffalo in February, and reported to the first-level manager, had been fixed in July.

DCI also understands that if these pictures represent irregular plant conditions, according to Verizon NY business processes, such irregular plant conditions would also be identified in Verizon information systems, usually referred to as T-Zone reports, Maronda reports, irregular plant condition reports, or some similar information system. As discussed in *Chapter VII – Field Operations*, these systems are not being maintained or used. Consequently, one of the primary methods for addressing these types of issues is not being appropriately used by Verizon management or associates. Irregular plant reporting needs to be re-implemented.

**Finding III-10      The No Field Visit (NFV) Order Completion Process Does Not Cause A Significant Increase In Trouble Reports For Newly Installed Service Orders.**

The non-premise visit (NPV) order completion process is a process for completing orders for new service without a field visit to the customer’s premise. The process begins when the customer calls the business office to place an order for an access line. The records are checked to determine if a facility is available and are connected through (CT) to the address that the customer specifies. If such a facility is indicated, the order is coded No Field Visit - Pending Auto Completion (NFV - PAC), meaning no dispatch is required to provide service.

When the customer makes the service order request, they are given an 800 number for the Voice Center (VOICE), the customer care center for service orders. One center for this function exists. It is located in Troy, New York, and serves New York customers.

An NFV - PAC order goes through a program scan test on the morning it is due, generally at 5:00 A.M. If the test result is OK, it is auto-completed that day at 9:00 P.M., although the customer will have service whenever the translations work and framework are completed during the day it is due.

On an order that fails the test, the CVC will contact the indicated centers to determine an update status. Orders that test with indications of open-in conditions (Central Office

Frame) are sent to the frame for verification, translations indicated problems are sent to the Recent Change Memory Administration Center (RCMAC) for resolution, and outside plant indications are sent to the appropriate DRC. The order is placed in a jeopardy status and will be retested throughout the day. Based on these test results, the decision is made whether or not to dispatch.

If it is to be dispatched, the order is put in a pending dispatch (PLD) status and is dispatched that day to meet the due date the customer was given. The change to PLD status keeps the order from auto-completing.

If, based on test results, the decision is made not to dispatch, the order stays in the NFV - PAC status and is auto-completed at 9:00 P.M. For example, according to Verizon NY management, an Open Out-Balanced test indicates the customer does not have a set plugged into a jack at his/her premise and the customer does not have a NID or that there is a trouble. Based on studies made several years ago, in the vast majority of cases, the customer service will be provided without a problem when a set is plugged in.

If there is an indication that the customer needs to be contacted, the DRC will attempt to do so. An example would be if the repair load was too heavy for the installation dispatch or if the need for a dispatch was recognized very late in the day. An attempt would then be made to reach the customer to explain and to set up a dispatch for the following day.

If the customer does not have dial tone, s/he is instructed to call the CVC for assistance. If the call is received prior to order completion, the CVC works with the customer to set up a dispatch to establish service. In this scenario, the order is changed from NFV - PAC to PLD and is put in the dispatch pool as a service order. If the call is received after the order is completed, it is treated as a customer direct trouble report and is put in the dispatch load as a customer trouble. If the report is received in less than eight days from the time it is completed, it will be classified as an "I" report. "I" reports measure the percentage of residence orders with a trouble report within seven days of order completion.

To determine the difference in troubles as measured by "I" reports between dispatched (FV) installation orders versus non-dispatched (NFV) orders, DCI calculated the "I" report data for each. The results of these calculations are provided in *Exhibit III-20*.

## Exhibit III-20

**NFV VERSUS FV “I” REPORT RATE**

<b>Region</b>	<b>Dispatched I Report Rate</b>	<b>Non-Dispatched I Report Rate</b>
Liberty	14.34%	15.08%
Island/Metro	12.75%	14.10%
Capital	10.95%	11.45%
<b>All regions</b>	12.64%	13.24%

The data in *Exhibit III-20* indicates that the “I” report rate for orders dispatched is not significantly better than those that are non-dispatched. For the State, the difference in trouble rate is only 0.74%.

This small difference in report rate indicates that Verizon is successfully managing the NFV process and is not creating excessive trouble reports by completing orders with the NFV process.

There are two centers with high NFV “I” report rates. When analyzing the data for “I” report rate results, DCI found two centers that had substantially higher report rates. *Exhibit III-21* provides these results.

## Exhibit III-21

**HIGH “I” REPORTS**

<b>Region</b>	<b>Dispatched I Report Rate</b>	<b>Non-Dispatched I Report Rate</b>
Liberty/Midtown	14.25%	20.66%
Island/Metro/Queens	13.50%	16.13%

In discussing NFV orders, Verizon NY informed DCI that there was no report that addressed “I” reports for NFV orders only, although as can be seen in *Exhibit III-20* and *Exhibit III-21*, the data is available. Analysis conducted by Verizon was based on the total of “I” reports that would include those resulting from both dispatched and non-dispatched orders. Customer care index (CCI) verbatim reports are also reviewed to see if indications of problems exist that are attributable to “I” reports. No reviews or audits have been performed on the handling and coding associated with “I” reports.

## **C - RECOMMENDATIONS**

### **Recommendation III-1      Address Organizational Issues With Matrix Project Teams. (Refer To Finding III-1).**

Responsibility and accountability for service quality and operational efficiency needs to be clearly defined within the Verizon NY organization. Because of the complex nature of the delivery of service quality, these responsibilities and accountabilities will need to be shared among individuals who cross organizational boundaries—necessitating a matrix project (versus a functional) organization. The individuals involved need to be motivated by how well the project team accomplishes the objectives versus how well the functional group strictly performs.

This type of organization requires cross functional coordination at critical levels of the organization. It is especially recommended that a New York State executive coordination committee be established for managing state operations including managing toward meeting state service objectives and PSC imposed service objectives including VIP and Special Services.

Cross-functional operations reviews such as the OAT review conducted in Long Island/Metro in Spring of 2003 are required. Findings of these reviews are to be assigned to the responsible management team for follow up and correction. Management at the Director level and above must encourage, foster, and continually follow-up to ensure that areas needing correction are addressed and the recommendations of the review team are actually implemented, i.e., not given cursory attention. There is a natural tendency in organizations to resist change and not forcefully address such review findings and recommendations because “we are different here”; customers, geography, plant, weather, etc. Aggressive management leadership is required to overcome this resistance and get the necessary changes made. Further, “best practice” business processes that are identified by a review team in one region need to be implemented uniformly across the state operations. This will aid in addressing the inconsistency in business processes noted above.

### **Recommendation III-2      Initiate A Formalized Program For Improving The State Of Relations Between Management And Associates. (Refer To Finding III-2.)**

DCI recognizes the difficulty in managing in the current telecom environment with decreasing revenues and access lines and the commensurate decreasing force requirements. These conditions generate significant employee concerns regarding job security for the individual and even the overall viability of the Company. However, this environment requires more effort on upper management to communicate with all employees their strategy and plans for dealing with these complex issues.

This effort should include, at a minimum, addressing the topics uncovered in the semi-annual internal Verizon NY employee surveys that demonstrate an unacceptable level of

trust and poor communications in the relations between associates and senior management. Such a program would logically start with an enhanced level of communication between executive management of Verizon NY and the mid-level managers and craft associates of the company. Beyond this improved communication, Verizon NY management should take the necessary steps to enhance their credibility with employees in general. These steps logically start with a clear definition and communication of the strategic direction Verizon NY is to follow in the future. A feedback loop should be implemented as part of this effort to allow Verizon NY employees in general, and associates in particular, to provide valuable feedback to senior management as to their opinion of the planned path and role of the company.

Upper management needs to address specific concerns of the associates and lower levels of management including such areas as condition of the plant, test sets, CATs, etc. A feedback loop must be incorporated to demonstrate through actions that the employees can recognize that their concerns are important and management is working on correcting them. It is imperative that something be done about employee issues, not just talked about, and when it is done that communication of the accomplishments be made to the appropriate associates and lower level management to demonstrate there is real commitment behind the words.

Senior and mid-level management direct communications and accessibility to lower level managers and associates is vitally important. This can be accomplished through a number of mediums (local meetings, or video conferences, etc. in garages, call centers, business offices, and other Verizon NY facilities), but it is important to provide for and encourage a two-way dialogue. While it is important to give employees a chance to hear directly from the senior and mid-level managers on their vision and plans for the company, with particular emphasis on the local area's situation, it is just as important to include an opportunity for attendees to respond to or ask questions about the information that was presented.

**Recommendation III-3      Reassess The Drop In Associate Training Hours. (Refer To Finding III-5.)**

Because of the reduced number of associates over the last three years, it would be expected that training hours might also decrease. However, one of the issues raised at *each* of the offsite associates' meetings had to do with the lack of training. A review of associate training requirements, considering the current skill levels of the existing associates and the new skill requirements that may develop from the FTTP program will identify training shortcomings. Individual counseling of associates on their training requirements will address their concerns on this issue.

**Recommendation III-4**      **Implement And Follow Through On An Irregular Plant Reporting And Monitoring Process To Include Feedback To the Associates When Corrective Measures have Been Implemented. (Refer To Finding III-9.)**

The proper method for addressing all irregular plant conditions, including the pictures submitted by CWA, is via an irregular plant reporting process, which is currently not being utilized effectively in Verizon NY. Whether the irregular plant reporting processes are not being used because the systems are cumbersome or because the associates have been reporting conditions that get entered into the process but never get fixed, or for whatever reason, the process needs to be fixed. In our visits to the various field garages, the irregular plant reporting process was referred to by many different names, but whatever the name used, the general consensus was that the process was not being used by management and associates for its intended purpose.

Verizon NY either needs to resurrect the process used in the past for this purpose or to develop a completely new Web-based system that would standardize the process throughout Verizon NY. Whichever option is chosen by Verizon NY, it should support the uploading of digital pictures detailing the irregular plant conditions. The additional pictures submitted to the NYDPS could serve as test data for implementing the system.

The proper implementation of such a system would also address another concern of the NYDPS. Specifically the NYDPS asked CWA to first bring these specific situations to the attention of the company and then to bring to our attention only those where the company fails to respond appropriately. The NYDPS was concerned that in the first instance, employees are not reporting non-standard plant conditions in the normal course of operations and that bringing such safety and service quality issues directly to Verizon, within its established practices for such reporting, is the best course of action. The NYDPS asked that any future correspondence on this issue include documentation that the outside plant conditions have been previously reported to Verizon and that the company has not responded. A properly used Irregular Plant Reporting system would provide this documentation.

**Recommendation III-5**      **Communicate The Results Of DCI's Investigations Of Associate Concerns To Associate Personnel. (Refer To Finding III-7, Finding III-8, Finding III-9, And Finding III-10).**

Verizon management needs to communicate the results of DCI's investigations into associate concerns to associate personnel. Verizon first level management should be made aware of associate concerns and the activities that were undertaken as a part of this review to address those concerns. In addition, Verizon NY management should also review the detailed comments provided in *Appendix A* to identify any open issues that might still need to be addressed and communicated to the associates.

**Recommendation III-6      Develop A Tracking Report For NFV “T” Reports.**  
**(Refer To Finding III-10.)**

“T” reports should be analyzed monthly to evaluate the quality of customer installation service. A report of “T” customer trouble reports by DRC monthly will provide a basis for analysis. The report would contain ratios for NFV orders as well as dispatched orders. The report will allow for identifying centers, which are outliers in quality performance as discovered and identified in the related Finding. This report information will allow the AOMs to analyze and determine the source of quality problems including the NFV process, technician quality, or outside plant performance.