

"Ethics at a Crossroads: How Telecom Failed the American Agenda"

Chaos reigns these days as the clamoring for truth amidst a backdrop of gloom and despair seems all too familiar. To get things started, there was the sinking of Global Crossing—but everyone could empathize by now with an abysmal marketplace. Then came the crème de la crème of the year thus far—WorldCom—only this time no one could stomach the blatancy of deception surrounding the apparent financial cover-up. From Capitol Hill, the President himself decries such a lapse of management responsibility and amplifies the profound impact on the investment woes for millions of naïve American people.

But probably the most significant event has yet to unfold in the annals of telecom history. By year-end, scores of telecom service providers will be out of business—casualties of the falling giants and an ever-diminishing pipeline of operating capital. And with a morgue of shell companies and mergers gone awry, the historical fact remains: how could telecom cease to flourish despite a positive rise in demand for broadband and wireless services? The answer is fairly complex but often more anecdotal than stating the plain facts.

First, service denial is becoming a habitual response to broadband service requests. Try getting any flavor of DSL to your home or establishing Gigabyte Ethernet service between two metro networks. Either way, subscribers continue to hear the nauseating echo of “service unavailability” or “outside the coverage area at this time” when speaking to their broadband provider. And the noise gets louder as service providers shutter their doors and service can no longer be restored by virtue of poor capacity planning. Yet, the demand continues as paying customers go unanswered and they seek alternatives such as cable MSOs or laying proprietary fiber links. Still, revenue is left standing on the sidelines.

Secondly, the thirst for growth outweighed sensible financial consideration when it came to building networks and meeting future demand. During the heyday of whimsical buying and uncontrolled network growth, ambitions to succeed in roping subscribers came well ahead of the justified concern for stable investments. Today's backlash of inappropriately capitalized assets and balance sheet circus tricks is no more than a shameful recap of decisions gone bad—and exuberance that got ahead of the economy. Network developers wanted to paint the picture of an investment that paid for itself in advance of any real profit production. Put bluntly, companies appealed to investor hype before facing the reality of systemic red ink on the balance sheet.

But how did this continue for so many years before such an abrupt discovery? Ethics appear to have been traded for a different agenda—one featuring nominally high returns without regard to the stewardship of capital spending. The net effect continues to implode upon these companies and displace the most loyal customers in a wake of financial turbulence. With a hand-to-mouth subsistence, an absence of private capital is self-selecting those providers that will sustain themselves until mass confidence returns. And by all signs, it won't be anytime soon.

Correcting gross accounting errors and shaken consumer beliefs takes time at best, but a prescription for restoring faith in subscribers at large requires diligence that has been absent for so long. Start with engineering a check and balance system that ensures network capacity alongside the profit attainment of a subscriber base. Like everything in business, balance is key to survival—and truth in the investment details is paramount. Wall Street has

begun to recognize that profit doesn't happen overnight—nor can double-digit revenues be sustained forever. Set the tempo at a conservative pace and let investors decide how the rhythm fits their rate of return.

Above all else, a mired reputation means a heroic act is necessary to overcome the blackness associated with an industry. Telecom remains the promise of connecting commerce to a global marketplace, and its rapport with the public needs to rise to the occasion if relief will be felt in coming business quarters. And while these past months have been excruciatingly difficult to bear, the hope exists that the industry and service providers as a whole will innovate new ways to satisfy their customers and deliver on the potential for a long-haul future.

