Lies, Damn Lies and Statistics in Telecom Business Intelligence

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Ideally, business intelligence organizations should be immune to decisions relating to ethics, but the reality is that telecom organizations will have to take a harder look at what they do and how they do it.

Recently, I had lunch with a group of business intelligence professionals. During the course of our discussion, the concept of ethics in business intelligence was raised. One of the questions posed was if ethics apply to business intelligence. This discussion reminded me of one of my favorite quotes:

"Lies, Damn Lies and Statistics"

While many people attribute this quote/concept to Mark Twain, it was actually Benjamin Disraeli who coined the phrase.

So, how does this relate to ethics in telecom or to the business intelligence groups of telecommunication service providers?

Some would say that telecom is too regulated to get truly into levels of ethics. But, you only have to look at the trials of Joe Nacchio of Qwest, the Rigas family of Adelphia Cable, and [insert your favorite telecom CEO/CFO trial here] to understand that ethics as it relates to telecommunications is not necessarily a black-and-white concept. As it applies to business intelligence, the slope is not as slippery as it is for CEOs and CFOs, but you can run into problems.

The Letter of the Law

Many business professionals equate ethics with the letter of the law. In the absence of the "letter of the law," many will follow the advice of former vice president Al Gore:

"There is no controlling legal authority that says this was in violation of law."

While following the law, and/or recognizing that there might not be a law to be followed, is an excellent start to looking at ethics, the concept of ethics requires a greater level of understanding. Many professionals have "offloaded" their ideas about the ethics of a situation to the individuals who gave them the assignment of a task. Often times, this is rationalized by saying/thinking something similar to "that's above my pay grade…" On the other hand, there are others who will simply refuse to take part in activities that they feel are against their principles.

Team Players

In the "go-go" days of the Internet bubble in the 1990s and early 2000s, business practice, and thus ethical, lines were blurred. There was a widespread belief that with the Internet boom and associated telecom boom, there was a fundamental shift in the way that business was done. With that, there was also a shift in the way that well regarded business practices (read ethical behavior) were also accomplished. GAAP accounting took a beating from CEOs that some would call overzealous (*and others would call criminal….*). There are well documented cases where people who shifted their ethics to match the business climate found professional success and the financial advantages that went along with those choices. Those individuals rationalized their behavior with the following logic: There was/is a "new economy," and the new economic rules of the Internet govern that new economy. GAAP accounting was "old school," much like the brick-and-mortar businesses that the Internet was poised to replace.

There are also examples of how individuals who refused to embrace the new "ethics" associated with business and accounting reporting found themselves on the outside looking in. They were branded as "not playing ball" and not being "team players" who were instrumental to bringing success to the organization. These individuals did not receive the professional or financial perks that often go along with a "finding an exception" to ethical behavior. (*However, it should be noted that these folks were the key prosecution witnesses for the above-mentioned trials…*)

"Slave to the Raw Data…"

Ideally, business intelligence organizations should be immune to decisions relating to ethics. They traditionally base their jobs on the reporting and analysis of raw data based on the standards set by the definitions of the reporting and analysis requirements. For example, it is pretty hard to find wiggle room associated with representing *average revenue per user (ARPU)*. You collect the data associated with the revenues associated with the entire telecommunication operations or a specific set of regions or products.

You then push that through the industry standard for revenue, divided by the users of the telecom organization or the specific subset of data. How hard can it be….?

However, as business intelligence metrics evolve, it becomes trickier than just pushing raw data through industry standard calculations. For example, in my opinion, *average margin per user (AMPU)* is going to become the new ARPU or Net Additions metric. It has a more complex concept than simple ARPU; it associates the costs as well as the revenues to users. And, in a telecommunications organization, associating costs to an operation can be difficult. It is relatively easy to put a "wholesale" cost on a ringtone or on IPTV content. Those are the costs provided by the external content supplier whether that be Eminem's record label or TimeWarner via HBO.

However, the more sticky issues associated with AMPU are similar to:

- Are cell towers a sunk cost associated with the organization or a specific operational cost associated with the wireless product line?
- Are upgrades from copper to fiber connectivity to homes or businesses a cost of the company or to the Fiber to the Home (FTTH) operation?

In both instances, the argument can be made on both sides. To stay competitive as a company, those costs should be endured by the overall corporation. To enable those products, those costs should be allocated to the products that benefit.

The owners of the product lines will probably state that the high infrastructure costs should be placed with the company operations. The network organization will probably ask for at least part of those expenses to be shared/allocated to the product lines. Here is the ethical dilemma for business intelligence groups: Which calculation for AMPU is correct? Again, this type of decision will depend on the decisions of the CEO and the CFO, but there will be pressure from other internal groups to help make the numbers look as good as possible to all stakeholders – external as well as internal.

Conclusion

I do not think that the heady days of exchanging $20 million in services between two companies and reporting it as revenue on both sides will return. Sarbanes-Oxley and the bad public relations associated with the Nacchio and Rigas trials have probably eliminated that. However, in the areas where GAAP accounting standards and standard business practices have not caught up with the activities of cutting-edge telecom products and the way that they are marketed, accounted for, regulated/taxed and

reported on, there will still be situations where telecom organizations will have to take a harder look at what they do and how they do it.

My advice for the telecom business intelligence organizations (in particular those whose activities result in the creation and preparation of metrics for annual SEC, 10K and 10Q reports) is to have a strong relationship with the finance organization and the CFO in particular, as well as with the risk compliance office. It will be important that business intelligence not get caught up in a refusal to do something, and communication with finance will be an important part of that. When those communications with finance are regarding an ethical situation breakdown, it is important for business intelligence to have the ability to go to a third party to help mediate or provide a "ruling." In all of these cases, the approach should be "win-win" for all parties or "no deal." Business intelligence teams should not consider themselves "guardians" for the ethics of the enterprise, nor should they be put in a situation where they are subpoenaed due to the decisions of others.