



Doing it by the numbers

FROM TIME TO TIME, groups of editors travel together to cover events, such as major trade shows, facility openings, and the like. On these expeditions, conversation topics tend to range far and wide and sometimes stray into the realm of unanswerable questions. On

one occasion a few years ago, a friend asked: “Do you think this business has ever made any money?” (We were talking—then, as now—about the semiconductor industry.)

Pardon me? Of course it makes money; otherwise, all of those companies and their wafer fabs wouldn’t be there, would they?

My friend then went on to explain the sense of his question: “How would it look if you could separate out the true commercial worth of the industry and strip it of all the subsidies it has had? What about the limitless military- and aerospace-research budgets that have developed technologies that then filter down into the commercial world and never have to repay that up-front cost? What about the government contracts that just keep spending money until the job gets done or until the project dies of old age? (I did say this conversation was a few years ago.) What about the regional development grants that go into setting up wafer fabs on green-field sites? And so on...

The group thought about these questions and agreed that—at the very least—no one could ever untangle that particular intricate web of finance, so the question was probably unanswerable. What brought this story to mind is the recent uproar in the financial markets that involves some significant names in our (and some other related) industries and their accounting errors. (“Error” appears to be the polite term for some of what has been going on lately.) These names include Enron and WorldCom. This

scenario is baffling to us engineers: When we left school, we went on to study engineering because it seemed to offer much more opportunity for creative thought. We turned away from the option of becoming accountants and auditors because those professions looked like dull alternatives. After all, numbers are numbers, and how creative can you really be with them?

If you drew this conclusion, it would appear that you were wrong. “Creative” seems to be a mild euphemism for some of the numerical practices that recent investigations have revealed. But such practices raise the same questions: Have these enterprises ever actually made money? How big a structure can you build without solid revenue to sustain it? It’s all a bit too much to absorb after the dot.com bubble, the communications-stock collapse, and other traumas.

Perhaps these phenomena are different aspects of the same thing: the rapid growth that has characterised much of the last decade. In engineering terms, these corporations were operating in a constant transient regime; they never reached a steady state so that anyone could draw breath and assess their underlying viability. Buying and selling of other companies and endless corporate reorganisations could obscure—sometimes even dwarf—such companies’ trading in the everyday business of the products they make or the services they sell. The accountants of doubtful virtue had the opportunity to hide the true performance of their companies in constant restructuring. The dot.coms and communications

companies had the insidious acceptance that there would always be another 30% growth next year. Thus, the mentality was: Don’t worry if the real margins on what you are doing now are a bit thin; think of the money you will make when you are that much bigger. Well, now we can take stock of the steady state—with a vengeance. And the companies that had no solid base to their activities have been revealed in a merciless fashion.

The creatively accounting businessmen have been warned; President Bush has promised to put them (the US ones, at any rate) in chains if they do not reform. So perhaps you made a narrow escape if you ever entertained the thought of a career in the financial sector. How much do these instances of malpractice matter, especially if the companies concerned are not those for which you work? The malpractice matters a lot; it sets general expectations for a whole market sector. Confidence easily erodes, and if people view the whole communications and technology industry as lacking substance, this perception does nobody any good. And corrupt practices matter to us in more mundane ways. How can you be confident about the status of the company to which you are considering going to work or even the one you already work for? Or you may be considering investing some of your hard-earned funds in a technology company. You can make an assessment of its technology, but can you trust the numbers?

There has been no shortage of statements from senior executives saying that episodes such as the WorldCom example are aberrations and that you really can trust the numbers from most companies in the industry. Let’s hope nothing more emerges to undermine those assurances.

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