Regulation Drives Innovation

By Tim Young

What's the relationship between regulation and prosperity?

One popular narrative insists that regulation is the hobgoblin of capitalism and innovative risk-taking, stifling new ideas and creative ventures. (One headline that encapsulates that idea aptly, from a recent FoxNews.com feature, is " Regulation Nation: Drowning in Rules, Businesses Brace for Cost and Time for Compliance".)

This is a pretty well-worn path, so I won't belabor the point. Regulation, like taxation, is squarely in the crosshairs for a sizable portion of the business and political elite.

That way of regulation, however, is but one figurative stall in the elusive marketplace of ideas.

Another way of looking at regulation is that it can actually spur innovation, leading firms to adopt creative new methods for meeting regulatory requirements while simultaneously maintaining, or even growing, profit and market-share.

This viewpoint was summed up pretty well in a Business.view opinion piece that ran in the Economist online a few years back. "THE most important factor," wrote the author, "that led to America's stunning success in information technology was not the free market but government regulation," (Read the full piece here).

It was regulation, the author contends, that split up Ma Bell and IBM, opening up a competitive race in the communications and technology space that propelled the industry into a golden age.

Furthermore, the authors quote economists that assert that while nations like Japan have been impressive in their overall technological output, their ability to innovate in areas like software development due to the tight grip on their economic reigns held by a few major companies.

So that's the other side of the coin, but it's not a point I'm compelled to argue either.

There's a much more straightforward connection between regulation and innovation in the OSS/BSS space, specifically.

Take recent bill shock prevention legislation in the EU (and possible similar regulation in the US, as well,

Not for distribution or reproduction.

though the FCC has yet to take action on proposals that are over a year old). Call it interference in the free market if you want. Or call it a coup for consumers. But beyond either of these worldviews is a practical consideration: If bill shock prevention is mandated, how do you avoid it?

Current EU regulations require, among other things, warning notifications, cost transparency, and increased ability for customers to set their use limits and other cost controls. These are OSS/BSS issues.

Just ask Ericsson. They explained in a January blog post all about how their end-to-end revenue management solution can meet these needs and more.

And they aren't alone. Nokia-Siemens Networks has also trumpeted ways of turning legislative compliance into a business opportunity for service providers. Which it may. But the more direct impact is the creation of a business opportunity for these companies and other BSS providers who can help service providers manage compliance with regulation.

Would these service providers have adopted some of the measures covered by the legislation of their own accord? Perhaps, but the legislation itself was the impetus for change for many. European roaming regulations transform bill shock prevention measures from competitive differentiator into a must-have.

Or take Sarbanes-Oxley (SOX) compliance. Since the 2002 passage of that 'auditing accountability' bill in the wake of the WorldCom and Enron scandals, major enterprises like telecom service providers are required to maintain a level of accounting transparency that has far from the norm prior to the implementation of the legislation.

The better part of a decade later, BSS providers are

able to use SOX compliance as a selling point for larger revenue and inventory management solutions. Subex touts that the asset tracking functionality in its ROC Data Integrity Management solution as aiding in SOX compliance due to its improvement in accuracy in financial reporting.

Comptel, likewise, promotes the enabling of SOX compliance offered by its inventory solution. The same goes for any number of other BSS companies as they look to plug their solutions as a way to do something your company is forced to do while simultaneously doing something your company would benefit from doing.

And this isn't only the case for BSS firms. I recall that back when E911 regulations started becoming a major issue, OSS firms like Agilent were emphasizing how their solutions were helping wireless firms comply with the wireless location components of the new standards.

And there are more regulations on the way.

Lawful intercept requirements have become a part of the pitch line for network monitoring and deep packet inspection companies, who can simultaneously emphasize the "musts" brought about by regulation along with the "shoulds" brought about by everyday business realities. However, there has been a recent push in the US to expand one of the major lawful intercept measures to include new areas of the communications space.

The Communications Assistance for Law Enforcement Act (CALEA) has been in force since 1994, but only within the last year has the FBI, along with other law enforcement agencies, made a push to extend CALEA to include other types of communications technologies that were barely an issue when the legislation was conceived. Now, however, according to a statement from Valerie Caproni, General Counsel for the FBI, that agency and other government agencies, "are facing a potentially widening gap between our legal authority to intercept electronic communications pursuant to court order and our practical ability to actually intercept those communications."

This capability gap, referred to as the "going dark" problem by enforcement agencies, represents yet another potential opening for network monitoring and DPI firms plays to provide useful solutions, as well as capitalize on increased issue visibility to promote other benefits of their wares.

Furthermore, while any malfeasance that may have contributed to the current economic client has yet to produce reform as far-reaching as Sarbanes-Oxley, it's not hard to imagine that one aspect of full recovery (assuming it ever arrives) will be a fresh set of financial regulations. Furthermore, power consumption among service providers is sizable, as we outlined in our July issue. Might concerns about power use and emissions lead to tougher standards on infrastructure power use? And how might vendors help service providers cut carbon while also cutting cost? These are questions that vendors are bound to offer answers to as new requirements emerge.

Ultimately, then, while regulation may stifle some types of growth, it may spell dollar signs for many communications IT firms. Furthermore, the quest to dot every "I" and cross every "t" for the sake of compliance may lead to opportunities to maintain and streamline other aspects of the business. Regulation, though tough to get excited about, sometimes prove to be a catalyst for positive growth.

So, I'll leave it to our readers: Has regulation ever proven to be a positive thing for your business? A negative thing? Just another cost? A barrier to expansion? Contact us at editor@pipelinepub.com and tell us your story.