Global Recovery Manual

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SAMPLE

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Introduction

The Introduction and Part 1 made it very evident that we are entering a period of high uncertainty when the immediate past is unlikely to be a guide to the future. This will be on the scale of wartime when the rapid response to a changed situation could decide the fate of any remedial program. One has only to read an account of the Battle of the Atlantic during the Second World War to realise how closely the conflict was fought and the vital importance of intelligence and rapid response.

It is always the case that the aggressor in a conflict is better prepared, which is why in the first few months, even years, of war the defenders take some time to react to a new situation; however, the response is often more sophisticated than that of the belligerent because it is forged in the heat of battle. In a sense this is also true of business where, in a marketing or acquisition situation, the response to a rapid change can be quite devastating, depending on the ability of the competitor, or target, to respond.

What helps immeasurably is if the recipients have a sense of history which is why business schools teach case studies and why anybody in authority should understand the environment in which any upset takes place and how similar events have turned out.

This is why this guide is at pains to locate the present in an historical context and cite as many case histories as possible so that the reader, confronted by a new situation, will be better able to respond. The purpose of this chapter is to identify the nature of feedback and to suggest ways in which any organisation, public or private, might be trained to react to alternate situations.

Part 2 Chapter 1.
Discontinuity and the Learning Curve

"The dogmas of the quiet past are inadequate to the stormy present . . . As our case is new, so we must think anew, and act anew. We must disenthrall ourselves and then we shall save our country."

Abraham Lincoln, 1862

Summary

This part describes how managers with any sort of responsibility should change their approach in the face of major discontinuities in the months and years to come. It suggests why this should take place, the problems to be overcome and ideas for dealing with the transition.

Introduction

In the third week of September 2008, when major institutions were either being made bankrupt – Lehman Bros. had just collapsed – forcibly acquired or nationalised, a management award ceremony was being held in London. The chairman, himself a senior president, praised the recipients for their diligence in passing the Institute of Directors exams, their knowledge of corporate governance and stakeholder responsibilities, but failed to even mention the fate of Lehman!

Clearly not a student of Bismarck, who famously said, "while other people learn from their own errors, I learn from other people's mistakes," he totally failed to warn those present that they were at the beginning of a major learning curve when managing turbulence would be the norm. One of those attending was reminded of the terrible early months of World War One when a French general ordered his officers in white pantelons, blue tunics and drawn swords, to make cavalry charges against German machine guns.

Had our erstwhile chairman been a student of the learning curve he might have rewritten his speech as follows:

> "Ladies and gentlemen, I congratulate the award winners on their diligence and hard work in passing their exams but the events of this week have shown that when you return to your businesses you will be just at the foothills of a unique learning experience that will test to the limit the techniques you have learned, your ability to adapt and, quoting Joseph Schumpeter, 'Anyone can make money when demand exceeds supply. It takes brains to be successful when the reverse happens. Let me explain why . . .' "

The diagram in the previous chapter (Diagram 3) shows the stated total debt/GDP ratio of the US from 1870 to 2010 – to include what may be described as the tail-end of third and much of the fourth Kondratieff Long Waves (the cycles described in Part 1). Please observe the peak in the curve when the US economy declined by 50% after 1929, then the debt crashed as some \$100 billion (just less than the GDP in 1929) was wiped off. Now the stated ratio is at least double that of 1929, and nearly an adjusted eight times if all federal obligations are included. A similar position exists in many countries with unfunded liabilities. An equivalent crash could wipe out debt twice the current GDP (that is near \$14 trillion) or over \$30 trillion – a sum that would destroy anyone unwise enough to own debt. Our American friends are not alone; we can expect a similar decline in UK debt.

You may not be aware of climatic cycles that could be every bit as important as the economic rhythms you may have been taught. These are primarily ocean oscillations that became very difficult around the turn of the century, a capricious sunspot cycle and increased volcanic activity. These may affect important areas of the world with drought and restricted food supplies to cause refugee movements and lead to wars. Let me summarise just some of the changes to be encountered.

Central banks' attempts to stave off deflation by flooding markets with liquidity could be aborted by a major national or corporate collapse, or a bond buyers' strike. The mammoth rise in money plus potential rise in food and energy costs could ignite raging stagflation with the possible results:

- The GDP in the early 1930s declined by 50%; this could be exceeded as the current debt levels work themselves out.
- The climatic shifts will not only support high food prices but increase the risk of conflicts and mass movements of people.
- The economic and climatic shifts will create unendurable pressures on structures such as the European Union – and will those who break away revert to conditions similar to the 1930s?
- How will Russia and China adapt to the new environments to force new alignments in the West?