

7th November 2008

Oh Blimey Obama!

Making a drama out of a crisis and waiting too late!

That was an interesting week. Barack Obama is set to become the first ever African American President; and to become President with the best part of a 'landslide' victory.

Whilst all the hoopla was playing out on CNN and other American news channels, Mr Obama was diligently trying to do what most politicians try to do and accept the success graciously. His victory speech seemed to be presented without notes, but in reality either a well hidden autocue or meticulous preparation were probably behind his smooth flowing address (it's all on You Tube, although when I looked today there were 2.5 million views already so you may have seen it).

It was all so different back in the days of the race for the Democratic nomination. Back then Obama was a little different (and perhaps less politically aware). His appearance on Ellen De Generes' show saw him come onto the set dancing (yes – that's dancing – search it on You Tube). I don't think he was born to dance, but then again he's no dance floor flop either.

Toward the end of the election I got the impression he had known for some time he was on the way to winning. Apart from the obvious opinion polls pointing the way, there was just something in the air that told this was about to be a time for change.

So whatever the political agenda (which almost certainly will not play out as marketed thus far because the economic crisis will require a moving feast to meet the circumstances), the US now has a presentable, eloquent, capable and driven President. And there appears to be many in the news and media over there who are asking – why did they wait so long.

Of course they didn't have much choice. The American Presidential terms and elections are a fixed affair. Terms are 4 years and elections happen in November, every time.

Already though President elect Mr Obama has been picking his teams, and initial information has been leaking out about his Treasury team selections. It must be difficult; most of the key financial institutions in the states (from where the Treasury team nominations often come) are embroiled in a financial crisis that you could argue is of their own making (in part or whole).

By definition senior management in the banks etc must be culpable for some of the financial misdemeanours, but arguably, like the prisoners who can often be used in education programmes to slow down crime in their specialist criminal discipline, perhaps the bankers who were implicated in this financial crisis can help sort out the mess and avoid similar in the future.

Whether public or private it seems we're often slow to act when it comes to crisis. I come across many firms in the UK who have the concept of risk management on the agenda, but often quite a way down. I suppose we should be grateful that it's on the agenda!!

But proactive handling of risk issues can save a business in extremes (as we have now) and probably a government or two; but we need to view the management of risk as a fundamental feature of

management (or government) rather than bureaucratic red tape, providing little benefit and really just another 'overhead'.

The examples of areas where proactive risk management could have helped that spring to mind include:

- The estate agency chains expanding apace right up to last year, building an overhead base that would destroy profitability with the slightest dip in property sector activity
- Legal firms with a heavy emphasis on conveyancing, again subject to the vagaries of the property sector and perhaps without the diversification needed to maintain fee income in a property downturn
- Accountants with large corporate finance teams, who would largely become redundant if businesses stopped doing deals
- Firms undertaking expansion with massive amounts of debt, which in many cases required the satisfaction of challenging bank covenants and debt rollover capability
- Luxury goods manufacturers and retailers, building a business on the basis of affluence but without any options in the case of austerity

The list could go on. Maybe we should include Western Governments whose fundamental economic policies depended on levels of tax revenues achievable only really in boom times (no preparation for bust – I note today that the city recession is said to cost the UK government about £11 billion in lost net tax receipts – with no identifiable way to easily replace this money – well perhaps they could borrow or print it).

It's so easy to be wise after the event. But it seems our ability to throw caution to the wind before crisis events occur prevent us from taking the preparatory steps. My mother used to read the story of the three little pigs and the wolf. In case you don't know the first pig (if I recall correctly) built a house made of straw and the predatory wolf blew it down and ate the pig. The second pig built a house of wood and the wolf (still hungry it seems) blew it down and ate the pig. The third pig built a house made of bricks and mortar and the poor old wolf couldn't blow the house down and the pig was safe.

It seems the investment in (shall we say) risk management.....saved the third pig. Either that or the poor old wolf simply wasn't hungry any more and lost the desire to eat another pig. It doesn't really matter, when crises come along the weak always get devoured first just like the first two pigs; and the survivors come out stronger.

Hopefully, in our own way SMEs can find the resilience and strength to work through current troubles and come out stronger.

7.11.08.