

This is part 2 of an article based on the introduction to the Transformation 09 conference, held in May.

When we emerge from the financial crisis, things will have to change but it is not yet clear how. A newspaper showed a picture of a crossroads with two signs; *To The Good Old Days* and *To The Bad Old Days*. They both pointed in the same direction.

In recent years there seemed to be an expectation that economics could transform society. The theory seemed to be that if we all kept on borrowing, eventually everyone would have enough money.

Bankers are now unwinding over \$450 trillion of investments and derivatives – their bets totalling 300% of the net worth of the whole world. \$50 trillion of wealth (whether real or manufactured) was destroyed by March 2009 - equivalent to a full year's global gross domestic product (GDP). We would have been better off if we had taken a long holiday since 2007.

Another estimate puts this number, in dollar terms, as approaching the aggregate of profits earned by all industrial companies. Ever. As far as the markets are concerned, those of us who have worked in the private sector might have wasted our time. Maybe the environmental damage is our only lasting achievement. If that gets fixed we will be left with no legacy at all.

Maybe it is unfair to point that out in the cold light of recession, but it was not just the fault of bankers or politicians. A previous edition of Change!, the newsletter of Touchpoint Change Consulting said “too many people were taken in by the assertion that *the rules have changed*” – that included businesses an households, rating agencies and regulators, banks and governments – we are partly to blame and we are all casualties.

Woolworths was one of those casualties. Earlier this year, the business put their entire chain up for sale for just £1, which is not much to show for 99 years of trading. There are plenty of shops that advertise 'everything for a pound', but they do not usually mean it.

There will be no quick solutions in business or politics. The cartoonist Matt has a bus stop information display outside 10 Downing Street advertising the next relaunch – 1st in 5 minutes; 2nd in 10 minutes. A turnaround specialist was recently bemoaning the fact that he was not very busy, noting that companies cannot even afford to go bust properly any more.

But truth is stranger than fiction. In the '90s the US Long Term Capital Management (LTCM) Fund based their whole business model on 5 years of data during a financial boom. They enjoyed spectacular growth for a few years before the credit crunch of 1998 saw its equally spectacular destruction.

It didn't take long for the Investment banks to learn the secret of that early growth and develop a new financial system based on the same premise. Like the student who copies a classmate's work down to the name on the top of the page, some banks copied the LTCM methods, even to bankruptcy.

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Journalist Christopher Caldwell wrote, “the problem with bank managers was not that they were malevolent but that they were mediocre. There is nothing wrong with that. Mediocre is what bank managers should be.” Fair point.

But there was another side to the banking culture. On the BBC's reality TV trading programme, the Hedge Fund Manager Lex van Dyke said, “whatever personal morals you have, take them home. When you are here, you make money.”

Gillian Tett, author of *Fools Gold* said, “Bankers took their activities out of a social and cultural context. Even by the way they spoke you could tell.” By taking the humanity out of their work, they sowed the seeds of their own destruction. And ours.

Contrast that with the wisdom of Ishikawa. When reflecting on the need to contribute to society by serving customers he observed that, “Quality is based on respect for humanity.”

In systems as complex as 21st Century society, we all play our part but many people find it hard to understand that our successes and failures are all intertwined and not just down to the heroic efforts of individuals. A frustrated John Humphreys of the Today programme once said, “I know it's a systemic failure, but who's to blame for it?”

Foolishly, bankers and politicians were quick to claim responsibility for the boom. Few are now claiming responsibility the disaster. Maybe they are learning?

Gregory Burns said earlier this year that, “we should give up on the current generation as a lost cause, and focus on teaching the next generation how to think independently and avoid the crazy herd behaviour.”

Let's all do that then.

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