

## Memo to CEO – Planning For Major Economic Crisis

Dear CEO,

The European economic crisis just keeps getting worse. It could easily morph into a global economic crisis. A system-wide economic disaster – 1930s level Great Depression – or, conceivably, even worse is a real possibility. We should now start to think through the implications for our present business model, and begin contingency ‘just in case’ prudent preparatory planning for some really bad and catastrophic ‘scenarios’.

Europe appears to be running out of ammunition and time. People and politics may not deliver the required economic remedy. We are close to a tipping point when the whole system implodes. Cascading bank and company insolvencies would deliver the ‘worse than the Great Depression’ grim warnings given by Mervyn King and others.

A few months ago, a double dip recession looked very unlikely and a worse scenario inconceivable. Now, things look much worse yet there remains a real reluctance to explore the implications and to consider what could happen.

In our interconnected and just-in-time 21<sup>st</sup> century global economy, systemic collapse, for example, would be sudden and steeper than experienced before. The short-term hiatus would be significant. States of emergency would be declared, politics as usual would be abandoned, and life would change profoundly in various countries. Europe’s and America’s clout and in the international system would be significantly reduced. Democracy and peace would be intensely challenged.

Sudden collapse has a habit of hitting on the back of an upswing, as it did recently in the case of Barings and Lehmans. At some point the markets lose confidence, stock markets drop dramatically – FTSE down to 3500-3000 - and debt-equity ratio levels are breached triggering the recall of huge numbers of loans. The spiral begins. Banks and firms lose significant value and further loss of confidence and large-scale redundancies become feed-back loops and accelerate wholesale inability to service debt. States have much less tax income to service high levels of sovereign debt and inter-government loans and support mechanisms fail. Deflation, mass unemployment, and fear break the entire model.

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Europe is teetering. No one knows the percentage likelihood or timing of an economic catastrophe, but it would be prudent to add 'system-wide collapse' to our top tier business risks and to begin thinking through the 'unthinkable'. History tells us that some clever organizations and people *can* get ahead of major events. As long as they identify and take the critical steps to mitigate the impacts that will destroy many others, especially those clinging on in denial until it is too late.

I suggest that it would be prudent for the board to take a half-day to ask itself some tough questions around contingency plans, business continuity systems, and mitigating the impact of a changing strategic context on our business model:

- What should we do to protect our assets; how liquid should we be; how quickly can we move (or repatriate) core assets?
- How can we improve our business, market, and government intelligence; how can we improve our decision-making resilience; how can we ensure crisis-proof global communications and decision-making capacity?
- Who are the core crisis team members? What preparation and training is required?
- Which clients would fall first, which are the most resilient; what activities go down first; what are the likely 2<sup>nd</sup> and 3<sup>rd</sup> order impact scenarios?
- What adjustments are required to stock holdings and supply chains; what legal and contractual arrangements should we adjust now, or at pre-set stages?
- What will our communications plans to internal staff, the media, and regulators look like; what 'due diligence' worst-case additional disaster plans are required?
- What new personnel, assets, and supplies might be required at key stages; what contingency crisis partnerships should we establish; who and what become our new situation core?
- What worries us most?

Yours,  
Prudence