

“...Treat Those Two Impostors Both The Same”

Triumph and disaster are of course the two impostors as those of you who were paying attention (and are old enough to have been taught some Kipling) in English Lit will know. Looking back as we sat bored and longing for 4.30 I for one paid scant attention at the time to the lesson in the lesson but variability is one of the issues we all wrestle with whatever business we now run.



Variability in manufacturing is something that is the enemy of efficiency, machines or operations that can produce at say 100 units an hour and vary in actual performance from 50 to 100 affect all the operations downstream substantially. Co variant dependency for the mathematicians amongst you tells us that the mean capacity of subsequent operations is dependant on the mean capacity of preceding operations. Planning and effecting improvement is made more difficult by wild swings in performance, it makes focus tricky and results unpredictable.

Wild swings in profitability usually signal a lack of control in a business, of course events can affect one month's numbers but a constant roller coaster ride in the accounts tells you that in all probability you don't understand the underlying drivers or that your measurement and analysis is defective somewhere.

Similarly the macro economy goes in cycles and people's reactions to 'boom and bust' tell you much about the 'herd'. If you invested a lump sum in the stock market in March 2009 at the height of the slump when all about you was 'disaster' and 'Pestonism' was on every BBC business news bulletin you would have made a cumulative return of 80% selling a couple of weeks ago. If you had invested the same sum during the highs of November 2007 you would have lost 21%. Similar story with buying a house I'd suggest.

It's a natural reaction, we walk away from danger and towards safety and success.... Well most of us do, Warren Buffet who has made himself one of the world's richest men by buying and investing in businesses has summed up his philosophy as 'being brave when others are fearful and fearful when others are brave. But if you study his strategies they don't embrace variability, they seek to eliminate it by smoothing out the peaks and troughs, taking advantage of the variability created by the 'herd'.

The foundations of many a fortune have been laid in macro economic downturns and the psychology of risk is a fascinating subject. Regardless of your risk profile however it's the leader's job to help your team deal with triumph and disaster and

react to them both in a positive way, not letting up the effort when we get a triumph and not giving in when we have a disaster. Adapt, innovate and persevere should be the watchwords, those who weather the current storms will be leaner and fitter than ever. Nothing lasts for ever.... Good or bad.

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