

The financial crisis continues to unfold in an ever-decreasing timescale. Events of a once-in-a-decade magnitude were happening weekly but now seem to be happening daily. Some people's thoughts have already turned to retribution and they are looking for the people to blame.

But finding a group to pin the troubles on is not the point. The financial pressures that have caused the system to fail have been building up for twenty years and nearly all of us have played our part.

First in the firing line are the banks themselves. Their opaque financial practices and increasing dependence on wholesale debt have undoubtedly been a cause of the current situation. If not 'masters of the universe', they should surely at least have been the masters of their own destiny. Bankers and Traders are being roundly condemned, and rightly so, but at the time they were responding to the pressures and expectations of investors, customers and their peers. Up to a year ago it was the conservative banks that were being criticised, and the more ambitious enjoyed the willing cooperation of many other parties.

The Regulators oversaw the developing suicidal practices. They adopted a light touch, as they were averse to interfering with the perceived miracle of the financial services industry. Their system of regulation became more to do with form filling and bureaucracy rather than insight and supervision. Rating Agencies reviewed the institutions and the debt packages and allocated hopelessly optimistic ratings.

Investors relaxed into a state of naive optimism. They were enjoying good returns despite the fact that a large proportion of the trading profits was

swallowed up by self-serve City bonuses. They will ultimately bear the largest losses.

Politicians had a role too. The government was basking in the glow of steady economic growth and enjoying the unprecedented ability to tax, borrow and spend. Gordon Brown repeatedly announced the end of boom and bust even whilst in the middle of a record boom. It is highly unlikely that a Conservative administration would have increased public spending so much, but few people believe that they would have spotted the systemic risks and called time on the developing crisis.

Businesses were able to invest and expand with access to easy capital. Their assumptions about limitless cheap money will unfortunately catch many out over the coming weeks and months as they need to refinance their debt packages. The general public in turn increased their mortgages and loaded up credit cards. Many seemed happy to borrow ever-increasing multiples of their salary to buy their next home.

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Worries about interest rate rises were played down despite the fact they have always varied. They have been historically low so they are bound to go up eventually. People were prepared to pay twice as much for their new home on the alleged basis that "no one has ever lost money on property". Memories are short. Many forgot that the last time people lost on property was in the last decade. And in the decade before that.

The widely believed financial miracle relied on new 21st century economics despite the fact that they contravened 20th century mathematics. Too many people were taken in by the assertion that "the rules have changed".

It was only a matter of time before the cycle swung round again. Like an earthquake, the longer the cycle of debt and financial 'innovation' continued, the more the underlying pressure built up and the greater the correction was bound to be.

20 years ago the management guru Deming cited an example of a bank that put a great deal of effort into quality processes and efficiency, but ultimately failed because it lent money to the wrong people.

He noted that when we stop thinking about the bigger system and the psychology of unbridled personal ambition; when we forget the lessons of history and that all things go up and down; failure lurks around the corner. The kind of leadership that he passionately advocated requires all managers to pay attention to these disciplines as a starting point for the sustained success of any organisation.

In the end, the theory of systems and the psychology of success apply to everyone – masters of the universe, politicians and the rest of us. Whilst times were good, few wanted to know about the problems. Now times are bad we all want to know about the solutions. As before, we will all play a part.

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