

**“Perceiving opportunity for Victoria in an uncertain world”**

**- some food for thought**

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**Inaugural risk management conference for the Public Sector**

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## Satellite view

- Where have we been, where are we?
- Crisis over, now for adaptation and stabilisation
- Victoria's unique assets and competitive advantage
- Managed urgency and taking risk
- Collecting our thoughts



“The one unchangeable certainty is that nothing is certain or unchangeable.”

(John F Kennedy)

“The chains of habit are too weak to be felt until they are too strong to be broken.”

(Dr Samuel Jackson)

“New knowledge is the most valuable commodity on earth. The more truth we have to work with, the richer we become.”

(Kurt Vonnegut – 1922-2007 – Breakfast of Champions)



## Getting oriented – where have we been?

## Some Basic Data

ASX 200

January 08 – 6533  
December 08 – 3307  
October 09 – 4830

Dow Jones

January 08 – 13314  
December 08 – 8149  
October 09 – 10000

Oil  
(Tapis Crude \$/barrel)

January 08 – \$97.80  
December 08 – \$33.87  
October 09 – \$77.41

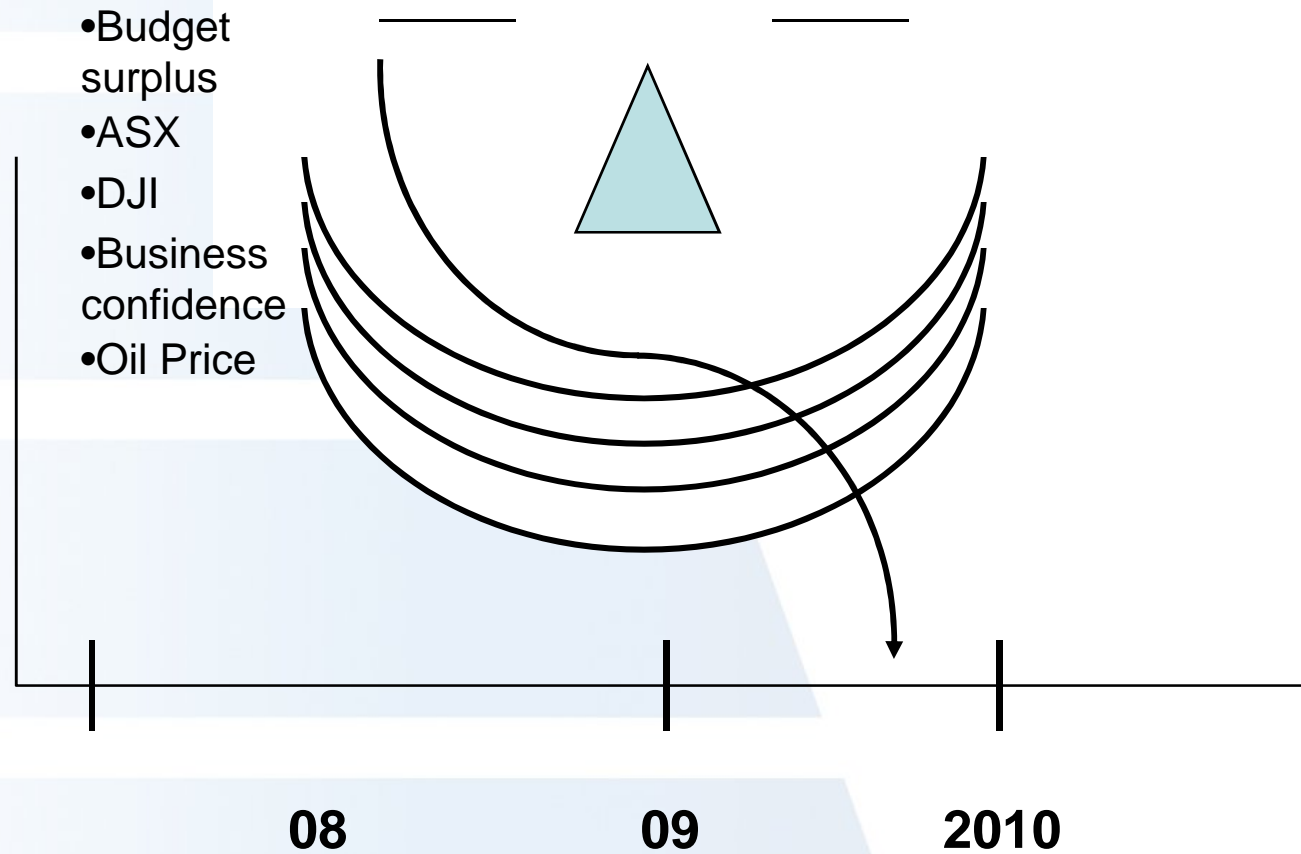
Australian Budget Surplus  
(forecast)

2006/07 \$14.86 billion  
2007/08 \$5.46 billion  
2008/09 \$-32.1 billion

Business Confidence  
(NAB monthly survey)

October 07 + 6  
October 08 – 29  
September 09 + 14

## Getting oriented – where have we been?



(is this a smile, a smirk or a wince?)

## Where are we?

Behavioural Economics – something to think about in the new order.

### Motives

Non-economic

... but what

about

Economic

The focus  
has been  
here!

here?

Rational

Irrational

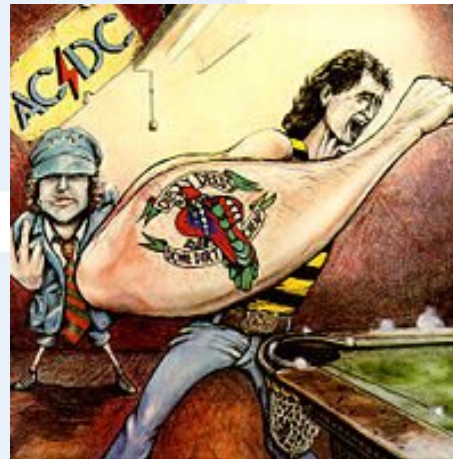
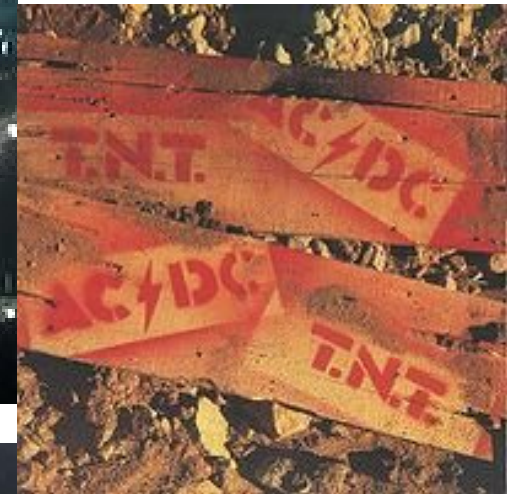
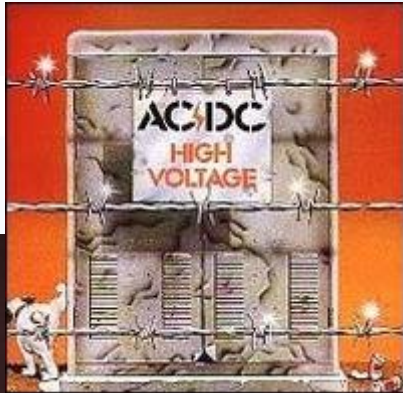
**Responses**

(Akerlof & Shiller – Animal Spirits, 2009)

## The psyche of crisis – is it over yet?

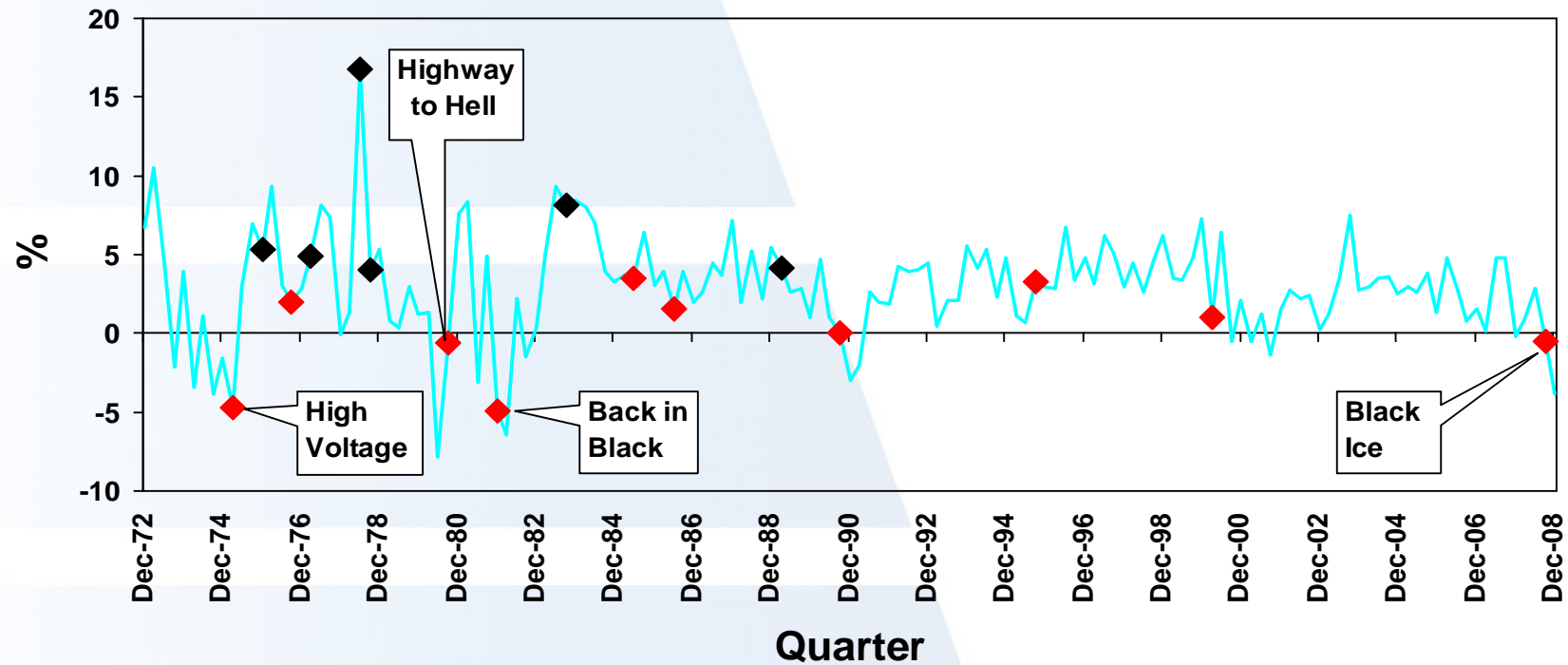
- Looking for explanations...someone to blame:
  - Wall Street
  - Hedge funds
  - Governments
  - Financial regulators
  - Rock groups?

# What do these blokes have to do with the global economy?



14 of 16 album releases have either preceded or coincided with downturns in the US economy

### US Real GDP & AC/DC Album Release Dates annualised % change in US Real GDP



Analysis courtesy of Alexis Petridis at *The Guardian* (UK)

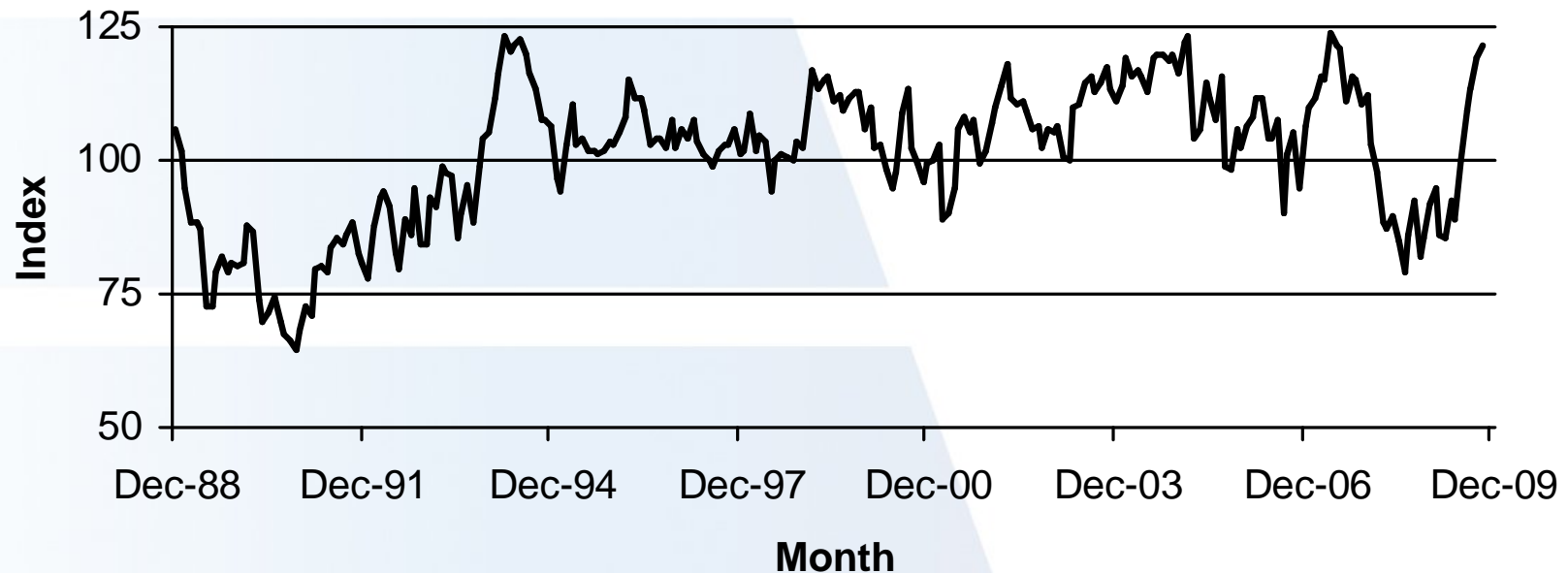
## The dates

- T.N.T. (1975)
- High Voltage (Aus.) (1975)
- High Voltage (1976)
- Dirty Deeds Done Dirt Cheap (Aus.) (1976)
- Dirty Deeds Done Dirt Cheap (1976)
- Let There Be Rock (Aus.) (1977)
- Let There Be Rock (1977)
- Powerage (1978)
- Highway to Hell (1979)
- Back in Black (1980)
- For Those About to Rock (We Salute You) (1981)
- Flick of the Switch (1983)
- Fly on the Wall (1985)
- Who Made Who (1986)
- Blow Up Your Video (1988)
- The Razors Edge (1990)
- Ballbreaker (1995)
- Stiff Upper Lip (2000)
- Black Ice (2008)

## Consumer confidence bounces back to near pre-crisis highs

- Confidence has continued to improve as the \$A soars and extreme unemployment forecasts have not materialised – but consumers still financially constrained and spending will be restrained.

Westpac-Melbourne Institute  
Index of Consumer Sentiment

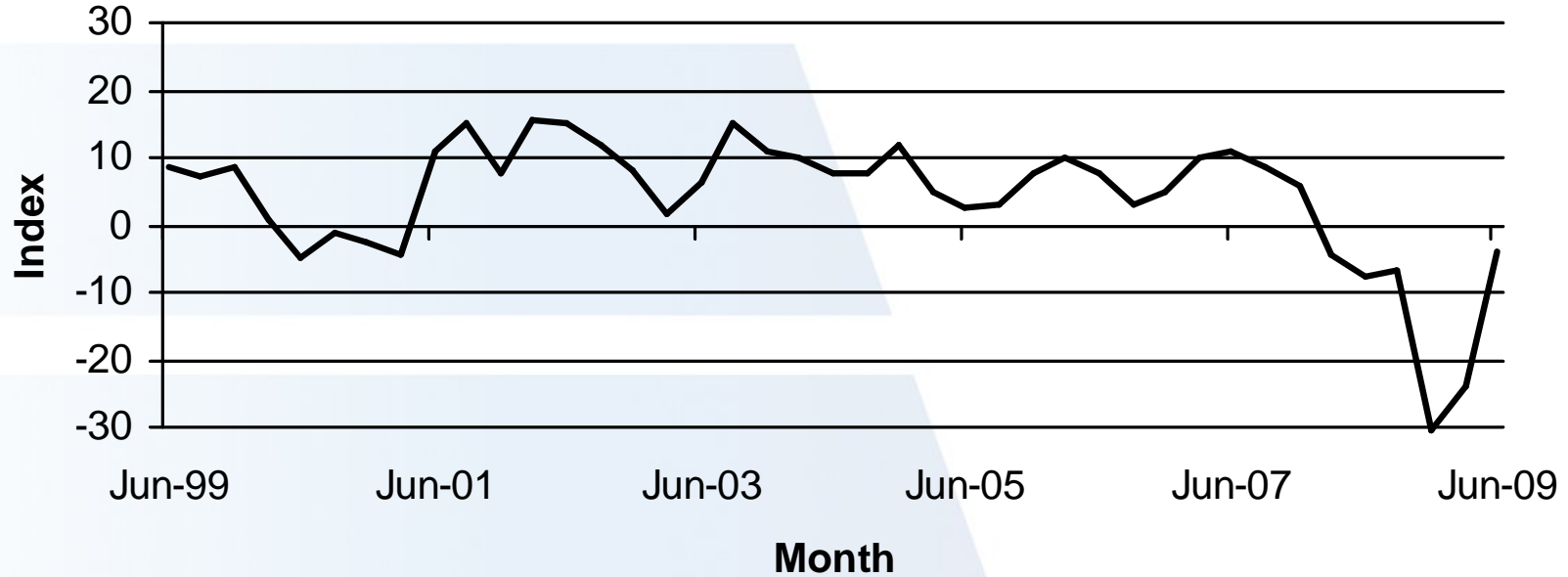


Source: Westpac

## Business confidence bounces back

- Confidence has continued to improve across the economy, although more recent data shows some weakening due to deteriorating sentiment in the retail and construction sector

NAB Business Confidence Index  
Net balance



Source: NAB



**“...crisis over, now for the adaptation...”**

“During hard times, a structural break in the economy is an opportunity in disguise...to flourish we must learn to exploit it.” (Richard Rumelt, McKinsey & Co, Dec 2008)

“Given the potential for discontinuous changes in the structure of your industry, playing your hand well means changing your stance ... opportunities will likely present themselves sooner rather than later ... preparation cannot be postponed.” (Branstad, Jackson & Banerji, Booz&Co, Dec 2008)

... how well placed is Victoria to overcome and adapt, quickly?



## Victoria's unique assets – what are our competitive advantages (now)?

- Political and social stability (most of the time)
- Ability to think and plan longer term (usually)
- Financial stability (relatively)
- Contemporary infrastructure (relatively)
- Critical mass of people and education system (capability)
- Positive environmental conditions (water, air)
- Not dependent on any one industry/sector (diversified productivity)
- Ability to galvanise quickly behind causes (Bushfires; AFL grandfinal, et al)
- Others ...low corruption/crime (post-Underbelly), global sporting COE, geographic compactness, Melbourne's reputation as a liveable city

“...de-risking Victoria's future is about recognising and deploying our unique assets, and finding new ones”



## **Victoria's competitive disadvantages – some examples to think through:**

- Large capital flows to other states (eg LNG and Mining Projects in WA and Qld)
- Manufacturing competitiveness globally
- Some social stressors (eg violence on the streets)
- Drought, bushfire, weather extremes forecast
- Some social infrastructure/critical infrastructure challenges
- Carbon constraints and energy futures



## Managed urgency – taking risk, and the role of risk management

**Opportunity 1.** “...60% of survey respondents ... dissatisfied with forward looking analytical capabilities, communications between the RM function and the rest of the organisation, and entrepreneurial activity” (EIU survey, September 2009)

**Opportunity 2.** “... significant levels of dissatisfaction with ... the quality of stress testing and scenario planning” (EIU Survey, September 2009)

## Managed urgency – the role of risk management

**Opportunity 3.** “... review of plans and strategies to ensure they can accommodate a range of possible operating environments – detection of risk and seizure of opportunities” (12<sup>th</sup> annual PwC Global CEO Survey, 2009)

**Opportunity 4.** “... was the GFC severe enough to change behaviour, or are we still living on the same prayer(s)? “For example, relative to our substantial response to the February bushfires and continuing drought”

## Managed urgency – the role of risk management

**Opportunity 5.** “... the new business – government relationship also offers a rare opportunity ... a new form of capitalism that meets public needs without constraining innovation or growth in the private sector ... a focus on what we need business and government to achieve together” (HBR – July/August, 2009)

**Opportunity 6.** Taking improbable events seriously – The Black Swan – how fragile is the situation and what is our “playbook in the event the tipping point is reached?”

“...take the maximum amount of risk and other forms of exposure to positive Black Swans when this costs you very little if you’re wrong, and earns you a lot if you’re right” Nassim Nicholas Taleb

## Managed urgency – the role of risk management

**Opportunity 7** Data quality decay – accuracy, completeness, timeliness and consistency (the key to decision support)

“...over 30% of data warehouses and ERP deployments will suffer limited acceptance, if not outright failure, due to lack of attention to data quality issues”

Source: Gartner

“...need to re-frame the world and re-test the models we believed in.”

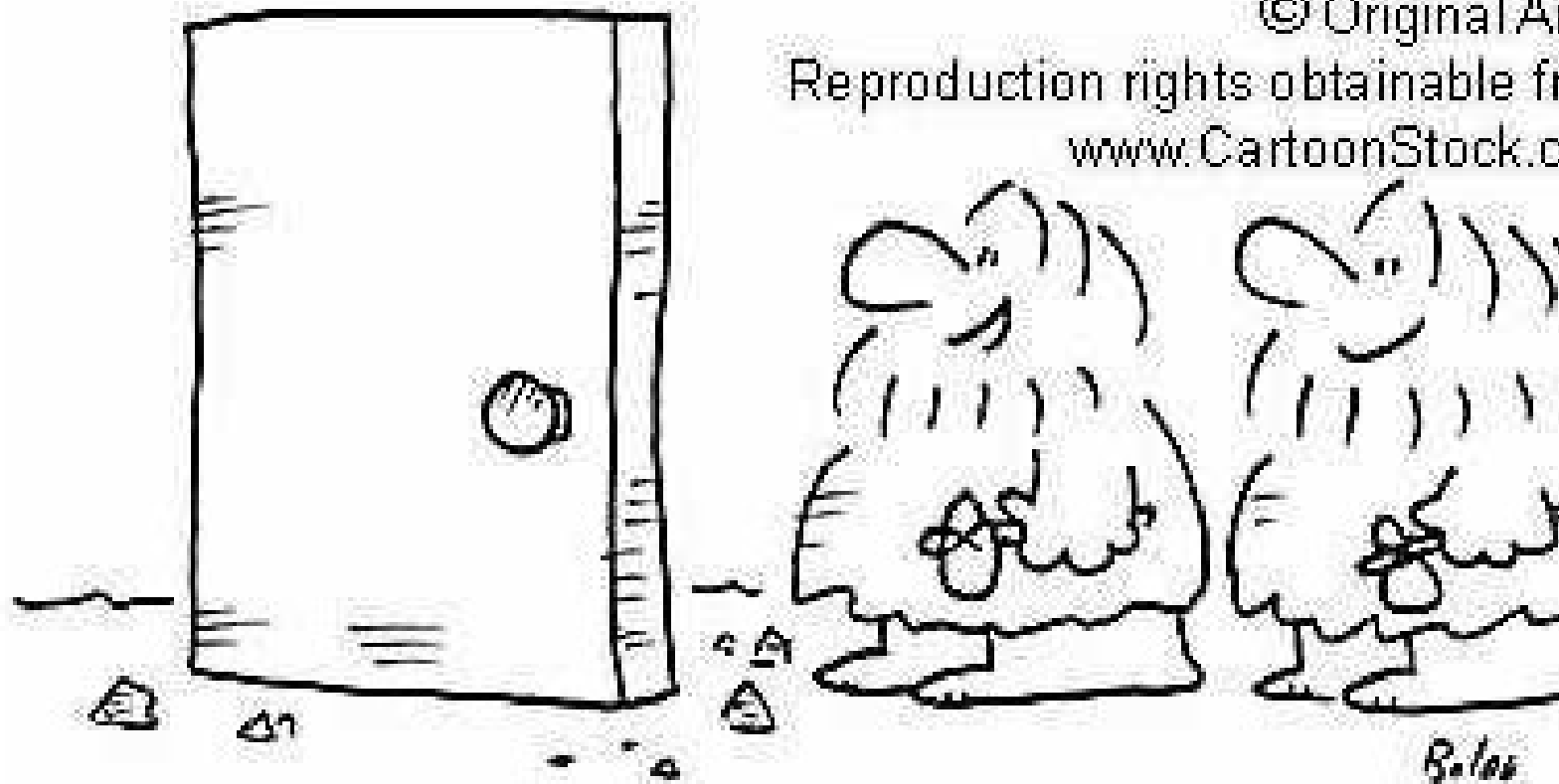
## Collecting our thoughts – overview

- The world has changed, but has our thinking (bias)?
- Have lessons really been learnt: review and challenge much of the conventional wisdom: what are the new/emerging assumptions, what do we need to let go?
- Framing Victoria's risk profile should include a set of fundamental opportunities not to be missed (as well as downside to be mitigated)
- Articulating Victoria's blueprint for "adaptation" and the new order is a key risk management obligation
- In turn this sends a message to the community: Victoria is first and best placed to seize advantages – in a sensible risk managed way – based on the new order.

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"Don't think of it as a problem —  
think of it as an *opportunity*."



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“There! — now we wait for  
*opportunity* to knock!”



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