Real estate and gold industries in the global recession

BILL SOTEROFF
Senior vice president for international development, RE/MAX International, Inc.

I work within 79 countries and I see lots of things changing. The emerging markets are going to change the way Americans see their place in the world. We’ve all grown up in an era where the American dollar was the accepted currency everywhere. Now China is challenging the dollar’s dominance and for the first time people are listening.

It is likely that there will be another international currency to compete with the American dollar. That has never occurred in modern history.

The Indian workforce is expanding dramatically. The country’s growing middle class is reminiscent of the 20s and 30s in the United States. People in India who now have some money will spend that money not on a scooter but on a small car.

We may find one day that our shuttered plants in Michigan are making parts for cars sold in the Indian market.

For me in real estate and in the small business market, the next two years are going to be slow growth. After that, I think people are going to want to spend and they’ll need to borrow money for big-ticket items. Production will have to increase to meet this demand.

CHRIS THOMPSON
Retired chairman, Gold Fields, Ltd.

During the oil shock of 1979 and 1980, when we had high interest rates and high inflation, gold ran up to $850 for the first time. The perception was created then that gold would continue to rise and be a safe investment in uncertain economic times.

In reality, it wasn’t the economy that impacted the price of gold. What drove gold to $850 during that period was primarily the fear of a breakdown in society in the Middle East. Most wealthy Arabs actually bought gold because it is a portable asset. The gold market is so small it doesn’t take a lot of money to move it very far. But the perception of a linkage between economic conditions and the price of gold has remained.

By the same token, and this is where there’s a real paradox, the perception during the latter half of last year when the financial system was crashing, all of us in the gold business thought the turmoil would result in $3000 gold prices. That in and of itself is probably the strongest reason to be very cautious about the price of gold.

Failure to manage HR risks common denominator in global financial crisis

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There have been many reasons cited for the global financial crisis but until now none has laid the blame squarely at the feet of management and company cultures that made stars of individuals and “pushed the envelope to the breaking point,” said Wayne Cascio in his address to the Global Advisory Board.

In the wake of the demise of Lehman Brothers and Bear Stearns, the sale of Merrill Lynch to Bank of America, the government bailout of AIG and its subsequent takeover of Fannie Mae and Freddie Mac, Cascio and Peter Cappelli, professor of management at the Wharton School, interviewed dozens of executives in banking and corporate management to identify key issues leading to this crisis.

“We believe there are lessons to be learned about why and how the crisis developed,” said Cascio. With a nod to the philosopher George Santayana, he added, “Those who are ignorant of history’s mistakes are bound to repeat them.”

Management failures

Although a web of factors joined to cause the crisis, Cascio said, “What leaped out at us was a common denominator that eventually brought the house down.” ‘Pushing the envelope’ is how Cascio described it.

“Government regulators and companies pushed limits on prudent risk; banking regulations were relaxed to the point where loans were routinely granted to NINAs (no income, no assets) and NINJAs (no income, no job, no assets); company risk management and accounting practices were ignored in many cases in favor of fattening the bottom line.

“These were all management failures and failures to manage risks that stem from people, programs and processes.” For every program set up to motivate employees, there were unintended consequences.

Financial incentives. “Performance-based pay, typical of individual incentives, created pressure on employees to push the envelope of prudent risk management.” Why wasn’t this unintended consequence reviewed and revised long before it became a problem? Said Cascio, “Not enough attention was paid to ethics and tone at the top. There were inadequate reporting and disclosure structures, insufficient training and development programs and a very poor alignment of pay to performance.”

Nor was a lot of attention paid to keeping boards of directors informed about particular risks. Referencing an Ernst & Young survey ‘2008 Global HR Risk,’ Cascio said: “Only 34 percent of boards review traditional corporate risk matters quarterly; 41 percent either never formally review HR risk profiles or do so only ad hoc; only...