

## Governing Energy

### Tulips

Volume 2 Number 6—March 18, 2013

As the northern hemisphere approaches the season of spring, flowers of all kinds begin to blossom precipitously in the warmer weather. In the state of Texas, azaleas, bluebonnets and other flowers are in bloom as of this writing. Soon the state will be awash in new life as witnessed by the abundance of colorful flora.

With such bounty, one would suspect that the price point for flowers is relatively low and available to most income levels. That is not always the case. Many readers may not be familiar with the Dutch Tulip Bubble of 1637.

The tulip was introduced in Holland in 1593; originally for research purposes. After several bulbs were illicitly sold, a brisk Dutch tulip trade ensued. Several decades later tulip insanity broke out and at its height, tulip bulbs were deemed too valuable to plant with some priced as high as the cost of a thousand pounds of cheese.<sup>i</sup>

The tulip bubble reached its zenith during the winter of 1636-37. At the time, tulip traders were making almost three quarters of a million US dollars (today's equivalent). The ride ended when a single buyer failed to pay for his tulip purchase. The ensuing panic drove prices down to only a hundredth of their previous value.<sup>ii</sup>

So it seems that *irrational exuberance* is a normal part of the human condition.<sup>iii</sup> Bubbles and their subsequent crashes have been evidenced by the 1929 stock market crash, the 2000 dot.com bubble, as well as the 1996 stock market difficulties just after the Chairman of the US Federal Reserve uttered that phrase.<sup>iv</sup>

After the oil price crash of 2008, the author released his first monograph of the Changing the Dialogue series, *Rapid Response Management: Thriving in the New World Order*.<sup>v</sup> ***Rapid Response Management is organizational construct or mental model that enables the organization and its key partners to rapidly sense changes and respond accordingly--quickly.***

The essay opens with a quote from Winston Churchill that is still fitting today, "It is no use saying, 'We are doing our best'. You have got to succeed in doing what is necessary." As with the human behavioral lessons from seventeenth century, words from this World War II leader can still help guide the Board of Directors.

Today, the US Federal Reserve Quantitative Easing monetary policy is growing the M1 and M2 money supply (definitions in the cited reference) at over 11 percent per annum for the former and almost 7

percent for the later.<sup>vi</sup> Moreover, there is some concern that these types of initiatives by central banks may contribute to inflationary trends, including global agricultural sectors with their subsequent impact on food prices particularly for consumers in the emerging markets.<sup>vii</sup>

All indications are that the world remains economically volatile. Organizations that trade in commodities or require them for core business processes are exposed to potential rapid run-up in “spot” market prices as well as their possible rapid collapse.

Many firms continue to be trapped in this cycle because of inadequate risk-based governance models. While no one can predict future market performance, appropriate risk mitigation is critical. This includes changing managerial Key Performance Indicators (KPI) and other metrics as market condition dictate—quickly!

Organizational culture cannot be changed on the fly. As with other crisis driven managerial actions, governance models must reflect and embody these *not-so-new* realities as *the way the organization does business*.

## **How does your firm’s governance model account for likely rapid market movements?**

### **About the Author**

Dr. [Scott M. Shemwell](#) has over 30 years technical and executive management experience primarily in the energy sector. He is the author of two books and has written extensively about the field of operations management. Shemwell is also the CEO of Knowledge Ops, Inc.; a firm that focuses on providing its customers with solutions enabling operations excellence and regulatory compliance management.

### **End Notes**

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<sup>i</sup> <http://www.damninteresting.com/the-dutch-tulip-bubble-of-1637/>

<sup>ii</sup> Ibid.

<sup>iii</sup> <http://www.irrationalexuberance.com/definition.htm>

<sup>iv</sup> <http://www.irrationalexuberance.com/index.htm>

<sup>v</sup> [http://www.therrinstitute.com/uploads/Rapid\\_Response\\_Management - Thriving in the New World Order 2.0 - January 2009.pdf](http://www.therrinstitute.com/uploads/Rapid_Response_Management_-_Thriving_in_the_New_World_Order_2.0_-_January_2009.pdf)

<sup>vi</sup> <http://www.federalreserve.gov/releases/h6/current/>

<sup>vii</sup> <http://www.zerohedge.com/news/2012-10-10/food-inflation-surge-goldman-warns>