



Managing in a VUCA World: Possibilities and Pitfalls

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ABSTRACT

The world in which we live is over brimming with chaos and turbulence. Unpredictability has become the order of the day. Everything around us seems to be in a state of continuous flux. We are trapped in the vortex of an unending cyclone of change. The very existence of human kind is in a state of dynamic equilibrium, so to say. We as a species are striving and struggling to survive in a world that can at best be summarily described by a four-letter acronym called VUCA (Volatile, Uncertain, Complex, Ambiguous). The world in general and the corporate world in particular needs to think about devising concrete strategies to overcome the challenges offered by these four dominant characteristic waves sweeping the environment. The paper aims to understand the volatility, uncertainty, complexity and ambiguity inherent in the environment in detail, to analyse the challenges offered by them and to finally explore the solutions to overcome these challenges.



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1. Introduction

The acronym VUCA, which expands to Volatile, Uncertain, Complex and Ambiguous, was coined in the year 1987 on the basis of the theories of leadership given by Warren Bennis and Burt Nanus. Like many other concepts in management literature, the term VUCA also owes its origin to the United States defence forces. It expands to Volatile, Uncertain, Complex and Ambiguous, and was coined by the American military in response to the collapse of the bipolar world order. As long as the Cold War between the two superpowers of the world - the US and the former USSR - lasted, the Americans had an identified enemy. But with the disappearance of the erstwhile Soviet Union, the US Army became 'disoriented' in a way. Now the enemy could be anyone and could come from anywhere. In 1991, when the Cold War came to an end, the concept of VUCA was introduced for the very first time. The objective was to bring out the multilateral world which had become more volatile, uncertain, complex and ambiguous as the end result of the war (U.S. Army Heritage and Education Center, 2018). It was the year 2002 which actually saw the more detailed discussions and elaborations on the term VUCA. From there on it has been introduced to understand the ever dynamic corporate world and the ideas of strategic leadership to offset the negative

impact of these four variables. It is about the world at large becoming very volatile, susceptible to intermittent explosive eruptions. There is a drastic escalation in the level of uncertainty prevailing in the world. There are no cut and dried, simple solutions to the problems of the world, so complex have they become. And, there is complete lack of clarity on almost everything under the sun, with ambiguity being the order of the day.

2. Elements of VUCA

(i) Volatility: It is said that change is the only constant in the world. Things are changing rapidly around us, making the cosmos highly unstable. There are big and small changes, predictable and unpredictable changes, positive and negative changes and so on and so forth. The frequency of changes is on the rise and as the events unfold sometimes it becomes very difficult to associate cause and effect. Price fluctuation is the best example to understand the idea of volatility. Our weekly grocery bills change. Volatility actually refers to the pace of change in the manufacturing and service, market and overall world in general. It is linked with elasticity in demand, disturbance, and instability in market conditions in both long and short run. In short it is referred to as the industry dynamism. The more volatile the world is, the faster things change. Volatility is not just about changes in business environment, but

also economic and social environment and each of these are impacting business (as shown in Figure 1).



Figure 1: High and low volatility

Source: <https://www.forbes.com/sites/jeroenkraaijenbrink/2019/01/11/strategy-in-a-volatile-world>

(ii) **Uncertainty:** In the present day the past experiences and forecasts/estimates are quickly losing their relevance in predicting or anticipating how the things or events will unfold. The decisions regarding investment, growth or development have become difficult to take as it is very difficult to visualize how the road will take the turn. It is like moving around with blind-folded eyes. There are a lot of unknown variables and the prediction of outcomes is not just the work of some statistical tool or technology. Uncertainty often occurs in highly unstable environments that are complicated and complex in structure involving unexpected interactions that are critically important in uncertainty. There can be uncertainty in cause-effect relationship, or correlation between the events of a social perception and a target or anything that we take for granted might not fetch us the anticipated outcomes. Uncertainty exists inspite of having plenty of information, then consider the situation where there is lack of information or dearth of data regarding the occurrence of certain event, there it becomes all the more salient (Bodenhausen & Peery, 2009).

Let us understand it with the help of an example. There is news in the market that a rival company is planning its product launch but when and how is not known and is pending. This pendency may interfere with the market and business.

(iii) **Complexity:** The third component of VUCA is 'Complexity'. It refers to the inter-connectivity and interdependence of multiple dimensions in a system. The modern world is becoming more and more complex every day. There are many reasons which are responsible for this complexity. The issues and the events occurring around us are multi-layered. There is plethora of network and connectivity and further inter-connectivity among the various parameters and variables that surround us. The different layers intermingle, making it impossible to get an overview of how things are related. Decision-making has become highly tangled consisting of a mesh of reaction and counter-reaction – and selecting the correct alternative has become next to impossible.

Researchers in all the areas have to be very cautious of this very component. Even the outcomes of a controlled environment are beyond ones expectations

and the main reason that can be attributed to it, are the non-linear associations, interdependence and interactions amongst various parameters and variables (Schick *et al.*, 2017).

Let us understand this with the example of doing business with a cross-cultural workforce and having branches in multiple countries. Here, the outcomes of the business are not only linked to the home country, its business environment, socio-political dynamics, resource availability but also to that of all the countries wherever it has business interests and also the cross-national people associated with it.

(iv) **Ambiguity:** There is nothing like a 'one-size-fits-all' practice or a 'best' practice any longer. These have become the things of the yesteryears. In today's world it's rare for things to be absolutely clear or precisely determinable. Even grey has fifty shades, nothing is black and white.

The new-age organization is confronted with challenges that are fraught with contradictions. Managerial decision-making is calling into question the very essence of value systems. Decision-making was never an easy task but it has become much more difficult today. The boldness to face the consequences and the preparedness to commit errors are the essential ingredients of decision-making these days.

There is a thin line of difference between 'uncertainty' and 'ambiguity'. Uncertainty refers to that particular state of existence when the pertinent information is missing. On the other hand, ambiguity is when despite the availability of pertinent information, there is a total absence of a meaningful message emanating from the mass of information. Ambiguity is usually a bye-product of information overload. There is a co-existence of uncertainty and ambiguity prevailing in the contemporary times.

3. Challenges in a VUCA World

The times in which organizations are currently trying to walk the tightrope of survival and success are confronted with challenges of a varied nature. There are cross-currents of social change surrounding the organization and impacting its thinking and working in manifold ways. The very fabric of society is undergoing a metamorphosis of sorts. Workforce diversity is at its peak and so is cross-cultural friction. Social mores and norms are also in the throes of a cataclysm. All this is naturally rubbing off on management thinking and leadership behaviour in organizations. Also, there are winds of economic and technological changes sweeping the organizational frontiers from all sides.

The following table encapsulates the challenges and risks inherent in volatile, uncertain, complex and ambiguous world. Owing to the volatility of the environment, the

challenges that confront us include outdated information, slower response rates and a tendency to avoid risks. On account of the uncertainty prevailing in the environment, we might have access to incomplete information and we might feel a strong impulse to relapse into old ways of working. Complexity may lead to analysis paralysis and companies may resort to short-term solutions. And, finally, the ambiguity embedded in a VUCA world may result in our failure to understand the significance of events and in our inability to take appropriate actions.

4. Successfully Walking the Tightrope

Having competitive sustainability in this VUCA world is a huge challenge for all the entities, be it a big or small organization. Rather bigger is the organization bigger is the challenge. There is no panacea but rather the things are driven by exigencies and contingent planning. We cannot change the basic nature of the things and volatility, uncertainty, complexity and ambiguity are woven in the very fabric of the cosmos existing around us. The solution lies in visionary and transformational leadership, being able to formulate concrete strategy and to adopt changing technological advancements, keeping pace and abreast with the environment around us and above all being sensitive to even the slightest change in the business environment and preparing ourselves accordingly.

Strategists world over are busy developing new business models are, which are needed every now and then. The pace of technological change is relentless and the pressure to innovate and keep one step ahead of the

competition is intense. The mantra for survival is either adopt or die. If the corporations fail to adopt and modify themselves they would either stagnate or would cease to exist in long run.

In a business environment which is changing at such a break-neck speed, organizations cannot afford to plan too much ahead. They need to think in the 'here and now'. Business leaders and organization heads need to attempt a SWOT analysis every now and then, as their strengths of today might become their weaknesses tomorrow, and vice-versa; what is an opportunity today might become a challenge tomorrow, and vice-versa. It is a case of 24x7x365 fire-fighting, fervently trying to strike a balance between staying in a state of operational fitness in the present moment and simultaneously preparing to remain strategically strong in the face of the challenges which might crop us in the future.

A major cause for concern here is that there is no clear roadmap available for the future. In fact, there is almost zero visibility of the road ahead. At best organizations can just have a clouded and blurred vision of the future. This is a risk-laden situation of the highest order. Any misguided adventurism can seriously backfire in this situation and essentially endanger the very survival of the organization. Nevertheless, a strong sense of what can be called 'future consciousness' is critically required in the organizational thought process. The strategic thinking team of the organization needs to 'feel' the future while living in the present.

Table 1: Risks due to VUCA from business perspective

VUCA Element	Description	Example	Risks
Volatility Situation: high Actions: high	Rapid and unexpected changes with unclear duration but not necessarily hard to understand. We struggle to keep up.	Price fluctuations after a natural disaster takes a supplier off-line	<ul style="list-style-type: none"> Outdated information Too slow responses Risk-aversion
Uncertainty Situation: high Actions: low	Not knowing what will happen and what the future will hold. Surprises are possible.	Pending launch of a competitor's product	<ul style="list-style-type: none"> Incomplete information Resort to what worked in the past
Complexity Situation: low Actions: high	Too many moving and connected parts with unclear causes, effects and interactions with an overwhelming amount of information.	Business present in many countries all with unique regulatory environments and cultures.	<ul style="list-style-type: none"> Analysis Paralysis Address symptoms Resort to short-term fixes and quick-wins
Ambiguity Situation: low Actions: low	Multitude of different perspectives and viewpoints, cause-and-effect confusion, inability to correctly interpret, events & situations. No precedents and unknown unknowns.	Immature or emerging markets, new products outside of your core competencies.	<ul style="list-style-type: none"> Failure to understand the significance of events Not taking appropriate actions Mis-interpretation

Source: <http://www.forward-intelligence.com/index.php/resources/glossary/vuca>

There are varied models and paradigms that organizations are leaning on to strategize their businesses in the VUCA world, and one of them has generated widespread interest is the ‘Three Horizons Model’. This framework tries to put the organizational thought process into perspective and offers a way out of the labyrinthine maze of the VUCA world.

The ‘first horizon’ is when companies begin to acknowledge that the world revolving around them is no longer what it used to be and that their ‘business as usual’ has outgrown its relevance. This is the juncture at which organizations begin to experiment with new modi operandi of functioning.

The ‘second horizon’ is the point at which business leaders begin to consider coming out of their comfort zones. In other words, they are being nudged and driven into abandoning the ‘core competency’ of their business, whose market is dwindling, something which their organization is best at doing but which is no longer enjoying the customer patronage that it used to enjoy previously. The second horizon is the juncture at which business leaders are being led into taking tough decisions on giving up their tried and time-tested ways of working and replacing them with new-age modes and methods.

Then comes the ‘third horizon’. The organizational leaders have now woken up to the reality and can see it as clearly as daylight all around them. Innovative business ideas and re-engineering notions that were hitherto in the conception stage are now being translated into physical reality. The organization’s concept of ‘business as usual’ has now been fundamentally and thoroughly revised and restructured, and is being rigorously implemented (as shown in Figure 2).

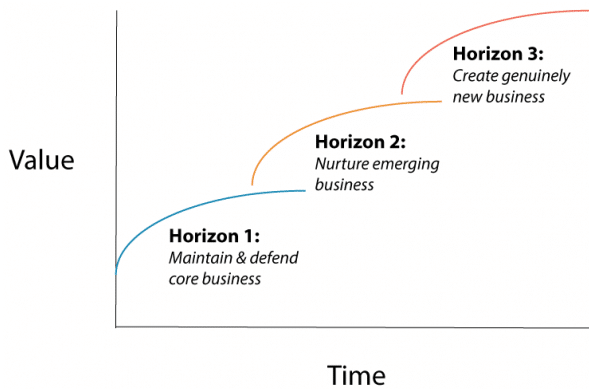


Figure 2: McKinsey’s three horizons: A solution to survive & grow in VUCA world

Source: <https://www.executestategy.net/blog/mckinseys-three-horizons-of-growth>

The leaders of today and tomorrow have to operate in a state of what futurist Alvin Toffler had called ‘future shock’ in his book of the same name published way back in the year 1970. “In very simple words, the concept was

a pointer to a state of affairs that human society would find itself in at the turn of the century in which change would engulf human society at such a break-neck speed that it would not be able to make sense out of it. The future shock is no longer in the future, it’s already very much around us, and leadership, like any other human phenomenon, has to survive in this very ‘future-shocked’ state” (Sinha & Sinha, 2015).

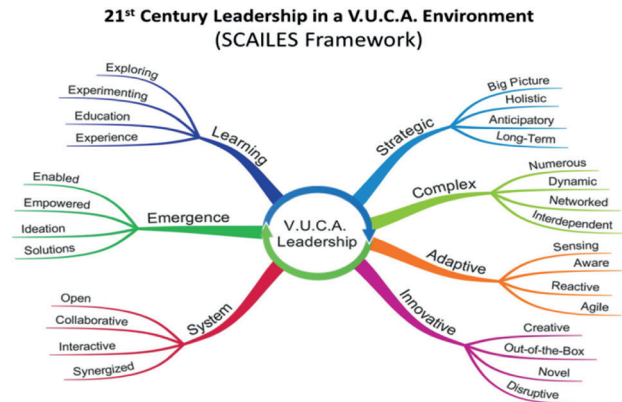


Figure 3: Characteristics of a VUCA world leader

Source: <https://www.secnav.navy.mil/innovation/Pages/2015/05/LeadershipIn21stCentury.aspx>

The leadership required in the present day ought to be different from that of yesterday. Leaders have to change necessarily in consonance with the constantly changing demographics and psychographics of the disciples. The leader-follower equation is not linear anymore, rather several variables have entered into it, making it highly complex and difficult to interpret. The leadership task now revolves more around managing the uncertainties, of dealing with risk and ambiguity and following the unwritten rules of the game as there are hardly any precedents left. As Alvin Toffler said: “Society is undergoing an enormous structural change, a revolution from an ‘industrial society’ to a ‘super-industrial society’. This change has overwhelmed people. The accelerated rate of technological and social change has left people disconnected and suffering from shattering stress and disorientation - future-shocked. The majority of social problems are symptoms of future shock.”

Pimplapure (2018), has also emphasized in her paper how effective leadership can align itself with the critical VUCA factors to make an organization acquire sustainable growth. (Balasubramanian, 2018) has given due credit to process innovation, agile strategy, and responsible leadership as the solution to overcome the challenges offered by VUCA.

4. Conclusion

As (Sinha & Sinha, 2015) have reiterated in their article and it holds true for VUCA world as well that “leadership skills should not be seen as characteristics or

attributes of the leader or the leader's personality, but as characteristics or attributes of the leadership process per se. Leadership skills cannot be seen completely in absolute terms. They have to be analyzed necessarily in the relative frame of reference of the leader-follower relationship." The rules of leadership that worked well in the past cannot be extrapolated to the present. The 'directive' breed of leaders who expect their orders to be obeyed without a word of dissent cannot function in a VUCA world. In order to survive and thrive in a leadership role, and to successfully emerge a winner in this era of chaos and complexity, the leaders will have to not only compulsorily commit themselves to a tolerance for chaos and but also continuously adapt themselves, which is becoming increasingly inevitable in the work ethos of the world at large.

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