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VUCA 101*: Welcome To Your Worst Management Nightmare

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The Power of Research Insight

*** Volatility, Uncertainty, Complexity, and Ambiguity**

VUCA 101: Welcome To Your Worst Management Nightmare

Definition: **VUCA**: noun, adjective. *An acronym used to describe or reflect on the volatility, uncertainty, complexity and ambiguity of general conditions and situations.*

While the origination of term is in some dispute, it most likely originated inside the U.S. military in the 1990's to describe the geo/political/diplomatic/and war-waging challenges strategists and senior officers were increasingly finding themselves managing to around the world.

(In fact, for a good general introduction to **VUCA**, in both the military and business context, see a recent *Fortune* article by General George Casey (Ret.) on his experience as a senior military leader in the Bosnia, Kosovo, and Iraq conflicts of the 1990s and 2000s <http://fortune.com/2014/03/20/leading-in-a-vuca-world/>.)

More recently **VUCA** has gained increased currency in the business world for much the same reason: executives across a wide range of industries and sectors and across every part of the global economy increasingly find themselves grappling with volatile, uncertain, complex, and ambiguous conditions and situations.

Examples of **VUCA** in the business context abound – just leaf through a few pages of *The Wall Street Journal*.

- American healthcare reform and how it will shake out in the years ahead.
- Global warming – what's causing it, what to do about it?
- Ongoing instability and unpredictability in global financial markets.
- Over population, aging populations, and declining birth rates in many countries.
- The rise and growing threat of terrorism worldwide.
- Ever more rapid advances in technology and their potential impacts on markets and existing business models.

These can be considered “macro” **VUCA** examples – they pose potential challenges to executives and organizations everywhere. In addition, there is industry and sector-specific **VUCA**. For example:

- In **financial services**: today's bond yields are not behaving the way they historically have in similar economic conditions, making investment decision-making even more tricky.
- In **energy**: the recent collapse of global crude oil prices, or the good/bad and future of fracking.
- In **healthcare**: declines in federal reimbursement levels have put enormous pressure on the business models of many medical device manufacturers.

- In the **QSR** (quick service restaurants) sector: long-time stalwarts like McDonalds and Burger King are struggling to respond to the success of newer entrants like Chipotle and Panera's.

If you think about it, **VUCA** is an amalgam of four related, but distinct challenges, (although they nevertheless frequently spill over into one another, hence the amalgamation).

Volatility: The business problem, issue, or challenge is often, but not always, unexpected, unpredictable, unstable, and usually of an unknown duration.

Uncertainty: There is insufficient, unclear, or contradictory evidence to fully understand the challenge, how best to manage it, or to predict its intermediate, much less longer-term, outcomes.

Complexity: The problem consists of multiple, interconnected parts, players, variables, and dynamics, frequently with an overlay of rapid change.

Ambiguity: What is going on – and why – is unclear or in dispute. Things may very well not be as they seem. Cause and effect is difficult or impossible to discern. To borrow from Donald Rumsfeld, there are not only “known unknowns”, but likely “unknown unknowns” as well; i.e., you don't know what you don't know.

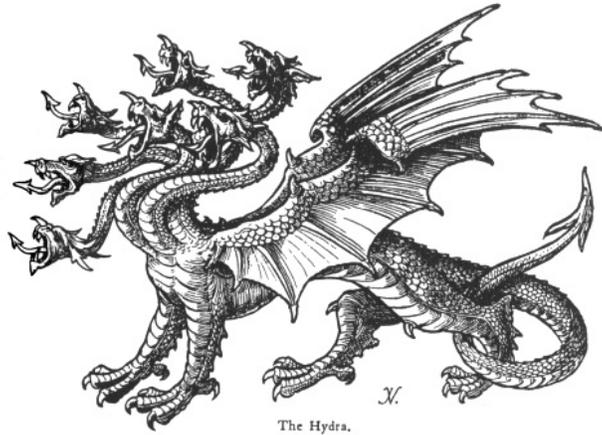
Any one of these variables can be a thorn in the side of a business decision-maker; when they combine into **VUCA**, finding the right path forward in dealing with a business challenge can become extremely difficult (but not impossible, as we will see).

While the *term* **VUCA** is of recent origin, many people also assume that the *phenomenon* of **VUCA** itself has only become pronounced in recent years – say, the last 30 or so. I'm not sure that's the case. If you are a reader of history, you can make a pretty good case that **VUCA** has been with us since the dawn of recorded history. Take a quick look at any of Bruce Catton's writing about the U.S. Civil War, or Barbara Tuchman's *A Distant Mirror* on the 14th Century in Europe, or even Edward Gibbon's *the Rise and Fall of the Roman Empire* – plenty of **VUCA** in any of those narratives.

What *is* more recent is the exponential growth in the volume of information available to decision-makers and the speed with which it comes as them. As Paul Gibbons puts in *The Science of Successful Organizational Change: How Leaders Set Strategy, Change Behavior, and Create an Agile Culture*:

“Ambiguity is not, today, a lack of data, but a deluge of data.”

In this sense, information overload both *contributes* to **VUCA** and *compounds* its deleterious effects. If you need a visual image of all this, think the Lernaean Hydra from Greek Mythology.



Next, we will discuss some of the ways – obvious and not so obvious – that **VUCA** takes a toll on decision-makers, decision-making, and organizational performance. And – no - the risk of making a bad, even a bone-headed, business decision isn't even close to the top of the list of **VUCA** impacts we all need to worry about.

VUCA Part 2: It's The Hidden Dangers We Need To Worry About

As the title of this section suggests, we now turn to a consideration of the dangers – some obvious, some not so much – a VUCA environment creates for organizations and decision-makers.

VUCA Increases The Risk Of A Bad Business Decision

Ok, let's get the most obvious danger of VUCA out of the way first. Despite an executive's best efforts to "read the VUCA tea leaves", there always the risk, sometimes even the likelihood, of making a poor, misguided, or just plain dead-wrong decision - at either the strategic or tactical levels, or both.

While we are going to talk about solutions for mitigating the effects of VUCA in future posts, let's preliminarily address the risk of a bad decision here. First, students of VUCA consistently agree that making a decision, having a plan – good or, as it turns out, bad -is better than no decision/plan. More on that shortly. Second, they argue:

have a plan – based on the best intelligence and analysis available – but also be ready to change it.

Agility is key in a VUCA environment. So is accepting that there is no shame in making what turns out to be a poor decision, only in staying with that decision after new evidence suggests a course correction is required.

George Patton, who saw plenty of VUCA over the course of his career, may have said it best:

“No battle plan survives first contact with the enemy unchanged.”

But, beyond a bad decision, many of the most significant dangers associated with VUCA are subtler, even insidious. Let’s consider a few, more or less in ascending order of gravity.

Dealing With VUCA is Exhausting

It can take enormous time, attention, and effort to stay – or try to stay – on top of a VUCA environment. As we discussed last time, just absorbing the flow of marketplace information can seem like drinking from a fire hose. But, then that flow needs to be processed, analyzed, synthesized, and otherwise hopefully made sense of.

And VUCA is not impacting a single executive inside an organization. Multiple decision-makers at various levels, functional areas, geographies, etc. are simultaneously going through the same fire drill – individually and in small groups. The toll VUCA takes is not just individual, but also collective and cumulative.

VUCA Is A Significant Lost Opportunity Cost

Every minute/hour/day/week of time spent on dealing with VUCA is time that can’t be spent on other important parts of a business – for example, talking/meeting with clients, strengthening supplier/distribution channel relationships, building a new business pipeline, or mentoring talent. And, again, the toll is not just individual, but usually occurs widely among decision-makers across the organization.

If for no other reason than this, it behooves senior company leadership to put tools and resources in place to help decision-makers at all levels deal with VUCA as effectively and expeditiously as possible – so that they can get back to spending more time on activities that truly drive sustained business performance.

VUCA Can Debilitate Decision-Makers

Fear of making a bad, even bone-headed, decision can “freeze” many executives, preventing them from making critically important and sorely needed decisions.

Additionally, the lure of holding off on a decision in the hope that at some undetermined point in the future new evidence, insight, or other breakthrough in the business intelligence might point to a clear direction for moving forward can be irresistible. Delay, requests for more information, yet another round of meetings – anything but actually making a tough call – becomes and increasingly attractive alternative.

And VUCA related indecision in the C-Suite is especially pernicious. Not only can overall organizational strategy, focus, and purpose begin to drift, but when senior executives start pulling punches in their decision-making, their direct reports start to as well and are soon followed by middle managers.

Net-net, VUCA induced unmade and delayed decision-making can quickly lead to a cascading effect and negative, even catastrophic, resulting outcomes.

VUCA Can Eviscerate Innovation efforts

Achieving sustained innovation success, even in the best of situations, is a challenge for many companies. But when organizations are facing a VUCA environment and hedging their bets on how best to move the business forward in general, innovation efforts in particular can easily run off the rails.

The rationale - “Let’s wait until we have more clarity on what’s going on in the marketplace before investing in innovation” - can be hard to argue with, yet have devastating repercussions. Ironically, in an unstable VUCA environment where innovation might very well be the key to breakout success, it instead tends to grind to a halt.

VUCA Plays Havoc With Culture And Employee Hearts And Minds

Interested in building greater collaboration and more effective teamwork across the organization?

Want employees who are engaged, know how they can contribute to enterprise success, and are willing to invest discretionary effort in pursuit of that success?

Hoping to align people with organizational strategy – to borrow from Jim Collins, getting the right people on the bus and in the right seats?

It all hinges in large part on a clear-cut, shared sense of organizational purpose and direction and a supporting plan of action – and nothing is more deleterious to creating and maintaining such a foundation for success than the effects of VUCA. When purpose, direction, and plan are in doubt or subject to continuous change, getting people engaged, on the same page, and working collaboratively can prove difficult if not impossible.

Worst Case Scenario: External VUCA Leads To *Internal* VUCA

Think about that for a moment. Volatility, Uncertainty, Complexity, and Uncertainty *inside* a company or organization? Think it can't happen?

Here's a short list of companies that have encountered severe VUCA environments in recent years and struggled, or eventually failed, as a result: Blockbuster, Eastman Kodak, Motorola, Sears, Blackberry, JC Penney's, Borders, Barnes & Noble, Radio Shack. Read an account of any of their stories (Just Google "The fall of X" for a quick, insightful narrative) and you will quickly note the rise of VUCA inside the organization as the downward spiral quickened.

Left unaddressed over a long enough period of time, the corrosive effects of external VUCA can eat away at the internal guts of even the most successful organizations.

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As bad as these risks of VUCA are – and they can indeed be bad, even fatal – the good news is that organizations can take steps to mitigate them. They can learn to manage VUCA, rather than in effect being managed by VUCA. Next, we will explore some of the tools and methods companies can use to not only survive, but even thrive, in a VUCA world.

Taming the Beast: Strategies For Managing VUCA

After laying groundwork in the earlier parts of this paper, we now turn to that last part – how to manage in a VUCA environment – and present nine proven strategies for successfully doing so.

1. Have A Plan – But Be Ready To Change It

We've already discussed this in an earlier post, but it bears repeating. Nothing is more critical in a VUCA environment (actually, any business environment) than having a good plan in place – this whether you are leading a small team or special initiative, managing a global enterprise, or anything in between.

Take your best shot. Establish a plan, based on your best of assessment of the intelligence available to you, and run with it – until new evidence (perhaps derived from the methods discussed below) demonstrates that modifications in the plan, or even an entirely new one, are required.

If, instead, you waffle in the face of VUCA – no plan, biding time, waiting for more clarity, constantly changing plans, or any of the other avoidance tactics we've previously discussed - your immediate team will soon begin to waffle and eventually your organization as a whole.

2. Get Serious About Your Existing Business Intelligence

Despite all the talk these days about Big Data - and the tremendous insights that can arise from it - a 2014 Forrester study estimates that the average company fully analyzes and leverages only 12% of its available data, due primarily to a lack of investment in systems and processes, tools, and properly trained people to do the job.

Worse, Lodestar consultants routinely see organizations who do a poor (or worse) job in even managing their available business intelligence, much less analyzing it: i.e., knowing what they have, where it is, how to integrate it, how to prepare it for analysis, and how to share it so it gets into the hands of the right decision makers at the right time and in the right user-friendly packaging.

Companies in this situation are already at a significant competitive disadvantage. But, in a VUCA environment, failure to make full and effective use of business intelligence already at hand can be fatal.

If you want success in managing VUCA, make a commitment to superior data/business intelligence management, analysis, and interpretation.

3. Build Ever-Increasing External Situational Awareness

One characteristic of most VUCA environments is constant, rapid change. As a result, while making good use of existing intelligence is requisite, it also needs to be augmented with a steady stream of marketplace intelligence in order to build greater situational awareness.

Companies that are successfully managing the vicissitudes of VUCA are also invariably investing in (and, perhaps, even increasing spending on) market research and industry trends analysis, customer experience, competitive intelligence, future forecasting, key opinion leader research, secondary research resources, and related intelligence gathering methods.

The alternative – little or no spending on such resources – is a VUCA management corner all too many companies cut, usually to their peril over time.

4. If The Future Is Playing With You, Play With The Future

One of the more insidious dangers in VUCA environments is that individual executives (or small groups of them) commonly must confront VUCA on their own – use their own tools, analyze data/intelligence on their own, draw their own conclusions, etc. The reason is that it can be difficult for a company to stage an enterprise-wide response to VUCA (if such an idea even surfaces in the first place).

Increasingly, however, companies are making ongoing use of war games/gaming, scenario planning, dynamic simulations (computer-based, human-based, and hybrids), strategic role playing, and related methods as means of addressing VUCA.

The benefits of gaming and related tools include:

- Shedding collective “light” on the mystique or black box elements of VUCA; i.e., it makes working with volatility, uncertainty, complexity, and ambiguity a more comfortable and familiar experience.
- Giving decision-makers a sense of “in the driver’s seat” empowerment – from passive victims
- Helping decision-makers breakdown VUCA into more identifiable, addressable, and manageable components.
- Building shared, enterprise-wide understanding and agreement on the nature of the VUCA threat, the interpretation of available business intelligence with which to address the threat, and consensus-building strategies for responding to VUCA.
- Giving executives and organizations as a whole a psychological “lift” – by turning the tables on VUCA in terms of who’s in the driver’s seat and by creating the sense of a more even playing field.

5. Innovate The Future (and past VUCA obstacles)

One way to take VUCA out of a business environment is to redefine or redirect that environment through innovation. Admittedly, that’s easier said than done. (Lodestar’s 2014 study of innovation performance inside Fortune 1000 companies demonstrated that many companies still struggle with innovation “basics”, much less transforming their business or industry.)

But, a bold new product offering or a radically new and improved business process, much less an integrated game plan for such innovation over time, can do wonders to dampen the effects of volatility, uncertainty, complexity, and ambiguity for any company.

6. Tap Into Contrarians

Another proven way to more effectively “peer into the VUCA tea leaves” is to spend time with people who tend to view business situations (and the world more generally) differently than you and perhaps your immediate team do.

We all carry some degree of confirmation or information sources bias around with us – we tend to better like, spend more time with, and put more weight on the thinking of people who think like we think. That's dangerous. It can contribute to group think, both inside an organization and across an industry. It also means that alternative points of view - and potentially priceless insights for dealing with VUCA - can be missed.

Solution? Even though it can be uncomfortable, even unpleasant, listening, tap into contrarians, both inside and outside your organization, who will see a VUCA threat in a different light and can “stretch” you in terms of the way you come to see the problem and decide to respond to it.

7. Study History

Why? Because, over time, it tends to repeat itself. Similarly, many phenomena in science, economics, business and elsewhere tend to regress to their mean over time.

While VUCA can generate wild short-term variability, it can be a mistake to think that today's unclear business environment is going to lead to a significant, permanent change in that environment. Yes, cars do occasionally replace horses and buggies and personal computers did transform our workplaces, but more often than not, VUCA in a given business environment will subside over time, many times leaving a resulting state that is similar, if not identical, to one seen before.

Current day example. Were petrochemical executives blinded sided by the recent international plunge in crude oil prices? Yes. Are they dealing with a particularly virulent form of VUCA across their industry at the moment? Absolutely. Will the fundamental elements of the petrochemical industry as we've known it in recent years be significantly changed as a result of this VUCA episode, say, 5-10 years from now? Almost certainly not.

8. Be Quick, But Don't Hurry

Famed UCLA basketball coach John Wooden coined this phrase to capture a critical element of winning basketball games, but it has equal utility in thinking about how best to deal with VUCA.

As the phrase suggests, the message here is to be quick (and aggressive and persistent) in studying a situation, game, opponent, and thinking about changes in a game plan, but don't make impulsive decisions or adjustments. Let the evidence for making a change manifest itself over time and through continuous observations.

Put another way, be nimble and agile, but also be prudent. When you make a change to better respond to VUCA threats, make sure it counts.

9. Find Decision-Makers Who Thrive In VUCA Environments

Not everyone deals equally well with VUCA. If, as a decision-maker, you need a single, constant, crystal clear version of truth around a given business issue, you are not going to do well with - well, variability, uncertainty, complexity, and uncertainty. You may feel threatened, insecure, unsure, even victimized. And, in the face of all that, you may “freeze” in the most critical role you’ve been assigned – decision-making.

On the other hand, some executives and managers seem to have a “genetic code” that enables them to thrive in VUCA environments. They see these as opportunities to experiment, innovate, bend/break paradigms, and somehow drive improved overall business performance. They feel empowered, energized, excited, confident, and intrinsically rewarded in the face of VUCA.

If you find yourself in a persistent long-term VUCA environment – VUCA is becoming or has become the new normal – identify and engage those people on your team or across your organization who fall into the latter category. The more pressing the VUCA context, the more sharply these individuals will stand out from their peers – you will know them when you see them.

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About Lodestar

Lodestar is an advisory services firm that helps clients create, manage, and utilize information and intelligence of all kinds to solve complex business problems. Our work has two goals: improve business performance and drive growth.

The firm is built around six major practice areas - marketing research and decision sciences, information management, innovation, marketing effectiveness, organizational performance, and customer experience management. We also offer specialized services in areas such as competitive intelligence, technology scouting, intellectual property assessment, future forecasting, performance measurement, marketing effectiveness, ROI assessment, strategic planning, sales force effectiveness, and go-to-market strategy.

Lodestar works with Fortune 1000 and SMB clients across a variety of industries, including financial services, healthcare and life sciences, media, publishing, technology, professional services, manufacturing, and the public sector.

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