



# Strategic Management: Why and How to Revisit Organisational Strategy in VUCA conditions.

\*Anukriti Agrawal

\*\* Prof. Krishna Kumar Agarwal

\* Research Scholar, Department of Commerce, Mahatma Gandhi Kashi Vidyapith, Varanasi

\*\* Professor, Faculty of Commerce and Management Studies, Mahatma Gandhi Kashi Vidyapith, Varanasi

## **ABSTRACT**

*The world of today has become exceedingly tumultuous and uncertain, with incremental changes taking place daily. The abbreviation VUCA, which stands for volatility, uncertainty, complexity, and ambiguity, is frequently used to describe this dynamic environment by the business press, media, corporate leaders, and academics worldwide. In reality, according to a study by the International Monetary Fund, the level of uncertainty in the world has risen sharply since the 2010s and will reach its peak in the last 60 years by the end of 2019. Additionally, the increased VUCA environment that organisations now face is a result of technological advancement, globalisation, and environmental factors. A VUCA-characterized world may cause a lot of confusion and worry, but CEOs cannot remain immobile and unresponsive to this change since it also presents new economic opportunities. To position the organisation for long-term success, leaders and business managers must restructure and create a strategic approach to a VUCA reality. This paper provides an overview of the concept of VUCA. It also focuses on prescriptive and descriptive schools of strategy with special emphasis on incrementalism. The study gives insights into strategies like scenario planning and roadmapping which are required to deal with the VUCA risks. It also identifies various themes and areas which needs consideration for surviving and thriving in the VUCA world.*

**Keywords:** Volatility, Uncertainty, Complexity, Ambiguity, VUCA, Roadmapping, Incrementalism

## **Introduction**

Business is all about taking risks and dealing with ambiguity and instability. Over the past few decades, the corporate landscape has undergone significant transformation, and today we live in a connected culture where change may be quick, continuous, and unpredictable. Rapid technological advancements have produced an atmosphere where social media, smartphones, and the internet are everywhere, and major world events like the conflict in Ukraine recently have added to the sense of unpredictability and risk. The feeling of certainty, stability and familiarity that individuals were used to has been replaced by a condition of constant change. The abbreviation "VUCA," which stands for "Volatile," "Uncertain," "Complex," and "Ambiguous," can be used to describe this kind of setting. Given the perception that business environments are becoming more volatile, uncertain, complex and ambiguous, it is difficult for both existing businesses and startups worldwide to grow and maintain their competitiveness in a highly disruptive environment. Businesses that wish to prosper and stay competitive in this highly disruptive climate must adopt a new method of strategizing. The preliminary research on the strategy response to this dynamic situation enlightens us on the importance of empowering businesses at the organisational (macro) and individual (micro) levels to actively engage in the VUCA environment.

## Literature Review

**1. Millar, Groth & Mahon (2018)**- The article "Management innovation in a VUCA world: Challenges and recommendations," highlights the challenges posed by the VUCA world and advocates for management innovation as a strategic response. It provides insights, recommendations, and practical examples for organizations to adapt and thrive in this complex and dynamic environment.

**2. Du & Chen (2018)**- The article "Applying Organizational Ambidexterity in strategic management under a "VUCA" environment: Evidence from high tech companies in China", explores how high-tech companies in China apply organizational ambidexterity as a strategic management approach to cope with the challenges of a VUCA environment. It provides evidence-based insights into how these companies balance exploration and exploitation to thrive in a dynamic and uncertain context.

**3. Popescu, Hysa & Panait (2022)**- The book chapter "Perspectives of responsible management in today's VUCA world" part of the book named "In Agile Management and VUCA-RR: Opportunities and Threats in Industry 4.0 towards Society 5.0", discusses the challenges and opportunities faced by responsible management in today's volatile, uncertain, complex, and ambiguous (VUCA) world. It explores strategies and approaches for managers to navigate and address these challenges while promoting responsible and sustainable practices.

## Objectives of the study

1. To review the concept of VUCA environment.
2. To explore various strategic responses that organizations should adopt in order to succeed in a VUCA world.
3. To identify various focus areas for improving the leadership skills in a VUCA workplace.

## Meaning of VUCA?

The term VUCA was used for the first time by the United States Army War College. It used the term after the 9/11 terrorist attacks which happened in 2001. The term VUCA was created by military strategists to characterise the unsettling new state of international security that they were worried about. VUCA stands for-

- V- Volatility,
- U- Uncertainty,
- C- Complexity, and
- A- Ambiguity.

Figure 1: What is VUCA?



Source: Ompulson Wirtschaftslexicon

It describes the continuous and unpredictably changing environment that is now accepted as normal in many corporate sectors and industries.

### **Volatility**

On the one hand, it is a statistical metric that expresses the degree of uncertainty. On the other hand, it is a concept that can be used to describe a phenomenon's speed, volume, nature, and size, which may or may not take the form of a pattern. There are a lot of real-world instances of volatility, such as changes in the stock market, technological advancements, digitalization, and much more.

### **Uncertainty**

Taking volatility into consideration, uncertainty then transforms into the capacity to foresee or not to forecast what would happen in the presence of volatility. Lack of clarity makes it difficult to assess a situation accurately and recognise problems and opportunities.

### **Complexity**

The environment as a whole inevitably becomes more complicated when it is unstable and uncertain. In other words, it is difficult to determine which development led to which conclusion because cause and effect are no longer linear.

### **Ambiguity**

A situation is considered ambiguous when its meaning cannot be understood, its causality cannot be established, and its interpretation is unclear. Ambiguity doesn't mean there isn't clarity; rather, it means there are various interpretations that are acceptable and equally valid.

These four features do not exist in tandem in a VUCA society. Instead, all four elements work together and reinforce one another, continuing the legacy of complexity leadership and systems and complexity theory. Volatility and uncertainty are observable characteristics, but complexity and ambiguity are characteristics used to define a particular situation.

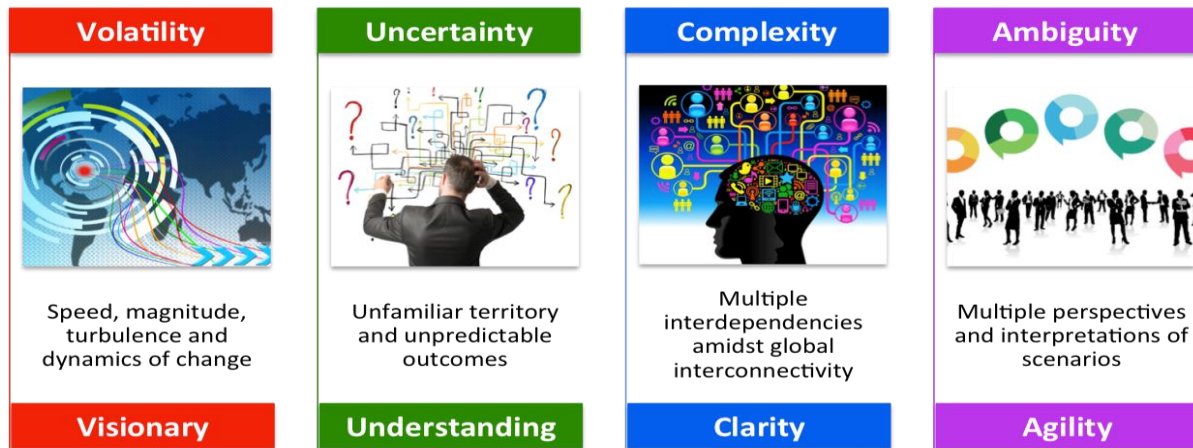
Leadership in the twenty-first century needs to be more risk-tolerant. Nearly all failures in a VUCA world can be narrowed down, measured, and most importantly, used to improve information and lessen ambiguity and uncertainty. Leaders must create nimble and adaptive responsiveness in both their thinking and across their organisations. They must also anticipate change at every turn.

A VUCA situation can:

- Cause people to feel uneasy and unstable.
- Reduce their drive.
- Stop them in their career plans.
- Make it necessary to continually retrain and reshape.
- Consume a lot of time and energy in fighting.
- Increase the likelihood that people will make poor decisions.
- Freeze the decision-making process.
- Threaten long-term initiatives, advances, and inventions.
- Overpower people and organisations.

## How to lead in a VUCA world?

Figure 2: Leadership in VUCA world



Source: *stageshift.coach*

In his book, Johansen suggests a structure called VUCA Prime that you can utilise to deal with VUCA risks. He advises you to take the following actions:

### 1. Counter Volatility with Vision

- a) Recognise that change is an inevitable, constant aspect of your professional environment and accept it. Don't fight it off.
- b) Create a clear, shared future vision and a powerful, compelling statement of the team's goals and values. Be sure to provide your team members adaptable goals that you may change as needed. This enables them to manoeuvre through uncertain settings and respond rapidly to developments.

### 2. Meet Uncertainty with Understanding

- a) Stop, listen, and take a look around. This can assist you in comprehending and creating fresh ways of thinking and behaving in response to the features of VUCA.
- b) To avoid falling behind, give investing in, analysing, and interpreting business and competitive intelligence top priority. Keep up with industry news and pay close attention to your customers to learn what they desire.
- c) Examine and assess your performance. Think about what you did well, what surprised you, and what you could change for the future.
- d) You can explore how events can unfold and how you might respond to them in the future by simulating and experimenting with various scenarios. Consider potential threats in the future and plan plausible defences. Foresightedness can be generated by using tools like scenario planning, crisis planning, role playing and gaming.

### 3. React to Complexity with Clarity

- a) Be clear while communicating with your group. In complex situations, the direction of your team or organisation is easier for them to understand through properly defined communications.
- b) Create teams and encourage cooperation. VUCA circumstances are frequently too complex for a single person to handle. Therefore, create teams that can function well in a dynamic setting.

### 4. Fight Ambiguity with Agility

- a) Encourage adaptation, suppleness, and agility. Plan ahead, but allow for contingency time and be ready to adjust your plans as necessary as events take place.

- b) Those people should be hired, developed, and promoted who thrive in VUCA environments. These people are probably cooperative, at ease with ambiguity and change and skilled at sophisticated thought.
- c) Encourage your staff to think critically and to work on projects outside of their normal functional areas to get more knowledge and experience.
- d) While leading your team, avoid ordering or controlling people. Create a cooperative atmosphere and make a concerted effort to reach agreement. Encourage public discussion, disagreement, and participation from all.
- e) Take part in a "ideas culture." Another definition for VUCA was coined by Kevin Roberts of advertising agency Saatchi and Saatchi's as "vibrant, unreal, crazy, and astounding." This energising culture is what can provide teams and organisations a competitive edge in ambiguous times.

## Strategic Management in a VUCA world

Even in a stable context, strategic management has frequently been the topic of conversation. It is logical to assume—and the research supports it—that, generally speaking, all survival strategies in the VUCA world are linked with the idea of ongoing organisation learning and adaptation.

In his book ‘**Strategy Safari: A Guided Tour Through The Wilds of Strategic Management**’, Henry Mintzberg classified strategy into two categories. Prescriptive schools make up the first group, whereas descriptive schools make up the second.

Since the 1950s, **prescriptive schools of strategy** have dominated the business world. It is a programme where the planning and execution phases were independent tasks that were separated in time. Even before it is put into practice, such a strategy can be out of date. This strategy might work in a stable setting, but it is wholly incompatible with what the VUCA reality requires.

There was at least one **descriptive school** of strategic management, known as the Learning School, that was founded on the ideas of constant adaptation and lifelong learning. The approach of consecutive comparisons functioning with a small number of possibilities, was developed by the "father" of this school, Charles E. Lindblom. On the basis of this school, an efficient interim solution can be found.

An approach to management known as incrementalism involves making regular, minor choices and steps. This is a realistic approach to deal with the world and weighing possibilities and hazards. Some descriptive schools of strategy were founded on the logic of incrementalism, which was also closely related to the tenets of the Toyota-initiated Japanese Kaizen system of constant incremental improvement.

Figure 3: Incremental Improvements



Source: [greatresultsteambuilding.net](http://greatresultsteambuilding.net)

**Incrementalism** indicates that, in general, the leader shapes the route. The stages of goal achievement should be clearly defined, together with the ultimate goal and interim outcomes. The incrementalism approach allows for manoeuvres and a wide range of approaches for the goal realisation on the assumption that several goals might lead to a single goal and that selection efficiency is a derivative of particular external circumstances.

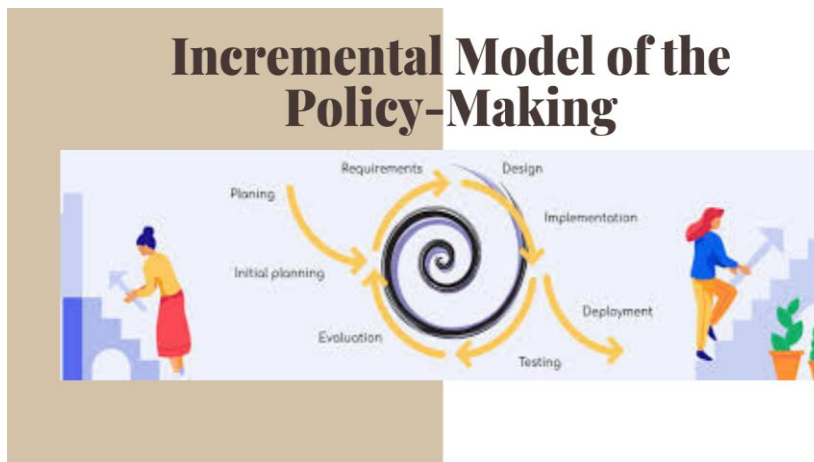
Because of the following factors, incrementalism is quite effective in the VUCA world:

- It employs series of minor adjustments
- Smaller steps make the task easier to do and prevent opposition from the task performers.
- Small modifications can help you reach your objective more quickly than larger ones since they reduce big risks.
- It offers organisations a greater degree of adaptability and flexibility.

The fragmentation and lack of clear guidelines for its use are incrementalism's weaknesses:

- Instead of using possibilities, the solutions are employed to fix issues.
- The answers are regional, frequently unconnected, and might even conflict with one another.
- 'Strategic drift' is a characteristic of incrementalism: an organisation may progressively veer away from the chosen plan without even realising it.

**Figure 4: Incremental Model of Policy Making**



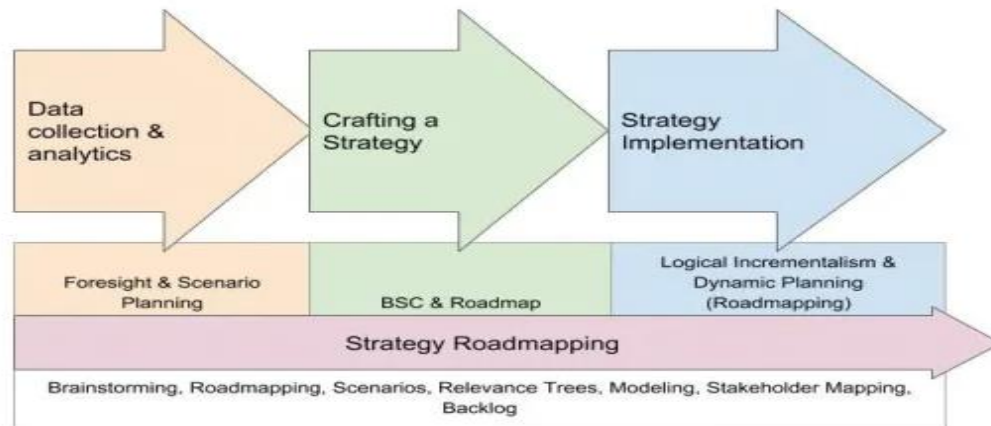
*Source: aspirantforum.wordpress.com*

In essence, incrementalism has one significant drawback: the organisation is tempted to take baby steps rather than building resources and planning for market breakthroughs. We can call this as avoidance of large wagers. The competition will continuously eat up the company's income until it is declared as bankrupt, if it is unable to place large wagers. When risk avoidance becomes the standard for a business, incrementalism becomes risky.

James B. Quinn's notion of **logical incrementalism** is similar to incrementalism. By focussing constantly on strategic goals, organisational milestones and the integration of planned changes, it removes the flaws of incrementalism.

## Strategic Tools for the VUCA world

Figure 5: Tools for the VUCA world



Source: *fincyte.com*

**1. Data collection & analytics-** The planning horizon must be expanded and a greater number of aspects must be taken into account in the VUCA world. As a result, forecasting techniques are becoming more and more common. These techniques can all be grouped under the umbrella term of foresight.

Unlike forecasting, which refers to conventional prediction models, foresight is different. Whereas forecasting is based on extrapolating previous data into the future, advanced methods of anticipatory logic that allow for the possibility of scenarios based on shaky signals, new trends, coexisting present conditions and future evolutionary paths are included in foresight. Situations that fit the description of a VUCA context make good use of strategic foresight. The foresight process is closely tied to **scenario planning**, another crucial skill in the VUCA world. A single aim can be accomplished in a variety of methods, as was already mentioned. Based on the knowledge, resources, talents, and other factors at their disposal, the management team selects the most probable course of action when creating a plan. Any method, including decision makers' cognitive predispositions, leaves the impression of subjectivity and insufficient knowledge. But sometimes things doesn't go according to the plan.

The scenario is a comprehensive plan, a collection of presumptions outlining a different perspective on the future, which is then utilised to build or test a strategy. The major goals of scenario planning are to provide answers to the questions "What could happen?" and "What impact would it have?" The business will be less vulnerable because it is prepared for a variety of potential future development paths.

**2. Crafting a Strategy-** The process of developing a plan is the most individualised and is frequently portrayed as a simple "black box." At this point, the actual strategy is developed. It is a plan of initiatives based on a series of goals- a scorecard used in the Balanced Scorecard (BSC) approach, developed by Robert S. Kaplan and David P. Norton.

At this point, strategists may encounter a variety of difficulties like treating the symptom rather than straightening things out, making erroneous assumptions, taking bad shots in short time frames, and missing buy-in. The VUCA World's conditions present even more challenges.

**3. Strategy Implementation-** The time between strategy and execution is a crucial component of both the strategy-creation stage and the subsequent stage of strategy implementation. A dynamic strategic plan, which should be continuously modified and refined, is one of the modern solutions to the various challenges.

The study on the use of dynamic planning principles conducted by SAP ( Systems, Applications & Products) shows an improvement in corporate efficiency and a 40% rise in average customer profit margin. It also shows a 29% improvement in the accuracy of actual revenue to budgeted revenue.

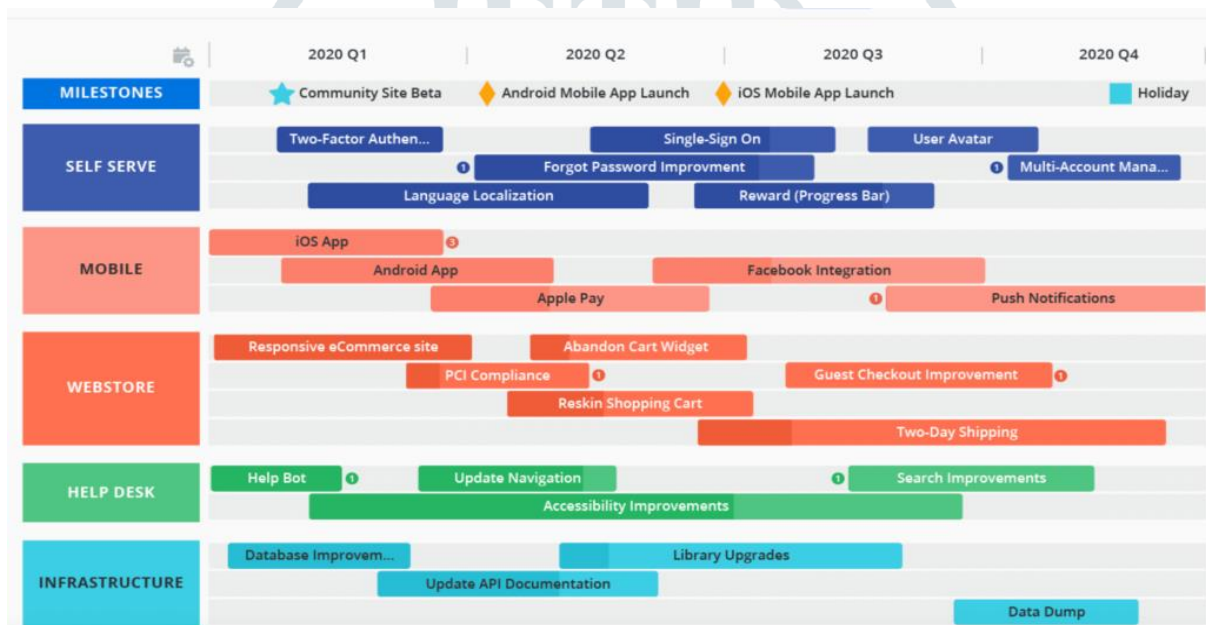
With the use of a strategic management tool like **roadmapping**, dynamic planning principles can be applied in their most comprehensive form.

## Roadmapping

The VUCA tool that most effectively encapsulates the ideas of dynamic planning, constant adaptation, and learning is roadmapping. The fundamental benefit of roadmapping is that it effectively applies the logical incrementalism and dynamic planning principles. A dynamic strategic map called a "roadmap" provides three answers:

- Where are we going? (detailing the quantitative and qualitative measurement of goals)
- Where are we at the moment? (based on an evaluation of the company's key performance indicators)
- The action plan itself.

**Figure 6: Product Roadmapping**



Source: medium.com

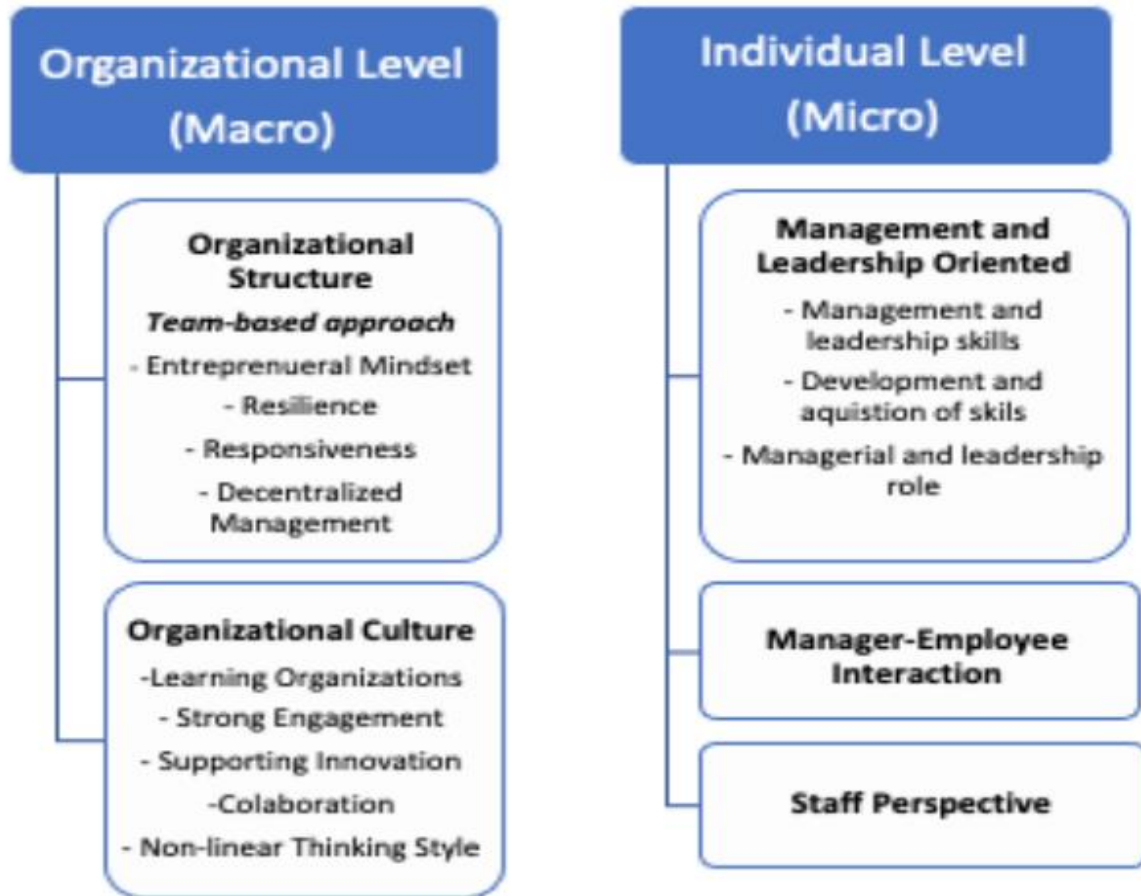
Through the use of milestones, roadmapping enables businesses to keep flexibility in the tools and techniques they select to achieve their objectives.

The fact that roadmapping is both a strategy and a communication tool is another crucial aspect of it. According to Bernard Marr, the primary factor contributing to a strategy's failure is poor communication. He emphasizes that nobody is able to understand strategies since they are not effectively articulated. Rob Phaal of Cambridge Roadmapping stressed that the roadmapping process is more significant than the final product. The flexible nature of roadmapping makes the integration of initiatives easier, encourages strategic debate and improves the comprehension of strategic objectives and means of achieving them. Nevertheless, it is still one of the most effective ways to convey ideas. The purpose of road mapping is to collectively clarify and comprehend the objectives and tactics of product development. As a result, the company's long-term goal gets transparent Your managers and team may then build efficient solutions and initiatives on it every day. Future events will undoubtedly differ from how we anticipate them. Therefore, we should use broad strokes while painting them.

## Focus Areas/Themes of the VUCA world



Figure 7: Themes of the VUCA world



Source: Lunds Universitet

- Team work should be encouraged so that VUCA threats can be addressed easily.
- Consider complexity and uncertainty as opportunities to learn more rather than as oppressive pressures while making decisions.
- Innovation in processes and workflows should be seen as a way to tackle VUCA rather than as something that can be negatively impacted by it.
- Seek out better deals and opportunities rather than relying entirely on your normal suppliers and dealers while looking for opportunities. These opportunities in a VUCA world may only appear temporarily, so you must be watchful and seize them when they arise.
- Although difficulty and challenge might make people uneasy, they can also direct their attention and inspire them to work together towards a single goal, which is crucial for team development and organisational culture.
- In order to increase agility, promote and hire people who are at ease in less structured and ever-changing environments.

## Conclusion

The complex and contentious environment of the VUCA world motivates businesses to develop and look for fresh approaches. However, overly rapid adaptation necessitates simplification. Because of this, businesses may simplify their goods and shorten the development process in an effort to survive. Effective behaviour in the VUCA world depends on logical and controlled processes of continual learning and adaptation in addition to forecasting the trends of all important aspects that affect a company. The unique traits of transparency, visibility, and adaptability to the strategic goals and milestones makes roadmapping a great tool for managing the future

under VUCA conditions. Any strategy's greatest asset is not rigidity and consistency, but rather the capacity to seize opportunities and make informed decisions in the face of uncertainty.

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