The VUCA Framework

As we saw in the previous module, the rapid growth of globalization, information technology, and a changing environmental context are all working to take us into a much more complex world. This new world is interconnected, interdependent, nonlinear and volatile. Over the past few decades, an acronym has emerged within the business community to identify the fundamental internal and external conditions that affect organizations within this complex environment. This acronym is called VUCA, and it stands for volatility, uncertainty, complexity and ambiguity.

The common usage of the term VUCA began in the 1990's and derives from military vocabulary, where it refers to the experience of officers in operations. It tries to capture the uncertain and dynamically changing situation of a military engagement where there is a lack of information. Events often just happen in a chaotic and unpredictable fashion in what is also called the fog of war. Military commanders sometimes describe this as being in a world of unknown. Unknowns – this is the extreme version of a VUCA world. In this section we will talk about how to develop strategies for operating within this VUCA environment. So let's start by talking a bit about strategy and our traditional approach to it in a non-VUCA world.

Strategic management involves the formulation and implementation of major goals and initiatives taken by an organization's top management, based on an assessment of the internal and external environments in which the organization operates. Thus, how we approach strategy will obviously change in response to the environment within which our organization is operating. Owing to its origins within industrial age manufacturing, much of our modern management theory is focused upon stable, predictable, routine environments, where there is one relatively clear objective. These factors make possible an approach to strategy that is based around a few key concepts and methods.

Firstly that there is one optimal goal or solution: Within these relatively static environments where there is one clearly defined metric for performance, such as maximizing revenue, there can be one right answer, one optimal solution. And thus, the aim is to obtain all the information required and perform analysis upon it to identify this optimal solution. The objective then is to guide the organization towards this desired outcome through the control of the elements within the organization.

Secondly fixed future projections: Due to limited volatility and the high level of predictability within the environment, we can project past experience and data onto the future and use risk-based analysis to calculate and ascribe quantitative pay-offs to a limited number of future possibilities.

Thirdly fixed goals: When there is limited change within the organization or environment, we can create fixed goals and plans for achieving them. The aim then is to firmly adhere to these objectives and keep the project moving forward in a predictable fashion according to these predefined plans.

Lastly the use of progress planning: The progress towards our ultimate goal can be broken down into stages. We can create clear metrics for each stage, and the movement through these stages is typically a linear incremental process.

This approach to strategy works fine until we turn up the volatility, uncertainty and complexity within the environment. Turning a rapidly changing external environment to our advantage requires a recalibration of many dimensions across how we develop, deploy and deliver our strategies, and this is where complexity management finds application to offer us an alternative paradigm with which to lead organizations by. So let's take a quick look at the different dimensions to the VUCA world and the response complexity management offers to this challenging environment. This will be just a quick overview, as we will be going over all of these in greater detail in future lessons.

Firstly Volatility: In systemically volatile environments, change is a constant and our strategy needs to evolve from resisting it to working with it. This means creating organizations that are resilient through their agility and capacity for adaptation. The strategic enforcer shifts from creating fixed well-defined goals and plans to trying to create agile organizations led by a clarity of vision and effective communications, so that it can be very clear about its values and objective but very flexible in how it implements capabilities and achieves its vision.

Secondly Uncertainty: Uncertainty is the inability to know everything fully. This uncertainty is derived from the large number of elements within the system, their nonlinear interactions and their capacity to adapt to local events as they evolve over time. Trying to compute the actual details of all this information is virtually impossible. In environments where uncertainty is pervasive, our traditional risk-based analysis of the future breaks down. The only way to respond to this is to perform multiple simulations and experiments that will allow us to explore how things will really play out on the ground, and to maintain a diverse and complementary system that is capable of responding to a number of different possible environmental conditions.

Complexity: When people talk about complexity within the VUCA framework they are referring to interconnectivity and interdependency. The nonlinear interactions and interdependencies within complex organizations render our capacity for control over the system through direct intervention limited. In complex systems, we cannot always know what the outcome to our interventions will be due to these nonlinear interactions and interdependencies.

Thus, our capacity to directly align the elements of the organization towards some desired future goal is limited. The main response to this is for a leader to focus on creating the context that enables the organization to succeed.

Ambiguity: Ambiguity is the quality of being open to more than one interpretation. When environments become complex, simple linear cause and effect descriptions of events break down and ambiguity arises due to this lack of models to explain the observed phenomena. Resolving ambiguity means understanding the context within which the event takes place. It requires systems thinking to see the interconnections, to gain different perspectives in order to build up the full context within which an event can be properly understood.

In this lesson we have taken an introduction to the VUCA world. We have looked at our traditional approach to strategy within stable environments and a brief overview to how this needs to change when dealing with more complex environments. We will be spending the next few lessons exploring each of these different dimensions to the VUCA world separately in more depth.