

MGMT

of Innovation and Technology

Nr. 3 Oktober 2018

**Expect nothing,
prepare for everything**

– Strategy and leadership in
VUCA-conditions



Expect nothing, prepare for everything

– Strategy and leadership in VUCA-conditions

Av Ebba Laurin,
Matti Kaulio, Daniel
Tolstoy & Cali Nuur

A proven track record of a long-term established player is no a guarantee for sustained success. Neither is a rapid and successful start for a game changing start-up. With the global and connected development processes that mark our times, all players are challenged by volatility, uncertainty, complexity and ambiguity (VUCA).

Operational excellence or chaos

The demanding and disruptive conditions require ad hoc organizing and collaborating in real-time to rapidly grasp and resolve complex problems in a collaborative effort.

Large companies are aware of risks of strategic drift, inertia and slow innovation processes, large bureaucracies and often put different solutions into place. Prototyping, design thinking and lean processes can support efficiency and innovation. Many large organizations are ambidexterous and they work with incremental innovation in successful ways. Seemingly, all the right mechanisms are in place. Business should be more or less running on autopilot. Instead disruptions and ad hoc tasks are calling for attention. People seem to be resolving conflicts, and dealing with unforeseen events, complex situations and managing crisis on a daily basis.

What is at play when leaders and employee experience that they are constantly derailed when doing their job? The failing of good strategies and operational plans may not be about organizational inertia or a badly formulated strategy. Leaders and employees can be focused and committed but unattuned to highly challenging conditions. To underestimate the highly challenging business conditions can rapidly undermine a business. Problems and ad hoc events and crisis often derive from disruptiv and ambiguous events in unpredictable and changing conditions.

“It seems like business as usual is increasingly about putting out fires”

New entrants drive uncertainty

Uncertainty is both a condition and a general characteristic of our times. Uber, Netflix or Amazon are often cited as examples of successful game changers that unexpectedly disrupted the market, creating uncertainty. They were operating with a digital platform from start and were early in using benefits of Artificial Intelligence (AI) and new business models. Netflix started as a traditional DVD rental service but the Netflix of today began with a crisis. In 2011 they introduced the streaming service for films and the revenue model based on monthly subscriptions. 800 000 customers fled the company and share prices plummeted. Netflix took a step back on the dual business model, but prices remained elevated. With hindsight, Netflix shift from the DVD rental to the streamed film service was a sign of our times. Changing the game will increase complexity. Sustained success in an industry that has several competing business models is hard won for everyone.

Neither incumbent nor innovator is been spared from erratic growth, continuous losses, disruption and crisis.

The advent of new business models creates difficult conditions in which both traditional companies and the innovative player have strategic and leadership challenges. The strategy and leadership paradox is that in difficult conditions foresight, preparation and planning is both possible and desirable. The organization must work collaboratively to 1) increase a preparedness for action 2) build robustness with maintained flexibility 3) build resilience and stamina.

TUNA or VUCA

Companies strive to understand their challenging conditions and strategy. Leaders want to define how to implement strategy in an internal and external context that is in constant change. Some companies devise their own terminology and some choose to work with one of two research-oriented options, TUNA and VUCA. TUNA describes strategic challenges in the terms of Turbulent, Uncertain, Novel, Ambiguous (TUNA). VUCA stands for volatility, uncertainty, complexity and ambiguity. TUNA is associated with Oxbridge in the UK while VUCA originates from military leadership challenges and is used in business schools in the US.

In this brief text we explore the VUCA-framework and terminology. It is underpinned by an explorative study which we conducted 2017/2018 which aimed at understanding how VUCA manifests itself on employees and leaders and their strategic challenges. The preliminary findings point to a high relevance to managers and leaders and to the benefits of developing a model which can support leaders in driving business in challenging conditions.

VUCA-conditions exist in stark contrast to a notion of conditions in a steady-state and each condition is challenging in their own right. Each company has their own way of relating to the conditions. Large companies may handle volatility in inefficient ways and be slow in responding to disruptive events even though they are predictable. To include traditions and history in a speedy and future-looking process may be counterintuitive but highly relevant to established companies. Laurin (2018) point to how history, detailed craft know how, and knowledge contribute to a shared frame of reference assisted TT news agency and the customers in finding a service-oriented solution times of crisis.

Ambiguity is expected by entrepreneurs as the existence of multiple and conflicting perspectives are innate to innovative

“Complexity is not a big problem for us. We have complex solutions and customers who understand their value. But we are not great at dealing with uncertainty and risk. We turn a blind eye and try to ignore it”

start-ups. Dealing with ambiguity is difficult in larger companies in rival and multiple perspectives exist.

A stepwise and structured approach to understanding how the company can foresee and prepare allows for a grounding of the collaborative efforts that will be needed to solve complex problems. Rapid, relevant and collective efforts require an acceptance of a line and a commitment to holding it. In times of crisis and disruption there is no time to seek consensus or for internal politics. The conflicts and rival positions must be addressed before the event. Collective understanding of challenges identified by employees and managers assist in drawing out conflicts and the discussions serve as a brokering mechanism between opposing perspectives in the company.

What not to do:

- > Be passive and baffled by complexity
- > Build rigid structures and management system
- > Disrupt and reorganize systems that work

What to do:

- > Prepare by devising contradicting strategic scenarios.
- > Prepare by working with contradicting strategic scenarios.
- > Build robustness and resilience in relationships, processes, collaboration and leadership skills.
- > Challenge, question, simplify and act

Scenarios increase preparedness, robustness and resilience

Working with strategic scenarios that explicitly draw on opposing view, in time constraints and ad hoc teams can be a frustrating work-shop experience. Developing diverging and contradictory scenarios is particularly important to companies that either tend to ignore uncertainty or tend to overwork structures and control systems. Realistic strategic scenarios that are built from the collective effort of several functions, roles and perspectives assist in preparing for action in complex challenges. Scenarios support the digitalization in the interplay of local and regional creativity and innovation (Nuur and Laestadius, 2009). Defining the scenarios and working with different perspectives also contribute to saving time and building robustness and resilience to shocks. Practice makes perfect.

VUCA conditions apply to all players

Highly challenging and disruptive conditions apply to all companies when several business models are in play. Everyone must prepare for complex and rapid problem-solving in ambiguity. Outcome will be difficult to estimate. Uncertainty prevails. The story of Netflix could have ended with the crisis in 2011 but it did not. Netflix pursued their vision of streamed film with resilience and developed into a full-service provider. The example illustrates that success in challenging conditions requires significant leadership skills, risk-taking and perhaps most importantly strategic grit and perseverance.

Quick guide:

- > List 3 known crisis in your industry. Which one would throw you off your game? Identify needed competence and team members that

VOLATILITY

- > Instable situations, process, eruption
- > Requires Rapid response, slack

Information is available and the situation is understandable, but change is frequent and sometimes unpredictable with high impact.

UNCERTAINTY

- > Uncertain processes and uncertain results
- > Demands Rapid balancing

A lack of knowledge as to whether and event will have meaningful ramifications: cause and effect are understood, but it is unknown if an event will create significant change.

COMPLEXITY

- > An array of unidentified connections between processes, actors event
- > Requires Rapid calm and analysis

Many interconnected parts forming an elaborate network of information and procedures; often multiform and convoluted.

AMBIGUITY

- > Multiple perspectives, multiple interpretations
- > Demands Rapid switching

A lack of knowledge as to 'the basic rules of the game'; cause and effect are not understood and there is no precedent for making predictions as to what to expect.

can deal with disruption or crisis. Let them prepare for collective action without controlling the process.

- > Define how your organization handles uncertainties. Efficiently and purposefully? Some organizations do too much, some too little.
- > Simplify. Find rules of thumbs that are applicable in times of crisis and disruptions.
- > Train people to detect the onset of a crisis. Move fast, evaluate fast and adjust the process to create a working solution.

RECOMMENDED READINGS

- > Laurin, E., (2018) Organizing for Sales in VUCA Contexts: The Transformation Process from Products to Solution Sales. in Andersson, P., Axelsson, B. & Rosenqvist, C. Organizing Marketing and Sales: Mastering Contemporary B2B Challenges Emerald Publishing Limited.

Please, contact Ebba Laurin for additional information.



EBBA LAURIN

e@ebbalaurin.com

PhD and senior consultant in strategy and leadership



MATTI KAULIO

matti.kaulio@indek.kth.se

Associate Professor, KTH-the Royal Institute of Technology



DANIEL TOLSTOY

daniel.tolstoy@hhs.se

Associate Professor at Stockholm School of Economics.



CALI NUUR

cali.nuur@indek.kth.se

Professor of Industrial Dynamics, KTH-the Royal Institute of Technology