Developing Leaders

in a

VUCA Environment

By: Kirk Lawrence
Program Director
UNC Executive Development

Introduction

In *The World Is Flat*, Thomas Friedman notes that the rate of change today is much different than in the past. "Whenever civilization has gone through one of these disruptive, dislocating technical revolutions—like Gutenberg's introduction of the printing press—the whole world has changed in profound ways," he writes. "But there is something different about the flattening of the world that is going to be qualitatively different from other such profound changes: the speed and breadth with which it is taking hold….This flattening process is happening at warp speed and directly or indirectly touching a lot more people on the planet at once. The faster and broader this transition to a new era, the more likely is the potential of disruption."

"To put it another way, the experiences of high-tech companies in the last few decades who failed to navigate the rapid changes brought about in their marketplace by these types of forces may be a warning to all the businesses, institutions and nation states that are now facing these inevitable, even predictable, changes but lack the leadership, flexibility and imagination to adapt—not because they are not smart or aware, but because the speed of change is simply overwhelming them."

This rapid flattening, as Friedman calls it, is creating a new environment that strategic business leaders are increasingly calling a "VUCA" environment. Coined in the late 1990's, the military-derived acronym stands for the volatility, uncertainty, complexity, and ambiguity—terms that reflect an increasingly unstable and rapidly changing business world. This new VUCA environment will require HR and talent management professionals to change the focus and methods of leadership development.

This white paper:

- Discusses the history of VUCA and how it applies to business strategy and development.

- Explores how VUCA is relevant to leadership development.

- Discusses the "VUCA Prime," which flips the acronym to focus on vision, understanding, clarity, and agility.

- Offers suggestions on what HR and talent managers must do to change their leadership development approach to foster leadership vision, understanding, clarity, and agility.

The Origins of VUCA

The notion of VUCA was introduced by the U.S. Army War College to describe the more volatile, uncertain, complex, and ambiguous, multilateral world which resulted from the end of the Cold War (Kinsinger & Walch, 2012). The acronym itself was not created until the late 1990s, and it was not until the terrorist attacks of September 11, 2001, that notion and acronym really took hold. VUCA was subsequently adopted by strategic business leaders to describe the chaotic, turbulent, and rapidly changing business environment that has become the "new normal."

By all accounts, the chaotic "new normal" in business is real. The financial crisis of 2008-2009, for example, rendered many business models obsolete, as organizations throughout the world were plunged into turbulent environments similar to those faced by the military. At the same time, rapid changes marched forward as technological developments like social media exploded, the world's population continued to simultaneously grow and age, and global disasters disrupted lives, economies, and businesses.

VUCA and Leadership Development

This new VUCA environment, as Friedman notes, is taxing even the most able of leaders who may find their skills growing obsolete as quickly as their organizations change in this volatile, unpredictable landscape. Leadership agility and adaptability are now required skills if organizations are to succeed in this VUCA world. As Horney, Pasmore, and O'Shea, authors of "Leadership Agility: A Business Imperative for a VUCA World" note, to succeed, "leaders must make continuous shifts in people, process, technology, and structure. This requires flexibility and quickness in decision making." (Horney, Pasmore, O'Shea, 2010). (For additional insights on a new approach for developing leadership agility, refer to the UNC Executive Development white paper: _Leadership Agility: Using Improv to Build Critical Skills_.)

The Boston Consulting Group (BCG) concurs. A recent BCG study concluded that organizations today must shift their business models—and their leadership skills—to become "adaptive firms." Adaptive firms can adjust and learn better, faster, and more economically than their peers, giving them an "adaptive advantage." Adaptive firms, the study notes, include Apple, Google, 3M, Target, and Amazon.

A report by the Center for Creative Leadership (Petrie, 2011) also notes that today's VUCA business environment requires leaders to possess more complex and adaptive thinking abilities. It also notes that the methods used to develop these new skill requirements (like on-the-job training, coaching, and mentoring) have not changed much, and as a result, leaders are not developing fast enough or in the right ways to keep up with the "new normal" for business.

HR and talent management professionals must position their organizations to succeed in today's turbulent business environment by developing agile leaders. Applying the VUCA model as a framework to re-tool leadership development models may enable HR and talent management professionals to identify and foster the leaders their organizations need now and in the future.

Company Spotlight: Unilever

In 2010, Unilever, one of the world's largest consumer goods companies, pledged to double the size of their business in the next 10 years while reducing its environmental footprint and increasing its social impact. Sustainability became a central component of their new business model, one based on VUCA principles. When asked by *Forbes* contributor Avi Dan why they changed their business model, Keith Weed, chief marketing and communication officer for Unilever, responded:

> "We look at the world through a lens, which we call VUCA, which stands for 'Volatile, Unstable, Complex, and Ambiguous.' So you can say, 'It's a very tough world,' or you can say, 'It's a world that's changing fast, and we can help consumers navigate through it.' Two-and-a-half billion more people will be added to the planet between now and 2050, of which 2 billion will be added in developing countries. The digital revolution, the shift in consumer spending, all this suggests that companies have to reinvent the way they do business." (Dan, 2012.)

To meet that VUCA challenge, Unilever has also changed its leadership development model.

Source: Sullivan, 2012 January.

VUCA Defined

The "V" in the VUCA acronym stands for **volatility**. It means the nature, speed, volume, and magnitude of change that is not in a predictable pattern (Sullivan, 2012 January 16). Volatility is turbulence, a phenomenon that is occurring more frequently than in the past. The BCG study found that half of the most turbulent financial quarters during the past 30 years have occurred since 2002. The study also concluded that financial turbulence has increased in intensity and persists longer than in the past. (Sullivan, 2012 October 22). Other drivers of turbulence in business today include digitization, connectivity, trade liberalization, global competition, and business model innovation (Reeves & Love, 2012).

The "U" in the VUCA acronym stands for **uncertainty**, or the lack of predictability in issues and events (Kinsinger & Walch, 2012). These volatile times make it difficult for leaders to use past issues and events as predictors of future outcomes, making forecasting extremely difficult and decision-making challenging (Sullivan, 2012 January 16).

The "C" in VUCA stands for **complexity**. As HR thought leader John Sullivan notes (2012 January 16), there are often numerous and difficult-to-understand causes and mitigating factors (both inside and outside the organization) involved in a problem. This layer of complexity, added to the turbulence of change and the absence of past predictors, adds to the difficulty of decision making. It also leads to confusion, which can cause ambiguity, the last letter in the acronym.

Ambiguity is the lack of clarity about the meaning of an event (Caron, 2009), or, as Sullivan writes, the "causes and the 'who, what, where, how, and why' behind the things that are happening (that) are unclear and hard to ascertain." (2012 January 16). Col. Eric G. Kail defines ambiguity in the VUCA model as the "inability to accurately conceptualize threats and opportunities before they become lethal." (Kail, 2010 December 3). A symptom of organizational ambiguity, according to Kail, is the frustration that results when compartmentalized accomplishments fail to add up to a comprehensive or enduring success.

The VUCA Prime

The VUCA model identifies the internal and external conditions affecting organizations today. The VUCA Prime was developed by Bob Johansen, distinguished fellow at the Institute for the Future and the author of *Leaders Make the Future: Ten New Leadership Skills for an Uncertain World*. Johansen proposes that the best VUCA leaders are characterized by vision, understanding, clarity, and agility - the "flips" to the VUCA model.

The VUCA Prime can be seen as the continuum of skills leaders can develop to help make sense of leading in a VUCA world. HR and talent management professionals can use the VUCA Prime as a "skills and abilities" blueprint when creating leadership development plans.

In the VUCA Prime, volatility can be countered with **vision** because vision is even more vital in turbulent times. Leaders with a clear vision of where they want their organizations to be in three to five years can better weather volatile environmental changes such as economic downturns or new competition in their markets, for example, by making business decisions to counter the turbulence while keeping the organization's vision in mind.

Uncertainty can be countered with **understanding**, the ability of a leader to stop, look, and listen. To be effective in a VUCA environment, leaders must learn to look and listen beyond their functional areas of expertise to make sense of the volatility and to lead with vision. This requires leaders to communicate with all levels of employees in their organization, and to develop and demonstrate teamwork and collaboration skills.

Complexity can be countered with **clarity**, the deliberative process to make sense of the chaos. In a VUCA world, chaos comes swift and hard. Leaders, who can quickly and clearly tune into all of the minutiae associated with the chaos, can make better, more informed business decisions.

Finally, ambiguity can be countered with **agility**, the ability to communicate across the organization and to move quickly to apply solutions (Kinsinger and Walch, 2012). Vision, understanding, clarity, and agility are not mutually exclusive in the VUCA prime. Rather, they are intertwined elements that help managers become stronger VUCA leaders.

VUCA leaders must have foresight to see where they are going but must also remain flexible about how they get there (Apollo Research Institute staff, 2012). They must be

self-aware about their strengths and weaknesses as leaders, adaptable, open to change, and, according to the Center for Creative Leadership, knowledgeable about their organization beyond their function (Management Education Group staff, 2011). Finally, they must work collaboratively and be excellent communicators to thrive in a complex VUCA environment (Kail, 2010 December 3). Above all, VUCA learners must be able to learn fast because change is constant.

These skills and abilities are a far cry from the more function-specific skills and abilities leaders needed in the past to succeed. HR and talent management professionals must refocus their leadership development efforts to hone these more strategic, complex critical-thinking skills.

Steps Talent Managers Can Take

Nick Petrie, senior faculty member at the Center for Creative Leadership writes in a 2011 study, *Future Trends in Leadership Development*, that there is a growing belief among senior leaders that the more traditional leadership development methods such as on-the-job training, job assignments, coaching, and mentoring, are falling short in helping them develop the capabilities they need to succeed in a VUCA environment. These methods are often at odds with the leadership demands in a VUCA world, where knowledge across the organization and the speed of learning outpace these slower and more job-specific learning methods.

HR and talent management professionals must reframe leadership development activities to accommodate the faster-paced VUCA world and to focus less on behavioral competencies and more on complex thinking abilities and mindsets. Leadership development should be focused on learning agility, self-awareness, comfort with ambiguity, and strategic thinking (Petrie, 2011). To do so, HR and talent managers may want to begin at the selection process.

Step 1: Hire Agile Leaders.

Horney, Pasmore, and O'Shea (2011) recommend that HR and talent management professionals assess agility and complex thinking skills during the selection process by using a structured interview format designed to evoke from the examples of past agility on the job.

Some sample questions they recommend include:

- Give an example of when you performed well in a work environment that featured rapid change and/or ambiguity. Did you enjoy this environment? What did you learn?

- Give an example of when your ability to be decisive was put to the test—when you had to convey a sense of urgency in decision making. What was the situation, what factors did you consider when making the decision, and what was the outcome?

- How do you determine when you need to gather more information before making a decision versus making a decision based on the information you have at hand? Give recent examples of when you made a quick decision based on the information you had immediately available and a situation where you opted to collect more information before making a decision. Which decision-making style was more comfortable for you and why?

- Give an example of when you modified your personal style to achieve an important work objective. What was the situation, how did you change your approach, and what was the outcome?

HR and talent management professionals can formulate other questions that can assess a candidate's strategic thinking skills, self-awareness, openness to change, ability to collaborate and communicate across functions, and other skills required in a VUCA environment. The key is to attract leaders into the organization who already have these skills and abilities.

Step 2: Develop Existing Leaders to Be Agile Leaders.

On-the-job training, job assignments, coaching, and mentoring will still have a place in the training and development of employees, but to develop VUCA leaders, HR and talent development professionals must focus on programs that help develop agility, adaptability, innovation, collaboration, communication, openness to change, and other, higher-order critical thinking skills. And they need to deliver those programs faster (via social media and other technology) to keep up with the pace of change. (For additional insights on using technology to deliver L&D programs, refer to the UNC Executive Development white paper: _Wired to Learn: How New Technologies are Changing L&D Delivery_.)

Horney, Pasmore, and O'Shea recommend that HR and talent management professionals engage in scenario planning about possible futures when developing leadership programs. Scenario planning about futures involves projecting possible situations and deciding how the organization would or would not react. Scenario planning can help identify the knowledge, skills, and other attributes leaders may need in future business environments.

Leadership development programs based on VUCA principles can also include scenario training where participants can anticipate possible future challenges and devise possible solutions. This can make leaders more confident when they actually encounter a new situation. Scenario training should be conducted frequently so that reactions become part of the leader's "muscle memory." (Sullivan, 2012 January 16).

Simulations are also powerful learning tools when developing VUCA leaders because they give participants a chance to practice skills in a safe, non-threatening environment. Simulations can range from classroom role plays, to day-in-the-life assessment centers, to virtual simulations. Simulations can also help leaders assess their strengths and weaknesses, making them more aware of their own skills and gaps (Lanik & Eurick, 2012). Simulations are appealing across generations, but they have particular appeal to younger high potentials. This generation has learned many of the desired VUCA leadership skills by playing video games.

To develop collaboration and to encourage thinking outside the box, HR and talent managers should also consider the use of job rotation to help leaders think beyond their functional areas.

HR and talent development professionals who can foster adaptability, innovation, and agility in their leaders will realize tangible rewards. The Adaptive Advantage Index developed by BCG measures how well organizations adapt to turbulence. They calculated the adaptability scores for 2,500 companies in the United States over a 30-year period and found that the ability to adapt creates value over the short and long-term (Reeves & Love, 2012).

Company Spotlight: McDonald's

Fast-food giant McDonald's was a frontrunner in adapting VUCA and VUCA Prime principles in its leadership development programs. In 2001, the company launched a new leadership development program for high-potential Regional Manager candidates. The company realized that there was a need for a specialized leadership development program for this position because the expectations and challenges for the role had changed significantly over the previous decade. These expectations and challenges included heightened competition, the increased challenge of a growing market share, increased job autonomy as the organization became more decentralized, and the increased expectation for regional managers to act strategically as well as tactically.

The new leadership development program included the following goals:

1. To help participants take a critical look at themselves and their current management capabilities and to develop a personal learning plan that could help them increase the likelihood of success in a regional manager role.

2. To provide participants with action-learning assignments that would help them increase their understanding of the business while also contributing to the development of practical solutions to address significant business issues they worked on.

3. To give participants the opportunity to build relationships with peers from across the organization.

4. To demonstrate the power of action learning as a model to accelerate the development of leaders.

The goals of this program acknowledge some key VUCA Prime skills and abilities, including self-awareness, knowledge of the business beyond the functional area, innovative and critical-thinking skills, collaboration, and the importance of rapid learning within the organization.

Source: Intagliata & Small, 2005.

Step 3: Foster an Organizational Culture that Rewards VUCA Prime Behaviors and Retains Agile Employees.

To survive in a VUCA world, organizations must do more than hire and develop agile leaders; they must create an organizational culture that rewards the desired behavior. HR and talent management professionals can play an integral role in developing a VUCA culture by rewarding innovation, agile behavior, and calculated risk-taking. Performance management systems should reflect VUCA Prime values and attributes.

Rewards for desired behaviors could include different incentives including job perks, additional compensation, promotions, and preferred work assignments. A key to the best rewards systems in a VUCA environment is to not be rigid and to offer successful leaders rewards that appeal to them the most—in other words, be adaptable and agile.

The organizational culture that promotes and rewards agile leaders will begin to perpetuate itself and attract and retain the type of innovative and agile talent that businesses today are seeking. It will also provide businesses a competitive advantage in our ever-changing global marketplace—which is the ultimate VUCA environment.

Company Spotlight: Procter & Gamble

In 2010, *Supply Chain Quarterly* staff reported that consumer goods giant Procter & Gamble (P&G) was revising its supply chain to reflect changes it expects in a VUCA world. Global Product Supply Officer R. Keith Harrison reported on the steps the company was taking to ensure that company's supply chain could accommodate the volatility, uncertainty, complexity, and ambiguity of today's business worlds. "VUCA is the reality for the foreseeable future, and it affects how we think about supply chains and design," he told attendees at the 2010 Supply Chain and Logistics conference (Supply Chain Quarterly staff, 2010).

P&G has embraced applied the VUCA concept beyond its supply chain. During a visit with students at Vanderbilt University's Owen Graduate School of Management, P&G CEO Bob McDonald discussed values-based leadership in an increasingly VUCA world. *(Continued...)*

Company Spotlight: Procter & Gamble *(…continued)*

During the speech, he shared his ten rules of successful leadership, among them:

Rule #7: **Ineffective strategies, systems, and cultures are bigger barriers to achievement than the talents of people.** Recruiting and training are top priorities.

Rule # 9: **Organizations must renew themselves.** Only nine of the original Fortune 50 companies are still on the list today. The majority of successful companies don't realize that the world is changing around them. What differentiates those who succeed from those who don't is the ability to learn.

Source: Knight, 2011.

Conclusion

The volatility, uncertainty, complexity, and ambiguity inherent in today's business world is the "new normal", and it is profoundly changing not only how organizations do business, but how business leaders lead. The skills and abilities leaders once needed to help their organizations thrive are no longer sufficient. Today, more strategic, complex critical-thinking skills are required of business leaders. HR and talent management professionals can help their organizations succeed in today's VUCA environment by developing leaders who can counter volatility, uncertainty, complexity, and ambiguity with vision, understanding, clarity, and agility.

About UNC Executive Development

Our approach to program design and delivery draws upon the power of real-world, applicable experiences from our faculty and staff, integrated with the knowledge our client partners share about the challenges they face.

We call this approach The Power of Experience. We combine traditional with experiential and unique learning to ensure that all individuals gain relevant new skills that they can easily implement within their own organizations. Through action learning and business simulation activities, we challenge participants to think, reflect and make decisions differently.

Our Approach: The Partnership

Our team customizes each leadership program through a highly collaborative process that involves our clients, program directors, faculty and program managers. We are dedicated to following-up with our clients and individual participants to ensure that their learning experiences have been meaningful and impactful. This integrated approach consistently drives strong outcomes.

Our Approach: The Results

Our executive education programs are designed with results in mind, and we are focused on successfully meeting our clients' business and academic expectations. Below are a few examples of the results our client partners have achieved:

- Leadership refocused with new strategy and cohesive vision
- Strategic plans created for the global marketplace
- Supply chains streamlined

- Products redefined
- New markets targeted
- Cost-saving measures developed
- Silos leveled
- Teams aligned

Participants leave empowered to bring in new ideas, present different ways to grow business and tackle challenges. The result is stronger individuals leading stronger teams and organizations.

Contact Us

Website: www.execdev.unc.edu | **Phone:** 1.800.862.3932 | **Email:** unc_exec@unc.edu

Sources

Apollo Research Institute staff (2012 March). The VUCA world: From building for strength to building for resiliency. *Apollo Research Institute*. Retrieved from http://apolloresearchinstitute.com/sites/default/files/future-of-work-report-the-vuca-world.pdf.

Caron, D. (2009 February 08). It's a VUCA world. *CIPS*. Retrieved from http://www.slideshare.net/dcaron/its-a-vuca-world-cips-cio-march-5-2009-draft.

Dan, A. (2012 October 14). In a VUCA world, Unilever bets on "sustainable living" as a transformative business model. *Forbes*. Retrieved from http://www.forbes.com/sites/avidan/2012/10/14/in-a-vuca-world-unilever-bets-on-sustainable-living-as-a-transformative-business-model/.

Forum staff (2010). Speed in a VUCA world: How leaders of the future will execute strategy. *Forum*. Retrieved from http://www.forum.com/downloads/transcripts/vuca-interview-2010-final.pdf.

Horney, N., Pasmore, B. & O'Shea, T. (2010). Leadership agility: A business imperative for a VUCA world. *People & Strategy, 33*, 4.

Intagliata, J. & Small, D. (2005). McDonald's Corporation: A Customized Leadership Development Program Targeted to Prepare Future Regional Managers. *Best Practice Champions in Organization Development and Change* (Eds. Lou Carter, Dave Ulrich, Marshall Goldsmith and Jim Bolt), Jossey Bass.

Kingsinger, P. & Walch, K. (2012 July 9). Living and leading in a VUCA world. *Thunderbird University*. Retrieved from http://knowledgenetwork.thunderbird.edu/research/2012/07/09/kinsinger-walch-vuca/.

Kail, E. (2010 December 3). Leading effectively in a VUCA environment: C is for complexity. *HBR Blog Network*. Retrieved from http://blogs.hbr.org/frontline-leadership/2010/12/leading-effectively-in-a-vuca.html.

Kail, E. (2011 January 6). Leading effectively in a VUCA environment: A is for ambiguity. *HBR Blog Network*. Retrieved from http://blogs.hbr.org/frontline-*leadership*/2011/01/leading-effectively-in-a-vuca-1.html.

Kavanaugh, S. & Strecker, G. (2012 September 20). Leading learning in VUCA times: How does a volatile uncertain complex ambiguous context impact strategy? *Chief Learning Officer*. Retrieved from http://www.slideshare.net/humancapitalmedia/920-clo-arielgroupfinalslidesv2.

Knight, B. (2011 September 7). P&G CEO Bob McDonald on values-based leadership. *Owenbloggers.com*. Retrieved from http://www.owenbloggers.com/2011/09/07/pg-ceo-bob-mcdonald-on-value-based-leadership/.

Lanik, M. & Eurich, T. (2012 June 28). Simulate leadership for success. *Chief Learning Officer*. Retrieved from http://clomedia.com/articles/view/simulate-leadership-for-success/print:1.

Management Education Group staff (2011 November 1). It's a VUCA World. *Management Education Groups, Inc.* Retrieved from http://managementeducationgroup.com/2011/11/its-a-vuca-world/.

Petrie, N. (2011 December). *Future Trends in Leadership Development*. Greensboro, NC: Center for Creative Leadership.

Reeves, M. & Love, C. (2012 August 21). The most adaptive companies 2012. *Bcg.perspectives*. Retrieved from https://www.bcgperspectives.com/content/articles/corporate_strategy_portfolio_management_future_of_strategy_most_adaptive_companies_2012/.

Sullivan, J. (2012 January 16). VUCA: The new normal for talent management and workforce planning. *Ere.net*. Retrieved from http://www.ere.net/2012/01/16/vuca-the-new-normal-for-talent-management-and-workforce-planning/.

Sullivan, J. (2012 October 22). Talent strategies for a turbulent VUCA world—shifting to an adaptive approach. *Ere.net*. Retrieved from http://www.ere.net/2012/10/22/talent-strategies-for-a-turbulent-vuca-world-shifting-to-an-adaptive-approach.

Supply Chain Quarterly staff (2010 December 20). P&G readies its supply chain for a "VUCA" world. *Supply Chain Quarterly*. Retrieved from http://www.supplychainquarterly.com/news/20101220_procter_and_gamble_revises_supply_chain/.

WisdomatWork staff (n.d.). Navigation skills for thriving in "VUCA" times. *Wisdom at Work*. Retrieved from http://www.wisdomatwork.com/about/thriving-in-vuca-times/.