

A NEW PARADIGM OF MANAGEMENT AND LEADERSHIP IN THE VUCA WORLD¹

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Abstract: In the last decade, there has been an increasing number of publications discussing management and leadership in the VUCA world. The majority of them discuss threats related to the VUCA reality and offer specific solutions aimed at its individual components in the context of the 21st century business world. This paper has two objectives: firstly, to fill the gap in the systematic presentation of the VUCA world's characteristics by using relevant examples; secondly, to present a new paradigm of management and leadership which, according to the author, is essential in such reality. To begin with, common pitfalls in the traditional representations of challenges related to the VUCA world are addressed. Then, a new paradigm of management and leadership – necessitated by the realities of today's business world – is discussed. This paradigm could be best captured using sets of compatible expressions, where one describes a challenge of the VUCA reality of (e.g., volatility) and the other – a matching characteristic of a leader who responds to such a challenge (e.g., flexibility). Finally, throughout the article, a new perspective on the current business world is presented, framing its realities as manageable challenges rather than problems or threats.

Keywords: new paradigm, management, leadership, VUCA world.

1. Introduction

In the 1970s, the world found itself in the firm grasp of the Cold War. The great powers, the USA and the USSR, split nations and people into two camps using ideologies, leverage and, most importantly, weapon supplies. The capitalist USA beguiled with the promise of prosperity, open credit lines, personal freedom as well as consumerism. The communist USSR, on the other hand, under the banners of equality and brotherhood, considered poverty and blood sacrifice of comrades as a small price to pay in order to achieve the common good. Each country viewed the other one with a mixture of suspicion and envy, never fully knowing what to expect.

¹ The idea for the article came from the author's previous publications (Krawczyńska-Zaucha, 2018a, 2018b).

The instability of everyday life was the result of vicious arms race and dogged efforts to gain a piece of information that could finally tilt the scale towards one's victory. Both countries held their fingers on big red buttons nervously, ready to unleash the power of nuclear weapons at the slightest sign of danger. Indeed, the Cold War was primarily marked by fear, constantly fueled by military maneuvers and shows of force, new weapons, and the number of warheads filled with uranium.

With the end of the nuclear "tug of war" in the late 80's and early 90's, the people were expecting the return of stability and the long-awaited normalcy of peacetime life. Nevertheless, that did not happen. Instead, the world returned to its pre-war state – unpredictable, volatile, and, above all, very chaotic. The leaders of the U.S. military coined the acronym VUCA to describe this new reality that was characterised by volatility, uncertainty, complexity, and ambiguity (Shambach, 2004). Since then, VUCA has become the normative lens for decisions made not only by the U.S. military, but also in a variety of other domains – risk management, business, education, strategy, global trade, and many others (MacKay, Constanzo, 2009; May, May, 2014; Mack, et al., 2016). However, it was ultimately the global financial crisis in 2008 that confirmed the inadequacy of the then management models in addressing the challenges of today's business world (Doheny, et al., 2012; Mack, et al., 2016). It was then that VUCA emerged as the most appropriate and holistic management philosophy, and it became clear that any new solutions would need to be built upon its foundation. Waiting for the situation to normalise or the return to peacetime normalcy, no longer made sense. The present world was the one of VUCA and people needed to face the challenges that this new reality presented.

What happened to the familiar and safe normalcy? The explanation is simple, but surprising. The end of the Cold War coincided with the rapid growth of the high-tech industry and marked the beginning of the era of digitalisation and globalisation. In fact, it is possible that the Cold War accelerated the growth of that type of industry through increased need for new technological solutions. Regardless, these changes became pivotal – never in the past had the information spread so fast and reached so many people as since the end of the Cold War. As a result of digitalisation and the Internet, people now shop, pay the bills or take care of other necessities of life via online; there is no need to leave the house anymore. Furthermore, the hard-earned knowledge gathered by previous generations has become accessible to us with a single tap on one's mobile phone screen.

Whereas the Internet and global connectedness have provided people with unlimited possibilities, they also have posed a new set of challenges explained by the VUCA reality. Although any individual element of VUCA can be overwhelming, the combination of all four is crushing. A recent WHO study has revealed that 350 million people around the world suffer from depression (WHO, 2004). This estimate is likely conservative considering the number of undiagnosed cases. Interestingly, the majority (i.e., 30%) of people who have been diagnosed with clinical depression are the citizens of the highly developed countries (Uczelnia Łazarskiego, 2014). Why? Since it is precisely in these countries where the VUCA realities are

acutest – volatile, uncertain, complex, and ambiguous. Still, it is worthwhile to consider each of these variables individually in order to gain a more holistic understanding of the challenges posed by VUCA.

2. Characteristics of the VUCA world

The main assumption underlying traditional science and business models is the rule of constant state (Lawler, et al., 2015), which suggests that its individual elements are static and it does not predict any dynamic interactions among them. The framework of VUCA, however, defines the socioeconomic conditions of the world as volatile, uncertain, complex and ambiguous. Each individual characteristic of the changing world of VUCA can singularly and dramatically hinder many aspects of running a successful organization – management, forecasting, planning, and many others. Additionally, it is not necessary for all four characteristics of VUCA to be present concurrently. For instance, some situations are inherently volatile and complex, but not necessarily uncertain or ambiguous. Nevertheless, the world that could be described by all four characteristics is not only difficult to conceptualise but also to manage and respond to.

Volatility. A situation can be described as volatile when there are not enough data to predict that a given course of action would be effective. Although the situation is well-understood – due to its volatility – it is challenging to determine the direction of change, its scale, and the outcome. Volatility of the VUCA world could be best compared to a hurricane – although scientists understand how it emerges and what conditions need to be met for it to continue growing in size and magnitude, it is impossible to predict with complete certainty how powerful it will ultimately become or where it will gain the greatest impetus. Constant changes, surprising twists, unpredictable results – these are essential characteristics of the volatile reality (Schick, et al., 2017).

The burst of a “speculative bubble”, followed by the financial crisis of 2008, provides an excellent example of the socioeconomic consequences of volatility. All parties involved (e.g., mortgage lenders, financial and insurance institutions, government officials) had a sophisticated understanding of the situation – knowing how the securities were backed. Institutions that packaged, insured and sold them were aware that the “speculative bubble” continued to grow. However, nobody attempted to estimate the critical point at which it would burst. Indeed, most of them doubted that such an eventuality could materialise. The market crash, during the global financial crisis of 2007-2008, has forever changed the way people approach the constantly changing world of VUCA. Prior to 2008, unpredictable global events were underestimated. Nowadays, they have become a firm pillar of the probability models

created to measure the volatility of financial and real estate markets, as well as business management or education sectors.

Uncertainty. The second characteristic of the VUCA world, uncertainty, is the consequence of difficulties with interpretation of events and situations that an organisation is facing at any given time. Both the cause of an event and its consequences may be predictable, yet it is impossible to predict how they will affect the future of an organisation or if they will be significant enough to require an immediate response/a proactive investment in appropriate resources. The situational uncertainty makes it challenging to identify a definitive description of the meaning and essence of a specific situation or state. Therefore, it is difficult to offer any concrete solutions – not knowing which one may be the most effective and under what circumstances. It is also often not clear if any actions should be taken.

An attempt at understanding uncertainty as one of the characteristics of the global world of VUCA could be exemplified by the problem of terrorism (Bennett, Lemoine, 2014). In recent years, people have gained better understanding of terrorism – its roots, drivers and limitations as well as its consequences and difficult emotions it provokes. Both countries and organisations spend significant resources on fighting it, but nobody can predict if the measures taken are sufficient enough to stop future acts of terrorism – i.e. if the resources are invested in appropriate initiatives to reduce the number of terrorist incidents effectively; if any of our current actions could be effective in winning the war on terrorism on a global scale. Many questions regarding uncertainty remain unanswered, yet a part of it will always remain unknown. Mankind needs new tools to make uncertainty as transparent as possible.

Complexity. This characteristic is often mistaken with complicity. Complexity refers to looking out at the world through the lens of necessity to analyse an infinite amount of data. Naturally, people try to divide the overwhelming whole into its more manageable, individual parts, which they can then process and understand. Such partitioning and focus on the analysis of individual parts, however, could lead to situations where some of the parts have not been properly considered. The whole picture, in effect, can become blurred or even completely obscured. Therefore, the focusing on individual elements often becomes a barrier to correct interpretation of the whole. It is a part of human nature, however, to prefer what is familiar and safe rather than unpredictable and unknown. Sometimes the whole can be too frightening. The essence of the VUCA world is the multiplicity of connected parts that create a network of pieces of information, procedures, and actions. These parts can be individually multifaceted, multicomponent and multi-tiered; they do not require any modifications. They simply create a system together.

An illustrative example of the complexity of the VUCA world is a company's decision to enter international markets (Bennett, Lemoine, 2014; Schick, et al., 2017). Although making such decision is relatively simple, the implementation requires a multi-tier, complex set of actions that need to take place in the budgeted amount of time. Specifically, new contracts need not only to meet requirements of the international law, but also regulations of each individual

country. The company needs to hire or collaborate with native speakers, who understand the culture and its informal business rulebook. Finally, correct conversion of the value of products, services and currency, as well as considerations related to operating in different time zones, are key to proper determination of the cost, amount of work and time needed to transport the goods. However, these are only a few of the implications of a seemingly simple decision to enter international markets. The complexity of today's reality is rooted in the necessity for analytical thinking indispensable to making decisions about fragmented parts of a whole. Complexity also forces a synthetic type of thinking, where individual elements do not obscure the view of the whole and, as a consequence, do not detract from a desired goal.

Ambiguity. The last component of the VUCA world, ambiguity, is directly connected to the increasing amount of innovative solutions – in technology and information science as well as in worldviews, management strategies and the society at large. The wisdom of previous generations was based on knowledge gathered and passed down across generations. In many cultures and societies, a local sage – a person who has lived through enough experiences to be considered wise – was their main source. Unfortunately, today's world is composed of building blocks – events that are unprecedented – that did not exist in the past. That is why, nowadays, looking into the past to learn or draw meaningful conclusions does not always make sense. In the VUCA world, lack of knowledge about the rules of the game is fundamental and, frequently, absolute. The attempts to face the realities of today's world by means of the wisdom of previous generations may not only be inadvisable, but also dangerous.

An example of ambiguity in today's world are social media. With their reach, influence and rapid spread, the social media constantly bewilder researchers, mathematicians and CEOs. People still learn how to react to social media, to calculate their reach as well as to assess the pace and quality of the information spreading through their networks. New multidimensional and multitemporal probability models are created to address these challenges, yet the reality exceeds all predictions and calculations. Currently, the artificial intelligence and ubiquitous algorithms are definitely less prone to errors and more effective at making decisions than humans – even when such decisions directly affect human outcomes (Fry, 2019). With these new technologies, the position of a sage has lost its value and meaning. Nowadays, our learning is based on a reverse paradigm – the young teach older people how to find one's place and function in today's world. The present has exceeded even the most extreme predictions of futurists.

3. The challenges of management in the VUCA world

Older generations grew up in the paradigm of stability and predictability, where, even after the worst of fluctuations (e.g., wars, epidemics), the world usually returned to its constant state. It was therefore enough to implement all the elements of the management model in a way that would lead to the previously proven success. The VUCA reality is typically described and introduced as a threat to such constant state. The sense of threat can evoke a variety of reactions, with displacement and denial as being the most common: “the world of VUCA does not exist, let us continue on doing things the way we have always done them”. At times the reaction to VUCA is also anger, which can fuel the desire to force things to return to their familiar, safe state. Nonetheless, neither of these reactions is helpful nor adequate in confronting the new reality of today’s world.

The most effective way to manage the VUCA world is to approach it as a challenge. When people interpret a situation as a threat, they tend to feel overwhelmed and withdrawn, but when they interpret it as a challenge, they display curiosity and desire to face the challenge. The latter fuels innovative solutions and ideas. Usually, the elementary limitation of innovation is the attachment to a singular perspective, which precludes the search for new opportunities and discourages seeking diversity of perspectives. However, given the uncertainty and key challenges of the VUCA world, the ability to stay agile and shift among multiple perspectives is a necessity (McCann, et al., 2009; Horney, et al., 2010). The characteristics of a 21st-century leader also need to be analysed in this context (Hamel, 2007; Pearse, 2017).

The main challenge posed by the volatile world is the ability to adopt a broad perspective, to make decisions with speed and agility, to find balance between personal and organisational resources, and to reach a level of comfort with potential evolution of goals (Chapman, 2001; Laloux, 2014). How can leaders be rational when facing a constant change? How can they maintain the moral compass and know if the amount and types of changes are not transforming them in undesirable ways? In the volatile VUCA world, the key quality of a leader is authenticity – being oneself par excellence. The key variables of authenticity are: self-esteem, self-efficacy and a deep understanding of one’s own core values that enable individuals to live in harmony with themselves. A leader who was taught one, “correct” way of thinking, adopts a narrow version of rightness and reasoning – they are not prepared to cope with the volatility of today’s world. Stability imposes routine; routine lowers vigilance and negates flexibility as well as proactivity. The lack of the latter leads to a defeat in the volatile business environment. Authenticity, therefore, is a conscious choice to realise one’s own identity in the present moment. It means making use of one’s own strengths and benefiting from the wealth of personal experiences and potential – the essence of one’s core identity. The foundation of such an approach is, however, a deep understanding and peaceful acceptance of oneself. Self-

confidence, the confidence of an organisation as well as the confidence behind decisions and actions are an inexhaustible capital in the volatile world.

The main challenge of the uncertain reality is fast, creative and customised data interpretation – distilling key insights from the mass of information and, seemingly contradicting, facts. Indeed, on the basis of the description itself, it becomes clear that widely used algorithms and current linear models may not be sufficient enough. In the uncertain reality, the leader needs an authentic openness that has its roots in their unique worldview. If they view the world as a place filled with challenges that enable growth and development, then they will remain open to diverse perspectives, adopting innovative solutions, operating beyond conventional boundaries and, finally, making fresh and accurate decisions. As a result of dogmatic beliefs, narrow decision-making and viewing the world and people as a threat to their position, the manager condemns themselves and their organisation to remain stuck and powerless, looking into the uncertain and threatening future. Openness follows authenticity. That is why, when a leader knows themselves and continues to grow, they become aware of not only the unlimited potential of the world and people around them, but also their own. Such openness in the face of uncertainty is difficult, yet it changes everything. Even more importantly, it becomes the source of inner motivation thus the source of motivation for the team whose they are a leader.

The main challenge for a leader, who operates in the complex world, is the ability to analyse both the entirety of the situation (synthesis) as well as its individual parts (analysis) simultaneously and to integrate this information to draw cohesive conclusions. Otherwise, the “big picture” could be lost in the mass of details, or all-important specifics neglected, when focusing solely on a broader context. Therefore, an effective leader needs flexibility in both their way of thinking and decision-making style. This quality complements the authenticity and openness of a leader in the VUCA world. Flexibility enables them to quickly recognise and adapt to the demands of a situation by addressing both the big picture as well as its individual elements. The leader, in effect, possesses a complex and refined grasp of the reality of a situation, which enables them to choose the appropriate course of action. They can also make quick decisions about reallocation of assets or human capital. The influx of information (from local and international markets) about client’s preferences or market growth trends often requires a rapid shift in the company’s processes. As a result, the flexibility of its leader is fundamental to the stability of the company’s future. In a counterintuitive manner, flexibility and pliancy (versus unyielding firmness) are key elements of stability in the VUCA world.

The effect of authenticity and expanding of the leader’s self-awareness is cohesion – the last characteristic of an effective leader in the VUCA world. Cohesion becomes a source of one’s self-worth and self-efficacy or the sense of agency over one’s own life and actions. It provides leaders with clout, influence and the ability to collaborate with others. In effect, people around recognise and respond to the cohesive leader since he or she “makes sense”. Cohesion, therefore, becomes a powerful way of responding to challenges posed by the

ambiguity of today's reality. Ambiguity (like uncertainty) is often difficult to examine, control or predict. Whereas an organisation may be successfully managing one aspect of a challenging situation, another aspect often loses its definition. The cohesion is a sign of the most profound agreement among the leader's identity, their beliefs and their values, leading to unity of thought, speech, and action. Unclear events and undetermined situations do not affect a cohesive leader. On the contrary, their cohesive actions become key tenets of effective decision-making – a lighthouse in a foggy world. In the reality of the VUCA world, responses that may seem questionable today become the solutions for tomorrow. The cohesion is the most adequate response to the nebulous reality.

4. The paradigm of openness to the future

Today's world forces people to look at the surrounding reality as an interconnected system. Local and global factors unconsidered in the 20th century now need to be skillfully incorporated into the existing paradigms of management. Traditional paradigms, built on the assumptions of safety and stability, need to be gradually updated to place change at the centre of strategy and decision-making. Nowadays, it can no longer be assumed that change may eventually come. Today, the change is the basic assumption. The VUCA reality creates volatile, uncertain, complex, and ambiguous world, where the management of human capital, as well as economic and logistical resources, needs to be approached as an ongoing challenge for both leaders and their teams. Today's world necessitates managing of the unknown (Furr, Dyer, 2014; Lebow, et al., 2002). Hence organisations need to emphasise the development of leader qualities that equip them to face the challenges posed by the world of VUCA and enable them to thrive within it. The combination of the characteristics of today's world: volatility, uncertainty, complexity, and ambiguity, coalesces into a unique – and previously unimaginable – reality that is difficult to manage. Nevertheless, with the proper coaching and support, the 21st century leaders (equipped in authenticity, cohesion, openness and flexibility) can create a completely new reality – one markedly greater than the sum of its parts. This new reality creates a leader who is prepared to face the challenges of the VUCA world.

5. Summary

In this article, the author proposes a new paradigm of management and leadership in the VUCA world. The key feature of this paradigm is the courage to manage the reality in the face of the unknown. The reality marked by volatility, uncertainty, complexity and ambiguity

(VUCA) provides leaders with a unique set of challenges. Volatility necessitates flexibility, i.e. the ability to adapt to change quickly and to adopt the appropriate course of action. Uncertainty requires the ability to see the “big picture” and to respond with agility in both decision-making and taking actions that capitalise on personal and organisational resources. The main challenge of the uncertain world is a quick and effective synthesis of information from large pools of data, as well as their rapid, creative, and unstandardised interpretation. Complexity of the world requires the leaders to combine both their analytical and integration skills to draw cohesive conclusions. However, the greatest challenge of the VUCA world is change which needs to occur within the leader. The effects of change are: authenticity, openness, flexibility and cohesion. Working to build such inner qualities, as well as a strong leadership orientation, requires a lot of effort, both from the leader and organisation. Only the leader who has mastered such qualities can be an effective match for the realities of the VUCA world.

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