

# Leading in complex and uncertain times

The implications of a VUCA World

## Which pill do you choose?

In the 1999 film *The Matrix*, Thomas Anderson, a computer programmer who maintains a double life as the hacker “Neo” faces a dilemma.

Neo has uncovered a cryptic phrase “The Matrix” and in searching for its’ meaning is informed that a man called Morpheus can show him the answers. As yet Neo does not know that reality as perceived by most humans is a simulated computer programme called “the Matrix”, created by sentient machines to subdue the human population, while their bodies are used as a heat and electrical energy source.

But his intuition is telling him something is off.

Morpheus gives him a choice.

“You take the blue pill – the story ends, you wake up in your bed and believe whatever you want to believe. You take the red pill – you stay in Wonderland and I show you how deep the rabbit-hole goes.”

Neo chooses the red pill and wakes up to the reality of the rabbit hole and the world as it actually is.

As business leaders we too face a dilemma.

Many of us are recognising that the world is fundamentally changing. We are increasingly socially networked and value-conscious, with higher expectations of how organisations should behave and react to our needs. Technology has transformed how we act, share information and understand the world, and has given consumers power like never before. And anyone born after 1980 has a fundamentally different approach to the world than everyone else, creating both challenges and opportunities between the generations.

So do we take the blue pill and keep doing what we have always done, and hope that we will get different results.

Or do we take the red pill and wake up to the realities of the modern world and act from there? The choice, as they say is yours...

# There is some big stuff happening out there

The world is changing at an increasingly rapid pace and these changes are not just radical they are transformative; transforming every aspect of our lives and transforming boundaries between and within markets.

Whilst we can't explore everything in this article here are some of the big ones that we think have major implications for leaders.

## Technological transformation

Technologies are disrupting sectors and even whole industries faster than ever. Visionary entrepreneurs are leading the way in creating innovations that change how we live and work, how we interact with each other and the environment around us, and even how we interact with our minds and bodies.

In 2012 international patent filings grew by 9.2% – the fastest growth in 18 years. Similarly, industrial design counts grew by 17% – the fastest growth on record.<sup>1</sup>

4D printing and self assembling swarmbots; shape memory alloys that can absorb the forces of an earthquake; wearable technology controlled through mobile phones; mind control devices that translate our thoughts into computing tasks or intelligent software that seizes control of our cars when road hazards increase. These are just a few of the real innovations that we already have or are just around the corner.

Science fiction is no longer fiction.

We are able to transform our lives, the world and our businesses like never before bringing enormous opportunity, responsibility and expectation.

The need for the new has never been stronger. Consumers are increasingly demanding innovations that make a real difference and enhance their lives. And innovation does not just have to be about new products. People are increasingly

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<sup>1</sup> World Intellectual Property Indicators, 2013

looking for new experiences so innovation in how we market, engage with and connect customers is just as important.

These opportunities for transformation are accelerating the rate of change creating enormous volatility and uncertainty for business. In order to keep pace leaders will need to develop different approaches to markets and organisations where innovation is embedded in the organisational culture, structure and people.

## Expectation Economy

The biggest difference today from 10 years ago is the speed of word of mouth. A new product can be instantly successful on a global scale, and a consumer in Korea can learn about a brand's customer service – good, bad and ugly – from the experience of someone 5000 miles away.

Technology has enabled whole industries to spring up to power word of mouth, with a plethora of sites dedicated to helping people find the cheapest, best, most innovative, original, quirkiest products and experiences on the planet.

Consumers have woken up to their power fuelling expectations. Exceptional service and customer experience is now expected at every touch point with an organisation.

**Brands that enhance people's lives outperform the market by 120%. Yet only 20% of brands worldwide are perceived to add significant value to people's lives. And 73% of people wouldn't care if the brands they used disappeared from their lives<sup>2</sup>**

Customers want deeper engagement with brands. This means companies need to focus on personalised one-one experiences, entertainment, meaningful stories, quality, provenance, and creating a sense of delight and wonder.

Expectations will shape the way we structure our organisations, how we provide our products and services and how we are held accountable to the markets we serve.

In order to thrive in this world our organisations will need to be more responsive, flexible and outward facing. Our employees will need to be fully aligned and empowered to make decisions and adapt to these ever demanding customer needs.

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<sup>2</sup> Meaningful Brands Report 2013

## The DATA Issue

The explosion of “data” has created an environment that both enables real time analysis of markets, competitors and customers and threatens to overwhelm decision makers as we struggle to keep pace with the volume. Finding ways to manage and utilise data transforming it into knowledge that drives decision making is key.

Making sense of the data and using it to drive decision making within business is a skill that leaders will need to develop to manage their organisations and seize opportunities in this changing environment.

At the same time privacy breaches, mis-use of data and convoluted data capture initiatives has lead to increasingly hacked-off consumers. Businesses need to strike a balance between the benefits of data (recommendations, cross-selling, personalisation, and enhanced services) and earning and maintaining trust with the individuals who share their data with us.

86% of US internet users have attempted to remove or mask their online activities, despite only 37% believing it is possible to be completely anonymous online.<sup>3</sup>

## Transparency, values and ethics matter

The question of values and ethics in organisations has never been more focused on than it is today. Our recent history is littered with examples of corruption, fraud, expenses scandals, environmental pollution, poor labour practices and the like.

Whilst there is nothing new about these practices there is now far less tolerance for poor behaviour and decision making that does not account for our moral, social and environmental responsibility as leaders.

According to the 2013 Edelman Trust Barometer less than 20% of the global population trust business leaders to make ethical and moral decisions and tell the truth.<sup>4</sup>  
 69% of consumers said they are more likely to buy from a brand which talks publicly about corporate social responsibility results.<sup>5</sup>

<sup>3</sup> Pew Research Center, September 2013

<sup>4</sup> Edelman Trust Barometer 2013 Survey

<sup>5</sup> www.trendwatching.com April 2011 briefing

Consumers too are aware of the damage that their consumption does to the planet and society. Consumption is a hard habit to break so consumers are increasingly seeking responsible ways to exercise their love of consuming and are placing higher demands on businesses to help assuage the guilt of over-consumption.

A recent global study identified 2.5 billion 'aspirational consumers' (representing one third of the global consumer class). These consumers are defined by their love of shopping (78%), desire for responsible consumption (92%) and their trust in brands to act in the best interest of society (58%).<sup>6</sup>

As a result people demand transparency. Companies need to prove they have nothing to hide by revealing all.

Clear ethics, social and environmental responsibility and consistency in employee behaviour, and the processes and systems that support business are essential to meet consumer demand for more moral decision making in business.

## Millenials

Millenials (people born between 1977 and 1997) now account for almost half the employees in the world. They're the most socially conscious generation since the 1960s and place new demands on organisations.

Millennials are equally committed to work hard as other generations but they value work/life balance more than any other generation. Many are unwilling to commit to making work an exclusive priority, over leisure or time with family and friends, regardless of the financial incentives.

They seek purpose, values, connection, community, feedback and environments that engage them.

**“Millennials say that a strong cohesive, team-oriented culture at work and opportunities for interesting work—including assignments around the world—are important, even more so than their non-Millennial counterparts.”<sup>7</sup>**

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<sup>6</sup> BBMG, GlobeScan and SustainAbility, October 2013

<sup>7</sup> PwC's NextGen: A global generational study. Millennial Workers Want Greater Flexibility, Work/Life Balance, Global Opportunities

Organisations will need to place a greater focus on supporting and appreciating people in return for their contributions. Leaders will need to consider how to enable flexibility in where people work and how much they work.

To attract and retain the best talent leaders will need to consider how they structure their organisations differently to meet these expectations.

**“It is the way we see the world that influences our choices. Great leaders enable clear sight and the wise leader looks for alternative ways of seeing.”**

Michael Croft

# The world is no longer simple

In the past 3 decades we have experienced unprecedented change leading to a new environment in which leaders must now work.

The term VUCA stands for Volatility, Uncertainty, Complexity, and Ambiguity and originates from the U.S. Army War College in Carlisle, Pennsylvania. It has been developed as a means of describing the world as it now is and it is increasingly relevant for how we describe our work and social environment.

Like many things that change it brings both challenge and opportunity. Which you choose is dependent on how you view the world.

**Volatility** The rate and speed of change we are experiencing in our business and market environments demands accelerated decision making and immediate responses. The pace of change will continue to accelerate. The challenge for leaders is to move from knee –jerk responses to proactive, well conceived, yet fast responses to the changing environment.

Key to managing volatility is clarity of vision. Focus on the destination, and clear alignment across an organisation enables people to make decisions that help navigate through turbulent times whilst heading in the right direction.

**“Fragility is the quality of things that are vulnerable to volatility”**  
***Nassim Nicholas Taleb***

**Uncertainty:** Uncertainty is all around us and is increasing. In these times it is difficult to be clear on the present let alone accurately predict future outcomes. Our ability to be comfortable with uncertainty and form behaviours that allow us to navigate through it is fundamental.

Leaders need to maintain differing viewpoints on the world in order to gain new understanding, spot patterns, opportunities and hazards.

**“Uncertainty is the refuge of hope.”**  
***Henri Frederic Amiel***

**Complexity** :With changing and uncertain times comes more complexity. We

have to consider multiple, interconnected factors in our decision making. Making sense of the chaos is a fundamental skill. As leaders we need to let go of seeking the one perfect and permanent solution and seek out collaboration, reflect on complexities and connect the dots of opportunity.

**“Human beings, viewed as behaving systems, are quite simple. The apparent complexity of our behaviour over time is largely a reflection of the complexity of the environment in which we find ourselves”**  
*Herbert Simon*

**Ambiguity** :The effect of ever changing, complex environments leads to a good deal of ambiguity making it difficult to understand the impact and meaning of events. Individuals need to accept that ambiguity is a part of the rapidly changing world and we are unlikely to ever have enough information informing our decisions.

Our ability to manage risk and develop resilient behaviours in the face of ambiguity is key. Leaders need to be able to think divergently, communicate across organisations instantly and be responsive in decision making and applying solutions.

**“Take advantage of the ambiguity in the world. Look at something and think what else it might be”**  
*Roger von Oech*

The BCG Adaptive Advantage Index<sup>8</sup> has been developed to measure how well a company adapts to turbulence in its environment. Index scores for 2,500 public companies in the U.S. over a 30-year period have been calculated.

The findings have demonstrated that “adaptiveness” creates value over both the short term (6-year horizon) and long term (30-year horizon). The 2012 report highlights that the most adaptive companies are more likely than un-adaptive companies to outperform in the future.

The first part of the research study used growth in market capitalisation, spanning a 5-year period, as the key indicator of performance. There was found to be a 0.91 correlation between the AAI and market capitalisation. Companies scoring 80% - 90% on the AAI showed an average 20% growth in market capitalisation over the 5-year period. In contrast, companies scoring 0 on the AAI saw an average drop in market capitalisation of around 15%.

<sup>8</sup> BCG Adaptive Advantage Index research report 2012: Boston Consulting Group

**“We cannot solve our problems with the  
same thinking we used when  
we created them”**

Albert Einstein

# The Need for New Leadership Approaches

In an ever changing [VUCA] environment organisations will need to develop more adaptive and responsive leadership skills across the organisation. Leadership is no longer simply the domain of our senior management teams. Our employees too will need to be equipped to relate, connect and respond to challenges and opportunities.

Leading an organisation in complex and uncertain times implies an ability to understand the patterns of cause and effect and connect the dots to uncover opportunities that are not yet clear. It involves the ability to perceive what is “over the horizon” of our current field of view accessing deep intuition and using imagination to envision the future point.

This is not the approach taken in promoting leadership today, where we have grown used to evidence-based strategies based on past experience, rigid planning that does not take account of changing conditions and a drive to find the one right answer.

Here we outline some thoughts on how to lead and thrive in a VUCA environment.

# How we observe the world matters

How we observe the world and reflect on our observations in a structured and deliberate manner has an impact on the direction we take and the decisions we make to get there.

Our brains have developed to make the strange familiar and what we see is often what we look for. We quickly categorise thoughts and ideas, in order to make sense of the world. So we have a tendency to make speedy judgments and accept the first solution to a problem.

In a complex and uncertain world we need to be able to process a lot of information quickly, see multiple possibilities (rather than leap to the first solution), and respond flexibly to the changing environment.

Understanding how we think through problems and make decisions can be useful in navigating the turbulent modern world.

## System One and System Two thinking

We have two main thinking systems. System one is a highly developed decision making centre that helps us make quick decisions and develops habits – useful 'short cuts' to our decision making. System one thinking is intuitive, metaphorical, automatic, impressionistic, emotional and it is always active.

System two is a rule based thinking system, often referred to as the rational, analytical, human mind. System two takes over when thinking gets difficult, but it is slow, and tires easily. As a result it plays a supporting role to system one, often accepting what system one tells it. We effectively post-rationalise decisions that we have made at a highly intuitive and emotional level.

In business we tend favour system two – the rational part of ourselves – over our intuitive system one process. However, the two systems have evolved to work together relationally and in competition with each other. To favour one over the other can lead to knee-jerk, reactionary decision making on the one hand or slow, inert thinking that stops us from managing in the fast changing world.

What we need to strive for is balance in our decision making, enabling both systems to work together in dialogue with each other.

To do this we need to develop habits of observing situations from multiple perspectives, continually reflect on the context in which we find ourselves and look for the patterns in our environment.

If we can foster these habits we can move our deliberate thinking in system two into our intuitive thinking in system one and increase the speed and accuracy of decision making and helping the two systems to work better together.

So how can we practically do this?

Here are some thoughts

<b>Think Systems</b>	Consider the whole situation, organisation or problem as a system which includes relationships, story, environment, cause and effect. When we envisage the system in which we operate we are able to take multiple vantage points.
<b>Enable Creativity</b>	Allow people to pursue interests, experiment with ideas and “play” to develop imagination. Significant research in developmental psychology has shown that play stimulates our thinking, decision making, imaginative skills and ability to connect to other people.
<b>Develop Curiosity</b>	The pursuit of questions rather than answers is essential. A desire to understand the underlying why in any situation, inquisitive observation and questioning in order to explore possibilities can bring new perspectives.
<b>Connect Intuition</b>	Develop insightful thinking and sense making without conscious reasoning. Our intuition can often bring new information and getting in tune with our gut responses without judgement will need to new insights for development.
<b>Reflect</b>	Most organisations do not allow sufficient time for structured, active reflection. Taking time to reflect on the what, how and why of events elevates both our critical and creative thinking skills informing decision making in the now.

## Pay attention to Values and Norms

We may think that our actions are independent of others and we can consciously control our responses to the world. But the reality is that our behaviour is often regulated by what those around us are doing and we conform to the norms of the group or social context we are in.

Social norms are unwritten rules about how to behave in a particular social group or culture. As work environments are also social our behaviour at work is regulated by norms of the organisation or culture. The “that’s not how we do things round here” is simply a reflection of the norms within an organisation.

Norms help guide and direct our behaviours in social groups and provide some order to our relationships with others. Our behaviours and our value systems are intricately linked driving and re-enforcing each other.

However as leaders we can often pay lip service to values. As many will know the values within an organisation are not always those that are communicated through traditional internal marketing initiatives – the values written on the wall of our organisations are rarely demonstrated if they remain static.

If we do not focus on explicitly living the values that we desire in the organisation then individuals will default to the value system implicit in the behaviours of everyone else around them.

## Hire and develop future-focused leaders

A 2007 study<sup>9</sup> showed a strong link between leadership skills and the bottom line. Those companies who can attract the best people, who can lead and problem solve consistently outgrow their competitors.

Yet many organisations fail to recognise the talent needed in the organisation, struggle to identify potential, or mismanage the development needs of high-potential people.

Less than three-fifths of organisations with talent management activities believe they are effective, with nearly one in six (15%) reporting they are ineffective<sup>10</sup>

Our future leaders will need to be able to learn rapidly, continuously communicate and involve, be flexible in their responses and develop “just-in-time” solutions rather than waiting for perfect solutions.

They will need to inspire and engage others, through a shared sense of purpose and vision, both within and outside the organisation.

Smart organisations will seek to develop future leaders who can innovate, are adaptable and can take a broader perspective on the world.

And leaders will need to work hard to keep good people. We know that good management can drive employee commitment, attracting and inspiring great people, whilst poor managers struggle to keep top-performing employees.

Significant research indicates that intrinsic factors related to meaningful work, enjoyment of work, how much people feel valued and appreciated and how well people get on with their colleagues drives motivation and performance. All of which implies a greater focus on values and ethics within an organisation and creating cultures that reward and recognise the behaviours we desire in our people.

<sup>9</sup> Harvard Business Review [Laurie Bassie & Daniel McMurrer

<sup>10</sup> CIPD Learning and Development: Annual Survey Report 2013

## Succession plan for future needs

Succession planning can be difficult, especially when it comes to senior level appointments. In a changing world dominated by uncertainty and complexity this becomes even more challenging.

From a succession point of view this means that the skills, competencies and even the job roles will be continuously evolving.

Moving people through the organisation should be based on the future needs of the organisation rather than the needs of the organisation in the past or the legacy that has been defined by previous managers.

Creating fluid roles, rather than jobs, that are responsive to the organisation needs and giving priority to candidates who are multi-skilled and able to work across a number of disciplines is key to growth in the new environment.

For HR managers the environment necessitates new ways of working. HR will need to be transformed into a more strategic business operation working in dialogue with individuals and the future needs of the business, which are yet unknown.

## Create Innovation Cultures

Innovation is no longer a differentiator for business. It is expected, anticipated and demanded.

Innovation is the central discipline which is shaping how we conceive new strategies; develop ways of working; solve problems and spot opportunities for growth and development. Indeed innovation concerns the process of creating and applying new knowledge in our business environments and as such is fundamental to the development of an organisation.

We need to move away from the notion that innovation is the domain of the creative genius. That it is a special pursuit distinct from the everyday running of our organisations.

To solve problems in new ways and develop original ideas we need to access the stuff of insight, motivation and creativity. And even the most inventive thinkers

need to analyse, evaluate and judge their thoughts to be successful. Innovation emerges out of balanced thinking and evaluation.

There is structure and order in innovation and it is something that we need to foster as a habit in all our people to manage in a VUCA environment.

We can build innovative cultures where innovation is organised, disciplined and replicable. But to do this we need to develop people who are comfortable in uncertainty and ambiguity, can view problems from multiple perspectives, are open to the ideas of others and have the tools to manage risk.

## **Conclusion**

In a volatile and uncertain world the effective leader exercises leadership through clarity of vision; by exploring, interpreting and translating the reality they encounter; making balanced decisions through assimilating multiple influences and importantly by sharing vision with others and allowing them to shape and act on that vision.

**This article has been produced by Innovation People.**

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Innovation People has grown out of 30 years experience developing entrepreneurial habits in individuals and organisations at a very practical level in some of the most challenging business and social environments.

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