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**Special supplement**

# Innovation in Leadership



**Innovation in Leadership**

Leadership as a System: circumventing the VUCA Vortex

By

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# Leadership as a System: circumventing the VUCA Vortex

**E**conomic prosperity and disruptive technology have long been intertwined in a generally positive – albeit tumultuous – relationship. Disruptive technologies such as the printing press, the steam-engine and the transistor were catalysts in creating discontinuities that brought both economic growth and human strife during their respective eras. Each one permanently altered the playing field on which the game of life is currently being played out.

Today, humanity is facing a digital divide of a different kind, where technology is proliferating, information is exploding, time is compressing and change is evolving. Our species finds itself in a prolonged period of permaflux as successive waves of disruptive technologies emerge, converge and evolve into a synthetic digital ecosystem that is characterised by ever-evolving rates of change and ever-compounding degrees of complexity.

To understand the scope and scale of this change, mathematics can help shed some light. In calculus, the first derivative of distance is termed “velocity” and the second derivative is termed “acceleration”. Today’s synthetic digital ecosystem is evolving at a third derivative rate of change that physicists appropriately term “jerk”. We have reached an inflection point in history where technology is literally jerking humanity around. (See Figure 1)

In this emerging world of discontinuous jerk, change itself is endemic to the ecosystem and it is throwing off tensions and trade-offs that must be dealt with in real time all the time. We are living in a state of constant dis-equilibrium where the new normal is that nothing will ever return to normal and organisations are struggling to survive.

Today, organisations the world over are being sucked into a VUCA Vortex where the volatility, uncertainty, complexity and ambiguity swirling around within this synthetic digital ecosystem are simply too much to handle.

The average life-span of a typical publicly traded company is two-and-a-half times shorter than the average life-span of a typical employee and more than half of the *Fortune 500* companies have been wiped out since 2000. In short, organisations are living in an era of digital Darwinism where they must learn to adapt or they will die.

The emergence of the VUCA Vortex begs the question: *can leadership avoid digital Darwinism by cultivating the responsiveness, resilience and adaptability required to navigate the permanent white-water rapids of continuous disruptive change?*

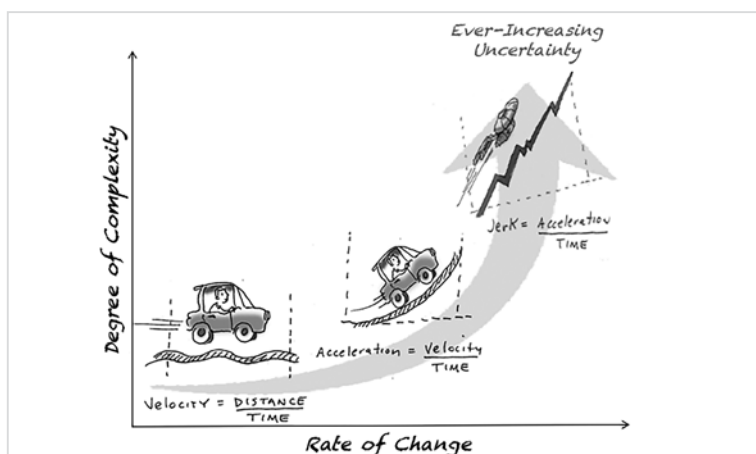


Figure 1: Experiencing Technological Jerk



## Innovation in Leadership

### Leadership as a System: circumventing the VUCA Vortex



### Traversing the Complexity Chasm

As organisations experience the strengthening pull of the VUCA Vortex, they find themselves vacillating violently between complicated and complex operating contexts; many are plunging to their demise in the gaping chasm that lies between.

In complicated operating contexts, the connection between cause and effect is knowable. Decision trees of possible outcomes can be identified. Risks and probabilities around these outcomes can be calculated and plans for each path can be controlled and “de-risked”.

In complex operating contexts, the relationship between cause and effect cannot be pre-determined. Patterns of relationships emerge and recede in unpredictable ways, momentarily revealing possible progression paths. Both the outcomes themselves and the paths to get there are emergent and cannot be predicted, controlled and “de-risked” ahead of time.

There are two fatal errors that leaders commit in attempting to traverse the Complexity Chasm.

First, they misdiagnose their operating context, often assuming it is complicated when it is actually complex.

Second, they apply an incompatible leadership response for the context they are operating in, often applying a complicated response while operating in a complex operating context. (See Figure 2)

The threat of the Complexity Chasm begs the question: *does leadership have the ambidexterity required to avoid plunging into the complexity chasm by recognising and responding to different operating contexts?*

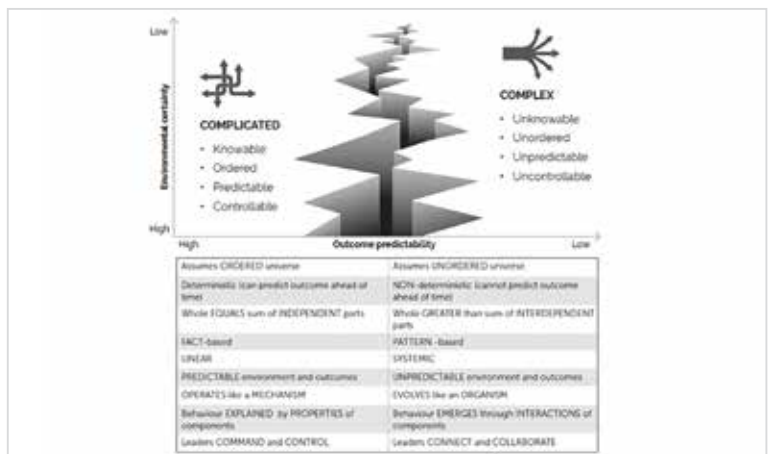


Figure 2: Traversing the Complexity Chasm



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### **Navigating Strategic Polarities**

A perennial challenge facing every organisation is ensuring that its strategy is designed and delivered to maximise value creation, delivery and capture. The key to maximising value within the synthetic digital ecosystem lies in seeing and seizing moments of synchrony around shifts in the rate of change and degree of complexity of the ecosystem while maintaining equilibrium between short-term profitability and long-term growth opportunity.

On the one hand, leaders need to do everything in their power to extract maximal value from their core business. On the other, they need to ensure that once their core business meets its inevitable demise there are new profit pools to tap into to sustain the business over the long run.

Today, the interdependencies between strategy *design* and *delivery* are far more fluid and dynamic than ever before. Strategy formulation and execution are no longer discrete problems to be solved at the top and bottom of the traditional leadership hierarchy. Instead, they are interdependent polarities that must be navigated on an ongoing basis.

To succeed in navigating these strategic polarities, leaders must avoid the trap of mining the past at the expense of making the future by successively iterating around a top-down directive approach and a bottom-up participatory approach to dynamically formulate and execute strategy.

The need to navigate Strategic Polarities begs the question: *can leadership design and deliver dynamic and integrated strategies that optimally balance core-business profitability and future-business opportunity?*

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### Overcoming Organisation Orthodoxy

Organisations come in two fundamental forms. *Exploit* organisations seek to apply deductive logic to optimise enterprise structures, process and routines by leveraging “best practices” to maximise core-business profitability. *Explore* organisations seek to apply abductive logic and trial-and-error experimentation to uncover “next practices” that find fertile ground within which to sow the seeds of future value for the business.

Organisations typically evolve through a maturation cycle where they successfully see and seize a new market opportunity and develop structures, practices and routines to improve productivity and maximise profitability around that opportunity. Over time, however, as shifts in the broader ecosystem occur, these core capabilities calcify into core-rigidities that limit the organisation’s ability to see and seize next market opportunity.

These core-rigidities ultimately degenerate into a destructive set of cultural orthodoxies that unconsciously undermine the organisation’s ability to respond to change. Most organisations today are suffering from a severe case of “responsiveness lag”, where their structures, procedures, routines and time signatures are increasingly out of sync with the external pace and scale of change. What began as the pursuit of building capability to capitalise on a new business opportunity culminates in the unconscious adoption of crippling orthodoxies that undermine the organisation’s response-ability.

Today, organisations are disappearing at an alarming rate because they are failing to adapt to the complexity and jerkiness of the environment they inhabit. Overcoming the organisation orthodoxy that is honed to maintain the exploitative



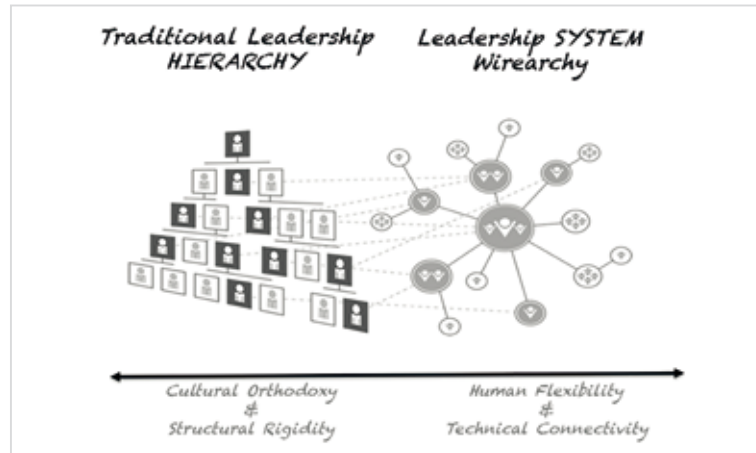


Figure 3: Activating a Second Operating System

*status quo* will require that leaders leverage human flexibility and technical connectivity to activate a second networked operating system that works alongside the traditional hierarchy to deal with this complexity and jerk. (See Figure 3)

The rigidity of Organisation Orthodoxy begs the question: *can leadership implement a dual operating system that taps into the flexibility and ingenuity of people and the connectivity of technology to simultaneously run and grow the business?*

### Learning to Change

In *The Structure of Scientific Revolutions* Thomas Kuhn argues that scientific advancement is not evolutionary but a series of peaceful interludes punctuated by intellectually violent revolutions where one conceptual worldview is replaced by another.

A paradigm shift occurs and our collective perception is forever changed, fundamentally altering the way we engage with the environment around us. Such shifts cannot happen unless learning happens. Learning and change are two sides of the same coin. Today, for example, we have come to learn that the world is not flat and planets do not revolve around the earth.

At the most general level, learning can be broken into two primary factors: *productive* and *generative*. Productive learning focuses on driving individual human conformity around best practice for known

and predictable situations while generative learning focuses on driving collective human creativity around next practices for unknown and unpredictable situations.

Productive learning is professionally instructed while generative learning is socially and situationally constructed. In productive learning, *content* is king; in generative learning *context* is the kingdom.

As our lives become increasingly digitally mediated, the distinction between productive and generative learning becomes crucially important. Productive learning is about conveying known information to achieve a specific outcome such as increasing customer satisfaction, improving productivity or knowing whether or not to bring a raincoat to work tomorrow. In short, productive learning is *finding* out something that is already known to achieve a known end. Generative learning, on the other hand, is about *figuring* out something we do not yet understand.

As we move from a “*find-it-out*” world to a “*figure-it-out*” one, leadership must shift its focus from increasing the efficiency of productive learning in the classroom to enabling the effectiveness of generative learning in the workplace. (See Figure 4)

The need to learn to change begs the question: *can leadership develop a generative learning culture within the organisation to figure-out how to address the complexity and jerkiness of the existing operating environment?*

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**Reconceiving Leadership as a System**

In times of disruptive change, leadership has consistently emerged to bridge the gap between an untenable present and an uncertain future. As our planet careens towards a future that is increasingly data-rich but certainty-poor, the need for leadership becomes increasingly acute.

The primary leadership challenge today is to evolve the organisation into a responsive, resilient and adaptive “instant enterprise” that maintains a perpetual state of readiness to respond to the unexpected. This capability of “instancy” empowers organisations to simultaneously navigate the complexity and jerk that characterises their existing operating environment.

Paradoxically, to better understand how leadership can be leveraged to become a responsive, resilient and adaptive organisation, we must first critically examine leadership itself.

For too long, we have wrongly assumed that leadership is a noun and not a verb. In so doing, we have unconsciously separated the leader from the system within which leadership itself is being exercised. As a result, we tend to over-emphasise the impact of individual leadership actions while ignoring the reality that leadership is an integral part of the organisation system itself.

In short, we have failed to recognise that leadership is not simply a person, position or role, but a complex and interconnected set of relationships that is a property of the organisation, not of the individual.

So, we find ourselves in a situation where our dependence on leadership is greater than ever before but what will be required of leadership in the future is markedly different from how it has been conceived of and leveraged in the past.

To begin this paradigmatic journey to shift our collective perspective, we must begin by conceiving of leadership as an “Adaptive System” that has requisite complexity and response-ability to enable the organisation to avoid extinction. This perceptual shift will require unlearning much of what we have previously believed about what it means to lead.

An “Adaptive Leadership System,” requires that leaders at every level engage disparate and diverse sets of people, systems, processes

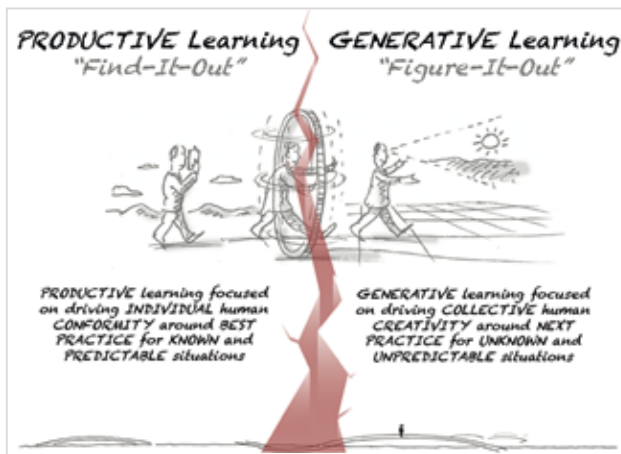


Figure 4: Creating a Generative Learning Culture

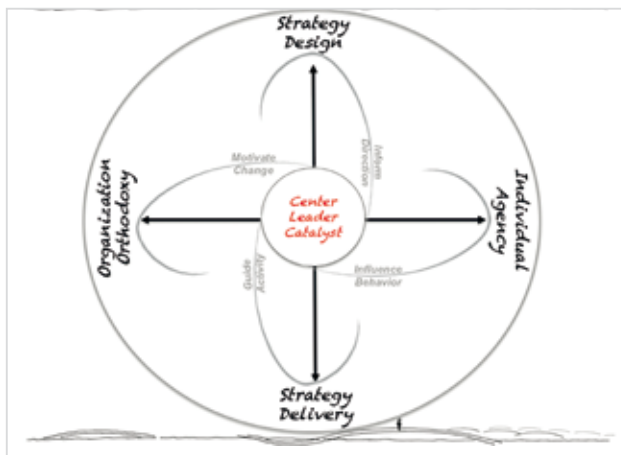


Figure 5: The Adaptive Leadership System



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and technologies in real time to increase the likelihood of survival. Perhaps contrary to popular opinion, the leaders operating in the middle of the current hierarchy are the greatest source of leverage to build the responsiveness, resilience and adaptability that the modern-day enterprise so desperately needs.

Leaders at the centre of the organisation operate at the confluence of a new normal of constant dis-equilibrium where unanticipated change is constantly throwing off tensions and trade-offs that require immediate response. We call them “centre-leaders”.

To better understand the critical role that centre-leaders play we turn to chemistry. A catalyst is defined as “a substance that enables a chemical reaction to proceed at a faster rate or under different conditions than otherwise possible”.

So centre-leaders function as catalysts within an adaptive leadership system to accelerate the

responsiveness, resilience and adaptability of the organisation under increasingly uncertain conditions. By working from the “middle-out” to inform strategic direction, motivate cultural change, guide key work activity and influence individual behaviour, they orchestrate the capability required to respond instantly to uncertainty. (See Figure 5)

The reconceptualisation of “leadership as a system” begs the question: *can leaders avoid the demise of enterprise seeing, thinking and acting differently to catalyse a middle-out adaptive leadership system?*

### Coming Full Circle

Coming full circle, we can summarise the existential organisation challenge as follows:

To escape the strengthening pull of the VUCA Vortex, organisations must avoid plunging into the complexity chasm, by designing and delivering agile and integrated strategies and overcoming organisation orthodoxy and rigidity, by evolving from productive to generative learning and catalysing a middle-out networked leadership system.

Paradigm paralysis is defined as an inability, or refusal to see beyond current models of thinking.

To achieve enterprise instancy, leaders at every level within the hierarchy will have to fundamentally reframe what they see, rewire how they think and reconfigure what they do to create an Adaptive Leadership System that brings the Vision, Understanding, Clarity and Agility required to neutralise the VUCA Vortex.

Anything short of this will inevitably result in the continued demise of the enterprise.



#### About the Author

*Tony O'Driscoll is an adjunct professor at Duke University's Fuqua School of Business and a Research Fellow at Duke CE. This dual-role affords Tony the opportunity to operate at the intersection of cutting-edge academic research in business and real-world business challenges faced by leaders.*

*His current research examines how rapidly emerging technologies are disrupting existing industry structures and business models. He specifically focuses on how to develop leadership systems that enable organizations to adapt and evolve in increasingly unpredictable and turbulent business environments.*