

## **Financial Challenges in VUCA World**

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**Abstract:** *Given the economic challenges of today it is obvious that our businesses need to be more agile. This is not something that can happen overnight and in many cases will demand a cultural shift. I believe we now live in precarious times and we can't rule out another crash. This will be marked by acute Volatility, Uncertainty, Complexity and Ambiguity within the financial markets. This demands greater technical and behavioural insight. A report by Deloitte, Global Human Capital Trends 2016 found that of 7000 executives surveyed, 92 percent believed that leadership was a critical priority. Furthermore 56 percent stated that their companies were not ready to meet the leadership challenges presented by today's market economy. In a never-ending game to stay competitive, organizations today are embarking upon more change programs than ever. However, a research shows that 80% of the change programs initiated fail to achieve their intended outcomes. While a lot of literature exists on how organizations should take the journey of change once it is initiated, very little has been spoken about how to prepare organizations for the quantum and speed of change. Is this perhaps the reason why organizations fail to realize the intended benefits out of their change programs? Is there a success mantra for managing changes in this VUCA world?*

**Keywords:** *Financial Challenges, Volatility, Uncertainty, Complexity and Ambiguity etc.*

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### **I. Introduction**

A new year is a great opportunity to stop, think, set new goals and plan ahead. Every year comes with opportunities and challenges. Financial challenges are some of the most painful ones entrepreneurs have to deal with. The loss of a big client or a slowdown in the economy can drive some companies out of business. Making a list of financial challenges and staying close to them can help a small business survive even in times of economic instability.

We sometimes feel handicapped when it comes to managing our money? If so, we're certainly not alone. Many of the people we work with are executives and other professionals who are very successful in their careers but between their job and their family, they often have little time left over for their personal finances, especially when financial planning doesn't seem as urgent as other things going on in their lives. In that case, managing your money can feel like fighting one-handed.

More than 60 percent of small businesses faced financial challenges in the past year, according to the 2016 Small Business Credit Survey. The survey, which was a collaboration of all 12 Federal Reserve banks, provides an in-depth look at small business performance and debt. This report focuses on employer firms, or those with at least one full- or part-time employee.<sup>1</sup>When looking at the financial challenges of small businesses, the report covered the second half of 2015 through the second half of 2016.

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. (Kirk Lawrence)

VUCA is an acronym that has recently found its way into the business lexicon. The components it refers to--volatility, uncertainty, complexity, and ambiguity--are words that have been variously used to describe an environment which defies confident diagnosis and befuddles executives. In a 'VUCA world,' both pundits and executives have said, core activities essential to driving organizational performance--like strategic planning--are viewed as mere exercises in futility. VUCA conditions render useless any efforts to understand the future and to plan responses. The notion of VUCA was introduced by the U.S. Army War College to describe uncertain, complex, and ambiguous, multilateral world which resulted from the end of the Cold War. We are moving from a world of problems, which demands speed, analysis and uncertainty to solve in a world of dilemmas, which demands patience, sense making and an engagement with uncertainty. “VUCA” is Volatile, Uncertain, Complex and Ambiguous are the characteristics of modern strategic dilemmas which requires a different orientation and a set of skills. According to VUCA if we wait too long for a moment, it may pass without our knowledge. It is the recognition that there can be many ways beyond hand a competitor of its advantage. Management’s version of the use of Special Forces is an effort to switch from a hierarchical into a modular form of organization.

## **II. Objectives**

- Discusses the history of VUCA and how it applies to business strategy and development.
- Explores how VUCA is relevant to leadership development.
- To identify the keys to success in the VUCA environment.
- To study the challenges faced by Indian social entrepreneurs in accessing financial support.

## **III. Review of Literature**

- I.** Anita Sarkar (2015) views that the ways in which we conduct or think about our businesses have substantially changed within a decade. The term VUCA- which stands for volatility, uncertainty, complexity and ambiguity – has become common phrase today. Rapid changes taking place in political, economic, social and technological fronts are making the organizational world increasing VUCA.
- II.** Harish Manwani (2013) observes that we are living in a world where volatility and uncertainty have become the New Normal. Companies that were synonymous with their product categories just a few years ago are now no longer existence. We live in a VUCA world surrounded by black swans. This is the New Normal. But even with this unpredictably changing world, there are a few important underlying megatrends that will shape our future.
- III.** Kishore Kumar Das & Aftab Ara (2014) finds that we are moving from a world of problems, which demands speed, analysis and uncertainty to solve, to a world of dilemmas, which demands patience, sense making and an engagement with uncertainty. “VUCA” is Volatile, Uncertain, Complex and Ambiguous are the characteristics of modern strategic dilemmas which requires a different orientation and a set of skills. Dilemmas span disciplines and frustrate attempts to craft elegant and final solutions.
- IV.** Betof, Lisa M.D. Owens, Sue Todd (2014) observes that the once identifiable boundaries of our marketplaces and industries have become permeable. Now they shift continuously, sometimes slowly, sometimes quickly, but always feeling slightly beyond our grasp. In this environment, leaders realize that a sustainable future is only possible if organizations can sense, adapt, and respond to change; if they can help their organizations evolve with an evolving world.
- V.** Nick Petrie (2014) observes that It seemed that the nature of the challenges that managers were facing was rapidly changing; however, the methods that we were using to develop them were staying the same. The last decade has seen many industries enter a period of increasingly rapid change. The most recent global recession, of 2007 has contributed to an environment that many of us believe is fundamentally different from that of 10 years ago.

### **III. Challenges Faced by Indian Social Entrepreneurs**

Financial challenges are some of the most painful ones entrepreneurs have to deal with. However, making a list of financial challenges and staying close to them can help a small business survive even in times of economic instability. We have compiled 10 financial challenges that most businesses come across, and not just that, we have also enlisted the remedies that could be looked at in such a scenario:

#### **1. Lack of sufficient working capital**

Working capital is the life blood of any business and it is the most important responsibility of any entrepreneur to have at least 6 months expenses as working capital which gives him enough breathing space to focus on acquiring new customers and building products. The most relevant way to avoid this by figuring out a way to cut your costs by 20% and put that aside to build up working capital. If you're a start-up that is yet to make profits, make sure you are adequately financed.

#### **2. Sales are good but profits are low**

This is another major setback that most of the businesses face at some point or the other. Generally, such a situation indicates over-spending or hidden costs eating away at your bottom line — your expenses could be out of control. To avoid such a situation proactively create a purchasing policy and system to ensure that you are buying the right materials at competitive prices from vendors that add value. Ensure there is supervision of policies, ordering, receiving and reporting. Don't hesitate to revisit vendor selection and old contracts to start price negotiations. Lastly, if you frequently make online purchases, use free apps to track spend, hunt bargains and streamline online purchasing.

#### **3. Not being ready to face sales slump due to unavoidable reasons**

According to a famous venture capitalist, Fred Destin,

“In startups the only real sin is running out of cash, and the cardinal sin is running out of cash unexpectedly. So whilst you may not need a CFO, you sure need someone who understands cash flow and can give you the confidence to know when it's running out.”

To avoid such a situation, keep a check on your financial statements so that you are able to forecast cash needs. It is important and inevitable to have total control on the movement of money.

#### **4. Receiving late payments from clients on a regular basis**

80% of small businesses are still plagued by late payments and of this happens too frequently, it can potentially kill your business in the long run. It is very important to tighten up credit terms or create policies and processes to manage the situation. To avoid such a situation, some of the remedies could be to pull business credit for new customers, communicate payment policies early and often, incentivize early payments, make it convenient for customers to pay and enforce late payment penalties. Most importantly, do it all with a smile.

#### **5. Paying bills late on regular basis**

As important as receiving payments might look, it is equally important to pay bills on time as well. Find out the reasons for late payments. If it's a cash flow problem, you need to start renegotiating your payment terms; or start looking for customers with better payment terms. Otherwise, it's important to make a monthly budget and follow it. Set aside a specific day of the week just to go through accounts payable and sign checks.

#### **6. Too many sales promotions, coupons and markdowns just to stay afloat**

Businesses retort to sales, promotions each time a business runs slow, however, if sales are slow, offering excessive discounts is not the answer. Consumer-oriented sales promotions can drive short-term sales to offset competitive pressure, yet threaten the long-term survival of your brand. Price wars come with high casualties – most notably, reduced profit margins. Instead, revisit your business and revenue model to find answers.

#### **7. Not choosing the right funding option**

It is very important to understand the one needs to be very confident about the reason one is looking for funds. A variety of funding options are available to small businesses: bootstrapping, friends and family, crowdfunding, business loans, grants, venture capital, angel money, etc. Despite of having so many options it is very important to have clarity on your current financial picture and assess risk tolerance for each funding vehicle. Do a thorough research and then only finalise your funding options

### **8. Unorganised book keeping habits**

Books of finance hold a very important place in running any business venture, however, small business owners are usually bad record keepers. And they consider this to be one of the most boring tasks in a business. Hiring an organized book-keeper can save you a lot of time. Find someone on your team who can take on this responsibility. A good administrative assistant can sometimes do an effective job at this.

### **9. Not being good at cash flow management**

Cash flow literally translates to “money in, money out.” Monitoring cash flow can forewarn you of a need for cash and reveal cycles in your business; better preparing you for the financial road ahead. Staying on top of your cash flow position can be tedious. Thankfully there are free templates, cash flow calculators and paid apps which you can use to get on top of the cash flow management game.

### **10. Improper revenue and expense projections**

For any business to flourish it is very important for the entrepreneur to know the various revenue sources and the expenses that will be incurred in the course of business. If your business is fairly young it's hard to predict revenues. But expenses can be predicted because most of them usually remain the same month on month, except for some unforeseen expenses. It again depends on the nature of business. Always be thoughtful about your expenses rather than being impulsive. Because in case of impulsive decisions there's a probability of expenses going off track. Always have a budget in place during your decision making process. Finances are the life blood of any business and no business can run without a consistent cash flow hence it is very important to be financially prudent and track your finances to stay ahead of the game.

## **IV. The VUCA World**

The once identifiable boundaries of our marketplaces and industries have become permeable. Now they are shifting continuously, sometimes slowly, sometimes quickly, but always feeling slightly beyond our grasp. In this environment, leaders realize that a sustainable future is only possible if organizations can sense, adapt, and respond to change; if they can help their organizations evolve with an evolving world. Thriving in this VUCA world means adapting as new business contexts emerge. For leaders, it means:

- creating an environment of openness that values discovery, diverse perspectives, and experimentation
- detecting the weak signals that foretell shifts in customer loyalty, or opportunities enabled by new technology
- conducting iterative dialogues that put new ideas into the context of the company's work, and translate new information into differentiating capabilities
- unpacking business challenges to reveal the learning gaps for individuals, teams, and the organization's practices, processes, and systems
- Strengthening thoughtful decision making in the organization.

The VUCA world encompasses four similar-sounding yet strikingly distinct challenges that deserve a special mention here:

1. **Volatility** The nature, speed, volume, magnitude and dynamics of change. The situation is unstable and may be of an unpredictable duration. However, it is not an unanticipated situation as knowledge about a similar challenge was already predicted. For instance, a share price fluctuation for an organization following a change in its leadership, or after an internal scam has been exposed.
2. **Uncertainty** The lack of predictability of issues and events. Despite the lack of much information, the basic causes and likely effects of the event are known and the outcome generally results in a substantial change. For instance, the sudden launch of a similar, yet superior, product offering by a close competitor.
3. **Complexity** The confounding of issues and the chaos associated with this. Some information regarding the nature of complexity is available or can be predicted. However, the sheer volume and the nature of the problem could prove to be overwhelming. For instance, the unique tax and regulatory environments, tariffs and cultural expectations associated with doing business in several countries.
4. **Ambiguity** The haziness of stark reality! Herein, the causal relationships is unclear. The situation is unprecedented and one must brace himself to face the unknown. For instance, you decide to enter

unchartered territory by exploring immature or emerging markets or launch products out of your core competency/ comfort zone.(Dr Radha Raghuramapatruni, Mr. Shanmukha rao Kosuri )

## **V. Winning in a VUCA World**

Putting the four dimensions of growth together is the key to unlocking not just how business can win in a VUCA world, but also to rediscovering its true role in society. To do this, businesses need to first put in place the right hardware.

**Foresight and Agility** Winning in a VUCA world requires the ability to simultaneously manage both the short-term and the long-term goals of a business. In turbulent and fast-changing times, businesses need to be anchored in a long-term destination while also dynamically managing the short-term. The role of leadership is to have a clear point of view about the future and build an organisation that can navigate towards that destination through good times, and importantly, also in bad times.

**Consumer Centricity** As the world changes, consumers are also changing. There are an emerging poor in the developed world and an emerging affluent in the developing world. The way people shop and consume is also changing. More than ever, businesses must have an insight into the changing needs and aspirations of their consumers to be successful.

**Think Local and Act Global** To consistently succeed in the VUCA world, one also needs to be globally leveraged and locally relevant. A very common phrase used by multinationals is 'Think Global, Act Local'. In reality there is no such thing as a global consumer. Our mantra is to think local but act global. Any organization needs to understand what local consumers and customers need or want. Then leveraging upon the global understanding, technology and knowledge it can provide the best solutions to meet these local needs. The strength is the ability to combine global scale with locally tailored solutions. Organisations of tomorrow need to be neither hopelessly local nor mindlessly global.

**Attracting Great Talent** The ability to attract, develop and retain the best talent is what makes businesses successful in the long-term. Increasingly, young men and women want to work for a company that reflects their own values. If they believe in a common vision and the larger corporate purpose, they are motivated to deliver great performance. It is no longer enough to be working for a business that is doing well if it is not also doing well.

## **VI. Recommendation**

One way to address financial issues within a small business is to review, revamp, research, and rewrite the business plan. If the current plan of action, including company expenditures on advertising, products and employees, isn't working out, it may be time to commit to some changes. The business owner can also seek loans and grants specifically designed to help give existing companies a boost. Some lenders will allow the owner to refinance his business debt. Certain localities and private community organizations offer financial assistance to existing small companies who agree to attend training seminars. Venture capitalists and angel investors tend to take on bigger risks and may be willing to help a small business owner with the funding he needs to continue operations as long as the owner can prove the viability of his business plan.

## **VII. Conclusion**

The VUCA world is not going to disappear. As technology develops faster and the world becomes more and more a global market place, there is no place to hide. Change is relentless and the landscape in which we work is constantly shifting. The leadership role becomes increasingly one of creating moments of clarity and focus, whilst at the same time keeping an eye on what is shifting and preparing to react to it. Reacting without having vision leaves people feeling confused and demotivated. Rigidly adhering to a chosen strategy risks missing opportunities or failing to respond to market and environmental changes. Somehow leaders need to walk a fine line between these two positions in order to be flexible and yet sufficiently focused to keep people motivated. VUCA is complex and challenging, but it is also an environment that can allow true leadership talents to emerge at all levels of the organisation. Indeed one of the major lessons of the VUCA world is that leaders need to engage *all* employees at *all* levels to gain their trust and contribution in dealing with the great range of challenges that VUCA poses. Seen from this point of view VUCA becomes an opportunity for development and greater collaboration, rather than a risk to be mitigated.

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