Directors in a VUCA World: Pitfalls and Upsides

By Lee Seok Hwai , INSEAD Knowledge

Shifting geopolitics, emerging technologies, changing climates. How should board directors steer their organisations through it all?

In the tumultuous seas of the ever-evolving global economy, geopolitics and technology, board directors must become agile captains, navigating the relentless waves of change with strategic foresight and adaptability. This requires a clear view of the path ahead.

At the recent **INSEAD Directors Forum**, Professor of Economics **Pushan Dutt** and Professor of Entrepreneurship **Vibha Gaba** identified and analysed both obstacles and opportunities boards face. Directors including **Karen Fawcett**, **Yen Yen Tan** and **Chwee Foon Lim** discussed the dos and don'ts of steering organisations through VUCA (volatility, uncertainty, complexity and ambiguity).

Kicking off the day's discussions, Dutt took the audience through the complex interplay of macroeconomic factors and geopolitical tensions, accelerated by the Covid-19 pandemic.

The four headwinds facing firms

Inflation is yet to be tamed, he noted, which means "central banks are going to keep **interest rates higher for longer**." Flashpoints in Ukraine, Asia and the Middle East add another layer of uncertainty, potentially leading to dire economic consequences.

"If a war is fought over Taiwan between the US and China, the global economy could take a US$10 trillion hit by some estimates," Dutt told participants of the biannual forum organised by the **INSEAD Corporate Governance Centre** and held at INSEAD’s Asia campus in Singapore.

High interest rates and other challenges have plunged many countries into currency crises and forced them to seek debt relief from the IMF. They have also fanned the rise of populist politicians or destabilised governments. But it’s not all doom and gloom, Dutt said.

“Whether it's advanced economies or emerging markets, we don't see a signs of a global recession.” In the US, India and other parts of Asia, growth is robust, even accelerating.

However, Dutt cautioned about what he called the "second China shock". China’s shift towards advanced manufacturing and technology poses challenges to Western economies, particularly in sectors like automobile manufacturing. The likely result is escalating trade tensions and decoupling.

And if workers in the West have cause for alarm from the rise of Chinese advanced manufacturing, skilled workers everywhere should brace for disruption from the rise of AI. “I don't expect mass unemployment,” said Dutt. “But …we might see a lot of changes in jobs and tasks etc.”

In the long term, countries and firms would do well to take proactive measures to mitigate the impact of what Dutt termed the four “headwinds”: demographic shifts, debt burdens, deglobalisation and disasters due to climate change.

“We live in a time of disruption. We are moving into a **multipolar world** where protectionism is going to rise. There will be a lot of scrutiny of trade policies, exchange rate policies, tax shelters… and this is true not just of China, but of a country like Singapore as well.”

How firms succeed at radical innovation

One critical way firms adapt and thrive is through innovation. However, although established firms excel at incremental tweaks to existing products or services, they often struggle with radical innovation. Not because they lack the ideas or the talent, said Gaba, but because they lack well-defined processes and management support to integrate breakthrough innovations with the core business.

Xerox PARC, for example, was created by Xerox to imagine the office of the future. The lab's engineers and scientists came up with a desktop computer that looked a lot like the ones in use today. They also invented the technology that's the forerunner of the internet and graphical user interface. Yet today, it is Apple, IBM and others that rule personal computing. Why?

"PARC scientists were brilliant in coming up with innovations… but they could not influence the headquarters to commercialise them," said Gaba. "There was no well-structured process and management attention… to bring these technologies and innovations to the market.

"It's not really an innovation problem. It's an organisational problem."

Creating the next iPhone or ChatGPT, Gaba explained, requires consistent top management attention to innovation, structural separation of core and innovation units, and learning from failure.

First, top management must be clear about the innovation agenda and decide which spaces the firm should explore. Second, innovation units, whether in-house or external startups, should be given space and freedom to explore, innovate and access corporate assets and resources to scale up those innovations. They should also be protected from short-term performance pressures. "Rather than KPIs based on revenues and margins, focus on milestones," advised Gaba.

Finally, she added, blame should be the furthest thing from people's minds if the innovation fails.

"Unfortunately, in many companies, we typically see failure and blame go together," observed Gaba. "People become extremely risk averse, and it's difficult to learn constructively from things that didn't work out."

Keep learning, and enjoy being a director

Staying on top of things amid relentless change and disruption is par for the course for board directors. Yen Yan Tan and Karen Fawcett, who sit on multiple boards, shared with the audience how directors could manage and even enjoy the process.

They agreed that proactively anticipating risks inherent in disruptions, such as cybersecurity threats and regulatory scrutiny brought about by AI, is essential. “Board members can no longer take a back seat and play a passive role. There's very high expectations in terms of governance… and just overall growing the business,” said Tan.

Fawcett highlighted the significance of robust risk management processes (“if you don't have an incredibly good Head of Risk, find one”), succession planning and external thought leadership. Having a diverse board is essential too, she said.

“Diversity of membership across industries, across functions – it really makes a difference. But the future-proofing at the board level is also about giving people time to get to know each other… a board that trust each other have humility and are willing to ask the really simple questions.”

Asked for how they cope and acquire the skills board directors need to navigate constant challenges and changes, both Fawcett and Tan named continuous learning and forming supportive networks, including through organisations such as **INSEAD Lifelong Learning** and **Criticaleye**.

“Board directors must have this curiosity in them, the open-mindedness to understand,” said Tan. “And it's important, whether it's a forum like this, or conferences, to stay close to the discussion out there in a professional network.”

To Fawcett, who is an active sailor when she’s not working, time management and maintaining fitness are paramount. “What do I do in the morning? I manage my diary. And I make decisions faster than I have ever made them before, because pontificating is getting in the way of me enjoying the day.”

She advised potential directors: “Choose industries and companies that are going to inspire you and you're really going to enjoy. You have to enjoy being with the other board members and the senior management. If you don't click with them, don't do it.”

Pitfalls and opportunities of AI adoption

The discussion moved from governing firms to adopting and governing AI. Chwee Foon Lim, an INSEAD Board member and CEO (Asia-Pacific) for US-based robotics company Ekso Bionics, gave examples of how AI is creating value for the healthcare industry. She cautioned, however, against rushing headlong onto the AI bandwagon.

Instead, organisations should first identify the specific business needs that AI could solve. “We should all begin by asking, ‘what problems are we trying to solve for our business’ and ‘what are our strategic ambitions?’” said Lim, who works with hospitals to incorporate innovation. “As opposed to launching hastily into AI without asking the right questions, because ‘the board is asking for an AI strategy’ or ‘we need an AI strategy’.”

“What are the use cases which are most relevant and impactful to your business? [Asking this question] informs your strategic choices,” added Lim.

Organisations that latch onto AI without due diligence and expertise face increased execution risks, which could lead to a waste of resources. Worse, added Lim, it could also lead to loss of confidence internally in the company's ability to execute, and “that can be damaging for a long time”.

The second pitfall is not managing change and the anxiety it creates within the organisation. She cited examples in the healthcare industry, where innovation are often met with reticence in the early stages despite proven clinical outcomes. There are multi-faceted concerns from users and clinicians that need to be adequately addressed.

Some of them might ask, said Lim, ‘what does it mean for my job? I don’t trust this thing’. It is critical to identify, pre-empt and manage fears, misgivings and concerns employees may have about AI deployment, she stressed.

A key driver to successful execution is for employees – the very users and beneficiaries of the technology – to understand how AI adds value to their work, to themselves and to the organisation. They must **take ownership of the technology**.

As Lim told fellow directors in the audience: “Driving change takes commitment and effort. You will face resistance and you need to be resilient.”

*The next INSEAD Directors Forum will be held in mid-November at INSEAD's Europe campus in Fontainebleau. Details will be announced on the INSEAD Corporate Governance Centre's **website**.*

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