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Unified Model for Strategic Planning in a High VUCA World

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Abstract

Since the financial crisis of 2008, the business world has to cope with the new reality of being in a perpetual state of high volatile, uncertain, complex and ambiguity. Typically businesses would develop a 3 to 5 year strategic plan to address these changes and would review the progress of the implementation of these strategic plans quarterly. This situation does not exist anymore, now business is in a constant state of flux and needs to react at a much faster pace to the external environment. The issue faced by many a business leader is how to do this?

To deal with this new reality, strategic planning needs to have 3 layers, Known Issues, Emerging issues, and Wildcards. Once you have narrowed the possible wild cards to a manageable number the planners can select just a few scenarios to tackle. This method will allow you to cut through the noise and select and focus on issues that are highly likely to affect your business. Emerging issues can easily be identified, relevant data is available to be collected and analyzed and trends and patterns can be easily identified. As soon as a given emerging or wildcard issue becomes a clear enough future, by virtue of its indicators, planners must treat it as a new know issue and integrate it into the current strategic plan for implementation. In all of this, the leader's ability to take fast decisions becomes a critical factor in the life of the business. The OODA (Observe, Orient, Decide, Act) Loop provides the leadership a basis for this fast pace of decision making

Keywords: VUCA, OODA, Strategic Planning, Known Issues, Emerging Issues, Wildcards

Introduction

A new model of strategic planning is required to deal with the new reality of a High VUCA environment. This idea was mooted to industry leaders and strategy consultants at the 'Members Speak' (Wickremesinghe, R. V. 2018.)^[23] event of the Management Club of Colombo. Titled "Strategising in a high VUCA world" (Wickremesinghe, R. V. 2018.)^[23] by a strategy consultant Roshanga Wickremesinghe. First one must understand what VUCA stands for, volatile, uncertain, complex and ambiguity. One major effect of this high VUCA world is that your businesses Strategic Plans don't seem to work. In January of 2010 the Wall Street Journal stated that "strategy as we know it is dead" (Murray, Alan. (2010)^[19]. Wall Street Journal.). this possibly is because, business models are changing, customer loyalty is a thing of the past and disruptive change is the new normal. Today a business is defined by its ability to be flexible and adaptable to the future changes it faces. The notion of VUCA was introduced by the U.S. Army War College to describe the more volatile, uncertain, complex and ambiguous multilateral world which resulted from the end of the Cold War. Since the financial crisis of 2008, the whole world is now living in the new reality of a high VUCA world. Therefore we must first understand what high VUCA means to a business.

Literature Review of VUCA

Increased volatility in the environment

Global economic and financial crisis continue to challenge a business's growth. Businesses are facing ever increasing environmental uncertainty, which causes more unpredictability of future results and a higher volatility of revenue over a long time. Businesses that engage positively with this volatility are more likely to succeed (Moreno & Casillas, 2008, Baptista

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& Karaoz, 2011, Anderson & Eshima, 2013) ^[18, 4, 2]. Such engagements integrates innovativeness, risk-taking and the adoption of a proactive strategy as opposed to a reactive strategy. Businesses must take note that the event that causes the volatility is “unexpected or unstable and may be of unknown duration, but it is not necessarily hard to understand; knowledge about it is often available” (Mack, Khare, Kramer, & Burgartz, 2015) ^[16].

Increased uncertainty in the environment

Uncertainty avoidance is addressed as part of Greet Hofstede cultural dimensions of a nation Hofstede, G., Hofstede, G. Hofstede, G. J. and Minkov, M (2010) ^[7]. Hofstede goes on to say that uncertainty avoidance is how a society and individuals in a given society feels about facing uncertainty. A higher score in the uncertainty index means that a society is more rigid and does not face uncertainty well. A low score means a society is more flexible in facing uncertainty. Despite a lack of other information, the basic cause and effect of the event that is causing uncertainty are almost always known. Change to this paradigm is possible but not a given. (Mack, Khare, Kramer, & Burgartz, 2015) ^[16].

Increased Complexity in the environment

A critical challenge of any modern business is dealing with an ever-complex environment. The visionary physicist Steven Hawking said “I think the next century will be the century of complexity”. (Stephen Hawking, San Jose Mercury News, January 23, 2000). Considering the ever increasing globalization and the constant, rapid rate of institutional change experienced globally, complexity has been the subject of study (Greenwood, & Hinings, 1996, 2006, Greenwood, Oliver, Sahlin, & Suddaby, 2008, Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011) ^[8, 9, 10, 11] and complexity is considered a function of the number of institutional logics and the degree of compatibility between them. As a result of this constant rapid rate of institutional change there is also the possibility of having “institutional voids” (Khanna & Palepu, 2000, Leff, 1976, 1978) ^[12, 13, 14]. According to this argument, some economies may have insufficiently developed institutions that are needed to support the efficient functioning of markets (Puffer, McCarthy, & Boisot, 2010) ^[21]. Therefore some business may take a wait and see approach while others may leverage on existing relationships with policy makers and politicians to exploit opportunities despite this void. This is a situation with many interconnected parts and variables that a business has to deal with today (Mack, Khare, Kramer, & Burgartz, 2015) ^[16].

Increased Ambiguity in the environment

Ambiguity refers to a decision situation under uncertainty when there is incomplete information about the likelihood of events, there is often more than one possible solution to a problem and there is no analytical process to decide the correct one. These inconsistencies among self-perception, perception and sense making are the essence of ambiguity. Causal relationships are completely unclear. No precedents exist; you face “unknown unknowns” (Mack, Khare, Kramer, & Burgartz, 2015) ^[16]. In the pre high VUCA era a typical business would develop a strategic plan that would address known issues in the business environment. Businesses would develop a 3 to 5 year strategic plan to address these changes and would review the progress of the

implementation of these strategic plans quarterly. Occasionally, the more dynamic businesses will develop certain scenarios to address exceptional changes in the external environment of the business or to address predictable competitive action. This situation does not exist anymore, now business are in a constant state of flux and need to react at a much faster pace to the external environment / customer / consumer needs. The issue faced by many a CEO / Managing Director is how to do this?

To those CEO's and Managing Directors who did not believe in doing strategic plans in the past when it was viable to do so are in for a big surprise. The answer is still to develop your strategic plan, but faster and in several layers. So if you don't have any experience of doing strategic plans when things were moving at a much slower pace you are probably going to find it next to impossible to do strategic planning in the new reality. To be competitive in a high VUCA world your strategic plan and your budget needs to be updated real time. In fact, your strategic plan becomes your operational plan. Your tolerance level for variances need to be pushed up from a conservative + or - 5% to a more realistic + or - 15%. You will have to develop a range of potential outcomes / scenarios and go through a selection process to determine the most appropriate strategy. You will also have to develop a mechanism to constantly assess changes in the environment in order to ascertain their possible impact on your business and take action.

Literature Review of Strategic Planning

There is unanimity among global business experts that the main reason why a business fails in our competitive, turbulent, fast-moving economy is poor business / strategic planning. Every business requires a business / strategic plan, to ensure that business owners can make informed decisions. Brews, & Purohit, conclude that planning does have the potential to produce positive performance effects in unstable environments. Hence the old adage “A business that fails to plan, plans to fail” Business leaders must understand that Leadership is about planning for success before it happens. “When your strategy is deep and far-reaching, then what you gain by your calculations is much, so you can win before you even fight. When your strategic thinking is shallow and near-sighted, then what you gain by your calculations is little, so you lose before you do battle.” (Tzu, Sun. (1971) ^[26]. The art of war) said the Chinese philosopher, Sun Tzu, in his epic published in the 6th century under the title ‘The Art of War’. Since the businesses exist across multiple strata of the world economy, it is conceivable that there could be a knowledge gap that prevents business leaders from developing timely strategic plans to meet the challengers either internal or external. Given that strategy is still perceived to be the domain of a few privileged elite (CEO / Managing Director) Clark, (2000) ^[5], it is essential that these individuals are well endowed with strategic management & planning skills. It is also conceivable that managers are well endowed with the planning skills but are procrastinating as they want to have a perfect plan to tackle the uncertainty in the environment. “The enemy of a good plan is the dream of a perfect plan. It is even better to act quickly and err than to hesitate until the time of action is past” (Clausewitz, Von. Carl. On War) said Carl von Clausewitz. In his book “Creating the Corporate Future: Plan or be Planned” (Ackoff, R. (1981) ^[1] Creating the Corporate Future: Plan or be Planned) he identifies four types of planning which is affected by the culture within the organization. The first being “Reactive” which he identified

as a past oriented planning process which is considered as an active attempt to turn back the clock to the past. Here leaders may consider the past, no matter how bad, is preferable to the present. Conversely it is considered definitely better than what the future will be. The past is romanticized and there is a desire to return to the "good old days." These people seek to undo the change that has created the present, and they fear the future, which they attempt to prevent. The second being "Inactive" is considered a present oriented planning process which is an attempt to preserve the present, which is preferable to both the past and the future. While the present may have problems leaders may consider it to be better than the past. The premise here is that things are as good as they are likely to get and the future will only get worse. Any additional change is likely to be for the worse and should therefore be avoided. The third being "Preactive" is considered a future oriented planning process attempting to predict the future and then to plan for that predicted future. Here technological changers' are seen as the driving force bringing about the future, which leaders may consider to be better than the present or the past. The planning process will seek to position the organization to take advantage of the change that is happening around them. The fourth being "Proactive" is considered as an attempt to create the future. Proactive planning involves designing a desired future and then inventing ways to create that future state. Leaders may consider this as the preferred future state, and drive the organization to actively control the outcome. Here planners actively shape the future, rather than just trying to get ahead of events outside of their control. The predicted changes of the preactive planner are seen not as constraints, but as obstacles that can be addressed and overcome to create the desired future. Businesses can also look at Emerging Strategic Issues (ESI) and take an active approach to plan and get ahead. This approach can be identified as a future oriented strategy or a futuristic approach. This means that a business needs to start focusing on the certainties around you, which will point to opportunities in the environment, rather than focusing on the uncertainties, which point to the risks in the environment. In his book "Implanting Strategic Management" Ansoff, (1990) [3], identifies an Emerging Strategic Issue as "a forthcoming development, either inside or outside of the organization, which is likely to have an important impact on the ability of the business to meet its objectives". He goes on to propose that a business must develop a strategic issue management system to future proof the organization. In this manner the business can be orientated towards focusing on the future i.e. future orientation of an organization. This proposed approach resonates with the thinking of "It ought to be remembered that there is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things. Because the innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new. This coolness arises partly from fear of the opponents, who have the laws on their side, and partly from the incredulity of men, who do not readily believe in new things until they have had a long experience of them." (Machiavelli, N., & Wootton, D. (1995). [15] Machiavelli and the opinion that "All urgent calls he shall hear at once, but never put off; for when postponed, they will prove too hard or impossible to accomplish" (Kautilya. (1992)) [25] chronicled in the Arthashastra by Kautilya.

To deal with this new reality, we propose that, today a strategic plan needs to have 3 layers, Known Issues, Emerging issues and Wildcards.

Strategic Planning on Wild Cards

"Wild Cards" are issues that crop up out of nowhere and surprise you when you least expect it. They tend to be completely unpredictable (example 2008 financial crisis) Mendonça, Cunha, Kaivo-oja, & Ruff, (2004). This means that you are unlikely to be able to identify all the contributory factors for this event, thereby making it impossible to predict / develop or explain possible outcomes. Thankfully these types of situations are very rare and infrequent. In such situations planners can use techniques and tools such as pattern recognition [1] to start organizing the early data. There are of course events that will allow you to see a possible range of scenarios due to the prevailing event. Not as complex as the above but still may yield a higher number of possible outcomes (example BREXIT). For such situations planners can use tools and techniques as latent demand research [2] and technology forecasting [3] to further narrowing down the possible scenarios. Once you have narrowed the possible scenarios to manageable number the planners can use decision analysis [4] and game theory [5] to select just a few (not more than 3) scenarios to tackle. This method will allow you to cut through the noise and select and focus on issues that are highly likely to affect your business. The whole idea of planning on Wildcards is to analyze the event and come up with at least 2 to 3 possible scenarios that a business can deal with as emerging issues.

Strategic Planning on Emerging issues

Emerging issues Ansoff, (1990) [3], are a forthcoming development, either inside or outside of the organization, which is likely to have an important impact on the ability of the business to meet its objectives. These issues can easily be identified, relevant data is available to be collected and analyzed and trends and patterns can be easily identified. Therefore scenarios can be developed for this type of issue. However the number of scenarios developed must not exceed the organizations ability to deal with them. A general rule of thumb would be a maximum of 3 scenarios which will go through a continuous process of evaluation to see the likelihood of materializing. Planners can use scenario planning [6] tools and techniques to develop scenarios. As soon as a given scenario becomes a clear enough future by

¹ Pattern recognition is the process of classifying input data into objects or classes based on key features. There are two classification methods in pattern recognition: supervised and unsupervised classification

² Induced demand, or latent demand, is the phenomenon that after supply increases, more of a good is consumed

³ Technological forecast deals with the characteristics of technology & usually deals with only useful machines, procedures or techniques

⁴ Decision analysis is the method of formally assessing important aspects of a decision, for prescribing a recommended course of action by applying the maximum expected utility action axiom to a well-formed representation of the decision, and for translating the formal representation of a decision and its corresponding recommendation into insight for the decision maker and other stakeholders.

⁵ Game theory is the study of mathematical models of conflict and cooperation between intelligent rational decision-makers and is now an umbrella term for the science of logical decision making in humans, animals, and computers.

⁶ Scenario planning usually include plausible, but unexpectedly important situations and problems that exist in some small form in the present day. Scenario planning helps policy-makers to anticipate hidden weaknesses and inflexibilities in organizations and methods.

virtue of its indicators planners must treat it as a new know issue and integrate it within the current strategic plan for implementation.

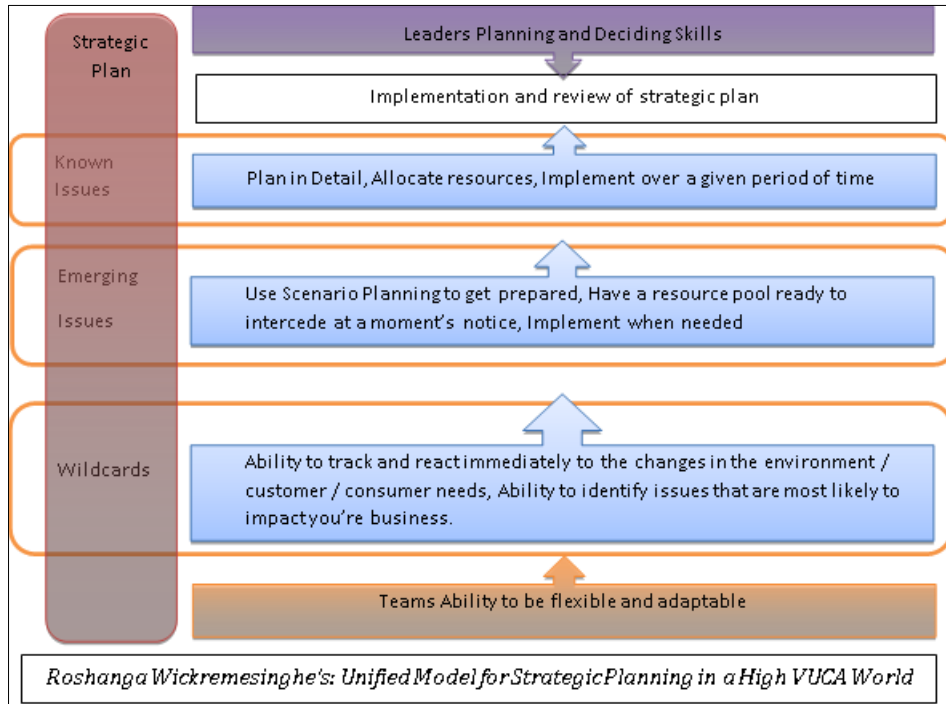


Fig 1: The Adaptive Strategy Shield: Navigating Certainty and Chaos

Strategic Planning on Known Issues

Today, according to Nieboer, (2011) ^[20], numerous strategic planning process models are available, mostly following a common approach: most models include the development of vision & mission statements, followed by an external and internal analysis, constructing and implementing goals, objectives and strategies and the formation of a multi-year plan and finally the development of an implementation, review and updating process. Nieboer, (2011) ^[20], goes on to state that even though we live in a high VUCA world companies must continue to perform this planning function to develop the organizations to meet the threat of these known issues.

Decision Making

In all of this, the leader’s ability to decide becomes a critical factor in this model and in the life of the business. No longer can you wait and see, if you wait someone else will take advantage of that fact and you will miss your opportunity. The logic is, that in today’s leadership the ability to decide is probably more important than making the right decision as you can always correct a bad decisions if you are able to decide fast. The best tool for this is the OODA Loop, Richards, (2011) ^[22], developed by military strategist and United States Air Force Colonel John Boyd.

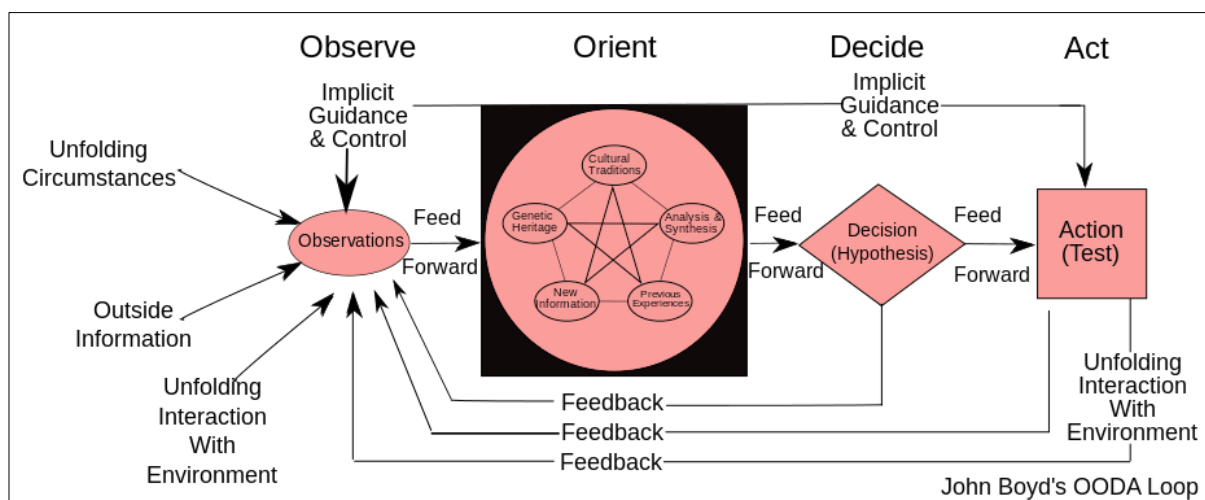


Fig 2: The OODA Loop: A Framework for Rapid Decision-Making

Conclusion and Discussion

Business strategies a derivative of military strategy has a similar lifecycle. In the ancient and medieval Eras generals

frequently led from the front, in part to inspire troops and because command and control relied heavily on line of sight and personal presence. Early businesses reflected this as

heads of the organization was involved in the final sales operation. With the rise of technology and shortening of communication distance (technologies like the telegraph and radio), generals moved further to the rear to better coordinate larger, more complex battlefields. Big business reflected a similar trend where the big boss was housed in an ivory tower in a major city far from the customer. However, today's communication technologies allow commanders in the rear to have real-time visibility into the battlefield, sometimes even seeing what soldiers see through drone or robot camera feeds.

Today as with the military businesses are undergoing a significant "re-fronting" where high-level decision-makers are increasingly reintegrating with forward operations. This shift reverses nearly a century-long trend of managers moving further to the rear. With this moving forward business leaders need a decision model such as the OOAD Loop to constantly check to see if the decisions they make yield the results they desire and take immediate corrective action.

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