



Business Network Breakfast Briefing

“The stories we tell ourselves: narrative, emotion and fantasy in strategic decision-making”

Juniper and Medlar Suites, The Open University

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Welcome and Housekeeping

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The stories we tell ourselves: narrative, emotion and fantasy in strategic decision-making

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Stephen Elop
CEO of Nokia,
2011- 2014

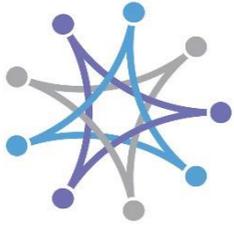
Stephen Elop: 2011

Over the past few months, I've shared with you what I've heard from our shareholders, operators, developers, suppliers and from you. Today, I'm going to share what I've learned and what I have come to believe.

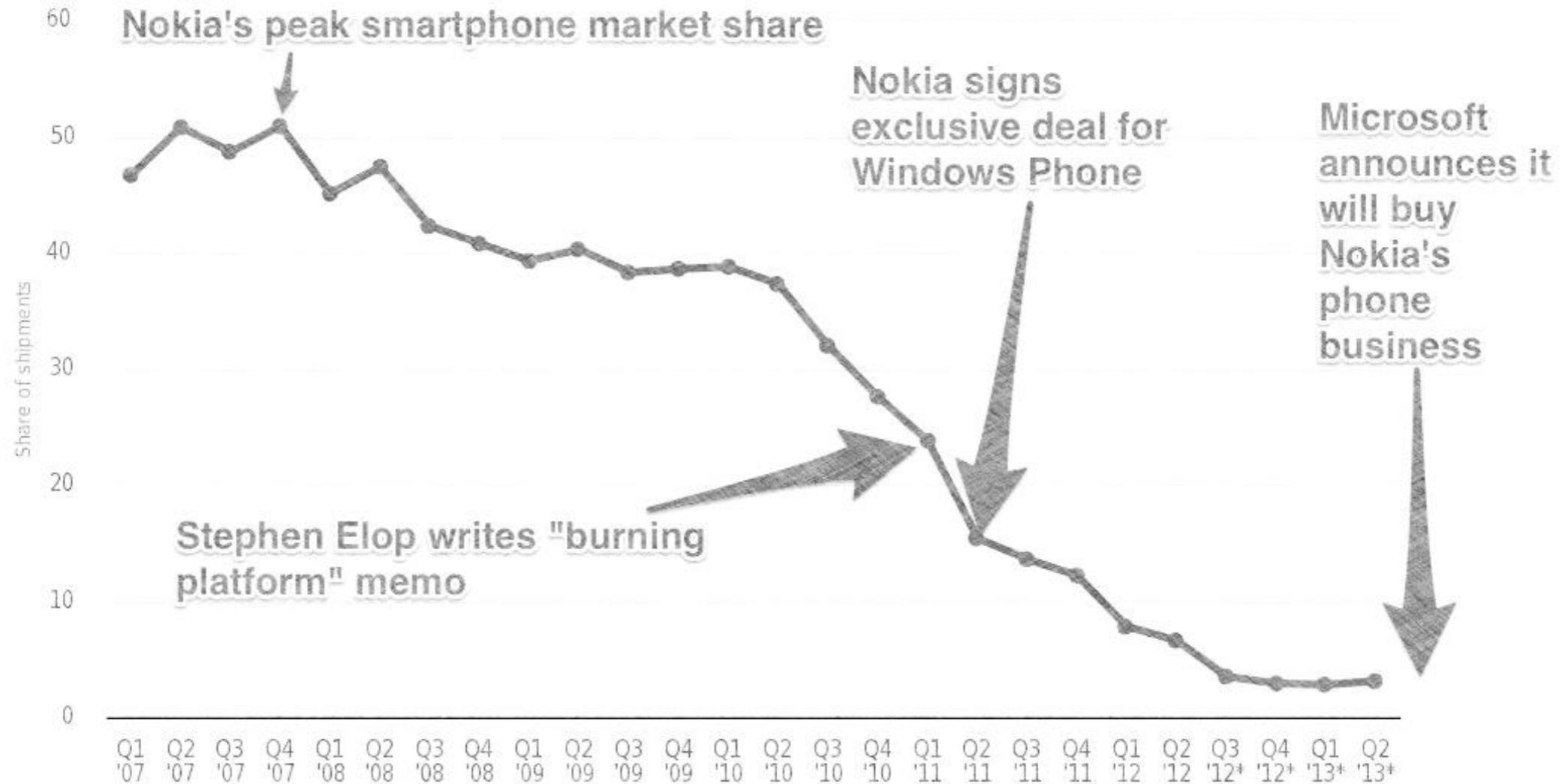
I have learned that we are standing on a burning platform.

And, we have more than one explosion - we have multiple points of scorching heat that are fuelling a blazing fire around us.

For example, there is intense heat coming from our competitors, more rapidly than we ever expected.



Nokia Smartphone Market Share





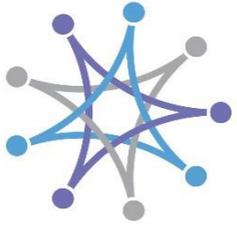
In 2014 Nokia was sold to Microsoft. During Elop's tenure, Nokia's stock price dropped 62%, their mobile phone market share was halved, their smartphone market share fell from 33% to 3%, and the company suffered a cumulative €4.9 billion loss.

A technical account of what went wrong

- Nokia was technically inferior to Apple, and focussed on hardware not software
- Nokia was complacent and overvalued their brand reputation
- Nokia leaders didn't see the disruptive iPhone coming

An emotional account

- A climate of fear:
 - Top execs fearing the external environment
 - Middle managers fearing top execs
- Significant strategic error locked in – no alternatives and no updating of thinking
- Intense and unrealistic pressures for delivery
- Middle managers lying to execs
- Execs steering blind



Galaxy Note 7

- Race to beat Apple release of iPhone 7
- Phones started catching fire and exploding
- Early refusal to accept problem
- Rush to judgment on reason for fault replacement phones also exploded
- Banned from planes
- Phone recalled and withdrawn from sale with massive reputational damage

Strategic decision-making frameworks

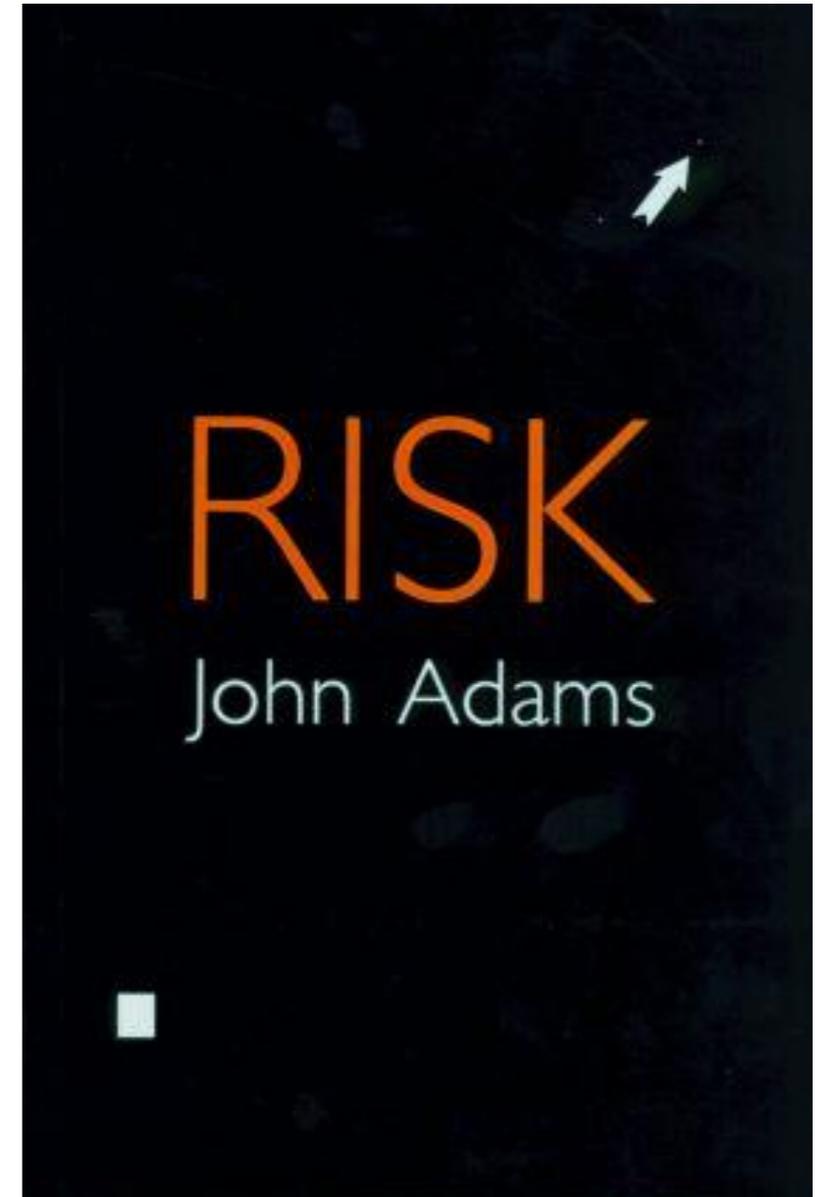
- Rationality and information search comprehensiveness (the classic approach)
 - Do firms gather the right information and do the analysis?
- Political perspective
 - How do power structures affect decision-making, whose interests are served?
- The role of intuition
 - In what circumstances is 'expert' intuition more useful than analysis
- Strategic narrative and the social construction of strategy
 - How do strategic narratives develop and why can they be so different between different players in the same industry?

A new approach

- Understanding human decision making in conditions of radical uncertainty
- How do we cope with uncertainty and still act?
- Defensive and resilient approaches to uncertainty
- The role of narrative and emotion

Types of uncertainty

- Imprecision: we don't know what will happen but we can attach probabilities to a set of known possible future states of the world
- Ambiguity: we can't assign sensible probabilities and we may not know the possible future states of the world
- Intractability: we think probabilities are calculable but don't have the tools to do so



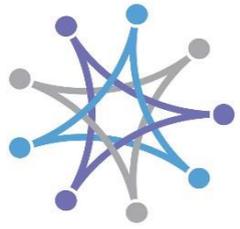
Small world versus large world problems

Small world

1. A well-defined task and goal
2. A known set of choices and potential outcomes
3. Highly replicable processes
4. Known (or at the very least knowable) probability distributions associated with outcomes given any choice.

Large world

1. Ill-structured problems.
2. Deep uncertainty (unknown and sometimes unknowable probability distributions).
3. Complex and dynamic environments.
4. Little replicability



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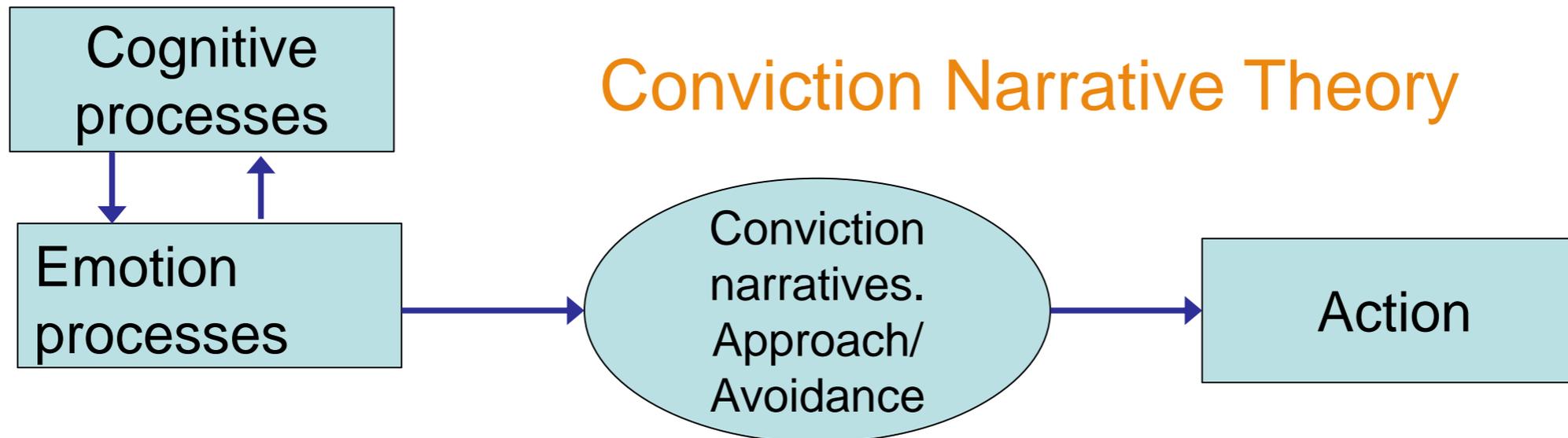
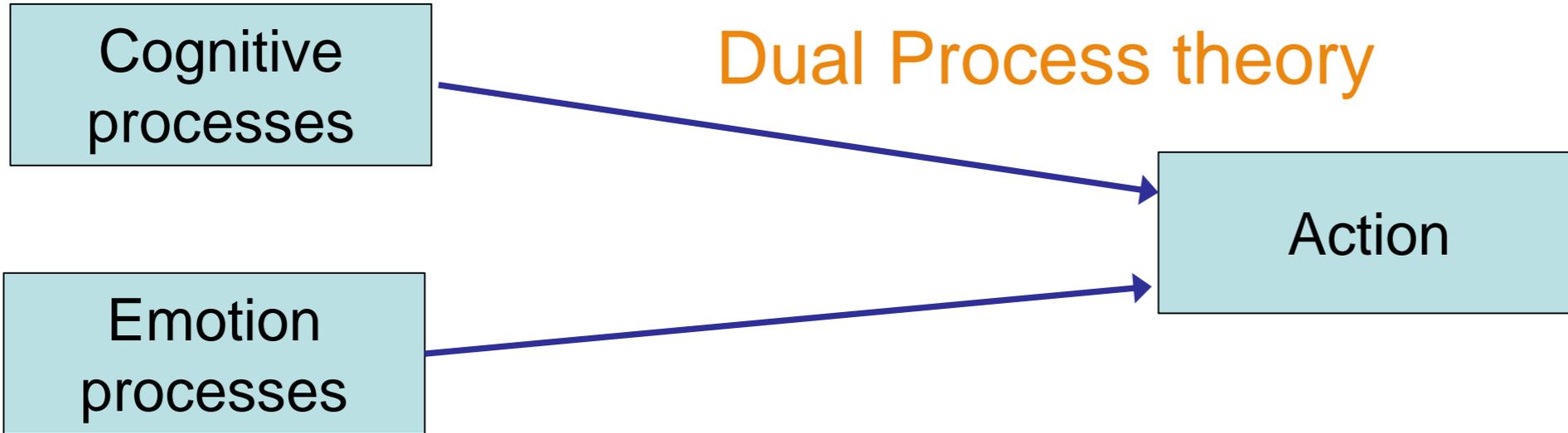
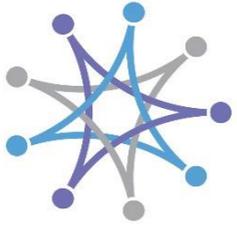
In small world problems rational analysis and gathering comprehensive data represent sensible approaches to deciding. In large world problems they may simply be a ritualistic defence against the anxiety generated by radical uncertainty.

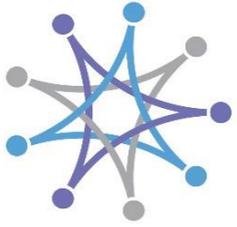
A classic description of good decision-making

1. perfectly define the problem,
2. identify all criteria,
3. accurately weigh all of the criteria according to your preferences
4. know all relevant alternatives,
5. accurately assess each alternative based on each criterion, and
6. accurately calculate and choose the alternative with the highest perceived value.

Conviction narrative theory

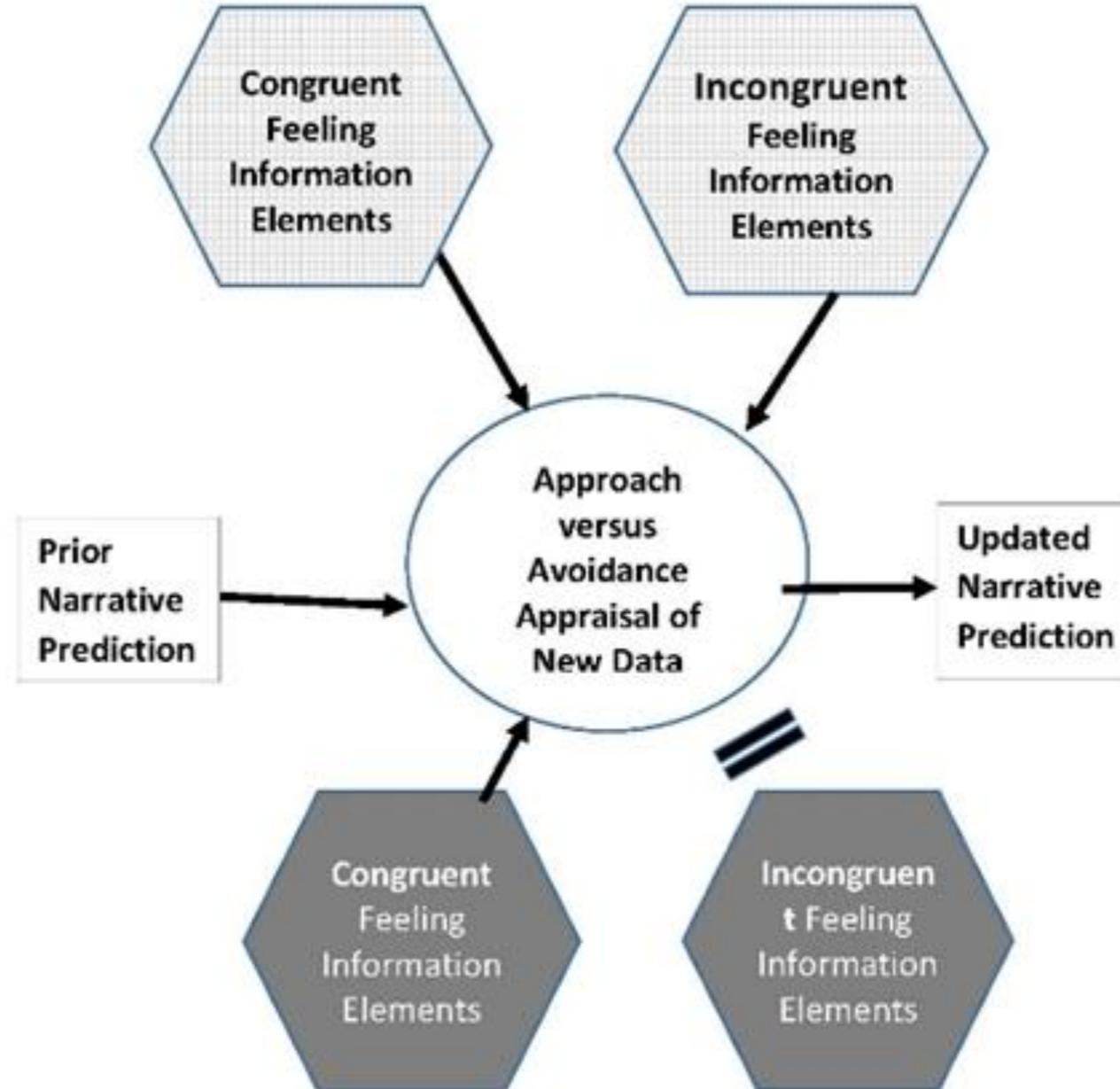
- Humans are story tellers
- In response to uncertainty we develop narratives to the point they provide a subjective sense of certainty about action
- We use stories to project our bodies into the future and experience the feelings of anticipated success and failure
- The balance between approach emotions and avoidance emotions is a key element in deciding
- Resilient decision making involves the courage to act whilst being open to being wrong and updating the narrative
- Defensive decision-making avoids emotional pain and ambiguity at the expense of adaptive and flexible responses





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Resilient



Avoidant

The Thames Barrier as an example of resilient decision-making

- Environment agency analysis explicitly addressed the ambiguity faced in relation to the impact of climate change on flood risks and the evolving political climate in relation to costs of climate change.
- Decision process did not seek to optimise on the basis of predicted states of the world but to review proposed solutions in terms of robustness across maximum number of future scenarios and the options they provided to update and evolve the solution as knowledge improved
- Solution build a massive base and put a small barrier on top.

Key insights

- Tools of rational analysis just one form of narrative and may be used defensively or resiliently
- Polarisation to primarily approach or primarily avoidance emotions is characteristic of defensive decision-making
- Strategic decision makers need not just the courage to act but the courage to live with ambiguity and the courage to be wrong.

CRUISSE Research Network

Challenging Radical Uncertainty in Science, Society and the Environment

- London School of Economics, University College London, Kings College London, Oxford, Cambridge, Reading, Bath, Open University, Columbia, Duke, Chicago. . .
- Cabinet Office, Financial Conduct Authority, Bank of England, Lloyds of London, EDF Energy, BP . . .
- Physicists, Mathematicians and Statisticians, Psychologists, Sociologists



Q&A

Facilitator: Dr Alex Wright

Professor Mark Fenton-O'Creevy



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Closing Comments

Dr Alex Wright



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Thank you

Please stay for networking and refreshments

Next Breakfast Briefing: Tuesday 14 March –
'Do employers really want their employees to be critical thinkers'



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