

Managerial decision making under Knightian uncertainty: Investigating the role of emotions and narratives

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Project description:

Knight’s (1921) distinction between risk and uncertainty has been widely cited, but much subsequent work has reduced his distinction to whether probabilities are known (risk) or unknown or unknowable (uncertainty).

In fact, Knight’s insisted that uncertainty is not just founded in a lack of a basis to infer probabilities but also in our inability to know all relevant outcomes and states of the world and in the problem of categorization and framing. Knight argued that analysis typically depends upon categorizing the world into *“things, which, under the same circumstances, always behave in the same way”* and that *“the chief logical problem, as already noticed, lies in the conception of a ‘thing’.”*; noting that *“It is manifest that the ordinary objects of experience do not fit this description closely...”* (Knight, 1921: 204-205)

In societies, organizations and groups we co-construct and enact stable frames and categories that conceal much of the radical uncertainty which we face, for the most part getting *“our worlds ready to wear”* Brown (1978: 11). We constantly enact socially legitimated frames for understanding and making our worlds. Such frames vary in the extent to which they are institutionalized and may have a taken for granted quality or be seen as more provisional and malleable. At the same time, these social certainties are increasingly fragile (Baumann, 2007).

The everyday human experience of a world that makes sense and consists mostly of familiar objects and relations between them is a major moment by moment accomplishment (Chia, 2000), reliant on categorizing, filtering and framing experience, and making rapid inferences at all levels of mental functioning from perception onwards (e.g. Barbot & Carrasco, 2018; Carrasco & Barbot, 2018; Rock, 1983). We do not “see” the world but make plausible interpretations of selected sense data based on simplifying assumptions and on the emotionally mediated application of prior experience and socially acquired frames and categories.

There has been increased interest in the implications of Knightian uncertainty for managerial decision-making and recent research has pointed to the very different implications for managers’ decision-making according to whether organizations are conceived to operate in a context of Knightian uncertainty, versus a context of risk, and have begun to explore these implications (Alvarez, Afuah, & Gibson, 2018). We can place these contributions in the context of a wider debate between those stressing the desirability of efficiency criteria and optimization determined by normative concepts of rationality (Powell, Lovallo, & Fox, 2011), and those stressing the value of adaptive decision-making, which follows ‘ecological rationality’ and emphasizes the value of simple context-relevant heuristics in complex and uncertain environments (Mousavi & Gigerenzer, 2014). Relevant insights from the latter perspective have concerned managers’ use of small world representations in contexts of uncertainty and complexity (Levinthal, 2011), the role of

organizations' political processes and power relations in preventing challenge to small world representations (Wilson, Branicki, Sullivan-Taylor, & Wilson, 2010), the use of fast and frugal heuristics (Mousavi & Gigerenzer, 2014), the use of analogical reasoning (Gavetti, Levinthal, & Rivkin, 2005), the role of associative thinking in conceptualizing and seizing cognitively distant opportunities (Gavetti, 2012), and the importance of developing dynamic capabilities in the face of uncertain environments (Teece, Peteraf, & Leih, 2016). Scholarship focused on the context of entrepreneurial decision-making has paid especial attention to Knightian uncertainty (Sarasvathy, 2001); generating notable insights into engagement by entrepreneurial managers in the social construction of opportunities in conditions of Knightian uncertainty (Alvarez & Barney, 2007).

Despite these advances and increasing attention to behavioral factors in managerial decision-making, there have been three main weaknesses to date: excessive focus on the limits of human cognition at the expense of the limits imposed by the information context; insufficient attention to emotions as necessary elements of human decisions; and insufficient attention to how managers develop conviction for action in the face of uncertainty. Research by Tuckett and colleagues (Chong & Tuckett, 2014; Tuckett & Taffler, 2008; Tuckett & Taffler, 2013; Tuckett & Nikolic, 2017) has pointed to the importance of emotions and narratives in the ways humans respond to uncertainty (in the context of decisions in financial markets). This perspective seems well suited for application to wider decision-making in the fields of business and public management and policy.

A research network funded by multiple research councils has taken important steps to build a network of practitioners and academics from multiple disciplines across the UK interested in decisions under Knightian uncertainty (Mark Fenton-O'Creevy is a founder member of this network on Challenging Radical Uncertainty in Science Society and the Environment <http://cruise.ac.uk/>).

Proposals are invited for PhD research which focuses on how managers make decisions in the context of Knightian uncertainty – proposals which consider the role of emotions and narratives are especially welcome.

About the Supervisors:

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