

Varieties of Knowing and Strategy Making under Knightian Uncertainty

Violina Rindova, University of California-Irvine

PAPER ABSTRACT

Prelude

In a recent session with the senior leadership team of a leading retailer, while brainstorming new directions for the company's strategy, the team wrote on the board "How do we know?" and listed "exploring different research methodologies" as an important item for the executive team's agenda. Why did this question, typically reserved for conversations in the philosophy of science and epistemology, bubble to the top of the issues discussed by a senior leadership team in relation to the future of their firm? What implications does the question, "How do we know" have for the field of strategic management?

Like many strategic leaders around the world, this senior leadership team was contending with Knightian uncertainty (KU), a strategic situation defined by change with poorly understood cause-effect relationships. As Frank Knight (1921: 313) explained, "Change of some kind is a prerequisite to the existence of uncertainty" and "change according to a known law (whether or not we call it change) does not give rise to uncertainty." This executive team faced such change in their industry. Global retail is currently being reshaped by profound shifts in the relationships consumers have with brands, retailers, and each other. As an industry observer noted, retail has become a multi-player game, where brands are now selling to consumers, manufacturers – big and small -- are selling to consumers, and consumers are selling to each other. In addition, technology trends are altering both online and physical retail environments, and changing

demographics and preferences are pushing retailers toward creating experiences that go well beyond the distribution of goods. These profound multi-directional shifts have left retailers – and every other actor in their value chain – confused, uncertain, and eager to get a better understanding of their new reality. As suggested by Knight (1921: 199), this executive team was grappling with the partial knowledge problem that uncertainty poses -- “action according to opinion, of greater or lesser foundation and value, neither ignorance nor complete and perfect information, but partial knowledge.” The executives were aware of their partial knowledge problem. Furthermore, they were looking not only for new knowledge, i.e. new understanding of the changing market environment, but also for new approaches to generating knowledge and for new ways of thinking about strategy making. This experience left me with the question: How would the field of strategic management answer the executive team’s question “How do we know?”

To address this question, in this paper I follow Knight’s (1921: 199) call that “to understand the workings of the economic system we must examine the meaning and significance of uncertainty; and to this end some inquiry into the nature and function of knowledge itself is necessary.” I consider the varieties of knowledge, and knowing, that scholars in strategic management have discussed in studying the relationship between knowledge and strategy. I focus on four perspectives that offer different conceptions of knowing and knowledge to articulate the different implications they have for thinking about how firms may address the knowledge problems that uncertainty poses. My goal is two-fold: First, to stimulate a conversation in strategic management research about the various types of knowledge strategists may generate and use under uncertainty; and second, to offer a strategic toolkit that strategists

may use in strategy under KU by articulating the different cognitive processes, modalities, and practices different ways of knowing entail.

The four perspectives I will discuss are: a) the strategic cognition view of knowing as forming mental models and schemas; b) the theory-based view of knowing as developing causal models generated through deductive reasoning and rigorous hypotheses testing; c) the design-science perspective on knowing as creating new artifacts; and d) the narrative view of knowing as blending the real and the imaginary into the fictive. My overview suggests that each perspective represents knowing and knowledge in different ways, and that these differences could influence how strategists formulate and solve problems, and how they mobilize resources and stakeholder support. Specifically, I theorize how different forms of knowing may affect differently four strategic processes: a) problem formulation, which requires negotiating internal agreements among divergent understandings and interests; b) problem solving, which involves search for and selection of solutions; c) resource acquisition and development, which links problem solving to requisite resources and capabilities; and d) stakeholder mobilization, which involves getting stakeholder support for pursuing specific courses of action under KU. My paper is organized as follows: I first briefly discuss knowledge and knowing; I then review the four perspectives focusing on how knowledge is acquired, represented, and used in strategy; finally, I lay out how different ways of knowing influence the key strategic processes discussed above.

Remarks on Knowledge and Knowing

In strategy research, knowledge is largely thought of as propositional knowledge, which enables causal reasoning. This focus is consistent with the broader discussion of knowledge in epistemology, where propositional knowledge “has been much more extensively discussed than other forms of knowledge” (Zagzebski, 1999: 92). This is because propositional knowledge is

explicit, and therefore, more readily comprehensible and transferable than other forms of knowledge, such as tacit knowledge of skills (Ryle, 1945) and experiential knowledge (Russell, 1954). Knowledge in propositional form enables people to reason, communicate their knowledge, and transfer it to others. However, Zagzebski (1999: 93) notes that, “The theoretical convenience of propositional knowledge does not necessarily imply its greater importance.” While the question of the relative importance of types of knowledge is well beyond the scope of this paper, one of my goals is to spotlight different types of knowing and forms of knowledge and to outline some of their implications for strategic action under KU.

Zagzebski (1999: 92) defines knowledge as “a highly valued state, in which a person is in cognitive contact with reality” and “therefore, a relation.” My argument is that to consider varieties of knowing is to consider different ways in which this highly valued state could be achieved, and the different cognitive relations to reality this creates. Whereas traditionally knowledge is defined as justified true beliefs, knowing encompasses a broader spectrum of relating to and representing reality. For example, knowing through design is embodied in artifacts, which represent knowledge in material and visual forms. Knowing through narratives represents knowledge about worldviews and conceptions of the possible. While such modes of knowing do not generate propositional knowledge, they may nevertheless provide useful answers to the question ‘how do we know’ under uncertainty, and therefore, they may be relevant for strategy making under KU. Under conditions of KU, where causal relations are either only partially known, or unknown, exploring a broader modes of knowing may be useful and productive to developing novel strategies that reflect and shape the changing environment.

Shackle (1966: 767) makes a similar argument in stating that “in making strategic decisions two different types of mind are involved. There are truth-seekers and truth-makers ...

On one hand, the pure scientist deems himself to be typically faced with a problem which has one right answer... On the other hand, the poet-architect-adventurer sees before him a landscape inexhaustibly rich in suggestions and materials for making things, for making works of literature or art or technology, for making policies and history itself..." Herbert Simon (1991) similarly differentiates the sciences of the artificial from the natural sciences in stating, that " Engineering, medicine, business, architecture and painting are concerned not with the necessary but with the contingent - not with how things are but with how they might be - in short, with design." Thus, my modest proposal is, that to address the knowledge problem that KU poses, strategists may do well to consider not only how to acquire new knowledge in the strict sense of declarative propositional knowledge, but to also explore different ways of knowing. To do so, they must become knowledgeable about different modes of knowing and their impact on thinking and imagining. Strategic management research may also benefit from broadening the aperture of studying knowledge, knowing, and imagining under uncertainty.

REFERENCES:

- Knight, F. H. 1921. *Risk, Uncertainty and Profit*. New York: Hart, Schaffner and Marx
- Russell, B. 1988. *Mysticism and Logic*. Rowman & Littlefield Publishers
- Ryle, G. (1945). Knowing How and Knowing That: The Presidential Address. **Proceedings of the Aristotelian Society**. 46: 1–16.
- Shackle, G. L. S. 1966. Policy, poetry and success. *The Economic Journal*, 76 (304): 755-767
- Simon, H. A. 1996. *The Sciences of the Artificial*, 3rd edition. Cambridge, MA: MIT Press.
- Zagzebski, L. 1999. What is knowledge? In J. Greco & E. Sosa (Eds.), *The Blackwell Guide to Epistemology*, 92–116. Oxford: Blackwell.