

Strategy and Agency under Knightian Uncertainty

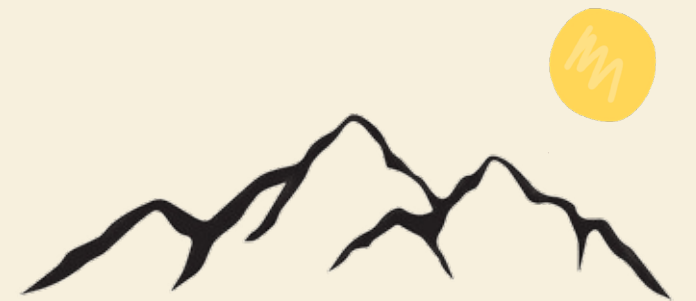
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Agenda

- Spotlight Knight's ideas about knowledge as articulated in Risk, Uncertainty, and Profit, and some of his other writings on epistemics and economic thought
- Foreground the conception of strategists' agency embedded in Knight's ideas about knowledge
- Articulate the cognitive foundations of agency under uncertainty
- Outline implications of an agentic perspective for the relevance of strategy under KU



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Knigh t, 19 2 1, Risk , Uncer tainty and Profit, Chapter 7: Meaning of Risk and Uncer tainty

“

The essence of the situation is action according to opinion, of greater or lesser value, neither entire ignorance nor complete and perfect information, but partial knowledge. If we are 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.

”

Knowledge Is Constructed

Across time

“

We know the absent from the present, the future from the now, by assuming that the connections or associations among phenomena which have been valid will be so; we judge the future from the past.

”

For the future

“

The first datum for study of knowledge and behavior is the fact of consciousness itself... The essence of mentality from a functional standpoint seems to be its forward-looking character.

”

And for action

“

The universal form of conscious behavior is thus action designed to change a future situation inferred from a present one.

”



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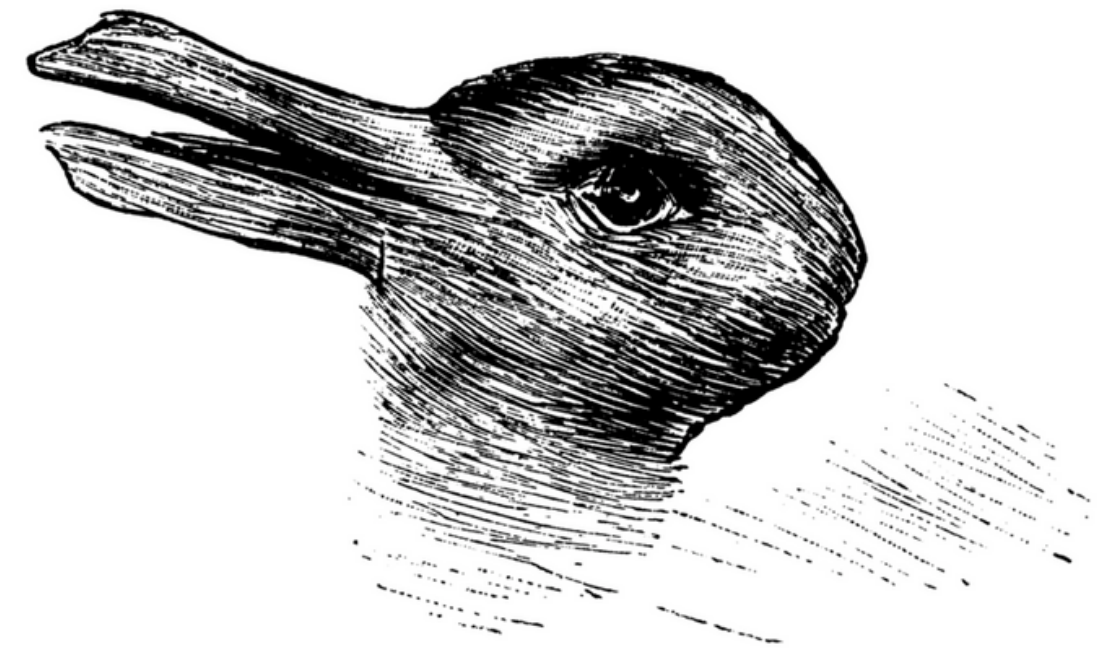
Cognitive Representations Are Creative and Intentional Acts

“

We cannot make an exhaustive classification of things, but must take various and shifting groupings according to the purpose and problem in view, assimilating things now on the basis of one common property (mode of behavior), and now on the basis of another.
(Knight, 1921)

”

Welche Thiere gleichen ein-
ander am meisten?



Kaninchen und Ente.



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Is KU a Hall of Mirrors?



- The selection of things and assignment of meaning creates subjective and purposeful representations of the situation
 - What is relevant?
 - What is in and what is out (boundaries)?
 - What is figure and what is background?
- The incomplete knowledge problem gives primacy to mental representations over objective characteristics, and to creative construction over detailed analysis



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KU Requires and Enables Agency

“As uncertainty increases, so do the “degrees of freedom” to select ends and means—including means and ends beyond current understanding of what is expected, appropriate, or desirable.

The less defined the knowledge frameworks that guide action, the greater the need and opportunity for a firm to define them, and the greater the importance of direction, coordination, and means–ends reasoning provided by intentions”

Knight's Views on Knowledge for Agency

- Knowledge is for action. It gives actors agency to explore fundamentally novel directions, and not just reduce uncertainty
- Knowledge is multi-faceted and agency rests on multiple types of knowledge:
 - technical (analysis of the situation)
 - self (of the knower)
 - social (of other knowers)
- People vary in the extent, form, and circumstances in which they can exercise agency



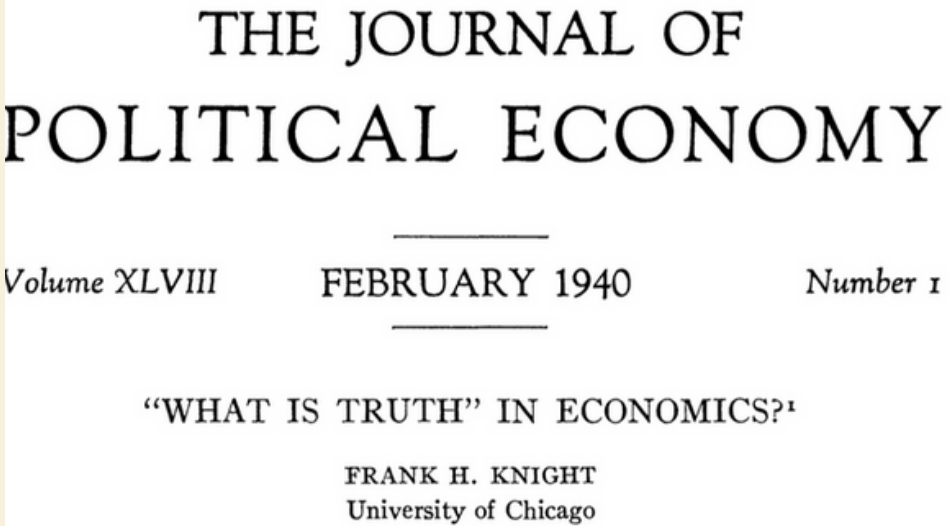
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Knight's Broader Perspective on Knowledge

Knowledge for action

“ The subject matter of relevant knowledge of conduct, in contrast with mechanical response, is primarily human interests in action, in contrast with the interest in knowledge -- and the relation between interests and action, in our knowledge of both, and in action itself. ”



Knowledge of self and others

“ But anything that can properly be called knowledge on the part of any subject is unthinkable apart from self-knowledge and valid inter-communication with similar (competent and trustworthy) knowing selves, living, thinking, and acting in relation to a common world of not-self, which is the general object of knowledge. ”

Knight, 1921, Risk, Uncertainty and Profit, Chapter 8: Structures and Methods for Meeting Uncertainty

“

[People] differ in the capacity for perception and inference to form correct judgments to the future course of events in the environment. This capacity, furthermore, is far from homogenous, some persons excelling in foresight in one kind of problem situations, others, in other kinds, in almost endless variety.

- 1.... the variation in the power of reading human nature, of forecasting the conduct of other men, as contrasted with scientific judgment in regard to natural phenomena.
2. ... difference is found in capacities to judge means and discern and plan the steps and adjustments necessary to meet the anticipated future situation.
3. ... variation in the power to execute the plans and adjustments believed to be requisite and desirable.
- 4.... diversity in conduct ... due to differences in the amount of confidence which individuals feel in their judgments ... their powers of execution; this degree of confidence is in large measure independent of the “true value” of the judgments and powers themselves.
- 5.... the conative attitude to a situation ... It is a familiar fact, that some individuals want to be sure and will hardly “take chances” at all, while others like to work on original hypotheses and seem to prefer rather than shun uncertainty.

”

Knight, 1921, Risk, Uncertainty and Profit,
Chapter 8: Structures and Methods for Meeting Uncertainty

“

The amount of uncertainty effective in a conduct situation is the degree of subjective confidence felt in the contemplated act as a correct adaptation to the future – number 4 above.

[w]e may speak in some sense of the “true value” of judgment and of capacity to act, but it is the person’s own opinion of these values which controls his activities.

Hence the five variables are, from the standpoint of the person concerned, reduced to two, (subjective or felt) uncertainty and his conative feeling toward it.

”

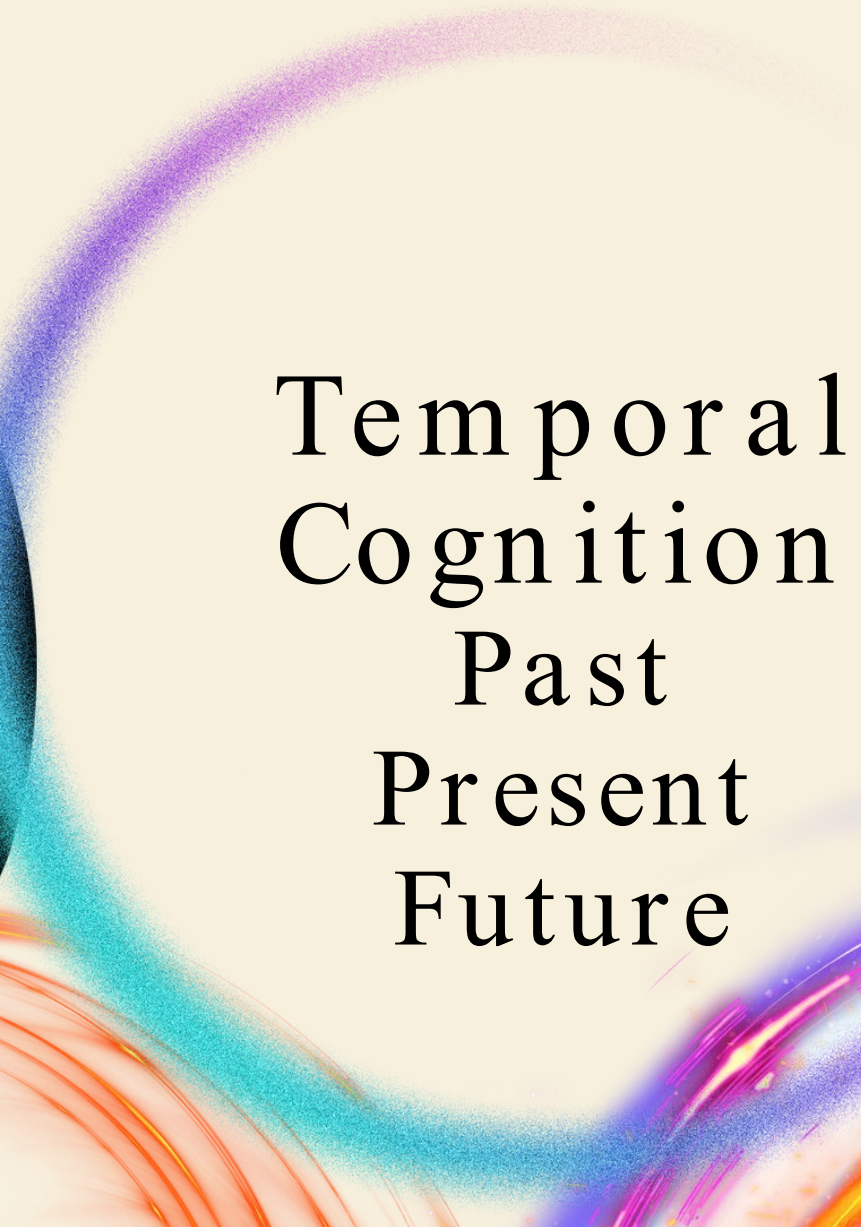


Cognitive and Conative
Capacities for Agency
under KU

Cognition + Conation



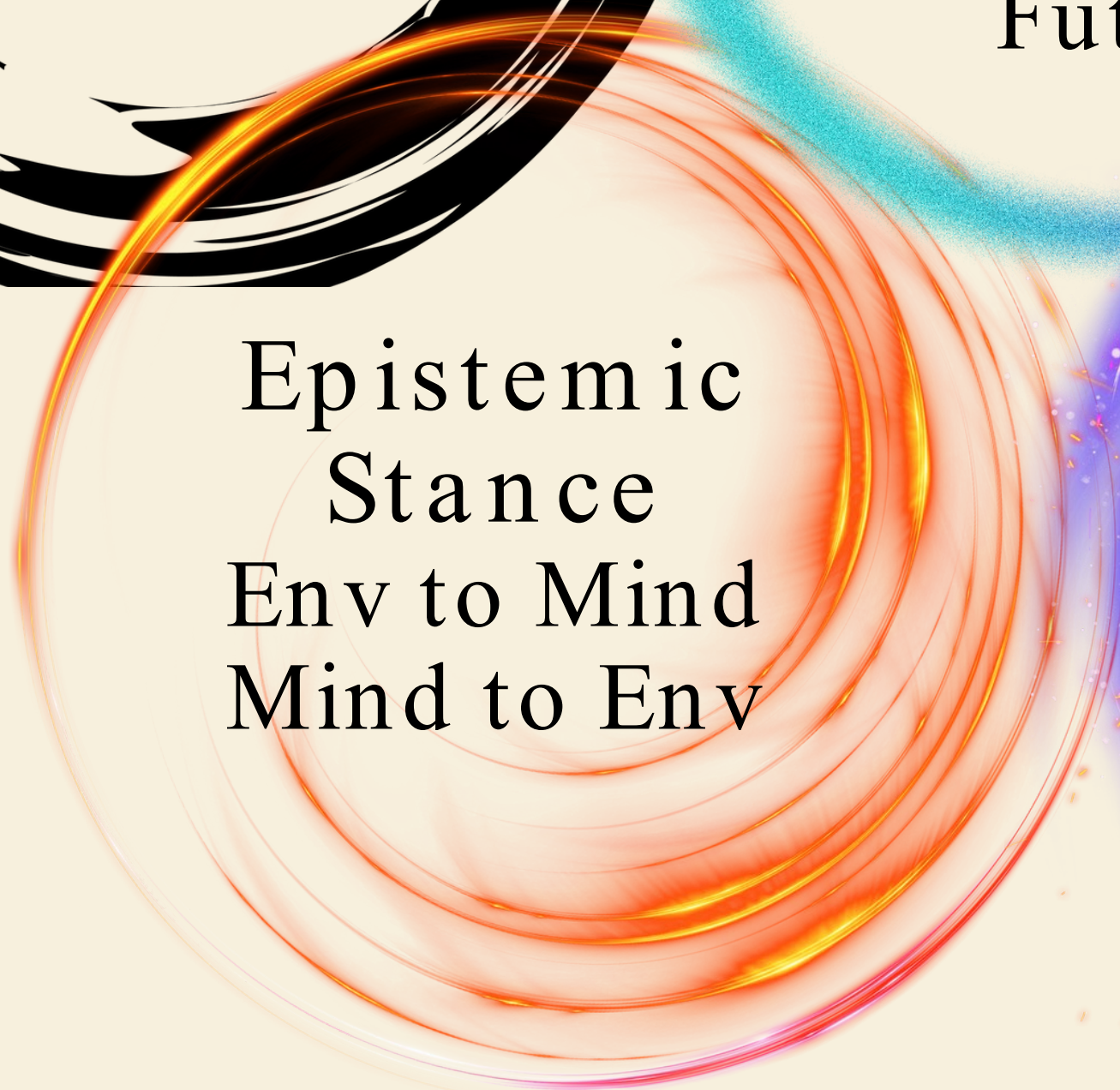
Conative
Attitude
Doubt
Opportunity



Temporal
Cognition
Past
Present
Future




Regulatory
Focus
Promotion
Prevention



Epistemic
Stance
Env to Mind
Mind to Env



Imagination
Productive
Creative



Conative
Attitude
Doubt
Opportunity

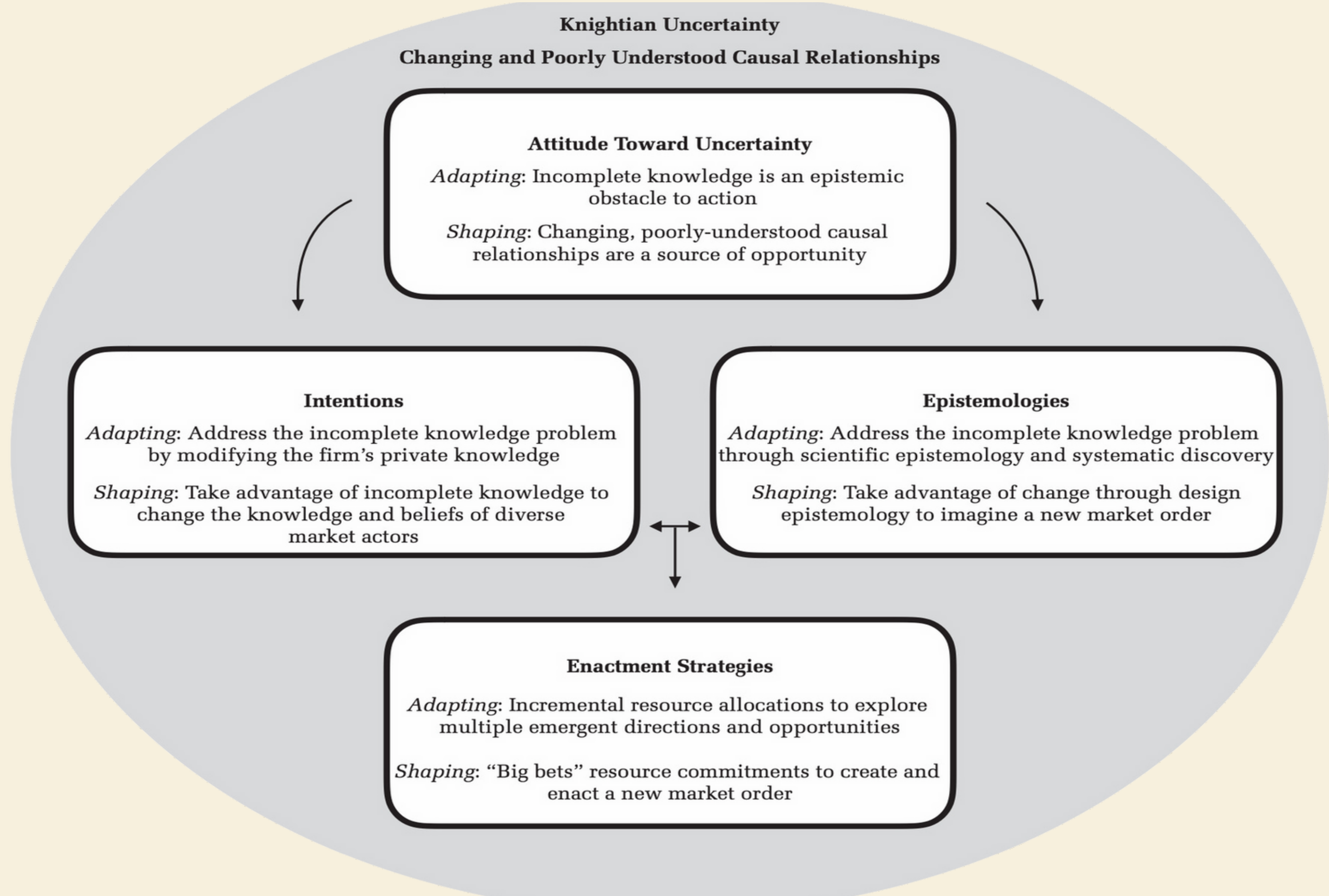
Conation is a mental faculty associated with purpose, desire, willing, striving, and agency

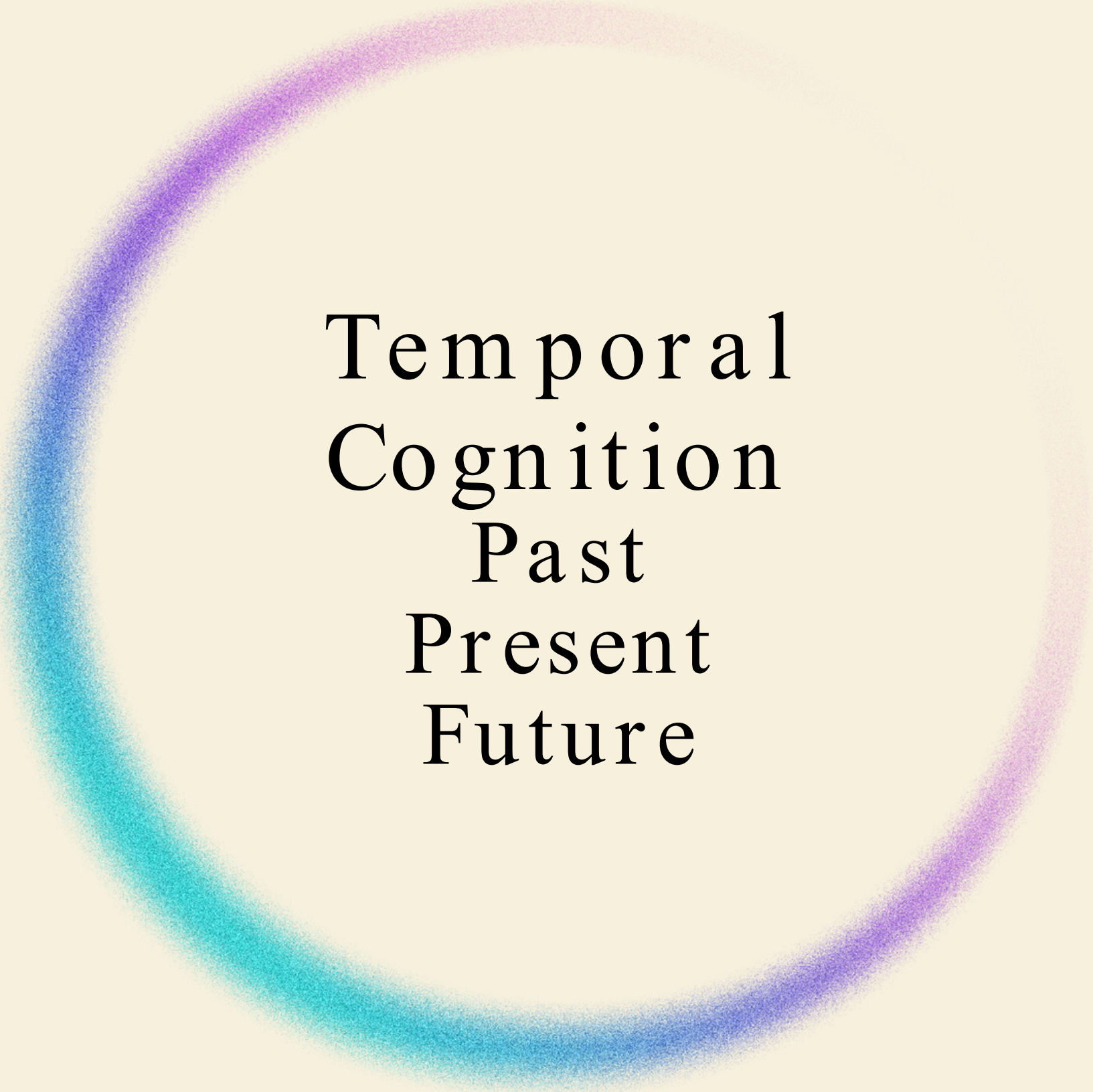
It is associated with committing and sustaining intellectual energy toward solving problems and completing tasks

Kant (1988) categorized conation as one of the three “absolutely irreducible faculties of mind” - knowledge, feeling, and desire and related it to the conception of freedom

Attitude of doubt associated with delaying action and/or not committing to a direction of development

Attitude of opportunity associated with pioneering, making big bets, shaping by committing and influencing. Individual-level research on uncertainty-seeking relates it to exploratory, expansive agency, and strategy research on shaping to changing the pay-offs for others





Temporal
Cognition
Past
Present
Future

Temporal focus refers to the extent to which individuals characteristically think about the past, present, and future

Most research is at the individual level focused on well-being and work performance suggest that future focus improves performance outcomes, whereas present focus improves well-being

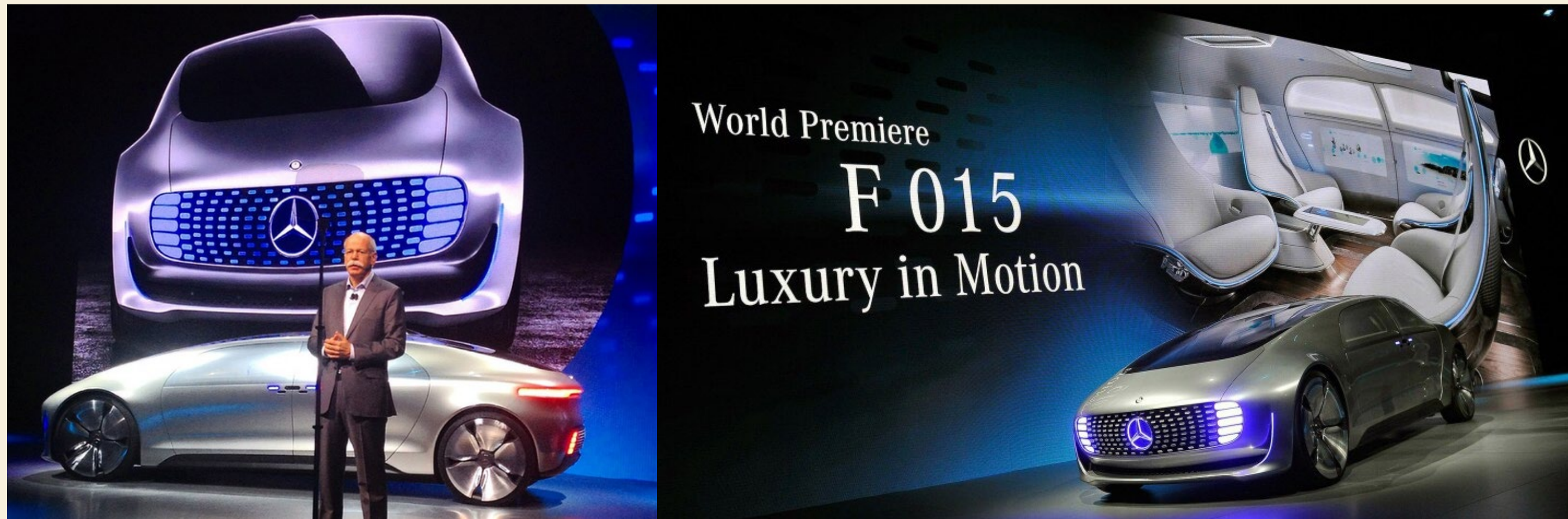
Mental time travel - a key imaginative process -- refers to deliberate processes for connecting the three, often to identify resources for imagination and action.

Temporal work at the organizational has effects on agreements on strategy under uncertainty, and implementing change, esp. radical change

Temporal depth research in strategy relates length of time horizons to differences in strategic goals, stakeholder interactions, and scope of strategies

Mercedes-Benz Re-imagining the Future of Mobility

“Cars will turn into ... exclusive cocoons on wheels that enable people to do exactly what they want or need to do. This is the redefinition of automotive luxury.”

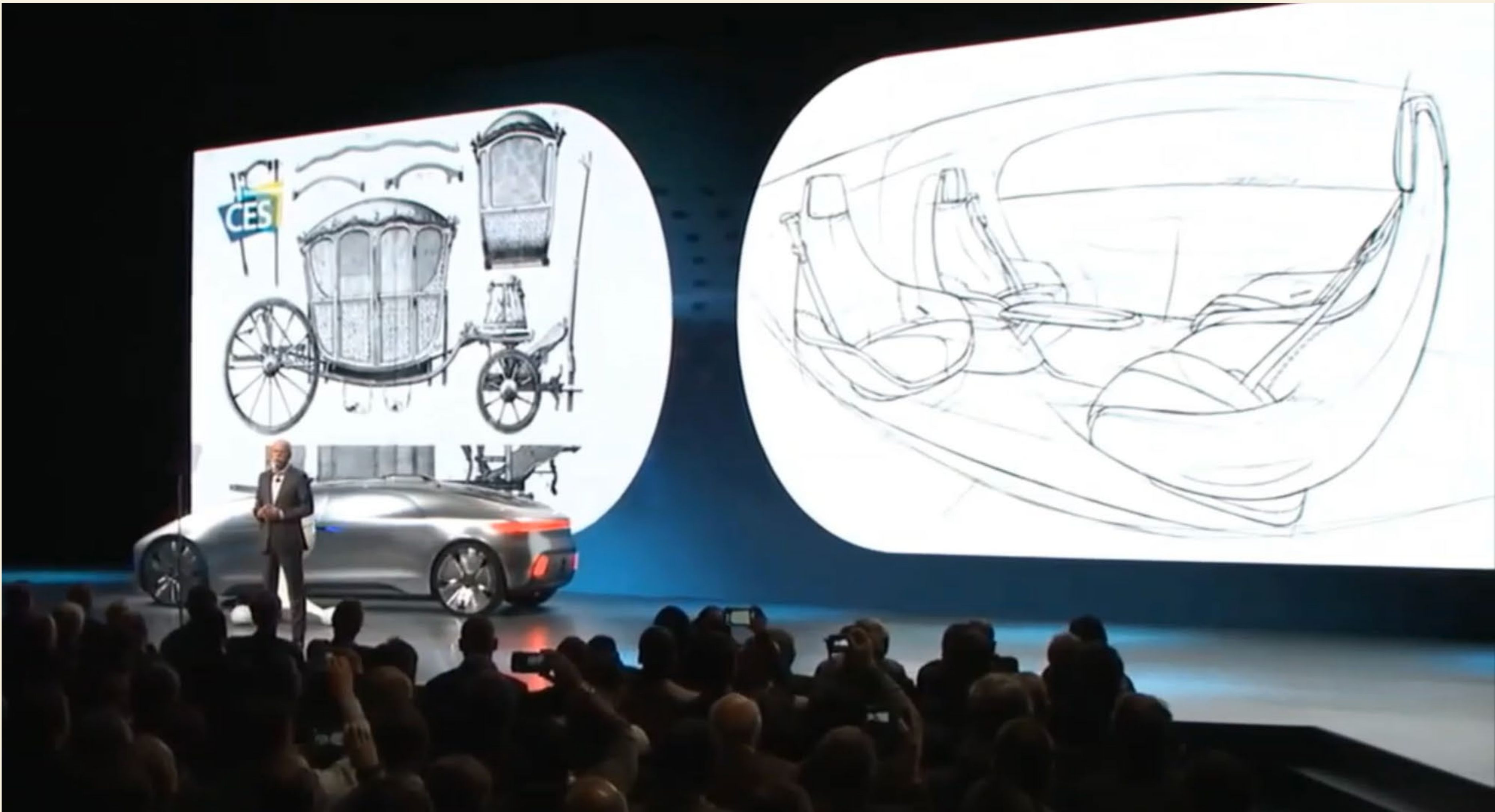


Rindova & Martins, 2022. Futurescapes: Imagination and Temporal Re-organization in the Design of Strategic Narratives. Strategic Organization.

2015 CES



“We are now going back to the future...”





Epistemic Stance Environment to Mind Mind to Environment

Epistemic stance is a cognitive relation to the environment based on intentions about “direction of fit” (Searle, 1989).

The primary intention in fitting the environment to one’s mind is the development of true beliefs, i.e. true/accurate representations of the existing environment.

“Beliefs aim at being true, and their being true is their fitting the world; falsity is a decisive failing in a belief, and false beliefs should be discarded; beliefs should be changed to fit with the world.” Platts (1979)

The primary intention in fitting one’s mind to reality is realizing desired futures.

“Desires aim at realization, and their realization is the world fitting with them; the fact that the indicative content of a desire is not realised in the world is not yet a failing in the desire, and not yet any reason to discard the desire; the world, crudely, should be changed to fit with our desires, not vice versa.” Platts (1979)

“

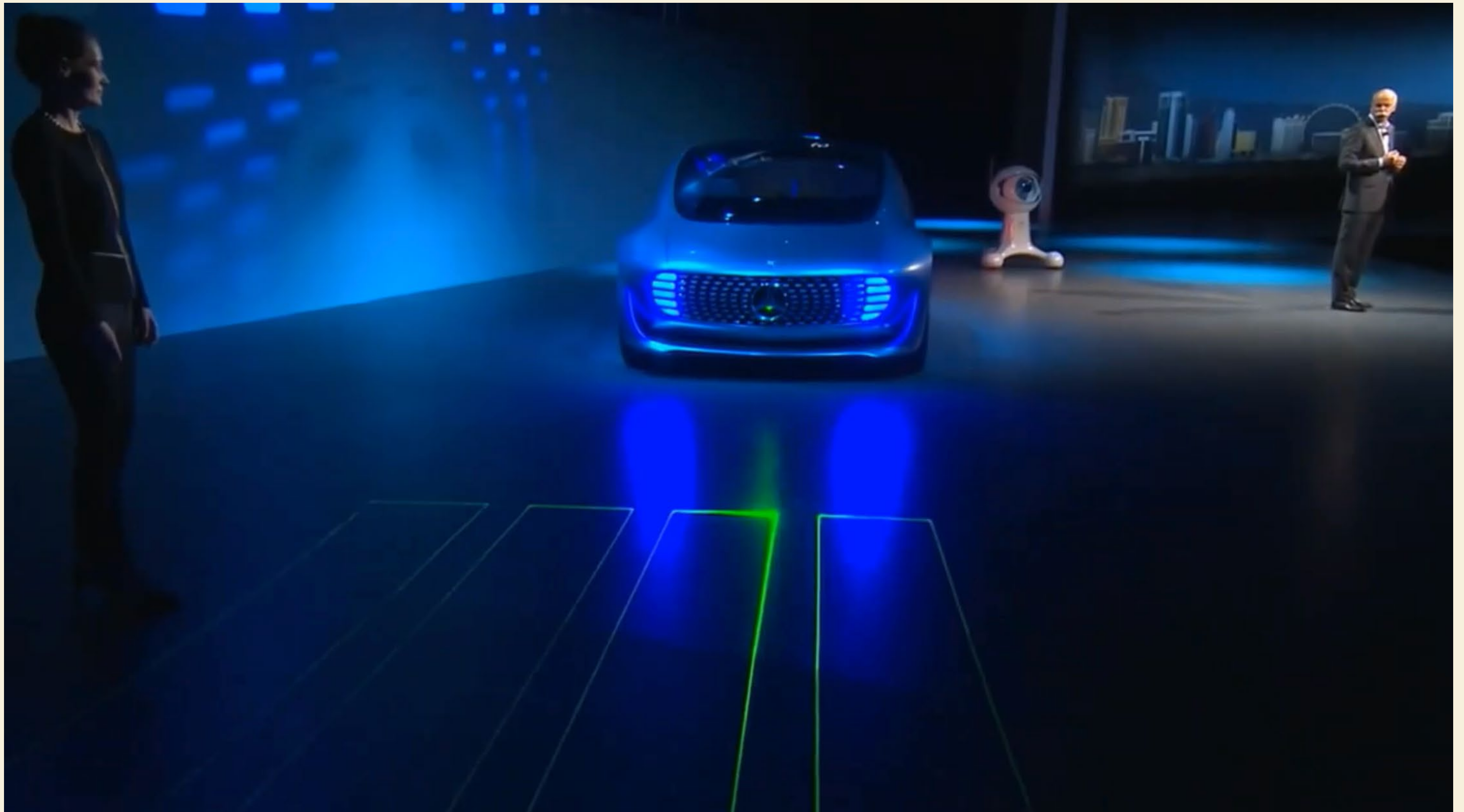
On the one hand, desires have a primary, assertive, creative, and experimental character; they are choices.

On the other, they have a cognitive quality...[t]he motive of conduct is more or less a judgement of real worth ...”

”



Knights, 1925. Economic Psychology and the Value Problem. The Quarterly Journal of Economics.





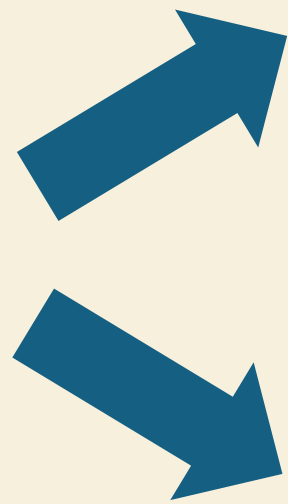
Imagination Productive Creative

Productive imagination is the faculty through which people reorganize knowledge and synthesize diverse information and experiences (“the manifold”) into conceptual knowledge, which is the foundation of reasoning.

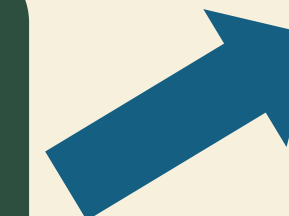
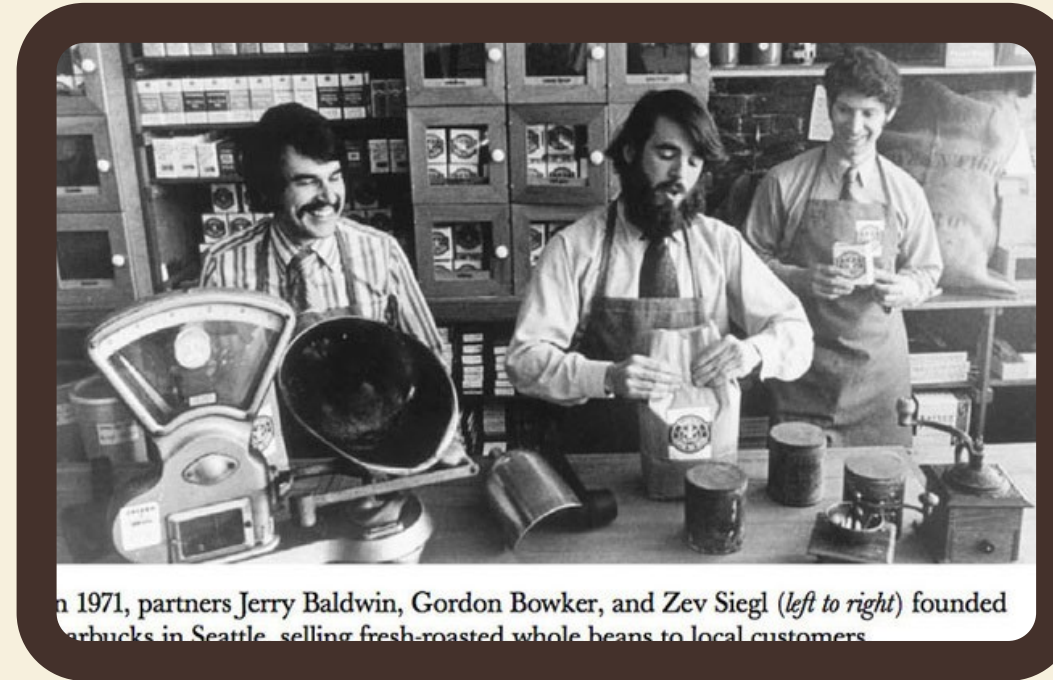
Creative imagination is the “free play” of thought -- “free to explore or play ... putting the manifold together in a multitude of different ways” (Matherne, 2016) as the foundation of creative artistic pursuits.

The two broad categories are distinct from the variety of specific mechanisms through which people imagine: mental simulation, mental time travel, counterfactual reasoning, analogical reasoning, conceptual combination, and deliberate associating.

How Starbucks Reimagined the Coffee Experience



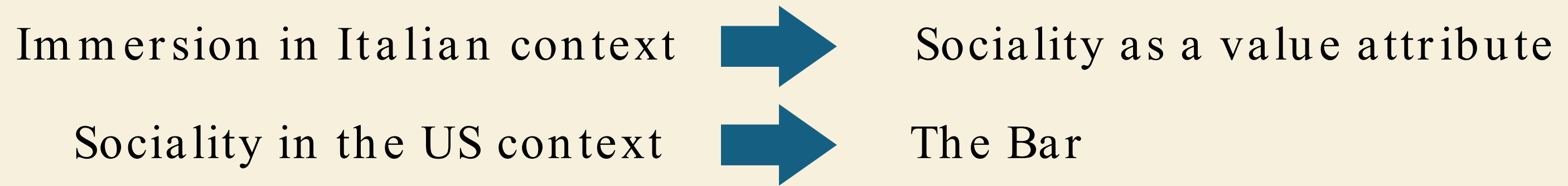
The bean



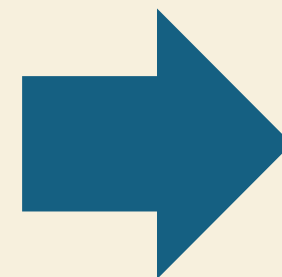
The experience




Coffee + Sociality = Coffee Bar



Conceptual combination introduced elements of the “bar” in the coffee shop: the barrista, hand -made beverages, customized drinks, and alcohol -level prices





Regulatory Focus

Promotion

Prevention

Regulatory focus captures how people pursue goals

The two types of regulatory foci are differentiated by needs, standards, target outcomes, thinking styles, planning and performance

Promotion Focus

- Growth needs
- Ideals as standards
- Aims at attaining positive outcomes
- Works fast and prepares for best-case scenarios
- Disjunctive thinking - options and milestones
- Outperforms under uncertainty (mediated by need to pivot)


Prevention Focus

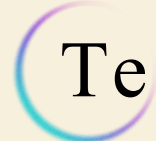
- Safety needs
- Oughts/duties as standards
- Aims at avoiding negative outcomes
- Works fast and prepares for best-case scenarios
- Conjunctive thinking -- sequences and completion
- Underperforms under uncertainty (mediated by need to pivot)


What Is Distinctive about a Human Agency Approach to Strategy under KU

- KU requires and enables agency.
- Agency rests on cognitive + conative capacities, which provide a distinctive toolkit for strategists to develop knowledge (theories) and take action (strategies) under uncertainty.
- Agency goes beyond decision making. It involves reality making through imagination and action.
- As agents, strategists problematize settled situations to create desirable futures.
- A human agency approach to strategy making aligns with the necessarily subjective nature of strategy under KU.


How Cognitive + Conative Capacities Support Agency

 Conation captures proactivity and the will to act, commit, and persevere needed to achieve transformational goals.

 Temporal cognition affects how the past and present are brought to bear on the future.

 Epistemic stance reflects intentions for how to connect imagination, desires and actions.

 Imagination creates images and scenarios not immediately present, facilitating the conception of possibilities and the anticipation of developments.

 Regulatory focus explains the different ways in which people pursue goals and how these differences affect action under uncertainty.

Together, these concepts highlight the complex interplay between motivation, cognition, and action that constitute strategists' agency under uncertainty.

They explain how strategists can employ cognition and action beyond rational choice to conceptualize uncertain contexts as sites of creativity, potentiality, and transformation.

Strategic Contexts Where Agency Is Necessary (to create relevant strategies)

- Addressing uncertainty through both adaptive (added flexibility) and shaping (more visionary) strategies
- Developing novel and transformative strategies that enable departures from the status-quo
- Addressing grand challenges and ethical and cultural expectations
- Capitalizing on emerging trends and opportunities that are ambiguous and not quantifiable
- Increasing stakeholder engagement around organizational mission, values, and broader ethical considerations

Thank
you!