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Why today's leaders need to know about the power of narratives



Effective narratives articulate the 'why' - a higher purpose or common goal

Image: Erkan Utu

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When Jack Ma, China's iconic business leader and founder of the e-commerce giant Alibaba, spoke at the World Economic Forum's Annual Meeting in 2017, the corridors were packed with

ministers, business leaders and journalists eager to hear from him. How would he evaluate the 2016 US election results and President-elect Donald Trump, whom he had just met?

"Globalization is good, but needs to be improved", Ma said. "In the past 30 years, globalization was controlled by 60,000 companies. What if, in the next 30 years, it could support six million businesses?"

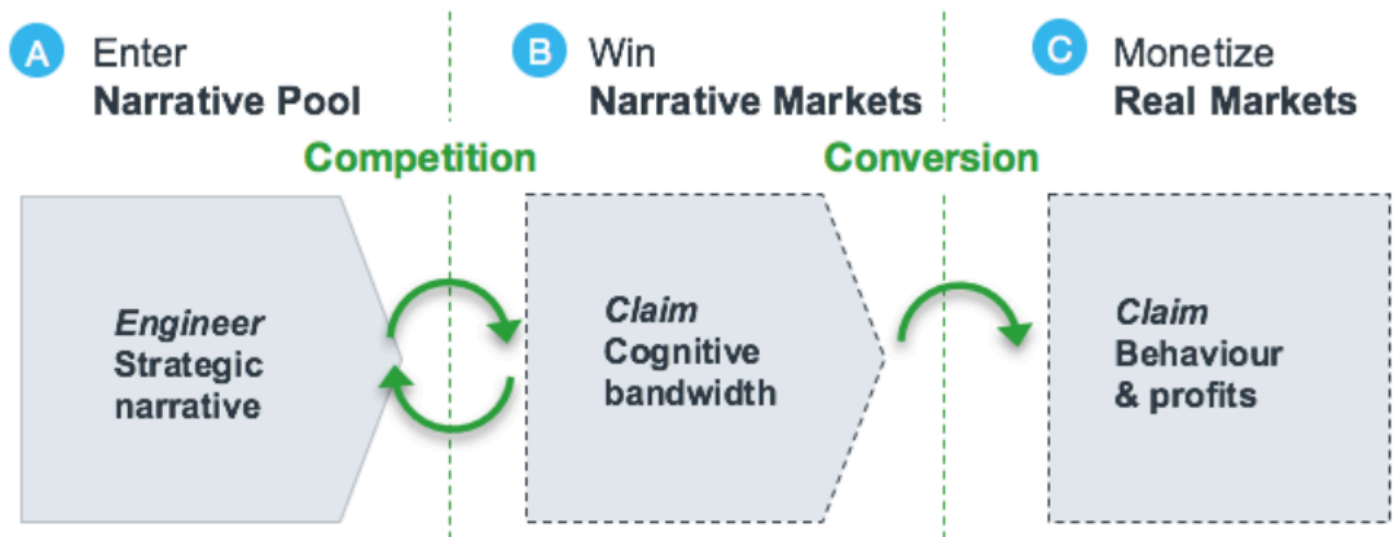
Rather than just answering the question, Ma changed the conversation. In his mind, the real fault line is not between China and the US; it is between two visions of globalization. Several months later, he launched an unprecedented partnership between Alibaba and the World Trade Organization to advance e-commerce policies that benefit small businesses. It may be too early to tell if Ma's narrative has caught on. But his response shows how competing successfully in "old" markets for capital, labour, goods and services no longer suffices. Firms, governments and other actors are compelled to create, contend and collaborate in new markets with distinct features and operating rules - markets for narratives.

The cryptocurrency boom is a staggering instance of this, with its whitepapers and ICOs. Cryptoassets such as Bitcoin, Ethereum and Ripple are portrayed as ingenious technological innovations. More than that, they are infectious narratives swirling in the minds of their consumers and investors. The massive energy needed for "mining" Bitcoins shows how imagined realities shaped by narratives impact on our physical reality, and *vice versa*.

Behavioural economists, starting with Daniel Kahnemann and Richard Thaler, were among the first to state the importance of narratives in decision-making. They argued that our analytical "slow brain" often turns to our intuitive "fast brain" for help. Heuristics or mental shortcuts take over when too little information or too much complexity compromise our rational calculus.

But narratives are more than mental shortcuts for the real world - they increasingly *are* the real world. Corporate narratives generate demand, attract top talent and, whether in banking or biotechnology, help secure a licence to operate. In economies, they inspire us to spend and start businesses, or impel us to sit tight, curtail outgoings and reduce risk. And yet, we know relatively little about how organizations compete for their narratives to be heard. This is a contest that increasingly determines success in "old" real markets, as well as in political and civil arenas.

A new strategy paradigm is called for. Winning in old markets for capital, goods and services depends increasingly on competing successfully in new markets for narratives. Old markets organize the efficient allocation of real-world scarcity. New markets organize mental-world scarcity - the limited cognitive and affective resources that shape our behaviours and preferences. Both are distinct yet tightly linked. Actors compete in narrative markets to secure claims on cognitive and affective bandwidth from consumers, investors or governments, which is then monetized in old markets.



Corporate giants such as Alibaba and Amazon fight not only over retail or fintech market shares, but over mind shares in the public debate about how technology serves humanity. Simplifying Amazon's narrative is about translating an ultra-efficient, data-optimized pipeline into customer value through cheaper prices. Alibaba's narrative is about a platform where small and medium enterprises gain market access, and about expanding aggregate supply and employment. In places such as India or Singapore where Amazon and Alibaba compete head-to-head, the battle for customers, suppliers and regulators will unfold as much in the market for narratives as in actual electronic marketplaces.

Effective narratives are defined by two characteristics. Firstly, they articulate the "why" - a higher purpose or common goal that helps actors overcome vested interests and form a shared identity. The first line in [Satoshi Nakamoto's eminent white paper](#) that launched Bitcoin describes how "a purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without going through a financial institution".

Secondly, effective narratives establish cause-effect relationships that form the basis for working towards this goal. Chinese electric vehicle manufacturers and Tesla are rivals in retail markets, but also partners in propagating the idea that electric passenger vehicles are the best means for lowering carbon emissions.

Narratives interact with the real world in that actors combine normative beliefs (the "why") and positive beliefs (the "how") into decisions which result in perceived outcomes that potentially trigger a change of the narrative itself. As such, narratives are categorically different from stories. Stories are self-contained, whereas narratives are open-ended. Stories are subjective accounts of other people's decisions, while narratives are about us. "The resolution of narratives depends on the choice you make and the actions you take - you will determine the outcome", [writes John Hagel](#).

However, for narratives to scale, these characteristics are not sufficient. Strategy must come into play. For instance, cloud computing first struggled as a narrative, with its delicate trust and privacy issues. The term was coined in 1996 by NetCentric, which, like other cloud pioneers such as Sun Microsystems, failed as a business. Only when then-CEO of Google Eric Schmidt [introduced the term to an industry conference](#) did the idea take off. Soon, [Microsoft, IBM, Amazon, Alibaba and others joined in](#) the narrative, leading to the emergence of a new industry ecosystem with vast implications for organizations and real markets. The evolution of the cloud narrative demonstrates that for narratives to scale, leaders must become champions in shaping them.

Narrative markets operate under different principles than traditional markets. But they face similar challenges, from lack of access to suboptimal equilibrium and political distortions. In fact, low institutionalization, in combination with rapid technological changes, exacerbates these challenges, as shown by the Cambridge Analytica scandal. The more important narratives become, the greater the temptation to take advantage of asynchronous information, network centrality, and tools and technologies that exploit our emotional and cognitive biases.

At a time when worn social, economic and political narratives are falling apart, the race for new narratives is greater than ever. From securing a licence to operate in foreign markets to tapping into the purchasing power of millennials, to building trust in emerging technological domains such as big data, AI, autonomous vehicles and biotechnology, successful narratives are key.

Strategy at the highest level is about shaping narratives and the markets where they compete.

In an information society, mental resources are scarcer, and hence more valuable, than material ones. The amount of material resources that imagined realities such as digital currencies can command and leverage has never been larger. As a result, crafting meaningful narratives that reshape the way we think, feel and act is the utmost strategic leadership challenge. The role of chief narrative officer has been assigned to CEOs, entrepreneurs and politicians. Narratives come first; the rest of strategy follows.

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