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## **“We made a mistake”: How top executives dialectically narrate strategic errors in situations of strategic change**

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Abstract:	Based on 21 in-depth interviews with CEOs and board chairs leading 900,000 people in large financial firms in Europe, this study surfaces the acknowledgment of strategic errors in top executives’ narratives as a broad theme associated with strategy change. This theme is intriguing because errors are typically associated with negative connotations undermining leaders’ self-image and credibility. More specifically, this study identifies in top executives’ error narratives a dialectic process consisting of mobilizing errors and de(if)fusing errors or distancing themselves from them; the paper models seven narrative practices within the process. As a first contribution to narrative research on strategy and change, this study introduces strategic errors as a narrative trigger in top executives’ retrospective accounts of strategy change, frequently associated with the plausible economic failure of their firms. Second, while extant research generally focuses on the coherence of individual narratives, this study adds on the relatively rare studies recognizing a dialectic in individual narratives on change.

## **“We made a mistake”: How top executives dialectically narrate strategic errors in situations of strategic change**

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4 **“WE MADE A MISTAKE”: HOW TOP EXECUTIVES DIALECTICALLY**  
5  
6 **NARRATE STRATEGIC ERRORS IN SITUATIONS OF STRATEGIC CHANGE**  
7

8 *“Were there mistakes made? Of course, mistakes were made”*  
9

10  
11 (Chairman, bank)  
12

13 How can leaders talk about strategic errors? Because errors have negative  
14 connotations, one might expect leaders to engage in denial, blame or, at best, discourses  
15 centered on corrective action (Carroll et al., 2021; Lei and Naveh, 2023). The opening quote  
16 from the chairman of the board of directors at a major European financial institution suggests  
17 another option: to make sense of past failure and give sense to subsequent changes in strategy  
18 (Gioia and Chittipeddi, 1991), leaders may choose a narrative that acknowledges errors. Yet,  
19 the acknowledgment of errors appears to be a particularly intriguing phenomenon given the  
20 challenges it might pose for a leader’s self-image and credibility.  
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31 Within the narrative approach to the practice of strategy (de La Ville and Mounoud,  
32 2010; Fenton and Langley, 2011; Vaara and Langley, 2021), extant research has considered  
33 how leaders construct narratives relating to change (Vaara et al., 2016). Building on the  
34 seminal propositions that strategy is, at least partly, about telling and retelling stories (Barry  
35 and Elmes, 1997; Dailey and Browning, 2014), this stream has exposed the richness and  
36 complexity of narratives elicited in change contexts. For example, studies have categorized  
37 narrative types among managers and employees confronted with change (Sonenshein, 2010)  
38 and have focused on dramaturgical practices of managers in a firm where a change initiative  
39 was introduced, then removed (Whittle et al., 2021). Research has also surfaced several  
40 processes through which narratives permit or prevent the adoption of change in various  
41 settings and at various hierarchical levels of organizations, including top management (e.g.,  
42 Dalpiaz et al., 2016; Denis et al., 2001). In sum, this stream has provided a fine-grained  
43 comprehension of the role of narratives in how strategic change happens. However, it has not  
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4 examined leaders' narratives specifically about errors, particularly in large, highly  
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6 institutionalized firms. Hence the question: how do top executives construct narratives of  
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8 error, and link these to strategic change? This is the focus of the current paper.  
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10  
11 This study focuses on the individuals who are the primary authors of narratives of  
12  
13 strategic change initiation: chief executive officers (CEOs) and chairpersons of boards of  
14  
15 directors<sup>1</sup>. We refer to these collectively as top executives. These individuals sit at the nexus  
16  
17 of the organization, over which they have the highest authority (Davis et al., 2009), and its  
18  
19 institutional stakeholders, towards whom they are accountable (Friedman, 1970; Jensen and  
20  
21 Meckling, 1979). We conducted 21 in-depth interviews of CEOs and board chairs (Langley  
22  
23 and Meziani, 2020; Ma et al., 2021) from the top 50 listed firms in the financial services  
24  
25 sector in Europe, representing 900,000 employees and 400 billion euros in market  
26  
27 capitalization. To one degree or another, all these firms had faced economic failures,  
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29 including partial bankruptcy, and had subsequently engaged in significant strategy changes  
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31 including acquisition reversals and complete organization overhauls. All informants  
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33 retrospectively recognized errors as antecedents to the failures – hence our term of “strategic  
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35 errors” – and provided detailed narratives about them. All narratives made the  
36  
37 acknowledgment of errors a turning point allowing key strategic changes.  
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43 The content analysis of a core subsample of 22 narratives relating to error episodes  
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45 surfaced strategic errors as a relevant theme and identified a double narrative process in  
46  
47 which *a*) top executives mobilized strategic errors as a trigger for change; and *b*) took  
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49 distance from them as a way of defusing and diffusing the errors. This paper describes in  
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51 detail seven narrative practices entailed in the respective processes of mobilizing and  
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58 <sup>1</sup> Legislation in the European Union, where we conducted this study, encourages and in some cases compels  
59 firms to have a dual-role structure at their top. It demands a collaboration between chief executive officer and  
60 chair of the board (European Central Bank, 2016).

de(ify)ing errors. While the former appeared to be linear and common to all informants, the latter was a parallel process (Cloutier & Langley, 2020) as informants used different practices to minimize the errors.

We believe that this study contributes in at least two ways to the narrative approach to strategic change (Fenton and Langley, 2011; Vaara et al., 2016; Vaara and Langley, 2021). First, it describes how strategic errors are constructed as a narrative trigger to change. Here, we borrow from literature on errors in organizations which defines errors as involuntary deviations from organizationally relevant norms, distinct from deliberate violations (Goodman et al., 2011; Hofmann and Frese, 2011a; Lei et al., 2016; Lei and Naveh, 2023). We argue that error narratives allow top executives to deconstruct prior strategies by showing them as illegitimate with respect to relevant norms. Specifying both the norms and the deviations may provide top executives with resources at their personal level to assert and exert their power as strategists in their interactions with stakeholders in the organization and the institutional environment (Fenton and Langley, 2011; Schildt et al., 2020). Second, this paper unpacks strategic errors narratives as formed through a dialectic process. While most research on change assumes coherence in individual narratives (Vaara et al., 2016), the current paper adds to relatively rare studies that recognize individual narratives as multivocal (e.g., Sonenshein, 2010). It further suggests that such dialectic strategic error narratives provide top executives with “acceptable justifying reasons” to explain strategic change retrospectively, within what Schildt, Mantere and Vaara (2011: 82) term areas of “reasonability”.

## THEORETICAL BACKGROUND

### Strategy practitioners' narratives

Narratives, referring to “thematic, sequenced accounts that convey meaning from implied author to implied reader” or listener have long been proposed as critical to

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4 understanding how organizations make strategy (Barry and Elmes, 1997: 431) and engage in  
5 strategic change (Vaara et al., 2016). Studies in this vein have focused on how a variety of  
6 strategy practitioners (Golsorkhi et al., 2015; Whittington, 1996). For example, narrative  
7 research has used the lens of individual identity to explore how managers experience and  
8 understand what is implied by becoming and being a strategist (Dameron and Torset, 2014;  
9 Mantere and Whittington, 2021). Studies of privileged business elites have also shown how  
10 narratives help managers make sense of their own careers (Maclean et al., 2012).

21 Turning from who strategists are to what they do, several studies have taken a specific  
22 focus on various subpopulations of managers. One important stream has examined the role of  
23 middle managers confronted with making and changing strategies and organizations, for  
24 example restructuring (Balogun and Johnson, 2004; Dunford and Jones, 2000; Humphreys  
25 and Brown, 2002; Küpers et al., 2013; Laine and Vaara, 2007; Rouleau and Balogun, 2011).  
26 Moving up the hierarchical ladder, narrative research has surfaced struggles among different  
27 groups of senior managers, as they make sense of change in different ways and experience  
28 tensions between their roles as change leaders and change recipients (Balogun et al., 2015;  
29 Whittle et al., 2021). A major insight from such studies is the polyphony of narrative  
30 constructions within organizations, while actors themselves tend to produce relatively  
31 univocal narratives (Vaara et al., 2016).

45 Still higher in the hierarchy, other scholars have examined top executives, including  
46 chief executive officers (CEOs) and boards of directors – however difficult to access they  
47 may be (Ma et al., 2021). The narratives of this particular subset of actors are of substantial  
48 importance for providing an understanding of the making and changing of strategies. Not  
49 only are top executives holders of the broadest authority on their respective organizations but  
50 they also represent the firm in its interactions with stakeholders, from shareholders to  
51 regulators, the media, and other authorities (Amis et al., 2020), which are particularly salient

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4 for large firms in highly institutionalized environments. Only top executives are legally  
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6 endowed with the power to make decisions on strategy and organization, including those  
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8 decisions that might involve correcting perceived errors, such as reversing acquisitions,  
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10 divesting valuable assets, ceasing activities, reorienting entire business lines, and/or seeking  
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12 new capital funding (Davis et al., 2009). More than others, they are able to select the  
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14 ‘constellation’ of managers with whom they work (Ma and Seidl, 2018) – if not the board  
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16 members. In the business sector, top executives’ compensation is often based on the stock  
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18 price of their firms (Jensen and Murphy, 1990); they may have a substantial part of their  
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20 wealth invested in their firm; sometimes they even take on personal debt for this investment  
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22 (Wu et al., 2023).  
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27 Several studies have examined how top executives engage in narratives to orient  
28  
29 change through sensemaking and sensegiving. For example, Gioia & Chittipeddi (1991)  
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31 surfaced a four-phase process of envisioning, signaling, re-visioning and energizing to  
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33 reorient the strategy of a university. Other authors engaged in archival analyses of CEO  
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35 official discourses and keynotes surrounding change initiatives (e.g., Maclean et al., 2020;  
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37 Wenzel and Koch, 2018). For example Dalpiaz et al. (2016) showed how top executives’  
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39 narratives combined institutional logics over three decades to create new opportunities; and  
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41 Raffaelli and colleagues (2022) examined how executives addressed a “modernization-  
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43 conservation paradox” through personal relationships and dialogue in a Swiss watchmaking  
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45 group.  
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### 49 **Errors and strategic change**

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52 However, much less is known about how top executives might construct narratives of  
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54 error, and how they might draw on these in contexts of strategic change. Understanding how  
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56 narratives of error are constructed might be especially important in the cases of brutal  
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58 changes induced by a plausible failure of initial strategies. Narrative research on startups has  
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4 shown the need for entrepreneurs to justify strategic reorientations or ‘pivots’ to preserve  
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6 legitimacy with their constituents and hence access to scarce resources (McDonald and Gao,  
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8 2019). Narratives justifying strategic change should be at least as crucial in large firms where  
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10 top executives are exposed to a broad and diverse internal audience and to a complex  
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12 institutional environment, where they could be highly vulnerable to critique if admitting  
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14 errors. Indeed, in regulated industries, top executives may need to justify their firms’ conduct  
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16 before official inquiries from political and administrative authorities to retain their legal  
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18 status (Whittle and Mueller, 2012) in addition to telling and retelling strategic stories to  
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20 organizational members. This begs the following research question: *how do top executives*  
21  
22 *construct narratives of error, and link these to strategic change?* The question relates to how  
23  
24 top executives as individuals construct and reconstruct a past (Linde, 2009) comprised of  
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26 shifts that could be potentially damaging to their own credibility and power vis-à-vis their  
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28 stakeholders inside and outside the firm.  
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34 To investigate this question, we borrow from the literature on errors in organizations  
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36 (Goodman et al., 2011; Hofmann and Frese, 2011b; Lei et al., 2016; Lei and Naveh, 2023),  
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38 that suggests that errors should be managed (Frese and Keith, 2015), notably through learning  
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40 and consecutive change. Errors evoke an involuntary break with some obligation (Merriam-  
41  
42 Webster, n.d.), for example through negligence. In management studies, they refer to  
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44 deviations from relevant norms that potentially cause adverse consequences<sup>2</sup> for an  
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46 organization (Carroll et al., 2021; Goodman et al., 2011). In this paper, we add the term  
47  
48 ‘strategic’ to refer to those specific errors that are seen to result in major challenges to the  
49  
50 firm’s critical resources and objectives and therefore call the attention and decision-making  
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52 of top executives. Errors have a limited presence in the strategy literature. While Finkelstein  
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58 <sup>2</sup> Literature essentially ignores errors as a cause of positive consequences such as Fleming’s (1929) accidental  
59 discovery of penicillin.  
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4 and Sandford (2000) noted how ‘corporate mistakes’ led to the demise of a satellite firm, it  
5  
6 has been argued that the concept remains underexplored. For example, Shimizu and Hitt  
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8 (2011: 199) deplored that, in many studies of organizational failure, “researchers assume that  
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10 the errors are made at the TMT level, pay scarce attention to the errors, and move on to other  
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12 antecedents and consequences of poor performance”. Elsewhere, passing references about  
13  
14 errors offered little elaboration (e.g., Amankwah-Amoah, 2016). Our aim was thus to explore  
15  
16 how top executives strategically construct and mobilize strategic error narratives to create  
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18 positive stories of change despite the a priori negative connotation that is usually given to  
19  
20 them. The exploratory nature of our research question warranted a qualitative approach  
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22 (Edmondson and McManus, 2007).  
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## 26 27 **METHODS**

### 28 29 **Research journey – Preliminary studies**

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31 The main study, whose findings are developed in later sections, was part of a broader  
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33 research project on top executives in the context of strategic errors. It included a) a  
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35 systematic review of a financial newspaper over two months which showed that, while there  
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37 were daily occurrences of potential errors in large firms, typical reactions from top executives  
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39 were denial and “no comment”; and b) exploratory interviews with 12 CEOs and board  
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41 chairs of firms from various industries employing 50 to 10,000 people. By contrast, interview  
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43 informants talked openly and willingly about failures as outcomes of strategic errors in  
44  
45 private, and indeed viewed the acknowledgment of errors as a prerequisite to strategic  
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47 changes. These findings were suggestive, but strong variations in informants’ contexts (firm  
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49 size, sector, etc.) limited the potential insights from this material. We therefore designed  
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51 another study based on interviews with a more homogenous sample of informants. Table 1  
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53 provides an overview of our data. Analyses and findings developed below refer exclusively  
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55 to this main study.  
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INSERT TABLE 1 ABOUT HERE

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### Main study

**Overarching logic.** The main study was designed with a constructivist grounded theory methodology (Charmaz, 2014; Reichertz, 2019), with an abductive approach whereby we collected and analyzed data and confronted our findings with extant research to surface surprises and gaps in the literature (Timmermans and Tavory, 2022). We opted for multiple interviews (Miles et al., 2013) with top executives (CEOs and chairs of boards of directors) from different firms to progressively capture key elements of discourse relating to how and why their firms responded to errors and economic failure, and their own, personal roles in such episodes. Our endeavor was mainly to understand how CEOs narrated the deconstruction of past strategies from an “error” entry point to introduce new strategies.

**Sample.** We focused on financial firms as a more valuable category because of their systemic importance in the economy (Morse and Clark, 2019). We targeted the 50 largest publicly listed financial services firms in the euro area, identified by their membership in the Financials EuroStoxx™ stock exchange index (Stoxx, n.d.). This choice was based on purposive sampling (Schreier, 2018) ensuring a common matrix and a homogenous population of informants facing, in their respective firms, a similar degree of complexity in terms of size, competitive and societal dynamics, regulatory and more generally institutional environment. Informants would also personally belong to the business elite and the same business circles.

We sent a personalized letter to the chairperson of the board of directors and the chief executive officer of each firm to request a confidential interview as part of scholarly research. The main theme was decisions that can “make or break” the firm, implying dramatic circumstances, plausible failure, and (re)making strategy. Because the term had arisen in preliminary interviews, the letter mentioned errors as a theme for interview. After several

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4 exchanges of emails and phone calls and snowballing on the first acceptances (Patton, 2002),  
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6 we were able to secure interviews with 21 CEOs or board chairs (see Table 1). They  
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8 represented 20 firms (or 42% of the firms targeted), as one person chaired two listed firms  
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10 and in two other firms both the chairman and the CEO responded to the interview request.  
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12 Some firms were world leaders of their respective industries, and several were in the  
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14 European top 5. Most banks in the sample were considered significant or systemic and, as  
15  
16 such, closely supervised by the European regulator (European Central Bank, 2021).  
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18 Combined, the 20 firms employed 900,000 people, declared revenues of 413 billion euros  
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20 and net profits of 23 billion euros, and had a market capitalization of 400 billion euros.  
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22 Headquartered in 9 different European countries, their activities were global in scope. All  
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24 informants, be they CEOs or board chairs, declared that they participated collaboratively in  
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26 strategic decision-making, in accord with governance principles in the European financial  
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28 industry (European Central Bank, 2016). In general, CEOs indicated they had daily  
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30 interactions with their board chairs and *vice-versa*.  
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36 **Data collection.** The lead author then personally met the 21 informants in their  
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38 respective firms' headquarters in ten different cities in Europe. Interviews lasted between 40  
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40 and 80 minutes (average: 57 minutes). The same starting questions were asked of all  
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42 informants (Miles et al., 2013). They related to what top executives typically do or should do  
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44 when economic failure is plausible, and the firm's survival is at stake. Themes in the  
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46 interview guide (with seven open questions) included failures necessitating action from top  
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48 executives, strategic errors, corporate wrongdoing, environmental jolts, strategic change or  
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50 overhaul, and decision-making.  
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54 Importantly, follow-up questions invited informants to provide narrative accounts of  
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56 situations that they had personally managed – or at least witnessed. Three informants devoted  
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58 most of the interview to recounting one dramatic, complex episode relating to their firms,  
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4 presented as stemming from strategic errors. Telling their story seemed to be an important  
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6 motivation for accepting the interview. Additionally, each informant was asked about  
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8 significant incidents at their firms identified from annual reports and media stories over the  
9  
10 previous year. Such firm-specific questions helped to reach beyond platitudes and overcome  
11  
12 the challenges of informants' asymmetric "knowledgeability, domination and impression  
13  
14 management" (Ma et al., 2021: 82). As the interviews spanned over three months, questions  
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16 to later informants reflected insights from earlier interviews and from the literature  
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18 (Timmermans and Tavory, 2022). For example, the definition of strategic errors was surfaced  
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20 and progressively refined with informants over time.  
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25 Interviews were immediately transcribed (Riessman, 1993). Three interviews held in  
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27 a language other than English were translated after transcription; passages from the  
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29 translation were back-translated to ensure accuracy (Brislin, 1979). After each interview a  
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31 brief analytical memo was written to synthesize information about the context, note new  
32  
33 information, and summarize key information (Miles et al., 2013).  
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36 **Analysis.** The data was analyzed in five steps. In the first step, initial coding, passages  
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38 of one or a few sentences representing one idea were used as coding units (Miles et al., 2013;  
39  
40 Saldana, 2012). Codes were referenced with the NVivo software package. Initial coding was  
41  
42 open, based in part on in vivo codes that is, the words of informants (Saldana, 2012). The co-  
43  
44 authors jointly reviewed several parts of the initial coding and resolved issues through mutual  
45  
46 discussion. Codes relating to definitions of errors, their relevance to potential economic  
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48 failure and the necessity to manage them emerged. For example, all 21 informants insisted on  
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50 the necessity to acknowledge strategic errors.  
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54 The second step involved separating out "Stories" in which informants recounted  
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56 episodes that they had lived through, from the broader and more abstract "Observations"  
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58 about strategic changes dictated by the possibility of economic failure. "Stories" comprised a  
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total of 93 narratives ranging in length from a few brief sentences to the entirety of three interviews, for a total of more than 30,000 words or 33 single-space pages in transcripts. There seemed to be very few differences between “Stories” recounted and generalizing “Observations”, yet the former made for a richer subset on which to build further analysis. For example, while the conceptualization of errors as involuntary deviations from norms with adverse consequences (Goodman et al., 2011) was shared by all informants, stories referred to specific norms and deviations.

In the third step, we focused the analysis on the narratives in the “Stories” category. We narrowed down the sample on which to build the analysis by retaining only narratives: *a*) relating to episodes in which informants had a key role personally as CEO or chair of board; *b*) offering sufficient detail for an analysis of the narratives; and *c*) in which the magnitude of failure (from reputational damage to losses in the tens of billions of euros) and subsequent strategy change were measurable by outside sources and perceived at least as moderately high by informants. We identified a core subsample of 22 ‘Stories’ from 15 informants meeting all three criteria<sup>3</sup> and built further analysis on this core subsample. To the transcript of each narrative, we attached a detailed vignette (Miles et al., 2013) of events as they could be reconstituted from the narrative and company and media reports. We coded informants’ formal role in the episode (CEO or board chair) and the timing of their position as incumbent or incoming. We also coded how they expressed the magnitude of the issue at hand (moderate, high, disastrous). Last, we coded the nature of key decisions of strategic change. Table 2 summarizes the vignettes of the core sample.

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INSERT TABLE 2 ABOUT HERE

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<sup>3</sup> Stories excluded from the analysis included informants’ accounts of errors at rival firms; memories of personal, individual errors; and quick mentions of minor episodes that did not result in strategy overhaul.

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4 In the fourth step, from our core sample of 22 stories, we delineated the “underlying  
5 narrative plots or genres” supporting informants’ stories of strategic errors and strategy  
6 making (Fenton and Langley, 2011: 1180). Guided by surprises (Platt, 1992), we noted  
7 similarities and differences between narratives (Miles et al., 2013). This part of the analysis  
8 surfaced a major tension in all the stories of our core sample: the tension opposed codes  
9 denoting an open acknowledgment of strategic errors as a preamble to strategy changes to  
10 codes minimizing if not their magnitude, at least the responsibility that could be attributed to  
11 informants and/or their firms.  
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22 We labelled the former category ‘Mobilizing errors.’ In it, we were able to discern  
23 three practices common to almost all narratives. First, informants identified the existence of  
24 strategic errors by interpreting strategic decisions or situations as deviating from norms that  
25 should have been respected – a practice we termed *diagnosing errors*. Second, all narratives  
26 pointed to the severity of the consequences of the errors; we termed this practice *dramatizing*  
27 *errors*. Last, narratives built on the seriousness of both norm deviations and adverse  
28 outcomes for the firms to initiate changes in strategies – we termed this practice *catalyzing*  
29 *errors*.  
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41 We labelled the latter category ‘De(if)fusing strategic errors.’ It comprised of four  
42 distinct practices. The first narrative practice, *collectivizing errors*, related to the persons to  
43 which the errors could be attributed: in essence, errors were diffused that is, disconnected  
44 from specific individuals and teams. This discursive practice was present in most narratives.  
45 The three other practices defused or minimized the errors drawing on different storylines:  
46 *temporalizing errors*, *isolating errors*, and *generalizing errors*. These were used selectively  
47 by informants with little overlap.  
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57 Finally, in the fifth step of the analysis, we returned to the broader initial set of  
58 “Stories”, looked for discrepancies with our tentative analytical framework, and found none  
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4 to be significant. Neither did we find differences between narratives from CEOs and board  
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6 chairs. We extracted representative quotes from the core sample. In the following two  
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8 sections on our findings, we have included some of these in our main text for illustrative  
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10 purposes; sample supplementary evidence is displayed in Tables 3 and 4, with a more  
11  
12 complete display for the range of cases provided in an accompanying Online Appendix  
13  
14 accessible on the journal's website. We also returned to the "Observations" part of our data,  
15  
16 in which informants had provided more abstract thoughts about the topic and selected a few  
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18 passages that captured key insights from the analysis to illustrate the next two sections of our  
19  
20 findings.  
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### 25 **MOBILIZING STRATEGIC ERRORS**

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27 Our core sample was mostly made of accounts of dramatic episodes leading to severe  
28  
29 economic and/or reputational consequences for the firms and important strategy changes;  
30  
31 hence our term 'strategic errors'. We termed the first narrative process 'Mobilizing strategic  
32  
33 errors' because informants' accounts linked changes to an explicit and unambiguous  
34  
35 acknowledgement that the initial strategy was erroneous. For example: "*Were there mistakes*  
36  
37 *made? Of course, mistakes were made*" (Chairman, bank). "*Yes, it was a blunder*"  
38  
39 (Chairman, insurance). Both of these leaders referred to situations in which their respective  
40  
41 firms had destructed hundreds of millions of euros in value. Informants singled out error  
42  
43 acknowledgment as their preferred alternative among other easier options, such as denying or  
44  
45 not commenting on issues, as noted in our media review; "*hoping for the best*" (multiple  
46  
47 informants); throwing blame; or changing strategies without further explanation. The next  
48  
49 section details the three, largely shared practices that we identified in how narratives mobilize  
50  
51 strategic errors. Table 3 displays related quotes from the 22 core stories of our subsample.  
52  
53  
54  
55

56  
57 INSERT TABLE 3 ABOUT HERE  
58

### 59 **Diagnosing errors**

60



1  
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3  
4 The first narrative practice refers to top executives diagnosing the initial strategy as  
5  
6 erroneous because it deviated from norms crucial to the organizations. Deviations were  
7  
8 denoted by words such as “should” and “ought to”.  
9

10  
11 **Norm types.** Our analyses identified three types of norms that informants used to  
12  
13 deconstruct initial strategies: institutional, moral, and strategic/organizational. References to  
14  
15 institutional norms, first, were exemplified by narratives about firms deviating from legal  
16  
17 obligations. For example, an insurance CEO exposed how his firm was almost caught off-  
18  
19 guard by a regulatory change regarding prudential provisions. At a bank, the CEO recalled  
20  
21 how his firm had failed to comply with its obligation to declare its “risk profile” to  
22  
23 supervisors. Others acknowledged various regulatory breaches and the costly sanctions  
24  
25 associated with them.  
26  
27

28  
29 Moral norms, second, revolved mostly around an imperative of prudence that  
30  
31 narratives presented as essential in the financial industry. As one informant put it, “*bankers,*  
32  
33 *they should be conservative people*” (Chairman, bank). Narratives depicted these deviations  
34  
35 from prudent strategic behavior as strategic errors. For example, several banks in our sample  
36  
37 had developed a commercial strategy in eastern Europe to sell mortgage loans pegged on the  
38  
39 Swiss franc.  
40  
41

42  
43 “*Then the Swiss franc [parity] started moving south. It was obviously the*  
44  
45 *sign that a serious misjudgment was there.*” (Chairman, bank)  
46  
47

48 Another informant cited an important acquisition that ended up in disaster. Before the  
49  
50 decision was made, the worst-case scenarios had been considered, but “*had been given a*  
51  
52 *very, very low probability... [It] should have been given a higher probability*” (Chairman,  
53  
54 insurance).  
55  
56

57 Last, deviations related to what narratives offered as common-sense principles of  
58  
59 sound management. For example, a firm should have a strategy. One informant  
60

1  
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3  
4 acknowledged that his bank did not have one but, rather, a short-term action plan. As a  
5  
6 consequence, the narrative noted how analysts and investors significantly undervalued the  
7  
8 firm's stock. Also, several informants referred to a norm of alignment between the firm's  
9  
10 strategy and its economic and institutional environment, and between the firm's strategy and  
11  
12 how it was organized. For example, one narrative exposed the case of a bank having invested  
13  
14 commercially in low-income countries *"without support units, from credit approval to audit*  
15  
16 *to compliance [set up] at the same pace as business [operations]"* (Chairman, bank).  
17  
18

19  
20 ***Deviation types.*** Deviations related to strategy in different ways. Some narratives,  
21  
22 first, identified errors in the implementation of the initial strategy, as in the example above. In  
23  
24 another bank, the chairman deplored that in his firm, *"an asymmetric structure of incentives*  
25  
26 *facilitated risk-taking"* by managers, eventually resulting in severe losses. *"The worst error*  
27  
28 *is to have the wrong culture"*, a bank CEO concurred. Second, narratives identified  
29  
30 deviations from norms in discrete decisions made by top executives themselves, including  
31  
32 bold strategic moves. This was the case of some forays in foreign countries: those  
33  
34 internationalization strategies rested on assumptions that eventually proved wrong as legal,  
35  
36 economic, and societal factors were not conducive to building a competitive advantage. In  
37  
38 another example, the chairman of a conglomerate deemed a strategic error the decision to  
39  
40 embark in too large an acquisition financed by debt, contrasting it to the firm's norm of  
41  
42 conducting only medium-sized, self-funded operations. Other narratives identified non-  
43  
44 decisions as strategic errors. For example, a chairman recounted how he had delayed a wide-  
45  
46 ranging restructuring for years because of the conflicting interests of minority shareholders.  
47  
48 In the end, the firm lost hundreds of millions of euros, and implemented the restructuring at  
49  
50 the request of the national bank. The last type of deviation evidenced in narratives pertained  
51  
52 to top executives' and their respective firms' relationships with their institutional  
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4 stakeholders. Diagnosing errors here amounted to top executives realizing that firms should  
5  
6 accept the authority of regulators and supervisors.  
7

8  
9 *Our first reaction [when regulators challenge us] is: 'No, wait a second,*  
10  
11 *that's wrong, here are the five reasons why you're wrong'. Now we say yes,*  
12  
13 *you're right, and here are the three things we're going to do differently*  
14  
15 *(Chairman, bank)*  
16

17  
18 Thus, as a first narrative practice related to strategic errors, diagnosing errors related  
19  
20 to top executives at their micro level reframing their initial strategy in light of the  
21  
22 institutional, macro environment. Errors emerged as deviations from, if not breaches of the  
23  
24 institutional norms that should have been observed.  
25

### 26 27 **Dramatizing errors**

28  
29 *Error consequences.* Within the first process of mobilizing errors, the second  
30  
31 narrative practice that emerged from our analysis related to dramatizing the errors. It was  
32  
33 identified by passages emphasizing some aspects of the severity of the errors.  
34

35  
36 *Errors? We've had a big one, huh? [It's] the reason why we were rescued*  
37  
38 *for billions of euros by the state. That's of course a strategic error. A huge*  
39  
40 *one... We went belly up (CEO, bank)*  
41

42  
43 Another informant concurred: "*We found ourselves bankrupt, practically*" (Chairman,  
44  
45 conglomerate). A third one took an ironic stance: "*We were sort of medium-big disasters as*  
46  
47 *things go*" (Chairman, bank), yet recalled that the error had been life-threatening for his firm.  
48  
49 In less severe cases, informants insisted that errors "*cost us a lot of money*", from tens of  
50  
51 millions to billions of euros. For example, a CEO developed an error narrative about his firm  
52  
53 having invested the cash of his conglomerate in equities that were considered safe yet lost  
54  
55 most of their value. Other types of failure related to the reputation of the firms. For example,  
56  
57 one narrative referred to a bank attacked by tabloid newspapers because one senior manager  
58  
59  
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4 had made a fortune with personal investments. In the informant's words, the error was to  
5  
6 have let the situation develop until "*it was not possible anymore to stay as we were*"  
7  
8 (Chairman, bank). Eventually, the bank let the manager go and the scandal subsided.  
9

10  
11 **Error perceptions.** The practice of dramatizing errors also related to how informants  
12  
13 narrated the interactions of stakeholders inside and outside the firm. On the one hand,  
14  
15 dramatizing served to recognize the organizational trauma. A CEO whose bank was bailed  
16  
17 out said: "*We were a company with more than 50,000 people... The world was in tatters.*"  
18  
19 He went on to describe how "*panic*" among staff was fueled by the crisis being publicized in  
20  
21 the media, to the point that bank employees incited their relatives to withdraw deposits. In  
22  
23 another example, the narrator described how the error triggered a political crisis in the  
24  
25 country. Dramatization was made starker by an element of surprise, as firms were highly  
26  
27 recognized before the possibility of economic failure occurred: "*It was clear blue sky, then*  
28  
29 *lightning and thunder*" (CEO, bank). Another recalled:  
30  
31

32  
33  
34 *We had the best bank, the most valued bank at the time... who could have*  
35  
36 *thought? ... We had no idea... That was the mistake (Chairman, bank)*  
37

38  
39 On the other hand, dramatization helped informants get the error point across, as  
40  
41 errors were not easily accepted by all stakeholders. One informant, in a bank that found itself  
42  
43 trapped by debt after a reorganization, recalled:  
44

45  
46 *There was a bit of reluctance of people here, when I said in interviews about*  
47  
48 *the past time that we had made mistakes. It's very obvious. Somehow people*  
49  
50 *felt: "You can't say that. It makes us legally wrong", etc., etc. (Chairman,*  
51  
52 *bank)*  
53

54  
55 At another firm, the narrative constructed the error as maintaining the initial strategy  
56  
57 unchanged despite new regulations, resulting in financial penalties and reputational damage.  
58  
59  
60

1  
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4 The informant noted that to change the strategy to adapt to the new legislation was something  
5  
6 *“most people in the social body of the company considered useless”* (CEO, insurance).  
7

8  
9 In all, dramatizing errors thus involved narratives building on interactions between  
10  
11 the macro (institutional) and the meso (firm) levels, starting from the firms’ initially  
12  
13 unproblematic situation in its relation to its key stakeholders, and contrasting it with a  
14  
15 negative, if not disastrous evolution attributed to strategic errors.  
16

### 17 **Catalyzing errors**

18  
19  
20 The last narrative practice emerging in the ‘Mobilizing errors’ process, catalyzing  
21  
22 errors, referred to top executives utilizing the errors – as diagnosed and dramatized – to  
23  
24 initiate change.  
25

26  
27 ***Strategic changes.*** Catalyzing errors first related to how informants presented errors  
28  
29 as pivotal to solving important firm-level issues by making new decisions and initiating new  
30  
31 strategies. Catalyzation was denoted by detailed accounts of change subsequent to the  
32  
33 acknowledgment of errors. For example, one narrative exposed how the informant’s firm had  
34  
35 completely overhauled its funding strategy and its governance structure after recognizing the  
36  
37 initial strategy as erroneous.  
38  
39

40  
41 *In no more than ten days, we changed the CEO, we completed an important*  
42  
43 *spinoff... we launched bonds and a public offering... (Chairman, bank)*  
44

45  
46 The error narrative, here, was a catalyst in that the informant contrasted those  
47  
48 corrective actions with what he described as organizational paralysis before. In this and other  
49  
50 narratives, the nature of changes was described as straightforward, because it was dictated by  
51  
52 the norms from which the initial strategy had deviated. For example, one informant narrated  
53  
54 how his group, which had aggressively combined banking with insurance activities  
55  
56 throughout Europe, eventually refocused on insurance in a small set of countries and changed  
57  
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4 its key organizational values, because, as expressed by its CEO, it was what regulatory  
5  
6 frameworks, prudence and common sense dictated.  
7

8  
9 ***Personal changes.*** Catalyzing errors, second, shed some light on issues at the  
10  
11 personal level of top executives. To some extent, they had endorsed if not personified the  
12  
13 initial strategy. So, the error was at least partly theirs. For example, about internationalization  
14  
15 in low-income countries, one leader took some responsibility for having “*engineered a*  
16  
17 *growth of 20-25% of loans while it was obvious that the rest of the bank didn't follow*”  
18  
19 (Chairman, bank). More broadly, one informant hinted at the personal struggle that top  
20  
21 executives faced when constructing the initial strategy as erroneous.  
22  
23

24  
25 *[If] you admit that you have made an error, then you have to backtrack a*  
26  
27 *little bit in your ambitions, [you admit] the fact that CEOs or chairmen are*  
28  
29 *not super-supermen (Chairman, insurance)*  
30

31  
32 Catalyzing errors was certainly dictated by a perception of urgency felt by informants.  
33  
34 Errors were acknowledged in the context of imminent economic failure. For example, a  
35  
36 chairman told the story of how his large, nationally important bank had merged two minority  
37  
38 subsidiaries into one, only to find itself liable for the bulk of both initial debts and the risks  
39  
40 associated with certain financial instruments held by the new subsidiary.  
41

42  
43 *Without our help, [the subsidiary] would have defaulted in two or three*  
44  
45 *months... And if this credit defaulted, also our bank [would have defaulted].*  
46  
47  
48 *This was the risk. In only two months! (Chairman, bank)*  
49

50  
51 Very similarly, another informant recalled that debt covenants had put his firm at risk  
52  
53 of bankruptcy within four months, triggering an urgent acknowledgment that the initial  
54  
55 strategy was flawed. In turn, top executives described such acknowledgment as a catalyst for  
56  
57 further action because it had a liberating effect on them personally. They felt more energy  
58  
59 and focus:  
60

1  
2  
3  
4                   *“The image I have, it’s iron filings that recompact and orient towards a*  
5  
6                   *magnet”* (CEO, bank).

7  
8                   In sum, catalyzing errors touched upon the interactions at the micro level of top  
9  
10 executives and the meso level of their firms. This practice, in our analysis, explained how  
11  
12 informants narrated that they became able to change the strategy. Prior to it, they had to  
13  
14 diagnose errors as deviations from norms and dramatize them by their consequences and their  
15  
16 perceptions. The three practices thus formed a narrative process by which top executives  
17  
18 mobilized errors to initiate change. In informants’ words, this process was effective, if not  
19  
20 inevitable: *“If you don’t acknowledge the error, you cannot solve it”* (Chairman, insurance).  
21  
22 However, narratives also revealed the reluctance to admit to errors at all levels, thus  
23  
24 confirming their negative connotations. Accordingly, a second theme emerged from the  
25  
26 analysis: it mirrored and was in tension with that of mobilizing strategic errors. We termed it  
27  
28 ‘De(if)fusing strategic errors.’  
29  
30  
31  
32

### 33                   **DE(IF)FUSING STRATEGIC ERRORS**

34  
35                   While willingly talking about errors, informants remained cautious as regards how  
36  
37 their firms and themselves could be associated with such errors. One informant reflected:

38  
39                   *Everybody looks at guilt... Because if you have a problem, somebody’s going*  
40  
41                   *to be the guilty party who got you into the problem* (Chairman, insurance)

42  
43                   De(if)fusing strategic errors reflects a double insight. On the one hand, narratives  
44  
45 *diffuse* errors in that they establish some distance between the narrators and the dramatic  
46  
47 story they tell to deflect potential guilt from the person of the informant to a collective. On  
48  
49 the other hand, top executives’ narratives *defuse* errors by disentangling them from  
50  
51 wrongdoing and associating them with only benign or inevitable missteps. We identified four  
52  
53 narrative practices conducive to de(if)fusing errors in our data. Table 4 displays  
54  
55 representative quotes relating to the narrative practices within the de(if)fusing errors process.  
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INSERT TABLE 4 ABOUT HERE

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### Collectivizing errors

The first practice, collectivizing errors, was present in one form or another in all of our sample. It refers to narratives attributing the origin of the errors not to one single person or group within the firm, but to an indefinite set of organizational actors. Collectivizing errors was denoted by sentences starting with “we.” For example: “*We made a mistake*” (CEO, conglomerate); “*We made an error*” (CEO, insurance); “*We made errors*” (Chairman, bank). There was a variation between full and partial collectivization.

**Full collectivization.** Certain informants used the passive voice or an impersonal mode: “*Errors were made*” (Chairman, bank); “*There’s an error*” (CEO, bank). One informant offered more detail: “*It is everyone’s error. It’s not my error. It is the issue we have to solve, together*” (CEO, conglomerate) to collectivize the errors fully at the level of their firms. As an example, one CEO detailed how an e-banking project that had allowed a vast and costly fraud scheme to develop had collectively involved several departments of the bank as well as partner firms outside. Conversely, asked about a failed technology project that cost his firm tens of millions of euros in provisions another informant clearly attributed the error to the IT team in charge, but immediately dismissed it as non-strategic: “*Yes, such things happen*” (Chairman, bank).

Full collectivization of errors included an exculpation of top executives at their own, micro level, thus preserving their legitimacy and capacity for changing strategies. Relatedly, it encouraged a focus on problem-solving and an orientation toward the future strategies, instead of a root cause analysis delving in the past to identify who had deviated from norms and how. One CEO ironically noted that even if there was someone at the origin of the error,



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3  
4 that person would be the last one to be informed, as the priority was to solve the problem at  
5  
6 the scale of the firm.  
7

8           ***Partial collectivization.*** Some notable exceptions departed from full collectivization.  
9  
10 In three important narratives about high-magnitude episodes, top executives threw the blame  
11  
12 at specific groups of people. For example, one informant explicitly accused the former  
13  
14 executive committee of his firm to have left a subsidiary develop financial products that  
15  
16 became toxic to the point of putting the entire firm under threat.  
17

18  
19  
20           *As a body [the ExCo] didn't function properly in terms of risk management,*  
21  
22           *in terms of capital management, in terms of preparing for the future, in terms*  
23  
24           *of what would happen if it goes wrong economically, financially, somewhere*  
25  
26           *in the world... They were busy with something else, becoming the number*  
27  
28           *five [in the industry] (CEO, bank)*  
29  
30

31 In a second narrative, a chairman (insurance) put the blame of the bankruptcy of his  
32  
33 group on the former board of directors that had failed to take “*bold, decisive action*”. In both  
34  
35 cases, blame was directed on people who had left the firms. In yet another, a chairman  
36  
37 challenged his predecessors’ strategic choices relating to the firm’s acquisition policy. All  
38  
39 narratives that included such elements of blame, however, presented the errors as being made  
40  
41 by a collective. Not only did informants decline to provide further precision on the presumed  
42  
43 authors of the errors but also, they made it clear that erroneous decisions or actions had been  
44  
45 duly endorsed by the respective executive teams and board of directors. Last, it was notable  
46  
47 that those three informants were coded “incoming” in our analyses, that is, they had taken  
48  
49 their posts after the nadir of the crises they recounted. “Incumbent” informants, on the other  
50  
51 hand, strictly adhered to the full collectivization of strategic errors at the level of the firm. In  
52  
53 all cases, the practice of collectivizing errors allowed top executives to frame any errors as  
54  
55 not being shared with others.  
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4 In contrast to the shared narrative practice of collectivizing errors to diffuse potential  
5 suspicion of faults from informants, the three last narrative practices that we identified –  
6 temporalizing, isolating, and generalizing – were for the most part mutually exclusive from  
7  
8 one another.  
9  
10

### 11 12 13 **Temporalizing errors** 14

15 The temporalizing practice made firms' deviations from norms more benign by  
16 exposing that the initial strategy was right, but then conditions evolved, particularly in the  
17 business and institutional environment. Firms and top executives themselves were just late to  
18 change the strategy. The temporalizing type represented seven of the 22 narratives in our core  
19 sample. It included two stories that informants presented not as utter failures, but as near-  
20 misses. Other narratives in this category included both failures of moderate and high  
21 magnitude, but no disaster.  
22  
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31 Temporalizing narratives were identified because they clearly delineated distinct  
32 phases in their firms, as denoted by the abundance of words such as “when” and “then”,  
33 delineating an opposition between a “before” and an “after”. One example was in a European  
34 bank's strategy to offer mortgage loans pegged on the Swiss franc outside their home  
35 markets<sup>4</sup>. The initial strategy hinged on banks taking advantage of interest rates that were  
36 lower in historically stable Switzerland than in the countries where the loans were distributed.  
37  
38 The error, in the narrative, emerged when the Swiss franc rose against the euro. Borrowers  
39 became unable to repay their mortgages, forcing banks to renegotiations with regulators and  
40 eventually costly write-offs. In another example, a new European regulatory framework  
41 imposed higher prudential provisions and an insurance firm failed to adapt ahead of the new  
42 rules (the error was corrected just in time).  
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59 <sup>4</sup> Errors in the same context were justified by other informants with the generalization mechanism.  
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4 Through the temporalizing practice, top executives justified the errors in two ways.  
5  
6 First, as was alluded to earlier, top executives recalled how they contested regulatory changes  
7  
8 in their dialogue with institutional stakeholders. “*Sometimes, the regulator, according to me,*  
9  
10 *is a bit off the mark*”, a bank chairman argued. “*We fought a lot*” against the national bank,  
11  
12 another concurred, talking about his firm being forced to reorganize some key functions. He  
13  
14 and others made it clear that, rather than accepting their firms as being subject *a priori* to  
15  
16 regulatory changes, top executives of large firms negotiate with authorities on an equal  
17  
18 footing; before the negotiation ended, the initial strategy was not to be changed. Second, the  
19  
20 temporalizing narrative practice justified the development of errors by organizational inertia.  
21  
22 Inertia was described as fueled in part by economic performance, as the initial strategy  
23  
24 continued to seem successful economically even though it deviated from norms. For  
25  
26 example, selling specific life-insurance products “*had brought the revenue to extremely high*  
27  
28 *levels*” (Chairman, insurance) before they became toxic as market conditions and regulatory  
29  
30 supervision evolved.  
31  
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35

36 Indeed, the practice of temporalizing errors exposed that the “before-then” opposition  
37  
38 was made up of complex interactions between top executives’ micro level and the  
39  
40 institutional environment at the macro level. Many changes in norms and environment  
41  
42 conditions occurred progressively with varying degrees of uncertainty, making deviations  
43  
44 more difficult to detect and attend to. In several occurrences the change did not relate to the  
45  
46 contents of the regulations, but to their enforcement that is, firms starting to be investigated  
47  
48 and/or prosecuted for deviations that had been tolerated for a long time. Thus, strategic errors  
49  
50 were excusable from the top executives’ particular standpoint because their macro level  
51  
52 consequences, economic and institutional, developed too fast for them to react at their own  
53  
54 micro level.  
55  
56  
57

### 58 **Isolating errors**

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4 The practice of isolating errors refers to narratives justifying strategic errors by  
5  
6 proposing that, while the firm essentially followed a legitimate strategy, one specific  
7  
8 business-unit or decision had deviated from it and from other norms, and that the failure of  
9  
10 this business-unit or decision resulted in unpredictable and disastrous consequences at the  
11  
12 scale of the firm. We found eight isolating narratives among the 22 of our core sample. The  
13  
14 category included the three most catastrophic episodes: near-bankruptcy; bankruptcy  
15  
16 followed by state bailout; and bankruptcy, bailout and partial dismantlement, half of the firm  
17  
18 being sold for cheap amid public and political furor.  
19  
20  
21

22 Isolating the errors separated out the larger, norm-abiding strategy from a sub-strategy  
23  
24 within a specific area that had gone wrong. For example, a banking group offered a broad  
25  
26 array of financial services to retail consumers in its national market; yet it had a small  
27  
28 subsidiary in another country that engineered sophisticated financial derivatives for  
29  
30 international institutions. Derivatives became impossible to sell due to market conditions,  
31  
32 making the entire firm liable for amounts that challenged its regulatory ratios. In a more  
33  
34 limited example, the CEO of a conglomerate described as a strategic error the nomination of  
35  
36 a senior manager at the head of a 50-50 joint venture: “*We got it wrong*” as the manager  
37  
38 proved ineffective. The narrative insisted that the error had developed because the firm could  
39  
40 not replace him without lengthy discussions with the partner firm in the joint venture, far  
41  
42 from normal operations of the firm as a whole.  
43  
44  
45  
46  
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48 The practice of isolating errors was specific in that, while accepting their firms’  
49  
50 responsibility in and for the errors at the meso (firm) level, narratives emphasized the  
51  
52 personal exculpation of top executives. Three lines emerged. First, the error was invisible  
53  
54 because it was hidden in routine operations, as in the case of the conglomerate investing in  
55  
56 securities that lost their value. Second, the error escaped attention because top executives did  
57  
58 not understand all the intricacies of the business-unit where it occurred.  
59  
60

1  
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4 *By nature in a large organization... You will never be able to fully grasp all*  
5  
6 *the technicalities of everything that is part of the organization (Chairman,*  
7  
8 *bank)*  
9

10  
11 Third, some informants described themselves as involuntarily blinded because  
12  
13 managers below them were deliberately hiding critical information as the consequences of  
14  
15 the initial errors worsened.  
16

17  
18 The isolating practice thus reflected mostly a justification at the interface of the micro  
19  
20 and meso levels, whereby informants justified the errors of the firms against their own set of  
21  
22 standards for their role. On the one hand, narratives described top executives as unable to  
23  
24 have an exhaustive control over firms with thousands to hundreds of thousands of employees.  
25  
26 On the other hand, informants pleaded the unpredictability of certain developments starting  
27  
28 within the firms and an unexpected coupling with external circumstances that created  
29  
30 organizational ‘black swans’ – extremely rare yet devastating events (Taleb, 2007).  
31  
32

### 33 **Generalizing errors**

34  
35 We termed the last narrative practice generalizing errors. It referred to justifying  
36  
37 strategic errors by acknowledging the firms’ deviations from norms but arguing that such  
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39 deviations were common in the institutional environment in which the firms were embedded.  
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41 With seven out of the 22 narratives in our core sample, the category comprised episodes of  
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43 moderate to high magnitude in which firms were significantly challenged financially and/or  
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45 reputationally, but not to the point of complete economic failure. For example, the informant  
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47 who had recognized that his bank “*didn’t have a strategy*” immediately added that “*it*  
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49 *wouldn’t be the first financial institution to have no strategy!*” (Chairman, bank). In  
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51 insurance, a firm’s initial strategy was to invest in a certain class of assets “*like most of our*  
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53 *competitors*”, only to see its value dwindle despite regulatory and political encouragements  
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55 and oversight. Narratives of generalization thus insisted on influences from the institutional  
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4 environment on the firms. For example, a chairman exposed that it was “*quite under*  
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6 *pressure*” from governments and professional bodies that his bank had developed its initial  
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8 strategy of internationalization in lower-income countries, in which it eventually incurred  
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10 significant losses<sup>5</sup>. About the same kind of error, another argued that “*cross-border banking*  
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12 *is something that major economic textbooks regarded as something very good*” (Chairman,  
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14 bank).

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18 To justify the deviations, narratives of generalization evoked the complexity of norms  
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20 in which such large firms are embedded. They insisted on the frequent contradiction between  
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22 firm-level norms – e.g., having a strategy, or investing prudently – and other norms that were  
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24 presented as more compelling, resulting in deviations from the former for the sake of  
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26 observing the latter. For example, one informant recalled that his firm had kept investments  
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28 in some sovereign bonds amid political crises because firms in this highly regulated industry  
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30 are supposed to trust national or supranational institutions to resolve the crises. The entire  
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32 industry had chosen to comply with this principle as the most logical, or most obvious set of  
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34 norms, and informants reflected that this was a mistake explaining failure. Another narrative  
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36 justified errors in his firm by noting that the norms of the financial industry, with which his  
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38 firm’s initial strategy complied, were themselves questionable. He compared banks to  
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40 chemical firms before environmental laws: “*It has never been good to pour chemicals in the*  
41  
42 *river, but everybody did*” (Chairman, bank).

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48 The narrative practice generalizing errors thus described interactions between the  
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50 meso level of the firm and the macro level of the institutional environment. In essence, it  
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52 conveyed the message that it was because the institutional norms themselves deviated from  
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54 higher-level norms that strategic errors emerged in the firms.  
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59 <sup>5</sup> The same kind of episodes was presented by other informants via temporalizing narratives.  
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## DISCUSSION

Our study surfaced strategic errors as a theme on which top executives willingly build narratives of strategy change. This finding contrasts with the negative connotations of errors in organizations (e.g., Carroll et al., 2021) and their absence in the strategy literature few exceptions aside (e.g., Amankwah-Amoah, 2016). In more detail, our analyses revealed a double process that *a*) serves as a narrative trigger to explain change retrospectively; and *b*) institutes a dialectical tension between two poles. On the one hand, the narrative process of *mobilizing errors* permits strategy change initiation; on the other hand, the process of *de(if)using errors* distances top executives from the errors. Figure 1 represents the model we derived from our analysis.

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INSERT FIGURE 1 ABOUT HERE

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### **Narrative approaches to strategy and change**

***Strategic errors as a narrative trigger.*** While strategy change has been a major concern for narrative scholarship (Vaara et al., 2016), most studies have focused on the narrative dynamics in the implementation of change. Research has not specifically examined the narrative of errors as an explanation for change, particularly in the context of failure or near-failure of large firms in highly institutionalized environments. Yet, as we show, strategic errors can emerge as a narrative trigger for exposing why change was necessary, while at the same time forcing top executives as narrators to come to terms with their responsibility in such situations. Strategic errors as a narrative trigger offer a distinct juncture from old to new strategies, as evidenced in the process of mobilizing errors.

In detail, the left-hand part of Figure 1 shows how narrative practices are articulated in the first process of mobilizing errors. The practice of diagnosing errors, coming first, works by measuring the firm's behavior against a set of norms, and surfacing a deviation (Goodman et al., 2011). Dramatizing errors, second, explicitly links the deviations to severe



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4 or catastrophic outcomes for the firm and provides vivid illustrations of those outcomes,  
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6 potential or actual. Last, catalyzing errors actually bridge old and new strategies: because the  
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8 initial strategy was (i) illegitimate and (ii) failing, it was indispensable to introduce a new,  
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10 different strategy. Thus, the process of mobilizing errors is essentially linear in our data and  
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12 offers little variation from one narrative to another in our sample (Cloutier and Langley,  
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14 2020). We represented this agreement between narratives by the overlapping of circles in  
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17 Figure 1.

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20 By introducing strategic errors as a narrative trigger to strategy changes, we propose  
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22 that this study contributes to a fine-grained understanding of how some key actors of change  
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24 make sense of and give sense to it. The process of mobilizing errors provides depth to  
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26 narratives associated with the classic “unfreeze” initial phase of change depicted by Lewin  
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28 (Stouten et al., 2018; Vaara et al., 2016) and popularized in the managerial literature by the  
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30 “burning platform” metaphor (Kotter, 2008). With error narratives, the platform is burning  
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32 not only because the firm incurs adverse circumstances, but also because it is doing  
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34 something wrong. From the top executives’ perspective, narrating which norms have been  
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36 crossed appears to be a way to (re)assert their positions (Vaara and Langley, 2021).  
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38 Responding to calls for research in that direction, it indicates that mobilizing errors provides  
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40 top executives with resources that would not have been available otherwise (Fenton and  
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42 Langley, 2011). For example, informants asserted that error acknowledgment had permitted  
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44 them to alter their firms’ strategies and overcome the escalation of indecision that often  
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46 paralyzes change (Denis et al., 2011). Implicit here is that constructing errors involves a  
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48 delicate balancing act from top executives between acknowledging something wrong and  
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50 preserving their power (Gross and Zilber, 2020), even if with a little more humility (Seckler  
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52 et al., 2021).  
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4       ***Error acknowledgment as a narrative dialectic.*** Our study also unpacks error  
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6 narratives as a process in which mobilizing errors is interwoven with de(if)using errors. The  
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8 double process presents itself as a “dialectic,” referring to “interdependent opposites aligned  
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10 with push-pull forces ... in an ongoing dynamic interplay” (Putnam et al., 2016: 70). While  
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12 admitting that something was wrong, the process of de(if)using errors argues that actually  
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14 little was wrong. The right-hand side of Figure 1 first illustrates how, through the narrative  
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16 practice of collectivizing errors, all top executives in our data distanced themselves, at the  
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18 micro level, from errors committed at the firm (meso) level, even though incumbent  
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20 informants questioned the personal role of their predecessors. Then, the process diverged  
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22 with three alternative paths. While the temporalizing and isolating practices conveyed the  
23  
24 message that anyone in the position of the narrators might have erred in the same context, the  
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26 generalizing practice argues that in fact, everyone did.  
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31       The finding of a dialectic process offers a complement to typical narrative analyses.  
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33 Most studies typologize narratives along relatively univocal categories, as people generally  
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35 strive to avoid discrepancies “by constructing a coherent narrative” (Vaara et al., 2016: 518).  
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37 For example, Whittle and Mueller (2012) described coherent storylines in bankers’ individual  
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39 narratives after the financial crisis of 2008. Yet in a notable exception, Sonenshein (2010)  
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41 showed how individual managers simultaneously presented change as significant *and*  
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43 insignificant, hinting at potential dialectics in narrative practices. His study proposed this  
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45 equivocality as linked to strategic ambiguity: managers purposefully attempted to satisfy the  
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47 expectations of employees who welcomed and opposed change respectively. We believe that  
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49 our study provides a useful addition here. As in Sonenshein’s (2010) work, in our study the  
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51 dialectic is purposeful: top executives aim to explain change while preserving their positions  
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53 and seeking legitimacy (Farjoun, 2019; Maclean et al., 2012). In contrast, we find that single-  
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55 individual narratives in our data do not resort to strategic ambiguity. On the contrary, and at  
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4 least in the safety of an interview with a researcher, they attempt to provide clarity and  
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6 justification for strategic change by disentangling two opposites: wrong and not so wrong.

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8 The dialectic emerging from our data might be one illustration of the “complexities,  
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10 ambiguities and contradictions” within the “systems of reasonability” that top executives  
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12 need to construct to have strategic changes accepted by their multiple stakeholders (Schildt et  
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14 al., 2011: 83). Despite their negative connotations, errors remain in a broader area of  
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16 reasonability because they are so common – errors are human (Reason, 1990).  
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### 19 20 **Concluding remarks**

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22 Our rare data from top executives has allowed us to shed light on particular aspects of  
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24 the narrative work of organizational strategists. Certainly, the narrative perspective suffers  
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26 from the usual shortcomings related to the co-construction of the data, specifically the  
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28 interaction between researcher and informants (Gergen and Gergen, 2003). It also brings  
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30 about a validity issue as insights are researchers’ representations of informants’  
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32 representation of facts (Clandinin and Connelly, 2000), not to mention the layered stories  
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34 issue (Ely, 2007). However, narrative research allows scholars to surface and interconnect  
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36 context, temporality, practices, characteristics, and ways of doing (Riessman, 2008). Also, we  
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38 believe that our work demonstrates several strengths. We reach beyond the outsider view  
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40 with our narrative data, highlighting a particular dimension of CEOs’ strategy work. This  
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42 business elite is often described as inaccessible and/or manipulative (Ma et al., 2021). While  
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44 parts of the narratives we collected appear aimed at exculpation, at the same time informants  
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46 also expressed nuanced reflections about what it means to make and change strategies in  
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48 good times and bad, in line with what Schildt and colleagues (2020) termed reflective  
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50 sensemaking and associated with the exercise of power.  
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57 We propose several tracks for future research. The first invitation is about identifying  
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59 other dialectic practices from single actors, as strategic errors might be a case of a broader  
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phenomenon. From a theoretical perspective, this exploration would usefully complement extant research promoting univocality and consistency as the most effective means for change (Sonenshein, 2010). Further, because stories in our data referred to the dialogue of informants with both the meso (firm) and the macro (institutional) levels, we suggest that scholars might examine how such dialectic narratives can be incorporated into an analysis of the competition among different organizational stories (Dawson and Buchanan, 2005). For example, to what extent do organizations include strategic errors in their ‘narrative infrastructure’ (Fenton and Langley, 2011, citing Deuten & Rip, 2000) as a basis for the implementation of their strategies? An exploration of how different audiences receive and react to such narratives would provide useful additions to narrative scholarship on the practices of strategy and change (Johnson et al., 2007). The current paper shows that it is possible to acquire data on this particular topic, even when considering a topic as sensitive as strategic errors.

Finally, we suggest that this study may serve as an inspiration for practitioners – naturally starting with top executives. As our brief media review has shown, all too often concealment and/or silence is the default response in public and perhaps within organizations (Carroll et al., 2021). The retrospective stories we collected hint at the possibility of proactively managing errors by acknowledging and talking about them. The process we identified provides rhetorical processes that can help top executives in their daily interactions with themselves, their respective organizations, governance, and institutional stakeholders. Such an error management approach, in addition to error prevention (Cowley et al., 2021), has been shown to be effective at lower levels of organizations (Dahl and Werr, 2021). Incidentally, our study suggests further developing the narrative approach in the area of errors and failure, an avenue that has gained traction with entrepreneurs (Ingardi et al., 2021; Küpers et al., 2013). Constructing strategic errors early on by mobilizing and de(if)fusing

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them may serve to turn organizations around while preserving top executives' personal  
credibility and, ultimately, their power.

Peer Review Version

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**Table 1. Data summary**

	<b>Data nature</b>	<b>Sampling</b>	<b>Firm sectors</b>	<b>N</b>	<b>Firm size</b>	<b>Analysis</b>	<b>Insights</b>
Pre-studies: Media review	Newspaper articles	<i>Financial Times</i> (paper), Europe edition, two months (50 daily issues), articles about corporate failures	Finance (33%), Industry (22%), Tech (16%), Energy (8%), Mining (6%), Retail (5%), Other (10%)	245 articles	Employees: 1000–1mn Revenues: € 0–100bn	Initial coding, and Firm sector & size Failure type CEO reaction to failure	Top executives typically deny failures and errors or won't comment
Pre-studies: Preliminary interviews	Interviews (transcripts) average duration 72 minutes	CEOs and board chairs contacted through personal relations	Retail, Media, Finance, Pharma, Mining	12 interviews: 7 CEOs 5 board chairs 11 male, one female	Employees: 50-10,000 Revenues: € 10mn–1bn	Initial coding, and Firm sector & size Failure type Personal reaction to failure and errors: admission or denial	Top executives willingly comment on failures and errors in their firms under their watch
Main study: Interviews	Interviews (transcripts) average duration 58 minutes	Publicly listed firms in the broader financial services sector, members of the top 50 index in the euro area	Financial services Subsectors: Banking (12 firms), Insurance (5), Conglomerates (2), Asset management (1)	21 interviews 9 CEOs 12 board chairs 21 male, one female	Employees: 300–100,000 Revenues: €800mn–125bn Total: 900,000	Five steps: Initial coding, then three analytical steps on a subsample (see Methods and Table 2)	See Findings

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**Table 2. Core sample: vignettes**

Nar-rative	Infor-mant	Role	Subsector	Summary	Value destruction (€)	Informant's failure perception	Strategic change
1	A	CoB incumbent	Bank	Investors undervalued the stock because of lack of growth, mediocre profitability, and poor strategic outlook	Billions	High	The firm devised a new five-year strategic plan including structuring acquisitions, new CEO and executive committee, top managers fired
2	A	CoB incumbent	Bank	The bank was sanctioned at multiple occasions for breaching regulations relating to employee supervision, and compliance procedures in investment banking	Hundreds of millions	High	The firm completely reorganized its compliance function, hired a new chief compliance officer and dozens of managers and specialists
3	B	CEO incumbent	Conglo-merate	The firm had a 50/50 joint-venture unit in Asia that failed to restructure as planned and budgeted due to the poor competence and dedication of the manager in charge	Tens of millions	Moderate	After a delay, the firm negotiated with the Asian partner to fire the manager and designate a replacement
4	B	CEO incumbent	Conglo-merate	A business-unit in Asia launched without applying for the local mandatory license	Millions	Moderate	The firm eventually applied for and obtained the license
5	B	CEO incumbent	Conglo-merate	The firm invested its cash reserves in securities considered safe and with a high yield. Market conditions changed and the value of the securities plummeted	Tens of millions (close to 100)	High	The firm incurred costly write-offs, cancelled several strategic projects and reallocated assets
6	C	CoB incumbent	Insurance	The firm sold financial products that guaranteed returns to investors. Funds were invested in instruments whose value fell dramatically in the markets	Hundreds of millions	High	The firm discontinued an important line of products, restructured some of its portfolio and launched new products
7	D	CoB incoming	Bank	The group embarked in an acquisition that would have doubled the size of its retail banking arm. It was unable to fund it due to changing conditions in the financial markets. It fell short of liquidity and was bailed out by its national state amid a public scandal (see also Narrative 8)	Tens of billions	Disastrous	The group sold the banking division for cheap to a rival. It refocused on insurance exclusively. Board and executive committee were replaced
8	E	CEO incoming	Bank	In the episode described in Narrative 7 (failed acquisition, bankruptcy, and bailout), the group found itself brutally deprived of the support of national authorities and public opinion	Reputational	High	After a refocus on insurance (see Narrative 7), the firm developed a strong relationship with local media and direct relationships with individual retail investors
9	E	CEO incumbent	Insurance	The firm failed to follow up on the reinforcement of regulations relating to capital and reserves	Millions	Moderate	The firm restructured its balance sheet and invested in compliance with regulations
10	E	CEO incumbent	Insurance	The firm failed to sell assets whose value plummeted as a crisis broke on the sovereign debt of certain countries	Hundreds of millions	High	The firm incurred costly write-offs, cancelled several strategic projects, and reallocated assets

Nar- rative	Infor- mant	Role	Subsector	Summary	Value destruction (€)	Informant's failure perception	Strategic change
11	F	CoB incumbent	Bank	The firm had consolidated minority stakes in leasing business-units into one majority-owned, highly profitable unit. Yet when market conditions hit the leasing industry, it put the parent firm itself on the brink of bankruptcy – it was partly bailed out by its national state	Billions	Disastrous	The firm divested its business unit and refocused on banking, completely reorganized relationships with co-shareholders, raised capital through an IPO, and replaced the CEO
12	G	CEO incumbent	Bank	A phishing attack revealed a loophole in the firm's processes for opening online accounts. Retail partners did not check IDs, allowing thieves to withdraw money in lieu of the bank's clients	Tens of millions	High	Reengineering of the distribution system for part of the online banking operations, including negotiations with retail partners and regulators
13	H	CoB incumbent	Bank	The firm distributed low-interest mortgages in Southern Europe pegged on the Swiss Franc. Then the Franc rose. Clients were unable to repay their loans, increasing the bank's liabilities (see also Narrative 19 in a different bank)	Tens of millions	High	Closure of the business line, negotiation with clients, restructuring of the asset portfolio backing the loans
14	H	CoB incumbent	Bank	The bank expanded aggressively in countries newly integrated in the European Union. Operations there remained unprofitable for years	Tens of millions	High	Heavy downsizing and restructuring, refocus on the firm's national market
15	I	CEO incumbent	Insurance	The firm failed to react on a change in legal dispositions and a reversal of jurisprudence and incurred heavy penalties	Tens of millions	High	Reorganization in part of the business involving core operations, massive PR campaign to restore reputation
16	J	CEO incoming	Bank	A business unit of the bank engineered financial products that brutally became impossible to sell. The bank bore the inventory, became unsolvable and was bailed out by its national state (see also Narrative 21).	Billions	Disastrous	Comprehensive reorganization of the bank under the control of regulators and public shareholders
17	K	CoB incoming	Bank	The bank had invested in sovereign bonds that were eventually devalued, putting the bank on the verge of bankruptcy –it was rescued by a bail-out from its national state	Billions	Disastrous	Recapitalization and comprehensive reorganization in negotiation with national and European regulators
18	L	CoB incumbent	Bank	The bank acquired a number of subsidiaries in Eastern Europe, expecting national regulations to converge. Yet, regulations diverged, making cross-border banking costlier	Tens of billions	High	Downsizing and restructuring at the scale of the group, withdrawal from several countries
19	L	CoB incumbent	Bank	The bank distributed low-interest mortgages in Eastern Europe pegged on the Swiss Franc. Then the Franc rose. Clients were unable to repay their loans, increasing the bank's liabilities (see also Narrative 13 in a different bank)	Tens of millions	High	Closure of business lines, negotiation with clients, restructuring of the asset portfolio backing the loans

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Nar- rative	Infor- mant	Role	Subsector	Summary	Value destruction (€)	Informant's failure perception	Strategic change
20	M	CoB incumbent	Bank	A senior manager of the firm became the target of the media for becoming overly rich thanks to private investments	Reputational	High	Departure and replacement of a senior manager who was considered key to the executive committee
21	N	CEO incoming	Bank	A business unit of the firm engineered financial products that brutally became impossible to sell. The bank bore the inventory, became unsolvable and was bailed out by its national state (see also Narrative 16).	Billions	Disastrous	Comprehensive reorganization of the bank under the control of regulators and public shareholders
22	O	CoB incoming	Conglo- merate	The family firm embarked in the partial acquisition of an important group, funded by a high level of debt. Yet, the target group publicly fought against the operation; and the funding conditions worsened to the point of putting the firm on the brink of bankruptcy	Billions	Disastrous	Several divestments and operations to raise capital and avoid bankruptcy; departure and replacement of the top management team; unravelling of the attempted acquisition; reorganization of the family governance

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Strategic Organization

Table 3. Mobilizing errors: quotes from the core sample

Narrative	Informant role	Firm subsector	Informant's failure perception	Diagnosing errors	Dramatizing errors	Catalyzing errors
9	CEO incumbent	Insurance	Moderate	<p><i>We have an insurance company where we have been obliged to invest tremendously in the Solvency II [regulation]</i></p> <p><i>An error... is an impact on the company that is not at all expected, that is out of its risk appetite, that brings the company in a situation where it could be, under pressure, whether it's from the outside world or the regulator, you name it.</i></p>	<p><i>[The impact is] something like, I think it's 150 million euros in five years, so it's a considerable amount.</i></p>	<p><i>At a number of intermediate steps, the audit raised a number raised a number of very important attention points. Thanks for that, we were able to timely correct. But otherwise, we would probably have had now the errors arising, with consequences that could have cost hundreds of millions in need of capital.</i></p>
11	CoB incumbent	Bank	Disastrous	<p><i>Before the merger [of two subsidiaries], we had a lot of little positions with our clients, and after the merger, we have only one position.</i></p> <p><i>To make a capital gain, and to have a simplification, we [had] voted the merger. And this was a very big mistake. Not to have thought about this kind of problem... When the financial markets slowed down a lot, and in this moment, [the merged company] became a problem. And we had all the risks after the merger</i></p>	<p><i>The position was very, very big because the total assets was about 3 or 4 billion, and so we have a risk with a bank that is unable to have the liquidity to pay all the obligations in time.</i></p> <p><i>And so, we have a problem, because the CEO [of the firm] was also the chairman in [the subsidiary]</i></p>	<p><i>And so, we decided to change the CEO, because it was impossible to... We launched a public offer on the equity [of the subsidiary]. I decided that this operation was impossible with the same person. And so, we changed the CEO.</i></p>
12	CEO incumbent	Bank	Moderate	<p><i>We had frauds, actual frauds of people doing phishing on the one side, combined that with getting SIM [phone] cards. ...</i></p> <p><i>We should have thought about the whole process, including the fact that in this process, we are dependent on a third party, so we should have gone through the whole process with the third party. And then, we could have. We could have. Yes. Nevertheless, it didn't come out.</i></p>	<p><i>It cost us a lot of money.</i></p> <p><i>Phishing was a way to fool people as to whether they log in to [our bank's website] on the Internet or not. So, with fake screens, getting the login of the clients into the IT network, combined with, in certain countries we have SMS confirmation, so if you do a payment, you get a SMS with a code, and if you fill in the code, you can transfer money...</i></p>	<p><i>How do you find out? Because people start to complain that money is going from their bank account, that they haven't given any instruction. Then you detect it, you have to figure out what's really happening, and then, you know, you go about ... Mitigation.</i></p> <p><i>We worked with the telecom providers that they should start asking identity cards for people who claimed that they had lost their SIM cards.</i></p>

Narrative	Informant role	Firm subsector	Informant's failure perception	Diagnosing errors	Dramatizing errors	Catalyzing errors
15	CEO incumbent	Insurance	High	<i>Whatever the reasons, that are beyond me, it is obvious and clear that [there] is a vision by the authorities, by the citizens, by the media, by the entire environment, that is much much more rigorous, literal, strict, of what is a good behavior and an acceptable behavior for [our] institutions. And that is an evolution that was relatively quick.</i>	<i>The whole issue is to say: "No, now, it has changed." ... We can't do anything about that. So, those things that were not important become very important things.</i>	<i>So, in the matter, I wrote to all people [in the firm]. We won't say that the judgment is unfair, or that we forgot something.</i>
18	CoB incumbent	Bank	High	<i>Perhaps we didn't forecast that there might be stronger national regulations, and again fragmentation.</i>  <i>It would have been necessary to be, let me say, a little bit more cautious, for example looking whether there was an EU membership already existing or just coming in the next years.</i>	<i>[When we invested in this country] the markets, actually were enthusiastic. You could see, the price of the shares went up and so on. And there was a lot of optimism around. And it turns out, if you look at the rate of return of that investment is not as good as we thought it would be. It was negative.</i>	<i>[Then we] questioned whether the business-model is still correct or not.</i>
21	CEO incoming	Bank	Disastrous	<i>[The firm] didn't have at all an issue with the core activities in banking or insurance. Not at all. Not even at the peak of the crisis, that remained very profitable... So that was not the issue. The issue was that there was something, there was something else happening.</i>	<i>[We] went belly up... The world was in tatters...</i>  <i>I opened up to staff. To be very open: 'Listen. This is what is happening. This is what we can do. These are some caveats due to some circumstances that perhaps are not fully under our control, but that's we're going to do.' ... I became part of the bunch which was not trusted. As a newcomer, with some credit, but still in the executive committee, with 3 or 4 members which were old-timers. So, the style was, communicate very openly to 15,000 people here in [the country] ... and start regaining trust.</i>	<i>I got my numbers in and I saw my solvency level drop below 100%... I mean, if the solvency level drop below absolute minimum, 100%, the regulator steps in and takes over the company. That happens.</i>

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**Table 4. De(if)fusing errors: quotes from the core sample**

Narrative	Informant role	Firm subsector	Informant's failure perception	Collectivizing errors	Temporalizing errors	Isolating errors	Generalizing errors
3	CEO incumbent	Conglomerate	Moderate	<i>We have a responsibility that has a character of a team. I won't point the finger at someone who undertook something, and we were all around the table. But when it doesn't work, one must know very quickly that it doesn't work.</i>		<i>I knew that something was wrong. [The inadequate manager] had a lot of issues that kept him in his office. But he was not well surrounded. He didn't have the people the people he needed. And all those signals were accumulating... Unfortunately, we were only at 50/50 in that business. And we had to agree, the two partners, to bring in a new [manager]</i>	
10	CEO incumbent	Insurance	High	<i>Afterwards when the board of directors judged the executive committee over that period, that conclusion was not to say: 'OK we have to fire the one or the other because they made an unacceptable error.' No it was considered, OK... a wrong decision. But a decision that was taken collectively.</i>			<i>The example of the Greek debt... First of all, it's not a shame, we were not the only ones [to lose money]</i>
11	CoB incumbent	Bank	Disastrous	<i>We didn't know, or we didn't think enough, about fractioning risk, about capping risk, because we did not think of the possibility of these kinds of losses. This was really the mistake.</i>		<i>In fact, it's not precisely our kind of business [which is] more commercial bank, retail bank. This a different branch outside of our bank ... And even if this is something different, but it makes a lot of gain. You know. And then, this was the mistake.</i>	
12	CEO incumbent	Bank	Moderate	<i>We had decided that SMS confirmation is a good way to do safe banking.</i>		<i>We had no control over the [phone] card release because it's a different party. And we</i>	



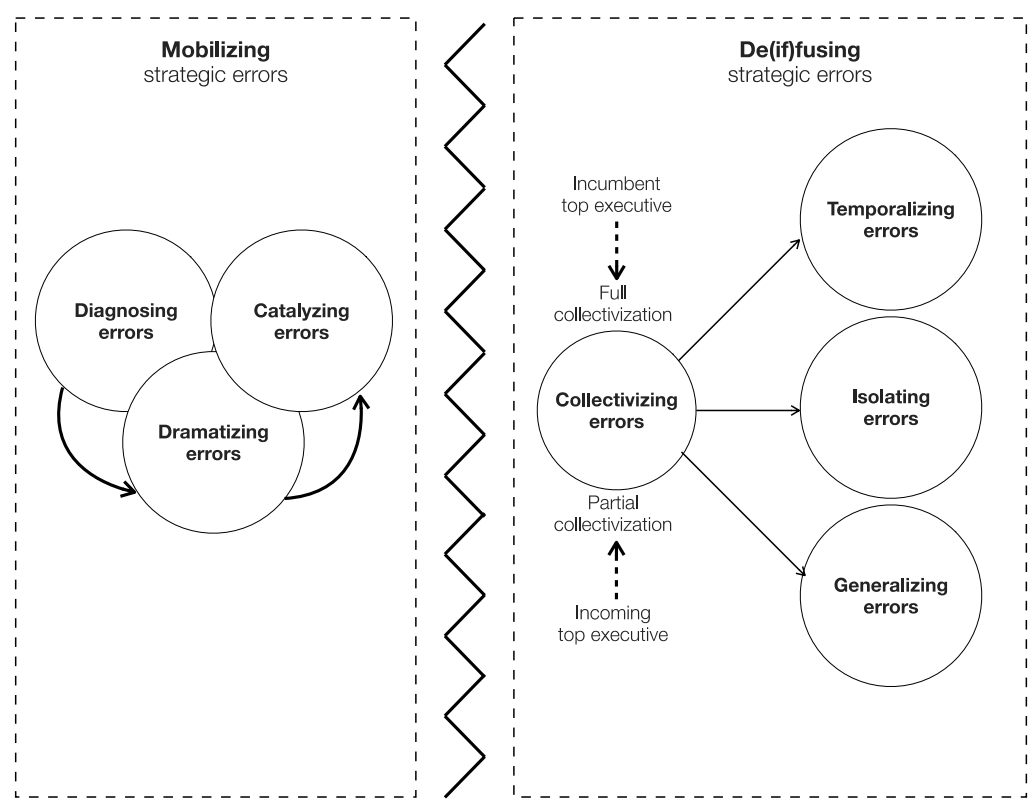
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Narrative	Informant role	Firm subsector	Informant's failure perception	Collectivizing errors	Temporalizing errors	Isolating errors	Generalizing errors
15	CEO incumbent	Insurance	High	<p>Since, at all times, [searching insurance deceased beneficiaries] was not considered as being of our responsibility, so people have always considered that as not being in our responsibility. It's not because the judge says this or the law says that, that it changes anything.</p>	<p>The legislation evolved, or at any rate, the perception of the duty of an insurer has evolved. And today, it clearly appears that the insurer must... stir heaven and earth to find the beneficiaries [of insurance policies].</p>	<p>had no idea that the telecom companies did not ask identity cards.</p>	
21	CEO incoming	Bank	Disastrous	<p>Everybody assumed that [the business-unit] was OK. But nobody was aware, in my understanding, in the executive committee, of what really was happening... They were not aware of what was going on because they didn't follow up what was going on. It was profitable.</p>		<p>There was a very small entity in [a different country], where we put in 4.5 billion of reinsurance of CDOs. Derivatives... It's valued at zero. So, you lack capital... This small section of the organization, which was out of control, was very poorly understood. They made a lot of money, had a lot of freedom. Nobody really understood it. And people, the very few people who maybe sounded the alarms here, didn't get listened to. Losses of 3-4-5 billion were made by a group of 200 people in an organization of 50,000 people!</p>	
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**Fig. 1. A dialectic process of strategic error narratives**



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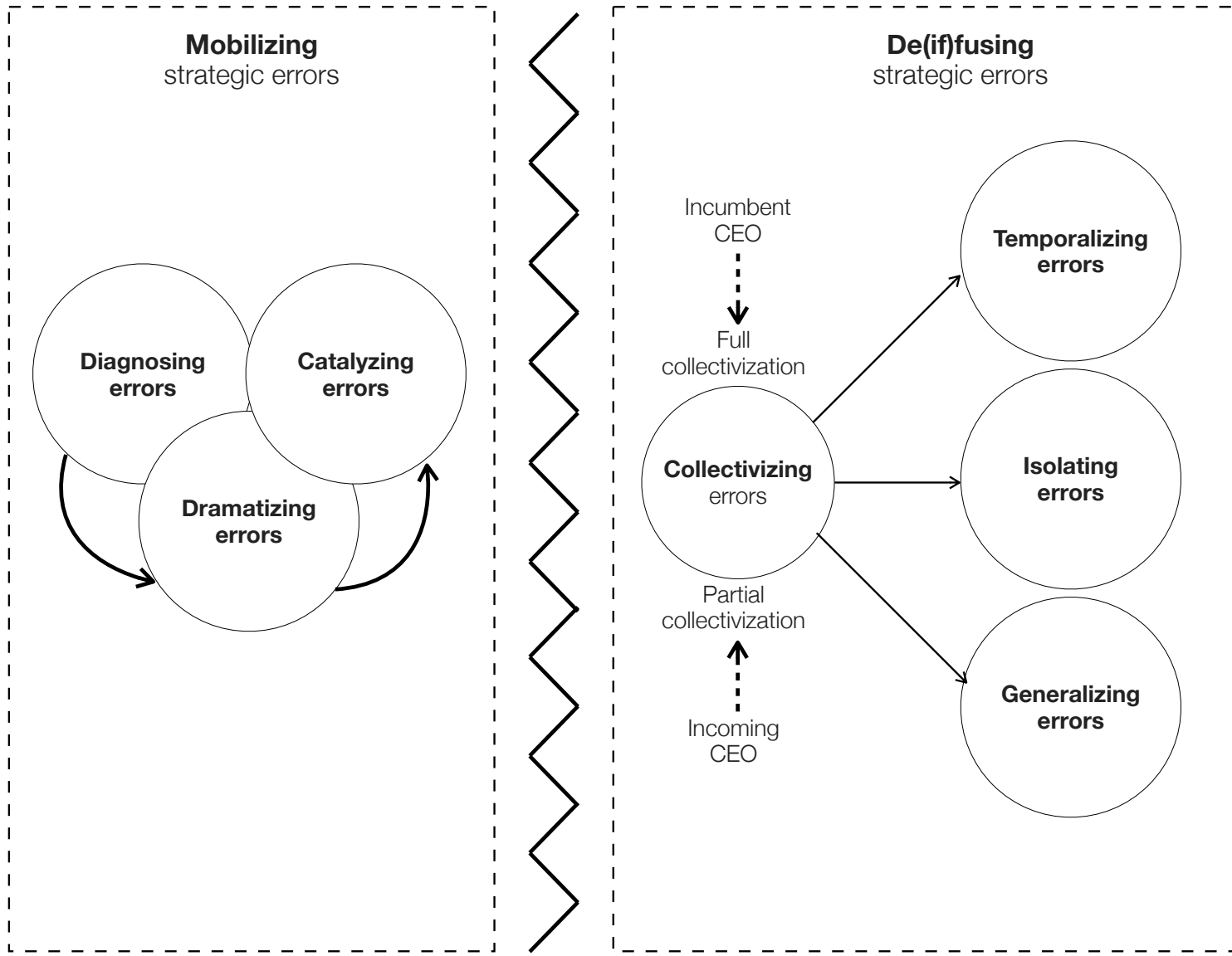
## Author biographies

**Vincent Giolito** is associate professor of Strategy and Organization at emlyon business school (France) after a position as lead researcher at Solvay Brussels School of Economics and Management (Belgium) with the Baillet-Latour chair on strategic error management. His work focuses on the articulation of strategy and leadership, particularly in large, complex firms embedded in highly institutionalized environments. Prior to joining academia, he had a career in business journalism and consulting.

**Damon Golsorkhi** is associate professor of Strategy and Organization at emlyon business school (France). His research centers on strategy as practice, being a co-editor of the Cambridge handbook on strategy as practice with Linda Rouleau, David Seidl, and Eero Vaara. He examines how strategies are crafted with respect to relational and distributive dimensions such as open-endedness, practice, culture, tools, and power. He also studies the impact of firm strategies on society and the natural environment.

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Strategic Organization

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3 **“WE MADE A MISTAKE”:** HOW TOP EXECUTIVES DIALECTICALLY NARRATE STRATEGIC ERRORS IN  
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10 **ONLINE APPENDIX**  
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12 **Table 3 (continued). Mobilizing errors: quotes from the core sample**  
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Narrative	Informant role	Firm subsector	Informant's failure perception	Diagnosing errors	Dramatizing errors	Catalyzing errors
1	CoB incumbent	Bank	High	<p><i>There wasn't a prior strategy. No, seriously. I mean yes there was a [short-term] program...</i></p> <p><i>Why was this a short-term thing? Well, very easy. [When] the new administration took over, there were a lot of uncertainties in the regulatory environment in which the bank was acting, and the management therefore said: “we actually have a number of short-term no-regret moves, that we need to make anyway.”</i></p>		<p><i>Strategy is not dependent on individuals. So, the strategy was put in place. Structure for the strategy, OK? So therefore [we made] the structural adjustments. So, we had then a structure in place and a strategy. And then, we made a decision, jointly, in terms of who would be the best people to actually make that strategy work. The conclusion was that the most effective way would be to actually have a different CEO to actually go forward. And that was something that quietly we set.</i></p>
2	CoB incumbent	Bank	High	<p><i>In the financial industry, we are in the process of working our way through a cleanup phase of a boom phase. That happened over the last 20 years, maybe 30 years. And it is now necessary that we move many of our patterns back into something that is more in line with what we have today.</i></p>	<p><i>Frankly, you actually had to face the question, would you go out of business if you weren't going to [deviate from norms]?</i></p>	

Narrative	Informant role	Firm subsector	Informant's failure perception	Diagnosing errors	Dramatizing errors	Catalyzing errors
3	CEO incumbent	Conglomerate	Moderate	<i>We should have understood that we took some risks with the [first] person, but it was a seasoned person, who had well managed, at least it was what we believed, other companies.</i>	<i>It cost a lot of money. We have for our part ... had to invest 70 million euros just to keep the company afloat.</i>	
4	CEO incumbent	Conglomerate	Moderate	<i>We have a company that invested in a small company in China, and then we realized, afterwards, that we didn't have the license for exploiting! And that it was in the partner's hands!</i>	<i>That are things with an over quantity of naiveté, and with lack of professionalism. And that is totally unacceptable.</i>	
5	CEO incumbent	Conglomerate	High	<i>This is where, in the system, we made a mistake, when one has, as we do, two banks in the group, and it is an important pillar in our businesses, it's not very intelligent to go, on top of that, re-invest cash in bank equity.</i>	<i>[It] cost us, I don't know, close to 100 million euros, so a part of our profit of this year.</i>	
6	CoB incumbent	Insurance	High	<i>What did we do in such a case? ... We acknowledged the error, rather than say the episodes outside will only last for one time, it's just a bad moment, things will get back to normal, don't worry etc.</i>	<i>So, yes, it's a blunder to be there. Now, what do we do?</i>  <i>Here we typically were in a thing that appeared as a very very good decision in the [years before], that had brought the revenue to extremely high levels, and that [then] appeared as something extremely dangerous</i>	<i>[What we did] is to say: 'OK, what is the worst scenario?'</i>  <i>We stop selling those products, I mean, old generation. We completely reprofile them, which means that on new products we don't have the same risks. As the reprofiled products won't have the same appeal for customers, what other products can we put in the circuit so as the entity continues to function, people still have things to sell and the clients have interesting products?</i>

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Narrative	Informant role	Firm subsector	Informant's failure perception	Diagnosing errors	Dramatizing errors	Catalyzing errors
7	CoB incoming	Bank	Disastrous	<p><i>I'm in the belief in the fact that [the firm] was getting too large, and the bank was getting too big for the insurance business. And a lot of people think that insurance and banking are in the financial sector, but it's two different types of business.</i></p> <p><i>You always look at 3 scenarios, you have the optimistic scenario, you have a pessimistic scenario, and at the end of the day, you have to choose, you have to select a scenario, because you cannot work on 3 or 4 or 5 scenarios at the same time. You have to choose a scenario.</i></p> <p><i>The worst-case scenario was, well, considered, but ... with a very, very low probability. And at one point in time, the probability of the worst-case scenario should have been given a higher probability.</i></p>	<p><i>[At some] point in time, you need a very strong CEO or chairman or, you know, somebody, who would, you know, decide, and cut the b.s. decide, who says "This is what we are going to do". It didn't happen.</i></p> <p><i>[The firm] could have raised a lot of money and, you know ... there would still have been turmoil in the financial services sector. But it would not have been like it is. In terms of solvency, we would have been there.</i></p>	<p><i>[Then] they started to realize that the worst-case scenario was a possible scenario. Because it was at that time that they announced there would be no dividend, and they had to raise some more money. And that was really a crucial moment.</i></p>



Narrative	Informant role	Firm subsector	Informant's failure perception	Diagnosing errors	Dramatizing errors	Catalyzing errors
8	CEO incoming	Bank	High	<p><i>From the moment of the [acquisition, the firm] gave all the attention to the CNBC, the Bloomberg, the national press. And the local press, to be honest, they were left aside. And when they asked a question, the firm's answer was: No comment.</i></p> <p><i>If things go wrong... You have more and more people in the company that try to take distance of all these decisions. And some of them even are open to leak to the press. And so, you get the negative effect that you neglected them in the good times, and when things are starting to go wrong, they are the first ones who give the additional push to fold out.</i></p>	<p><i>[That was] the glorious times... There was a huge attention from the media, also in the US and the UK, to whatever we did</i></p> <p><i>If you are coming in a position where things go wrong, you have these guys [from local media], instead of with you, or neutral, they are against you. And they go for the information. And you don't provide it, so they go to the weakest points in your organization.</i></p>	<p><i>[Then] we said "No, we want to be to all our stakeholders, whether it is our employees, clients, distribution partners, regulators, press, shareholders, very transparent. Whether it is good news, or bad news, let's bring it, in an objective way."</i></p>
10	CEO incumbent	Insurance	High	<p><i>We kept 40% of Greek exposure, or something like that, at one point, 1.6 billion... Because we were convinced that Europe would find a quick solution. And then came the one year and a half, every month there was a euro [Summit] and they always tried to find a solution that created some positive reaction in the first two days, and then it would peter out...</i></p>	<p><i>So, in the end we had to write off the biggest part of that.</i></p> <p><i>There was also the question, 'yeah but [Italian bonds], why not sell the full of Italy?' And then I said: 'OK, let's do it'. And the moment I said let's do it, everyone was: 'No no no...'</i></p>	<p><i>The difficulty is always to dare to take the loss, which is maybe better, than to continue and to have a total cost that is much higher than the loss.</i></p> <p><i>It was my question, why didn't we sell the full 4 billion? The reason was... if we fully sell it, it's an excess of 200 million in loss. If you sell 60%, it's only 120 [million]... It was more a decision, not to sell the whole lot, out of, what I would call shorter term profit.</i></p>

Narrative	Informant role	Firm subsector	Informant's failure perception	Diagnosing errors	Dramatizing errors	Catalyzing errors
13	CoB incumbent	Bank	High	<i>When the Swiss franc started moving south vis-à-vis the euro, it was obviously the sign that a serious misjudgment was there.</i>	<i>We paid dearly for that.</i>  <i>We have today around 5 billion euros in Swiss francs loans in the area where we operate, that turn out to be a nightmare.</i>  <i>So, you are losing money from both areas. You are losing money with the clients that the ability to pay is undermined by the devaluation, the appreciation of the Swiss franc. You are losing a lot of money on the financing side, by the gap you're running [to hedge currency fluctuations].</i>	<i>This is the first year that we are profitable in our international operations [after reorganizations], because we lost money the previous four or five years.</i>
14	CoB incumbent	Bank	High	<i>I could have been more conservative in... the business expansion in [southern Europe].</i>  <i>We engineered a growth of 20-25% of loans while it was obvious that the rest of the bank didn't follow.</i>  <i>You go to a country with no history of capitalism, because we were there in the late 1990s, for decades, where the per capita income is small, what you are trying is SMEs the way you do SMEs here, and on top of that, without safeguarding that all the support units from credit approval to audit to compliance to systems and procedures, were there and moved at the same speed as the business.</i>	<i>In the good days of the high growth in [Southern Europe], we were making 200 million euros in the region, and we would lose a lot of money.</i>	<i>This is the first year that we are profitable in our international operations [after reorganizations], because we lost money the previous four or five years.</i>

Narrative	Informant role	Firm subsector	Informant's failure perception	Diagnosing errors	Dramatizing errors	Catalyzing errors
16	CoB incoming	Bank	Disastrous	<p><i>Personally, I don't believe in the future of universal banking. To combine retail banking and investment banking in the same institution... I think, from a managerial point of view, these are very different cultures, and to manage them in a single organization is not healthy.</i></p> <p><i>There were many parties to share part of the blame. I think it starts with shareholders and board who have been maybe setting too ambitious targets, about growth, about return, about expectations... Management maybe accepted these targets, or maybe pushed them themselves, driven by maybe financial rewards, maybe by ego, by empire building etc., by inadequate controls. Regulators have their role to play, rating agencies, have their share of blame. So yes, I think, the whole thing got out of control... because of the interlinkages.</i></p>	<p><i>We were sort of medium-big disasters as things go, there were worst disasters and there were some that came out better than we did.</i></p> <p><i>There was a bit of reluctance of people here, when I said in interviews about the past time, that we had made mistakes at [our firm]. It's very obvious. I think there was a strategic mistake</i></p>	<p><i>Acknowledging publicly that we really made errors in this house, is part of the process.</i></p>
17	CoB incoming	Bank	Disastrous	<p><i>All of a sudden, we found ourselves being exposed to future risks, because the government decided for the haircut.</i></p>	<p><i>So, as a result of that, we suffered huge losses. We didn't have enough capital anymore.</i></p>	<p><i>And that's why we had to recapitalize.</i></p>
19	CoB incumbent	Bank	High	<p><i>We were putting too much emphasis on growth, moving to new areas, without perhaps looking at what the data which I used for management decisions were really consistent, among the areas where we operate, whether the risk management system was really sufficiently consistent and so on.</i></p>		

Narrative	Informant role	Firm subsector	Informant's failure perception	Diagnosing errors	Dramatizing errors	Catalyzing errors
20	CoB incumbent	Bank	High	<i>That's it, sometimes you must accept the reality... [after the tabloid campaign against a senior manager's personal investments].</i>	<i>It's really difficult to say OK, his days end anyway there. The modern newspapers are in a way that you can make a story out of [that]. He has no official problems with tax or with the courts with that. But the pressure of the opinion, of the public was so high.</i>	<i>It was not possible anymore to stay as we were ... I'm not happy with that, but for the long run development of the banking group, and this is our duty. We have to make the right decisions.</i>
22	CoB incoming	Conglomerate	Disastrous	<i>Our stock [price] had multiplied by 4 ... in 5 years. At this moment, you ask yourself: 'how will I be able to double again my stuff?' At this point in time you become absolutely grandiose. This is what happened. We became grandiose.</i>	<i>This was such a campaign that there was no chance.</i> <i>[Our firm] had a net asset value... around 5 billion euros, [the acquisition] was in the region of 6 billion euros, including debt and in which there was 4.9 billion of debt. More than that, it was debt with covenants, a kind of debt where you must, [when the stock] comes below a certain price, to compensate in cash or in securities held elsewhere, but with a high multiple, as a security, a collateral.</i>	<i>The most important thing is the situation of the bank itself, and the bank in reputation is sane in the long run</i> <i>Our debt amounted to... was in the region of 80% of the gross assets, so, we were in a rather worrying situation....</i>
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**Table 4 (continued). De(if)fusing errors: quotes from the core sample**

Narrative	Informant role	Firm subsector	Informant's failure perception	Collectivizing errors	Temporalizing errors	Isolating errors	Generalizing errors
1	CoB incumbent	Bank	High	<i>There wasn't a prior strategy! No, seriously...</i>			<i>This wouldn't be the first financial institution [not to have a strategy]</i>
2	CoB incumbent	Bank	High	<i>Of course, there were mistakes made</i>			<i>In the financial industry, we are in the process of working our way through a cleanup phase of a boom phase. [Industrial firms] needed to cleanup a whole range of things, from labor laws to environmental laws and so on and so forth. And we [in financial services] are undergoing that (...) as far as financial regulations confirm.</i>
6	CoB incumbent	Insurance	High	<i>Everybody errs, we are the first to err, but the quicker we correct, the better it is, and if one wants to correct quickly, one must detect quickly.</i>	<i>That happened on [certain financial products] which were a category of products that we had sold very, very well, and with the crisis those products became, quote and quote, dangerous, because of the guarantees that were given earlier.</i>		
7	CoB incoming	Bank	Disastrous	<i>The worst-case scenario should have been [retained] ... And there should have been some drastic actions ... But nobody was then thinking it was necessary to do that.</i>			

Narrative	Informant role	Firm subsector	Informant's failure perception	Collectivizing errors	Temporalizing errors	Isolating errors	Generalizing errors
8	CEO incoming	Bank	High		<i>Then the situation became a bit more negative, worse worse worse worse, [and the firm] continued with an approach of denying [the local media]. And we could say the same happened towards the political stakeholders.</i>		
11	CoB incumbent	Bank	Disastrous	<i>We didn't know, or we didn't think enough, about fractioning risk, about capping risk, because we did not think of the possibility of these kinds of losses. This was really the mistake.</i>		<i>In fact, it's not precisely our kind of business. Because our kind of business is more commercial bank, retail bank. But this a branch, a different branch outside of our bank, and so they can go on... And even if this is something different, but it makes a lot of gain. You know. And then, this was the mistake.</i>	
13	CoB incumbent	Bank	High	<i>We underestimated what sort of portfolio we were building... Everybody was seeing for 3 years, 4 years, the Swiss franc flex rate was around 1.6 and considered that as permanent state of affairs. And [because of] a certain fallacy of certain myopia, because again, that ties up to the incentives to create income and profitability short term, because that's what [managers are] paid for.</i>	<i>I didn't have Swiss francs [to produce mortgages], so I had to make a Swiss franc loan, I had to swap euros to Swiss francs. Now with the crises, obviously the cost of the swap is going to the roof.</i>		

Narrative	Informant role	Firm subsector	Informant's failure perception	Collectivizing errors	Temporalizing errors	Isolating errors	Generalizing errors
14	CoB incumbent	Bank	High	<i>The back [office], the audit, the support units, the control, the credit, were not ready to support a credit expansion of the front.</i>			<i>We started doing, quite under pressure, an expansion in [banking with] small and medium enterprises...</i>
16	CoB incoming	Bank	Disastrous	<i>Anyone who wanted to probe into [the error] was told it was under control, 'Mind your own business'.</i>		<i>The CEO and the lower people thought that this island of apparent profitability was very much protected...</i>	
17	CoB incoming	Bank	Disastrous				<i>All banks had invested in secure assets. And as you know, the most secure asset were the bonds of a Eurozone government... We suffered losses, but mainly for reasons external to the banks</i>
17	CoB incumbent	Bank	High	<i>We reacted too slowly, maybe we did not reduce the costs, we did not react to the crisis, which was coming ... because we thought it would go away. It's not gone that way.</i>			<i>The business model [of our firm] is cross-border banking. If you have savings in excess of loans in one country, you use perhaps the liquidity which comes in, in order to grant more loans in another country than there are savings. And if you look into textbooks in economics, there are famous ones. Actually, cross-border banking is something the major economic textbooks regarded as something very very good.</i>



Narrative	Informant role	Firm subsector	Informant's failure perception	Collectivizing errors	Temporalizing errors	Isolating errors	Generalizing errors	
18	CoB incumbent	Bank	High	<p><i>It was not possible anymore to stay as we were. Therefore, we decided together with [the senior manager], we'd do it that way. As we worked for many, many years together, there is enough understanding to each other, how to deal with it... He's [now] our consultant in a lot of organizations at the moment and works with us OK.</i></p>	<p><i>Yes, three or four years ago, [this senior manager] was the banker of the year... We live in a time where we're exposed to many stakeholders, to the own shareholders, to the public, to the media...</i></p>			
21	CEO incoming	Bank	Disastrous	<p><i>Everybody assumed that [the business-unit] was OK. But nobody was aware, in my understanding, in the executive committee, of what really was happening... They were not aware of what was going on because they didn't follow up what was going on. It was profitable.</i></p>		<p><i>There was a very small entity in [a different country], where we put in 4.5 billion of reinsurance of CDOs. Derivatives... It's valued at zero. So, you lack capital.</i></p> <p><i>The second mistake was, indeed, there was a small section of the organization, which was out of control, was very poorly understood. They made a lot of money, had a lot of freedom. Nobody really understood it. And people, the very few people who maybe sounded the alarms here, didn't get listened to. Losses of 3-4-5 billion were made by a group of 200 people in an organization of 50,000 people!</i></p>		

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