

# Narrative Construction as Sensemaking: How a Central Bank Thinks

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## Abstract

How do elite policy-making groups make sense of complex and ambiguous environments while remaining consistent with the group's institutionalized operating model? This paper identifies a sensemaking process based in shared narrative construction. It is a social process of pattern recognition involving *abduction*, the comparison of culturally approved models to the current conditions to establish relevant facts and events; *plotting*, the reordering of those facts and events into a plausible narrative; and *selective retention*, the collective negotiation of a policy choice that fits the emerging narrative. This paper uses verbatim transcripts of meetings at the Federal Reserve to explore how policy makers use a logic of appropriateness to identify relevant cues and integrate them with existing models by weaving sensible plots. These plots are designed to control the supply of money and credit and maintain the legitimacy of the central bank.

**Keywords:** narrative, sensemaking, legitimacy, Federal Reserve

The enactment of plausible and coherent narratives is a critical tool for organizational elites. Weick and others (Weick 1995; Boje 1991; Brown 2005; Brown 2003; Brown and Jones 2000) have argued that narrative may be used as a device for making sense of ambiguous organizational situations. According to Boje (1991: 106), narrative 'is the preferred sensemaking currency ... among internal and external stakeholders'. At the top of organizations, elite policy makers use narrative to guide organizational action and to shape the reactions of those in their environment (Gioia and Chittipeddi 1991). The emerging narrative-as-sensemaking literature has looked at policy makers' use of narrative for depoliticization of disaster (Brown 2003; Boudes and Larouche 2009); legitimization of organizational action or inaction (Brown 2005); and the expansion of jurisdictional authority (Jacobs and Sobieraj 2007). Each of these studies looked at reports and speeches of elite policy makers. They expose narrators' efforts to privilege their interpretation of events as well as to appear authoritative and legitimate.

This paper, intended as a contribution to this emerging literature, is less concerned with the narrative product and how it privileges some interpretations at the expense of others, than with the preceding constitutive process, i.e. how the narrative is constructed to guide action. The purpose of this paper is to identify the interactive narrative construction process itself, using a rare instance in which we have access to the confidential dialogue within an elite policy-making group. By understanding the process, we may better assess the elite policy makers' efforts to control their environment. It is in the practice of

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narrative construction that we can most clearly see the genesis and agenda of narrative as sensemaking.

At the heart of the narrative as sensemaking literature is the idea that managers use narrative instrumentally to enhance organizational legitimacy (Brown 2003, Brown 2005; Jacobs and Sobieraj 2007). This paper's focus on the narrative process, rather than the product, suggests an emphasis on internal sensemaking by the policy or management group, rather than sensegiving for the organization's audience (Gioia and Chittipeddi 1991; Maitlis and Lawrence 2007). This, however, does not diminish the centrality of legitimacy concerns. Policy makers are not only constrained by the 'norms, values, and definitions' of their audience (Suchman 1995: 574), but by the institutionalized logic of action that members consider 'desirable, proper, and appropriate' (Suchman 1995: 574). The collective act of narrative construction is an effort to embed this internal 'logic of appropriateness' (March and Olsen 1989) in the ongoing interpretation and action of the organization (Phillips et al. 2004).

The narrative construction perspective developed here is premised on the assumption that when a group of individuals is brought together, each with his or her own mental model of the policy environment, a kind of thought world (Douglas 1986), shared interpretive scheme (Ranson et al. 1980), or collective knowledge structure (Walsh 1995) is likely to emerge. While there is considerable evidence for the idea that cognition and knowledge exist at a supra-individual level, there is little work on how such institutionalized collectivities 'think'. The challenge for this paper is to show how such a thought world organizes to guide its action. The paper uses the example of the Federal Reserve's Open Market Committee (FOMC) to explore how policy makers select the facts, order the facts into a plausible narrative, and negotiate a viable choice.

## The Narrative Construction Process

My decision to focus on narrative construction is meant to convey that narrative is understood here not so much as a structure as an action. This action includes the identification of events from the past and the use of a plot that confers context, agency, and a temporal ordering on those events (Polkinghorne 1988; Gergen and Gergen 1986; Maines 1993). Narrative helps organizational actors make sense of their successes or failures because it contains indicators of who and what are causing the observed outcomes (Martin et al. 1983; Pentland 1999; Vaara 2002). In the process of assembling the component parts of narrative, the narrators express evaluative standards that give the outcome meaning.

In shifting attention away from the narrative product, we are putting it on the narrators. But it is not the cognition, or 'narrative imagining' (Turner 1996), of the narrators with which will we be concerned. Rather, our interest is in the social construction of narrative. It is through interaction and negotiation that a policy group 'thinks' and narrative is constructed. Czarniawska (1997: 49) explains that this is a social process between the narrators and that a shared narrative emerges only after 'formulating, editing, applauding, and refusing various elements of the ever-produced narrative'. This 'ever-produced' narrative process

is taken for granted by organizational actors, but may be uncovered in their discursive practices. Sensemaking narratives are constructed through a continuous process of conversation. The narrative is in constant flux, its meaning shaped by the changing discourse and context (Barry et al 2006). The researcher must tap into the conversation for an extended period of time to discover the production/construction process (Heracleous and Hendry 2000).

Narrative construction in policy groups does not occur *ex nihilo*. It is produced from bits and pieces of institutionalized operating models, technical language, anecdotes, and existing fragments of analytic storylines. The narrative as sensemaking process involves the retrospective interpretation of events (Weick 1995), but it does not occur without a prior knowledge base and a reliance on the past. Operating models are particularly useful in sensemaking because of their established credibility. Failure to use such institutionalized discourse would increase risk, require more thought, and reduce legitimacy (Phillips, et al. 2004).

Operating models, by design, have very limited complexity and variety. Daft and Wiginton (1979) argue that the extreme abstraction of simple deterministic models accounts for system managers' use of 'natural language' (narrative) over available mathematical models. Although the operating models offer precision and legitimacy, the complexity and variety of the situation invokes richer forms of explanation, i.e. narrative.

## Data and Methods

The goal of this paper is to explore the narrative construction process among policy makers to better understand their efforts to shape their environment and legitimate their organization. This necessarily involves inquiry into the dialogue of group policy making. Close observation of verbal interaction at policy-making meetings is needed to identify the characteristics of narrative construction. Verbatim transcripts of meetings of the Federal Open Market Committee (FOMC), the United States Federal Reserve's most important policy-making group, are ideal for this purpose. They provide real-time policy negotiations that the members believed at the time to be secret. The transcripts were only released later as the result of a Freedom of Information Act suit. Even members of the FOMC had been unaware of the existence of the transcripts.

This paper elaborates the process of narrative construction by examining the policy-making process of the FOMC. The data are drawn from a larger study of verbatim transcripts of FOMC meetings from 1979 to 1993. Transcripts from the summer and fall of 1992 were chosen for use in this paper because they reflect a period of high uncertainty and, therefore, contain particularly careful and vivid narrative. Nevertheless, the meetings covered in these transcripts take the same general form as all others in the data set, i.e. the meetings follow a standard format, and rules, roles, and procedures are routinized.

The FOMC meets every six weeks for one or two days to discuss current conditions and set monetary policy for the coming period. The Committee has 12 voting members. Seven are appointed by the President of the United States and confirmed by the Senate for 14-year terms. The other five voting members are presidents of

one of the 12 regional Reserve Banks, and are elected by bankers from their home regions. The presidents of all 12 regional Reserve Banks attend the meetings and rotate onto the Committee as voting members for terms of one year.

FOMC meetings are a focal point for the strategic activity of the Federal Reserve (Jarzabkowski and Seidl 2008). They begin with short presentations from staff economists and the managers of domestic and international operations, followed by questions from the Committee members. The meeting then moves on to a roundtable discussion of current economic conditions in which the chair calls on the members. Once everyone has presented his or her position, the chair opens a discussion of current policy choices. This discussion generally continues until the chair identifies a central tendency in the discussion and calls for a vote. Depending on the level of conflict in the room, the chair may be more or less assertive. The meetings generally last between one and two days. The transcripts of meetings range from 62 to 128 single-spaced pages.

This study is in the exotextual tradition of narrative studies (Barry et. al. 2006). It is concerned with how meanings are supported and contested through the production and performance of texts within a context (Barry et. al. 2006: 1094). Although most narrative-as-sensemaking research deconstructs official texts to identify *structures* of meaning, this paper uses an interactionist coding strategy (Lofland and Lofland 1995; Corbin and Strauss 2008) to identify the prior *process* of meaning construction. As Pentland (1999: 711) explains 'narrative text contains indicators for an underlying process theory'. It is just such a process theory that is sought here. Following Corbin and Strauss, I explore the ongoing flow of interpretive work: how policy makers align or dispute narratives' threads into a plot. The transcripts are particularly well suited to this purpose. They provide access to real-time sensemaking in the context of high-stakes conditions where the success or failure of the policy will be highly visible.

The narrative construction process was identified inductively through the open coding of every sentence of the transcripts (Strauss 1987; Corbin and Strauss 2008). Initial coding of the data suggested the prominence of operating models. Closer inductive inquiry suggested a dialectic relationship with a second major category: narrative. I became interested in exploring this relationship and understanding the process by which policy makers moved from models to narrative. The categories of abduction, plotting, and selective retention emerged out of my effort to understand the relationship between models and narrative in the data, suggesting a process of narrative construction. My analysis of 14 years of FOMC transcripts also suggests that the process identified fits this situation well, but it will remain for others to gain access to various boards and commissions to assess its generalizability. My reading of these particular transcripts is, of course, my own and they may undoubtedly be read in other ways. In the following analysis, I endeavor to present enough raw data to make this a convincing reading.

### **Abduction: from Facts to Models**

Narrative construction begins with a process that involves the comparison of existing conditions to a relatively simple operating model: how are we doing as

against where we expected to be based on the model? Policy makers, especially economic policy makers, have many models at their discretion. Each policy field is likely to have a foundational operating model, one that reflects and guides how things work. Over time, operating models come to shape what is thinkable and unthinkable in a particular policy realm. They become a taken-for-granted logic of action. As Mary Douglas (1986: 4) has written, 'An answer is only seen to be the right one if it sustains the institutional thinking that is already in the minds of individuals as they try to decide'. Operating models are intersubjectively shared within cultural communities. In policy-making groups, they often take the form of causal propositions. For example, if we do A, then B will happen.

Such mechanical models define an ideal relationship between variables based on past experience. Their very simplicity begs for elaboration in a complex environment. Such models elicit skepticism in those faced with significant decisions. Does this abstract model really fit our current situation? Charles Pierce, the pragmatist philosopher, referred to this questioning as 'abduction' (Pierce 1955). Polkinghorne called abduction 'a conjecture that is tested by fitting it over the facts' (1988: 19). For our purposes, it is the means by which policy makers question their policy models in terms of their knowledge of the current environment. They compare the ideal relationship in the model to the real one represented by current events.

Policy makers begin by establishing the 'facts'. FOMC meetings always begin with oral reports from the staff that review the conventional indicators of economic performance and offer a stylized sketch of current conditions in the domestic and international economies. These reports are summaries from large briefing books that the members receive. Both the briefing books, full of industry and consumer statistics, and the briefings are texts that constitute the early stage of narrative construction. They provide a preliminary reduction and interpretation of the voluminous information available. They begin the process of providing structure and coherence to the discussion. But they do not constitute the script for that discussion; rather they provide traces that become embedded in subsequent discourse (Phillips et al. 2004). Earlier research on the FOMC shows that members often focus on their own favored indicators and that policy choices frequently depart from those suggested by the staff (Lombra and Moran 1980; Abolafia 2005).

After the staff members have presented their reports and responded to questions, members of the Committee are called upon by the chair to give their own assessments of the current situation. Each member mentions his or her favored economic indicators drawn from the flood of information that is available to members. The choice of particular data reflects a logic of appropriateness (March and Olsen 1989; Tilly 2006). Members select indicators they believe are most suitable for describing the situation. Their choices reflect both their technical and social competence. Choices are drawn from a pool of information that is culturally approved in this setting. This filtering narrows the possible narratives that will be constructed.

During the summer of 1992 the American economy was at the end of a recession. The Federal Reserve had lowered the interest rates steadily since 1989. Members of the FOMC expected that this action would lead to economic recovery.

But, by July 1992, the key measure of growth in the money supply (M2) still seemed relatively unresponsive. One member of the Committee, Mr Laware, put it this way:

'Mr. Chairman, although I have read all the memos and listened to the various theories expounded, I don't claim to understand the refusal of M2 to respond to an established pattern of stimuli. It's as though Pavlov's dog had his saliva glands dry up! [Laughter] And no matter how loud and long Pavlov rang his bell the dog wouldn't drool. Something has to be different.' (FOMC 1992a: 26)

Early in the meeting of 6 October 1992, it is clear that members of the Committee continue to interpret the indicators as disappointing. Members suggest that the FOMC's prior actions have not produced the desired outcomes. As discussion begins among the Committee members, each cites his preferred indicators. Although several receive repeated attention, there is no coherent explanation and many express consternation.

MR. BLACK      The latest national reports - especially that of the National Association of Purchasing Managers, the employment figures, and the downturn in consumer expectations - have been very disheartening to say the least ... But I don't think anybody really understands why we are getting this persistent weakness in the economy. (FOMC 1992b: 22)

MR. LAWARE     Mr. Chairman, I find the incoming statistics very disappointing, particularly industrial production, new orders, purchasing agents' reports, consumer attitudes, and housing starts. On the other hand, the monetary aggregates look somewhat healthier, or perhaps less sick is the right way to describe it. Bank credit apparently has begun to grow again, although certainly not ebulliently. (FOMC 1992b: 31).

Narrative construction begins with the selection and interpretation of facts. These facts are not so much given by the situation, but rather chosen from an accessible, conventionalized repertoire of indicators because they seem resonant and appropriate in the current circumstances. But selection of a conventionalized set of indicators alone is an inchoate form of explanation. These indicators offer inadequate causal accounts for the positive or negative conditions in the environment. As the 'facts' are assembled in the early part of the meeting, we begin to see members' efforts to impose explanatory order on them. In the field of economics, and contemporary society more generally, facts of this scale and scope are generally believed to behave in mechanistic and deterministic ways (Fuchs 2001: 33).

## The Operating Model

Members of a group, over the course of repeated interactions, develop a sense of the way things work. These artifacts of learning may be referred to as operating models. In policy groups these models become institutionalized. They shape what members are likely to notice and what they are unlikely to notice. They tend to take the form of mechanical, causal propositions. An example of such thinking was offered in Mr LaWare's Pavlovian quote given above. The operating model of the FOMC at this juncture is that lowering interest rates

leads to increased spending and recovery. The Committee had been lowering interest rates since 1989 and the economy had yet to rebound. Even before the staff reports are completed, Governor Angell begins to question the Committee's paramount operating model, using a logic of appropriateness:

'What I'm suggesting is that there may be some conditions under which lowering the fed funds rate is not going to work the way we'd anticipate. Since we have watched the fed funds rate come down from 9.90 percent to 3 percent — that's 690 basis points — and it has had less than the intended effect upon credit and upon spending, then it seems very appropriate for us to look again at this model.' (FOMC 1992b: 21)

Members feel obligated to question their understanding of the situation. The suitability of the model is called into question. Mr Angell's comment echoes similar comments by several Reserve Bank presidents who note the failure of the model and provide anecdotal evidence that the business community already doubts the efficacy of the model. The reference to business leaders suggests that the appropriateness of the model is tied to issues of identity (Humphreys and Brown 2002).

MR. BOEHNE      It's an *article of faith* [emphasis added] for anybody who has taken one or certainly two economics classes that lower interest rates are going to be a positive for growth, and I'm not quarreling with that orthodoxy. But when one goes out and talks with people in the business community and consumers, one almost invariably runs into the view that lower rates are not the solution - I find increasingly that the view in the business community is at odds with what most of us have accepted as a good economic relationship. (FOMC1992b: 8)

MR. MELZER      I picked up the same thing we've heard from Ed and Gary. Very seldom does anybody say that additional interest rate cuts are going to help; in fact they say quite the opposite. (FOMC1992b: 28)

The operating model is policy makers' primary reflection of historical practice. It has a powerful guidance function, reassuring policy makers that they are on the right track and behaving in a way that is consistent with past experience and belief. Operating models are so common because they provide a legitimated account of how things ought to work. As such, they facilitate and rationalize action in complex and ambiguous environments. It is all the more disturbing, then, for the policy makers that they and their stakeholders are beginning to question the model's efficacy. Their faith in the model is shaken because the relationship between interest rates and growth is not working the way the model predicts. Such failures often occur because operating models are only proto-narratives. They lack the complexity and variety to capture real events.

## Plotting the Narrative

The answer to the puzzle raised by simple models is given in the form of narrative. Narrative enables the interpreter to explain the misfit between facts and models. It clarifies discrepancies and fills in absent complexities. Most importantly, it specifies 'tempo, duration, and pace' of narrative elements (Maines 1993: 21). These component parts of narrative are organized by the mechanism of plot. *Plotting the narrative* weaves together an intricate set of facts and events

into a coherent story. Plot creates this coherence by reconfiguring facts and events into the realm of action. Operating models are parsimonious and lack context. Plotting fills in the indicators that help narrators to fit the events to the model. Like models, plot has actors, goals, and movement toward or away from those goals. But unlike simple policy models and other constitutive metaphors, pacing and duration are central to plot. While the models described above are focused on the relationship between a few variables, narrative is focused on their integration with events into a plausible sequence.

In policy making, every organization has a repertoire of plots that it draws from in making sense of its environment. There are progressive plots about how things are improving for the organization, regressive plots about how they are getting worse, and even stability plots in which things remain essentially unchanged in terms of movement toward the goal (Gergen and Gergen 1986: 27). But plots are not given as complete and coherent stories in policy making. Rather, policy makers try out plausible plots, fitting them to current facts and events, cues that have been extracted from models and conventional indicators. These plausible plots are what Boje (1991: 115) refers to as ‘terse storytelling’, i.e. abbreviated simplifications of storylines in which the teller is depending on the shared understanding of his or her listeners.

These terse storylines are drawn from the repertoire available to members of the particular occupation or organization. But occasionally the flexibility offered by existing storylines is not enough. Members are faced with a surprise, an event or events that are discrepant with what was anticipated (Louis 1980). The resulting cognitive dissonance evokes narrative innovation. Existing narratives are updated, meanings are revised, and new expectations are implied in the narrative. Such innovations are ‘situationally negotiated — or, rather, arrived at’ (Czarnizwska 1997: 19) for their ability to integrate or connect and order diverse events. Brown and Jones (2000) explain that such innovations are often the result of members’ efforts to maintain the group’s identity and self-image. Members of the policy group offer plausible alternatives that come from the group’s past experience, anecdotal accounts of external stakeholders, and untapped storylines (Louis 1980).

In the abduction process described above, FOMC members began to agree that the operating model did not fit the facts of the current situation. This incoherence is remedied by the ordering of facts and events into a plausible story that fits the context. The cognitive dissonance produced by abduction leads to narrative innovation. In the following quote, Governor Kelley lays out a basic plot line to explain the failing policy model. He tells a story about the goal and progress toward the goal. It is a mildly progressive plot about how the recovery is being prolonged, ‘stretching out’, but still in progress. Pacing and duration are pivotal to the plot and will be the basis for contesting competing narratives. They specify the timing of action and movement toward the goal. This is the plot that other members will build on and dispute.

MR. KELLEY      We’ve been over all this; we’re still struggling with a recovery ... We should have crossed over into new high ground during the third quarter by almost any expected growth rate, for whatever that’s worth. We’re certainly stretching out - forever it seems - the expected time

to break out ... I believe the restructurings that have been going on, financial and otherwise, have been the big story in this situation and have been the cause of this stretch out we're going through ... I'll breathe easier — I guess we'll all breathe easier — when we can generate some sense that there's an inertia of motion that is beginning to take over from the inertia of risk. I don't get that sense yet ... I have to say in candor that I've been relatively comfortable so far, but I'm beginning to experience the first faint cringes of impatience. (FOMC 1992b: 32)

The plot focuses on a small number of indicators, in particular, restructurings, financial and otherwise, as the central cause. 'Stretching out' of the recovery is the key effect. What ties the cause and effect together is pace and duration. In this narrative, recovery is 'taking forever it seems'. The actors in this plot are the policy makers themselves and the tension in the story is their control or lack of it. They are going over the facts, trying to make sense of them and, at the same time, trying to move the economy toward expansion. The use of the first person pronoun 'we' may sometimes refer to the generic US economy, but more often it refers to the group of policy makers in the room who deem themselves responsible for the regulation of the system. In this particular plot, the issue of economic recovery is in doubt. The economy is 'still struggling with a recovery' and Mr Kelley feels the expected growth has not been achieved. He reinforces the sense of uncertainty about the direction of movement in the narrative and concludes that he is looking forward to a time when 'the inertia of motion' takes over from the 'inertia of risk'. In narrative terms, he is looking for a more progressive story to tell.

### Glossing the Narrative

Policy narrative is, by its nature, incomplete. No one tries to include all the details. Stories can always be elaborated and retold in a new way. Over the course of a policy meeting, members of the group retell parts of the narrative, elaborating them, and giving them their own spin. Boje (1991: 117) refers to this retelling as 'glossing'. Each gloss attempts to shift the meaning of the narrative slightly. The gloss may reflect constructive efforts to make the narrative more coherent and explanatory or it may be a more self-interested effort to make the narrative more reflective of one's own experience and interpretation. Like abduction, the process of plotting is governed by a logic of appropriateness in which members edit the storyline with glosses they find most suitable for the situation. Glossing is an interactive process in which members elaborate and evaluate the narrative.

Mr Kelley's plot was itself a gloss on the discussion up to that point, adding temporal clarity, but still focused on expected growth rates and inertial forces. Governor Mullins glosses the narrative laid out by Mr Kelley, adding both actors and responsibility to the 'struggling with a recovery' narrative. He shifts attention to corporations and consumers as the key actors and confirms and strengthens the sense that policy makers have to accept that their action has been inadequate and that the process of recovery is going to be drawn out.

MR. MULLINS The question has been raised a number of times: The Fed has gone from a fed funds rate of almost 10 percent in '89 to 3 percent now and where is the impact? I think there has been an impact ... I believe the corporate restructuring is going quite well. In fact, corporations are issuing commercial paper again, which suggests that they are moving right along. The consumer side is the difficult side because consumers, unlike banks and corporations, can't issue equity. And they have a long, tough process. They've reduced debt burdens but it's not clear to me that the principal of the debt has been reduced .... People are comparing this with short-term cyclical adjustments but, as has been suggested, the process is long and severe. (FOMC 1992b: 33)

Both Kelley and Mullins are crafting a skeptically progressive narrative. The recovery is stretching out and the restructuring is persistent, severe and long-lived, but the direction is, nevertheless, toward recovery. Mullins even sees the corporate restructuring of debt 'moving right along'. But such cautiously progressive narratives are rarely accepted without challenge, and this meeting is not an exception. Governor Lindsey is not convinced that restructuring is just a slow process, and that they (policy makers) are headed in the right direction. Lindsey offers a *counter-narrative*, an interpretation in which the plot line is not stable or progressive, but regressive. In Lindsey's narrative, the restructuring is not just prolonged, it is not leading to economic recovery:

'Twenty years ago I was sitting in freshmen economics with Samuelson's Eighth Edition, and the first thing we were taught was something called the "paradox of thrift". The paradox of thrift was the 1972 — or probably the 1952 — way of saying "balance sheet restructuring will lead to less economic activity". When I thought of Governor Kelley becoming impatient, all I could think of was Keynes's famous quip about how in the long run we are all dead ... Well, we've been trying to unlearn Keynesian economics for the last 20 years and that may have been a mistake because, in fact, I think it's probably very close to the situation we're in now with balance sheet restructuring in part caused by this mismatch that Jerry Jordan just spoke of between inflation expectations and our inflationary reality.' (FOMC 1992b: 37)

The counter-narrative challenges the idea that recovery is just being 'stretched out'. It argues that firms and consumers have stopped spending. Expectations of higher inflation are keeping spending down. Further easing would ignite inflation fears and lead to even less spending. In this scenario, the Fed needs to convince people that it will hold down monetary growth, rather than interest rates. A similar narrative was put forward by Mr LaWare earlier in the meeting, who also noted inflationary fears, and called for rationalizing the attitudes of consumers:

'I doubt that short-term interest rates lower than those already in place will have any stimulative effect. I think this is a time to say that the inventory in the candy store is sold out; we should hold steady where we are to allow the full effect of the previous easing and rationalize the attitudes on the part of consumers to stimulate more vigorous growth.' (FOMC 1992b: 31)

This counter-narrative offers a different cause and effect plot line from the primary narrative. Instead of focusing on how lower interest rates allow more rapid restructuring and a return to spending, the counter-narrative switches the focus to inflation expectations, the danger that lower interest rates will make things worse, and the responsibility of the Fed to deal with 'irrational' inflationary expectations that are holding back spending.

In most meetings, Chairman Greenspan listens to all the speakers and tries to summarize what he is hearing, indicating what he perceives to be the central tendency and emerging narrative in the group. In this meeting, Greenspan is unwilling to accept a regressive narrative. Rather, he supports the dominant progressive narrative, glossing the entire discussion with a reframing of the progressive and regressive narratives. Greenspan's gloss reaches back into the 19th century for a plot that can order this set of events. He compares two alternative plot structures in a rhetorical effort to suggest which might have the best fit with current events. His position as chair allows, even requires, that his narrative be authoritative, reflecting his power and the unequal responsibility that the head of an agency carries for a policy's success or failure.

CHAIRMAN GREENSPAN

This has to be one of the most difficult periods for policymaking that I remember. The reason essentially is that we're dealing with an outlook that is far more difficult to fathom than I think any of us had really thought about. It is by no means certain that the restructuring model we're looking at is of the type that I discussed here a couple of meetings ago; that model involves affecting the restructuring process and the improved balance sheet process by a level of interest rates that essentially over time restructures the balance sheets and induces a restoration of spending out of cash flows. The alternate model I raised was what I called the "seize-up" model ... I do, however, think it is premature to conclude that what we are dealing with is a cumulative process in which the previous injections of liquidity have petered out and the economy is now beginning to "seize up" again and move toward a negative growth pattern. If that were actually occurring right now, it's hard to believe we would have the auto and truck sales numbers that were released yesterday, which were fairly good. I also wonder whether the other evidence of reasonably good retail sales would be emerging ... These are very fragile indications on the positive side and I must tell you I scrounged very hard to find them. (1992b: 41).

Chairman Greenspan works hard to present a narrative in which the restructuring of balance sheets has already produced an incipient restoration of spending. He seems uncertain that this is so, but uses current facts at odds with a more regressive narrative, i.e. the growth in auto sales, retail sales, and loan demand, to argue his case. He tells his fellow Committee members that he shares the 'struggling with recovery' narrative, and that a regressive narrative is 'premature'. But the narrative construction is at a delicate stage. Some have concluded that the struggling with recovery narrative suggests further easing, while others are ready to hold interest rates steady as the restructuring process leads to a restoration of consumer and corporate spending.

Under conditions of uncertainty, narrative construction is not a linear process. There is conflict between plot lines (regressive vs progressive), reordering of facts, and negotiation over the meaning of those facts. In this instance, a progressive narrative ultimately dominates, but not before the policy makers have

moved back and forth comparing plot structures and current events and interpreting the progressive narrative.

### Selective Retention

The critical examination of plausible narratives by members of the policy group, i.e. plotting, is interwoven with policy choices that are seen to follow from the narrative. A regressive narrative suggests different options than a progressive one. These options are narrowed further by elements in the plot that have received the most attention and repetition. This allows a small number of selective comparisons to be made, bypassing any need for a 'futile attempt at superhuman comprehensiveness' (Lindblom 1959: 88). The choices are based on contextually important considerations identified in the narrative negotiation. The choice is narrowed through a process of *selective retention* (Campbell 1960; Weick 1979) that involves editing out policy alternatives based on their fit with the emerging narratives. Policy makers try to identify the most sensible choice, one that will enact the desired environment.

The process of selective retention is neither inevitable nor frictionless. The process is characterized by a tension between culture and politics. Most policy groups, whether they are boards, councils, or senior management groups, are typified by their cultural homogeneity. Policy makers often have similar training, similar organizational socialization, and a shared history of strategy and decisions. They have learned to look at the same statistical indicators, to similarly interpret past successes and failures, and to share theories of cause and effect in their field. Perhaps most important, they share a sense of what actions are institutionally legitimate in their policy environment. All these cultural factors are a force for integration.

At the same time, traces of conflict and differentiation are evident throughout the narrative construction process. Despite their cultural homogeneity, policy makers are often influenced by different schools of economic thought. They attempt to influence each other with facts, logic, models, and narrative. They are attempting to influence the final choice that will have consequences for the organization, its reputation, and the personal identity of the policy makers (Czarniawska 1997; Humphreys and Brown 2002). These stakes contribute to an active, and at times impassioned, negotiation. In the end, policy makers are often forced into a compromise. There is some mutual adjustment, but there are frequently winners and losers in the process of selective retention.

We have seen that glossing is a conversational process in which policy makers take positions. They agree, disagree, and amend the narrative in an ongoing process that adds coherence and situational fit. Most of the literature on organizational decision making either ignores this kind of policy discussion or treats it as a first step, or even a barrier (Blinder 1998: 20), in a sequence leading to choice. The narrative construction process presented here suggests that discussion is the medium by which legitimate policy and action are talked into existence (Weick 2004). The emerging narrative is a text that is the basis for action. At first, the situation elicits a variety of interpretations. As narrative

differences come into focus, the mandate for policy action creates pressure for greater integration of the text. It becomes the chair's responsibility to look for a central tendency, moving toward integration and, if possible, consensus. But the contrary dynamic of narrative differentiation is apparent in the oppositional narratives that are presented.

The dynamics of selection become more overt as the group moves toward a policy choice. The negotiation among narrators becomes more pointed. The process is inherently oppositional as actors bring their different beliefs, interests, and skills of argument to bear on the conversation. The chair, although having just one vote, takes responsibility for identifying the narrative that will garner the most adherents. When no clear consensus emerges, the process may include mediation or even adjudication by the chair. The chair will attempt to craft a policy that includes as many of the positions stated as possible. There is a strong preference for appearing as unified as possible, though on occasion members will feel compelled to vote against the final policy choice.

When the congruence between facts, models, and narratives has been seamless, the policy choice is simpler. In such a situation, all the cues are pointing in the same direction and equivocality has been reduced to a minimum (Weick 1979). But members of the FOMC rarely select the first narrative offered, preferring to generate more variety. According to Lombra and Moran (1980), in only six of 37 meetings studied, did the Committee select one of the staff's suggested alternatives. Most of the time, they negotiate their way to a consensus policy that reflects several narratives. In some meetings, the narrative construction process leads to agreement on a policy among most members, although often for different reasons reflecting different narrative rationales. But, as we have seen, in the fall of 1992, they could not reach agreement on a narrative. There was dismay that the model was not working as expected and there was disagreement over whether a progressive or regressive narrative applied to current conditions. When expectations or, as one member called them, 'articles of faith' are met with contradiction, it is hard for actors to construct meaning in a way that they can arrive at an unambiguous policy choice. The members are not confident of their situational assessment. Lacking confidence, it becomes harder to rationalize action, and thus harder to act.

In this instance, Chairman Greenspan recognized the 'struggling with recovery' interpretation, but also recognized that members infer different policy choices from this narrative. Some focused more on the 'struggling' and were ready to continue the pattern of easing, others saw a slow but sure recovery looming and preferred to hold the interest rate steady. Greenspan finds a middle ground between them, on which they can unite:

'So, we have a very touchy problem here. I'm aware, as you all are, that everyone expects us to ease and that becomes a self-fulfilling activity. While the case for easing right now is quite strong, I would be far more inclined to wait for a short while — maybe a couple of weeks — to see what is developing in the financial markets, what is developing in the foreign exchange markets, what is developing in Europe, and what is developing in the overall economy ... But unless we begin to see some firming in particular indicators, I do think we should move lower. I say this without a great conviction because anyone who has a great conviction at this stage about what the economy is doing or what proper policy is I think is under a mild state of delusion.' (FOMC 1992b: 42)

Chairman Greenspan is asking for a couple of weeks' delay before lowering rates any further. Given the uncertainty in both progressive and regressive narratives, he wants to see new data before action is taken. He does not dispute the 'struggling with recovery' narrative that many interpret as requiring further easing, but, using humor, he notes that neither the regressive nor the progressive narrative can be recited with much conviction. This type of mediation reflects the social nature of selective retention and the chair's skill at defining the relationship between the other voting members of the Committee and himself. The chair must use his prerogative sparingly and with a soft touch. He is aware that many of the adherents of the progressive narrative are leaning toward immediate further easing. He acknowledges that he has asked them to accept a position that requires some compromise from everyone.

CHAIRMAN GREENSPAN Let me just say something that I think is important for us to focus on. This is a very close call here and what I don't want to do is to convey a sense that I have some strong conviction as to what is involved here. I want to make certain that we're not getting a Committee vote which merely acquiesces in a view that I have stipulated because, as we have all indicated around this table, this is an extremely difficult period. I want to make certain that we get a vote which is essentially a Committee vote rather than an acquiescence to the position of the Chairman. Ordinarily, I would never say such a thing! [Laughter]. (FOMC 1992b: 50)

The choice has narrowed to continuing in the established pattern of easing interest rates or holding at the current rate to see what happens in the economy. Greenspan has suggested that they vote to ease but delay action for two weeks. This policy is multivocal. It speaks differently to individual members and represents aspects of several narratives. Some hear it as a decision to ease, others see it as a useful delay. For most, it effectively captures and integrates the skeptically progressive narrative that has emerged from discussion.

It is during the process of selective retention that sensegiving (Gioia and Chittipeddi 1991; Maitlis and Lawrence 2007) surfaces most clearly in the discussion. Now that support for a progressive narrative seems to have crystallized, members turn their attention to calculating how their external audience will interpret their choices. The members make subjective estimations of pressures in their environment and which actors and events demand the most consideration. Selective retention is shaped by members' expectations about the reactions of markets, traders, investors, politicians, and the media.

MR. BOEHNE Jerking the markets around - first they think we will ease and then they think we won't and then we try to come back and do it again - may have a cuteness to it or too much cuteness to it, but I think that undermines our credibility. There are times when you step up to the batter's box and you try to get on base. (FOMC 1992B: 48)

MR. KELLEY I do not think this is a propitious time to ease. I worry that we could set off a run on the dollar. The traders are feeling their oats these days and they might just like to take us on, and we don't need that. It's very important that the FOMC regain control of monetary policy, which I think we have largely lost to the market and the media. (FOMC 1992B: 47)

These policy makers are deeply concerned with maintaining control of their domain and with how their action will be interpreted. Their sensemaking begins to shade into sensegiving. Members have shifted from a logic of appropriateness to a logic of consequentiality (March and Olsen 1989). Their attention is now on how their audience will react. As these quotes suggest, selective retention is not a practice of unfettered agents. Policy choice and the policy directive that transmits that choice to stakeholders are calculated instruments of influence.

But sensegiving and its consequences rarely supplant the policy options suggested by narrative construction and its logic of appropriateness. The progressive and regressive narratives have stabilized. The narrative construction process has solved the puzzle raised by the operating model, and the 'illusion of control' (Czarniawska 1997) has been reasserted. In the October 1992 meeting, Greenspan's solution was able to capture a majority. The final vote was eight to four in support of a bias toward easing, with a move in the fed funds rate to be delayed for two weeks.

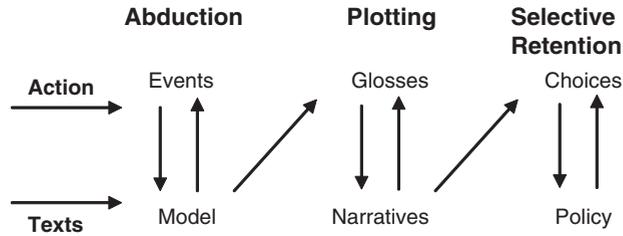
### **Discussion: Facts, Models, Logic, and Emotion**

The narrative construction process described here suggests that the sensemakers at the Federal Reserve are tightly bound to their operating model. The operating model is a dominant perceptual filter that shapes and biases sensemaking. The narrative construction process is constrained by a particular logic of action: appropriateness. Even when the model is challenged, policy makers try to associate events with a situation for which a suitable and consistent narrative exists. The narrative and its glosses are instruments to interpret discrepant facts so that they might fit with the operating model. Even in the counter-narrative, the operating model is not rejected. Rather, consumer and firm expectations are blamed for being out of touch with reality, i.e. the taken-for-granted model. Policy makers believe that they only need to 'rationalize attitudes' so that the model can work.

The logic of appropriateness is an inherently conservative standard of evaluation. It is based on sedimented assumptions and understandings about 'proper' relationships. These assumptions and understandings have been objectified into operating models that have powerful internal legitimacy. This legitimacy both enables and constrains the narrative construction process. Policy makers maintain fidelity to institutionalized modes of discourse (Golant and Sillince 2007). At the same time that the policy makers are fitting the facts to the models and the glosses to the narratives, these texts may be said to be shaping the facts and the glosses through their taken-for-grantedness. Thus, these texts are likely to be reproduced from meeting to meeting. The structures of meaning are likely to be stable in the absence a relatively extreme external shock. Even then, there is no guarantee of real textual innovation. Attempts to justify policy choices to the organization's external stakeholders are likely to elicit further support for the existing texts.

But the logic of appropriateness is not sufficient to accomplish the narrative task. As we have seen, fitting facts and models to a changing and ambiguous context is neither simple nor uncontested. Emotional discourse can play an important role in narrative construction (Patient et al. 2003; Sims 2005). It is

Figure 1.  
The Narrative  
Construction Process



useful in amplifying the logical discourse and in making sense of discrepancies and surprises. The cognitive dissonance that is often associated with sensemaking (Louis 1980; Weick 1995) has an emotional component that can be assimilated through the use of narrative.

The meta-narrative at the FOMC is rationalistic (Vaara 2002). Policy makers use data and models to make choices. But the narrative constructed in meetings is propelled by explicit and implicit emotions such as consternation, surprise, and impatience. When Mr Kelley lays out the ‘struggling with a recovery’ narrative, he employs a discourse of impatience. He tells his colleagues that, ‘we should have crossed over’ to a recovery, but the restructurings in the economy are stretching out ‘forever it seems’ the expected upturn. Projecting future relief into the narrative, Kelley explains that he will ‘breathe easier’ — ‘I guess we’ll all breathe easier’ — when the recovery is in motion. Finally, Kelley adds for emphasis that he is experiencing ‘the first faint cringes of impatience’.

Kelley’s narrative successfully captures the emotion elicited by a model that is not working and an economy that is not responding to the Committee’s three-year effort to revive the economy. The evocative and emotional language defines a subjective experience of time (duration) that is taking too long. This narrative makes sense of both objective time, measured in years, and the subjective experience of time in the policy group. It links the objective discourse of measurement with a subjective meaning (Cunliffe et al. 2004). The meaning of ‘forever’ and ‘stretching out’ is further negotiated in the glosses and counter-narratives of the plotting process.

Narrative construction at the FOMC is a ritual through which members build consensus and create legitimate policy. This ritual, through a continuous process of abduction and plotting, propels them to the policy choices they are mandated to produce (see Figure 1). These policy makers are bound by models and logics that limit the range of stories they can tell. On the other hand, sensemaking and its attendant emotions challenge them to question the model and dispute their interpretations. Ultimately, resolution is weighted toward consistency and a defense of the model. This dynamic seems to keep policy making a relatively engaging and relatively conservative practice.

## Conclusion

This analysis has examined the narrative construction process at the US Federal Reserve. While earlier literature on narrative as a sensemaking tool has focused

on the narrative product and its consequences (Brown 2003, Brown 2005; Jacobs and Sobieraj 2007; Boudes and Larouche 2009), this paper explores the preceding period of narrative construction. It specifies a model of how elite policy makers construct the narratives they use to guide their action. Narrative construction as sensemaking is a collective social process that includes cognitive dissonance, conflict, and negotiation. It is governed by logics of appropriateness and consequentiality that are supported by a scaffolding of emotional language. Policy makers use narrative construction to ground their adaptive response in a legitimate and resonant discourse.

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