



## *Organizing Entrepreneurial Judgment*

Entrepreneurship, long neglected by economists and management scholars, has made a dramatic comeback in the last two decades, not only among academic economists and management scholars, but also among policymakers, educators, and practitioners. Likewise, the economic theory of the firm, building on Ronald Coase's (1937) seminal analysis, has become an increasingly important field in economics and management. Despite this resurgence, there is still little connection between the entrepreneurship literature and the literature on the firm, both in academia and in management practice. This book fills this gap by proposing and developing an entrepreneurial theory of the firm that focuses on the connections between entrepreneurship and management. Drawing on insights from Austrian economics, it describes entrepreneurship as judgmental decision made under uncertainty, showing how judgment is the driving force of the market economy and the key to understanding firm performance and organization.

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Nicolai J. Foss , Peter G. Klein  
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# Organizing Entrepreneurial Judgment

A New Approach to the Firm

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## Contents

<i>List of figures</i>	<i>page</i>	vii
<i>Preface</i>		ix
1	The need for an entrepreneurial theory of the firm	1
	The theory of the firm in economics	3
	Entrepreneurship	5
	Why entrepreneurship and the (theory of the) firm belong together	8
	An overview of our narrative	15
2	What is entrepreneurship?	23
	The enigmatic entrepreneur of economic theory	24
	Concepts of entrepreneurship and the firm	28
	Conclusion: entrepreneurial judgment as a natural complement to the theory of the firm	41
3	Entrepreneurship: from opportunity discovery to judgment	43
	The Austrian school of economics	45
	Kirzner and entrepreneurial alertness	55
	Kirzner and the management research literature on entrepreneurship	72
	Conclusions	76
4	What is judgment?	78
	Knightian uncertainty	81
	Judgment: purposeful behavior under uncertainty	91
	Judgment, complementary investments, and the unit of analysis in entrepreneurship research	100
	Conclusions	103
5	From shmoo to heterogeneous capital	105
	Entrepreneurship and organization in a world of shmoo capital	107

vi		<i>Contents</i>
	Austrian capital theory: an overview	113
	Capital heterogeneity: an attributes approach	116
	Entrepreneurial judgment in the context of a complex capital structure	121
	Conclusions	129
6	Entrepreneurship and the economic theory of the firm	131
	Entrepreneurship and the theory of the firm: why so little contact?	133
	Established theories of the firm	136
	The modern theory of the firm and entrepreneurship	146
	Entrepreneurship as an unrealized potential in the theory of the firm	156
	Conclusions	161
7	Entrepreneurship and the nature and boundaries of the firm	163
	The emergence of the firm	164
	The boundaries of the firm	175
	The dynamics of firm boundaries	178
	Economic calculation, judgment, and the limits of organization	181
	Conclusions	186
8	Internal organization: original and derived judgment	188
	Original and derived judgment	192
	Derived entrepreneurship: productive and destructive	197
	Implications for economic organization	207
	Dispersed knowledge, authority, and firm organization	213
	Conclusions	219
9	Concluding discussion	221
	Introduction	221
	Implications for entrepreneurship theory	223
	Implications for the theory of the firm	231
	Implications for public policy	240
	Final remarks	248
	<i>References</i>	250
	<i>Index</i>	293

## *Figures*

6.1 Two game forms	<i>page</i> 144
8.1 Monetary surplus as a function of entrepreneurship	205
8.2 The parties' preferred degree of incompleteness	207

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## *Preface*

Entrepreneurship, long neglected by economists and management scholars, has made a dramatic comeback in the last two decades. As the economic theory of the firm flourished following the rediscovery and reworking in the 1970s of Coase's path-breaking "The Nature of the Firm" (1937), the new field of "strategic entrepreneurship" has also begun to take off, along with a parallel rebirth of entrepreneurship studies in economic growth and development, sociology, and anthropology.

As management and organizations researchers with a particular and decade-long interest in entrepreneurship, we obviously welcome all these new developments, just as we have been heavily influenced by modern work on the theory of the firm. And yet, we think both sets of literature have missed important insights from the other. This book is written to fill the gap, proposing and developing an entrepreneurial theory of the firm that focuses on the links between entrepreneurship and management.

In particular, we develop Frank Knight's (1921) idea of entrepreneurship as *judgment*, a conceptualization also found in Richard Cantillon's (1755) pioneering treatment and in the works of the Austrian economist Ludwig von Mises (1949). "Judgment" gets some attention in the practitioner-oriented literature, in books with titles like *Judgment: How Winning Leaders Make Great Calls* (Tichy and Bennis, 2007), and in policy-oriented works like Amar Bhidé's *A Call for Judgment* (2010). But judgment plays very little role in conventional economic theories of the firm or the mainstream works in entrepreneurship and strategic management. More generally, we think judgment is undertheorized, particularly given its potential for an important role in theories of economic organization. Working out such a theory and its implications is the main rationale for this book.

The book is aimed at social scientists with a similar interest in the intersection of entrepreneurship and organization, broadly conceived. More specifically, we have written the book for management researchers, particularly in entrepreneurship, strategic entrepreneurship, and strategic management, and economists who take an interest in the theory of the firm and entrepreneurship. Our aim is to influence existing research practice in management and economics research on entrepreneurship. However, we also offer observations and arguments of interest to historians of entrepreneurship and management and organization studies and to methodologists specializing in the development of social science theories. While many of our arguments deal specifically with the theory of the firm and the theory of entrepreneurship, it is not necessary to be interested in both fields to profit from this book. For example, an entrepreneurship scholar with little interest in the theory of the firm may still find the discussions in Chapters 2–5 valuable and interesting. Relatedly, while we have aimed at writing an integrated narrative, most of the chapters can be read usefully on their own.

Our analysis is rooted in economics, but we eschew formal modeling, decision theory, game theory, econometrics, and the like, and we avoid technical jargon as much as possible. We also deal extensively with recent developments in management theory, but our arguments presume little prior exposure to the management literature and its specialized language. In other words, the book should be accessible to researchers in a variety of fields and specialty areas, not just those who focus on economic and management theories of entrepreneurship.

We have been thinking, discussing, and writing on these issues for many years and it is impossible to thank adequately all those colleagues, students, manuscript reviewers, conference and workshop discussants, and other contemporaries who have influenced our work. But we do wish to single out some for special mention. In particular, we have benefitted from conference and seminar discussant and audience feedback at the Copenhagen Business School, Ohio State University, Norwegian School of Economics and Business Administration, Stockholm School of Economics, University of Illinois, University of Missouri, Academy of Management, Austrian Scholars Conference, Strategic Management Society, and Wirth Institute Annual Meetings and Conferences. We thank (but do not implicate) Rajshree Agarwal, Jay Barney, Todd Chiles, Teppo Felin, Kirsten Foss, Sandra Klein,

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