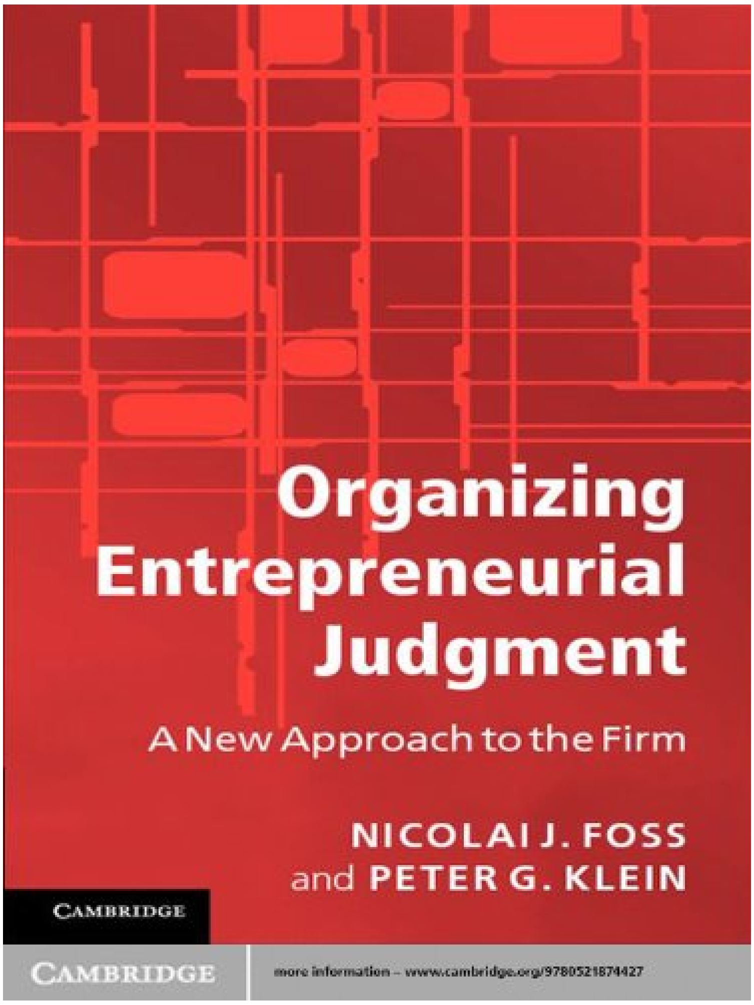
Organizing Entrepreneurial Judgment

Nicolai J. Foss



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Nicolai J. Foss : Organizing Entrepreneurial Judgment before purchasing it in order to gage whether or not it would be worth my time, and all praised Organizing Entrepreneurial Judgment:

1 of 3 people found the following review helpful. Un libro soacute;lo para acadeacute;micos, que recopila en forma ...By MFUn libro soacute;lo para acadeacute;micos, que recopila en forma magniacute;fica los avances de Foss y Klein en Teoriacute;a austriacute;aca de la firma.3 of 3 people found the following review helpful. The economic theory of the firmBy rjmI got so much great info out of this book on the economic function of the firm, the reason firms are created, the limits of the firm, and the defining attributes of entrepreneurialism. While it won't give tips on managing a successful business, it is very helpful to understand the underlying economics of one's position as a mid to senior manager, since economics will inform why managers are really there and what purpose they're serving.Unfortunately it's a challenge to extract this information as the book is poorly organized. The key concepts are not presented in any particular order, just scattered randomly. Many concepts are repeated redundantly, with whole paragraphs reappearing verbatim. The entire 1st chapter didn't need to be there. It's just 20 pages of vague descriptions

of alternate theories, giving no substance of those theories and leaving the explanation and rebuttal to later chapters.Here is how I would have structured it,I. The defining characteristic of an entrepreneur is judgment under conditions of uncertainty1 There is a start-up bias in entrepreneur study, which considers an entrepreneur to be someone who founds a firm. There is also a bias that considers an entrepreneur to be someone who is self employed. This need not be the case. Diversification, restructuring, vertical integration, outsourcing, are all entrepreneurial activity, whether or not there is a start up or self employmenta) Other traits that are associated with an entrepreneur, charismatic leadership, alertness, creativity, are not the essential elements. An entrepreneur may or may not have those traits. The defining trait is judgment under uncertainty2 Uncertainty is not risk. Risk is when you know the probability, distribution, and expectation of a random variable. Uncertainty is when you don't know the probability. There's no formulaic way to make decisions under uncertainty, it requires judgmenta) Under risk, it is easy to use the language of probability theory to communicate to investors and others in control of resources what one's beliefs about the situation is. Under uncertainty, without numeric probabilities, it is harder to communicate one's beliefs. Therefore, entrepreneurs usually must start a firm to realize their vision.b) Since, by definition, uncertain systems can not be reliably assessed in terms of its marginal product, entrepreneurial judgment can not be assigned a price, and can not be bought and sold in the same way as other factors of production. Again, since an entrepreneurs can't sell their judgment, they usually must start a firm to make economic use of their judgmentc) The entrepreneur must have some degree of ownership in order to profit from judgment The functions of the entrepreneur and capital owner can never be completely separatedd) Advice is a service that can be priced and traded, but not judgment The entrepreneur must make the ultimate judgment of what advice to listen to3 Entrepreneurial judgment is precisely that extra ingredient added to mundane skills such as collecting data, analytical skills, and leadership skills, that makes a firm tickII. Why do firms exist at all? Why isn't each worker their own independent contractor?1 Firms of one person do exist. Firms of one person are possible but they must accept all other factor prices and types as they are. They can not try produce the factors in a different way, or give employees a new kind of task that there is not already a market fora) Importantly, successful entrepreneurship often entails discovering new attributes of existing goods, and discovering new combinations. The entrepreneur must directly own the goods in order to profit once the economic viability of the new attributes are provenb) If an entrepreneur's new ideas are successful, there is a risk that their counterparties will raise prices to try to get the extra money themselves. An entrepreneur can avoid this by purchasing complementary assets earlier2 The intensity of the division of labor is limited by transaction cost. A business owner would rather directly manage employees when the transaction cost of hiring contractors is greater than the transaction cost of internal organizationIII. If firms have all these advantages over independent workers, why doesn't all production eventually organize into a single firm?1 One firm that produces everything can never work for all the same reasons a communist government can never work. The managers would be engaged in central planning, they would not have the local knowledge possessed by respective market actors to make informed decisions. Without market prices of each good and factor of production, there would be no possibility of economic calculation, and no way to efficiently allocate resources and plan future production2 A firm can never grow to the size that it is both the unique producer and user of an intermediate product3 In sum, how small a firm can be is limited by transaction cost and by the need to create new types of goods and jobs. How large a firm can be is limited by the need to have prices determined by the free choice of market actors, for economic calculation to be possible and for local knowledge to be propagated through price signalsIV. A business owner can delegate judgment to employees1 If a senior manager or owner hires a manager, and the manager is not only responsible for tasks and processes but is entrusted with judgment, then that manager's job has an entrepreneurial elementa) In this way an established business can always be engaging in entrepreneurial activity, even if it isno longer a start up2 A business owner can allow more freedom and ownership to employees to encourage innovation and allow them to keep the rewards of their increased performance. However, there is a risk that hired managers might take their knowledge and judgment and leave to join another organization or start a new firm.3 The business owner must balance. Too much freedom and the gains of an employee might not be remitted to the firm. Too little freedom and the incentive to innovate is taken awayV. Entrepreneurial judgment is essential to understanding how the market operates1 Mainstream, neoclassical Walras-Marshall-Samuelson-style economics reduces market action to aggregates, curves and calculus. It is the currently prevailing paradigm, and treats the market process as mechanical and mathematical2 Understanding that the entrepreneur is essential to the market shows that the mechanical view of the market is incorrect. Firms and production does not happen by itself according to abstract mathematical rules. All the laws of economics operate through the medium of individual actors with subjective value scales. The theory of the entrepreneur and the firm is essential to any overall theory of economics

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.

'It is about time entrepreneurship came into its own within economics, moving out of the mystical shadows of creative destruction and the magical imagination of the attentive entrepreneur into the more mundane and tractable reality unfolding in our empirical work. The actual content of entrepreneurial judgment has far reaching implications not only for theories of the firm, but more generally for economic organization. In this book, Foss and Klein have turned the corner on research (or lack thereof) into this important topic.' Saras Sarasvathy, Isadore Horween Research Associate Professor, University of Virginia'This is a path breaking book. Foss and Klein connect the growing entrepreneurship literature with the rich theories of the organization. It offers important rich and original insights that will undoubtedly revise long held views of entrepreneurship in organizations and how managers make judgments about entrepreneurial initiatives. Well written and grounded in solid research, the book will surely inspire and enrich future scholarship.' Shaker A. Zahra, Department Chair, Robert E. Buuck Chair, and Professor of Strategic and Organization, Carlson School of Management, University of Minnesota'Organizing Entrepreneurial Judgment is a massive undertaking, and one that ambitiously spans the unnecessary divide between management studies and economics literature. For the scholar seriously contemplating exploiting this gap further, the book is highly recommended.' International Entrepreneurship and Management JournalAbout the AuthorNicolai J. Foss is Professor of Strategy and Organization at the Copenhagen Business School and Professor of Knowledge-based Value Creation at the Norwegian School of Economics and Business Administration. He also holds a number of part-time and visiting professorships at other European universities.Peter G. Klein is Associate Professor of Applied Social Sciences and Director of the McQuinn Center for Entrepreneurial Leadership at the University of Missouri. He also holds positions at the University of Missouri's Truman School of Public Affairs and the Norwegian School of Economics and Business Administration.