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Book Review

Austrian Perspectives on Entrepreneurship, Strategy, and Organization

Nicolai Foss, Peter Klein, and Matthew McCaffrey
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The book entitled *Austrian Perspectives on Entrepreneurship, Strategy, and Organization* coauthored by Nicolai Foss, Peter Klein, and Matthew McCaffrey is a must-have for management and economics scholars whose research interests include Austrian economics, entrepreneurship, strategy, and organization. Indeed, the authors succeeded in the tour de force of convincingly explaining how Austrian ideas play a crucial role in gaining a better understanding of entrepreneurship, strategy, and organization research and of reviewing the achievements of Austrian economics in management and proposing some potentially fruitful directions for future research in a concise book (60 pages in total excluding

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references). In that regard, another title for their book could have been: *Austrian Perspectives on Entrepreneurship, Strategy, and Organization: Past Accomplishments and Future Directions*. Illustrating that ambition, the authors wrote in the introduction that "one overall purpose of this […] [book] is to argue broadly for the usefulness of Austrian economics in informing and furthering management research" (Foss, Klein and McCaffrey 2019, 2). Moreover, in that section, the authors make the case for the relevance of Austrian economics in management thought and research by highlighting the importance of Austrian ideas such as Hayek's (1945) decentralized and unevenly distributed knowledge.

The second section presents an overview of the origins and key concepts of Austrian economics, starting with the "founder" of the school, Carl Menger ([1871] 2011), who published his seminal book entitled *Principles of Economics* in 1871. The authors shed light on a notable characteristic of Austrian economics: its scope. As they rightly wrote: "Austrian economics attempts to offer a wide-ranging but integrated account of economics relations, with a focus on realistic explanations of the causal relationships between economic phenomena" (Foss et al. 2019, 7). The authors also present five key concepts that lie at the center of an Austrian approach to management: methodological individualism (i.e., individuals make plans and they act to pursue their goals), subjectivism (i.e., value is subjective and differs from one individual or object to another over time), tacit and dispersed knowledge (i.e., the knowledge an individual has is related to his information, specific experience, and expectations; see also Foss, Klein, Kor and Mahoney 2008; Hayek 1945; Yu 2005), heterogeneous capital (i.e., capital is not homogeneous, making the resource combination and the resulting resource-based competitive advantage idiosyncratic or hyper-specific), and uncertainty[1] (i.e., individuals face uncertainty when they seek to satisfy their wants through their actions).[2] We should also note here that uncertainty was also taken into account in Misesian theory. Indeed, Rothbard

[1] Other works distinguishing between uncertainty and risk include Alvarez and Barney (2019); Alvarez, Barney, and Anderson (2013); and Knight (2006).

[2] This sheds light on the fact that individual actions *take place in time*. In that regard, *time* is an important factor of production (e.g., Lewin and Phelan 2000) that distinguishes the Austrian school from the Keynesian "mainstream" school.

(1985, 281) explained that "Mises conceives of the entrepreneur as the uncertainty-bearer, who receives profits to the degree that he can successfully forecast the future, and suffers losses to the extent that his forecasting goes awry."

The third section of the book is focused on entrepreneurship. Building on Mises, the authors shed light on the fact that *the entrepreneur is the driving force of the market*. Indeed, Mises ([1949] 1996) gave a central role to the entrepreneur when he wrote ([1949] 1996, 328) that "[t]he driving force of the market process is provided neither by the consumers nor by the owners of the means of production—land, capital goods, and labor—but by the promoting and speculating entrepreneurs." Moreover, building upon other seminal works (e.g., Klein 2008), the authors present three theories of entrepreneurship: occupational, structural, and functional, and they narratively classify them by definitional object (respectively, self-employment, a new or small innovative firm, and a series of actions or a process) and unit of analysis (respectively, the individual, the firm or industry, and mainly the individual). Furthermore, the authors present several Austrian contributions to entrepreneurship theory, including those from Menger, Böhm-Bawerk, Wieser, and Mises. In this regard, the authors shed light on the importance of *the customer's most urgent need* in Misesian theory (on the importance of future consumer wants, see also Klein and Bylund 2014). Indeed, we recall here that Mises explained that "[t]he business of the entrepreneur is not merely to experiment which new technological methods, but to select from the multitude of technologically feasible methods those which are best fit to supply the public in the cheapest way with the things they are asking for most urgently" (Mises [1952] 2008, 144–45). The authors then develop a subsection on Kirznerian alertness tracing back to the origins of the concept (Kirzner defined alertness in his book as "the ability to notice without search opportunities that have been hitherto overlooked"; Kirzner [1979], 148; see also Kirzner 1973), explaining that entrepreneurs discover new possibilities for resource use or arbitrage, new products, and new markets (Foss et al. 2019, 18) and relating them to (1) the important research questions in the study of entrepreneurship (Shane and Venkataraman, 2000), (2) the purpose of Kirzner's theory, and (3) the antecedents of opportunity discovery/recognition (e.g., Ardichvili, Cardozo and Ray 2003;

Baron and Ensley 2006; Gaglio and Katz 2001; Shane 2003) including opportunity evaluation and judgment (e.g., Autio, Dahlander and Frederiksen 2013; McMullen and Shepherd 2006; Tang, Kacmar and Busenitz 2012; Wood and McKelvie 2015).[3] Regarding Kirzner's theory, it should be noted, following Foss and Klein (2012, 70), that "Kirzner offers no theory of how opportunities come to be identified, who identifies them, and so on; identification itself is a black box" (see also Kirzner 2009). Indeed, the authors point out that the "[t]he purpose of Kirzner's theory […] is not to explain entrepreneurial action per se, but to offer a macro-level account of market equilibration […]" (Foss et al. 2019, 18). However, this does not mean that Kirzner denied the importance of psychological and personality qualities. Indeed, Kirzner (1982, 155) noted that:

> the exercise of entrepreneurial alertness in the multiperiod market context will […] call for personal and psychological qualifications that were unneeded in the single-period case. To be a successful entrepreneur one must now possess those qualities of vision, boldness, determination, and creativity that we associated earlier with the entrepreneurial element in isolated individual action with respect to an uncertain future. There can be no doubt that in the concrete fulfillment of the entrepreneurial function these psychological and personal qualities are of paramount importance. It is in this sense that so many writers are undoubtedly correct in linking entrepreneurship with the courage and vision necessary to create the future in an uncertain world […].

Last, the authors present *the judgment-based approach* and its boundaries (for instance, luck; see also Foss and Klein 2015), an important component of the Austrian entrepreneurship theory. This directly follows from Knight ([1921] 2006, 276), who explained that:

> [w]hen, however, the managerial function comes to require the exercise of judgment involving liability to error, and when in consequence the assumption of responsibility for the correctness of his opinions becomes a condition prerequisite to getting the other members of the group to submit to the manager's discretion, the nature of the function is revolutionized; the manager becomes an entrepreneur.

[3] To Foss and Klein (2012, 76), the "relevant" unit of analysis is not the opportunities but "the assembly of resources in the present in anticipation of (uncertain) receipts in the future" (see also Klein and Foss 2008).

The authors notably highlight that the judgment-based approach starts with the subjective values and knowledge entrepreneurs have (as highlighted in the second section above). The authors also echo Foss and Klein (2012, 98), who observed that "judgment is not simply decision-making under conditions of uncertainty, but decision-making about the resources the decision-maker owns and controls." Overall, "[e]ntrepreneurship is […] the act of taking responsibility for real assets, investing them in anticipation of uncertain future rewards" (Foss et al. 2019, 20).

The fourth section includes extensions of entrepreneurship theory. The first extension is *social entrepreneurship*. Building upon prior literature, the authors define social enterprises as "business organizations that do not narrowly pursue monetary profit and returns for shareholders, but rather aim to create value for stakeholder groups by providing solutions to 'social' problems […]" (Foss et al. 2019, 23–24). The authors make a series of very good points including the ambiguities around the economic meaning of a social enterprise and the problematic (*confused or ambiguous*) meaning of the word "social," the danger of *methodological collectivism* (i.e., when the value for society is disconnected from the values from their composing individuals), and the price system as a boundary/frontier for social enterprises. Moreover, the authors also rightly argue that "[…] Mises's calculation argument demonstrates that the entrepreneurial market economy is profoundly social" (Foss et al. 2019, 24–25). Their argument echoes Mises, who explained in *Human Action* that "[…] the characteristic feature of human society is purposeful cooperation; society is an outcome of human action, i.e., of a conscious aiming at the attainment of ends" (Mises [1949] 1996, 145). The second extension is political entrepreneurship. Here the authors highlight in particular that *political entrepreneurship* builds upon the assumption that "political behavior does not exist in an economic vacuum, and […] some of the main problems market entrepreneurs struggle to solve also appear in government organizations" (Foss et al. 2019, 28; on the relationship between government policy and entrepreneurial activity, see also Minniti 2008). This extension on political entrepreneurship can be also related to Holcombe (2007, 144) who wrote that:

> [t]he fundamental difference between the invisible hand of the market and the coercive hand of government is that government allows some to impose their preferences on others by force. The reallocation of

> resources through coercion is not an anomaly that sometimes arises in politics, but is inherent in the way that the democratic political system was designed. What follows is an examination of the implications of democratic decision making on the opportunities for political entrepreneurship, and in turn the implications of political entrepreneurship on the political allocation of economic resources.

The third extension focuses on *entrepreneurship and the rules of the game* (i.e., institutions; see also Koppl 2006). Herein, the authors refer to Baumol's (1990) seminal paper on productive, unproductive, and destructive entrepreneurship and remind the reader of Baumol's powerful argument that entrepreneurship takes place in an existing institutional framework (on institutions and entrepreneurship, see also Boettke and Coyne 2009, Bradley and Klein 2016, Bylund and McCaffrey 2017). Entrepreneurs are not passive actors. Indeed, based on the uncertain future rewards they think they will get from their present actions, they can choose how they actively respond to institutional constraints (Foss et al. 2019, 30). The fourth extension is *institutional entrepreneurship*. Here, the authors shed notable light on the growing literature conveying the message that Baumol's assumption is unrealistic and unnecessary. Entrepreneurs can be more realistically portrayed as *institution makers* and *institution takers*.

The fifth section focuses on strategy from an entrepreneurial perspective. The authors present some Austrian influences on firm strategy. The authors remind the reader that:

> [a] firm is said to be in possession of a sustained competitive advantage when it has the potential to create and appropriate more value than the competition on a persistent basis […] [and that] strategy is about creating, maintaining, defending, renewing, etc. competitive advantages, and [that] strategies are more or less formal plans or patterns of actions that ultimately aim at this (Foss et al, 2019, 34).[4]

The authors also make the powerful argument that incorporating core Austrian economic ideas into strategic management can help advance knowledge in *both domains*. Moreover, the authors also

[4] This important quote is related to the crucial role of competition (on competition, see also Hayek [1948] 2009; Jacobson 1992). For example, Young and colleagues found a positive relationship between competitive firm activity and firm performance (see Young, Smith, and Grimm 1996).

present an overview of the resource-based view (see also Barney 1991; Foss and Ishikawa 2007; Kraaijenbrink, Spender, and Groen 2010; Wernerfelt 1984) and the related VRIN framework (i.e., to have a competitive advantage, a firm should possess valuable, rare, inimitable, and non-substitutable resources; see Barney 1991) and discuss the relationship between Austrian economics and strategic management in more detail. The authors notably highlight that "[…] strategy […] [has] neglected to pay sufficient attention to the internal side of firms, including the resources they own, access, and control, and how these are deployed and protected to maximize rents over time" (Foss et al. 2019, 37).[5] The authors also discuss the relationship between Austrian economics and dynamic capabilities (e.g., Barreto 2010; Eisenhardt and Martin 2000; Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece and Winter 2007; Penrose 1959; Teece 2007; Teece, Pisano and Shuen 1997). In that regard, we should note that the compatibility between Austrian economics and dynamic capabilities was also discussed by Teece. Indeed, he explained that "Hayek and other Austrian School economists such as […] Mises and Kirzner maintain that people do not allocate means to ends; rather, they consistently seek to discover and create new ends and means. In this regard, Austrian economics is compatible with dynamic capabilities" (Teece 2014, 345). Furthermore, the authors shed light on the fact that the overlapping territory between the resource-based view and Austrian economics includes *heterogeneous, specific, and complementary capital goods* (e.g., Lachmann [1956] 1978, 1977), *localized knowledge* (Hayek 1945), *informational advantage* as a powerful source of competitive advantage, and *customer sovereignty* (see also Mises [1952] 2008). Last, the authors present arguments on how Austrian economics can advance contemporary strategic thinking. In particular, the authors shed light on the fact that Austrians demonstrated why Lippman and Rumelt's (2003) argument that competitive advantage is an outcome of entrepreneurs judging not-priced and heterogeneous capital asset combinations was right (Foss et al. 2019, 43).[6]

The sixth section focuses on the entrepreneurial nature of the firm. In this section, the authors notably explain that the entrepreneur lies

[5] On rents and resources, see also Lewin and Phelan (2000).

[6] The authors also highlight the importance of the entrepreneur's mental model (see also Gavetti and Levinthal, 2000).

at the core of an Austrian approach to the firm. However, although many scholars have developed a theory of the firm (e.g., Coase 1937), "the Austrians […] [have been] slow to develop a theory of the firm-as-organization, despite developing other important insights into incentives, information, and governance […]" (Foss et al. 2019, 50). Yet, Hayek's (1945) development of decentralized and unevenly distributed knowledge and the important role of rules and institutions (e.g., the price mechanism) in helping agents are normally conducive to the development of such a theory. Moreover, the authors (2019, 51) also develop a different explanation for the existence of firms compared to the explanations given in previous works (e.g., Bylund 2011, Coase 1937): "entrepreneurs establish firms to overcome what Knight ([1921] 2006) described as the non-contractibility of entrepreneurial judgment." Also, the authors explain that "[f]irm boundaries […] are determined by the relative advantages of internal coordination under the control of an entrepreneur-owner and external coordination via markets and prices […]" (Foss et al. 2019, 51). Furthermore, the authors (2019, 53) explain, regarding authority and delegation, that "[u]nder uncertainty, ownership conveys authority, even if owners choose to delegate a substantial amount of day-to-day discretion to subordinates," conveying the message that *the ownership-responsibility couple* plays an important role in Austrian economics.

In the seventh and last section on the future of Austrian economics in management research, the authors present the increasing influence of Austrian economics not only on management, thereby highlighting the crucial human actions and judgments that take place under conditions of uncertainty and scarcity and in a larger social and institutional context, but also on other fields including marketing, finance, cost accounting, and business history/theory. In doing so, the authors convey the message that Austrian economics "[…] is sufficiently flexible to speak to and inform multiple management fields" (Foss et al. 2019, 59). In conclusion, this book is *a must-have* for management and economics scholars whose research interests include Austrian economics, entrepreneurship, strategy, and organization and we invite scholars to read their book. Adding to their important work, we invite scholars to specifically focus on how, using qualitative methods, the Beliefs-Actions-Results framework (see also Foss and Klein 2018; Foss, Klein, and Bjørnskov 2019) influences firm resources, capabilities, and performance. This qualitative investigation is also consistent with Mises ([1933] 2003, 137–38), who explained that:

> [i]n the sciences of human action […], we comprehend phenomena from within. Because we are human beings, we are in a position to grasp the meaning of human action, that is, the meaning that the actor has attached to his action. It is this comprehension of meaning that enables us to formulate the general principles by means of which we explain the phenomena of action.

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