



On Lachmannian and Effectual Entrepreneurship: A Rejoinder to Sarasvathy and Dew (2008)

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Introduction

We welcome the comments of Professors Sarasvathy and Dew (2008) on our recent article, which introduced a new paradigm for entrepreneurship research based on one of the central figures in modern Austrian economics: Ludwig Lachmann (Chiles et al. 2007). Our purpose in writing the article was (1) to bring together a wide range of disparate entrepreneurship concepts under a single new conceptual framework,² and (2) to provide greater coherence and theoretical underpinnings to entrepreneurship research. In doing so, we described connections between a Lachmannian approach to entrepreneurship and numerous extant approaches, including effectuation. Sarasvathy and Dew (hereafter, S&D), in taking issue with some of our interpretations of effectuation, clarified their previous work on this approach and explicated its primary foundations.

We find S&D's discussion of the problems of knowledge, resources, and institutions provocative, and their conclusion about the basis of effectuation revealing. Our response to these arguments attempts to further clarify areas of possible confusion and suggests that the Lachmannian and effectuation approaches may share more common ground than S&D realize in some areas and less than we thought in others. In our brief response, we do not attempt to critique every point S&D make, but instead focus on what we view as their fundamental arguments.

On Knowledge

S&D reject our claim that Lachmann's subjectivist view of knowledge is consistent with the published work on effectuation, which they argue is based on Davidson's view of knowledge. Interestingly, they refer to this Davidsonian basis for effectuation not in their articulation of 'the problem of knowledge', but rather (and with little explanation) in the closing paragraph of their critique.

Furthermore, we could find no discussion of Davidson or Davidsonian knowledge in any of the key effectuation articles (Sarasvathy 2001a; Sarasvathy and Dew 2005; Wiltbank et al. 2006), or in any of Sarasvathy's other works listed in the SSCI database.³ This suggests that Davidsonian knowledge is a recent addition to, rather than a longstanding cornerstone of, effectuation theory. And while Sarasvathy and Dew (2005) and Wiltbank et al. (2006) argue that 'inter-subjectivity' (one of Davidson's core concepts) is central to effectual logic, they neither define the term nor attribute it to Davidson.

Davidson seems a curious basis for an approach that foregrounds 'human imagination' and a 'creative view of the market process' (Sarasvathy 2001a,b; Sarasvathy et al. 2003; Sarasvathy and Dew 2005; Wiltbank et al. 2006) — ideas central to the subjectivist foundation of our Lachmannian argument (Chiles et al. 2007).⁴ Indeed, Davidson staunchly opposed explaining the world in subjectivist terms (Forster 1998; McKernan 2007). He strongly believed in an objective world 'out there' where most things are causally independent of human action (Davidson 1991). Although Davidson rejects the notion that one might somehow attain 'a God's-eye view from which one may objectively compare' different worldviews (Shapiro 1997: 172–173), he finds the 'ultimate source' of objectivity is inter-subjectivity: the interpersonal agreement on, or consensus about, individual beliefs based on interactive communication with others (Davidson 2001: 83, 91, 105). This interpersonal standard, Davidson argued, is an objective standard: An interpreter and a speaker understand one another because they are in contact with an objective, publicly accessible reality of objects and events (McKernan 2007). He further asserted that knowledge and beliefs are necessarily causally related to objective reality, so they cannot be mistaken and are usually true (Davidson 1991).

If inter-subjectivity is indeed a central pillar of effectuation, it seems to us that a theory of knowledge that identifies it less closely with objectivity would provide a more useful lens for investigating the wellsprings of entrepreneurial imagination and creativity. S&D argue that effectuation is based on a Penrosean view of resources, a point we address more fully below. However, Penrose (1959) may also provide effectuation theory with an appropriate view of knowledge. Because Penrose applies subjective interpretations and expectations to managerial teams, rather than to individuals, we suspect her inter-subjective view of knowledge has much to offer effectuation theory, which emphasizes entrepreneurial networks of stakeholders. Moreover, several scholars have noted similarities between Penrosean and Lachmannian subjectivism (Foss 1998; Spender 2006; Foss and Ishikawa 2007), but this connection is not widely known in entrepreneurship and organization studies. For these reasons, and for ontological consistency with their views on resources and institutions, effectuation scholars might be better served by basing their approach to inter-subjectivity on Penrose's work rather than on Davidson's.

To summarize, Davidson argued that most knowledge and beliefs must be true, shared with others, and in touch with objective reality. Based on our (relatively limited) understanding of Davidson's work, it seems that Lachmann and Davidson are philosophically very different: on the one hand, Lachmann's 'radical subjectivism' allows entrepreneurs not only to subjectively interpret past experiences, but also to subjectively imagine future possibilities; on the other

hand, Davidson's 'inter-subjectivism' remains closely connected to objectivism. Thus, we agree with S&D that a Lachmannian view of knowledge is not consistent with a Davidsonian view. However, we remain convinced that Lachmann's view is consistent with the effectuation literature that emphasizes subjectivist concepts such as human imagination and creative market processes; and we suggest that a more subjectivist approach to shared knowledge, such as that of Penrose (1959), might be more consonant with the goals of effectuation scholars. To help clarify this issue, we encourage Professors Sarasvathy and Dew (as well as other effectuation scholars) to articulate the ontological and epistemological roots of effectuation theory. As these scholars further develop effectual logic, we think it would be worthwhile for them to carefully explicate the philosophical basis of effectuation so as to minimize confusion.

On Resources

S&D correctly state that, for Lachmann, plans refer not to business plans — 'articulated documents guiding strategy making' — but to 'a cognitive construct that helps bring in purposeful human action into the economic process'. They then argue that Lachmann's capital theory has much more in common with effectuation than we (and others) realize. However, we find their explanation difficult to follow, in part because we are unable to discern from our reading of the extant effectuation literature any difference between (1) the resources, tools, or means entrepreneurs currently have at their disposal, and (2) the effectuator's initially 'given set of means', which includes their firm-level 'physical resources, human resources, and organizational resources, à la the resource-based view of the firm (Barney 1991)' (Sarasvathy 2001a: 249–253).⁵

In fact, we were surprised to see effectuation rely on Barney's explicitly equilibrium-based RBV, because management scholars have, in recent years, begun to view this version of RBV as ill-suited to entrepreneurship research. Consistent with Austrian economists who have long argued that equilibrium theories are inappropriate for studying entrepreneurship (e.g. Kirzner 1973), these scholars believe that such an equilibrium-based RBV presents a number of fundamental problems for theorizing and researching dynamic entrepreneurial phenomena: (1) it leaves little room for understanding actual competitive entrepreneurial processes; (2) it suppresses entrepreneurial action and the role of entrepreneurs in evaluating and reallocating resources; (3) it neglects entrepreneurs' novel resource combinations and recombinations; (4) it negates entrepreneurs' subjective knowledge and expectations; (5) it assumes, unrealistically, that firms are endowed with given resources (Foss and Ishikawa 2007; also see Bromiley and Papenhausen 2003). For a related discussion of the problem of using equilibrium or even equilibrium-seeking theories in entrepreneurship studies of novelty creation dynamics, see Chiles et al. (2004), McKelvey (2004), and Meyer et al. (2005).

In an important departure from previous work on effectuation, however, Sarasvathy and Dew (2005) recently invoked the ideas of Edith Penrose (1959), whose work has influenced disequilibrium approaches to the RBV (Kor and Mahoney 2004). Moreover, S&D affirmed in their closing paragraph that effectuation is

based on a Penrosean view of resources.⁶ We applaud S&D for taking this step, which, we believe, renders effectuation more Lachmannian. Indeed, there are ‘striking similarities’ between the subjectivist, disequilibrium approaches of Penrose (1959) and Lachmann (1956) (Yu 1999: 32; also see Foss 1998; Lewin 1999; Spender 2006), including (1) subjective knowledge of past experience and subjective expectations of an imagined future, (2) continuous resource combination and reshuffling, (3) endogenous creation of new productive services and product offerings, (4) firm and product heterogeneity in competitive entrepreneurial markets, (5) sharp distinctions between resources and their uses, and (6) firm resources that are not ‘given’ but created over time. We believe that effectuation theory’s recent Penrosean shift holds great promise for research in our field, and we encourage future scholars to examine how effectuation (and other approaches to entrepreneurship) can benefit from Penrose’s and Lachmann’s views of resources.

On Institutions

S&D embrace Lachmann’s institutional theory and argue that effectuation offers specific criteria and mechanisms for carrying out Lachmann’s brand of institutional entrepreneurship. Indeed, S&D conclude that effectuation is based on ‘a Lachmannian view of institutions’. In our article, we explained how Lachmannian entrepreneurs actively transform old institutions and create new ones. We further explained that a Lachmannian institutional order comprises complementary external and internal institutions, the former referring to relatively ‘fixed and stable’ institutions and the latter to ‘frequently mutable’ institutions. Similarly, S&D explain how effectual entrepreneurs can ‘transform existing institutions into new ones’ as long as they recognize that some institutions are ‘fixed and immutable’, while others are ‘flexible and capable of being reshaped or replaced’.⁷ By exploiting this convergence of the nascent Lachmannian approach and the influential effectuation approach to entrepreneurship, scholars may contribute to the burgeoning literature on institutional entrepreneurship. We encourage scholars to use an effectual logic to understand how different institutions emerge, change, and transform, when individuals act in their own interest without any overall design (Lachmann 1970).

Conclusion

By challenging some of the conclusions we reached in our original article, S&D led us to clarify and extend our own thinking about Lachmann’s ideas and their convergence or complementarity with effectuation theory. We believe there is strong agreement between these two approaches to entrepreneurship in the areas of resources and institutions. However, if effectuation is based on a Davidsonian view of knowledge, as S&D claim, then there is a sharp philosophical divide between Lachmannian and effectual approaches (assuming we have correctly interpreted this view). But, despite S&D’s claim, we suspect effectuation may not — and, we would argue, should not — be based on Davidsonian inter-subjectivity

(and hence objectivity), but rather on Penrosean inter-subjectivity (and hence subjectivity). Importantly, Penrosean inter-subjectivity may provide a team- or network-based extension of Lachmann's individual-based radical subjectivism. This is an exciting prospect, which we encourage scholars interested in Lachmannian, effectual, and related approaches to entrepreneurship to explore. Such a direction is especially important for effectuation scholars who want to avoid 'ontological oscillation' (Burrell and Morgan 1979: 266). Moreover, pursuing such a course would, we believe, make effectuation even more Lachmannian.

Notes

- 1 The first and second authors contributed equally to this dialogue.
- 2 Examples of these concepts include human imagination, creative action, resource recombination, genuine uncertainty, subjective time, disequilibrium market processes, and institutional stability and change.
- 3 Sarasvathy and Dew (2005) reference Davidson's work but, oddly, do not discuss or even cite it in the article proper.
- 4 As we emphasized in our article, Lachmann's subjective worldview led him to believe that accurate prediction of the future was largely impossible and therefore pointless, which we believe is consistent with the non-predictive logic of effectuation (Sarasvathy 2001a; Wiltbank et al. 2006). S&D failed to mention our discussion of this point (Chiles et al. 2007: 483–487), instead possibly leaving readers with the opposite impression based on their interpretation of our parenthetical ice hockey example. In addition, our comment that the Sarasvathy's approach was 'decidedly Lachmannian' was made with specific reference to parts of her 2001 *BEQ* article (cf. Chiles et al. 2007: 486–487), not her 2001 *AMR* article or her entire body of work as S&D's opening paragraph seems to suggest.
- 5 In reviewing numerous effectuation articles, we found no examples where the capital resources used to produce final goods and services were treated as artifacts, as S&D argue in their critique. Instead, we found the following treated as artifacts: products, services, firms, industries, markets, economies, and broader (unspecified) institutions. For example, Sarasvathy argues that (capital) 'resources' are 'means' (2001a: 250), while 'artifacts' include products, firms, industries, markets, and economies (2001a: 261).
- 6 Sarasvathy and Dew (2005) used Penrose (1959) sparingly. We found no other mention of Penrose in any of the key effectuation articles (Sarasvathy 2001a; Wiltbank et al. 2006) or in any of Sarasvathy's other works listed in a general search of the SSCI database. As with Davidsonian knowledge, this leads us to suspect that Penrosean resources are a recent addition to, rather than a longstanding cornerstone of, effectuation theory.
- 7 We delighted in S&D's irreverent 'Leibnizian monads of radical subjectivism' rhetoric. Despite its refreshing intellectual playfulness, their comment spotlights key misunderstandings. As Lachmann argues, and as we noted in our article, entrepreneurs' knowledge, expectations, plans, resource combinations, etc. are continually changing, based, in part, on new information obtained through their interactions with other entrepreneurs and market participants. Such a view is consistent with the idea that 'Organizations are entangled in an ecology in which one agent's actions help construct another agent's environment' (Meyer et al. 2005: 471). Thus, contrary to S&D's interpretation of Lachmannian entrepreneurship, 'changes in the properties' of any entrepreneur are in part 'externally' influenced by other entrepreneurs and market participants, and hence, 'perceptual changes are constituted by' more than just 'the internal actions' of entrepreneurs.

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