

# Steps towards a Theory of the Managed Firm (TMF)

Hacia una teoría de la “Empresa Dirigida”  
(Managed Firm)

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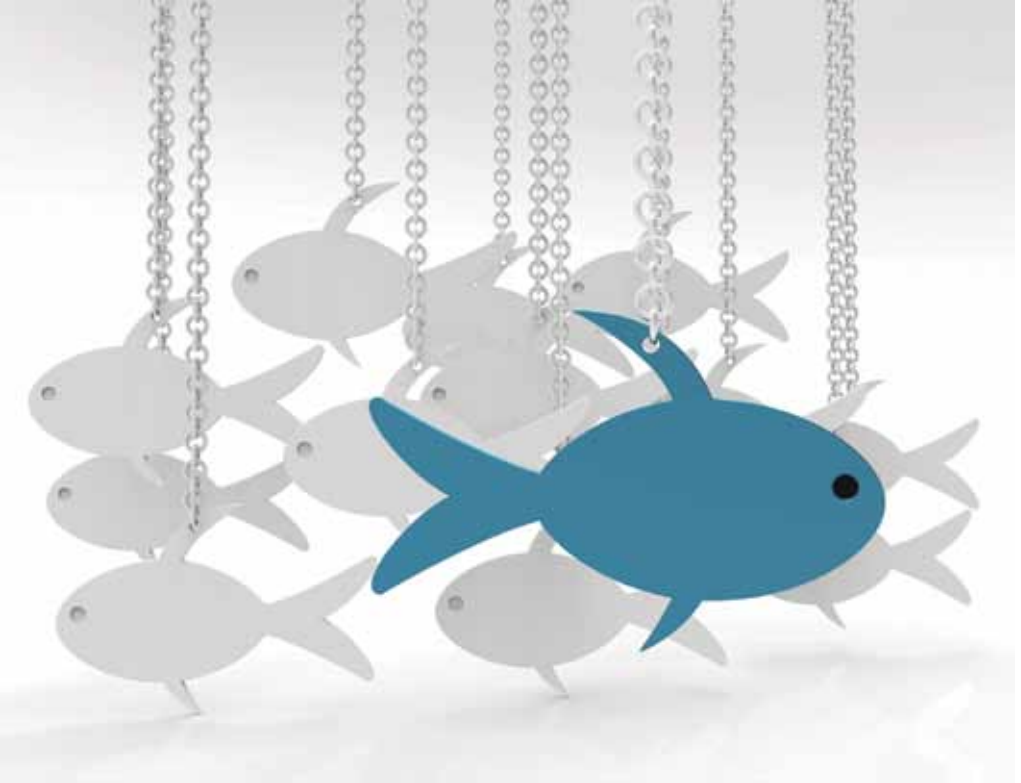
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## I. THE POST-COASIAN PROGRAM

Notions of managing are entwined with experiencing the situation being managed. Managing a country is not the same as managing a firm; managing a family firm differs from managing a global giant. English language organization and management (O&M) scholars are presently focused on private firms rather than on countries or public sector agencies. But what is a private firm? Mainstream economists tell us their ‘theory of the firm’ is actually about firms’ market engagements and pricing decisions (Demsetz, 1991; Hawkins, 1973) and that they have no answers to Coase’s 1937 killer questions - why firms exist, why their boundaries are as they are, why their internal arrangements are as they are, and why their performance is so varied (Coase, 1937). Demsetz remarked that regrettably, for 30 years after the appearance of Coase’s paper, the ‘theory of the firm’ research maintained a ‘theoretical slant ... that prevented an examination of facts pertaining to firms’ (Demsetz, 1995:1). Eventually Coase’s work encouraged a small group of economists into new efforts to create a new and more managerially relevant theory of the firm (ToF). A huge micro economic literature with many distinct threads has resulted - transaction cost theory, property rights theory, principal-agent theory, nexus of contracts, and so on. Williamson’s Nobel is this project’s shining achievement. Foss & Klein summarize the situation’s possibilities well (Foss & Klein, 2012).

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### EXECUTIVE SUMMARY

In 1937 Ronald Coase posed several killer questions about the nature of the firm; why (a) do they exist, (b) are their boundaries where they are, (c) are their internal arrangements as they are, and (d) is their performance so varied. These questions precipitated new 'theories of the firm' - principal-agent theory, transaction cost analysis, and so on. In this paper I turn these questions around and into a critique of 'rational man' theorizing. I argue the fundamental nature of the firm is as a 'managed' context for the exercise of imagination and judgment.

### RESUMEN DEL ARTÍCULO

En 1937, Ronald Coase plantea varias preguntas asesinas sobre la naturaleza de la empresa, ¿por qué (a) existen, (b) están sus fronteras donde ellas están, (c) son sus mecanismos internos como son, y (d) su rendimiento es tan variado. Estas preguntas dio lugar al surgimiento de nuevas "teorías de la empresa" - teoría principal-agente, el análisis de los costos de transacción, etc. En este trabajo retomo el debate de estas preguntas y una crítica de la teoría del "hombre racional". Sostengo que la naturaleza fundamental de la empresa es como un contexto "dirigido" por el ejercicio de la imaginación y el juicio.

Less clear are its managerial implications, either *in toto* or in part. One interpretation is that these economists made considerable progress towards answering Coase's questions. If so, their findings are of great relevance to O&M theorists whose notions of firms and managers' work are often little more than naive, for the Carnegie tradition, that managing is rational decision-making or mere computation, still dominates our literature and teaching. In which case firms are the managers' (and owners') rationally designed apparatus for economic goal seeking. Even if this tradition does little to inform real business practice it fits well with the older Weberian tradition of the firm as a locus of objectivity in the nature of resources and rationality in their disposition.

***The human being as a resource that is problematic, not fully rational, and so needs a different mode of managing is brought back into an analysis that previously took Rational Man as axiomatic, rejecting all other modes of human action***

But the 'new ToF' clearly expands the nature of managing beyond resource allocation to embrace, in principal-agent theory for example, personnel incentive and monitoring costs. The human being as a resource that is problematic, not fully rational, and so needs a different mode of managing is brought back into an analysis that previously took Rational Man as axiomatic, rejecting all other modes of human action. Transaction cost theory is a broader discourse, somewhat tangled, but terms such as 'atmosphere', 'fundamental transformation', and 'contractual incompleteness' move it in the same direction, plus 'real' market characteristics are brought in. Likewise the property rights and nexus of contracts approaches bring the specifics of corporate law and the firm's 'appropriation regime' into the analysis.

But what are the managerial implications of these developments? Is a new model of managing implied? More specifically, does the 'new ToF' concept of managing reach beyond Carnegie-style decision-making, getting beyond criticizing it for being 'unrealistic'? Can the 'new ToF' help those criticizing business schools' over-attention to rationality? So an alternative reading is that it is an exploration of the different notions of managing implied by its various threads. Not many economists look at it this way, of course, but they seek general theory to which rationality is key - otherwise what they come up with is not economics - while O&M writers are more open to specifics and contingencies as we concede managing might reflect the local culture, the entrepreneur's interests, the legal context (public or private), the firm's type and history, and so on. We move closer to managing as the practice of dealing with unique circumstances, of making something happen.

In which case the various threads of the 'new ToF' discussion probe various ways in which managing *in situ* differs from Carnegie rationalism and its image of managing *in abstracto*.

## 2. PRINCIPAL-AGENT THEORY

Perhaps the clearest example of the difference is principal-agent theory (PAT). The framing is well known. A principal wishes her agent to do X - but there is knowledge asymmetry between them that opens up the possibility of 'opportunism', that he acts in his own interest rather than in hers. How should she monitor or incentivize him to act in her interest rather than in his own? This is a venerable question to which we can find references in the Bible, Talmud, or Muquaddimah. In a famous 1976 paper Jensen & Meckling framed the problem in micro economic terms, suggesting there was a formal economic solution that should guide managers facing this problem (Jensen & Meckling, 1976). Their paper created considerable excitement because the PAT relationship seemed to capture something of the firm's essence and suggest a more realistic ToF - since 2007 we have heard a great deal about the 'moral hazards' of bankers' bonuses, a PAT matter. Firms have other essences, of course, implied in their make-or-buy decisions, their contractual behavior, and their legal standing. But principal-agent theory (PAT) reanimated Berle & Means's concerns about business's power (Berle & Means, 1968) and grasped a tension between owners and managers or managers and employees that had to be managed.

For micro economist theorists the implication of Jensen & Meckling's paper was that the PAT relationship could be managed by 'rationality alone'. Critics argued rationality or 'prudence alone' could not be sufficient and that human relationships could not be usefully analyzed in such simplistic economic terms (McCloskey, 2010; Spender, 2011). Rational Man is simply not the right place to begin. With suspicions aroused it is useful to re-examine how Jensen & Meckling framed their paper, given it is long and somewhat uneven. One notable feature is their assertion that there can be a single period solution (Jensen & Meckling, 1976:351). Another is their appeal to data generated in 'efficient' markets (Jensen & Meckling, 1976:345). The latter claim is especially curious for in efficient markets all actors are principals and there are no agents. In short the authors' specification actually denied the phenomenon their analysis addressed.

If we go back to the older economic literature on PAT, in Books 4

### KEY WORDS

Coase, Knightian uncertainty, strategy, entrepreneurship, managerial judgment, business model

### PALABRAS CLAVE

Coase, incertidumbre tipo Knight, estrategia, emprendimiento, juicio directivo, modelo de negocio

and 5 of Adam Smith's *Wealth of Nations*, for instance, we see the management problems of divergent knowledge and interests cannot ever be fully resolved without one or other party being subordinated to or voluntarily adopting the knowledge and interests of the other. Absent this change of mind (and heart) effective management of a PAT situation relies on establishing some workable middle ground, most probably through the actors' mutual learning over several periods of interaction; Anatol Rapoport's tit-for-tat game solution – punish-forgive or win-stay, lose-switch - being one formal statement of this process<sup>2</sup>. Note the crucial inclusion of time, excised in single period solutions. In the O&M literature we highlight the importance of trust, something that takes time to develop, that cannot be purchased in a spot market. (While character references can be purchased, as with credit scores, others for whom history mattered created them). Non-Jensen & Meckling approaches to PAT show trust-creation becomes an objective in and of itself, so clarifying the managerial implications of this thread of the post-Coasian program (White, 1991). Instead of being told to calculate the minimum costs of incentive, oversight, and loss, managers are advised to 'work together - cautiously' – like porcupines.

To help generalize from this example, it is useful to spell out the PAT problem the manager is addressing. Its triggers are the parties' divergent interests and knowledge, a huge shift of emphasis from the neoclassical presuppositions of the Carnegie approach. Instead of all actors standing *pari passu* in a universe of objective fact, wherein knowledge is freely available and certain, when rational analysis seems the best way to go, the 'new ToF' analysis presumes human actors differ and cannot be considered mere atomic 'Rational Men'. Heterogeneity enters. In a limited practical way trust can overcome the opportunistic risks of the actors' differences, bringing them into an ongoing multi-period social relation. Managing is then not simply about optimizing the allocation of resources that can be measured rationally and objectively, but includes getting to grips with their differences and relations. Differences only arise, of course, because we humans never have full knowledge of our situation or that of others, because we are never complete isolates and always have social relations. The 'new ToF' allows that bounded rationality and uncertainty are endemic in social and economic matters (Spender, 2013).

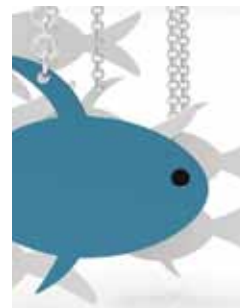
In the background looms the notion that managing is about using judgment to define an incompletely known and maybe unknowable socio-economic-political situation and, second, that it involves the

practice of shaping others' knowledge of and attitudes towards the situation as management have specified it. We quickly disappear down a rabbit-hole into the complex world of 'real managerial practice', and few economists wish to abandon the crutch of rationality and follow. But the general point is that each of the various threads of the 'new ToF' hinges on a posited imperfection that, displacing the analysis from the neoclassical framing, has to be managed with more than 'rationality alone' (Foss, 2002). In PAT the displacing imperfection is the asymmetry of the actors' interest and knowledge. Transaction cost analysis (TCA) is more complicated, embracing PAT as well as other imperfections, including that manifest as the firm's ability to produce at a price less than the market price, or not. In the property rights approaches the imperfection is that which leads to individuals and firms owning what others do not, the puzzle of heterogeneous resource acquisition and distribution tackled in 'strategic factor markets' and explaining Ricardian rent-streams. In the nexus of contracts literature the imperfections revolve around whatever makes spot contracts unworkable and a consideration of time, execution, and incomplete contracts necessary.

### 3. TAKING IMPERFECTION / UNCERTAINTY SERIOUSLY

Imperfections appear as the surprises the 'real' world holds in store for those who act purposively and intentionally within it - 'mindfully' or 'heedfully' as Weick might say (Weick, 1995). Being unanticipated, surprise is an empirical concept lying beyond what was anticipated, beyond cognition and in the world of practice. Though analysis sometimes reveals unexpected implications of one's assumptions, surprise follows action rather than analysis. Those thinking through well-structured theoretical discourse meet only deductions or errors. Surprises presume something practical - a statement, data, or evidence - that lies beyond that discourse, something mediated by the action that follows expectation<sup>3</sup>.

Business provides many surprises for many kinds of imperfection arise in real situations. It is replete with uncertainties, unknown-unknowns, and dots not connected. Each imperfection, when identified, indicates a managerial task that lies beyond their rational computational duties in the Carnegie model. Given the manager's eventual choice cannot be evaluated objectively it must be treated as a matter of judgment, an act of managerial (entrepreneurial) imagination and agency even when facts play a significant part in



limiting the manager's strategic options (Spender, 1989). For example there may be several routes between locations A and B. Not knowing the circumstances prevailing on these routes - such as road works or accidents - choosing becomes a matter of judgment. At the same time the possible options are limited by the presence or absence of roads, a matter of contextual fact and by the capabilities and reliability of the actor's means of transportation. The manager's judgment or choice's quality is only revealed *ex post*, in the outcome of its implementation - were you caught in the traffic jam or not? In real world situations chance and uncertainty invariably intervene between *ex ante* analysis and *ex post* experience. As we focus on the latter we shift the analysis of managing from the abstractions of theorizing that presumes full knowledge and computability and into the imperfect world of practice in which business is done. Economic value is only lost or gained here for an economy is a historically institutionalized social practice, neither an abstract concept nor an inanimate object. While this shift does not resolve Coase's questions directly it does suggest it is more productive to address them in a practical milieu, implying that firms are creatures of practice not theory and that there may be no general answers for absent a general theory of market, organizational, or personal imperfection the manager's challenges will be situationally and historically specific and only discovered empirically. Crucially, managers have to select which imperfections to attend to and which to ignore. Time and history matter, as do specifics. The practices that coalesce into a real economy are heterogeneous and discontinuous rather than aspects of a rational and homogenous continuum, as neoclassical economics presumes. Frank Knight famously suggested that profit arose only from engaging a real economy's uncertainties, not as a matter of theory, nor from comparative efficiencies in production, and Coase reiterated this (Jacobsen, 2008; Knight, 1921). There was no 'theory of profit' and, perhaps, no theory of the firm to be found within the neoclassical discourse (Knight, 1942). *Inter alia*, Knight and Coase argued that without uncertainty all gains get competed away instantly as markets clear, leaving no new value. The 'new ToF' focuses on the imperfections that prevent such clearing and thus to the possibility of added value and profit. In which case firms may arise as enterprising managers go beyond rational analysis and apply their judgment to dealing with or even creating imperfections. Firms differ from markets as managed situations for creating value by engaging imperfections

- in contrast to engaging markets that are 'unmanaged', wherein managerial judgment is irrelevant and value cannot be created.

But removal of the 'invisible hand' that manages markets threatens chaos, a free-for-all, the very notion of an economy. The challenge for the 'new ToF' economists introducing imperfection is to explain how economic order might then arise without the visible hand of central economic management, to analyze imperfect competition's macro economic consequences (Dixon & Rankin, 1995). One formulation is to retain the invisible hand at one remove from firms' competitive activity, to presume markets equilibrate as Kirznerian entrepreneurs help re-stabilize markets disturbed by Schumpeterian 'creative destruction' (e.g. Langlois, 2003, 2007). Disturbed markets may well provide entrepreneurs with opportunities to create new value in the equilibration process, perhaps bringing forth the value uncovered by creative destruction - new buildings as slums are cleared, new ideas as old ones are consigned to the ashcan of history.

#### 4. TAKING HETEROGENEITY SERIOUSLY

The 'new ToF' program pays little attention to an earlier group of 'tween-war economists' who pursued the 'theory of the firm' as they pondered imperfect markets, imperfect competition, and their political-economic implications - a group that included Chamberlin, Robertson, Austin and Joan Robinson, and Triffin<sup>4</sup>. No single compelling ToF (of imperfect competition) resulted but the group did much to clarify the nature and impact of economic imperfections. Stiglitz provides a useful list: (a) learning and information heterogeneities and asymmetries, (b) capital market imperfections, and (c) product market imperfections (Stiglitz, 1989). It is also useful to note supply market imperfections, especially in labor markets where there are personal, institutional and national differences in education, skill, and political interest. Likewise Coase drew attention to the costs of learning, rejecting the neoclassical assumption that knowledge and information are free.

Imperfections often lead to 'market power' differences that can be leveraged into economic rents. Given the economic and political concerns of the day the 'tween-war theorists and their later IO brethren focused on how governments might intervene in private firms' attempts to create and 'own' imperfections and transform into monopolies. Following Robertson, who saw firms as "islands of conscious power in this ocean of unconscious (market) cooperation,



like lumps of butter coagulating in a pail of buttermilk" (Robertson, 1928:84), they stressed heterogeneity, to the point each firm could be considered unique and no firm's product or service a perfect substitute for another's. In which case industries are no longer abstractions but fuzzy historically situated socio-economic contexts wherein established firms and entrepreneurs impact each other's fortunes even as they differ in history, goals, style, and resources. Heterogeneity reflects uncertainty, our inability to see how everything is connected to everything else. Where we find heterogeneity judgment is required to bring things together in an act of judgment and agency. Integration and coordination is necessary. The neoclassical approach implies rationality alone is sufficient for this because the things being considered are commensurate and the consequences of bringing them together can be calculated, things integrate themselves. Taking heterogeneity seriously renders neoclassical notions of 'the market' or 'the economy' irrelevant since, in practice, no such entities can be defined, bounded, or measured. Many analysts move towards the more readily observed firms and the interactions that define markets or economies as socio-economic institutions of inter-firm practice. Seeing firms as less problematic than markets Harrison White, for instance, argued markets are better understood as 'netdoms' of three types of inter-firm interaction: grind, paradox, and crowd (White, 1981, 2002). The implication is that managing is about judging and choosing firm-level interactions, positioning managing within the discipline of business strategy - though White is seldom cited there.

The post-WW2 move towards greater rigor and mathematization eventually pushed imperfect competition and IO economics into the background - whence it was famously recovered and re-deployed into present-day O&M strategy theorizing by Porter (Porter, 1981; Rumelt, Schendel, & Teece, 1991). His 5-force analysis considers the economic actors and interactions that can threaten the focal firm's rent-stream (Spender & Kraaijenbrink, 2011), interactions that characterize one or other of White's netdoms. The firm's nature as an economic actor is taken for granted. Managing is then the strategic process of locating and directing the firm's interactions over successive time-periods within an imperfectly comprehended netdom of inter-firm power and resource differentials.

But once admitted into the analysis, heterogeneity cannot easily be stopped for it equally problematizes the notion of the firm as a



production function. The 'new ToF' differs from the earlier theorizing about imperfect competition because it breaks open the 'black box', something the earlier writers had not done so directly. The recent authors introduce (or re-introduce) additional heterogeneities that must be managed with judgment because the things to be managed are incommensurable. Adam Smith's ToF - the entrepreneurial practice of bringing specific quantities of land, labor and capital together - only has the potential to create new value because these three factors of production are incommensurable and differ in ways theory has not yet clarified. The integration and coordination process are synthetic, for the firm arises from the entrepreneurial judgments that generate the contracts that bring the resources together into specific economic practice. Thus the 'new ToF' embraces incommensurable resources (nexus of contracts), incommensurable people (PAT), and the incommensurabilities between different firms' knowledge and skill as they interact across markets (TCA). These heterogeneities and uncertainties are resolved by the application of entrepreneurial judgment. The argument can be extended and the nature of managerial judgment further clarified by showing that business uncertainties are of several distinct types - ignorance and indeterminacy as well as incommensurability (Spender, 1989, 2014) - and that human knowledge falls correspondingly into three categories; data, meaning, and practice (Spender, 2007).

## 5. THE FINAL BLOW

Taking Knightian uncertainty seriously ultimately collapses the rationalist notions of economy, market, and firm. But its rampage cannot be stopped there either. It is common to see firms as 'bundles of resources', where these include the factors of production (inputs, including knowledge) and consumption (such as customer loyalty and their willingness to pay over the market price). The puzzle is to see where people then fit in, in spite of the ready way we refer to people as 'a crucial resource'. What we mean, of course, is their knowledge, what they know and do. This leads the analysis away from market-based economic definitions of resources, in terms of cost or market value, and into deeper waters. Whenever the firm is considered a rationally designed purposive apparatus the meanings of its resources are grounded in its goals. Power stations need and value fuel, advertising agencies need and value copy editors, power stations do not value copy editors or vice versa.

Penrose stuck the final blow to rationalist notions of resource with her distinction between the firm's resources and the services they render (Foss, 1999; Jacobsen, 2013; Spender, 1999). This set up a third and very different definition of resource (source of value) and opened up a view of managing that has little to do with the Carnegie view, expanded as that was by the work of Simon, March, and the other creators of the behavioral theory of the firm.

Three points about the Penrosian view of managing; first, the value of a resource is clearly specific to the firm's capacity to transform it into value-adding practice. Second, its value is indeterminate until the firm comes into existence as a practical entity. Third, it follows management's primary task is to create the firm that can create this transformation, not merely to dispose its resources optimally. Resources cannot be understood until the firm has been created. But what is the firm, and what does it mean to speak of its being created? The fatal flaw of analyses that take the nature of the firm for granted - as we have no problem saying IBM or Iberia 'exist' - is that this leads us to miss management's most fundamental task, creating these firms. From the Penrosian point of view the challenge managers face is less that of directing their firm towards its chosen goals (the old notion of strategy) or establishing, protecting or maximizing its rent-streams (the post-Porter notion of strategy) but creating it in the first place. She highlighted the management team's ongoing constructive process, not a decision. Presuming that uncertainties lie at the core of the firm's nature is then doubly challenging for how can uncertainties identified be drawn into an analysis of the management's firm-constructing process? Penrose did not open up this 'black box' and so left Coase's questions unanswered.

Opening it up is the final step towards the firm as a managed process, undetermined by any 'objective' considerations that lie beyond the managerial team's judgments, even as those might be 'facts' that limit the team's options. So long as their choices are not fully determined or determinable, in which case there would be no possibility of profit, such facts can be treated as constraints to their judgment, things to be brought into mind. The interplay of uncertainty and imperfection is illuminating. Stiglitz's summary shows the IO literature presumes imperfections arise from tangible differences in property, associated with Ricardian rents, or differences in knowledge. The implication of Penrose's problematizing the traditional notion of resource is that both constraint and imperfection

are seen to emerge from differences in specific people's learning, and all ultimately collapse into Stiglitz's first category.

Learning is a mystery, of course; we have no general theory of human learning just as we have no general theory of human knowledge. Epistemology explores the contrasts between our limited views, not Truth. So instead of focusing on managing learning the theory of the managed firm can only begin with what has been learned – what appears in place of uncertainty as a result of an act of individual imagination. But what is the nature or meaning of this knowledge? Instead of the rationalist positivist notion that all knowledge is about a coherent and knowable reality beyond our minds (that we can only learn about Nature), Penrose turns towards the phenomenological notion that learning is a process of creating (finding, defining) the human self, which amounts to what we know and can do in the situations in which we find ourselves. In the economic milieu this proficient self is the 'entrepreneurial idea'. There is no explaining the idea's genesis, how Edison was able to 'come up with' the phonograph or Apple to 'come up with' the iPad. Creation and innovation may well be supported by ensuring that there are no factual constraints standing in way of the ideation process (that there are sufficient resources, skills, information and so on) but this is not 'managing innovation' because there is no theory of how support conduces it.



## 6. FINALLY - THE MANAGED FIRM (TMF)

At this point we see taking uncertainty seriously problematizes all the classical notions of economy, market, firm, and resource - and managing. What more can be said? The rationalist jinni departs with a pouf, leaving a whiff of sulfur, and we face the mystery of human imagination and judgment. If the firm, profit, and economic activity, to say nothing of entrepreneurship and economic growth, are about imaginative engagement with the practical uncertainties of our situation, we can focus our attention on the gap between the entrepreneurial idea and its manifestation as the firm. As a trader and arbitrageur Cantillon focused on the entrepreneurial idea (Tarascio, 1985). Jean-Baptiste Say, in contrast, focused on the creation of the firm as a means to bring the idea into the economy (Long, 1983; Thornton, 2007). Whence and how the entrepreneurial idea arrives is not analyzable; how to transform it into a value-creating netdom is. The rationalist take on this is 'design'. But if the firm can be designed logically it cannot generate economic value; it

is no more than an apparatus to achieve known goals using known resources - and this fails under Knightian uncertainty.

What can be said about how economic value is created? Just as Knight and Coase intuited value comes from engaging the uncertainties of human practice so Adam Smith intuited value comes from successfully engaging the 'division of labor', from exploiting human specialization and the firm-specific learning generated. Cantillon-style entrepreneurs need no help while Say-style entrepreneurs clearly do. In which case the firm is a socially and legally legitimated instrument contrived to compensate for the Say-ian entrepreneur's shortcomings by drawing others with appropriate judgment into enacting the entrepreneurial idea. The continuing growth of the private sector and of private firms reflects the expanding uncertainties the modern economy engages successfully, many arising from increased consumption and raised standards of living, many from science and technology and the increasingly sophisticated products and services we desire to consume (McCloskey, 2006, 2010).

The part of the value-creating firm that can be managed is not idea generation, on which we must be silent. Rather we can discuss the process of leveraging the idea that 'arrives' into a netdom, what many call the firm's business model (BM). Post-Penrose resources can only be understood through the prism of the BM, which is neither a design nor a bundle of resources. Its essence is knowledge; not simply the entrepreneurial idea but knowledge of how this shapes, constrains, and is transformed into practice. Penrose moved beyond 'factual' positivistic knowledge to include what we now call 'tacit' knowledge of experience (Penrose, 1959:53). As we know from Polanyi's quip 'we know more than we can tell' (Polanyi, 1967:4) tacit knowledge cannot be made explicit, written down as a logical statement. When a business model (always unique) synthesizes both explicit and tacit knowledge, it cannot be merely about 'reality' in the positivist sense, nor be readily explicated. Rather it is about how we humans know in ways that shape our actions, what we can make happen. Meaning it is an idiosyncratic language or 'jargon' created to draw others into actualizing the entrepreneurial idea. It is more poem than blueprint. Thus the BM differs from a formula or a logical design as natural language differs from formal language (such as mathematics). It is an artistic artifact; the product of what is perhaps a capitalist democracy's most important art form. The business model that draws in the judgments of others is a language, so the core managerial skills

required to construct and implement the BM are rhetorical. The core of managing is persuasive use of natural language, managerial oratory - no surprise to anyone who has managed or been managed, only to those committed to the aridities of the rationalist program. Hence the post-Coasian program's most fundamental characteristic is its shift from a positivistic discourse of objectivity and rationality into a poetry of economic action, subjectivity, and judgment, a shift that parallels the philosophical move to natural language shaped by 'Continental philosophers' like Wittgenstein, Habermas, and Heidegger (Critchley, 2001; Stainton, 2000). The TMF puts judgment and talk at its core, rejecting the rationalist computational paradigm that still dominates our literature and puts data and analysis at its core.

## 7. CONCLUSION

Knight's conjecture about the relationship between uncertainty and profit opened up - or recovered - a way to think about the nature of the private firm. Penrose, among others, showed this made it possible to discuss managerial judgment, its growth, and its relationship to value-creation and firm growth. Her first 'law' is that the firm cannot grow faster than the management team's knowledge (Penrose, 1959:44). But her more fundamental contribution was to destabilize the classical notion of resource. This helps us present management analysis in two complementary epistemological and methodological spheres - one positivistic (our discipline's dominant paradigm), the other linguistic and constructive (still an outlier). Useful as the first might be we can only discuss value-creation in the second.

The practical answers to Coase's questions become visible - judgment. Firms exist because they are legally and socially legitimated vehicles for engaging socio-economic uncertainties with entrepreneurial judgment - in the pursuit of private gain. Their boundaries are where they are as matters of judgment - individual and socio-legal. Their internal arrangements are likewise matters of judgment. There are no general theories that can relieve managers of their place and responsibility to make choices, and our discipline's project to develop them is profoundly flawed. Firms' performance varies just as each human's does when we are judged in a social and ethical context. Each firm is likewise unique in its socio-historical situation and the uncertainties it engages. But firm performance also varies because the managerial judgments applied to bridge between the entrepreneurial idea and the BM are so

varied. We can get to practicalities of the TMF, the uncertainties engaged and the managerial judgments applied, by analyzing the BM as a local natural language created to draw in the judgments of those complementing the entrepreneur's (Spender, 2014).

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## NOTES

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2. [https://en.wikipedia.org/wiki/Tit\\_for\\_tat](https://en.wikipedia.org/wiki/Tit_for_tat) accessed August 5, 2013.
3. This is the puzzle around empirical testing and the Duhem-Quine thesis. [https://en.wikipedia.org/wiki/Duhem%E2%80%93Quine\\_thesis](https://en.wikipedia.org/wiki/Duhem%E2%80%93Quine_thesis) accessed 5 August 2013.
4. [https://en.wikipedia.org/wiki/Industrial\\_organization](https://en.wikipedia.org/wiki/Industrial_organization) accessed 5 August 2013.

