FIRMS, STRATEGIES, AND ECONOMIC CHANGE: EXPLORATIONS IN AUSTRIAN ECONOMICS. BY FU-LAI TONY YU. CHELTENHAM, U.K.: EDWARD ELGAR, 2005.

Tony Yu's *Firms, Strategies, and Economic Change* joins a growing list of book-length treatments applying Austrian economics to the theory of the firm, corporate strategy, innovation, new venture formation, and other popular issues in management (e.g., Langlois and Robertson 1995; Cowen and Parker 1997; Foss 1997; Sautet 1998; Foss and Klein 2002). Yu begins with what he calls an "Austrian subjectivist framework" built on Max Weber, Alfred Schutz, William James, and Henri Bergson along with Menger, Mises, Hayek, Lachmann, and Frank Knight. He goes on to develop and apply the framework in a series of chapters on vertical integration, firm growth, innovation, demand management, institutional change, and related issues.

The book is a compilation of previously published articles and book chapters and, as expected, there is considerable repetition and some inconsistency from chapter to chapter. Nonetheless, several clear themes emerge. These include (1) the ubiquity of "radical subjectivism," in the sense of Lachmann and his followers; (2) the concept of the firm as a collection of heterogeneous, subjectively perceived, capital resources; (3) the entrepreneur and the firm as "coordinating entities"; and (4) the market as a competitive selection process.

I particularly welcome the rehabilitation of Knight and the emphasis on capital heterogeneity, both central themes in my own work on the theory of the firm (Foss, Foss, Klein, and Klein 2002, 2007; Foss, Foss, and Klein 2007). Chapter 2 describes Knight's subjectivist approach to entrepreneurship, which is linked in chapter 4 to Knight's innovative treatment of profit. (Unfortunately, Knight's nonsubjectivist theories of capital and competition, which did much to discredit the Austrian approach in the eyes of many professional economists during the 1940s, are not discussed.) Besides being a subjectivist and methodological individualist, Knight was a terrific writer (unlike his Austrian contemporaries), offering such gems as this (quoted by Yu on p. 23):

> [T]he first fact to be recorded is that [economic] reality exists or "is there." This fact cannot be proved or argued or "tested." If anyone denies that men have interests or that "we" have a considerable amount of knowledge about them, economics and its entire works will simply be to such a person what the world of color is to the blind man. But there would still be one difference: a man who is physically, ocularly blind may still be rated of normal intelligence and in his right mind. (Knight 1956)

Knight's distinction between risk and uncertainty is usefully explained, and compared to O'Driscoll and Rizzo's (1985) concept of "typical" and "unique" events. Yu correctly points out that Knight is distinguishing not merely between objective and subjective probabilities (as in Savage 1954), but between repeatable and unique events. (Discussion of Richard von Mises's concepts of class and case probability would have helped here.)

Yu's approach is highly eclectic, drawing not only on various strands of Austrian economics but also on organizational sociology, cognitive psychology, organization and network theory, and other items from the menu of contemporary approach to strategy and organization. Within economics, Yu embraces a variety of "heterodox" perspectives including transaction cost economics, evolutionary economics, capabilities theory, and the resource-based view. Unfortunately, this eclecticism is both a strength and a weakness (see Foss 2000). Yu tends to lump theories and theorists together, failing to draw out subtle but important distinctions. For example, Kirzner's approach to entrepreneurship is described as "a special case of Knight-Misesian entrepreneurship" (p. 31, and again on p. 41), but it is widely recognized that Kirzner's concept of entrepreneurial alertness is quite different from Knight's idea of judgmental decision-making under uncertainty. (Kirzner's entrepreneur does not form judgments about future events, putting resources at stake in anticipation of potential gains, but rather grasps profit opportunities costlessly, with no possibility of loss.) As a result of this eclectic approach, there is little criticism in the book, aside from criticism of neoclassical economics (which, in this context, is an easy target). These various research traditions are presented as mostly compatible, though the careful reader will worry about finer distinctions.

The expository chapters provide a useful overview of some basic issues in contemporary organization and management. Overall, however, the treatment is broad, but not deep. Often the analysis appears superficial, as in the frequent references to "coordination"—coordination as the objective of economic activity, the firm as a device for solving coordination problems, "plan coordination" and "pattern coordination" as the distinctive hallmarks of Austrian economics, and so on. But "coordination" is a difficult concept with several distinct meanings, both within and outside Austrian economics (D. Klein 1997; Salerno 1991). More generally, the Austrian literature has a subtlety and complexity that isn't well appreciated in the management literature (see Chiles, Bluedorn, and Gupta 2006, for an exception), and Yu has missed an opportunity to educate the general reader in business administration about these distinctions. And the book's emphasis on concepts, rather than implications, applications, and conclusions gives the impression that Austrian economics has little to offer the applied researcher or business practitioner. Rather than offering a forward-looking research agenda, the chapters tend to put an Austrian gloss on existing ideas.

Moreover, the arguments are also not very robust; i.e., alternative explanations for the phenomena at hand are rarely discussed and evaluated in a comparative fashion. For example, Yu advances a "cognitive" view of vertical integration (or firm expansion more generally): "Vertical integration is, in the Schutzian context, the construction of a 'common interpretive environment'." Yu does not explain, however, how this view (covered more thoroughly in Witt 1998a, 1998b, 2007) relates to alternative theories of vertical integration, such as contractual explanations based on asset specificity and incomplete contracting, neoclassical explanations based on double marginalization or entry barriers, and dynamic capabilities theories based on learning. Is the Schutzian approach complementary to these more common approaches, or a substitute for them? For example, can a group of independent contractors share a common cognitive frame, or must they be employees of a single firm? Does the cognitive approach explain what alienable assets the leader will own? These and similar comparative questions are not addressed.

A further problem is that several of the essays seem dated. For example, when discussing the theory of the firm, transaction cost economics and the resource-based view are singled out for analysis (and Austrian critique). But there is no mention of incomplete contracting theory (Grossman and Hart 1986; Hart and Moore 1990; Hart 1995) or relational contracting (Baker, Gibbons, and Murphy 2002) and little acknowledgment of dynamic capabilities, the knowledge-based approach, or other contemporary theories. Amazingly, neither Oliver Hart nor Oliver Williamson—let alone Gibbons, Holmström, Milgrom, Roberts, or Tirole—merits even a single index entry. (Even Coase is mentioned only on one page.) Several important claims—such as the criticism that modern organizational economics ignores entrepreneurship—may have been true five years ago, but there is much work in this area today. (See, for example, a forthcoming special issue of the *Journal of Management Studies* on "Entrepreneurial Theories of the Firm" edited by Sharon Alvarez and Jay Barney.)

A few additional quibbles: First, the narrative is frequently disrupted by startling assertions that are not well supported, e.g.: "[E]xperience, or Bergsonian time, is the essence of Austrian economics" (p. 18). "Böhm-Bawerk failed to develop the Mengerian tradition" (p. 32). "In economics, Hayek's contribution can only be described as neoclassical Austrian" (p. 32). Second, there is far too much inconsistency and much redundancy across chapters. Some repetition is expected in a collection of essays compiled into a single volume, but much more streamlining should have been done. The introductory sections of many chapters cover exactly the same ground. On p. 32, as noted above, we are told that Böhm-Bawerk failed to develop the Austrian tradition, but five pages later we learn that Austrian capital theory was "first systematically put forward by Carl Menger and elaborated by Eugen Böhm-Bawerk in his pathbreaking roundabout theory, . . . [then] brilliantly developed by Mises and Hayek in their attempts to explain the business cycle."

Third, the style is a bit ponderous, even for an economics book.

> If all firms in an industry share similar business knowledge, then the industry will attain a relatively high level of cognitive coherence and business plans among vertical firms will be coordinated most effectively. In other words, when entrepreneurs of vertically related firms share a similar interpretative framework, the capital structures of these firms will be easily made consistent and the industry will be harmoniously coherent. (p. 47)

Fourth, there are quite a few typos, more than one would expect in this type of work. Normally this would not be worth mentioning, except that a quotation from one of my articles appears in a footnote, but without quotation marks—an unpardonable sin!

Despite these criticisms, the reader seeking an overview of Austrian contributions to organizational economics and strategy will find much of value in this book. The Austrian tradition is becoming increasingly influential in strategic management, entrepreneurship, and other aspects of business administration, and this volume provides a useful starting point for those wanting to know this literature better.

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