

Entrepreneurial logics for a technology of foolishness

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Abstract

Several years ago Professor March pointed out that rational choice involves two guesses, a guess about uncertain future consequences and a guess about uncertain future preferences, and called for the development of a technology of foolishness to complement the technologies of intelligence that have been developed to improve the first guess. In this essay we use empirical data from two separate studies of entrepreneurial expertise, one involving the creation of new ventures and the other the birth of a new industry to identify three logics that constitute working elements of a technology of foolishness: (1) the logic of identity, as opposed to the logic of preferences; (2) the logic of action, as opposed to the logic of belief; and (3) the logic of commitment, as opposed to the logic of transaction.

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Uncertainty about future consequences and human limitations in dealing with them are relatively easily seen as intrinsic in the decision situation and nature of the human organism. It is much harder to see in what way ambiguous preferences are a necessary property of human behavior. It seems meaningful in ordinary terms to assert that human decisionmakers are driven to techniques of limited rationality by the exigencies of the situation in which they find themselves. But what drives them to ambiguous and changing goals? Part of the answer is directly analogous to the formulations of limited rationality. Limitations of memory organization and

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retrieval and of information capacity affect information processing about preferences just as they affect information processing about consequences (March & Simon, 1958; Cyert & March, 1963; Simon, 1973; March & Romelaer, 1976). Human beings have unstable inconsistent, incompletely evoked, and imprecise goals at least in part because human abilities limit preference orderliness. If it were possible to be different at reasonable cost, we probably would want to be.

But viewing ambiguity as a necessary cost imposed by the information processing attributes of individuals fails to capture the extent to which similar styles in preferences would be sensible, even if the human organism were a more powerful computational system. We probably need to ask the more general question: Why might a person or institution intelligently choose to have ambiguous tastes? The answer, I believe, lies in several things, some related to ideas of bounded rationality, others more familiar to human understanding as it is portrayed in literature and philosophy than to our theories of choice (March, 1978, p. 598).

1. Introduction

This essay is directly inspired by Professor March's written work and conversations with him. It is also empirically grounded in two separate studies of entrepreneurial expertise, one involving the creation of new ventures (Sarasvathy, 1998) and the other the birth of a new market (Dew, 2003). Entrepreneurs emerge as Simonian decisionmakers (i.e., they are boundedly rational and docile) who living in a Marchian world of goal ambiguity where predictive knowledge and even learning are usually *not* harbingers of positive outcomes. In such a universe, choices are engineered through a technology of foolishness to produce valuable surprises embodied in novel organizations and new markets.

In his paper "Bounded rationality, ambiguity, and the engineering of choice" March wrote: *Rational choice involves two guesses, a guess about uncertain future consequences and a guess about uncertain future preferences* (1978, p. 587). He then pointed out that while the former had been studied extensively and resulted in the development of a technology of intelligence, the latter might require the development of a technology of foolishness, a task not yet undertaken seriously by scholars of human decision-making. We are not quite sure why this is so, but we suspect one reason could be that most decisionmakers are studied in settings such as corporations, where they have a strong incentive *not* to use technologies of foolishness, or at least to *appear* to be using well-worn tools of intelligence. As scholars of entrepreneurship, however, we were more fortunate. Entrepreneurial expertise offers us, as the Galapagos Archipelago did for Darwin, an exceptional setting for understanding how human beings act in the face of mounting uncertainties and lurking ambiguities. Our aim in this paper is to put some legs under March's evocative conceptualization of the technology of foolishness, and maybe even to bring to the table a whiff of its relationship to literature and philosophy.

Our empirical investigations of entrepreneurial expertise in the creation of new firms and markets suggest that entrepreneurs are as likely to be drawn from, and driven by, poets and philosophers as any other group of human beings. Be it a potter partnering with a philosopher in the 18th century to create one of the longest enduring brands (Wedgwood Pottery), or a group of yuppies inspired by Moby Dick founding one of the most successful brands of the twentieth century (Starbucks), entrepreneurs routinely straddle economic

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