

The Entrepreneur in Real Time

It is common to think that whereas past can be known future remains unknowable. Irrespective of how well we are able to predict particular future events the relation between past and future is normally considered asymmetric. It is believed that since past has already occurred and future has not they must be essentially dissimilar.

In this article, I shall argue that past need not be so dramatically different from future when it comes to socio-economic reality. This insight provides a rationale for an entrepreneurial search for errors, both in past and in future.

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My aim in this article is to try to explain what knowledge is in the socio-economic realm and how we are affected by the continuous change in knowledge. The way reality is understood influences greatly our expectations of future and interpretations of past.

What Do We Know?

Knowledge can be approached from many different perspectives and it can be analysed in various depths (depending on how deep into the functioning of mind one wishes to go). For my use here it suffices to think that knowledge, or change in knowledge to be precise, is a continuous process of feedback and their interpretation.

Now, an important question arises about the source of feedback. It is customary to think that

a natural source of feedback is *reality* itself. Reality is a working concept for treatment at a general level. If an entrepreneur's expectation of some future event did not prove successful, it is because her expectations did not cohere with reality as it unfolded. Reality provides the feedback against which success and failure can be measured.

My motivation here for investigating knowledge does however not remain at a general level. For my use reality as a source of feedback is too general. It is precisely the *meaning* of reality in the socio-economic realm that I need to examine in order to reveal the dynamics of my thesis.

What Reality Is

When we say that reality provides the test or feedback against which success and failure of plans and expectations can be measured, it should be informative to learn about the nature of that reality.

Choosing a starting point in socio-economic affairs is always a tricky business. If you start with one concept you risk becoming criticised of overemphasising that aspect. If you choose another term as a starting point, you will be labelled with high probability through that. But since life is a risky business in itself and one has to start from somewhere I might as well choose *intersubjectivity* as a concept to start with.

Intersubjectivity means here a dynamic where separate individuals interpret real events through their senses (the subjective part) and where real events are to a great extent created by actions of individuals while interpreting actions of others (the interactive part).

But since I do not want to give a picture of socio-economic reality as being based solely on subjective and intersubjective phenomena, I need to say something about objective reality as well. I do believe that a type of *external* reality exists which is separate from our interpretations. It is perceivable that a reality can exist without the existence of human species (it is of course an entirely different question what could be said or known about such a reality – and by whom).

In the socio-economic realm, *objective knowledge* is here assigned a different meaning than the above-referred external reality. About objective knowledge we can say and know many things. Objective knowledge is shared, more persistent, and more external than the interplay of intersubjective knowledge. To be sure the concept is here interpreted much in the same way as introduced by Karl Popper (1972). However, my interpretation differs from that of Popper's in an important respect regarding the nature of present and past. But before I turn to deal with those dissimilarities, I need to explain how the intersubjective and objective knowledge are connected.

Reality Is Fallible – Permanently

The core idea is that individuals create objective knowledge by *sharing* intersubjective meanings and actions (Popper 1972). The process is a *reflexive* one in which intersubjective interpretations affect the shape of objective knowledge, which in turn affects intersubjective interpretations of reality. Reflexivity is at work whenever we refer to self-fulfilling prophecies: when, for instance, investors' expectations of a boom affect market prices, which in turn encourages expectations further. Thus reality becomes established according to shared expectations.

Reflexivity has some necessary implications. Since reality is partly shaped by fallible interpretations of participants, and since those interpretations are affected by reality, reality itself becomes inherently *fallible*. Fallibility is a necessary quality of knowledge because its presence permits knowledge to change in the first place. The connection between knowledge and *time* becomes central to my thesis.

Knowledge in Time

Knowledge and time are connected so profoundly that it is perhaps reasonable to think that knowledge cannot, even in principle, stay unaltered when time elapses (Lachmann 1986). Consider a following description of how knowledge changes in time. Initially, there is a lack of correspondence between an agent's expectations

and outcomes that will unfold as time passes. The agent is of course unaware of any discrepancy between her expectations and future state of affairs. Otherwise she would have altered her expectations already. At a moment called 'present time' it is reality, again, that provides the feedback and the agent's expectations are partly unsatisfied. At this moment she understands her mistake and can see that her expectations were built on false assumptions. At this moment in time her erroneous beliefs are corrected and her knowledge altered to correspond with reality. The gap between expectations and outcomes (reality) is closed.

Since outcomes refer to reality as it happened, it is believed that outcomes also function as the objectively true path of history. It is perhaps persuasive to think that:

There may be as many expectations as there are participants, but there is only one outcome. It is that outcome that constitutes reality, and it is reality that needs to be understood. (Soros 1987)

I do not believe that this is entirely correct way to connect history and past events with reality, however. Since portraying the socio-economic reality as external to the intersubjective interpretations is distant to our understanding, so should an idea of a uniform path of history be. History without intersubjective interpretations is unrealistic.

Past and future are asymmetric, though. There are much fewer things we can do that influence past, as compared to available choices that affect future events. This does not necessarily mean that our interpretations about past events should be uniform, however. According to my view then, history remains fallible, as does our understanding of reality. Thus, outcomes do not in any genuinely distinctive way need to test or verify or falsify our expectations (theories about reality).

The Art of Entrepreneurship

The perspective to knowledge I am presenting here provides a slightly different picture of reality than what we are perhaps used to. Individuals may well maintain dissimilar interpretations of past events. Their experiences differ in at least two ways. First, individuals experience dissimilar events in the sense that events that happen to some cannot be witnessed by others. Second, our dissimilar experiences of past events affect the way our mind categorises new events. Thus, individuals necessarily experience even shared events in dissimilar ways.

The complex process of socio-economic reality, created by intersubjective interpretations and objective knowledge corresponds with our perception of reality as *genuinely uncertain*. Even though we know that reality is partly created by our own interpretations, we also understand that we do not know how exactly the myriad of interpretations of others influence future events.

What is all this theorising and conceptualising then good for? Entrepreneurship can be recognized as a talent or a function directed to discovering errors in the market (Kirzner 1973). Entrepreneurs try to buy low and sell high, moving intertemporally or interspatially. They try to create new services that might prove profitable. The fact that errors may be carried on for a long time changes our picture about success and failure. What we consider success may well be the result of shared erroneous interpretations, and what we consider a failure may well turn out to be a success if someone manages to break against the shared interpretations.

Breaking against shared interpretations is not an easy task, either. Turning a failure into a success requires change in the shared interpretations as well. Thus, the entrepreneur risks that others will not see things the way she wishes, not even after persistent persuasion. But if they do, she of course will be rewarded.

My central claim in this article is that the success of an entrepreneur is not measured alone by the coherence between her expectations and reality as it unfolds. Rather, the success is measured by her ability to understand how knowledge is cre-

ated (1) by a reflexive process in which participants interpret the meanings of others and (2) by the creation of objective knowledge. The ability to understand the nature of socially shared knowledge need not be explicitly known to the entrepreneur; it can remain tacit or intuitive as well.

The nature of knowledge I am presenting here leaves ample room for entrepreneurial discovery and creation. An understanding that our intersubjective knowledge of reality necessarily remains fallible and subject to change, even *ex post*, should encourage entrepreneurs to create new ways of doing things, and to persuade others to follow their way.

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