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RESEARCH OF NOTE: BOOK REVIEW The Problem of Production, by Per L. Bylund

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The Problem of Production, by Per L. Bylund, Routledge, New York, 2016, 178 pp., $150.00 (hardback), ISBN: 978-1848935297

For years, management and organizational researchers have sought to explain and understand the bewildering heterogeneity of firms in modern societies. Bylund contributes to the discussion of "Why are there so many different types of firms?" by building on the literature in Austrian Economics, a vibrant and heterodox school of economic thought. His goal for the book is ambitious—in his own words, "to outline a new theory of the firm" (p. 156). He does so by embracing the Austrian idea of the market as a dynamic process, and then probing into the firm's function(s) in the market process. The book comprises 11 chapters, including one on policy implications and another on future trajectories of the proposed theory.

Chapter 1 opens by highlighting that definitions and explanations of the firm remain varied after many years of research effort. The author hosts a new approach to explaining the firm by focusing on the production processes within a specialized market. His starting point is the argument that "it is necessary to derive the firm's function from limitations that the market suffers without it" (p. 17). Production processes are presented as the central activity within the market, followed by a look at whether market production is subject to potential problems, and finally whether those problems can be solved through entrepreneurial actions of economic organizations.

Chapter 2 introduces a model of the market as a self-regulating dynamic process, where actors respond to market stimuli by adjusting their activities under the division of labor. The author explains that the function (or emergence) of the firm in the market is to facilitate exchange via specialized or elaborate production processes. As such, the firm's purpose is to solve problems in the market, serving an economic function. The entrepreneur's role then is to adapt and adjust production to fit the dynamic market conditions when information is presented. However, while specialization increases productivity, the market limits growth in specialization if it fails to provide firms with exchange opportunities for their particular output. Such unsalable solutions fall outside the extent of the current market.

Chapter 3 examines the complications of change concerning both specialized production processes and the market. Under the division-of-labor model, production processes and laborers are dependent on previous stages and interactions. As a result, adjustments to the specialized production processes place producers at risk of holding intermediate products due to incompletion, and thus not having a completed product for the decentralized market. The exchange market is thus said to be in a "specialization deadlock," lacking the means to handle production incompleteness without a preexisting mode of market exchange for intermediate goods. In other words, without an existing mechanism for exchange, intensive specialization in intermediate stages of production is not supported by the decentralized market; therefore, firms must offer completed products causing a deadlock for further specialization.

Chapter 4 elaborates further on the rationale of integrated production and how the "specialization deadlock" creates resistance to novel production in the decentralized market. We are then introduced to the entrepreneur, whose function is to envision and implement production processes from outside the existing market space. Entrepreneurship is considered an "island of specialization" that exists outside the current market space that implements innovative production contrary to the production currently supported by the market and thus the development of a new firm. This new firm is created to provide a solution to the existing deadlock.

Chapter 5 speaks to the issue of authority and hierarchy within firms. The author explains that in an open market, firms lack the authority of those placed in a nonrepeating, limited-transaction market. Processes are unlikely to be at maximum efficiency at inception and instead are the product of discovery during the implementation process. Skills developed during the implementation processes of the firm's beginning stages create a reciprocal relationship between the firm and the division of labor, as neither will benefit from incomplete product in such a market. Since neither party is in a position to make a credible threat against the other, opportunistic behavior is unlikely to occur.

Chapter 6 explores how firms initially fulfill some market need and then settle into one of two outcomes: exit due to failure, or eventual expansion of the market, and absorption therein, as the processes become common practice within the market landscape. This suggests a temporary value to the novel processes and a level of risk assumed by the innovators, as we would expect in entrepreneurship. However, chapter 7 further elaborates that the burden of uncertainty falls onto those making the initial investment to cover immediate costs and those costs that arise during implementation; however, this includes the entrepreneur of the novel process, third-party capitalist investor(s), and the opportunity costs forgone by laborers. All aforementioned parties are forgoing some known probability of return in the current market. An interesting note in this chapter is the reiteration of the firm as a bundle of capital goods used for production, so that ownership provides claim over those resources.

Chapter 8 expands on the notion that the firm's innovative process, positioned outside the existing market, escapes the price mechanism. As such, "the firm" acts as an innovator by realization of an extramarket benefit and expanding the current offerings of the market, thus breaking the "specialization deadlock" referenced in chapter 3. This unorthodox, yet pioneering, action is in fact the economic purpose of the firm: to expand the market and perpetuate specialization. As new firm processes are found to be successful, imitation by others will persist until the market has completely captured these processes as common practice.

Chapter 9 elaborates on the market benefits of three types of entrepreneur—the arbitrageur, imitator, and innovator—as well as their influence on market direction: equilibrating, disequilibrating, and kaleidoscopic. The market progresses from an amalgam of each type of actor and their particular influence, and therefore, no one combination alone serves to better the market process. This suggests that the collective efforts of microlevel firm-generating processes centered around productive innovation and the macrolevel market processes work together to expand the market beyond its previous state thus creating growth and economic development.

Chapter 10 pertains to policy implications of the proposed theory, suggesting that public policy within the market context has the potential to serve an adversarial or encouraging role regarding the formation of firms. Raising or lowering barriers within the overall market or specific segments can impact the rate of firm formation. Costs associated with raising barriers are discussed, for these may impede the market from enjoying long-term progress as would-be firms may never actually realize their innovative processes.

Chapter 11 provides a comprehensive summary of the theory and key contributions to the literature, but its real value is in the discussion of key limitations and ideas for further exploration. A key limitation suggested here is that of firm strategies for dealing with the diminishing value of innovative processes as imitative competitive forces render such processes commonplace in the market over time. Studies on various barriers, market regulation, and legal limitations applying the proposed theory are encouraged.

In closing, the author succeeds in spotlighting the economic function provided by the firm—in place of the traditional view of starting with the conception of a firm —by first looking at the market and its limitations to production. Consequentially, this theory development adds an interesting twist to the attempts to understand the existence of firms. The theoretical framework presented provides an explanation of the firm in economic terms by focusing on their impact on the existing market and the production structure in general. By embracing the Austrian idea of the market as a process, the focus on production value places emphasis on the imperative of entrepreneurial innovation to free the shackles of "specialization deadlock," leading to market expansion and economic development.

While not discussed in the current work, future researchers may consider inquiring into the conceptual overlap between Bylund's proposed theory and that of the evolutionary theory presented in the influential book on the evolution of economic change by Nelson and Winter (1982). It seems particularly useful to cast light on how routines and specialized production are related, and how changes in them better serve markets for incumbent firms. Many fruitful contributions are likely to result from such inquiry. Bylund has taken on an ambitious task in this book, but it remains for future research to delve into the ways in which the ideas presented here integrate or intersect with the theories and concepts already in existence.

Reference

Nelson, R. R., & Winter, S. G. (1982). *An evolutionary theory of economic change*. Cambridge, MA: Belknap Press of Harvard University Press.

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