

DIALOGUE

An Entrepreneurial Perspective on Value Creation in Public-Private Ventures

In traditional conceptions of rational choice, the fundamental behavioral assumption for human interaction has been one of opportunism. In economics and management, this is exemplified by Williamson's (1979) work on transaction costs. In particular, he defines opportunism as "self-interest seeking with guile" (1991: 79) and posits it as an essential behavioral assumption. Consistent with this assumption, Kivleniece and Quelin (2012) argue in their recent article that, from a private actor's perspective, the value of public-private ties is restrained by (1) opportunism by public partners in integrative partnerships (Proposition 8) and (2) stakeholder activism in autonomous partnerships (Proposition 9). Each of these propositions clarifies when private partners will receive less value in public-private partnerships and, thus, will likely forgo such opportunities (2012: 293). We seek to extend their contribution by showing how an alternate behavioral assumption—*docility* (Simon, 1993)—could relax these restraints and help private actors to avail of an expanded set of public-private partnership opportunities. Further, *docility* may fuel *intersubjective interactions* (Davidson, 2001) and expand the opportunity set in novel ways.

DOCILITY

Scholars in economics and management have argued against both the empirical validity and normative wisdom of the assumption of opportunism. Hill (1990) showed that under the normal assumptions of neoclassical economics, the invisible hand of the market will tend to weed out persistently opportunistic behavior, and Jones (1995) conceptualized how nonopportunistic behavior could lead to significant competitive advantages. Further, Ghoshal and Moran (1996) and others (e.g., Frank, 1988; Wicks, Berman, & Jones, 1999) have argued that the assumption of opportunism is bad for practice because it undermines the ability to generate trust and its array of associated strategic benefits. Finally, in

a comprehensive review of empirical studies of behavioral assumptions, Rabin (1998: 16) pointed to hundreds of studies that evidence deviations from self-interest.

Simon (1993) identified an alternative behavioral assumption—*docility*—that is rooted in our evolutionary past and theoretically tied to the arguments of Adam Smith (Simon, 1997). Simon defined *docility* as "the tendency to depend on suggestions, recommendation, persuasion, and information obtained through social channels as a major basis of choice" (1993: 156). He further clarified:

We are highly susceptible to social influence and persuasion, susceptibility that I will call *docility*. I use the term "*docility*" here in its sense of teachability or educatability—not in its alterative sense of passivity or meekness (1997: 41).

There is considerable evidence supporting assumptions of *docility*. In a review of laboratory work in behavioral economics, Schotter (2005: 196) concluded not only that human beings are fundamentally prone to seeking and acting on advice from others but that this behavior increases efficiency, even when the advice is from naive advisers. In a reexamination and further development of *docility* as a fundamental assumption about human behavior, Knudsen argued that "[*docility*] has immediate implications for the understanding of human nature that invites revision and development of behavioral economics and theories of economic organization" (2003: 243).

Entrepreneurship has emerged as a rich context for examining the role of *docility* in management. Studies examining how expert entrepreneurs create new markets, as well as new ventures, highlight the role of *docility* in entrepreneurial behavior (Dew, Read, Sarasvathy, & Wiltbank, 2011; Endres & Woods, 2010; Sarasvathy & Dew, 2005). In particular, *docility* allows entrepreneurs to leverage ambiguous parts of their "vision" by letting themselves be persuaded by the preferences of those who are willing to commit resources to the venture. This, in turn, allows the co-creation of the generative structures of a new market—be they products and services or institutions such as standards

and distribution channels. Docility fuels such novelty in market creation through a process of intersubjective interaction (Davidson, 2001; Venkataraman, Sarasvathy, Dew, & Forster, 2012) between partners and stakeholders whose interests go together more often than they conflict (Freeman, Harrison, Wicks, Parmar, & de Colle, 2010; Parmar et al., 2010).

INTERSUBJECTIVE INTERACTION

In economics, the study of how self-interested individuals can make choices that enhance societal welfare, including the creation of high-value public-private partnerships, has come to be known as "the social choice problem"¹ (Arrow, 1951; Sen, 1995, 1999). The social choice problem posits the irreconcilability of individual, private preferences with public welfare, which prevents the provision of public goods (Hardin, 1968; Olson, 1965).

However, a solution to the social choice problem exists, albeit one of only partial optimality, through *constructive social choice* (Sen, 1999). This solution involves individuals not simply acting on their well-ordered and known preferences but interacting with each other to rearrange and shape those preferences. Thus, when docile—that is, persuadable and persuasive—actors interact over time, interesting and innovative coalitions and partnerships emerge that reconstrue possibilities for value creation.

In a recent article Venkataraman et al. (2012) drew on philosopher Donald Davidson's (2001) epistemology to develop their theoretical exposition of this line of thinking. In Davidson's view all knowledge is constituted of a tripod of objective (the physical world), subjective (the mind), and intersubjective (taken-for-granted assumptions between two actors) knowledge. When docile private actors allow stakeholders to self-select into an intersubjective process—that is, the collaborative definition of value beyond economic profit—stakeholder activism can either be averted or shaped into novel solutions that overcome trade-offs and achieve benefits for

both private actors and stakeholder activists (Freeman, 1994; Venkataraman, 2002). Only under assumptions of well-ordered preferences and opportunism does stakeholder activism become a mechanism for reducing value appropriation by private actors.

The Davidsonian tripod is evident in several constructs of interest to scholars investigating the creation and capture of value through entrepreneurial action (Venkataraman, 1997). As evoked by the literature on stakeholder theory (see Parmar et al., 2010, for a review), this entrepreneurial mindset offers possibilities for stakeholder interaction to become a cooperative, value-generating process. An entrepreneurial perspective, based on assumptions of docility and intersubjective interaction, makes it more likely that partners (1) seek out and assume the importance of collaborative value definition and creation and (2) have the social capital and goodwill to foster such value generation. To the extent that public-private partnerships offer opportunities for value creation, the private actor's perspective in Kivleniece and Quelin (2012) is also an entrepreneurial perspective. Hence, a process of intersubjective interaction, built on the behavioral assumption of docility, provides fertile ground for future research into public-private partnerships.

CONCLUSION

One may question if the assumption of docility and a process of intersubjective interactions can hold under conflicts of private and public interest. But the reverse would be a valid question as well: could public-private partnerships even be possible without some level of docility and a process of intersubjective interaction? Under standard assumptions of opportunism, Kivleniece and Quelin (2012) identify two threats to value derived from public-private ties—namely, opportunism and stakeholder activism. Recent work in entrepreneurship, based on a behavioral assumption of docility and a process of intersubjective interactions, offers the possibility of overcoming these two threats. Future work on public-private ties could benefit if scholars take an entrepreneurial perspective with a view to further spelling out particular parameters and boundary conditions under which different behavioral assumptions may provide useful explanations for observed empirical patterns.

¹ The social choice problem is a distinct stream of literature in economics that has spanned over six decades of work and does not directly speak to the "social dilemmas" that Kivleniece and Quelin (2012) refer to. Rather, Kivleniece and Quelin specifically refer to an article published in *AMR* authored by Zeng and Chen in 2003.

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<http://dx.doi.org/10.5465/amr.2012.0097>



Where Are the Old Theories of Organization? Prospects for Retrospection in Organization Theory

In their *AMR* dialogue contribution, Cornelissen and Durand (2012) discuss issues arising from the 2011 *AMR* Special Topic Forum (STF) "Theory Development: Where Are the New Theories of Organization?" Notably, they ask whether the forms of theorizing produced in re-