

*Artur Marion Ceolin*<sup>1</sup>  0000-0003-1490-0790

Instituto Mises Brasil, São Paulo, Brasil

## Contributions of Prof. Huerta de Soto to the Theory of the Firm

**ABSTRACT:** This article analyzes Prof. Huerta de Soto's contributions to contributions to the theory of the firm and its internal organization. While his conception of Perceptiveness and his Theory of Dynamic Efficiency are usually applied to explain the market process, I argue that they also provide a coherent explanation of the entrepreneurial organization of the firm. Entrepreneurs are perceptive agents who create particular arrangements of resources to achieve desired ends. Firms, therefore, emerge as a consequence of entrepreneurial perception, pursuing profits in the market economy. Huerta de Soto's approach highlights how dynamic efficiency and entrepreneurial knowledge shape the internal organization of firms, combining planning and command with intrapreneurship. This study fills a gap in the Austrian School by applying Huerta de Soto's framework to the theory of the firm, advancing the understanding of entrepreneurship, organizational design, and the coordination of knowledge.

**Keywords:** Huerta de Soto; entrepreneurship; theory of the firm; dynamic efficiency.

<sup>1</sup>Doutorando em Economia na Universidad Rey Juan Carlos (URJC) e Fellow do Instituto Mises Brasil. E-mail: amceolin@gmail.com

## Contribuciones del Prof. Huerta de Soto a la Teoría de la Empresa

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**Resumen:** Este artículo analiza las contribuciones del Prof. Huerta de Soto a la comprensión de la firma y su organización interna. Aunque su concepción de la perspicacia y su Teoría de la Eficiencia Dinámica suelen aplicarse para explicar el proceso de mercado, sostengo que también ofrecen una explicación coherente de la organización empresarial de las firmas. Los empresarios son agentes perspicaces que crean arreglos particulares de recursos para alcanzar los fines deseados. Las firmas, por lo tanto, surgen como consecuencia de la perspicacia empresarial, persiguiendo beneficios en la economía de mercado. El enfoque de Huerta de Soto resalta cómo la eficiencia dinámica y el conocimiento empresarial configuran la organización interna de las firmas, combinando la planificación y el mando con el intraemprendimiento. Este estudio llena una laguna en la Escuela Austriaca al aplicar la perspectiva de Huerta de Soto a la teoría de la firma, promoviendo la comprensión del emprendimiento, del diseño organizacional y de la coordinación del conocimiento.

**Palabras llave:** Huerta de Soto; empresarialidad; teoría de la firma; eficiencia dinámica.”

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## Contribuições do Prof. Huerta de Soto para a Teoria da Firma

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**Resumo:** Este artigo analisa as contribuições do Prof. Huerta de Soto para o entendimento da firma e da sua organização interna. Enquanto essa concepção de perspicácia e sua Teoria da Eficiência Dinâmica são usualmente aplicados nos processos de mercado, eu argumento que estes também proporcionam uma explicação coerente para a organização empresarial das firmas. Empresários são agentes perspicazes que criam arranjos particulares de recursos para atingir seus fins desejados. Firms, nesse sentido, emergem como consequência da perspicácia empresarial, buscando lucros na economia de mercado. A abordagem de Huerta de Soto resalta como a eficiência dinâmica e o conhecimento empresarial moldam a organização interna das firmas, combinando planejamento e comando com intraempreendedorismo. O estudo preenche uma lacuna na Escola Austríaca ao aplicar a perspectiva de Huerta de Soto para a teoria da firma, avançando o entendimento do empreendedorismo, da arquitetura organizacional, e da coordenação de conhecimento.

**Palavras-chave:** Huerta de Soto; empreendedorismo; teoria da firma; eficiência dinâmica.

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## INTRODUCTION

Among his most relevant contributions to the Austrian School of Economics, Prof. Huerta de Soto is recognized for his understanding of entrepreneurship and for his Theory of Dynamic Efficiency (Espinosa, 2022; Matarán, 2024; Ravier, 2020; Wang, 2017, 2023), which is mainly applied to explain the market process within the economy. However, I argue that Huerta de Soto’s contributions can also be employed to analyze the organization of firms.

In this article, I provide a structured analysis of Huerta de Soto’s perspective on firms and their internal organization. I emphasize entrepreneurial perceptiveness, highlighting entrepreneurs as inherently creative agents who seek better arrangements of resources to achieve desired ends. Firms, in this sense, emerge from individual perception, as entrepreneurial ventures are understood as the most suitable arrangements to pursue profits in the market economy.

Huerta de Soto's insights on perceptiveness and dynamic efficiency also offer theoretical guidance for understanding the internal organization of firms. While firms involve planning and command, they must simultaneously acknowledge the individual capacity to generate new entrepreneurial knowledge. The entrepreneurial task is thus to align entrepreneurial goals with internal organizations that enable employees to create knowledge and improve the allocation of resources.

This article addresses a gap within the Theory of Dynamic Efficiency by clarifying how it applies to the internal organization of entrepreneurial ventures. In doing so, it advances the Austrian understanding of entrepreneurship and the firm, extending its boundaries through the concepts of perceptiveness, entrepreneurial knowledge, and dynamic efficiency.

## ENTREPRENEURSHIP AND PERCEPTIVENESS

Prof. Huerta de Soto's understanding of entrepreneurship is generally posited within Kirzner (1973) and his *opportunity discovery approach*, which emphasizes entrepreneurial alertness (e.g., Ravier, 2020; Wang, 2017). Therefore, as a first point, I shall contrast Huerta de Soto and Kirzner to explain that his understanding of the firm is not only a continuation of Kirzner's but an improvement of his work.

Kirzner contrasted the neoclassical homo economicus with the Misesian homo agens to highlight differences in economic coordination. According to Kirzner, all individuals are, in a broad sense, entrepreneurs. To elaborate, any human action involves an entrepreneurial element (Kirzner, 1973; 1997). Kirzner (1997) contends that all decisions are speculative, which is essential to entrepreneurship.

Entrepreneurship enables individuals to envision new ends, define ways to achieve them, and discover new methods to generate benefits (Kirzner, 1973; 1997). Based on this understanding, Kirzner developed the entrepreneurial discovery approach. This approach involves three main interconnected concepts: (1) entrepreneurship, (2) discovery, and (3) rivalrous competition (Kirzner, 1997).

Pure entrepreneurs are decision-makers who do not require ownership of capital (Kirzner, 1973). Entrepreneurs engage in entrepreneurship without necessarily owning any capital, relying solely on their alertness to identify market mismatches and profit from them. For these entrepreneurs, being alert requires only the ability to recognize market opportunities and having the freedom to act on them. Kirzner defines alertness as:

Entrepreneurial alertness refers to an attitude of receptiveness to available (but hitherto overlooked) opportunities. The entrepreneurial character of human action refers not simply to the circumstance that action is taken in an open-ended, uncertain world, but also to the circumstance that the human agent is at all times spontaneously on the lookout for hitherto unnoticed features of the environment (present or future), which might inspire new activity on his part (Kirzner, 1997).

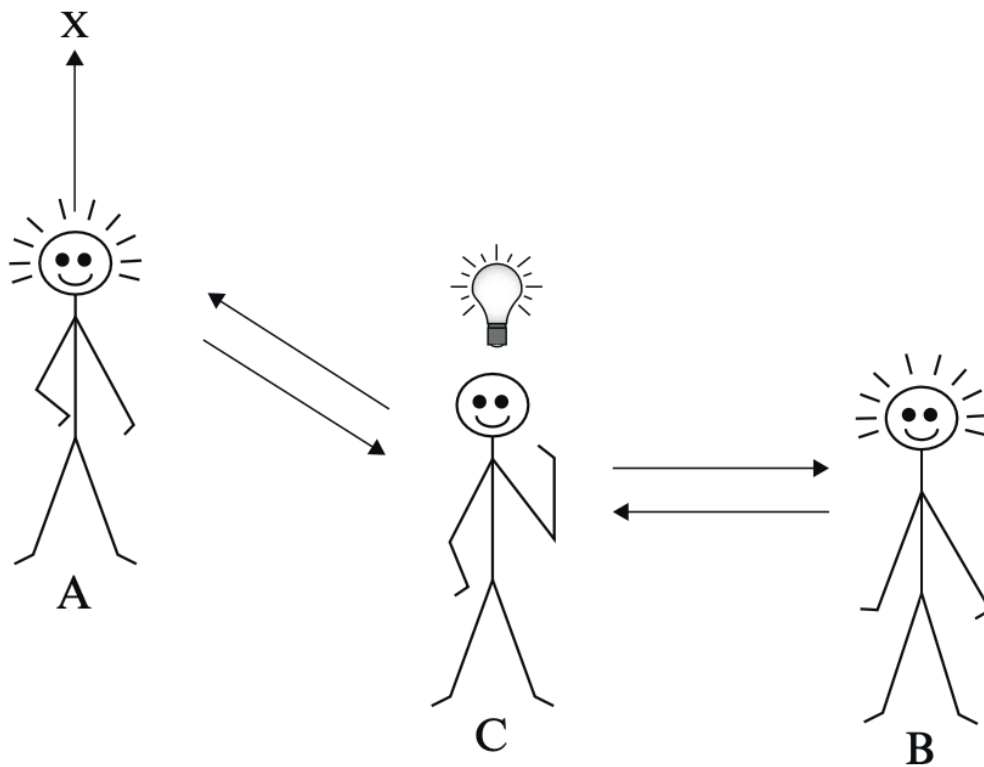
In a world with incomplete knowledge, opportunities often go unexplored. Pure entrepreneurs uncover them through alertness (Kirzner, 1973, pp. 40-42). Alertness is a type of abstract knowledge credited with the discovery and exploitation of opportunities (Kirzner, 1973, p. 69). More than just a function, for Kirzner, pure entrepreneurship explains the origins of profits. Profits result from entrepreneurs' decisions to use their alertness to find and exploit opportunities.

Kirzner's understanding has an anthropological aspect, aiming to show how actions improve economic coordination over time. The Kirznerian pure entrepreneur is a mental model created to explain coordination (Ioannides, 1999). Huerta de Soto, in his turn, through theoretical advancements (e.g., Huerta de Soto 2009; 2010), reinterprets alertness, conceiving it as perceptiveness, a concept that guides the creative nature and capacity of individuals. In his words:

Though *el estar alerta* may also be an acceptable indication of entrepreneurship, since it involves the notion of attention or vigilance, at any rate, it is somewhat less fitting than *perspicaz*, perhaps because the former clearly suggests a rather more static approach (Huerta de Soto, 2010, p. 19).

Although influenced by the Kirznerian perspective, his approach (Huerta de Soto, 2010, pp. 19-36) should not be seen as a simple replication of Kirzner's work but rather as a reinterpretation and development of it, reflecting Huerta de Soto's role as a synthesizer of various Austrian economists (Wang, 2017).

Huerta de Soto's view of entrepreneurship assumes it coincides, in a general sense, with individual action. Any action aimed at changing the present to reach future goals is considered entrepreneurial (Huerta de Soto, 2010, p. 15). For Huerta de Soto, entrepreneurship mainly involves discovering and exploiting opportunities to accomplish established ends (Huerta de Soto, 2010, p. 19), as shown in Figure 1 below.

**Figure 1***Exploitation of opportunities in Huerta de Soto*

Source. From Huerta de Soto (2010, p. 24)

As previously explained, Kirzner employed the term “alertness” to describe an individual who recognizes and exploits opportunities. Huerta de Soto revisited Kirzner’s use of this term, pointing out that it is not the same as the Spanish word *perspicacia*, which can be translated as perceptiveness. The dictionary of the Spanish Royal Academy defines it as “very keen sight that reaches very far,” which better captures the core of entrepreneurship (Huerta de Soto, 2010, p. 19).

This reinterpretation offers a different perspective on the nature of entrepreneurship. Huerta de Soto used the term perceptiveness to highlight the creative aspect of human action. He added a dynamic dimension to Kirznerian alertness, portraying entrepreneurs not merely as exploiters of preexisting opportunities but as creators of new ones, guided by their wisdom and foresight. Huerta de Soto explored the meaning of entrepreneurship in depth, tracing its linguistic roots back to Latin. In his words,

Both the Spanish word “*empresa*” and the French and English expression “entrepreneur” derive etymologically from the Latin verb *inprehendo-endi-ensum*, which means to discover, to see, to perceive, to realize, to attain; and the Latin term *inprehensa* clearly implies action and means to take, to catch, to seize. In short, *empresa* is synonymous with action. [...] The conception of an enterprise as an action is necessarily and inexorably linked to an

enterprising attitude, which consists of a continual eagerness to seek out, discover, create, or identify new ends and means (all of which is in accordance with the above-mentioned etymological meaning of *in prehendo*) (Huerta de Soto, 2010, pp. 15-16).

For Huerta de Soto, therefore, entrepreneurship involves an enterprising attitude, with the ability to imagine and create *ex nihilo* profit opportunities. They are perceptive and creative individuals, not merely alert to opportunities. They bear uncertainty and develop new ways to generate profits.

As explained above, for Huerta de Soto, human action inherently involves choosing means to reach ends, which is closely related to the idea of entrepreneurship. In a broader sense, entrepreneurship aligns with human action itself. Every person acts to change the present and reach specific goals, which is, in essence, entrepreneurial behavior (Huerta de Soto, 2010, p. 15). However, the term entrepreneurship also carries a more limited meaning. In this narrower sense, it refers to the capacity to recognize and seize opportunities to achieve desired outcomes, thereby creating benefits (Huerta de Soto 2010, p. 19).

For Huerta de Soto, the entrepreneurial function has six main attributes. First, it always generates new information. It discovers information that did not exist before. Second, it is essentially creative. Third, it transmits information in the market. Fourth, it has a coordinating nature. It helps to improve resource allocation. Fifth, it is competitive. Once a profit opportunity is seized, it disappears. Sixth, it never ends. It adjusts, but as it does, it creates new information and misadjusts (Huerta de Soto, 2010, p. 20).

Perceptiveness serves as the foundation for the creation of opportunities<sup>2</sup> (Huerta de Soto, 2010). Individuals employ their thymological ability to understand market dynamics (Mises, 1957), creating entrepreneurial knowledge. Therefore, entrepreneurs engage in economic calculation, where they speculate on future prices and profit opportunities.

Entrepreneurship involves a unique type of income, distinct from other incomes generated in the economy (Huerta de Soto, 2010). Owners of capital goods, real estate, and land receive fixed rent payments. Employees receive fixed salaries for the sale of their labor power. Entrepreneurs, on the other hand, are inherently bearers of uncertainty, creating profit opportunities from their perception of consumer demands.

Entrepreneurs face uncertainty not only due to a lack of knowledge about the future but also because they act as agents of change. Furthermore, alertness, from an improved perspective, must incorporate a dynamic aspect. Perceptiveness aligns with Mises's explanation of monetary calculations in a market system. Individuals' future-oriented actions are based on appraisal, the process of calculating future prices. This calculation is essential

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<sup>2</sup> The understanding of individual perception about profit opportunities, which always emerges as a subjective intuitive perception about the market process, can contribute to the Judgment-Based Approach (JBA), which focuses mainly on judgmental decision-making under uncertainty (see e.g. Foss & Klein, 2019; Foss, Foss, Klein & Klein, 2007). The composition between perceptiveness and judgment, as presented by Marion Ceolin (2021), provides a coherent explanation of entrepreneurship.

for market coordination<sup>3</sup> (see Mises, 1998; Rothbard, 1991; Salerno, 1990, 1994). Appraisals are the mechanism to convert qualitative expectations into future prices (Rothbard, 1991).

As Huerta de Soto (2010) explained, even if centralization of past data was possible, future knowledge has not yet been built. People have only fragmented expectations, consisting of a few scattered bits about what will happen. Mises explained it as the intellectual division of labor, and Hayek as the dispersion of knowledge.

Moreover, Huerta de Soto explains that there is not only scientific and technical knowledge in the world. There is also the dispersed and tacit entrepreneurial knowledge. This knowledge is created through the spontaneous interactions of individuals, based on the agents' subjectivity (Huerta de Soto, 2010). Employing their perceptiveness, individuals constantly create new entrepreneurial knowledge.

## PERCEPTIVENESS, THE FIRM, AND ITS EMERGENCE

Huerta de Soto's understanding of the firm is often overlooked in Austrian economics, aside from his insights about its internal organization. In this sense, I want to emphasize that perceptiveness in entrepreneurship will also be essential for the development of firms.

Individuals use their perceptiveness to identify market opportunities and establish arrangements to exploit them. Concisely, Huerta de Soto (2010, p. 117) described that the firm

can be considered simply a voluntary "planning" or "organizational island" within the market, one that emerges spontaneously as its promoters entrepreneurially discover that under certain circumstances such a system is the most suitable for achieving their own objectives. Every firm involves at least a minimum of organization and planning, and through each firm, certain economic, human, and material resources are organized according to the plan and commands issued by the management (Huerta de Soto, 2010, p. 117).

To enhance this understanding, it is crucial to quote Huerta de Soto's perspective on the individual plan of action in the market process:

Once the actor feels he has discovered which ends are worthwhile to him and which means are available to enable him to reach those ends, he incorporates both, almost always tacitly, into a plan of action, which he adopts and implements owing to a personal act of will (Huerta de Soto, 2010, p. 16).

Huerta de Soto, as outlined in the previous citations, emphasizes the importance of entrepreneurial perception of resource organization as crucial to firm emergence. Entrepreneurs see firms as the most adequate arrangement to organize the resources at their disposal. Therefore, perceptiveness about means and ends is the key force that drives the creation of the firm.

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<sup>3</sup> Economic calculation is considered, by authors as Boettke (1998), the main Austrian contribution to political economy.

Furthermore, Huerta de Soto, in his definition, emphasizes the role of the firm as a productive “cell” that involves a certain amount of internal organization. Huerta de Soto views the firm as an order (Hayek, 1973), where different efforts and resources are organized. As firms result from deliberation and are founded on entrepreneurial decision-making, this internal organization depends on commands.

Entrepreneurs create these organizational arrangements following a preconceived plan, which can be tacit or explicit. It is this entrepreneurial plan that gives meaning to the organization of resources, combining different kinds of capital goods with labor. Firms emerge from individual perceptions of means and ends, becoming part of a particular plan of action. Huerta de Soto (2006, p. 267) specifically explains that individuals develop plans of action about the employment of means, and that these configurations are generally tacit. Plans are, for him,

[...] a mental picture, conjured up by the actor, of the different future stages, elements and circumstances his action may involve. The plan is the actor’s personal evaluation of the practical information he possesses and gradually discovers within the context of each action. Moreover each action implies a continuous process of individual or personal planning through which the actor continually conceives, revises and modifies his plans, as he discovers and creates new subjective information on the goals he sets himself and the means he believes are available to assist him in reaching these goals (Huerta de Soto 2006, p. 267).

Planning, hence, is not just a mechanical activity of design, but a continual process in which individuals organize their means, evolving their interpretations, and improving their actions.

Within these planning activities, firms are entities created by entrepreneurs to achieve their set objectives. They result from a deliberate decision by entrepreneurs, who seek profits while bearing uncertainty, and the perception that guided entrepreneurial action must be transmitted and coordinated in the firm.

Firms organize resources, but their foundation is not simply a mechanical response to circumstances or, as Coase (1937) explained, based on an understanding of transaction costs<sup>4</sup>. According to Huerta de Soto (2010, p. 117), the firm is a direct outcome of entrepreneurial imagination, involving a subjective interpretation of how entrepreneurs can best organize the available capital goods, including human capital.

Firms are created by the perception their founders have to interpret markets and propose a unique arrangement of resources, in which they coordinate labor and the use of capital goods in production processes. Through the firm structure, entrepreneurs transmit their perceptiveness to all members of the firm.

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<sup>4</sup> Indeed, Huerta de Soto (2009, p. 16) criticizes specifically transaction costs economics.

Also, within the firm, entrepreneurs apply their entrepreneurship, and not just that, they also involve their employees' ability to be perceptive in the market process. Firms must promote entrepreneurial creation and resource organization. At the same time, entrepreneurs influence task performance to ensure that this decentralization stays true to the original purposes that guided the establishment of the firm.

## KNOWLEDGE, DYNAMIC EFFICIENCY, AND ENTREPRENEURSHIP

### Discovery vs. *ex-nihilo* discovery

Explained how perceptiveness guides the emergence of the firm, now I shall explain Huerta de Soto's understanding of entrepreneurial *ex-nihilo* discovery, and how entrepreneurial knowledge is created by entrepreneurs. Here, the employment of the term discovery in Huerta de Soto (2009; 2010) acquires a new meaning, involving *ex-nihilo* creations.

Kirzner employed the term "discovery" to explain how individuals "detect" entrepreneurial opportunities. As a result, this term received several critiques (e.g., Rothbard, 1985; Foss & Klein, 2012; Salerno, 2008), which argue that discovery means revealing something that already exists, as given circumstances make the economy.

Huerta de Soto (2010), in this discussion, broadens the definition of discovery, describing it as more than just unveiling; he refers to *ex-nihilo* discoveries, meaning opportunities that did not exist before and were created by the entrepreneur. For Huerta de Soto, the term discovery takes on a metaphorical meaning: individuals find profit opportunities from nothing, entirely within their subjective minds. They are not unveiling something that already exists, but instead using their creative capacity to imagine potential profit opportunities.

Huerta de Soto appears to maintain his stance as a synthesizer within the Austrian School (Wang, 2017). Besides understanding uncertainty and the nature of markets, that is, the idea that markets are not given but are instead a result of human creation. He emphasizes the importance of subjectivity and innovation over time, leading to a world filled with possibilities. Huerta de Soto (2010, p. 17) states that

The future is always uncertain, in the sense that it has yet to be built, and concerning it the actor has only certain ideas, mental images, or expectations which he hopes to realize via his personal action and interaction with other actors. Moreover, the future is open to all of man's creative possibilities, and thus each actor faces it with permanent uncertainty, which can be reduced through behavior patterns of his own and others (institutions) and through action and the alert exercise of entrepreneurship. Nevertheless, he will not be able to totally eliminate this uncertainty (Huerta de Soto, 2010, p. 17).

Based on his understanding of entrepreneurial knowledge and dynamic efficiency, Huerta de Soto consistently explains that individuals have a natural limitation of knowledge, not only technical but also entrepreneurial knowledge specific to particular situations. In his words,

first, actors are not even conscious of every possible alternative or case; and second, the actor only possesses certain subjective beliefs or convictions – called by Mises “case probabilities” (of unique events) – which, as they are modified or broadened, tend to change by surprise, that is, in a radical, divergent manner, the actor’s entire “map” of beliefs and knowledge. In this way, the actor constantly discovers totally new situations of which previously he had not even been able to conceive (Huerta de Soto, 2010, p. 17).

That is, according to Huerta de Soto’s understanding, it is impossible for an actor to comprehend reality fully. Individuals are not simply alert to given opportunities but perceive new opportunities subjectively through their interpretations of reality. Entrepreneurship is not about discovery but conscious creation. Huerta de Soto (1998) explains that when he asserts that

[...] the main function of the entrepreneur consists in creating and discovering new information that did not previously exist and cannot be known, meaning that it is humanly impossible to make any neoclassical prior decision on allocation on the basis of expected costs and benefits. (Huerta de Soto, 1998).

As such, Kirzner’s non-creative perspective on business perceptiveness was refined by Huerta de Soto, with his re-comprehension of entrepreneurship and its role in dynamic efficiency (which I will explain later). Perceptiveness, therefore, is the ability to use thymological analysis to speculate about the future and to create profit opportunities. From their minds, that is, *from nothing*, entrepreneurs reflect on reality, creating new connections between means and ends. Perceptiveness appears, therefore, as the creator of the conditions for decision-making to occur<sup>5</sup>.

Entrepreneurs are endowed with a capacity for reflection and a specific manifestation of unique rationality, through which they can better identify vectors of action and speculate on possible changes in the course of action of individuals that will guarantee them greater economic success than others. This is truly interesting in the sense that while many lack the capacity, or rather the developed perceptiveness, to face the future and reap the benefits of these entrepreneurial actions, others have an active framework that guides them to profit exploitation.

Huerta de Soto’s comprehension of discovery follows what Mises (1957) explained as *thymological understanding*. From their subjective interpretation of reality, individuals acquire some entrepreneurial knowledge about others’ preferences and behavior, imagining opportunities for future profits.

Huerta de Soto expanded upon Kirzner’s theory by integrating insights from prominent Austrian economists. He merged alertness with Mises’s (1998) and Rothbard’s (2004) emphasis on the bias for action. He underscores how crucial it is for entrepreneurs to discover *ex-novo*

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<sup>5</sup> The role of perceptiveness in entrepreneurship will also be crucial for the development of firms. Individuals employ their perceptiveness to create hypothesis and theories about market opportunities and arrangements to exploit them. The so-called Theory-Based View (see Felin and Zegner 2009; 2017) see entrepreneurs as theorists – and these theories guide entrepreneurship. In the next chapter these components of entrepreneurship and their impact on the firm development will be explained in detail.

(create) new opportunities, as this ability is essential for market functionality, guiding the effective use of these opportunities to generate profits.

Entrepreneurs pass from being alert to being perceptive individuals who create new information in the market process. The future needs to be created rather than merely discovered, emphasizing that human action is not deterministic and depends on individual subjectivity. Huerta de Soto's contribution is significant here. As highlighted in the previous session, Huerta de Soto recognized that the term "alertness" was misused, replacing it with "perceptiveness", adding dynamism to the approach.

The market process is not a scenario of given circumstances. It is a continuous attempt to coordinate and re-coordinate individual plans, in which entrepreneurs constantly are imagining and therefore molding the future. The future does not exist, as it will be made by human action.

### **The nature of entrepreneurial knowledge**

Following the previous contrast between Kirzner's and Huerta de Soto's understandings about discovery, it is essential to highlight that the creative aspect of entrepreneurship is directly linked with a broader comprehension of what knowledge is: there is not only a technical scientific knowledge, but an innate generation of subjective entrepreneurial knowledge in the economic process.

Entrepreneurial knowledge, essential for the perception of opportunities, is different from technical (or scientific) knowledge, and is described by Huerta de Soto (2010, p. 20) as:

[...] what are the characteristics of the information or knowledge which is relevant to the exercise of entrepreneurship? We shall study in detail six basic features of this type of knowledge: (i) it is subjective and practical, rather than scientific, knowledge; (ii) it is exclusive knowledge; (iii) it is dispersed throughout the minds of all men; (iv) it is mainly tacit knowledge, and therefore not expressed in words; (v) it is knowledge created ex nihilo, from nothing, precisely through the exercise of entrepreneurship; and (vi) it is knowledge which can be transmitted, for the most part unconsciously, via extremely complex social processes, the study of which is the object of research in economics (Huerta de Soto, 2010, p. 20).

Perceptive entrepreneurs, therefore, are not merely individuals who exploit present opportunities by evaluating them and earning profits from arbitrage. They are not discoverers of something that already exists, but otherwise, perceptive entrepreneurs understand changes in the market through thymological analysis and correctly speculate the future (Mises, 1957).

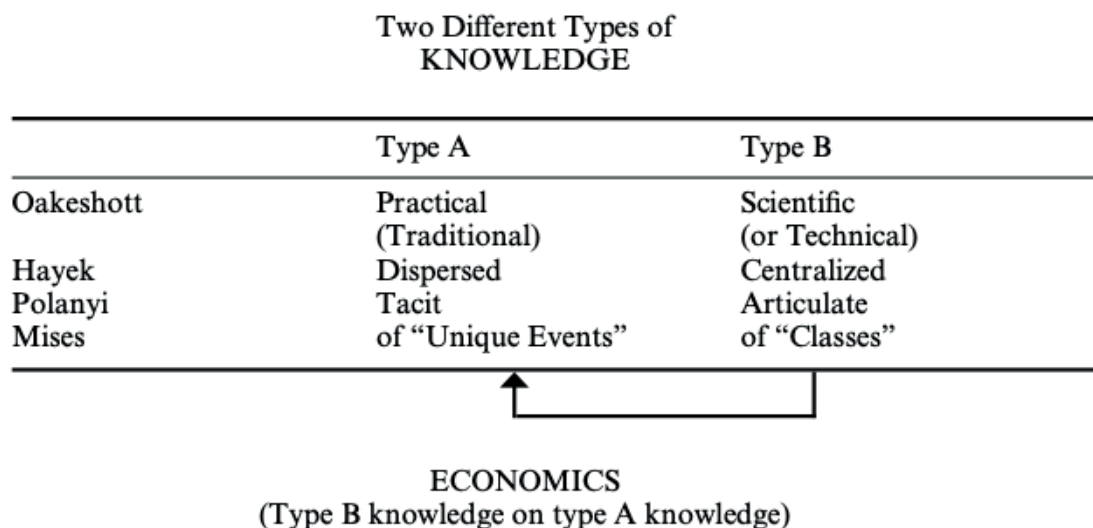
Alertness is encompassed by business perceptiveness, involving an understanding of market processes and future consumer desires. Entrepreneurs estimate prices and perform abstract economic calculations, aiming to select the best alternatives for invested capital. Perceptiveness grounds entrepreneurial choices, or, in other words, without the capacity to perceive, imagine, and create opportunities, individuals would lack the basis for choice.

Entrepreneurship requires the ability to perceive future-oriented dynamic cause-and-effect relationships. Without this ability, decisions are impossible. Thus, individuals need to be perceptive to the causes and consequences of estimated future events to guide their actions. Without perceptiveness, it is impossible to explain entrepreneurship.

Each individual possesses their subjective knowledge. Indeed, the social world encompasses two distinct types of knowledge, as Huerta de Soto (2009; 2010) continually explains. The first is scientific or technical knowledge, which can be centralized and is associated with classes of information. The second is entrepreneurial knowledge, which is tacit, dispersed, and practical. This type of knowledge relates to specific circumstances of time and space (Huerta de Soto, 2010, pp. 20-27). These differences are illustrated in Figure 2 below.

**Figure 2**

*Two kinds of knowledge in Huerta de Soto*



Source. Huerta de Soto (2010, p. 40)

Entrepreneurial knowledge holds particular importance within the Austrian School, especially in the work of Hayek (1937; 1945). However, Mises had already identified the concept of dispersed knowledge, referring to it as the intellectual dispersion of labor (Mises, 1920; 1957, p. 75).

When acting, individuals possess only fragments of knowledge generated through social interaction, and paradoxically, these fragments are uniquely accessible to them (Huerta de Soto, 2015, pp. 20-22). For Hayek (1945), this knowledge of circumstances enables individuals to create an organic economic order. Such knowledge is never universally accessible; it remains scattered throughout individuals’ minds. This dispersed knowledge influences not

only economic coordination but also organizational coordination. Its characteristics affect the efficiency and feasibility of control chains and mandatory systems.

Entrepreneurial knowledge is more than just a natural dispersion of knowledge among agents. It requires a dynamic explanation for knowledge generation over time, including a time dimension in its characteristics. The concept of entrepreneurial knowledge follows the Misesian tradition. As Salerno (1990; 1994) stated, for Mises, the socialist debate highlighted that socialism is more than a problem of knowledge; it is fundamentally a problem of economic calculation.

The economic problem transcends mere resource allocation, as resources are not pre-existing or given. Their existence and relevance depend on subjective interpretations of causes and consequences. The unique characteristics of entrepreneurial knowledge (see Huerta de Soto, 2010, pp. 52-56) render central planning and coordination unfeasible. The impossibility lies not in the absence of tools to centralize information but in the inability to incorporate subjective expectations about future events into centralized systems.

Furthermore, each action alters the body of available knowledge. Entrepreneurial decisions consistently generate new information *ex nihilo* (from nothing) (Huerta de Soto 2010, 25). This continuous creation of knowledge<sup>6</sup> means that central coordination efforts can never fully capture or reflect the evolving informational landscape. Each economic action introduces fresh data and insights, thereby changing the quantity and quality of knowledge available at any given moment.

A key feature of entrepreneurial knowledge, according to Huerta de Soto, is the creation of information (Huerta de Soto, 2010, pp. 24-26). This perspective underscores that entrepreneurship is inherently creative. He emphasizes that entrepreneurship generates *ex nihilo* profits and information (Huerta de Soto, 2010, p. 25). The creation of new information enables individual learning and, in turn, enhances the coordination of society (Huerta de Soto, 2010, p. 27).

### Static vs. Intertemporal Coordination

After the previous discussion about the market process of entrepreneurial creation, I must examine Huerta de Soto's views on coordination and the dynamic, efficient process, which are key aspects of his understanding of the economy.

Kirzner stressed alertness as a coordinating force that resolves market and societal mismatches. Thus, entrepreneurship improves economic coordination by optimizing resource allocation and correcting hidden inefficiencies (Kirzner, 1973; 1997). In this context, Huerta de Soto can be positioned within the Kirznerian framework. He recognizes that

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<sup>6</sup> Shane (2000) suggests that entrepreneurial opportunities emerge following prior subjective, proprietary, and tacit knowledge, which makes some entrepreneurs capable of perceiving opportunities

Every entrepreneurial act uncovers, coordinates and eliminates social maladjustments, and the fundamentally competitive nature of entrepreneurship makes it impossible for any actor to perceive and eliminate those maladjustments anew once they have been previously discovered and already coordinated.

Hence, for Huerta de Soto entrepreneurship has a coordinative nature, related to Hence, for Huerta de Soto, entrepreneurship has a coordinating nature, related to the specific context in which entrepreneurs speculate future demands and resolve mismatches between the current organization of assets and future consumer needs, in an intertemporal coordination.

Nevertheless, Huerta de Soto (2009) also explains how entrepreneurship organizes and generates new information, which in turn modifies the market. This shift in the perception of means and ends drives the creation of new mismatches, which must be discovered and coordinated entrepreneurially. In his words,

The truth is that as the entrepreneurial act coordinates, it creates new information which in turn modifies within the market the involved actors' general perception of ends and means. New maladjustments ensue, and entrepreneurs begin to discover and resolve them, and in doing so produce coordination in an ongoing process of creativity and ever-expanding knowledge and resources (Huerta de Soto, 2009, p. 10).

According to Huerta de Soto, as entrepreneurs solve mismatches and coordinate certain aspects of reality, they simultaneously create new maladjustments. Consequently, the entrepreneurial process cannot be stopped. There is an ongoing process that produces entrepreneurial knowledge, which in turn expands markets. This process involves more than just coordination, as it is dynamically efficient.

Espinosa (2022, pp. 54-56) details the contrasts and main differences between the Dynamic Efficiency approach and the Modern Austrian economics. For the author, modern Austrian economics considers a trend to equilibrium, while this approach understands the dynamic process of creation. In this Dynamic Efficiency approach, there is no trend to equilibrium, but a continued process of creation and expansion of the market frontiers, which impacts and expands the market over time.

## **Dynamic efficiency**

As I explained above, coordination in markets is not seen by Huerta de Soto as a static process of given circumstances but as a continuous process in which individuals seek inter-temporal harmony among different plans. Any action, while fixing a mismatch, also creates a new one, and in this sense, what matters is expanding the market frontiers to more prosperous situations. This constitutes a dynamic, efficient process (Huerta de Soto, 2009).

In this process, resources are not given. Instead, they are discovered and created through human action under conditions of uncertainty. Individuals innovate and develop new methods to achieve their desired goals, thereby improving the economy. Comparing the static and the dynamic sides of efficiency, Huerta de Soto (2009) explains that

[...] the dynamic aspect of efficiency is the most important. Even though an economic system may not have achieved a point on the production possibilities frontier, all of its agents may profit if entrepreneurial creativity constantly shifts the curve outward and hence improves everyone's possibilities with a continuous, creative flow of new ends and means which, prior to their entrepreneurial discovery, had yet even to be envisioned (Huerta de Soto 2009, p. 11).

Individuals continually extend the limits of the entrepreneurial process, creating new relationships between means to achieve their desired ends. Individuals are not programmed machines, they do not refresh and actualize their priors mechanically. They do not refresh systems and make decisions based on the past. Entrepreneurship is always future-oriented, and there is no means by which mechanical tools and gadgets would acquire the ability to reflect and create the future; these operations rely on past data.

Within the economic process, individuals, through trial-and-error, experiment with new resource organization, aiming to expand market frontiers. As Huerta de Soto (2006, p. 281) explains,

Humans commit countless entrepreneurial errors when conceiving, undertaking, and completing their actions; and consequently, they embark on subsequent actions from a present position they would have attempted to make different had they known about it in advance (Huerta de Soto, 2006, p. 281).

Data is never entirely objective, nor is all information perfectly accessible. Therefore, the true goal of economic efficiency should not be to eliminate waste but to discover and create new ends and means continuously (Huerta de Soto, 2009). This dynamic process, driven by entrepreneurial creativity, fosters innovation and sustained economic development.

The success of the structure of production does not rely only on technical design, as entrepreneurs deal with uncertainty and the inter-subjective arrangement of resources within plans of production. They are perceptive of market opportunities, creating new arrangements of resources in production. Furthermore, as I will explain below, it also impacts entrepreneurial ventures.

## **ENTREPRENEURIAL KNOWLEDGE AND DYNAMIC EFFICIENCY IMPACT ON THE FIRM**

In the previous chapter, I discussed how entrepreneurial knowledge guides economic creativity, that is, how entrepreneurs are constantly creating new conditions for their actions based on this subjective, unique kind of knowledge. In addition, I explore its impacts the discussion the firm.

Historically, Mises and Hayek's positions in the socialist calculation debate are seen as different (Rothbard, 1988; Salerno, 1993). Otherwise, Huerta de Soto (2010) established a composition between the Misesian and the Hayekian positions in the socialist calculation debate, considering these approaches as complementary. In his words,

Rothbard's position seems to derive from an almost obsessive desire to emphasize Mises and Hayek's differences more than their similarities. Though it is true, as Rothbard points out, that Hayek's view has at times been interpreted too strictly, as if he merely referred to a problem arising from the dispersed nature of existing knowledge, and as if uncertainty and the future generation of knowledge, issues Mises particularly stressed, posed no difficulty, both viewpoints can be easily combined, since they are closely related (Huerta de Soto 2010, p. 45)

For Huerta de Soto, both approaches contribute to explaining socialism's infeasibility. Indeed, considering them as different sides of the same coin, he highlighted the complementary nature of Mises and Hayek's explanations, each supporting a justification for the infeasibility of socialism within Huerta de Soto's static and dynamic arguments (Huerta de Soto 2010, pp. 54-56).

In Huerta de Soto's understanding, the *static argument* explains how the nature of entrepreneurial knowledge hampers its centralization by any governing agency. If one type of economic knowledge is a practical, private, and dispersed knowledge, then it is impossible for agencies to centralize it (Huerta de Soto, 2010, p. 54). Otherwise, in dynamic terms, socialism is impossible as each action creates new knowledge in an unstoppable process. Therefore, how could a governing agency predict future demands if the essential knowledge has not been created? (Huerta de Soto, 2010, pp. 55-56).

Similar to Rothbard (2004, pp. 645-651), Huerta de Soto (2010, p. 117) expands the economic calculation argument to analyze the critical size of the firm in the markets. In this subject, again, Huerta de Soto's explanation proposes a unique understanding, which complements previous Austrian efforts.

Huerta de Soto (2010, p. 117) expands on Rothbard's original argument. He posits that there is a critical size for firms, beyond which the volume of information exceeds the managers' capacity for interpretation and understanding. At this point, the company's growth becomes inefficient. The division of knowledge deepens, and social processes become more complex. This complexity prevents the practical interpretation and use of the knowledge involved. As Huerta de Soto (2010, p. 118) explains

In fact, as the division of knowledge becomes broader, deeper and more detailed, and social and economic processes grow more complex as a result, it becomes more difficult for a company to integrate vertically and expand, since its management has to interpret and use a larger volume of more complex information. One of the most typical consequences of the poorly named "technological revolution", which is simply the process, characteristic of modern market economies, of expansive broadening and deepening in the division of knowledge, has been to reverse, other things being equal, the trend toward the growth of so-called "economies of scale" (Huerta de Soto, 2010, p. 118).

Huerta de Soto's understanding of knowledge coordination also highlights the role of the competitive forces within the entrepreneurial process. He explains that the intrinsic characteristics of entrepreneurial knowledge impact how different economic entities (firms) organize resources. In his words,

It is increasingly evident that it is often more profitable to invest separately in different companies than to invest through holding companies or conglomerates; and many large firms are finding that the only way for them to compete with small ones is to try to encourage and favor internal entrepreneurial initiatives (intrapreneurship). In fact, even the capacity of a small personal computer has rendered obsolete innumerable and often large voluntary planning organizations which up until now were considered typical of the market. (Huerta de Soto, 2010, p. 118).

Huerta de Soto explains how the mechanist and bureaucratic management procedures hinder the best organization of resources, as they hamper individual creativity. Individuals, in these circumstances, are constrained by the focus on draconian control and direction. These models, therefore, became obsolete<sup>7</sup> and cannot deal with the particularities of the market process in a competitive process.

Analyzing history, Huerta de Soto (2009, p. 5) explains that

The reductionist conception of static efficiency also had a great impact on business organization from the beginning of the twentieth century, when Taylorism emerged. In fact, Frederick W. Taylor, in his famous book, *The Principles of Scientific Management* (1911), advocates the establishment in all industries of a 'productive efficiency' department to pursue the following aims: first, to supervise workers; second, to measure the time spent on a job; and, third, to avoid any kind of waste (Huerta de Soto, 2009, p. 5).

Hence, the focus on static efficiency, for Huerta de Soto, had a significant influence on the organization of firms. Static efficiency turned the firm into an entity relying on direct control, ensuring strict supervision to measure productivity. Taylor (1911), indeed, prescribed a positive quantitative measurement of process to avoid waste of resources within the production process.

This kind of organization and structure of work within the firm contrasts with the main assumptions of the Theory of Dynamic Efficiency (TDE)<sup>8</sup>. As already explained, the problem of economic affairs, for the TDE, leaves a static organization of resources, in which a static better employment would be sought. However, the problem of modern economies is related to the creation of new resource arrangements, allowing a higher degree of consumer satisfaction.

Each individual possesses a natural perceptive capability (Huerta de Soto, 2010), which firms can employ to maximize the results of their production processes. Scarce resources must be employed in situations where they are more profitable, and firms must seek the better use of entrepreneurial knowledge from their members (Huerta de Soto, 2010, p. 118). Firms, in this sense, must shift from a bureaucratic to an entrepreneurial management, in which employees' capacity to create within the firm becomes the focus of these procedures (Huerta de Soto, 2009, p. 5).

<sup>7</sup> Audretsch & Thurik (2000) explained how a fundamental shift taken from managerial to entrepreneurial economics.

<sup>8</sup> Further, perspectives as Porter (2008), e.g., that focus on the industrial organization of the firm, employ models as the Five Forces without considering the dynamic process of market creation. Firms are not only entities that adapt to external conditions. Otherwise, they continually create new conditions and innovate in their production processes.

This shift encompasses not only the direction of a conglomerate of firms, which must be directed independently to allow creation and therefore profit generation, but also the internal organization of the firm, which must enforce individual creative capabilities to continually generate new arrangements of resources to be profitable and competitive.

Related to the dynamic efficiency manifestation on entrepreneurial entities, firms, I enforce that this unique comprehension also provides powerful insights for the understanding of how entrepreneurs and their purposeful agencies organize resources.

As an entity that is part of the market process, firms do not seek a better use of present resources by employees, in a mechanistic sense. However, quite the opposite, they look to dynamic efficient performance and creation (Huerta de Soto, 2009). They stimulate intrapreneurial behavior within the firm, which will allow a higher generation of profits in front of opportunity costs (Huerta de Soto, 2009, p. 5).

Relating to the definition of the firm as an organization island in which resources are organized, it is interesting to see that human resources are an important part of each firm. Moreover, these human resources have particularities, as they are innately creative and not programmed as machinery. Human resources can expand the frontiers of the firm's structure of production, improving the relationship between different capital goods (fixed or circulating).

Capital goods are not defined by their physical attributes, but by their roles as relevant parts of a subjective plan of action (Huerta de Soto, 2006, p. 280-289; Mises, 1998; Rothbard, 2004). Means are not given in Nature, and entrepreneurs signify their roles in the plans of production. Therefore, in a complex economic system, as the modern economy, new means are continually being discovered to impulse productivity.

Firms must, therefore, not seek a bureaucratic style of management in which individuals are controlled to perform only static tasks, but also stimulate the creativity of their members, aiming to foster intrapreneurship. They must understand the dynamic, efficient process in the economy, realizing that in this process, intrapreneurs will generate some waste. However, the primary focus must be on their profit generation over time, with the improvements in the allocation of resources within the firm.

## ENTREPRENEURSHIP AND CAPITAL

### **Do individuals need capital to perform entrepreneurship?**

As the last aspect of the present research article, and also another important aspect of Huerta de Soto's contributions to the theory of the firm, is his considerations about capital. In Kirzner's view, as discussed in section 2, the opportunity discovery approach, Kirzner (1973; 1997), suggests that entrepreneurs do not need capital or the use of any resources to achieve pure profit.

Indeed, this was one of the most criticized assumptions of Kirzner, drawing special attention from other Austrian economists. Rothbard (1985) argued that the Kirznerian concept of a pure entrepreneur is just an ideal type who takes no risks. The pure entrepreneur, as described, only possesses the ability to perceive new opportunities. Salerno (2008), in turn, highlights that Mises distinguished between “uncertainty confronters” and “capital owners”, but in real markets, these roles merge into what Salerno calls the “integral entrepreneur.” The distinction between them, according to Salerno, was meant as an analytical tool to explain the economic process rather than a strict separation in practice.

Furthermore, how does Huerta de Soto fit into this discussion? As he explains in his own words, he states that

The exercise of entrepreneurship does not require any means. That is to say, entrepreneurship does not entail any costs and is therefore essentially creative. This creative aspect of entrepreneurship is embodied in its production of a type of profit which, in a sense, arises out of nothing, and which we shall refer to as “pure entrepreneurial profit”. To derive entrepreneurial profit, one needs no prior means, but only to exercise entrepreneurship well (Huerta de Soto, 2010, p. 24).

Huerta de Soto, therefore, regards pure profit as the result of entrepreneurial action. This type of profit stems directly from employing individual perceptiveness to create opportunities. Individuals benefit from this ability, and they do not need to possess any specific means. However, I interpret this as an analytical tool, as used by Mises (1998), to illustrate that employing means is not automatically profitable, highlighting, once again, the importance of perceptiveness and entrepreneurial creation in the market process.

Huerta de Soto employs this understanding to explain in abstract terms how any individual action has an entrepreneurial nature, in an anthropological sense. Nevertheless, Huerta de Soto also explains in detail the role of capital within the process of production, highlighting the individual subjectivity in this process, as I will explain in the following session.

### **The role of capital within the economic process**

Huerta de Soto consistently explains the use of means in the economy. For him, capital goods are a crucial aspect of production. Capital goods are, according to Huerta de Soto (2006, p. 272), the intermediate stages of the action process following individual planning. Furthermore, he believes that capital goods must be understood in a teleological sense, in an individual context, rather than through physical properties.

Additionally, Huerta de Soto (2006, p. 282) explains that capital is the market value of capital goods as perceived by entrepreneurs, serving as an abstract concept employed by entrepreneurs for economic calculation. Individuals use capital calculations to continually create new profit opportunities and make decisions in the markets.

Starting from the Robinson Crusoe example, Huerta de Soto (2006, pp. 274-277) explains the relevance of capital goods in the progress of the economic process, considering the importance of capital within the contemporary production process under capitalism.

Capital goods are vital for production, and over time, the economy has developed into a more complex network of organizations. They serve as a means for individual economic action (Huerta de Soto, 2006, pp. 277-279). And as with any asset,

Capital goods in the extremely complex network which composes the real productive structure of a modern economy are not perpetual, but are always temporary in the sense that they are physically used up or consumed during the production process, or they become obsolete. In other words, wear on capital equipment is not only physical, but technological and economic as well (obsolescence). Hence capital goods must be preserved and maintained (Huerta de Soto, 2006, pp. 279-280).

Naturally, there is a natural depreciation in any asset, as they are employed in production processes. Furthermore, in the market process, there is always an economic depreciation, following the continued social *Big Bang* process. As Huerta de Soto explains,

entrepreneurs constantly discover profit opportunities in the market, believing they see new possible combinations of capital goods, and considering these combinations to be undervalued with respect to the market price they estimate they will be able to obtain in the future for the consumer goods they produce. In short we are referring to a process of continual buying and selling, “recombination” and production of new kinds of capital goods, a process which generates a dynamic and very complex productive structure which always tends to expand horizontally and vertically (Huerta de Soto 2006, pp. 283-284)

Huerta de Soto sees the use of capital goods not as a mechanical process where specific amounts of money are put to work. Instead, capital is more than just a factor of production; it depends on individual significance and is crucial for economic calculation (Huerta de Soto, 2006, p. 283). Individuals are creative agents who are continually evolving their perception of markets, which modifies the understanding of the profitability of certain employments of capital in production processes. The employment of capital is always conceived following entrepreneurial interpretation in a dynamic process, which impacts not just the overall economy but entrepreneurial projects in particular.

### **Entrepreneurship, the firm, and capital employment**

Related to how entrepreneurs (and their firms) employ capital goods in the markets, Huerta de Soto (2006; 2009; 2010) stresses the relevance of the subjective planning process for entrepreneurial action. Entrepreneurs do not focus solely on present optimum maximization but instead attempt to continually create new opportunities and improve the results of their actions. They are perceptive of reality and thymologically understand future consumer demands intuitively.

In the concretization of the planning, that is, in the production processes, as Huerta de Soto (2009) explains, there is always some waste, as some plans must be frustrated by erroneous interpretation and perception. Within the contemporary markets, in which firms are organized through entrepreneurship to organize heterogeneous assets and resources, entrepreneurs are constantly reviewing their plans, attempting to improve their ability to organize resources.

The entrepreneurial process constantly transforms capital goods, and entrepreneurs must manage their consumption in production carefully. Entrepreneurs cannot avoid depreciation, and therefore, they must retain a portion of their returns to sustain their production capacity (Huerta de Soto, 2006, p. 280).

As I already mentioned in the last session, capital goods suffer not only from natural depreciation but also from the ongoing process of economic creation driven. Individuals continually revise their plans as their actions are natural experiments in the market<sup>9</sup>. Through trial and error, entrepreneurs try to improve their arrangements of capital goods to achieve more profitable ventures.

Furthermore, in this process, entrepreneurs must be careful in selecting the means they employ. Capital goods are not perfectly convertible, and there is always a degree of specificity. Furthermore, once a factor becomes capital equipment, it cannot be easily transformed (Huerta de Soto, 2006, p. 414). Regarding this, Huerta de Soto (2006, p. 280) explains that

As a general rule capital goods are difficult to convert, and the closer they are to the final stage of consumption, the more difficult is their convertibility. Nonetheless the fact that capital goods are difficult to adapt does not mean the actor, in his action process, is not often forced to modify the objectives of his action, and consequently, to review and convert the stages he has already completed (i.e., to convert his capital goods as far as is practicable) (Huerta de Soto, 2006, p. 280).

Hence, entrepreneurs must pay attention to the convertibility of their resources. Their employment and combination of entrepreneurial assets must be perceptive of flexible configurations, which reduces the amount lost in reconfiguring plans and production processes. Entrepreneurs must perceive these complementarities and organize their resources accordingly. Huerta de Soto (2006, p. 324) explains that

[...] for entrepreneurial coordination to exist between the stages in the productive structure of a society which is immersed in a process of increased saving and economic growth, it is particularly important that the corresponding factor markets, especially the markets for original means of production (labor and natural resources), be very flexible and permit at a minimum economic and social cost the gradual transfer of these factors from certain stages of production to others. (Huerta de Soto, 2006, p. 324)

<sup>9</sup> The Theory of Dynamic Efficiency (TDE) can contribute to the understanding of the micro-foundations of the Dynamic Capabilities Theory (DCT) (Teece, Pisano & Shuen, 1997; Teece, 2007). It can explain not only how firms create new technologies and innovate, but also how firms are continually re-framing their sense of opportunities with entrepreneurial knowledge under uncertainty.

Entrepreneurs (and firms) do not configure production processes seeking an engineering optimum but rather envision the coordination of their plans of action with others over time. They must be aware of the ongoing competition for resources and strive to maximize the economicity of their actions. Their focus, for profits, is on coordinating their ventures with consumer demands, fitting into a production structure to generate profit from entrepreneurial activities.

The organization of capital under entrepreneurial control is not a static allocation of capital under given conditions. Otherwise, it is a continued process of dynamic, efficient employment of resources. Huerta de Soto's understanding of the organization of capital highlights the relevance of entrepreneurial and flexible organizations within firms, enabling a continued review of the production process (Huerta de Soto, 2010).

## CONCLUDING REMARKS

Grounded on Huerta de Soto's explanation of perceptiveness (Huerta de Soto, 2010) and dynamic efficiency (Huerta de Soto, 2009), in this article, I explored his contributions to the theory of the firm, providing a cohesive contribution to understanding the emergence of the firm and its consequential internal organization.

Perceptiveness, an essential aspect of entrepreneurship, drives the creation of new firms, as these arrangements are conjectured to be the most appropriate for seeking profits. Firms are a result of individual perception, whose interpretation is essential for the development of these entrepreneurial entities.

Furthermore, Huerta de Soto's comprehension of dynamic efficiency and entrepreneurial knowledge explains the failure of bureaucratic management procedures. They are based on a Positive perspective, focus on control and static efficiency, and not on the creation of new profits. Entrepreneurs continually attempt to harmonize their goals with the most adequate internal organization for employee intrapreneurship.

The article is part of a continued trend within Austrian economics to understand the role of entrepreneurship and the firm. It contributes to understanding how firms organize labor and resources in front of a dynamic efficiency process of economic creation in the markets.

The organization of capital under entrepreneurial control is not a static allocation of capital under given conditions. Otherwise, it is a continued process of dynamic, efficient employment of resources. The understanding of Huerta de Soto (2006; 2009; 2010) about the organization of capital highlights the relevance of entrepreneurial and flexible organizations within firms, enabling a continued review of the production process.

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