Analogical Properties of Entrepreneurial Opportunities and Their Effects on Judgment

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Principal Topic and Theoretical Development

The distinctive trademark of an entrepreneur is the recognition of and the action upon profit opportunities (Kirzner, 1997). In this paper I focus on cognitive factors as determinants of opportunity judgment.

Two broad categories of reasons are offered to explain the variance in opportunity judgment: individual differences and the nature of the opportunity (Shane, 2000). I focus on novelty to analyze the nature of the opportunity. An idea is novel in an entrepreneurial sense when it suggests a new means/ends framework to make decisions (Langlois, 1982). I propose to model the means/ends framework as the link between a customer need and the firm routine. From that perspective, an entrepreneur’s function in fact, is to propose a new routine.

Analogy is a mechanism that we use to create novel ideas (Gentner, et al., 2001). An individual recognizes an established routine in one domain and proposes the use of it in another domain; hence becomes a novel routine-need combination. That model gives rise to two dimensions. First is the similarity of the domains in the analogy. The second dimension is the original inspiration behind the analogy.

Furthermore, I borrow from psychology to differentiate among individuals based on their cognitive styles (Riding & Cheema, 1991). I propose hypotheses that predict the evaluation of an opportunity based on the individual’s cognitive style and the two opportunity characteristics mentioned above.

Methods and Results

In order to test the model, I conducted a hypothetical scenario experiment with 360 business school students at a major U.S. university. Each scenario was presented to the participants and their judgments were recorded. I used computer-based delivery in a controlled lab environment. Cognitive style of each participant was collected using Allinson and Hayes’ Cognitive Style Index (Allinson & Hayes, 1996).

The results demonstrated that the analogical properties of the opportunity made an empirically observable difference in its evaluation. First, the similarity of the domains affected how the opportunity was evaluated. Similar opportunities were evaluated more positively than distant opportunities. Second, the inspiration behind the analogy mattered as well. Establishing a correspondence between customer needs led to a more positive evaluation of the opportunity than establishing a correspondence between firm routines.

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