



# The role of empathy in entrepreneurial opportunity recognition: An experimental study in Japan and Pakistan



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## ABSTRACT

The paper investigates the role of perspective taking and empathic concern as cognitive and affective components of empathy in entrepreneurial opportunity recognition. The results of the scenario-based experimental study using the samples of undergraduate business students in Japan and Pakistan suggest that, although the use of perspective taking in the entrepreneurial context helps individuals in recognizing opportunities as the previous study found, the use of both perspective taking and emphasizing empathic concern increases the ability of opportunity recognition more than the use of perspective taking only. We discuss theoretical and practical implications and future research directions.

## 1. Introduction

The scholarly field entrepreneurship is aimed at understanding how the opportunities are discovered, created and exploited (Shane and Venkataraman, 2000). Regarding this point, past research identified the importance of “perspective taking” or the adoption of the perspective of another person in an entrepreneur’s opportunity recognition because perspective taking enables entrepreneurs to think from the customer’s perspective (Prandelli, Pasquini, and Verona, 2016). While Prandelli et al.’s (2016) study is valuable in understanding the psychological process of opportunity recognition, their focus on perspective taking only concerns the cognitive component of taking another person’s perspective or “empathy” in a broad term. Indeed, prior literature indicates that perspective taking is a cognitive component of empathy and that there is also an affective component of empathy, which is called “empathic concern” (Davis, 1980). Therefore, the aim of the current study is to explore the psychological process of entrepreneurs’ opportunity recognition by paying close attention to both perspective taking and empathic concern as two components of an overarching construct of empathy.

## 2. Opportunity recognition and perspective taking

The whole process of opportunity recognition begins with the entrepreneur’s idea, and the process continues with the evaluation of the idea’s feasibility and the uncertainties related to its implementation (e.g., Dimov, 2007, 2010; Haynie, Shepherd, and McMullen, 2009). The idea itself is not the same as an opportunity, but the opportunity could never be brought into existence without an idea (Dimov, 2007). Opportunity recognition is a multidimensional construct involving the subdimensions of market alignment, feasibility, and desirability (Gregoire et al., 2010) and is different from creativity that is defined in the literature as the mere generation of novel and useful ideas (West, 2002). From this illustration, the real spirit of opportunity recognition is to understand

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the customers' needs and wants in the form of demand (Prandelli et al., 2016).

Prior research has focused on the important cognitive mechanism of perspective taking in opportunity recognition (Prandelli et al., 2016). Perspective taking is defined as the adoption of the perspective of another person and anticipating his or her behavior (Davis, 1980). While users are better positioned to recognize market opportunities, entrepreneurs tend to be limited by their own experience which is narrow for recognizing opportunities. Therefore, taking the perspective of users will help entrepreneurs broaden their spectrum of perspectives for "entrepreneurial imagination" and to select those opportunities that are relevant for the users' needs and wants (Prandelli et al., 2016). Prandelli et al. (2016) empirically demonstrated that, through their experimental study, perspective taking increases the ability of opportunity recognition.

### 3. Perspective taking and empathic concern

Empathy has both cognitive and affective components that represent the psychological states of the understanding of other people (Davis, 1980), and perspective taking is a cognitive component of empathy. Therefore, to achieve deeper understanding of the psychological process of entrepreneurs' opportunity recognition, we add the affective component of empathy or empathic concern in the analytical framework. Empathic concern is defined as the understanding of the true feelings, emotions, and problems of another person, which means the emotional reaction to other people's problems (Davis, 1980).

We argue that the use of both perspective taking and empathic concern (i.e., the use of both cognitive and affective components of empathy) in the entrepreneurial context will increase the ability of entrepreneur's opportunity recognition more than the use of perspective taking only. First, at the neural level, affect influences several aspects of cognitions (e.g., Borman et al., 2001), which promotes the expansion and combination of existing cognitive frameworks and the development of novel ideas (e.g., Ward, 2004). Therefore, the affective component of empathy (i.e., empathic concern) will enhance the effect of cognitive component of empathy (i.e., perspective taking) on opportunity recognition through widening the scope of the entrepreneurial mind further.

Second, research shows that entrepreneurs are more apt to be overconfident and self-centered (Zhao and Seibert, 2006), which may cause the ignorance of the feeling of customers in searching for entrepreneurial opportunities. Therefore, even though the use of perspective taking only will help entrepreneurs understand the needs and wants of the customers, its effect on entrepreneurial imagination may be moderate at best (see Kaish and Gilad, 1991). In this sense, the use of both perspective taking and empathic concern promotes the deeper understanding of customers' feelings as well as their perspectives, which contributes to the development of ideas that have higher levels of market alignment, feasibility, and desirability (i.e., opportunity recognition).

Third, the use of empathic concern leads to the feeling of compassion, which is defined as the motivation or desire to help others (Batson et al., 2002). Entrepreneurs are generally less altruistic than other types of individuals (Zhao et al., 2010) and their motivation to help others are relatively weak (Zhao and Seibert, 2006). Therefore, the use of empathic concern in addition to perspective taking will overcome these shortcomings by promoting their feeling of compassion or the motivation to help customers, which also contributes to the development of ideas that have higher levels of market alignment, feasibility, and desirability.

All in all, we predict that in the entrepreneurial context, the use of both perspective taking and empathic concern would be more helpful for entrepreneurs than the use of perspective taking only in recognizing opportunities because the former enables them to use both cognitive and affective functions to understand the customers' feelings and thoughts more deeply and increases the entrepreneurs' feelings of compassion to help customers.

**Hypothesis 1:** The use of both perspective taking and empathic concern in the entrepreneurial context increases the ability of opportunity recognition more than the use of perspective taking only.

## 4. Method

To test our hypothesis, we conducted a scenario-based experimental study that is similar to Prandelli et al.'s (2016) study. The questionnaire containing a scenario-based experiment was administrated to undergraduate university students in Japanese and Pakistani universities as described below.

### 4.1. Japanese sample

Participants were recruited from a management class in a public university located in Osaka, Japan. They were offered extra credit in return for participation in the study. All participants were told that participation in the study was anonymous and voluntary. About 90% of the students who attended the class agreed to participate in this study, resulting in a sample size of 131, which included 74.5% males and 25.95% females with an average age of 22.07 (SD = 2.07). Over 90% of the participants had part-time work experience.

### 4.2. Pakistani sample

Participants were recruited from a management class in a public university located in Islamabad, Pakistan. Extra credit was given in return for participation in the study. All participants were told that participation in the study was anonymous and voluntary. About 90% of the students who attended the class agreed to participate in this study, resulting in a sample size of 120, which included 75.0% males and 25.0% females with an average age of 21.19 (SD = 1.32).

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