



**INNOVATION ISN'T ALWAYS DISRUPTIVE, AND THAT'S OK. ENTREPRENEURS DON'T HAVE TO TURN AN INDUSTRY ON ITS HEAD TO MAKE A WORTHWHILE IMPACT.**

"In the last 100 or 150 years, we've gotten used to rapid technological innovation, so now we're disappointed if things just get a little bit better," Peter Klein, professor of Entrepreneurship and senior fellow in the John F. Baugh Center for Entrepreneurship and Free Enterprise, said. "Most innovation is more incremental. It doesn't radically change things."

Whether their ideas change their family's circumstances or the whole world, entrepreneurs take risks on behalf of their ideas. As a former business owner, Department of Entrepreneurship & Corporate Innovation Chair and Associate Professor Matt Wood sought to understand how entrepreneurs decide to take the intimidating plunge into self-employment. He asked, "A great business decision is appealing in hindsight, but what makes entrepreneurs trust an idea

will work? How do they make those decisions?" Wood's research examines how entrepreneurs use prior knowledge and experiences to develop personal decision-making rules. The process is called rule-based reasoning. His article, "Rule-Based Reasoning for Understanding Opportunity Evaluation," co-written with University of Tennessee, Knoxville Assistant Professor David Williams, introduces a model for entrepreneurs to understand their thought processes and guide their reasoning. The model, called the Rule-Based Reasoning Framework for Opportunity Evaluation, identifies three levels of rules: environment, opportunity and individual differences.

**RULE-BASED REASONING FRAMEWORK FOR OPPORTUNITY EVALUATION**



**ENVIRONMENT**

**ENVIRONMENTAL RULES REFER TO OCCURRENCES AT THE INDUSTRY LEVEL.**

Questions considered at this stage may include: Are there a multiple opportunities in the industry? Is there a short window of time to take advantage of them? What technology would be beneficial?



**OPPORTUNITY**

**THE OPPORTUNITY LEVEL EVALUATES THE IDEA ITSELF—GAUGING WHETHER THE OPPORTUNITY IS A NOVELTY, SERVES A NICHE CUSTOMER BASE OR CREATES POSITIVE VALUE.**

This is the stage where entrepreneurs may ask themselves what the worst-case scenario is.

"A lot of people have kind of an engineer's mentality to innovation, which is not always the most useful," Klein said. "The mentality is that all that matters is the quality and features of the product from a technical point of view, but maybe all the customer really cares about is price, that it's lightweight, durable... and so on. Customers don't always want the best. Sometimes they want something that is good enough, given what they have to give up for it."



**INDIVIDUAL DIFFERENCES**

**THE INDIVIDUAL DIFFERENCE LEVEL ACCOUNTS FOR THE INDIVIDUALIZATION OF DECISION-MAKING.**

This is where personality and "gut instincts" kick in. For example, a person's fear of failure or desire for control is apparent here.

"There is a certain element of innovative or entrepreneurial thinking that is in the gut," Klein said. "It is not ultimately teachable. I think of it as analogous to music. You can learn how to play notes. You can learn technique. You can learn theory. You can do all that stuff, but it's not going to make you Mozart. There's some innate thing that we don't scientifically understand. It's just God-given."

**WHEN ENTREPRENEURS TAKE INTO ACCOUNT ENVIRONMENT, OPPORTUNITY AND INDIVIDUAL DIFFERENCES,**

they mentally picture the results of the decision. If a concept goes through the three levels of rule-based reasoning, and it still seems like a good idea, the person will most likely act.

"As an entrepreneur, I've made these decisions," Wood said. "There's an assumption of high rationality, but that's not how it works. There's so much uncertainty. It's much more difficult than that. I wanted the literature to reflect what I experienced, and this model helps do that... I'm able to bring this framework in the classroom. It's a tangible way to familiarize [students] with successful ways of thinking and train them to think like entrepreneurs." 📌