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NASCENT VENTURE TEAM DIVERSITY AND NASCENT VENTURE PERFORMANCE: AN INVESTIGATION OF BUSINESS PLAN AND OPPORTUNITY TYPE (SUMMARY)

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≈ SUMMARY ≈

NASCENT VENTURE TEAM DIVERSITY AND NASCENT VENTURE PERFORMANCE: AN INVESTIGATION OF BUSINESS PLAN AND OPPORTUNITY TYPE

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Principal Topic

As new ventures are being formed, magazines and textbooks encourage entrepreneurs to build diverse teams, ensuring that relevant competencies are represented. There is, however, little scholarly support for this notion. Instead, it seems that team diversity is a double-edged sword, which can bring informational benefits but also informational challenges (Dahlin, 2005). In this paper, we propose that the effectiveness of team diversity depends on whether mechanisms are in place that allow team members to exchange, discuss and integrate task-relevant information and perspectives (Pieterse et al., 2013). The business plan can serve as such a mechanism of information elaboration, which provides a platform for team members to interact and integrate their perspectives. The nature of the tasks also influence the relationship between team diversity and performance. When tasks are complex and uncertain, diverse and extensive information processing seems more beneficial than when tasks are simple and routinized (Horwitz & Horwitz, 2007). We therefore suggest that teams can benefit more from diversity when it pursues innovative business ideas than imitative ideas.

Method

We used six waves of panel data collected through the Panel Study of Entrepreneurial Dynamics (PSED II). The dataset contains 362 teams that allows us to compute a rich set of diversity. Considering censoring problem, we rely on event history analysis to predict how business plan and opportunity type can moderate the relationship between team functional diversity and venture success. We also control for bio-demographic diversity, industry, team size and prior total start-up experience.

Results and Implications

We find that having an effective business plan and pursuing an innovative opportunity enhances the informational benefits while at the same time reducing the informational challenges imposed by diversity. Specifically, a business plan enhances the benefits of educational level diversity, and pursuing an innovative opportunity enhances the influence of general work experience diversity on venture success. This study moves beyond assuming direct relationships between team characteristics and performance and thus provides important explanations to the mixed results in the literature. In addition, our conceptualization of the business plan and opportunity type within theories on team performance provides insights into the causal mechanisms that translate these factors into performance.

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