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## DISTINGUISHING EXTREME VS. AVERAGE PERFORMANCE IN NASCENT FIRMS: PUTTING RISK BACK INTO ENTREPRENEURSHIP RESEARCH

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## SUMMARY

### **DISTINGUISHING EXTREME VS. AVERAGE PERFORMANCE IN NASCENT FIRMS: PUTTING RISK BACK INTO ENTREPRENEURSHIP RESEARCH**

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#### **Principal Topic**

Some of the most and the least desirable outcomes for organizations are extreme. For example, large corporate fiascos such as what occurred at Enron or the outstanding success of the Initial Public Offering (IPO) of Google have disproportionate impacts on all the stakeholders of those organizations. The principal method of inquiry in organizational scholarship studies the improvement of average outcome (Mohr, 1982) and one usually assumes equivalence with extreme outcomes. Even though this approach has its merits, it might be misleading, in particular in the context of entrepreneurship. Some stakeholders of nascent firms prefer improved chances of survival to the mere improvement of performance on average, while others, for instance Venture Capitalists (VCs), can exhibit risk preference by seeking exceptional firm successes such as IPOs over the mere improvement of average performance measures. When studying entrepreneurial successes or failures, variability and average effects could both be at work. For instance, successful fundraising could occur because of better performance on average (a mean effect) or because of chances in a more risky situation (a variability effect). On the bottom part of performance range, an entrepreneurial failure, e.g. going out of business, could be due to lower performance on average (a mean effect) or bad chances in a risky situation. This study explores whether various classical factors of the entrepreneurial situation influence performance variability in nascent firms. Furthermore, it explores whether such variability effect can overcome average effect.

#### **Method**

Empirically, the study leverages the new Kauffman Firm Survey (KFS), a survey of 4,928 firms that started in 2004. We test the influence on mean and variability of performance of the following factors: founder characteristic (gender, race, age, education, industry experience, start up experience), team characteristics (age diversity, gender diversity, race diversity, etc.), and context characteristics (funding sources and amounts, industry, legal form, intellectual property, location, etc.)

#### **Results and Implications**

This study contributes to entrepreneurial scholarship at two levels. First, it re-integrates the concept of risk into entrepreneurial studies by distinguishing effects on performance variability from effects on mean performance. Second, it identifies classes of factors that have such effects in a premier empirical setting, the KFS.

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