Broad experience a double-edged sword for entrepreneurs seeking investors, study shows

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Prior studies have shown that having a wealth of experience is beneficial for entrepreneurs seeking investors. But whether venture capitalists look favorably on a wide breadth of founder experience depends on their perception of the market environment, according to new research from the University of Notre Dame.

Having a wide range of experience as a "jack-of-all-trades" can sometimes be an asset, but in certain environments this will make it difficult to get a startup business off the ground, according to "A Liability of Breadth? The Conflicting Influences of Experiential Breadth on Perceptions of Founding Teams," forthcoming in the *Journal of Management* by Mike Mannor, O'Shaughnessy Associate Professor of Family Enterprise in Notre Dame's Mendoza College of Business (along with Fadel Matta, Emily Block, Adam Steinbach and James Davis).

Prior research has shown that investors demand experience and inexperienced founders often have trouble raising money to launch. However, the focus has been on depth of experience—how long entrepreneurs have worked in a particular industry.

"What our work does is to look more closely at the specific types of experience founders bring to their venture," Mannor says. "In addition to experience depth, some founders have quite broad experiences prior to launching a new business, having worked in a wide range of industries, in different companies or in a variety of job roles. Our research shows that although investors always love deep experience, they tend to be much more mixed in their views of broad experience and apply what we describe as a 'liability of breadth,' or choosing not to invest due to concerns about the founder's ability to stay focused and execute quickly."

The researchers examined 168 new ventures launching into 95 different industries from 2002 to 2010.

"On the one hand, we find that when a new business launches into a crowded or highly competitive marketplace, a perceived liability of breadth leads potential investors to evaluate businesses with broadly experienced founders significantly more negatively," Mannor says. "However, when a new business launches into a fast-growing or turbulent marketplace, potential investors love founder breadth, likely because such breadth is believed to benefit these businesses through a wider Rolodex of network contacts, a more creative approach to innovation and the ability to identify more novel opportunities. Importantly, we find these positive and negative effects regarding experience breadth regardless of whether or not the founding team has a lot of prior industry experience."

The research also found that broadly experienced entrepreneurs see the world differently and thus build different kinds of businesses that make money from a wider range of revenue sources and tend to locate their businesses further upstream in the value chain of an industry.

"If a founding team does have a wide range of prior experiences, they can improve their odds by launching their new business in faster growing or highly turbulent marketplaces where data shows that potential investors will strongly value their background," Mannor says, "but avoid crowded or intensely competitive markets where their history will be held against them."

Mannor says investors may be better served by recognizing existing biases and taking a balanced view of founder potential.

Provided by University of Notre Dame