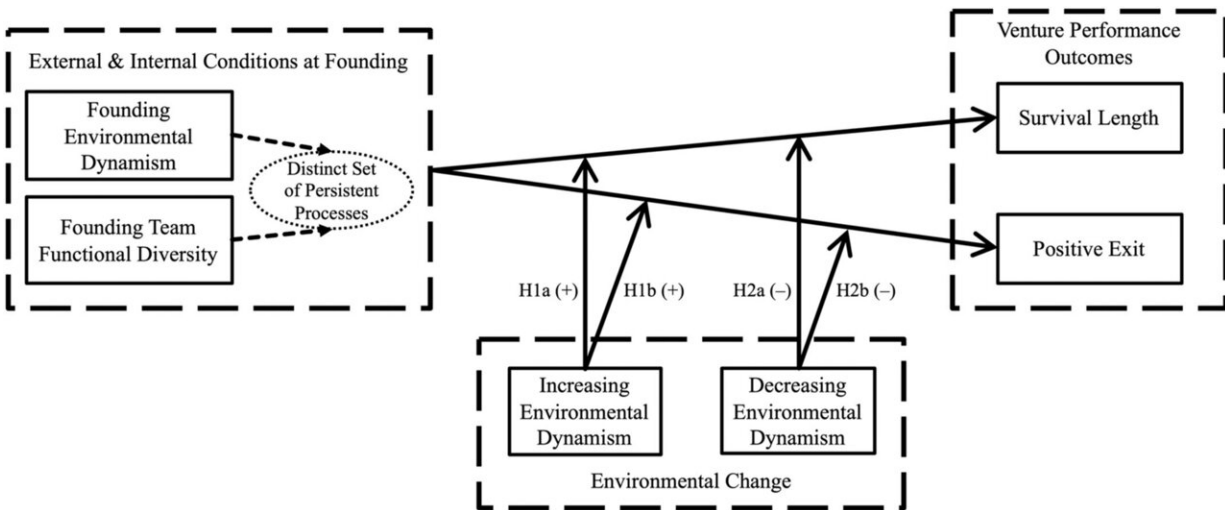


Diverse teams survive longer when facing environmental changes, says study

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Credit: *Strategic Entrepreneurship Journal* (2023). DOI: 10.1002/sej.1461

As business ventures grow, they must navigate the opportunities and challenges presented by environmental changes. In a new study, researchers have examined the interplay of environmental change and the internal and external conditions governing a venture's founding.

For businesses founded in dynamic environments, they found that assembling more functionally diverse founding teams lead to longer survival when facing increasingly uncertain environments, while functionally homogeneous teams—those with relatively few distinct

roles and viewpoints—do better when environments become more predictable.

The study was conducted by researchers at Carnegie Mellon University (CMU), Stanford University, and INSEAD. It is published in the *Strategic Entrepreneurship Journal* in a special issue titled "Environmental Change, Strategic Entrepreneurial Action, and Success."

"Predicting the course of [environmental change](#) is difficult, but entrepreneurs who can synchronize their predictions with their decisions about team composition perform better," suggests D. Carrington Motley, Entrepreneurship Instructor at CMU's Tepper School of Business, who led the study.

Prior studies on the effect of environmental change on business ventures have examined the role of the impact of recent events. They have not explored how the relationship between recent environmental change and performance outcomes depends on ventures' past, including [environmental conditions](#) when the firm was founded.

"If environmental conditions at founding have a lasting influence on ventures' internal processes, and recent environmental conditions determine the effectiveness of these processes, it is crucial for our theories of environmental change to account for both periods," explains Charles E. Eesley, Associate Professor of Management Science and Engineering at Stanford University, who coauthored the study.

To address this matter, the study integrated research on the persistence of founding conditions with research on the effects of environmental change. Researchers surveyed more than 140,000 Stanford University alumni to produce a dataset of more than 1,000 entrepreneurs who founded ventures between 1960 and 2011; the ventures represented 19 industries, from agriculture to energy and utilities. Respondents' self-

reported data were verified by cross-referencing their information with lists of public and private companies.

The survey assessed the length of time ventures survived and whether ventures achieved positive liquidity events (e.g., underwent an observed initial public offering or a merger or acquisition). It also asked founders about the functional roles present on their founding teams (e.g., sales and marketing, general administration, operations, finance).

Teams that are functionally diverse have members who occupy a range of roles and have a broader focus, attending to such areas as sales, marketing, manufacturing, and distribution. They also seek out and exchange large amounts of information and debate a wide range of perspectives because many viewpoints are represented.

The interaction of high environmental dynamism—the degree to which [environmental changes](#) are unpredictable for firms' [decision-makers](#)—at founding and a functionally diverse founding team helped ventures survive longer when environmental dynamism increased over the lifetime of the [venture](#), the study found. However, the same founding conditions resulted in a decreased likelihood of positive exit when environmental dynamism increased over the lifetime of the venture.

Among the study's limitations, the authors note that ventures created by Stanford alumni may not be representative of ventures in general. Also, data were collected at one point in time and thus did not follow the ventures contemporaneously. Finally, based on the data used, the study produced only indirect evidence of the relationship between the environmental dynamism at founding and a venture's internal processes.

"Our findings highlight the importance of firms developing capabilities to enable flexibility in decision-making processes, which are often inflexible, which limits firms' ability to take advantage of unique

opportunities provided by environmental change," notes Wesley Koo, Assistant Professor of Strategy, who co-authored the study.

More information: D. Carrington Motley et al, Born into chaos: How founding conditions shape whether ventures survive or thrive when experiencing environmental change, *Strategic Entrepreneurship Journal* (2023). [DOI: 10.1002/sej.1461](https://doi.org/10.1002/sej.1461)

Provided by Tepper School of Business, Carnegie Mellon University

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