Tech startups with diverse founding teams are more likely to seek IPO or acquisition

November 30 2023, by Ramy Elitzur

Credit: Pixabay/CC0 Public Domain

The importance of immigrant entrepreneurs and diversity in management has been widely demonstrated in academic literature. When management teams are diverse, they are able to bring a variety of

perspectives to the decision-making process.

Immigrant entrepreneurship has a [substantial positive impact on innovation](#) in the high-tech sector. Immigrant tech founders are known to [boost Canadian innovation](#) and, as an [immigration destination](#), the effects of this should interest Canada.

Immigrants in the United States have similarly become a [major driving force in the creation](#) of new, fast-growing technology startups. Studies [in Germany](#) and [England](#) have found the same.

While there is a wealth of evidence supporting the contributions of [immigrant](#) entrepreneurs, there is a lack of research on how diversity specifically impacts the strategy and performance of founding teams in high-tech startups.

Only one study has been done on this topic; it found that [new technology startups with at least one immigrant founder](#) were more likely to emphasize product innovation and encourage the exploration of new market opportunities. Filling this research gap is important, as it could significantly impact a variety of parties, including entrepreneurs, investors and policymakers.

Exits in high-tech startups

New technology startups and their investors often seek exit strategies that outline how investors or founders can cash out or divest their ownership. This can involve startups going public with an [initial public offering](#) (IPO) or by having another company acquire the venture.

A crucial factor in this decision is the stage a company is at when considering a potential exit. Is the startup just starting to generate revenues, or is it already in the phase of revenue growth? Founders must

decide whether to exit early in the sales phase or stay with the company until it achieves broader market success.

Research shows immigrant entrepreneurs are more likely than their native-born counterparts to seek new growth options by entering new markets and developing new products. As a result, technology startups with immigrant founders are more likely to pursue an exit strategy for financial gains during the initial revenue stage—as opposed to waiting until the next stage—which is more profitable, but also more risky.

Immigrants and exit strategies

To address the previously mentioned research gap, I conducted a study alongside fellow researchers Ilanit Gavious and Orit Milo from Ben-Gurion University. We sought to understand how diversity in founder teams affects exit decisions in high-tech startups.

In our analysis, we considered factors like team size, the countries where founders were born, prior business experience, gender, prior experience abroad, prior startup experience, level of education, research and development investment, whether the CEO was a founder or not, the location of the venture and firm size.

We also looked at different ways of measuring national cultural diversity. This included whether there was at least one immigrant founder, the percentage of immigrant founding team members and a diversity index. We defined immigrant founders as those who were born in another country, had a non-native surname and completed at least their undergraduate degree outside of Israel.

We studied 582 cases where Israeli tech startups were sold. We found that 65 of them had team members who were immigrants, while 517 did not. Our results strongly support the idea that having immigrants on the

founding team substantially increases the chances of an exit strategy with an IPO or acquisition. This is notable, as it highlights the importance of diversity in founding teams for early investors in order to maximize the return on their investments.

Insights for financial success

Our research offers valuable insights for entrepreneurs, investors, and policymakers in the startup ecosystem. Entrepreneurs can use our findings to make better decisions about the composition of the founding team in their ventures. Founders aiming for financial success through exit strategies should consider teaming up with founders from diverse cultural backgrounds.

Our study could help entrepreneurs make better decisions about the composition of the founding team in their ventures. Specifically, founders with IPO and acquisition exit strategies should make sure to collaborate with founders who come from different national cultures.

Investors, like angels and venture capitalists, can use our study's insights to make better decisions about which startups to support and invest in. It can also provide insights into potential returns from investments.

Policymakers could use our findings in two ways. First, they should consider the diversity within founding teams when making decisions about loans and grant programs for startups. Second, they can use our insights when making decisions about accelerators and incubators, considering the impact of immigrants in the founding teams.

By directing resources towards incubators and accelerators that focus on startups with diverse founding teams, policymakers can increase the likelihood of future exits and improve the expected returns on government-supported startup programs.

Provided by The Conversation