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Birds Of A Feather Struggle Together: Racially Homogenous Entrepreneurial Teams Are At Risk Of Performing Poorly

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Imagine finally achieving your goal of forming a new business but failing because you did not select the right team members. This is what is happening to a group of entrepreneurs who contribute more than 5% to U.S. GDP yearly. In the last decade, minority entrepreneurs have created over one million new businesses in the United States. Historically, underrepresented racial groups form more new ventures compared to majority groups not only in the United States but also in Europe. As such, underrepresented minorities are often recognized for their propensity to create new companies and contribute to the economy. Interestingly, however, underrepresented groups such as Latinos and African Americans alike are more likely to start new businesses, yet, relative to majority groups, minority-owned new ventures are also more likely to fail. To explain this phenomenon, it is important to consider how the makeup of an entrepreneurial team impacts the emergence of a start-up and its eventual performance.

Entrepreneurial Teams

More than 85% of new ventures operate with 2 or more founders, or in startup teams. Traditionally, teams, groups of two or more collaborators responsible for achieving common goals, are assumed to lead to effective outcomes. This has been shown in various organizational settings, however, novel research demonstrates that this effectiveness is contingent on the team context and how it develops throughout time. Entrepreneurial teams differ from organizational teams in that the members of the new venture team often decide with whom to collaborate.

Entrepreneurs often follow one of three new team formation strategies: interpersonal attraction, resource seeking, or a combination of both. Firstly, the interpersonal attraction strategy indicates that entrepreneurs tend to duplicate their qualities by hiring similar others. This results in the protection of the entrepreneur's original goals and interpersonal fit. Second, startup teams can be formed via a resource-seeking strategy. Such strategy implies that entrepreneurs attract others with complementary human capital. Due to their resource constraints as new ventures, founders attempt to identify and fill the perceived needs of the team via this approach. Lastly, entrepreneurial teams can also be formed via the combination of resource-seeking and the interpersonal attraction approach. In practice, the dual strategy is recommended as access to complementary knowledge and shared values lead to proper team functioning over time. Entrepreneurs in crowdfunding settings and entrepreneurial competition have been shown to raise more funds and be more profitable when using this strategy.

Underrepresented Minority Start-Up Team Formation and Team Development

When we look deeply into how underrepresent minority entrepreneurs form their teams, the strategy that they select may have negative implications on their eventual growth. Minority entrepreneurs often form their startups via interpersonal attraction, screening similar others to be part of the new team. Having a racially similar team implies shared experiences, information, and values. Explicitly, in the forming stage of a new venture team, member trust, planning, and structuring behaviors benefit from demographic similarity. This leads members to feel safe, be willing to share information, and develop the norms and practices needed to collaborate effectively.

Thus, this can explain why minority entrepreneurs create many new businesses as the interpersonal strategy they chose enables new ventures to be successfully formed. Empirically, this is shown in the Panel Study of Entrepreneurial Dynamics, a sample of 1,214 U.S. entrepreneurs, where race similarity, significantly influences the incidence of reaching new firm status among entrepreneurs.

Once teams are formed, they are typified by a constant interaction amongst individual members in multiple periods of time to get things done through cognitive strategies. Specifically, in the context of entrepreneurship cognitive strategies are particularly essential to team performance due to the uncertain, dynamic, and resource-constrained nature of the entrepreneurial environment. Underrepresented minorities, form teams via interpersonal attraction and thus individuals have shared knowledge that eases coordination among team members. Nonetheless, as the startup team grows, redundant shared mental models that are the result of racially homogenous teams, hamper the development of diverse knowledge bases and expertise of diverse entrepreneurial functions.

Given the resource-constrained nature of new venture teams, successful startups are characterized by having founders who are each independently responsible for a set of activities. Because racially homogenous teams are formed via interpersonal attraction, they develop shared mental models that prohibit the specializations of human capital activities. This is particularly harmful for the growth of the new venture team, as these missing specialization related processes of knowledge use and learning development are pivotal for their success. By missing the diverse skills that are needed to operate in the entrepreneurial environment, characterized by dynamism and uncertainty, the ventures struggle to develop and grow.

Implications

The racial makeup of founders are essential antecedents in understanding the plight of a new venture team. Specifically, founders' race not only dictates the formation strategy of a new venture team but is also predictive of the learning processes and the eventual performance of such team. Overall, the close ties resultant of racially homogenous teams and their overlapping mental models increases the cost of attention to other relevant tasks and reduces the required innovativeness and autonomy needed for entrepreneurial success. In closing, given the staggering and growing economic importance of minority entrepreneurs in the United States, it is beneficial for their ventures and the economy in general to adopt a dual team formation strategy approach.

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