

## Do Birds Of The Same Feather Thrive Together?

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You probably have heard the phrase “birds of a feather flock together.” But, what does this mean and is it actually a good thing? Do they thrive together and if so why and how?

We took a look at this question in the context of team diversity in new ventures. While diverse teams and groups of people are already quite common in our daily lives this heterogeneity does not always transfer to different situations. For example, did you know that only recently the number of female CEOs surpassed the number of CEOs named John in large U.S. companies? And this is no different in top management teams, with many US companies lacking gender and racial diversity<sup>1</sup>.

Top management team diversity has often been looked at from two different perspectives. The first believes that diversity overall has a positive impact on firm performance as a diverse team has a broader ability to process information due to a greater pool of different skills and knowledge.

On the other hand, a second perspective states that diversity can lead to conflict and subsequently to worse firm performance.

We conducted a study to look at how the demographic diversity of the top management team in early-stage high-tech firms affects their survival rate. Specifically, we look at gender, age, and nationality diversity to see how each affects firm survival. As we are looking at an entrepreneurial new venture context, we believe that the dynamic and fast-changing environment as well as the need for high information processing skills would benefit from diversity and different types of viewpoints. Therefore, we assume the benefit of these different types of expertise and viewpoints outweigh the negative effect of any potential team conflicts that could arise due to differences between team members. So is this actually the case?

Contrary to our initial expectations, we cannot say overall demographic diversity has a positive effect on firm survival. Our research suggests that having a diverse team when it comes to gender and age leads to a lower risk of firm failure, but the opposite occurs for nationality diversity. In other words, teams that differ a lot when it comes to nationalities have a higher risk of failure than those that do not. But it is important to note that the risk of failure does not imply a firm that has a diverse top management team will fail, and this risk of failure could depend on a variety of factors such as the type of firm, where it is located, etc. The next steps in our research aim to understand why these differences occur, in which contexts, and how they can influence firm survival in conjunction. Is there such a thing as too much diversity?

In sum, diversity in top management teams can influence a firm's performance or even its survival. While there is no one size fits all solution, we urge entrepreneurs to consider the value of diversity within their team and how it might impact their firm performance. Some elements to take into consideration are;

1. In what context does my firm operate? We found that besides team diversity, the industry and country the firm operates in can also influence firm survival.
2. What tasks are required of the team? When tasks are more complex, it might be valuable to have a team with different experiences to broaden the available pool of knowledge.
3. Finally, what is the current composition of the team? Team size and the total diversity of the team could also determine the risk of firm failure.

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<sup>1</sup> Hunt, V., Layton, D., & Prince, S. (2015). Diversity matters. *McKinsey & Company*, 1(1), 15-29.

Our study looked specifically at the context of new venture teams, but we can broaden the discussion that flows from this research to other situations. For example, we suggest that managers look at the needs of their team and how the current or future diversity of the team can have an impact on this. How could you mitigate any potential conflict that arises due to differences and foster an environment which takes advantage of diversity?

While we see that birds of the same feather often flock together, it does not necessarily mean they soar together.

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