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Funding the Future: Why Diverse Teams Win

Lani Faith D. Gacula, University of Massachusetts Lowell

What do Teams bring?

The entrepreneur is elevated to almost mythic levels in modern culture. From Henry Ford to Steve Jobs, entrepreneurs are revered for their accomplishments and pilloried for their failures but are often considered the sole benefactors of success and ultimate source of failure. However, entrepreneurship is seldom a singular effort. Individuals like Elon Musk may lead the charge (pun intended) but entrepreneurs often rely on entrepreneurial teams to achieve growth and long-term success. In a world where technology is highly prized and innovation increasingly costly, bringing new ideas to market presents unique and difficult challenges making the need for teams apparent. Key to success are the abilities team members bring through education. Teams benefit by having the best educated people but operate more effectively if their abilities are complementary versus redundant. As such, the needs of a business are best served through greater education diversity. Gender diversity also provides benefits as the presence of women in teams has been shown to improve cooperation and collaboration greatly enhancing team dynamics and outcomes.¹

Do Teams Matter to Investors?

Though less in the spotlight, entrepreneurial teams often find themselves under the microscope of outside evaluators as their abilities figure greatly into a venture's potential for success. Investors are focused on risk/reward asking, "What is my potential return?" and "How likely am I to lose my investment?". Entrepreneurial teams provide a broader range of abilities that can attract investors who see the sharing of responsibilities as improving the chances for success. Knowledge and skills gained through education serve as a source of information that can help provide solutions to a multitude of potential issues. Equally important is how team members work together. Teams with higher average levels of education may manage functional aspects more effectively, while diversity provides differing and competing viewpoints promoting collaboration. Elements of creativity and problem solving are also better addressed through diversity, and a well-rounded team may be better able to solve a myriad of potential issues providing a level of investor confidence. As such, entrepreneurial teams, especially those that are more diverse, present a better option to investors.

The Role of Teams in Financing

We examined 13,702 for-profit early-stage ventures from around the world using Emory University's Entrepreneurship Database Program to help us understand how the composition of entrepreneurial teams might impact capital investment. Results show teams with higher average education are more successful at acquiring new financing. The benefits of education are universally accepted, and investors likely see education as an indication that entrepreneurs are better equipped to address challenges. Education diversity, where team members have differing levels of education, also improved the likelihood of investment. Though higher average education levels instill confidence, investors are savvy and recognize that being too like-minded can be detrimental to a business both in revealing and addressing problems. An educationally diverse team can see things from different perspectives, often challenging assumptions, and are open to new ideas.

There is no “W” in Team

Research reveals that as the ratio of women on entrepreneurial teams increases, the likelihood of acquiring funding is reduced. Entrepreneurship is still considered a masculine field. Though the number of women in entrepreneurship is increasing, gender bias remains persistent and extends to the presence of women in entrepreneurial teams. The concerns of investors are not wholly without merit as women continue to trail behind men in STEM education and often have less experience in high technology environments. However, as the benefits of diversity become better understood, investors may overcome traditional biases.

Building Teams – Changing the Environment

Education remains an important indicator of success. However, understanding how diversity can benefit teams requires a different mindset than “more is better”. While policymakers need to focus efforts on STEM education for women, investors must recognize their own biases in the decision-making process and consider the tangible benefits of women in entrepreneurial teams. This will create a more dynamic and inclusive environment promoting economic growth by making full use of the benefits of diversity.

CONTACT: Lani Faith D. Gacula; lanifaith_gacula@uml.edu; University of Massachusetts Lowell; 1 University Avenue, Lowell, MA, 01854, USA.

¹Forbes (2019). *How Women Leaders Change Company Dynamics*.