



The Relationship between Founder Team Diversity and Innovation Performance: The Moderating Role of Causation Logic



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This article examines two factors commonly thought to be potential contributors to business success, namely diversity and the logic that drives entrepreneurial decision making. The empirical context is new ventures, and data collected using a survey of new ventures are used to investigate the contribution of founder team informational diversity to innovation performance, as well as the moderating effect of the degree of causation logic used in decision making.

The findings confirm that founder team informational diversity is positively related to both idea generation and the implementation of ideas into new products or services. Furthermore, the findings suggest that the relationships between founder diversity and both idea generation and realized innovation are moderated by the logic of entrepreneurial decision making. The relationship between founder team informational diversity and idea generation is stronger when decision making is based on strong causation logic, while the relationship between founder team informational diversity and realized innovation is stronger when decision making is based to a lesser degree on causation logic.

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Introduction

There has been prevailing focus on the relationship between diversity in top management teams (TMTs) and firm performance. This literature, which traces its origins to the upper-echelon framework (Finkelstein et al., 2009; Hambrick and Mason, 1984), has investigated how the composition of TMTs influences several important aspects and antecedents of performance, including innovation performance. However, the results of this research have been inconclusive (Nielsen, 2010).

Four explanations for the inconclusiveness of these results have been ventured. First, results are likely to be highly dependent on contextual factors, such as the organization and its environment (Finkelstein and Hambrick, 1996). Second, diversity is not a homogeneous concept and different types of diversity are likely to exert different effects on organizational outcomes. Williams and O'Reilly (1998) argue that demographic diversity, such as age, gender and ethnicity, are likely to induce conflicts, while informational diversity, meaning differences in education, functional background and industry experience, is likely to induce innovation. Third, organizational outcomes are multi-faceted and too broad, or vastly different, definitions have resulted in incomparable, and thus inconclusive, findings. Researchers have suggested that one of the possible reasons for the inconclusive findings about the relationship between team diversity and innovation performance is a failure to separate the creative, or ideation, part of the innovation process from the part of the process in which a new idea is implemented into a new product or service (Ancona and Caldwell, 1992). Finally, links between TMT composition and performance are likely to be mediated by team processes that help maintain the cohesiveness of the team and organize work in an effective way (Drach-Zahavy and Somech, 2001; Ensley et al., 2002).

The purpose of this work is to further our understanding of the relationship between TMT diversity and innovation performance by addressing all four issues mentioned above. To address the first issue, this paper focuses on a specific context, namely new technology-based firms (NTBFs) where the TMT is the founding team. Although the literature on TMTs is well established, surprisingly little research has been done on entrepreneurial team composition (Cooney, 2005; Harper, 2008; Souitaris and Maestro, 2010). We therefore take our point of departure in the TMT literature, although it should be borne in mind that our empirical context is novel and different from the more established firms typically studied in TMT research.

In new ventures, a diverse set of skills is required to address multiple challenges originating from uncertainties in markets, business processes and technologies. Consequently, they tend to be founded by teams rather than single individuals. Our

focus is on founding teams' informational diversity, which reflects the importance of being able to address these multiple challenges, while ignoring other types of diversity under the assumption that they are not likely to be as important in this particular context. In this way, we address the second issue mentioned above. To address the third issue, rather than taking an overly broad view of performance, our focus is on the relationship between informational diversity and two specific aspects of innovation performance – namely, idea generation and the implementation of ideas into new products or services. Finally, the moderating role of the logic underlying decision making followed by the founding team is investigated. The logic driving decision making is seen as a team process related with team cohesiveness, especially causation logic (Sarvasvathy, 2001), according to which decisions are made based on pre-defined goals.

Our results suggest implications for founders of new ventures, as well as those investing in such ventures. The findings suggest that, while founder diversity has an overall positive effect on innovation performance, the moderating effect of causation logic differs between the two stages of the innovation process. In the idea generation stage, the positive relationship between innovation performance and founding team diversity is stronger the more teams follow a causation logic in their decision making. When it comes to the implementation of ideas into new products or services, the positive relationship is stronger the less teams follow a causation logic. This implies that founder diversity is more effective as a source of new ideas the more entrepreneurial teams are driven by previously defined goals in decision making, but more effective as a capability for implementing innovative ideas into finished products or services when entrepreneurial teams are more adaptive in their decision making.

In the following section we review existing literature on diversity and innovation and develop our hypotheses. This is followed by a brief introduction to our research strategy, which is supported by detailed descriptions in the appendices. We then move to a presentation of our findings before concluding with a discussion of these findings.

Literature review and hypotheses

Innovation performance

While the concept of innovation has been defined in a number of different ways in management research it is basically about the introduction of something new. It has been described as a process, as an outcome or as an attribute of an organization (Garcia and Calantone, 2002; Kimberly, 1981; Kline and Rosenberg, 1986). These three conceptualizations are not incompatible with each other as innovation outcomes are the results of an innovation process, and the more frequently organizations cycle through the innovation process, or produce more substantial outcomes, they can be viewed as more innovative; i.e., having higher innovation performance (Bantel and Jackson, 1989).

West (1990) defines the team innovation process as consisting of four phases: recognition of an opportunity for innovation, initiation of a process within the team to support implementation, implementation of the innovation, and stabilization of the innovation. This process corresponds closely to other process models of innovation in organizations (Kanter, 1988; Kline and Rosenberg, 1986; Rogers, 1983) and the entrepreneurial process (Shane and Venkataraman, 2000). Each of these models can be split into two basic parts: idea generation and the implementation of ideas into new products or services.

Idea generation is concerned with the identification of opportunities for innovation. It is a creative process (Amabile, 1983) sometimes undertaken in response to a performance gap or external changes, and sometimes in the absence of such external stimuli. Ideas are generated, adjusted and developed in response to reactions from others in the team (West, 1990). The outcome of the process may be to abandon the idea altogether, or to deem an idea sufficiently interesting, or of sufficient quality, to warrant implementation. Quality can be assessed by the novelty of the idea and its potential value (Shane and Venkataraman, 2000; West, 1990).

Implementation of ideas refers to development resulting in the launch of a new product or service. In this phase the effects of the innovation become observable in work practices, processes, products or services (West, 1990). These effects, and the changes they bring with them, will not only be felt by the team or the organization, but also by suppliers, customers, and competitors (Christensen and Rosenbloom, 1995). Hence, successful implementation requires the team to manage change at multiple levels, both within and outside the organization.

Despite being commonly envisioned as a linear process from idea generation to implementation, the innovation process tends to be nonlinear and characterized by frequent feedback loops. Many ideas are abandoned or revised during implementation, and the implementation phase is an important source of new ideas. Analytically, however, it is important to make a distinction between the two phases due to their different characteristics. They represent different challenges, suggesting that the influence of structural attributes of the organization, such as founder team diversity, is likely to differ.

Founder team diversity and innovation performance

Despite widely held popular notions that entrepreneurship is an individual act, the management of new ventures is usually a shared effort (Gartner et al., 1994). This is especially true for new technology-based firms, which tend to be established by teams of founders (Roberts, 1991).

Founder teams shape the initial strategies and structure of new ventures (Beckman, 2006; Boeker, 1989). Team members' prior knowledge and expertise determine the types of opportunities that are likely to be identified and define a venture's

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