

More (or Less) than the Sums of their Parts? Status, Teams, and Entrepreneurial Outcomes¹

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Abstract

Using data from the Panel Study of Entrepreneurial Dynamics (PSED-I), I examined the influence of individual status characteristics on entrepreneurial outcomes and group processes in startup teams. I also studied how team status characteristics and group processes influence entrepreneurial outcomes. I found that status characteristics influenced the assistance team members provided to their startups. I also found that the levels and types of assistance that team members provided to their startup teams increased the chances of favorable startup outcomes. My results suggest that membership in high-functioning teams can improve entrepreneurial outcomes for low-status entrepreneurs.

¹ This research was funded in part by the Ewing Marion Kauffman Foundation. The contents of this publication are solely the responsibility of Amy E. Davis.

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Introduction

Because data now demonstrate that approximately half of all new ventures are started by teams of two or more persons,² the study of group characteristics and processes enhance the understanding of why particular startups succeed or fail. In my research, I sought to better understand the relative importance of individual status characteristics, group status characteristics, and group processes on the chances of business establishment or startup discontinuance. I used a nationally representative sample of nascent entrepreneurs, who are individuals actively working toward business creation. My research addressed four interrelated questions. First, when do particular status characteristics such as gender, business experience, age, and race influence entrepreneurial outcomes and when are such characteristics irrelevant? Second, how do the status characteristics of individual team members influence group processes in startup teams? Third, how do group characteristics such as average status, maximum status, status diversity, and relational composition influence group processes and entrepreneurial outcomes? Finally, how do group processes influence the odds of entrepreneurial success and failure?

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² Ruef, Martin, Howard E. Aldrich, and Nancy M. Carter. 2003. "The Structure of Founding Teams: Homophily, Strong Ties, and Isolation among U.S. Entrepreneurs." *American Sociological Review* 68:195-222.

Theoretical Background

Status characteristics are observable characteristics that are differentially valued in part because of their associations with access to resources.³ Status characteristics can be based either on achieved characteristics such as education and experience or ascribed characteristics such as gender and race. Individuals use status characteristics to make predictions about others' behavior. In addition, individuals' own behavior can be shaped by expectations associated with their status characteristics. In an entrepreneurial context, because men owners tend to have larger and more profitable businesses than women owners, men have higher status than women. Status expectations can influence the behavior of men and women entrepreneurs as well as the individuals and organizations their startups encounter, such as investors, customers, or suppliers. For entrepreneurs on startup teams, the status characteristics of each member influence the overall status of the entrepreneurial teams.

Status characteristics influence interactions in small groups.⁴ Individual with high-status characteristics tend to receive more recognition for their contributions whereas the contributions of individuals with low-status characteristics tend to be overlooked. Entrepreneurial groups differ from most groups studied in social science and business research. In work or class teams and in laboratory settings, a superior assigns individuals to particular teams and decides what tasks should be completed. In

³ Ridgeway, Cecelia L. 1993. "Chapter 9: Gender, Status, and the Social Psychology of Expectations." Pp. 175-221 in *Theory on Gender: Feminism on Theory*, edited by Paula England. New York: Aldine De Gruyter.

⁴ Berger, Joseph, Bernard P. Cohen, and Morris Zelditch, Jr. 1972. "Status Characteristics and Social Interaction." *American Sociological Review* 37:241-255.

Robinson, Dawn T., and Lynn Smith-Lovin. 2001. "Getting a Laugh: Gender, Status, and Humor in Task Discussions." *Social Forces* 80:123-158.

Van Der Vegt, Gerben S., J. Stuart Bunderson, and Aad Oosterhof. 2006. "Expertness Diversity and Interpersonal Helping in Teams: Why Those Who Need the Most Help End Up Getting the Least." *Academy of Management Journal* 49:877-893.

entrepreneurial teams, members usually form their own teams and direct and manage their own activities. In addition, most entrepreneurial teams are composed of family members. Therefore, status differences relevant in teams formed in laboratory settings may be more or less consequential in entrepreneurial teams.

Entrepreneurs starting businesses by themselves rely on their individual status to influence the success of their ventures. For entrepreneurs on startup teams, team members' collective status along with their ability to utilize and synthesize their available resources will influence success or failure. Communication and trust will influence whether members of entrepreneurial teams are able to create businesses better than those they could have created individually, or if the difficulties associated with coordination actually undermine the achievement of entrepreneurial goals. I argue that team status composition will affect the achievement of organizational goals, partially through its effects on team processes including the exchange of contributions.

Data Sources and Methodology

To answer my research questions, I used data from the Panel Study of Entrepreneurial Dynamics (PSED-I). The PSED-I is a nationally representative longitudinal sample of nascent entrepreneurs and a comparison group of non-entrepreneurs. Over 60,000 individuals in the United States were screened by telephone in order to locate more than 800 nascent entrepreneurs. Support from the Kauffman Foundation facilitated this expensive data collection process. In my analyses, I used only data from the nascent entrepreneurs because my questions regarding the influence of teams are not applicable to the comparison group. I conducted my analysis on weighted

data to maintain the representativeness of the sample, as women and minorities were oversampled.

Respondents provided information regarding their own as well as any team members' occupational background, industry experience, previous entrepreneurial experience, age, gender, and race. I used these responses to construct measures of individual status, average team status, maximum team status, and team status diversity. In addition, respondents provided information regarding the contributions team members provided to startup activities. These contributions included contacts, information, training, and assisting other members with childcare (called "personal assistance"). Respondents were contacted twelve months after their initial phone interview and asked if their startups were operational businesses, active startups, inactive startups, or discontinued startups. Finally, I used respondents' answers to questions regarding industry, technology, and innovation of their business, their current household composition, region of the country, and the amount of personal time and money invested in their startups prior to the initial interview as controls in my analysis.

My first set of analyses predicted how team members' status characteristics influenced credits they received for providing contributions from the respondents' perspective. Credits for contributions represent influence and power in the startup team. Team members were, therefore, the unit of analysis and the number of observations per respondent depended on their team size. I used generalized estimating equations and population averaged logistic regression analyses in STATA to correct for within-respondent correlations.⁵

⁵ Ballinger, Gary A. 2004. "Using Generalized Estimating Equations for Longitudinal Data Analysis." *Organizational Research Methods* 7:127-150.

My second set of analyses predicted how team-level status composition characteristics influenced the level of contributions teams provided in order to determine which status characteristics lead to the most or least contributory teams. I tested the influence of average status, maximum status, and status diversity on the amount of help team members provided to their startups. Contribution levels reflect how well teams have access to and utilize resources. I used weighted least squares and weighted logistic regression for this analysis.

My third set of analyses predicted how individual-level and team-level status characteristics, along with team contributions, influenced whether startups became operational businesses or not twelve months after the initial interview. I included solitary entrepreneurs in this analysis to determine the conditions that led to the most favorable outcomes for nascent entrepreneurs, whether individuals in particular circumstances would have better results in teams or working alone. I used weighted logistic regression to predict the odds of business establishment, continued participation in entrepreneurship, and the discontinuance of entrepreneurial activities twelve months after the initial interview.

Results

My results predicting how individual status characteristics influenced credits received for contributions showed that status characteristics did not always influence contributions in the expected directions. The non-results may reflect that some status characteristics are less important in self-formed teams than they are in teams formed by others. The significant results I found include the following:

Ruef, Martin. 2003. "Norms of Group-Generalized Exchange in Formal Organizations." Unpublished Manuscript.

- Those with high levels of industry experience (an achieved status) received more credit for providing information, training, contacts and less credit for providing personal services.
- African Americans and Hispanics received more credit from men respondents for providing introductions and contacts than did Whites and Asians.
- Older team members received less credit from respondents for providing contributions than did younger team members.
- Men respondents credited women with providing less information than they did other men.
- Women more often provided personal services than did men. Women respondents often credited themselves with providing personal services and men likewise respondents credited the women in their team with providing personal services, although women respondents rarely credited other women with providing personal services.
- Respondents with high-status characteristics were less likely to credit others with providing contributions than were respondents with low-status characteristics.

My results testing the influence of team-level status characteristics on contribution levels revealed the following noteworthy findings:

- Average industry experience positively influenced contribution levels in most instances.
- Having at least one member with several years of industry experience increased contribution levels in teams.

- Status diversity had little impact on the contribution levels of teams. Of all the diversity measures, only gender diversity reduced the number of contributions teams provided overall. However, some diversity indicators reduced the odds of a particular assistance type being provided. For example, a team in which some, but not all, members had prior experience starting businesses was less likely to have a member provide training than teams with homogeneity of startup experience. Overall, teams gained little net advantage or disadvantage from status diversity.
- Men and women reported differential relationships between status and contributions, suggesting that gender differences affect group interactions in startup teams.

My results testing the influence of individual status, group status, and group processes on entrepreneurial outcomes measured twelve months after the initial interview revealed several noteworthy findings:

- Although individual status characteristics affected contribution recognitions within startup teams, they had no direct influence on entrepreneurial outcomes measured twelve months after the initial interview for the entire sample. Instead, individual status characteristics significantly explained variations in entrepreneurial outcomes only for solitary entrepreneurs. For members of startup teams, their individual status characteristics were not influential, especially relative to the influence of team status characteristics and processes.

- Teams in which members contributed many different types of assistance more often established businesses and less often abandoned entrepreneurial activities within twelve months after the initial interview relative to less contributory teams.
- High average levels of achieved status in the form of industry experience and occupational prestige among teams improved entrepreneurial outcomes measured twelve months after the initial interview, particularly for respondents with less achieved status than their teams' average.
- Married men were more likely to abandon startup activities within twelve months after the initial interview than single men unless their wives were members of their startup teams.
- Net of other factors, team size was consistently negatively associated with entrepreneurial outcomes measured twelve months after the initial interview for women.

Overall, I found that industry experience is a relevant status characteristic with regard to entrepreneurship. Those with industry experience achieve more favorable entrepreneurial outcomes in solitary businesses and receive more credit for contributions they make as members of teams. Further, teams with high levels of industry experience have higher levels of group functioning and improved entrepreneurial outcomes. Race and status diversity had limited effects on group processes and entrepreneurial outcomes. Gender influenced the ways in which respondents reported the contributions of their team members and produced two surprising findings for entrepreneurial outcomes: marriage

negatively influenced men's business outcomes and team size negatively influenced women's business outcomes.

Implications for Entrepreneurs

My results suggest that individuals wanting to start businesses should consider their status characteristics and their pool of prospective business startup team members to better determine if they should form teams or pursue solitary entrepreneurship. The status characteristics of solitary entrepreneurs have a more substantial influence on their startup outcomes relative to entrepreneurs on teams, whose outcomes are also affected by the status characteristics of other members and the contribution levels of the team.

- Individuals lacking high levels of ascribed or achieved status may improve their chances of entrepreneurial success by forming teams with high-status individuals or encouraging their team members to freely contribute and exchange resources and assistance. However, their own contributions to the startup may be overlooked by high-status members and high-status team members more often leave startup activities in pursuit of other opportunities their status provides.
- Individuals with high levels of achieved status stand to lose the most from unproductive teams, and therefore will experience the most favorable outcomes on teams with high average status and high levels of contributions.
- Entrepreneurs working on teams may benefit from outside training or other activities specifically designed to foster trust and communication among team members in order to maximize resource and assistance exchange.

- Entrepreneurs working on teams may benefit from training or other activities specifically designed to address and critically evaluate status beliefs which may interfere with the recognition of contributions team members provide.
- Women on startup teams tend to be relegated to traditional feminine roles in startup teams with both men and women. That is, they less often receive credit for contributing information and more often provide personal services. In addition, women on teams, net of other factors, perform worse on teams than solitary women entrepreneurs. Therefore, women could especially benefit from enhanced understanding of group processes that would either enable their team to maximize contributions and the recognitions of contributions or enhance women's abilities to recognize an unproductive team which impedes the achievement of their entrepreneurial goals.
- Finally, married men appear to benefit from the contributions and support of their wives on entrepreneurial teams. Therefore, married men starting businesses without their wives as partners could benefit from finding ways to encourage their families to actively contribute to and support their entrepreneurial activities.