Experience and New Venture Performance

Experience and New Venture Performance: An Exploration of Founder Perceptions

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CAMBRIDGE
SCHOLARS
PUBLISHING

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This book first published 2009

Cambridge Scholars Publishing

12 Back Chapman Street, Newcastle upon Tyne, NE6 2XX, UK

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN (10): 1-4438-1418-0, ISBN (13): 978-1-4438-1418-8

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ACKNOWLEDGEMENTS

Firstly, Dr. Michele O'Dwyer: Sincerest thanks for your invaluable guidance, your consistent support and your wonderfully positive outlook that has truly made for an enjoyable and challenging experience for the duration of this project.

Thank you to Órlaith: For all the small things and more. For the instant change of pace that your company offers. For visiting me even when your car was out of action. For my good luck Creme Egg. For conveniently overlapping your trip with a time when I would not have seen much of you anyway! Your support is felt and appreciated even from 6,071km away (and beyond)!

Thank you to Fergal: For your measured and welcome distraction in the early stages of this project followed by your strategic refusal to return home for weeks on end in the latter stages!

Thank you to my parents: For more than I can fit on one page. To pick only one quality – you, both, have always managed to maintain the perfect balance between encouraging me to do the best that I can and trusting that I will.

Finally, thank you to the six entrepreneurs who so generously took the time to be an integral part of my research.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter outlines the theme and the research objectives of this study. The chosen research methodology is discussed and followed by an outline of the structure of the book and an explanation of the content of each chapter

1.2 Background

The existing literature on the influence of founder experience on the performance of new ventures has found mixed results. Within this body of literature there are disagreements relating to whether there is a positive or a negative relationship between founder experience and new venture performance. Research has proposed there to be a positive link between the successfulness of new ventures and the level of a founders' previous experience (for example Gimeno et al. 1997; Delmar and Shane 2006) while other research on the topic reported a negative link (for example Dyke et al. 1992; Chandler 1996; Forbes 2005). Furthermore, there are mixed results reported within individual articles (Dyke et al. 1992; Chandler 1996). Meanwhile, other research stated that there is a complex set of relationships that tied a number of performance-influencing factors (of which experience is a subgroup) together and that while founder experience as a whole can be beneficial to firm performance, the individual experiential factors are insignificant on their own (Gartner et al. 1999).

The volume of literature that directly examines, in detail, the affect of founder experience on the performance of new ventures is rather limited. The methods used to examine this topic have been quite varied and no two authors have approached the notion of experience in the same way. Most of the literature on the topic is quantitative research. Given the mixed results coming from these studies it may be necessary to revert back to qualitative research in order to re-establish the relevant experiential characteristics and how they affect new venture performance.

1.3 Statement of research issue and research objectives

This research aims to explore new venture founders' perception of the significance of experience as a determinant of new venture performance.

There exist three objectives within this research issue:

- Research Objective 1: To explore the positive impact of founder experience on new venture performance and to establish the perceived significance of each positive element in determining the performance of a new venture.

- Research Objective 2: To explore the negative impact of founder experience on new venture performance and to establish the perceived significance of each negative element in determining the performance of a new venture.

- Research Objective 3: To explore new venture founders' overall perception of the significance of experience as a determinant of new venture performance and to develop a framework to explain the perceived relationship between founder experience and new venture performance

Before completing the research objectives, the existing literature on new venture performance and how this is influenced by the various elements of founder experience is discussed. The primary goal of this discussion is the identification of experiential elements which had either a positive impact on new venture performance or a negative impact on new venture performance. These elements are grouped to form a conceptual framework to guide the rest of the research.

Research Objective 1 addresses the significance of the positive elements of founder experience in the case of six entrepreneurs. The case studies are analysed in accordance with the Conceptual Framework derived from the Literature Review. This objective is addressed using both individual case analysis and multiple case analysis.

Similarly, Research Objective 2 addresses the significance of the negative elements of founder experience in the specific context of the six entrepreneurs involved in the study. The case studies are analysed in accordance with the Conceptual Framework derived from the Literature Review. This objective is addressed using both individual and multiple case analyses.

The result of Research Objective 3 is based on the findings of the preceding objectives and the Literature Review. The Literature Review developed an initial model representing the relationship between founder experience and new venture performance. Research Objectives 1 and 2 then tested the applicability of this model against the perceptions of entrepreneurs in 6 specific cases. It is these empirical findings that are used to explore the new founders' perception of the significance of experience as a determinant of new venture performance. Objective 3 is addressed through the conclusions of this study.

1.4 Research Methodology

In order to build a new framework for the relationship between founder experience and new venture development a phenomenological (or interpretivist) approach is required. This philosophy allows for greater understanding of a particular situation compared to the positivist approach. However, the greater depth of analysis of the subject will significantly reduce the ability to generalise the results since the data collected will be closely tied to the context of the particular case (Saunders et al. 2003). By gaining an in-depth understanding of the elements of the conceptual framework in six specific cases it would then be possible to develop a new (situation-specific) model for the relationship between founder experience and new venture performance. Thus, a qualitative approach was deemed to be necessary at this stage and the resulting model may lend itself to quantitative research in future to determine whether or not the results, and therefore the model, can be generalised.

The choice of research methodology is influenced by the nature of the research question, the behavioural control requirements and whether the focus of the study is contemporary or historic (Yin 1994). The case study method is the most suitable of the available options for research with the following characteristics: A "how" research question, no requirement for control over behavioural events and a focus on contemporary events (Yin 1994). This study fits this mould since it is seeking to understand how a founder's experience affects performance, does not require control over behavioural events and focuses on the entrepreneur at this point in time. The methodology applied in this research is multiple, embedded case studies with an open-ended interview approach.

1.5 Structure of the book

Chapter One: Introduction: This chapter outlines the research issue, the research objectives and research methodology. Additionally, it describes the layout of the book.

Chapter Two: Literature Review: This chapter reviews the extant literature on the influence of founder experience on new venture performance. This literature review served to create the conceptual framework.

Chapter Three: Research Methodology: The disparate research methodologies available are discussed in this chapter. The chosen research methodology is discussed in the context of this particular study. The specifics of the applied research methodology are outlined herein.

Chapter Four: Individual Case Analysis: This chapter puts forward the empirical findings of the primary research that was guided by the literature review of Chapter Two. The findings of the six case studies are presented case by case with a brief outline of each case's particular scenario followed by their view on the significance of each element of the conceptual framework. The elements of the conceptual framework are grouped according to their relevance to the research objectives.

Chapter Five: Cross Case Analysis: This chapter is the second chapter that deals exclusively with the empirical findings. This chapter takes each element of the conceptual framework in turn and reports the combined opinions of the entrepreneurs involved with the study. The elements of the conceptual framework are grouped according to their relevance to the research objectives. Any notable commonality or variety in the views of the entrepreneurs is discussed.

Chapter Six: Discussion and Conclusions: The discussion and conclusions of the book are presented in this chapter. The implications for the existing theory in the area of founder experience resulting from these findings and conclusions are examined. The limitations that applied to this research study are also discussed as are the recommendations for future research.

1.6 Summary

This chapter has outlined the theme and the research objectives of this study. The research methodology used has been discussed and the structure of the book has been described in conjunction with an explanation of the content of each chapter.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will discuss the extant literature as it applies to this study. The primary topic explored is founder experience and its influence on new venture performance. Preliminary discussions focus on the entrepreneur, the new venture and human capital. The discussion will focus on the creation of a conceptual framework which will be used to guide the primary research.

2.2 Entrepreneurship and the Economy

Successful entrepreneurs have an important impact on the performance of any economy (Aquilina *et al.* 2006). The importance of SMEs has been growing worldwide over the last four decades (Aquilina *et al.* 2006). It is said that "entrepreneurship is essential for a healthy economy" (Iyigun and Owen 1998). In addition to economic benefits there are also social and regional benefits resulting from a strong, entrepreneurial economy (GEM report 2006)

> "entrepreneurship has a key role to play … to ensure the future growth and prosperity of the country" (GEM report 2006, p.XI)

> "Entrepreneurship is a source of innovation and change, and as such spurs improvements in productivity and economic competitiveness" (UNCTAD, 2004, p.3)

It is reported that well over 50% of new ventures will fail in the first four years of operation (Headd, cited in Hmieleski 2007). Therefore any further understanding that can be gained with regard to determinants of new venture performance will have important implications for economic performance.

2.3 The Entrepreneur

Before examining the literature on founder experience and new venture performance it is necessary to explore the definition of an entrepreneur and the effect that the entrepreneur has on the running of a new venture. Entrepreneurs can be defined as "Individuals who recognise and exploit new business opportunities by founding new ventures" (Shane and Venkataraman cited in Baron 2008) For the purposes of this study, the entrepreneur is defined as the founder (or co founder) and chief decision-maker of a firm. The entrepreneur brings valuable qualities to the new venture. Primarily there is the willingness to take risks that enables the establishment of the new venture. This risk-taking tendency is a characteristic of most entrepreneurs but is not their sole defining characteristic. Entrepreneurs also possess the initiative to recognise and capitalise on opportunities to start a new business and grow it successfully. The more varied the traits of the entrepreneur the better the performance of a new venture (Mueller and Dato-on 2008). Mueller and Dato-on's (2008) study of entrepreneurial self-efficacy found that at start-up an entrepreneur will experience superior performance by harnessing both masculine and feminine traits. Throughout the new business development process (from start-up intentions through realisation and on to business success) the significance of personality traits decreases for potential entrepreneurs (Frank *et al.* 2007). It was found that while personality traits accounted for 20% of the variance in entrepreneurial intentions, they showed no significance as a determinant of new venture success (Frank *et al.* 2007). In Kessler's (2007) study, it is found that while personality traits were applicable in certain cultural contexts their influence as a determinant of firm performance declined with venture age. According to Funder 2001 (cited in Frank *et al.* 2007), the interactionist interpretation would suggest that actions could only be completely predicted if both the personality of the actor and the situational influences are fully known. The highly dynamic entrepreneurial environment in which a founder operates will consist of a myriad of unknowns and therefore it is not possible to predict the long term success of a new venture simply by analysing the personality traits of the entrepreneur in the early stages of the business development process (Frank *et al.* 2007).

Entrepreneurship is driven by a person or team of people. Since *affect* (a person's feelings, moods, experiences) influences a person's cognition and behaviour, and a person's cognition and behaviour is heavily involved in the entrepreneurial process, it can be deduced that affect plays an important role in the entrepreneurial process (Baron 2008). The founder's level of optimism or pessimism is also reported to impact on the performance of new ventures (Hmieleski 2007). Hmieleski (2007) found that dispositional optimism has a negative effect on new venture performance. This relationship is dependent on the environment: dispositional optimism was found to negatively impact the effect of a founder's entrepreneurial experience on the performance of a firm in a dynamic industry environment but to positively impact the effect of a founder's entrepreneurial experience on the performance of a firm in a stable industry environment (Hmieleski 2007). The above research shows the role of the founder and the characteristics of the founder are important on many levels.

Research has shown that founders, by their nature have a positive impact on firm performance and that they possess characteristics that non-founders do not (Lerong 2008; Jain and Tabak 2008) It has been found that founder CEOs lead to higher levels of financial performance and increased chances of survival compared to professional (non-founder) CEOs (Lerong 2008). Further, it was determined that if the post of CEO was combined with that of Chairperson of the firm then the advantages associated with a founder CEO are increased (Lerong 2008). Founder CEOs were found to require lower levels of incentive compensation compared to professional CEOs due to the fact that their interests are better aligned with those of the company (Lerong 2008). Jain (2008) reports that the advantageous characteristics of the founder CEO in terms of the performance of the firm include: The founding vision of the firm; organisational influence; positive image; and ownership stakes. Not all research points to higher performance for founder CEOs. A more moderate conclusion suggests the performance of a firm run by the founder is indistinguishable from that of a firm run by a non-founder (Daily and Dalton 1992).

Law and Nagi (2008) and Hsu and Pereira (2008) argue that firm performance is positively influenced by knowledge and learning behaviours within the firm; this includes management behaviour. Learning organisations can develop competitive capabilities that lead to greater business performance compared to organisations that fail to learn (DiBella, cited in Law and Nagi 2008). Knowledge sharing and learning behaviours lead to better performance by improving business processes and product and service offerings (Law and Nagi 2008). Additionally, both Friedmann and Olavarrieta (2008) and Daley and Davis (2008) found there to be a positive relationship between learning organisation behaviours and business performance. Thus if a founder is open to learning and continuously uses and adds to his total experience then an improvement in new venture performance may be the result.

Human capital may be defined as the total knowledge, *experience* and skills residing within an individual (Becker 1964). The founder's level of human capital has a positive relationship with firm performance (Lumpkin and Marvel 2007). Human capital requirements vary from situation to situation (Ensley *et al.* 2007). For example, Ensley *et al.* (2007) found, perhaps unsurprisingly, that, to achieve high growth, a technology based start-up must possess both technical and business knowledge. An interesting point was that the absence of this knowledge does not imply the firm cannot be successful it just means that the firm should follow a more moderate growth strategy that would enable the founder to learn the necessary skills and abilities required to increase future growth rates (Ensley *et al.* 2007).

Kessler (2007) found that the influence of founder-specific resources (human capital) is modulated by the market environment. The *cultural embeddedness* of entrepreneurship means that the factors influencing the successfulness of a new venture are specific to the social and cultural environment in which the enterprise is taking shape (Kessler 2007). There is a shift from founder-specific resources as important determinants of success towards social resources as important factors between developing and developed markets respectively (Kessler 2007). Therefore it is important that the entrepreneur find a fit between the entrepreneurial opportunities offered by the environment and the strategies the entrepreneur employs to exploit those opportunities (Kessler 2007). Kessler's (2007) findings may have implications for the choice of market to enter and/or TMT hiring decisions, thus influencing the usefulness and volume of human capital and determining the performance capabilities of the firm. Similarly to the fact that founder-specific variables have a positive effect on firm performance (Kessler 2007, Lumpkin and Marvel 2007), organisational capabilities (the native competencies of the firm) are important factors influencing the performance of a new venture (Barney, cited in Taylor and Campo-Rembado 2007). Founder-specific and firm-specific resources can be closely related in the context of a start-up operation; for example, whether an organisation is established by a science-based or business-based entrepreneur is significant as this will influence the firm's organisational capabilities (Taylor and Campo-Rembado 2007).

Building on the positive effect of a founder's human capital on venture performance (Lumpkin and Marvel 2007; Ensley *et al.* 2007), it is suggested that there is a positive relationship between the size of the founding team and the performance of a new venture (Sine *et al.* 2006). Ensley *et al.* (2002) states that it is teams, as opposed to an individual entrepreneur, that provide the degree of diversity required to ensure high level of new venture performance. Therefore, the leadership of the primary founder is only a "contributory" factor – growing a new venture requires the input of a team of competent people (Ensley *et al.* 2006). However, conflicting evidence is offered by Dyke *et al.* (1992) in finding that the size of the founding team had no significant relationship with firm performance. With regard to the top management team (TMT), Amason *et al.* (2006) state that increased levels of firm performance can be achieved by matching the TMT's characteristics to the information processing requirements of the firm. Additionally, shared leadership in the top management team is preferable to vertical leadership and will lead to increased firm performance (Ensley *et al.* 2006).

2.4 New Venture

New firms are faced with a more difficult environment than established organisations and, as such, their failure rate is high (Coope and Bruno, cited in Lumpkin *et al.* 2006). Sine *et al.* (2006) found that new ventures are, by their nature, extremely flexible and in synch with their environment. This flexibility allows new ventures to develop a strong Entrepreneurial orientation (EO), "the propensity of organisations to act entrepreneurially" (Lumpkin et al 2006), which is found to have positive relationship with the performance of new ventures in high tech industries (Covin and Slevin, cited in Stam and Elfring 2008). The performance of a new venture is derived from its resourcefulness, innovativeness and its consistently entrepreneurial actions that allow the firm to take control of it environment (Zahra and Bogner, cited in Hayton 2005). While flexibility is advantageous, the other side of this coin is that new ventures lack the benefits associated with organisational structure such as decreased coordination costs and increased organisational efficiency (Sine *et al.* 2006).

Clearly, a defining characteristic of new ventures is that they were recently established. Some authors have found that the age of a venture impacts on the relationship between certain performance-influencing factors (for example: Founder experience; entrepreneurial orientation; organisational structure) and the performance of the business (Delmar and Shane 2006; Lumpkin *et al.* 2006; Sine *et al.* 2006). As such, research focused on established businesses may produce conclusions tat have little bearing on new ventures. Therefore, previous research not specifically addressing new ventures may not be relevant to this study.

2.5 Experience and New Venture Performance

Founder experience is the element of human capital and the new venture performance-influencing factor that this study is primarily interested in. Within this factor there are many sub-factors. For example, industry experience, management experience, start-up experience, educational experience, etc. A review of the literature that focuses on founder experience reveals that many of the sub-elements have been subject to limited research. This section presents a review of the existing literature as it applies to the creation of this study's conceptual framework.

It may be reasonable to expect that, in most areas of life, practice makes perfect. However, when it comes to the successfulness of a new venture it is not as simple as that (Delmar and Shane 2006; Chandler 1996; Forbes 2005; Chandler and Jansen 1992; Reuber and Fischer 1999). The available research provides no evidence strong enough to suggest that experience is a strongly significant positive factor affecting firm performance but nor does the research provide particularly compelling arguments to the contrary. Overall, there seems to be many different viewpoints all merely leaning to either side of the fence rather than fully committing to either side of the debate.

Some authors suggest that founder experience has a positive affect on the performance of a new venture (Gimeno *et al.* 1997; Lumpkin and Marvel 2007; Song *et al.* 2008) but that there are only specific aspects of experience that can lead to enhanced performance while other elements of experience may prove to be inconsequential. A related finding is that founder experience as a whole can be beneficial to firm performance but that the individual experiential factors are insignificant on their own (Gartner et al. 1999). Other authors (Dyke et al. 1992; Chandler, 1996) found that founder experience can have both positive and negative connotations for a firm and the end result depends on such factors as the total experience of the founder, the nature of the experience and the application of the experience. Yet more authors (Kessler 2007; Backes-Gellner and Werner 2007; Kalra and Soberman 2008) discovered negative relationships between founder experience and performance.

The relationship between founder experience and new venture performance is under researched (Hsu and Pereira 2008). More generally, Lumpkin and Marvel (2007 p.809) contests that "little is known about the role of human capital in entrepreneurship". This has been evident in the secondary research conducted for this book. The volume of relevant literature is limited which hinders the development of the conceptual framework or, at best, results in over reliance on the findings of a small number of authors. New ventures are inherently different from large, established new ventures (Sine *et al.* 2006). Sine *et al.* (2006) believes there to be an "intellectual risk" in transferring directly the findings of studies dealing with large, well-established companies into the realm of the smaller new venture

Experience takes many guises (for example, industry experience, start-up experience, etc.) and breadth of experience is shown to be an important factor driving the performance of new ventures, with the number of previous jobs positively related to new venture performance (Lumpkin and Marvel 2007). Indeed, Lumpkin and Marvel (2007) states that previous employment is the source of most start-up ideas, so before even beginning the start-up process, a potential entrepreneur with some work experience is in a better position than an entrepreneur with more limited experience. In contrast to this positive relationships, Lumpkin and Marvel (2007) also discovered that for radical innovation, it may be preferable to know less about the processes for developing the product and serving the market as this may lead to a myopic point of view which in turn would limit the radicalism of any future innovations. Lumpkin and Marvel's (2007) article and its mixed results is testament to the lack of conclusiveness within this research area.

The following sections aim to explore, in detail, the existing research into the impact of founder experience on new venture performance. These sections of the literature review will serve to create a conceptual framework on which to base the primary research element of this project.

2.5.1 Experience as a positive factor affecting new venture performance

Industry experience has been shown to have a positive impact on new venture performance (Delmar and Shane 2006; Dyke *et al.* 1992; Song *et al.* 2008). Delmar and Shane (2006) examined the effect of both industry and start-up experience on the performance of new ventures and found there to be a positive relationship for both types of experience. The effects of this experience are non-linear and vary with venture age (Delmar and Shane, 2006). There is a specific time frame in which it is advantageous to have had previous experience (that is, the early stages of business development) but experience exhibits diminishing returns over time and eventually the firms founded by people with previous experience will be matched in performance and rate of survival by those firms without founder experience (Delmar and Shane, 2006). Delmar and Shane's (2006) study comments on the previous research in this area and suggests that any direct, linear link between experience and success is due to samples that are biased in favour of successful ventures. This selection bias is due to the fact that it is clearly easier to contact firms that are still operating than it is to contact the former owners of firms that have gone bust.

Dyke *et al.* (1992) found previous management to have a positive relationship with firm performance for each of the industries involved in their study. Stone and Tudor (2005) also found a positive relationship between management experience and firm performance. However, Stone and Tudor (2005) stated that the nature of the experience is important and that executive-level management experience is more influential than lower level management experience. Further arguments for the importance of the nature of management experience are proposed by McGee *et al.* (1995) who state that for high tech ventures greater performance is achieved if the manager's experience is directly related to the new venture's technical area.

Industry experience, start-up experience and management experience are typically considered to have a positive relationship with firm performance (Delmar and Shane 2006; Dyke *et al.* 1992; Song *et al.* 2008, Reuber and Fischer 1994). However, Kessler (2007) found there to be a negative relationship between both start-up and management experience and the performance of new ventures in developing markets. Kessler's (2007) research did not find the same to hold true in developed markets and as Ireland is a developed market the factors of start-up and management experience will remain to be positive elements of the conceptual framework for the purposes of this study.

Delmar and Shane (2006) found that experience might lead to an increase in the chances of survival without an increase in performance. Other articles that tackle the effect of founder experience on performance *and* survival draw opposing conclusions to those of Delmar and Shane (2006): Delmar and Shane's (2006) findings are inconsistent with the findings of Gimeno *et al.* (1997) that put forward the contradictory notion that while performance may increase (with increased founder experience), survival is unaffected. Taken together, the findings of Delmar and Shane (2006), Gimeno *et al.* (1997) suggest that, in terms of experience, there is no established relationship between performance and survival. The focus of this article is on firm performance as affected by founder experience. It seems likely that case study research of the relationship between firm survival and founder experience could yield interesting results that would help to further develop a general model for how survival may be determined by experience. This is, however, beyond the scope of this research.

In summation, industry experience is shown to have a positive relationship with new venture performance and so will be included in the conceptual framework as a positive element of founder experience. Similarly, both management experience and start-up experience are shown to have a positive relationship with the performance of new ventures and so will be included alongside industry experience as positive elements of a founder's experience in the conceptual framework. Figure 2.1, below, shows the positive elements of experience that will be included in the conceptual framework.

Figure 2.1: Positive Elements of Conceptual Framework

Positive Elements:

- Industry Experience
- Start-up Experience
- Management Experience

2.5.2 Experience as a negative factor affecting new venture performance

Chandler (1996) found a negative relationship between the application of skills and abilities acquired pre-start-up and the performance of the new venture. A possible explanation for this unexpected result was that founders had incorrectly learned the skills and abilities or applied them too rigidly in the new business environment (Chandler, 1996). Chandler (1996) qualifies the finding that experience is a negative factor affecting firm performance and provides the following measures to combat the potentially hazardous affects of pre-start-up skills: Positive relationships between new venture performance and the application of skills acquired pre-start-up could be achieved when there is a broad range of flexibly-applied skills as opposed to a more limited set of skills or skills applied without due consideration of the new venture's environment (Chandler, 1996):

> "…if experience is to be beneficial to a start-up company, the knowledge, skills and abilities learned through experience must be transferred from a pre-ownership situation to the setting of an emerging business." (Chandler, 1996, p51)

Starr and Bygrave (1992) and Gartner *et al.* (1999) report similar conclusions to Chandler (1996). These authors state that an inflexibility resulting from previous experience that causes the entrepreneur to believe they know more than they do about the environment in which they are operating can lead to reduced performance. This failure to recognise the particular characteristics of the environment in which the new firm operates may lead to the incorrect application of previously-learned skills (Chandler 1996).

This negative factor (the application of skills and abilities acquired pre-start-up) is worth investigating at a qualitative level based on the above articles. However, the mixed results prevalent in this research area are demonstrated by the fact that two authors (Shepherd *et al.*, cited in Delmar and Shane 2006) state that the skills and abilities transferred from previous activities are advantageous to the entrepreneur. These conflicting results make the experiential factor more worthy of investigation.

According to Dyke *et al.* (1992), another negative (or, at best, insignificant) aspect of previous experience is educational experience. Dyke *et al.* (1992) found that direct experiential learning is more useful than educational experience. Furthermore, Dyke *et al.* (1992) were unable to find a positive relationship between educational experience and performance. Significantly, in some circumstances, educational experience is shown to have a negative relationship with the performance of a new venture (Dyke *et al.* 1992). Kalra and Soberman (2008) found that training (a form of educational experience) may cause managers to overemphasise competitors pay-offs and so by focusing too highly on relative performance (as opposed to absolute performance) they negatively affect the performance of the firm. Backes-Gellner and Werner (2007) found that educational experience varies between being beneficial to firm performance and an insignificant factor determining new venture performance. Due to information asymmetry in high-tech or innovative start-ups, formal education can add credibility to the founders proposal when dealing with third parties who may not fully understand the business (Backes-Gellner and Werner 2007). Traditional start-ups, on the other hand, lack this information asymmetry and, therefore, formal education is found to be an insignificant factor in determining the success of a new venture (Backes-Gellner and Werner 2007).

Lumpkin and Marvel (2007) states that formal education is beneficial to new ventures. Formal education, when combined with experience depth displays a significant, positive relationship with radical innovation - radical innovation having a positive effect on firm performance (Lumpkin and Marvel 2007). Additionally, entrepreneur's will, in general, recognise only those opportunities that relate to their knowledge base (Venkataraman, cited in Lumpkin and Marvel 2007). It may be assumed on the basis of Venkataraman's (1997) finding that educational experience can help potential entrepreneurs with the early development of a firm. Education as a factor influencing firm performance has had mixed results in previous research. The fact that educational experience may be a negative factor influencing performance is an interesting and unexpected result. For the purposes of the conceptual framework, this will be included as a negative influence on performance.

In summation, the effect of the application of skills and abilities acquired pre-start-up and educational experience on new venture performance is unclear. Some evidence for positive relationships are shown while some evidence for negative relationships are also argued. As these factors are not shown to be purely positive factors influencing new venture performance they will be included as possible negative factors for the purposes of the conceptual framework. Figure 2.2, below, shows the negative elements of experience that will be included in the conceptual framework.

Figure 2.2: Negative Elements of Conceptual Framework

Negative Elements:
- Application of Skills/Abilities
  Skills Acquired Pre-Start-Up
- Education

2.5.3 Decision speed as a negative moderating factor influencing the relationship between founder experience and new venture performance

As a founder's experience grows, they will typically make faster decisions (Forbes 2005). Forbes' (2005) study found a positive relationship between decision speed and firm closure despite previous research to the contrary (Baum and Wally 2003; Eisenhardt 1989; Judge and Miller 1991). Therefore, by increasing the decision speed of a founder, previous new venture experience may be a liability (Forbes 2005; Perlow *et al.*, cited by Forbes 2005).

On the same topic, Gartner *et al.* (1999) reported that founder experience is an insignificant determinant of new venture performance. The ineffectiveness of experience as a determinant of success is due to the fact that experience may lead entrepreneurs to believe that they know more than they actually do about a new venture's environment and to, therefore, make incorrect assumptions about their business and the market place and to ultimately not be as flexible in their operations (Gartner *et al.* 1999).

In summation, founder experience is shown to have positive relationship with decision speed. Decision speed is, however, shown to have a negative relationship with new venture performance. Therefore, as shown in Figure 2.3 below, decision speed will be included in the conceptual framework as a negative moderating factor influencing the relationship between founder experience and new venture performance.

Figure 2.3: Negative Moderating Factor of Conceptual Framework

Negative Moderating Factor:

- Increased Decision Speed

2.5.4 Familiarity with the task environment as a positive moderating factor influencing the relationship between founder experience and new venture performance

Founders will benefit from previous exposure to the industry in which they are going to start a business. Previous experience will allow the entrepreneur to accumulate an awareness of the processes and norms present within the industry (Chandler 1996). This general knowledge of the business environment is defined as a familiarity with the task environment and is distinct from the hands-on, practical learning of skills that is part of industry experience (Chandler 1996). In their study on new venture performance, Cooper *et al.* (1994) stated that this general knowledge of the task environment has a positive effect on firm performance. Indeed, Lumpkin and Marvel (2007) argue that it is work experience that allows budding entrepreneurs to develop the skills necessary to develop entrepreneurial strategy and perform the entrepreneurial tasks that a founder is typically faced with. Similarly, Chandler (1996) found a positive relationship between familiarity with the task environment and new venture performance. Therefore, the founder need not have been previously involved in the same market as the new venture, it was necessary only to have knowledge of the business environment (often through previous work in another area of the industry) (Chandler, 1996).

In summation, a familiarity with the task environment as a result of previous experience has a positive effect on new venture performance. Thus, as shown in Figure 2.4 below, familiarity with the task environment will be included in the conceptual framework as a positive moderating factor influencing the relationship between founder experience and new venture performance.

Figure 2.4: Positive Moderating Factor of Conceptual Framework

Positive Moderating Factor: ❑ Familiarity with the Task Environment

2.6 Conceptual Framework

The above literature review on the effect of founder experience on the performance of a new venture results in the following conceptual framework (Figure 2.5). This model illustrates the relationship between all the factors discussed in the previous section and will be used as the basis for this article's investigation into the impact of founder experience on the performance of a new venture: