Diversity and Performance in Entrepreneurship: A Case for Selection Research

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BACKGROUND

Entrepreneurship is perceived as the “engine of our society.” Billions of dollars in venture capital (VC) funding annually are allotted to startups. However, founding women and women minorities are granted less than 3% and 1% of those funds, respectively. Not only is the VC investment process discriminatory, it is ineffective. Research shows that 90% of venture-backed startups fail, and only 10% of investors receive a return on their investment.

A primary reason: lack of objective human capital data in decision-making. Decisions made without data introduce much subjectivity and bias, resulting in low entrepreneurial diversity and performance, and wasted investor money.

Venture Capital decision-making is akin to decision making in the employee selection process: Venture capitalists must make decisions about whether or not the entrepreneurs will be future high performers. The difference is that the decisions are often higher financial stakes for the investor and at the team-level.

THE RESEARCH

The purpose of this research is to:

1. Leverage a century’s worth of selection research and practice to inform investment decision-making
2. Apply psychometric assessment logic from I-O Psychology to VC and entrepreneurship.

GAPS IN SCIENCE AND PRACTICE

SCIENCE GAPS: Individual differences are largely ignored when examining reasons for startup success and failure. One reason is because prior research has not been able to establish a strong relationship between individual differences and performance. This is in part because the criterion is operationalized at the organizational level instead of the individual (performance behaviors) level.

PRACTICE GAPS: Current VC decision-making relies on methods — referrals, unstructured interviews, and reference calls — long found to be poorly predictive, often biased, and subjective.

APPLYING SELECTION CONCEPTS

In I-O psychology, selection is operationalized as a predictive hypothesis, mapping knowledge, skills, abilities, and other characteristics (KSAOs) to performance behaviors.

Although entrepreneurship cannot be reduced to a single, “traditional” job, it can be dissected and reduced to a series of tasks, behaviors, & KSAOs, the basis of job analysis.

Determinants of Performance:

KSAOs + Motivation = Performance Behaviors

Performance theory explains performance is a behavioral outcome and KSAOs + motivation are antecedents.

“JOB ANALYSIS” RESEARCH

DEFINING PERFORMANCE

• We reviewed entrepreneurial performance models, interviewed SMEs and entrepreneurs, and reviewed press content

• We identified eight dimensions of entrepreneurship performance

KS A MAPPING

• We conducted a qualitative meta-analysis of entrepreneurship performance and reviewed over 1,000 scientific studies
• We conceptually mapped KSAO predictors based on prior research

PREDICTIVE HYPOTHESIS

• Based on the predictive hypothesis we developed, we built a psychometric test to predict entrepreneurial performance
• We conducted validity analyses that provided evidence for content validity, internal structure, and convergent validity

FUTURE RESEARCH

This research lays a theoretical foundation for the science of startups, investor decision-making, and entrepreneurial self-awareness, while practically driving a more diverse, just, and successful entrepreneurial ecosystem.

• By defining performance behaviors, we can better understand how personality and individual differences relate to startup performance
• By providing investors with objective human capital data, we can help them make wiser, more objective, and less biased investment decisions.