

## DIVERSITY AND FOUNDER POWER IN GLOBAL START-UP TEAMS: IMPLICATIONS FOR STRATEGIC CONSENSUS

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### ABSTRACT

*Drawing on Attribution Theory, this paper argues that conditions at founding affect strategic consensus, and its evolution in Global Start ups. High Founder Power and Low Functional Diversity are hypothesized to produce a high level of Strategic consensus in the Global founding team. Time is hypothesized to moderate the relationship between Functional Diversity and Strategic Consensus and also the relationship between Founder Power and Strategic Consensus. Relative Experience and Relative Educational level of the most Powerful Founder are proposed as moderators of the relationship between Founder Power and Consensus. A model for Strategic Consensus in Global Startups is proposed.*

**Keywords:** attribution theory, founder power, strategic consensus

### 1. INTRODUCTION

Global firms have been frequently used in today's rapidly changing technological environments, in order to gain access to specific foreign markets, distribution channels, and expand productive capacity to create new products (Contractor & Lorange, 1988; Dodgson 1996; Kogut, 1988; Parkhe, 1993). Studies indicate that businesses imprint inertia over their decision making processes from the very moment that they are originated (Boecker, 1989, Hannan and Freeman, 1989). Imprinting Forces in time acquire their own inertia and lead companies to implement strategies that may or may not have the total support of the majority of the members in Top Management Team. These strategies can later become institutionalized and embedded in the company's best practices and organizational routines (DiMaggio & Powell, 1983; Meyer and Rowan, 1977). However, a considerable amount of support and agreement is needed upon the team members responsible for the initial implementation of a strategy. This team consists of founders that discuss about the best strategic choice that would be followed in a Global framework. Their Strategic Consensus is a key for successful implementation of a strategy, and, as a consequence, an important determinant of business performance.

Diversification strategies are most relevant for Global Startups and have been related to structure and to processes (Chandler, 1962; Fouraker & Stopford, 1968; Pitts, 1974; Wrigley, 1970). Moreover, following a path set by Rumelt (1974), researchers have focused on the performance implications of different diversification strategies (e.g., Bettis, 1981; Bettis & Hall, 1982; Montgomery, 1979). If the latter is true Strategic Consensus can affect the effectiveness of implementation of those strategies and imprint diversification strategies whose outcomes can lead to more or less business performance.

Strategic Consensus can also help to create organizational culture by social influence processes that trigger normative integration and facilitate learning and adaptation in new venture's uncertain conditions (Daniel & Mishra, 1995). Gordon and DiTomaso (1992) provided further empirical evidence for the impact of cultural strength and value consensus on performance. Bourgeois (1980) and Dess (1987) argued that most of the normative literature on strategic management suggests that Top Management Team's decision making is critical for organizational performance. Founding teams, similar to the analogue of a new born taken care by his family, should be even more important for the future development of a company from inception, and more critical for organizational performance and survival.

The importance of consensus has been frequently addressed by strategy scholars. Porter (1987) argued that strategy implementation is strongly related to the extent that the organizational leaders agree and are committed to a unitary purpose. However, although consensus can originate from strong agreements among the members, it can also come from pressures to agree in an uncertain situation, or from non-realistic expectations stemming from excessive optimism or confirmation bias (Hmieleski and Baron, 2009, Klayman & Ha, 1987). Under conditions of uncertainty and complexity, biases and heuristics can be an effective and efficient guide to decision making in entrepreneurial firms (Busenitz and Barney, 1997). Cognitive biases, specifically confirmation biases, are important predictors of entrepreneur's decision making outcomes (Busenitz and Barney, 1997). These biases differentiate entrepreneurs from non-

entrepreneurs, without which decision making under environmental uncertainty would be virtually impossible (Busenitz and Barney, 1997).

Some researchers have warned about the dangers of achieving agreements too soon, since it can lead to broad generalizations and biases which can lead to failure and reduced performance (Whyte 1998; Hmieleski and Baron, 2008; Brockner, Higgins & Low, 2004). Day, Gronn, Salas (2004) argued that quick agreements can harm team effectiveness and reduce team learning, which can seriously undermine new venture's adaptability and future performance.

Wooldridge and Floyd (1989) suggested that the study of consensus is impossible if it does not include the different facets in the formation of consensus, such as degree, and scope and locus of consensus. Researchers have also criticized that empirical studies conducted in organizational settings have been less interested in consensus formation, and more focused on the degree of consensus in the top management team and its relationship to organizational performance, without considering the nature of the development of consensus (e.g. DeWoot, Heyvaert and Martou, 1977–78; Grinyer and Norburn, 1977–78; Bourgeois, 1980; Hrebiniak and Snow, 1982; Walsh and Fahey, 1986; Dess, 1987).

Given the importance of consensus and its evolution for determining initial and future performance in Global Start ups, setting the initial strategic intent and affecting social and learning process at the onset of a business, it is surprising that no study has studied how consensus formation takes place and evolves over time on Global Startup ventures.

In order to fill this gap in then literature this study contributes to clarify how consensus is formed at the startup level in Global startup teams. Global Start up team, are nascent entrepreneurs that have already made the transition to own part of the business and put their effort and commitment into the new venture. This study contributes to the literature on consensus formation by analyzing the temporal effects on consensus formation in startups and the effect of the team composition, the characteristics of the main founders and their interaction on strategic consensus.

Since Top Management Teams are similar to Global Start up teams, except that Global Start up team members can also share ownership and management responsibilities in the company, it is tempting to argue in favor of the traditional argument of Top Management Team literature (Hambrick & Mason, 1984) that diversity in demographic characteristics in Global Startup Teams is negatively related to consensus as well.

However, Global Startup teams have different dynamics than Top Management Teams. For example, entrepreneurial teams might value other member's contributions more since the risk of uncertainty and environmental dynamism can be buffered by a carefully consideration of experienced members, who are knowledgeable, have distinct insights and can detect an opportunity where none of the other members have seen it. Therefore, an effective Global Start up team can also be related to individuals from different backgrounds (e.g., Bantel & Jackson, 1989).

Moreover, contrary to previous studies that found a direct relationship between consensus and performance, Dess and Origer (1987), Priem (1990), and West and Schwenk (1996) found that there was no significant relationship between consensus and performance in Top Management Teams, even after moderating by type of industry and environmental dynamism. This raises a question mark in the relationship between consensus and performance in Global Start ups where environmental dynamism is high.

This study argues that the relationship consensus-performance has distinctive antecedents and is different from that of Top Management Teams. It also suggests that this relationship would also evolve in time such that the extent of consensus at the inception of a business new venture would be different than the consensus later in the business cycle, depending on team initial composition.

Basically, and based on literature on social sharedness (see Tindale and Kameda 2000 for a review), this study analyses the relationship to Strategic Consensus in Global Start up teams of two predictors: 1) the Functional diversity in the Global Start up Team, 2) the influence of the most powerful founder.

The first captures the composition of the team members. The second characterizes the influence of a main founder power or influence on the decision making process and its interaction with the rest of the Global Startup team. In this way this study complements the existing studies on strategic consensus by taking not only the group level approach (the composition) to strategic consensus, but also the dyadic

approach (the interaction) at the dyadic level (the influence of the most powerful founder) which has been completely disregarded on previous research. Two moderating factors are suggested in the relationship between founder power and strategic consensus: Relative Experience and Relative level of education of the most powerful founder to the rest of the founding team.

Finally, although Knight et al 1999 suggest that process variables should be considered in the relationship between diversity and consensus, the focus of this study is on initial conditions for consensus and its effect over time. Therefore, process variables are considered endogenous in this model.

In the following section this study will first introduce the concept of founder power and how it relates to strategic consensus. Second, it will introduce the concept of Cognitive Centrality of the most powerful founder and analyze the biases that both the main founder and the rest of the Global Start up team, make in achieving consensus by different psychological mechanisms such as Expectations, Motivations, Causal Schemata and Escalation of Commitment. Moderators are also derived for the relationship between Founder and Strategic Consensus, such as Relative Industry Experience and Relative Educational Degree. Third, it will introduce the concept of Transactive Memory to explain how Functional diversity is related to Strategic Consensus. Finally some methodology is proposed and some implications for management practitioners are derived.

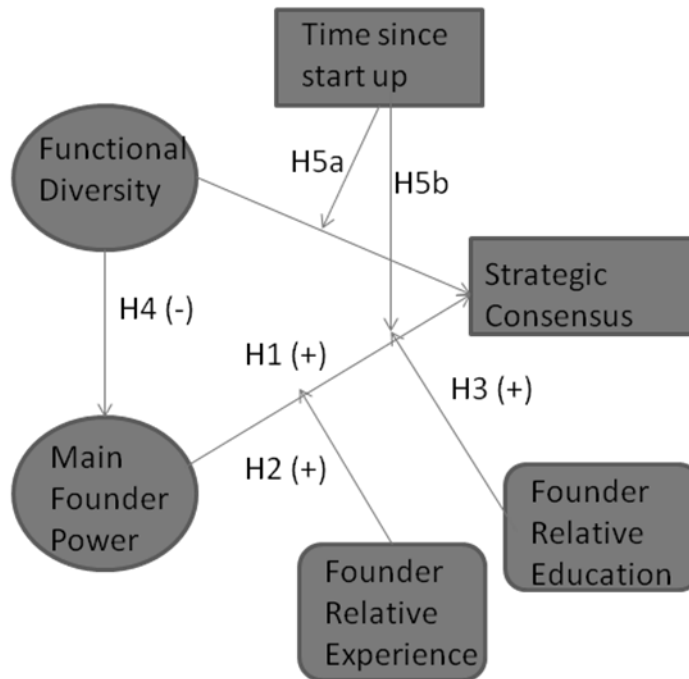
## **2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

Previous research on Top Management Team literature has considered that consensus (Knight et al 1999) and performance (Hambrick & Mason, 1984) are negatively related to heterogeneity of demographic characteristics. This is supported by Upper echelons research which poses that observable demographic characteristics are directly related to managerial perception and shared mental models (Finklestein and Hambrick, 1996) which, in turn, determine strategic action. According to this theory, team diversity in demographic characteristics narrows the shared mental model's overlap in top management teams and leads them to perceive diverse perspectives about the appropriate course of action. This, in turn, can hurt performance by disagreement, relationship conflict and decision paralysis (Wiersema and Bantel, 1992). This study analyzes argues that consensus formation at the startups does not stem from demographic homogeneity, but from a more elaborate interaction of demographic variables at the team level and the power of the main founder. The model proposed is presented on Figure 1 and will be described in more detail the following section.

### **2.1. Main founder Power and Strategic Consensus**

Main Founders in Global Start up teams tend to concentrate a great amount of power over the rest of the founding team (Taguiri & Davis, 1992). The reason for this is 1) most of the time one founder is the major stakeholder in the company therefore it is in his/her best interest to make the decisions him/her self to maximize predictability; 2 ) The main founder most likely has experience in the business and has some scarce resources (tacit knowledge, capital, human capital), that he/she can apply in the business in a unique way, which, according to Resource Based View (e.g., Habbershon & Williams, 1999; Wernerfelt, 1984), would represent a competitive advantage

Figure 1. Strategic Consensus Model in Global Start ups



However “great Powers come with great responsibilities”, and what can be considered an asset can also be a liability. For example, entrepreneurship literature found that individuals who have a higher concentration of power, have a strong desire for leadership and authority for decision making (Harvey & Evans, 1994), which can impede sensible decision making (Daily & Dollinger, 1993). They also can dictate strategy, choose the developmental path of the company (Schulze et al., 2003a), be authoritarian, lack trust and planning (Dyer & Handler, 1994; Kelly, Athanassiou, & Crittenden, 2000) and use just a few managerial tools (Kelly et al., 2000). Indeed, start-up teams with high ownership concentration tend to have less participative atmosphere (Ronstadt, 1984). Not only do the other members refrain from challenging the belief structure of the powerful controlling individuals with new insights (Walsh & Fahey, 1986), but they are often reluctant to seek out advice and assistance from other members (Gersick et al., 1997).

On the other hand, Hardy (1996) argues that the ability to bring about effective Strategic Change depends more on its implementation rather than its formulation. In this article the author argues that power is an important tool that provides the energy for strategic action among organizational members. This provides the momentum necessary for strategic implementation without which status quo and organizational paralysis may occur.

Put differently, too much power can be a double edge sword, which can lead to consensus without a careful consideration of alternatives, and in other cases can facilitate implementation of an strategic plan. To solve this power conundrum, this study draws on literature on Social Sharedness since it represents the mechanisms by which mental models are shared within a team. According to Social Sharedness theory (see Tindale and Kameda, 2000 for a review), the social processes by which a founder shares his/her mental model with the rest of the team members depend on his/her cognitive centrality. Cognitive centrality occurs when the founder’s mental models overlap with that of the other founders. In this case,

the more knowledge/information that a founder shares with other founders, the more likely it is that those members would perceive that knowledge/information as the correct course of action (Tindale and Kameda, 2000). However, cognitive centrality is also affected by the status or power that a team member has, which affects knowledge sharing with other members. Therefore, a powerful founder with cognitive centrality can have a pervasive influence over other members of the team, affecting knowledge sharing and the degree of consensus within the team of founders. Therefore, this study chooses cognitive centrality as its theoretical lens for analyzing the relationship between power and strategic consensus.

## 2.2. Cognitive Centrality

According to Social Sharedness theory cognitive centrality states that the greater the overlap of information that any given member has relative to the average information overlap held by the other members, the higher that member's cognitive centrality. Many empirical tests of this relationship have drawn similar results. Kameda et al, 1997, in Study 2, showed that when the minority person was most cognitively central, the group went with the minority position (over the majority position) 67 percent of the time. When the minority person was most peripheral, the minority won only 42 percent of the time. In addition, groups were considerably more confident in conditions where the central minority person's preference was chosen by the group. Thus, being the most central person in the group allows that person a greater degree of influence, even when is/her preferences are the minority (Tindale & Kameda, 2000).

On the other hand, the founder with cognitive centrality has a broader scope of industrial experiences, which leads him/her to codify information that the other participants would perceive as familiar (Tindale & Kameda, 2000). The effect of common knowledge on decision making seem has been proved to be a strong predictor in group decision making. A founder with cognitive centrality and power is perceived as "appropriate" because he/she represent the common beliefs of the group (Tindale, Smith, Thomas, Filkins, & Sheffey, 1996). These common beliefs, in turn, if perceived as relevant for the decision making context, such as extensive industry experience or higher levels of education relative to the rest of the members in a startup team, increase the possibility that the other members will agree with the main founder and increase the strength of consensus (Laughlin & Ellis, 1986). Similarly, a higher level of education allows a founder to analyze a causal relationships, convey common sense and improve his accuracy, which increases the chances that his/her mental models will overlap with that of the other members' mental models (Tindale et al., 1996).

Power is defined here as the capacity of the actors to exert their will. This is consistent with definitions of scholars such as Hickson, Lee, Scheck, & Pennings (1970); Pfeiffer (1981). This power stems from the founder's ability to cope with environmental uncertainty, which can be directed inwards or outwards (Filkenstein, 1992). This research is concerned only with internal sources of power, not because the external are less important, but because Global Start ups have less power for buffering from external environmental uncertainty. Some authors have called this "Liability of Newness" (Stinchcombe, 1965). It is not hard to imagine, from the perspective of top management teams, why some managers can create uncertainty by failing to provide a consistent strategic plan that can provide direction and sustainability. Thus, it is expected that a powerful founder would buffer even more the organization from internal uncertainty by influencing decision making process (Kotter, 1982), increasing alternatives considered (Tushman & Romanelly, 1985), and improving information flows (Gray and Ariss, 1985).

It follows that an experienced founder, who has a high cognitive centrality, would also tend to concentrate a high amount of ownership, which in turn would lead him to have more power over the rest of the members of the Global Start up team to make the necessary changes that he/she sees fit.

These sources of power (cognitive centrality and ownership), are consistent with Filkenstein's (1992) study on power in top management teams, which involves 4 categories: structural power, ownership power, expert power, and prestige. For the purpose of this study only expert and structural power would be considered as relevant since the other sources are yet to be developed in the start up of a business.

In sum, a Powerful founder tends to concentrate a great amount of expert power and ownership in their hands. That expertise is likely to overlap with the knowledge or information held by the rest of the members in the Global Start up team. This overlap, in turn, leads him/her to have a cognitive centrality relative to the other members of the team to perceive the founder's power as legitimate thus, increasing the degree of consensus as a team.



In the next section I will draw on social sharedness literature to analyze the 3 psychological mechanisms by which the other team members would be biased towards the founder's mental models (cognitive centrality rather than their own judgment call. Two level of analysis would be studied, one at the team level and the other at the main founder level (founder with the greatest amount of power).

### **2.3. Cognitive Centrality and Attribution in the Founding team**

Although there are different schools of thoughts (e.g. ethno-methodology, sociological phenomenology), a major contribution in attribution theory was made by Fritz Heider (1958). He was concerned with interpersonal perception which depends on the processes by which people make inferences from each other. For example an individual attitude can be attributed to a variety of causes such as environmental and personal, however "common sense rules of every day's life bias us strongly toward seeing people as the cause of their own behavior" (Calder 2004, p. 363). At the core of this theory's assumptions is that behavior "engulf the field" of potential causes, and that dispositions are inferred more strongly if external (situational) forces are weak and if the actor seems to have the ability and motivation to perform the action (Calder, 1977). According to this theory, this study argues that three concepts will be directly related to attributions in founding teams: Expectations, Motivations and Causal Schemata, which we will discuss in the following section.

### **2.4. Expectations**

Expectations that the other founding team members place on the most powerful founder are high because the most powerful founder usually draw on extensive previous experience in the industry, has a high ownership stake which assures them he/she would be motivated to perform effectively, be able to draw important social capital, and be perceived to have specific knowledge, skills and abilities. These expectations bias the rest of the members to endorse the main founder's decision over the majority rule, which leads to a strong consensus (Tindale and Kameda, 2000). The main founder raises the expectation of the rest of the founders that he/she would increase the companies welfare (and therefore their own) by owning resources that are rare, valuable, non imitable and hard to substitute (Barney, 1991), which would give the business a competitive advantage, according to Resource based View of the firm (Barney, 1991, Habbershon & Williams, 1999; Wernerfelt, 1984). This suggests, according to Attribution theory, that if the rest of the founding team has high expectations on a powerful founder, a positive event that confirms those expectations would be attributed to the main founder, and a negative event would be ignored, unless there is a clear casual attribution that links the founder's behavior to that negative outcome.

Moreover, there is evidence that a good behavior of a liked person and the bad behavior of a disliked person are attributed to personal characteristics rather than external factors, whereas inconsistent behavior is attributed to situational factors (Kelley & Michela, 1980). Therefore, a powerful liked founder can bias the rest of the founding team to over-attribute failure to external causes, and over-attribute success to internal factors (him/herself).

### **2.5. Motivation**

Motivation is also important in attribution theory. For example, a person might be concerned with a particular causal explanation that serves his/her interests and not much interested on evaluating all the other alternatives in an open ended manner. Those interests can be related to self-esteem, social standing or sense of competence; and they can leave little room for an objective consideration of all the causal relationships (Gordon and Grahan, 2006). Motivation is even more salient whenever there is dependency of the perceiver on another person. In the case of the founding team the power one founder has over the rest of the founding team would create this dependency, which motivates the founders to look for causal explanation that serves their own interest on higher profits, and bias them towards the evaluation of alternatives that serves those purposes. Berscheid et al (1976) confirmed this finding in an experiment where partners of the opposite sex were the target of attention of their partners who were dating them. It was found that these subjects made more extreme and confidence trait inferences about their target partners.

### **2.6. Causal Schemata**

Functional Specialization suggests that founding team members would attribute different perceptions according to the way they process information. Different areas of specialization would prioritize different pieces of information for processing, and can also influence the perception of correlation and its use,

causing what Chapman and Chapman (1969) called “illusory correlation”. Therefore a power founder’s causal schema can be perceived as the cause of an outcome regardless of the evidence supporting the opposite. This relationship is called in literature causal schemata and is defined as a “description of the common person’s conception of how two or more causes combine to produce a certain effect” (Kelley & Michella, 1980, p. 471).

In all, given the prevalence of these three factors (expectations, motivation and causal schemata) in founding team settings, a powerful founder can hinder strategic change by creating dependencies on his/her knowledge. This leads the less powerful founders to perceive the cognitive centrality of the founder as the cause of success.

## **2.7. Cognitive Centrality and Attribution of the Main Founder**

### **2.7.1. Escalation of commitment**

Given this “attribution effect” due to expectations, motivation and causal schemata that a powerful founders has on Global Start up teams, he/she would tend to “pull a victory out of a success” and escalate commitment (Hitt et al 2005, p. 325). Escalation of commitment research suggests that people that use sunk costs arguments can be very persuasive in forming consensus about a decision that has a non zero probability for success regardless of a high probability of failure. Therefore, a founder who already made an investment in the company that is not recoverable uses this sunk cost argument and can lead the rest of the group to agree on issues that might have a slim probability of success and a high probability of failure. Although Escalation of Commitment is a multidimensional construct, two theories can explain why a founder that already made a sunk investment would continue to invest on alternatives that have low probabilities of success: Prospective Theory (Kahneman & Tversky, 1979) and Self Justification Theory (Festinger 1957). Prospective Theory explains individual risk taking behavior in conditions of uncertainty by framing decision making criteria in a new equilibrium that gives more weight to recover past losses than to expected gains. This can be considered an irrational from the economic point of view. Self Justification approach refers to the founder’s unwillingness to accept that previous allocation decisions were wrong, which leads the decision maker to continue “throwing good money after bad” Although this behavior has a strong emotional context, the only alternatives that are considered to explain a failed outcome are the ones that rationally justify the behavior, and not the alternatives that most likely could have contributed to the outcome. This is consistent with psychological literature which states that once individuals are committed to a course of action, and this commitment is publicly acknowledged, they are reluctant to change (Staw, 1976) and escalate their commitment.

Albeit it is not the purpose of this paper to specify which of these theories predicts better to escalating of commitment, it is important to mention them since they are anchored on past organizational research and are related to founder power and consensus.

Therefore, the net effect of all these biases is that the strategy proposed by the founder will be assumed to be the correct one by both the founder and the rest of the stat up team, and subsequent evidence that the strategy is not giving satisfactory results, would likely be disregarded and attributed to external circumstances. Thus,

*Proposition 1. Main Founder Power is positively related to Strategic Consensus in Global Start up business ventures.*

## **2.8. Relative Industry Experience of the Most Powerful Founder**

Hambrick and Mason (1984) proposed a model of how a manager’s cognitive base influences managerial perception in decision making processes. This happens through selective perception, by which managers focus their attention on the stimuli that relates to the areas that they are familiar with in the environment. These areas narrows their field of vision and the information filtered through their cognitive lenses.

Individual cognitive base evolves from experience, which includes training and background (Cyert & March, 1963). Some demographic characteristics have also been related to beliefs, values and viewpoints. For example age has been negatively related to the capacity to process new information (Taylor, 1975) and to make risky decision (Carlson & Karls, 1970; Vroom & Pahl, 1971). On the other hand some researchers argue that younger managers tend to be more risk oriented and low executives’ tenure has been associated with growth (Child, 1974; Hart & Mellons, 1970) and volatility of sales and earnings.

Long tenure members also develop standardized ways of communicating consistent with their previous experiences. Therefore as they accumulate more experience, they are likely to defend those behaviors that lead them to succeed previously and be less receptive towards communication that threaten those behaviors (Staw, 1977). Therefore, more tenured members would tend to be less inclined to make strategic changes and be more inclined to agree with behaviors that led to success in the past.

Now, let's consider how diversity on industry experience affects strategic consensus, taking into consideration the power level of the founder. If the main founder is powerful and old, his/her cognitive base will act like filters through which information is processed. Strategic change would be hindered since new ideas that are different from the causal schemata of the founder will go unnoticed or disregarded.

Moreover, if the other members of the founding team are low in average industry experience they will tend to have higher expectations in the founder criteria for decision making, and therefore over-attribute success to the founder and over-attribute failure to the external environment.

On the other hand if the other members of the founding team are high in industry experience and the founder is low in Power compared with that of the average experience of the other members, they would be likely to analyze founder decision making according to their own cognitive lens, or causal schemata, which will lead to more communication and sharing of ideas or eventually point out to a major disagreement that can lead to deviate from previous consensus. Therefore,

*Proposition 2. The Relative Average Industry experience of the most powerful founder relative to the rest of the Global Start up team moderates the relationship between the most powerful founder and strategic consensus, such that the relationship will be stronger for High Relative Industry experience and weaker for Low Relative Industry experience of the most powerful Founder.*

## **2.9. Relative Average Education Level of the Most Powerful Founder**

Selection of a specialized area of education reflects an individual's cognitive style and personality (Holland, 1973). The curriculum chosen, in turn, changes perspectives and outlooks. Hitts and Tyler 1991 found that the academic backgrounds that executives had influenced their strategic decision making in acquisitions of candidates. Given the influence that a powerful founder has on the rest of the founders, a main founder with high amount of power and a high level of education relative to the average educational level of the founders in the team, would bias the latter to attribute to the founder the causal inference for success and attribute to external factors the causal inference for failure. Again, motivation and expectation play an important role as mechanisms for this attribution, which will lead to foster strategic consensus, rather than change.

Conversely, founders with low level of education relative to the average experience of the other founders would rely on the other founding members for ideas and discussion. If the other members have a high average degree of education, they will be able to draw on a greater diversity of causal inferences, which in turn will foster communication and exchange of ideas that will foster strategic change rather than consensus. Therefore,

*Proposition 3. The relative degree of education of the founder relative to the rest of the Global Start up team moderates the relationship between the main founder power and strategic consensus, such that the relationship will be stronger for high relative education and weaker for low relative education of the most powerful Founder.*

## **2.10. Functional Diversity and Founder Power**

One of the contributions that the rest of the founding teams put on the table is their functional experience. Similar to Li & Zhang's (2007) definition of functional experience this study defines functional experience as "managers' working experience in various functional areas, including, sales/marketing, R&D/engineering, manufacturing, finance, and administration".

According to Resource based View of the firm (Barney, 1991; Habbershon & Williams, 1999; Wernerfelt, 1984), the more valuable, rare, inimitable and non substitutable is the functional experience of a founding team member, the more his/her bargaining power over the rest of the founders. More functional diversity of the members of the Global Start up team renders the major founder with less power since his particular experience is less important compared to that of the rest of the team. Drawing from other sources of



Power such as Ownership, Reputation or Social Capital (Filkenstein, 1992) can help to overcome this power loss. Therefore,

*Proposition 4. The more the Functional diversity in the Global startup team, the less the Main Founder's Power in the startup team.*

Moreover, functional diversity not only affects the main power but also the degree of strategic consensus.

### **2.11. Time as Moderator of Functional Diversity and Strategic Consensus Relationship**

There are many factors that influence consensus such as specific environment in which a group operates, the level of interdependence among members, the nature of the task, and where the group is in the decision-making process (Schneider & Angelmar, 1993). In the case of Global Start ups the interdependence among the Global Start up founding team is usually high since they have to coordinate efforts and interact frequently to achieve their uncertain goals.

Eisenhardt and Bourgeois (1988), argue that diversity in management teams results in a wider range of strategic decisions. There is a huge stream of research that suggests that heterogeneity is positively related to creativity and decision making quality in work teams (see Jackson, May and Whitney, 1995 for a review). Similarly, Pfeiffer (1983), argue that “most change and adaptations accomplished in organizations are done by bringing in persons from a different organizational background, with different perspectives and knowledge” (p. 325).

On the other hand, it is also suggested by Cannon-Bowers et al. (1993), that shared mental models are necessary for a quick adaptation and change in task demands. The logic behind this argument is that team members, in order to adapt effectively, must anticipate what the other team members are going to do and what they are going to need in order to do it.

In literature on social sharedness ‘metacognition’ is the knowledge about what one does and does not know (Metcalfe, 1996). Probably the best example of metacognitions in groups is *transactive memory* (Wegner, 1987). The concept of transactive memory is that a group encodes, stores and retrieves information in the same way as individuals do, but with the difference that individual group members can serve as memory functions much as external memory aids do. In the same way that collective effort can be assigned to different tasks among the members, memory storage can also be distributed among them. Wegner argues that functional specialization would help members of a group to rely on each others’ areas of specialization when they have to remember information that is related to their areas. For example a married couple, in which it is the wife’s responsibility to pay the bills and the husband’s responsibility to do the laundry; both would use the knowledge that the other is responsible for to complement their own activities. In this case the wife would not have to check out if the laundry is piling up, nor would the husband have to check every time that the bills are being paid. Hence, transactive memory allows teams to process more information than the sum of individuals separately. Whenever each member knows the task to be performed by the other members in the group, and vice versa, he/she is willing to share that knowledge with the other members given that reciprocal interdependence assures that each parts maximize the outcome by mutual cooperation. This allows each member to concentrate on his/her specific areas and rely on the other members’ knowledge to complement his/her own.

However, this is easier said than done. Although shared mental model can use transactive memory to develop such sharedness, transactive memory depends not only on what each member is going to do but also on who is doing what and when.

Similarly, Cannon-Bowers et al. (1993) argues that four types of interdependent mental models are important for team functioning. The equipment model, which regards operations (e.g. the what), the task model which regards strategies for performance and contingency planning, and the “team interaction model” (e.g. the when), which defines clear lines of communication and coordinative activities among the members (e.g. the who).

Under this logic, it is reasonable to infer that transactive memory doesn’t lead to shared mental models automatically and that it can take time to develop. After all if mental model are interdependent and a function of assets, strategies and the way people interact, it would be surprising that the members of a team would converge in their mental models since the beginning of the business, regardless of their functional similarity, as suggested by Upper Echelon Theory (Hambrick & Mason, 1984). Some studies have been made regarding the way mental models evolve over time. For example Brauner (1996) had

groups work on a city planning task, where the groups were composed of two teams – economic experts and social/ environmental experts. During early discussions, it was clear that the two teams had different mental models of the task. However, after the two group discussion sessions, a large degree of convergence was evident. This was in spite of the fact that the teams still differed in attitudes and social categories.

Tindale, Sheffey, (2002) found that partially shared information increased group's information processing capabilities and performance. This is consistent with research of Lorge & Salomon, (1962), who found that co-acting teams that were given the specific task to remember from a list of items individually, performed better than interacting teams that were given the task to remember the items as a group.

Functional diversity is also a partially shared function that allows to process information with boundary spanning mechanisms, and gives a clear message to other members about where to find that information (transactive memory). It also increases the viewpoints that each of the members has over the same kind of problems, and therefore it would lead in time to convergence of their mental model, as members discuss and analyze different approaches to problem solving and use previous experience performance as feedback mechanisms.

Although functional diversity is usually associated with less consensus, this study argues that it depends on the stage on which consensus is placed. For example, functional diversity in Global Start ups is likely to pay off in the end, since a wider range of perspectives may be more beneficial than unanimous consensus (Schneider & Angelmar, 1993). Furthermore, early in the decision-making process, when issues are uncertain, it may be advisable to maximize the number of viewpoints to aid in defining issues comprehensively (Walsh et al., 1988).

Functional diversity will also lead the members to avoid falling into to a hidden profile, since the wider pool of member's expertise would lead the members to see solutions that other members would have framed differently. This would also create more openness and respect for other points of view and would allow a process of negotiation in which the underlying member's assumptions are challenged for a greater good (increase business performance).

Kilduff et al (2000) study about experienced managers in business simulations showed that most successful teams started with different attributions of organizational success but later on they developed consensus over the course of the simulation. Functional diversity at the beginning of a business is usually predesigned to fit the business needs in a complementary manner. Therefore, functional diversity at the beginning increases compatibility between team members' capabilities and organizational outcomes (e.g. business performance). Moreover, if the organizational outcomes are as expected, functional diversity can allow team members to increase their Collective Efficacy in time (Bandura 1977).

Collective efficacy -the shared belief that the group can achieve the tasks at hand- is an important predictor of team effectiveness (Bandura, 1977). Functional diversity can increase Collective efficacy. Many studies have shown empirical evidence that some dissimilarity in functional expertise and education is related to team performance and effective problem solving as it foster the use of a broader range of cognitive skills (Cox & Blake, 1991; Eisenhardt & Schoonhoven, 1990; Keck, 1997). Similarly Cohen and Levinthal (1990) argue that a wider variety of knowledge structures and diverse educational majors improve company's performance as it increases the team's absorptive capabilities. Tjosvold (1988) found that marketing groups improved their completion of tasks when open discussions of opposing views were held within the team. Finally, Carpenter and Frederickson (2001) showed evidence that international experience and diverse educational background were positively related to firms' global strategic postures among TMTs.

Since functional diversity definition is directly related to each of the members' cognitive structures and educational background, it is reasonable to assume that functional diversity can lead to increased learning capabilities, better decision quality and performance, and an enhanced emphases in the Global Start up venture's strategic posture.

Therefore, later in time, functional diversity would be able to pay off and overcome the low consensus achieved in the first place. The direct and explicit relationship between higher performance and functional diversity would ensure that each member's contribution would be attributed to that increase in the

company's performance, enhancing and reinforcing the collective efficacy of the team of founders (Bandura 1977).

Moreover, Stasser (1988) argued that the need to reach consensus by conforming to the majority of the members that share the same preference, can lead to reduced information exchange and early consensus. Therefore, although it would be advisable that team members build confidence as soon as possible, Whytes (1998) argues that one should be cautious to encourage collective efficacy too early in time, since it can reduce performance by leading other members to avoid expressing opinions that are contrary to shared agreement (tacit or explicit) in the group. If members have low functional diversity, they are likely to comply with the perceived shared mental model without analyzing the fit of alternative solutions. A negative outcome later in time would prompt them to re-evaluate their position, distance themselves from the group's previous consensus and jeopardize strategic implementation (Verzberger, 1994). Therefore low functional diversity would tend to increase cognitive centrality of the founder and increase the premature consensus in the team of founders. Therefore,

*Proposition 5a. Time, moderates the relationship between Functional diversity and strategic consensus such that initially functional diversity is negatively related to strategic consensus, and later in time functional diversity is positively related to strategic consensus in Global Start up teams.*

### **2.12. Time as Moderator of the Main Founder Power and Strategic Consensus Relationship**

On the other hand, a powerful founder draws on his cognitive centrality to converge team mental model prematurely, and the team might agree to a decision without the provision of a period for discussion and a more careful analysis of alternatives. Cognitive centrality can lead to a premature closing (Karau & Kelly 1992, Kelly & Karau 1998, Kruglanski & Webster 1996) by the following reasons: First, it appears that most of the people are willing to present information that is shared by most of the members (Wittenbaum et al 1999). Second, group members do not like to change their initial preferences once formed (Brodbeck et al., 2002 and Greitemeyer & Schulz-Hardt, 2003). Therefore it is likely that a powerful founder would lead to higher strategic consensus in the beginning of the Global start up, however, as time goes by, the consequences of those decisions will show up, leading to a reassessment of each member's initial strategic position. Therefore, in later stages of the business cycle a powerful founder will create less consensus rather than more consensus. Members that initially agreed with initial strategic consensus that led to a negative outcome, would reduce their support to the most powerful founder and will be likely to defend more their positions and analyze more carefully the other alternatives available. Therefore,

*Proposition 5b. Time, moderates the relationship between the Power of the most powerful founder and strategic consensus such that founder power is positively related to strategic consensus, and later in time that Founder Power is negatively related to strategic consensus in Global Start up teams.*

### **3. DISCUSSION AND CONCLUSION**

It is in the gestation of a business that the amount of discretion is the highest, which, in turn highlights even more the importance of the influence of the founders in developing strategic plans and following a course of action. Consensus is a necessary condition to implement the initial strategy of a business that would later become imprinted in Organizational Routines (Meyer and Rowan 1977) and institutionalized in processes that gain legitimacy and their own inertia over time (DiMaggio and Powel 1983, Boecker, 1989). Therefore, analyzing performance factors that focuses on Strategic Implementation above and beyond previous work in organizational design and strategy formulation so thoroughly developed in the past (e.g. Chandler, 1962; Fouraker & Stopford, 1968; Pitts, 1974; Wrigley, 1970), can be a fruitful endeavor for predicting organizational performance, especially in Human Resource Management field.

This paper has identified two major predictors of Strategic Consensus: the functional diversity and the influence of the most powerful founder. The model proposed encompasses the various relationships between these two predictors and Strategic Consensus.

This model can help in assisting managers to be aware of the tradeoffs between diversity and power among the team of founders in order to achieve strategic consensus. This is very important when decisions require a substantial support from the rest of the founders and at the same time instill learning capabilities and adaptation to changing and dynamic environment. This seems to be the case of Global Start Up Venture, in which unpredictable technological advances requires new approaches to innovation and an effective strategy implementation, to be able to achieve competitive advantage.

For example, according to this model, if a Global venture requires and effective implementation of the strategic plan change while not compromising flexibility and absorptive capabilities, the relative educational background and the relative amount of industry experience of the most powerful founder relative to the rest of the team members, can be an important factor to take into account.

Likewise, it calls for attention when strategic consensus comes too soon due to a powerful founder that is perceived to be the one who “gets things done” is knowledgeable and therefore is perceived to have a legitimate power. Moreover, disastrous consequences might occur whenever a Global Start Up team with low functional diversity foster fast agreement over their shared mental models , escalate commitment over a sunk cost decision, and does not consider all the possibilities that might be concealed on a hidden profile.

Finally previous meta- analytic studies have made equivocal suggestion about the shape of the relationship between strategic performance and Strategic Consensus. Earley and Mosakowski (2000) have proposed a U shape relationship between team heterogeneity (diverse teams) and team effectiveness suggesting that team heterogeneity would be likely to pay off given sufficient time, as compared to moderately heterogeneous team. This is consistent with this study’s proposition that later in time team would become more effective and as a result develop more confidence in their interaction to achieve their goals, which in turn leads to a greater convergence of their mental models (i.e. Strategic Consensus). However there are other models that pose that the relationship is actually an inverse U shape, like the Jetten, Spears and Mantead (1998), which supports the idea that a moderate team diversity achieves the optimum performance. Therefore, more research is needed to understand the best model that fits this relationship. This research can shed light over a contingency approach to diversity/ performance relationship if the curve is compared to other environmental conditions or the extent of interdependence of the different functions performed by the startup team. In the case of Global Start Ups environmental uncertainty as well as complexity and interdependence within the functions seem to be the rule rather than the exception. It would be interesting to compare the proposed model with the curve for an environment with low environmental uncertainty and low function interdependence.

The purpose of this paper has been to bring up a new perspective about the antecedents and evolution of consensus in small entrepreneurial ventures, focusing in the star up team level of analysis. The validity of the conclusions is as good as its measures and theory behind them. In this sense this study relies on previous theoretical backgrounds from Social Sharedness Theory and Attribution Theory, that provides empirical evidence for these hypotheses. The next step would be to prove these hypotheses empirically and see if the model proposed fit these hypotheses.

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