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Member Experience, Use of External Assistance and Evaluation of Business Ideas

by Maw-Der Foo

How do members' experience and external interactions shape evaluation of the team's business idea? With a sample of 74 teams that participated in a business idea competition, we showed that experience as defined by size, mean work experience, and assistance from individuals with business founding experience related positively to the teams' business idea evaluations. The benefits of external founders are more pronounced for smaller than for larger teams. Having a founder in the team did not relate to idea evaluation but interaction effects showed smaller sized teams had worse evaluations if they did not have a founder in the team.

> "Take up one idea. Make that one idea your life—think of it, dream of it, live on that idea. Let the brain, muscles, nerves, every part of your body, be full of that idea, and just leave every other idea alone. This is the way to success." Swami Vivekananda (1863–1902)

The entrepreneurship literature probably agrees with the quote just given. Entrepreneurs can have multiple business ideas but at any one time, the entrepreneur may only have the time and energy to develop a limited number of ideas into viable businesses. Ideas are by themselves cheap and how favorably the ideas are evaluated determine whether they are commercially exploited. Especially crucial for nascent ventures are how people outside the team evaluate the ventures' ideas. In nascent ventures, which are ventures at the early stages prior to firm formation, entrepreneurs often lack resources and rely on external sources to provide these resources (Stevenson and Cruikshank 1997). For example, the entrepreneurs in Shane's

Maw-Der Foo is an assistant professor of Management and Entrepreneurship at the Leeds School of Business, University of Colorado, Boulder. His research focuses on affect in the workplace and he uses organizational behavior concepts to understand how entrepreneurs discover, evaluate and implement business opportunities. He teaches organizational behavior and entrepreneurship courses.

Address correspondence to: Maw-Der Foo, Management and Entrepreneurship Division, Leeds School of Business, University of Colorado, Boulder, 419 UCB, Boulder, CO 80309. Tel: +1-303-735-5423; E-mail: foom@colorado.edu.

(2000) case studies needed to secure licenses for the three-dimensional printing technology before they could implement the opportunities discovered. Similarly, Birley's (1986) entrepreneurs sought support from external resources in the form of equipment, space, and money. But for these external persons to provide resources, they may need to be convinced that the business idea is commercially viable.

But what leads to the business idea in the first place? Information from the entrepreneur's personal experiences and work contacts leads to unique information corridors enabling some people to recognize business opportunities (Shane and Venkataraman 2000). The business idea first generated can be crude and require refinement before it can be presented to external parties. And although one person may recognize the business idea, given the complexity of the marketplace, often a team collectively develops the idea into a marketable product or service. In fact, many high-growth ventures are started by several founders rather than by a single individual (Roberts 1991). Teams can access resources provided by team members and from member interactions with others outside of the team (Ancona and Caldwell 1998).

As information forms the cornerstone in the pursuit of entrepreneurial ideas (Shane 2000; Shane and Venkataraman 2000), we investigated how (1) information embedded in the experiences of team members and (2) the extent members use assistance from social contacts influence how people external to the team evaluate the teams' business ideas. The findings suggest that the experiences each member brings to the team (in terms of team size), and/or mean work experiences predict business idea evaluation. The findings also suggest founding experience matters but how this experience matters depends on team size. Small teams coupled with access to external assistance associated positively to business idea evaluation. The sample for this study is teams participating in a business plan competition. Such a sample examines teams at the early venturing stages, where external evaluations can be particularly critical; teams receiving positive evaluations may attract external resources, such as funding and assistance, that can help the team move to the next stage of venture development.

Although the study context (business plan competition) and outcome measure (business idea evaluation) followed that of Foo, Ong, and Wong (2005), their study (conducted in Singapore) found mixed effects of proportion of members with work experience on business idea evaluation. In fact, only one of their four regressions found this effect. Our study, conducted in the United States, went beyond their study by examining extent of work experience. Moreover, Foo, Ong, and Wong (2005) focused on experience within the team. We also investigated how teams may benefit from external assistance. Finally, they examined experience as defined by demographics (represented by age, education, and gender). We focused on business founding experience, as this experience is closely linked to the teams' task of developing business ideas. Although our study went beyond that of Foo, Wong, and Ong (2005), to better understand experience effects on business idea evaluation, this study should be read together with their findings. The next section reviews how experience (team size, work experience, and founding experience) and assistance from individuals outside of the venture relate to external evaluations of the teams' business ideas.

Theory Development

Shane and Venkataraman (2000) argued that people discover business opportunities due to the unique configu-

ration of knowledge they possess. This unique experience, derived from the work and social arenas, allows some individuals to comprehend and apply new information in ways others cannot. For example, Shane (2000) found that the three dimensional printing technology can be exploited in various commercial applications. Entrepreneurs can use the technology to manufacture pills, machines, artificial bones, and sculptures. In each instance, how the technology was used depended on the founder's background. Individuals with pharmaceutical experience used the technology to package medicines into pills, whereas individuals with machine design and manufacturing experience employed the same technology in the far different realm of machine production. The founders' experiences led to different information corridors that determined the technology's use. Although the business idea can be recognized by one individual, in high growth ventures, the idea is often developed by a team (Roberts 1991). Members' experience can affect the quality of the developed idea. Members can also avail themselves to assistance provided by social contacts (Birley 1986). Therefore, we need to investigate the collective experiences and the assistance provided by social contacts.

Each team member brings to the team a stock of information the team can draw from. The most basic index quantifying this stock is team size. Larger teams have potentially more skills, knowledge, experiences, and cognitive resources than smaller teams (Bantel and Jackson 1989). As expected, team size is a robust predictor of team performance (Roberts 1991). Team size is thus the first parameter we chose to consider in the present study. We also need to consider the members' work experience. For teams at the early stage of idea inception and planning, work experience matters in several ways. First, work experience sharpens the ability to identify business opportunities (Shane 2000). Second, more experienced teams could be better at persuading external gatekeepers of the viability of their project through better-articulated business ideas. The entrepreneurial idea needs to be clearly articulated so as to integrate different aspects of a business into a coherent and meaningful whole. Third, teams that include experienced members could signal the seriousness of their intent, which influences how people external to the team perceive the feasibility of their ideas. Research on early stage ventures supports the benefits of experience on team performance. For instance, MacMillan, Zemann, and Subbanarasimha (1987) found that within a pool of venture-capital funded firms, members of highly successful ventures had more related work experience. Beckman, Burton, and O'Reilly (2007) found experience of a venture's top management team at founding related positively to receiving venture capital (VC) funding and to publicly list the venture (Beckman, Burton, and O'Reilly 2007). Lester et al. (2006) found experience to relate positively to initial public offering (IPO) valuation. In the following discussion, we used mean work experience and divided the hypothesis into experience effects, as determined by what each member brings to the team, and experience as determined by mean work experience.

H1a: The business ideas of larger teams are evaluated more favorably by external evaluators.

H1b: The business ideas of teams whose members have more mean work experience are evaluated more favorably by external evaluators.

Among experiences relevant to entrepreneurship, founding experience is particularly important as individuals with founding experience may have special

attributes, skills, and experiences that add value to the team. They include alertness toward new business opportunities, and the ability to instinctively spot opportunities (Hills et al. 1998). The team can be guided by the founder's experience, opinions, and judgments, leading to better-articulated business ideas. The signalling effect of having a business founder in the team may lead to halo effects positively influencing how people external to the team evaluate the business idea. Starting a new venture is fraught with uncertainties, and having a business founder in the team may assure external parties that there is someone who can shepherd the team through this period.

H2a: The business ideas of teams with members who have business founding experience are evaluated more favorably by external evaluators.

Although member experiences are important, teams can also avail themselves to the experiences of individuals outside the team. Thus, new ventures are advised to develop relationships with constituents outside the venture (Street and Cameron 2007). Social contacts are valuable because these resource persons can provide information about raising capital, reaching customers, and sourcing and contracting with suppliers (Baron and Markman 2000). Numerous studies indicate that information advantages are gained from social networks (Ozgen and Baron 2007; Nahapiet and Ghoshal 1998; Eisenhardt 1989). For example, university spin-offs that develop and utilize relationships outside the venture had higher sales and higher sales growth (Walter, Auer, and Ritter 2006). Similar to the previous hypothesis, this study focused on founding experience, because individuals with this experience more so than other experiences could relate positively to the ability to shepherd the venture team through the uncertain and chaotic entrepreneurial process.

H2b: The business ideas of teams that obtain assistance from individuals with business founding experience outside their teams are evaluated more favorably by external evaluators.

Finally, we explore how team size moderates the effects of founding experience on evaluation of the teams' business ideas. Larger teams should benefit less from having a team member with business founding experience. Larger teams are likely to display a wide range of views and opinions (Foo, Wong, and Ong 2005; Amason and Sapienza 1997), which results in more debates among its members (Eisenhardt, Kahwajy, and Bourgeois III, 1998). Through debates, teams explore issues in greater depth, highlight "blind spots" and hidden assumptions, thus promoting innovative and creative problem solving (Eisenhardt, Kahwajy, and Bourgeois 1998; Amason and Sapienza 1997). As a result, teams are likely to either discover better business ideas, or to become more capable of articulating these ideas. In short, the diversity of experiences, skills, and opinions inherent to a larger team partially substitutes for those a business founder brings to the nascent venture. Thus, we hypothesize that:

H3a: Team size moderates the relationship between founding experience and external evaluation of a team's business idea, with greater team size weakening the positive relationship.

H3b: Team size moderates the relationship between receiving outside assistance and external evaluation of a team's business idea, with greater team size weakening the positive relationship.

Research Method

Sample and Procedures

Seventy-four teams each submitted a three- to five-page description of their business ideas for a competition organized by a university in the northeastern United States. This competition is part of the university's initiative to foster entrepreneurship and to create leading firms of the future. This competition provides a useful setting in which to study nascent ventures for several reasons. First, competitions of this nature are test beds for entrepreneurial ideas as well as avenues to meet potential investors (Ballon 1998). As testimony that this competition indeed functioned as a market for ideas, we noted that a number of teams received venture capital and business angel funding during the competition. Second, a condition for participation was that the teams had not received external funding. In other words, the competition offered a sample of teams at the idea conception and planning stage, rather than more advanced stages of the entrepreneurial journey. Third, the competition attracts individuals aspiring to launch high growth ventures, where teams, rather than lone entrepreneurs, may be the relevant unit of analysis. Despite these advantages, sample limitations are discussed in the last section.

Variables in the Study

Size. Team members were listed on the competition's entry form. The number of members listed was used as the measure of team size. Size ranged from 2 to 10 with a mean of 4.08 and a standard deviation of 1.8.

Mean Work Experience of the Team. This variable is the sum of members' work experience, calculated in years, divided by the number of team members. This information was extracted from the resumes submitted to the competition organizers. The mean work experience ranged from 0 to 6.21 years, with a mean of 1.26 and standard deviation of 1.22.

Teams with Business Founding Experience. Two graduate students separately coded the resumes. A team was coded as having a business founder when the resume specifically mentioned founding experience (for example, founder, co-founder, started the business/CEO, founder/CTO). If no founding experience was specifically mentioned, the team was coded as not having a business founder. The coders had 100 percent agreement on which teams had founding experience. This unusually high agreement level was expected as members were participating in a business plan competition and wanted to highlight any founding experiences. Teams with at least one member with business founding experience were coded as 1 and those without coded as 0. Fifteen teams had a business founder in the team.

Assistance of Business Founders Outside the Team. We asked the teams to list individuals outside the team with business founding experience that assisted them. This survey was distributed after the business ideas were submitted. Teams with such assistance were coded as 1, and those without coded as 0. We assured the teams that this information was confidential and in particular, the judges do not have access to their responses. This was to prevent teams from providing false or misleading information in the hope of influencing the judges' evaluations. Twenty-five teams received assistance from business founders outside the team.

Evaluation of the Business Idea

The dependent variable was the evaluation of the teams' business ideas. All the judges had experience in the venture creation process, whether as professional investors or business

founders. The plans were evaluated on five criteria: how well they "define the customer," "show high potential," "describe the product/service," "analyze the competitors," and "quantify the opportunity" (these criteria were also used by Foo, Wong, and Ong 2005). For each criterion, teams were evaluated via a 5-point scale ranging from 1 (*Poor*) to 5 (*Best*). Cronbach's alpha for the five items was 0.81 and all items loaded on one factor. In the competition, two judges evaluated each team; inter-rater reliabilities computed as an intra-class correlation coefficient of 0.79 (Shrout and Fleiss 1979). We calculated each team's score by aggregating the scores on the five criteria and averaging them.

Control Variables

Cooper, Gimeno-Gascon, and Woo (1994) argued that some business segments are easier to enter than others. The level of competition in different business segments also varies. Teams involved in high-technology products or services were given the code of 1 and the rest, a code of 0. We did not use finer-grained controls for industries because of the small sample size. Fifty-five teams had business ideas in high-technology areas.

Results

Descriptive Statistics

Table 1 shows the descriptive statistics and correlations. The mean work experience was 1.26 years (S.D. = 1.22), with a mean age for members of 26.70 years (S.D. = 3.97). Some 19 percent of the teams had members with business founding experience, and 39 percent sought assistance from business founders outside the team. Seventy-six percent of the ventures were classified as high-technology. Evaluations of the business ideas correlated positively with assistance obtained from business founders outside the team ($r = .23$, $p < .05$). However, the presence of business founders in the team did not correlate with the evaluations. The highest correlation was that between size and mean work experience (MWE) at −0.54 ($p < .01$), but this value was within 0.60 as suggested by Kennedy (1992). Despite the high correlation, as the results will show, size and mean work experience

Table 1
Pearson's Correlations, Means, and Standard Deviations

		Mean	SD	1	2	3	4	5
1	Evaluation of Business Idea	2.97	0.60					
2	High Tech	0.76	0.43	−0.31**				
3	Size	4.08	1.80	0.20	0.04			
4	Mean Work Experience	1.26	1.22	0.06	−0.11	−0.54**		
5	Founder in Team	0.19	0.39	0.02	−0.13	0.25*	−0.02	
6	Outside Founder	0.39	0.49	0.23*	0.00	0.23	−0.12	0.18

$N = 74$. All tests are 2-tailed.
*$p < .05$.
**$p < .01$.

related positively to business idea evaluation. These findings indicate that both size and MWE explained variance in the dependent variable. Collinearity statistics also support including both variables since the highest variance inflation factor (VIF) was 2.8, within the guideline of 10 (Chatterjee and Price 1991).

Hypotheses Testing

Hierarchical regression was used to test the hypotheses. Model 1 introduced the control variable (High Tech). Model 2 introduced the independent variables (size, mean work experience, founder in team, and outside founder) to ascertain if experience, as a block, predicted business idea evaluation. Each of the two interaction terms was introduced separately in the next two models to reduce collinearity problems. Interaction terms can increase collinearity problems, as these terms are nonlinear functions of the main effect variables. The size X founder in team and size X outside founder interactions were introduced in Models 3 and 4, respectively. We centered the continuous variable (size) used in the interaction terms to reduce collinearity between the variables, a procedure recommended by Aiken and West (1991). Model 5 is the full model incorporating the control variable, independent variables, and both interaction terms. Results of the hierarchical regressions are presented in Table 2.

Table 2
Hierarchical Regression Analysis of Team Variables on Evaluation of Business Idea

Model/Step	1	2	3	4	5
Control Variable					
High Tech	−0.31**	−0.31**	−0.30**	−0.31**	−0.31**
Independent Variables					
Size[a]		0.32*	0.45**	0.57**	0.61*
Mean Work Experience		0.22***	0.22***	0.26*	0.26***
Founder in Team[b]		−0.13	−0.08*	−0.09	−0.07
Outside Founder[b]		0.21***	0.22	0.22*	0.23***
Interaction Terms					
Size × Founder in Team			−0.24***		−0.16
Size × Outside Founder				−0.34*	−0.28***
F	7.48**	3.83**	3.82**	4.22**	3.81**
R^2	0.09	0.22	0.26	0.27	0.29*
Adj R^2	0.08	0.16	0.19	0.21	0.21
ΔR^2		0.13*	0.04***	0.05*	0.07*

All tests are 2-tailed.
Coefficients are standardized coefficients.
[a]Centered variable.
[b]Dummy variables.
*$p < .05$.
**$p < .01$.
***$p < .10$.

The results indicated that the control variable of high-technology venture associated negatively with business idea evaluation, $F(1,72) = 7.48$, $p < .01$, $R^2 = .09$, Adj. $R^2 = .08$. Model 2, which added the independent variables of size, mean work experience, founder in team, and outside founder, increased R^2 significantly ($\Delta R^2 = .13$, $p < .05$). Model 3 added the interaction between founder in team and size. R^2 increased significantly over Model 2 ($\Delta R^2 = .04$, $p < .10$). Model 4, which added the interaction between outside founder and size, also increased R^2 over Model 2 ($\Delta R^2 = .05$, $p < .05$). Finally, Model 5, the full model that included the control variable, independent variables and interaction terms, increased R^2 significantly over Model 2 ($\Delta R^2 = .07$, $p < .05$).

From the final model, Model 5, size ($\beta = .61$, $p < .05$), mean work experience ($\beta = .26$, $p < .10$), and outside founder ($\beta = .23$, $p < .10$) positively predicted external evaluations. Thus H1a, H1b, and H2b were supported. However, having a team member with founding experience did not predict external evaluations ($\beta = -.07$, *ns*); thus, H2a was not supported. Supporting H3b, size interacted with outside founder ($\beta = -.28$, $p < .10$). H3a was only partially supported as the interaction of size and founder in team was supported in Model 3 ($\beta = -.24$, $p < .10$), but not in Model 5 ($\beta = -.16$, *ns*). Since interaction terms often have collinearity problems, to reduce these problems, we graphed the interaction effects using Models 3 and 4 instead of the full model (Model 5). The interactions of size X founder in team and size X outside founder are shown in Figures 1 and 2, respectively and the graphs are discussed in the next section.

Figure 1
Moderating Effects of Team Size on the Relationship between Business Founder in the Team and Evaluation of Business Idea

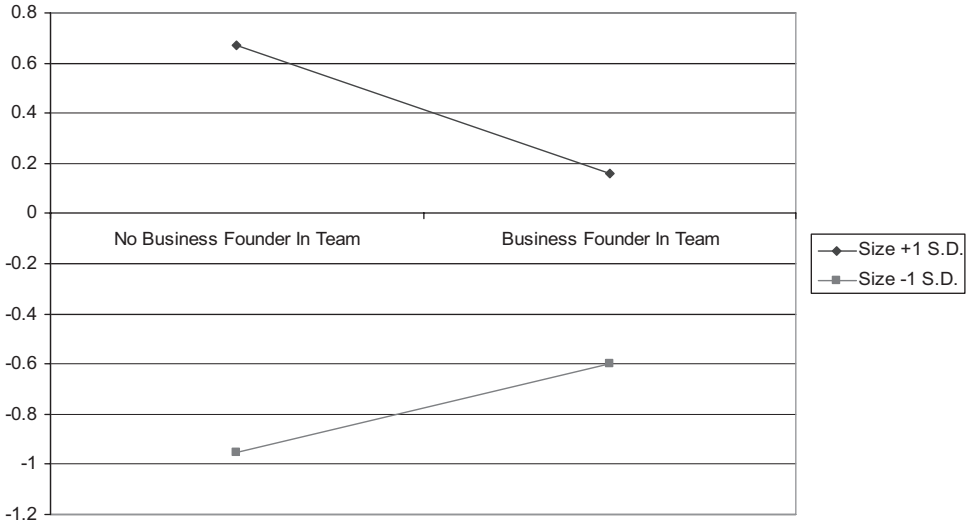
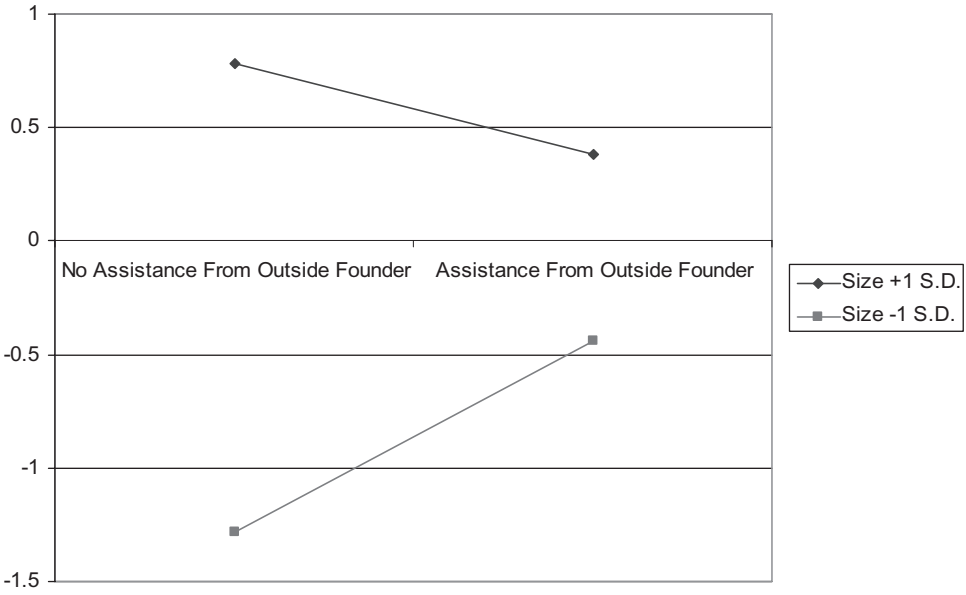


Figure 2
Moderating Effects of Team Size on the Relationship between Assistance from Business Founders Outside the Team and Evaluation of Business Idea



Discussion

The findings suggest that the experiences of team members influence how people external to the team evaluate the teams' business ideas. Nascent ventures often have scarce resources and external evaluations may predict the ventures' ability to gather resources. Supporting our hypotheses, size, mean work experience, and getting assistance from outside founders related positively to external evaluations of business ideas. Also supporting our hypotheses, the benefits of getting outside assistance is weaker for larger teams as compared to smaller teams.

A surprising finding was the high negative correlation between size and mean work experience. Although beyond the scope of this study, a tentative conclusion is that less experienced teams recruited more members to overcome experience deficiencies. Despite the high correlations, size and mean work experience separately explained variance in external evaluation of business ideas. These findings support the saying that acquiring five years of experience versus acquiring one year of experience five times is not the same thing. As Shane and Venkataraman (2000) argued, individuals have specific bundles of experience, enabling some individuals to identify business opportunities. Thus, team size and mean work experience have separate but beneficial effects on business idea evaluation.

No direct effect of having a business founder in the team was found. Possibly,

a person with previous founding experience contributes to the team by reducing the uncertainty and chaos often associated with entrepreneurial activities. However, that person may dominate the team and prevent the team from benefiting from everyone's views and opinions. For instance, Haleblian and Finkelstein (1993) conjectured that a dominant CEO can restrict information and idea flow, as people are unwilling to contradict the boss's opinions.

Beyond direct effects, a joint effect of size and business founding experience in the team was found. As shown in Figure 1, smaller sized teams performed better, but larger sized teams performed worse, if they had business founders. We reasoned that larger teams could conceptualize and present their business ideas in a more effective manner substituting for the experience of a business founder. Apart from business founders in the team, teams can also get assistance from business founders who are not team members. This assistance related positively to evaluations of the teams' ideas. The benefits of getting the assistance of outside founders were greater for smaller teams, presumably because these contacts can plug venture resource gaps.

In sum, this paper shows that experience as defined by team size, work experience, and founding experience predict external evaluation of a team's business idea. The paper also shows benefits of involving external contacts, especially for small teams. We now discuss limitations of the study and suggest areas for future research.

Limitations and Future Studies

A limitation of this study is we cannot exclude the possibility that the teams differed from other entrepreneurial teams, such as those aspiring high growth. The teams could be biased toward high technology ventures, since the competition was organized by a university located in a high-technology region. Moreover, since at least one participant in each team had to be a student of the university organizing the competition, the ventures may comprise individuals younger than the average entrepreneur. As the teams are at the business idea phase, the results may only be applicable to teams at the early venture stages. Despite these disadvantages, Foo, Wong, and Ong (2005) noted that high growth teams are motivated to participate in such competitions to network with potential investors, and possibly secure access to suppliers, and mentors. Thus, the results of this study might be generalized to early stage ventures, and especially those ventures requiring external support to succeed. Moreover, since new ventures teams may lack expertise, the findings relating to member experience, team size, and external assistance can also be applicable to other types of business ventures. These assertions should be tested in further research.

Future studies can expand on other experience types, such as team diversity. Diversity can promote healthy debate leading to innovative teams (Bantel and Jackson 1989); at other times diversity leads to lower social integration among team members (Smith et al. 1994) hindering members' ability to work together. Perhaps diversity is beneficial at the business idea phase as it can lead to innovative ideas. However, when teams implement their business ideas, diversity can prevent members from working toward a common goal. Future studies can also explore how relationships with external contacts predict team effectiveness. For instance, Granovetter (1973) found benefits from weak ties whereas Uzzi (1996) found benefits from strong ties. Weak ties could be preferred at the idea phase, as weak ties tend to introduce novel information. Close ties, in comparison, may be preferred when the team implements their business ideas as people in close relationships are more

likely to provide resources such as funds, contacts, and advice.

Conclusion

The study has several practical implications. Having a founder in a business venture may be advantageous only for smaller teams. In fact, larger teams may not benefit from having a founder as this individual may dominate and hinder the team from benefiting from the views and opinions of other team members. Further, it is critical for teams to get assistance from business founders outside the team—particularly if the team is small. The work experience of team members is also critical for the team's business idea to be well received. Evidence from this study further suggests that teams with inexperienced members may be able to compensate for this deficiency by forming larger teams.

Research on the top management team, or the upper echelons of the organization, shows that organizational effectiveness is influenced by characteristics of the top team players (Hambrick and Mason 1984). This study shows that a team perspective contributes to our knowledge of how experiences matter in idea evaluation. The team perspective is vital in today's complex business environment, where many high growth ventures are formed by teams. To be successful, entrepreneurs should heed the advice of physicist Isaac Newton (1642–1727) that "If I have seen further than others, it is by standing upon the shoulders of giants." And in the case of this study, the giant can come from within the team or from social contacts.

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