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The effects of human capital, organizational demography, and interpersonal processes on venture partner perceptions of firm profit and growth

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Abstract

Venture teams, which are comprised of two or more partners, are becoming one of the more popular and important modes of new business development. Traditionally, financial capital has been the primary perspective in assessing venture viability. To expand the venture evaluation horizon, we examined the effects of human capital, organizational demography, and interpersonal processes on partner evaluations of venture performance, defined as the presence of profit and growth. The results support this approach in analyzing venture teams, and we propose that this perspective be included in future venture viability assessment, and used for intervention to enhance venture success. Suggestions are provided for future research.

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1. Executive summary

In assessing the viability of ventures, we initiate the investigation of the influences of human capital, organizational demography, and interpersonal processes on partner percep-

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tions of firm performance in venture teams. Financial capital has been the primary perspective for assessment, but given the importance of human capital and the nature of entrepreneurial teams, we surmised that an examination of work experience, education, and interpersonal functioning also has significant potential as a means for understanding venture success. Drawing primarily on the literature of work teams, we present and test the model: partner perceptions of firm profit and growth = $f(\text{human capital, interpersonal processes, and organizational demography})$. The results support the value of the model regarding venture growth, but not firm profitability.

In terms of human capital, partners in ventures in which there were higher levels of education and greater work experience assessed their business to be growing. Thus, basic human capital variables positively correlated with growth perceptions. Human capital considerations, and the associated skills, knowledge, and abilities, should be important to partners and venture capital institutions when making decisions concerning the initiation and guidance of ventures.

Our interpersonal process analysis used two factors that represented the dimensions of venture synergy and venture direction. Venture synergy includes activities such as resolving conflict, sharing information, and coordinating team effort. Venture direction is comprised of activities such as setting quality standards, continual improvement, and venture goals. Both positively corresponded with partner judgements of firm growth. When partners reported a higher level of interpersonal process effectiveness, they also reported growth. A lack of team skills is cited as a cause of venture dissolution, and, now, we can show that interpersonal processes correlate with partner perceptions of venture growth.

In addition, analyses utilizing measures involving differences in relevant variables (i.e., organizational demography), such as human capital and interpersonal process, are beginning to show promise in research in organizational evaluation, work teams, organizational diversity, and now in venture teams. Here, the differences in human capital within the team were not associated with perceptions of venture profit or growth, while differences in partner observations of interpersonal processes negatively corresponded with growth. Perhaps the incongruity in viewpoints about interpersonal activities was due to a lack of agreement about a number of business operations. Differences in views concerning interpersonal issues could indicate either a lack of understanding about each other's contributions, or a feeling of one-sidedness by a partner regarding the value-added work of the other partner. In either case, partners could usefully apply interpersonal diagnosis techniques to aid their communication about the congruity of perceptions on important collaborative issues, thereby enhancing venture team functioning.

In summary, the results show that human capital, interpersonal processes, and organizational demography are important factors in examining partner perceptions of firm profit and growth. Human capital is becoming a stable part of an equation for evaluating venture potential. Additionally, given the inferences from other organizational contexts, we believe that organizational demography, the discrepancies in human capital elements, also should be pursued in venture research to determine the effects of team composition on performance. Moreover, the inclusion of interpersonal processes in the venture viability equation is a very important area to develop and should become a part of human capital core assets.

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