

# Does Experience Make A Difference?

## *The Impact of an Entrepreneur's Background on Her Firm*

by A. Rebecca Reuber

*En examinant plus particulièrement les trois facteurs suivants: éducation, expérience fonctionnelle spécialisée et expérience générale de l'entreprise, l'auteure analyse les liens entre le passé d'une entrepreneuse et la réussite de son entreprise.*

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Does experience make a difference? This question is being asked repeatedly as more and more women start their own business in order to achieve autonomy and economic well-being. If we could understand better the relationship between a founder's experience and the performance of her firm, prospective business owners would have some criteria against which to assess their own readiness for start-up, to identify areas in which they might want to gain further experience, or to gain insights on ways to capitalize on the experience they do have, such as entering particular industries. In addition, women's businesses tend to be relatively new, small, and service-oriented (Riding and Swift), making it particularly difficult to determine creditworthiness. Again, if we could understand better the relationship between experience and firm performance, we might be more able to value that experience as human capital, allowing it to substitute for the more tangible assets of manufacturers or larger firms.

A useful lens through which to consider the relationships between experience and firm performance is an anthropological perspective articulated by Jean Lave (Reuber and Fischer 1994). Examining apprenticeships in different cultures, Lave observed that learning occurs through participation and membership in a community of practice. "Developing an identity as a member of a community and becoming knowledgeable skillful are part of the same process, with the former motivating, shaping, and giving meaning to the latter, which it subsumes" (65). The social, cultural, and historical context in which learning and performance occur is important in influencing what is learned and what the impact of learned actions is.

A woman will have various kinds of learning experiences prior to starting her firm. Lave's perspective can be used to postulate what the consequences of these different kinds of

experience are. In particular, three types of experience are examined in this paper: education, specialized functional experience, and general entrepreneurial experience.

Education is a type of experience which emphasizes formal learning. It is generally not as effective as direct experiential learning in transmitting usable on-the-job knowledge (Sternberg and Caruso). There are neither educational requirements nor typical educational paths for entrepreneurs, which means that identity as member of the community of practice is formed outside the educational arena. Thus, it is expected that a woman's level of formal education is unrelated to the success of her firm.

Specialized functional experience is experience with one of the functional areas of business, such as marketing, financial management, international business, accounting, human resources etc. It involves practical knowledge and experiential learning, and so is expected to be more related to firm performance than is education. However, specialized functional experience is experience with only a particular business function, and so is likely to exclude important knowledge, skills and abilities associated with other business functions.

General entrepreneurial experience is direct experience with the entrepreneurial process. Industry experience, starting a firm, and observing family members owning and operating businesses are all considered general entrepreneurial experience. General entrepreneurial experience is likely to be the kind of experience most consistently related to firm performance since it spans all aspects of the business.

### Method

This study is part of a survey of women entrepreneurs and their firms. In January 1994 a letter was sent to the 118 nominees for the 1993 Canadian Woman Entrepreneur of the Year award. The award is well publicized nationally and nomination forms are available at branches of a national bank. There are no criteria for nomination, although nominees must indicate which category they are competing in: start-up, lifetime achievement, quality plus, impact on local economy, international competitiveness, and turnaround. Winners had been announced in November 1993.

The reason for using this sampling frame is that the study requires a sample of firms that were founded by the current female owner. In addition, it is desirable that a wide range of owners and firms be included.

In January 1994 a questionnaire was sent to each nominee, with a follow-up letter sent in March, and responses cut off in May. At this time, 47 entrepreneurs

had sent usable responses, for an effective response rate of 40 per cent. Since the impact of experience is considered to be more significant for firm start-up, this study includes only the 36 women who founded their firm (rather than, for example, purchasing an existing firm). The backgrounds of the founders vary widely, as do the size and sophistication of their firms.

The study uses one measure of educational experience: the level of education obtained. It uses three measures of specialized functional experience: the number of years, prior to starting the firm, of marketing, financial management, and international experience respectively. Fi-

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nally, the study uses four measures of general entrepreneurship experience: the amount of industry experience, the number of firms started, the number of firms started in the current industry, and whether or not her parents owned a business.

### Results and discussion

The data gathered show significant correlations between entrepreneurs' experience and the size and growth measures. Firms with a greater volume of sales are owned by women who had more industry and international experience at start-up and who had started more firms in the same industry as their current firm. Firms with a higher sales growth are owned by women who had entrepreneurial parents, who had started more firms in total and also more firms in the same industry, and who had more international experience prior to starting their current firm.

These results indicate prior experience does make a difference to firm performance: women with more general entrepreneurial experience have firms which out-perform those who have less. It appears that this type of background provides the knowledge, skills, and abilities that are more valuable for firm performance than does education or experience in more functionally-specific areas.

While it could be argued that women with more experience started *bigger* firms, which were then larger and faster-growing when the data were collected, this does not appear to be the case. Start-up size, the number of employees at start-up, is not significantly related to any of the experience measures, except education. In this case, the relationship is negative, indicating that more educated women started smaller firms. This negative relationship could be due to the propensity of more educated women

to start professional service firms which are not likely to have any employees, besides the founder, at start-up.

### Do founders with more experience use collaboration more?

If through experience women entrepreneurs start to feel part of a community of entrepreneurs, then a possible explanation for the relationships between experience and firm performance is that experienced women use collaboration in managing their firm to a greater extent than do less experienced women. More experienced women are likely to have more useful business contacts and be more skillful in negotiating collaborative activity. In addition, through experience an owner could become better aware of her own strengths and weaknesses, indicating areas where collaboration would be particularly warranted.

The results show that more educated women and women with greater financial management experience prior to start-up have larger management teams, perhaps compensating for a lack of industry or general business experience. Women with more international experience have more strategic partnerships. Finally, women with greater industry experience prior to start-up have more and more valuable business contacts in the community.

However, the absence of significant relationships surrounding this question is more striking than the few significant relationships that were found. On the whole, more educated and more experienced women engage in collaborative activity to the same extent as less educated and less experienced women.

### Do founders with more experience manage differently?

An alternative explanation for the significant relationships between experience and firm performance is that more experienced women manage their firms differently than less experienced women. In particular, upper echelon theory suggests that managers have a perceptual bias towards activities they are familiar with (Hambrick and Mason). Thus, women with marketing experience are likely to emphasize marketing activities, women with international activities are likely to emphasize international activities, and so on.

The study investigated the relationships between experience and three different types of firm activities: innovation, planning and budgeting, and internationalization. More educated women and women with greater marketing experience prior to start-up introduced more new products and services within the past two years. Thus, marketing background is associated with increased product development or innovation. Women with more experience in international markets prior to start-up, have firms with a larger percentage of sales from outside Canada. Finally, more sophisticated planning and control activities are used by women who are more educated, women

who have founded more firms in the industry, and women with greater prior experience in marketing, financial management and international markets. Thus, it appears that a woman's background is influential in directing her attention to, and making her value, certain activities in her firm.

### Conclusion

This study suggests that the background of a fledgling entrepreneur does make a difference to her firm. Women whose parents owned a business while they were growing up, who have started more firms, and who have more industry experience are more likely than women who have less experience on these dimensions to have larger and faster-growing businesses. This suggests that women may want to start businesses in industries that they have previous knowledge of. The significance of start-up experience also suggests that business failure can be an important learning experience itself, and that subsequent firms founded by the owner might be more successful. Indeed, previous research has found that business owners rate past business failures highly as learning experiences (Reuber and Fischer 1993).

Different types of backgrounds are associated with related activities: in particular, planning and control activities, innovativeness, and globalization. It appears that

experience can direct attention towards familiar activities. While directing attention to valuable business activities is desirable, business owners should be aware of the danger of such perceptual biases. Owners with a highly focused functional background may wish to mitigate its impact by explicitly selecting managers and advisors with different functional backgrounds to provide more balance.

Finally, it should be noted that the results reported here are based on a sample of 36 business owners, where the person who started the firm was willing and able to respond to our questionnaire. There may be biases in this sample that preclude generalization of the results to other samples.

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