Understanding The Consequences of Founders’ Experience*
by A. Rebecca Reuber and Eileen Fischer

Scholars and practitioners often assess the value of founders’ experience based on the “stock” of experiences accumulated at a point in time. A complementary view is to assess founders’ experience as a “stream” which changes within given time periods. The theoretical and practical implications of these viewpoints are explored here.

The kinds of experience that founders bring into a business has received attention from researchers who are attempting to explain why certain business founders are more successful than others. If certain kinds of experience are found to be predictive of firm performance, they could be used as criteria in evaluating business plans or loan applications and as the basis for tailoring development, incubation, and educational programs. In addition, 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 into ways to capitalize on the experience they do have, such as entering particular industries.

Reviews of the literature on founders’ experience (for example, Reuber, Dyke, and Fischer 1990; Reuber and Fischer 1994) indicate that no consistent, direct relationship between the experience of the founder, owner, or management team of a venture on the one hand, and the venture’s success on the other, have been found. As a group, the studies are fragmented and inconclusive. Across different studies, there is a wide variety in the measures of experience and outcomes, in the moderating, mediating and control variables used, and in the range of values placed on particular kinds of experience (Reuber and Fischer 1994). However, knowledgeable practitioners, such as venture capitalists, seem to believe that founders’ experience is important to the success of a new venture (Goslin and Barge 1986; MacMillan, Siegel, and SubbaNarasimha 1985; Riquelme and Rickards 1992). Furthermore, even researchers who do not find a relationship between founders’ experience and venture performance are hesitant to conclude that experience, or lack of experience, is inconsequential (see, for example, Roure and Keeley 1990; Sandberg and Hofer 1987). Thus, while we recognize that many factors will impact venture performance (Baum 1995; Herron and Robinson 1993; Keeley
and Roure 1990; Roure and Keeley 1990; Sandberg and Hofer 1987), and that experience is not necessarily the strongest of these, we believe that examining the role it plays in business performance is a valuable endeavor.

A reason why the empirical body of literature is, on the whole, fragmented and inconclusive is that there is often little conceptual basis for the way in which experience is studied. This article addresses this gap by examining the nature and role of experience in more detail. Specifically, we recognize that experience is the antecedent of present or future states, and it is this temporal property which makes it relevant and interesting. Thus we argue that it is necessary to take temporal considerations explicitly into account when studying the influence of experience.

Much of the research on experience, and more particularly, on founders' experience, views experience as a quality of an individual (or of a team or of a firm) at a particular point in time. This view is analogous to a balance sheet: experience consists of the background or history of the individual, team, or firm that has accrued up to that point. In the same way that there are different elements on a balance sheet, an entity will have had different types of experience. Furthermore, a particular experience may be an asset or a liability, or both at the same time (Starr and Bygrave 1992). For example, a long tenure in a particular industry may enable an individual to perform more efficiently or effectively when starting a new venture in that industry, but also may inhibit that individual from seeing new opportunities or alternatives.

A complementary view of experience is analogous to an income statement: experience, or experiences, are things that happen, or events that occur, during a specific time period. It is these occurrences and their impact on the venture that are relevant, and collectively they affect the stock of experience, just as income ultimately affects a balance sheet. Again, a particular event can have both positive and negative impacts. For example, the loss of a key customer might reduce sales revenue in the short term, but if the firm can learn from this experience, it may result in better long-term performance through reduced dependency and/or improved service quality.

With the first view of experience, the stock of experience is relevant; with the second view, the stream of experience is

---

**Figure 1**

The Mediated Relationships Between Experience and Firm Performance

---

APRIL 1999

31
relevant. With the first view, the process of change—the learning process—is exogenous to an examination of the impact of experience; with the second view, the learning process is endogenous. In this article, we compare and contrast the two views of experience, examining the implications of each for entrepreneurship research. We argue that the two views are related, that each provides complementary perspectives on the role that experience plays in the entrepreneurial process, and that both should be taken into account in future entrepreneurship research if we are to understand when, how, and what experience makes a difference.

**Objectives of Research on Experience**

**Stock of Experience**

We are interested in an founder's stock of experience primarily to the extent that it is hypothesized to impact the performance of the founder's venture. One way that experience is thought to impact venture performance is through the development of experientially-acquired expertise. It is often implicitly assumed, and more rarely explicitly posited, that a founder's previous experience will lead to the development of experientially-acquired skills or expertise which will lead in turn to more knowledgeable actions and decisions in the current venture and to better venture performance.1 These mediating relationships are shown in Figure 1.

Several studies have examined some of these relationships and found that expertise does make a difference. Chandler and Hanks (1994) found that founders' skills moderate the relationship between (1) the abundance of opportunity in the economic environment of the venture and (2) venture performance. Herron and Robinson (1993) found that founders' current skills could predict the performance of their ventures and that their predictive ability varied across economic environments. Examining both experience and expertise, Chandler and Jansen (1992) report some significant relationships between a founder's experience and self-rated skills, and between experience and skills on the one hand and venture growth and profitability on the other. Finally, Reuber and Fischer (1994) provide evidence that expertise mediates the relationship between founder experience and venture performance, with expertise in such key areas as strategic planning, globalization, financing, and strategic alliance formation being more consequential for performance than expertise in back office functions.

A second way that experience is thought to impact venture performance is through the development of a “dominant logic”: an “information funnel” through which the founder's attention is filtered (Bettis and Prahalad 1995; Prahalad and Bettis 1986). Although proposed as a group concept signifying a shared cognition among top managers, for small and young firms dominated by a single individual, the cognitive processes involved in the firm's dominant logic will be those of that dominant individual (Chandler and Hanks 1994; Mintzberg 1988; Peteraf and Shanley 1997). The previous experience of founders is likely to be most influential when initial start-up decisions are being made. For example, Vesper (1990) reports several studies indicating that founders have a propensity to start ventures in technologies, markets, and geographic areas they are already familiar with, while Cooper, Woo, and Dunkelberg (1989) found that 42 percent or 58 percent (depending on the sub-sample) of the founders they studied got their business idea from a previous job. Furthermore, Almond

---

1It should be noted that since this discussion focuses on experience, some variables have been left out of the model. For example, expertise is likely to be acquired through formal education as well as experientially.
(1995) observed, from a sample of low-technology small businesses, that industry familiarity is associated with replications of existing businesses, while new ideas come from individuals with experience from outside the industry.

Start-up characteristics are relevant beyond an examination of start-up performance; there is evidence that the initial strategy and structure of a venture also affect performance over the longer term. This may be because organizations tend to change only incrementally or to remain unchanged rather than to change radically (Miller and Friesen 1980; Milliken and Lant 1991; Tushman and Romanelli 1985).

Thus, when experience is viewed as a stock, the emphasis is on identifying all the elements of an individual's experience that influence the characteristics and performance of the venture. This influence can be through the development of experientially-acquired expertise or it can be through an inclination to start ventures that are similar in important ways to organizations with which the founder is already familiar.

**Stream of Experience**

Focussing on a venture's *stream* of experience, rather than its stock, can help reveal the process by which the venture changes. Woo, Daellenbach, and Nicholls-Nixon (1994) argue that the entrepreneurial process is governed by experimentation and learning. They review empirical studies which suggest that organizational learning is path-dependent—it is shaped by particular sequences of experiences. Furthermore, the learning process is continuous. Although one might expect a very intense learning period when a venture is new, with less learning taking place over time as activity becomes more predictable, Reuber and Fischer (1993) found no significant differences in how founders of newer firms and founders of older firms rated the value of learning experiences in their current firm. This suggests that founders continue to learn, and that studying the venture's stream of experience can provide a better understanding of this learning process.

The impact of experiences on the entrepreneurial learning process is more complicated when the venture's evolution through different business stages is taken into account. There is evidence that the needs of a particular venture will differ through different business stages (Drazin and Kazanjian 1993; Kazanjian and Drazin 1990; Starr and Bygrave 1992; Terpstra and Olson 1993). In some situations, the response to these changing needs is to replace the original founder with professional managers who have a broader financial, administrative, or marketing background (Drazin and Kazanjian 1993). In other situations, the original founder is able to grow and adapt with the firm, re-applying lessons from earlier stages to new situations encountered at later stages in the venture's life cycle (Willard, Krueger, and Feesper 1992). In order to understand the learning process that occurs in an evolving venture, and why some firms are more adept at it, we must examine the particular events experienced by the firm and how they change over time.

Finally, Woo, Daellenbach, and Nicholls-Nixon (1994) also point out the prevalence and dominance of random events in the life-cycle of entrepreneurial ventures. They argue that successful venturing requires developing the ability to respond effectively to unanticipated problems. This helps explain the finding that new ventures are highly susceptible to failed transactions, particularly when slack resources are unavailable (Venkataraman et al. 1990). Examining how ventures respond to unanticipated problems (or lucky breaks) over a particular time period can provide an understanding of the role of chance in entrepreneurial endeavours.

Thus, when experience is viewed as a stream, the emphasis is on specifying the individual events to which the venture must respond, through adaptation or through larger-scale change. The events might be foreseen, or indeed planned, by the venture (for example, obtaining a
new strategic partner or issuing an initial public offering), or they may be generated in the firm's environment and possibly unforeseen (for example, the entry of a foreign competitor or a change in government regulation).

**Level of Analysis**

An issue raised by this discussion concerns the appropriate level of analysis. Generally, for new ventures the firm can be considered to be an extension of the founder (Chandler and Hanks 1994; Mintzberg 1988; Peteraf and Shanley 1997). Therefore, when experience is viewed as a stock, the stock of experience of the founder prior to start-up is normally the relevant experience to examine. If there is a founding team, the stock of experience of each member of the team may be relevant, as the literature regarding top management teams suggests (for example, Hambrick and Mason 1984). The nature and homogeneity of individual experience within a team can affect the way that the team perceives the organization and its environment (Beyer et al. 1997; Sutcliffe 1994). However, care should be taken before simply aggregating stocks of experience across team members; Hambrick (1994) points out that such groups may not be well integrated and that there is often a group leader with a dominant influence. Thus, the nature of the team and the presence of a dominant founder should be ascertained before deciding whose previous experience to include in an analysis. Normally, a firm-level analysis will not be appropriate for new ventures because the firm itself will not have had any experience prior to start-up.

A consideration of the stock of experience of the firm is appropriate, however, if the aim of the research is to understand an event of emergence or recreation subsequent to start-up (Gartner, Bird, and Starr 1992; Katz and Gartner 1988). Examples of such events include the acquisition and transformation of an existing venture by a new owner, the introduction of a new product or service, entry into a foreign market, and so on. In these cases, the firm has a history prior to the focal event, and so inclusion of this experience would be warranted.

Conversely, if experience is viewed as a stream, the appropriate units of analysis are reversed. Since the foci of the research are the experiences over a particular time period, data on firm-level experience will be relevant. The experiences of the founder/owner and the management team (if there is one) are the same as the experiences of the firm. The founder or a member of the management team may occasionally bring to the firm additional experiences outside those gained within the firm during the period being examined. For example, the founder might invest in or become a director of another venture, and through this experience might bring new knowledge into the firm. Alternatively, the founder might acquire a new partner or senior manager during the period, which would change the experiential base available to the firm.

**Properties of Experience**

**Stock of Experience**

What properties of experience are relevant? When experience is viewed as a stock, the key properties are the depth and/or breadth of the stock. Some types of experiences that have been examined reflect the length (or duration) of experience, while others reflect the variety or diversity of experience. For example, the duration of management, industry, or small business experience might be measured by the number of years an owner has been a manager, worked in a particular industry, or worked in a small business. Alternatively, the diversity of management, industry, or small business experience might be measured by how many functional areas, industries, or organizations the owner has worked in or managed. Start-up experience normally reflects diversity, capturing whether or not an owner has previously engaged in a start-up or in how many different start-ups he or she has been involved.

The use of duration-based measures which reflect depth of stock is implicitly
based on theories of professional expertise which emphasize that expertise is acquired through extensive repetition of the same task (for example, Glaser and Chi 1988). However, one would expect that founders, relative to professionals, have less opportunity to perform important activities frequently and to acquire the kind of familiarity that repetition brings (Reuber 1997). Even regular activities, such as preparing a strategic plan or capital budget, forecasting sales, or hiring managers, are carried out infrequently compared with professional activities. Larger-scale endeavours (such as opening a new location, going through another round of financing, or entering a new market) which paradoxically require greater expertise are carried out even more infrequently. For instance, the number of opportunities a founder will have to start and grow a business is surely fewer than 100 and probably fewer than ten.

Depth of experience is likely to be most related to venture performance in stable environments, since there will be more repetitiveness in activities and decisions in such environments. In more turbulent environments, however, length of tenure or familiarity might even be associated with lower performance. Cognitive theory suggests that reliance on the proceduralized knowledge and automatic cognitive processing resulting from repetition can lead to a loss of flexibility in thinking (Frensch and Sternberg 1989). Indeed, Keeley and Knapp (1995) found that founders of firms similar to their previous firms were slow to adapt to a changing competitive environment. Analyzing a sample of large firms, Hambrick, Geletkanycz, and Frederickson (1993) show that executives who have worked longer in a particular firm and industry do, indeed, have a greater commitment to the status quo. Finally, although they studied lower-level managers, Morrison and Brantner (1992) found that prior experience can slow down learning in a new context because some knowledge and skills need to be "unlearned" before learning in the new context can take place. In other words, more experienced individuals, compared with less experienced individuals, need more exposure to new environments to be able to discern environmental changes because their perceptions are biased by stronger expectations. Thus, since entrepreneurial activity in general, and in a turbulent environment particularly, requires innovation, creativity, or quick responses, lengthy experience might be counterproductive.

The rationale for using diversity-based measures of experience which reflect breadth of stock stems from research on management training and development through on-the-job learning experiences. A study of successful executives in large corporations found that these executives believe that they learn more from a diversity of experience than from the duration of any one experience. They report that their most profound lessons were gleaned from dealing with diverse types of people, from managing different high-stress situations, from handling adverse business conditions, from having to deal with setbacks, and from encountering novel situations (McCall, Lombardo, and Morrison 1988).

Subsequent research has identified particular developmental components of jobs (McCaulay et al. 1994). The developmental components found to be most closely associated with managerial learning are: having unfamiliar responsibilities, having to prove oneself, developing new directions, being in a high stakes situation, having multiple responsibilities, having to make a large investment of time and energy, working in or dealing with a foreign country, handling external pressures, and handling non-authority relationships.

Although the activities of founders have not been specifically studied in this way, it is reasonable to expect that the findings can be extended to them. Most, if not all, of these developmental components will be present for founders of new ventures, and also for firms in changing situations, such as those entering new markets. Chandler and Jansen...
(1992) provide some indirect evidence of this. They found that for founders of high-growth ventures, previous experience in a similar business was related to firm performance, but that the founders had significantly different roles (duties and tasks) in their current firm. Moreover, they found that firm performance was negatively related to the similarity of tasks performed in the previous and current firm. Thus, founders who had adapted and changed their activities in the new venture had firms that performed better.

There is also some indirect support for the importance of experiential diversity from upper echelon studies. For example, it has been found that top management teams which embody a greater diversity of experience have more innovative firms (Bantel and Jackson 1989) and higher-growth firms (Eisenhardt and Schoonhoven 1990). Experience here is characteristic of a team, rather than of an individual, but the conceptual basis for these relationships is that diversity brings valuable new perspectives to the firm.

Thus, when experience is viewed as a stock, researchers need to pay close attention to specifying how and why the stock is likely to be valuable. We need to specify the types of experience that are likely to be consequential to venture performance, whether their duration or their diversity are likely to be consequential, and what is likely to moderate or mediate the consequences. Some such specification has begun to occur in the research. For example, Doutriaux (1992) found that the presence of experience with government contracting was of value to the founding management teams of Canadian high-technology firms and that the advantage of this experience persisted over an eight-year period because of the relatively large size of the public sector in Canada. In addition, McGee and Dowling (1994) found that management teams with longer industry and/or technical experience were better able to use R&D cooperative activities, and concluded that this was because these managers were better able to identify the benefits and risks of such arrangements. Finally, Reuber and Fischer (1997) found that small firms with an internationally-experienced management team obtain more and earlier foreign sales than did firms whose management team was less internationally experienced.

**Stream of Experience**

When experience is viewed as a stream, the relevant property of experience to focus on is proactive or reactive changes in what is normally done or coped with. This implies that the experiences to study are those which occur during a given time period and entail an alteration in intra-firm behaviors. The literature on organizational adaptation and learning suggests three aspects of an organization's experience which a researcher should consider. The first aspect is the impact of routine versus non-routine activities. Fiol and Lyles (1985) point out that there are two levels of organizational learning. Lower-level learning occurs through repetition of routine activities in a way which is similar to the development of professional expertise through task performance. Such learning increases the efficiency and competence with which these routine activities are performed. Higher-level learning occurs through dealing with non-routine situations and involves the development and application of new heuristics and insights. It changes central assumptions, norms, and priorities of the organization. Fiol and Lyle distinguish both types of learning from adaptation, which is "the ability to make incremental adjustments as a result of environmental changes, goal structure changes, or other changes" (1985, p. 811).

Much attention has been placed on non-routine events and activities. For example, punctuated equilibrium models view organizations as relatively stable during long periods, punctuated by brief periods of major change (Tushman and Romanelli 1985). In addition, non-routine events and activities are normally seen as primary in venture start-up and transitions through venture stages. How-
ever, even a period as tumultuous as venture start-up is also characterized by routine activities: on a day-to-day basis, many activities should and will become regularized and repetitive. Indeed, establishing effective operational systems has been seen as one of the distinguishing features of high-growth start-ups (Hambrick and Crozier 1985). It is reasonable to expect, therefore, that the way in which both routine and non-routine events are handled will contribute to sustained venture performance.

What specific types of events are likely to lead to significant operational changes? Some of the more predictable events are the problems which vary across business stages. Relevant events to examine include securing financial resources, developing a first product, managing cash flow problems, filling a first major order, hiring managers, achieving certain volumes of sales or number of employees, reducing dependence on a few customers, establishing or maintaining quality control, delegating responsibility, formalizing the organizational structure, developing a second generation product or a new product line, and entering new geographic territories (Kazanjian and Drazin 1990; Terpstra and Olson 1993).

A second area of consideration when identifying changes in experience during a given period is how to include random events. These events cannot be specified ex ante because by definition they are unanticipated; however, research designs should be sensitive to including them after-the-fact and should examine their consequences (Woo, Daellenbach, and Nicholls-Nixon 1994). Moreover, there are reasons why certain ventures are more likely to be susceptible to random events, and these can be given particular attention. For example, if the venture is highly dependent on one or a few key customers, if the venture has high fixed costs and specialized assets, or if the founder has limited financial resources, then the venture is less likely to survive a decrease in sales or an increase in costs (Venkataraman et al. 1990; Woo, Daellenbach, and Nicholls-Nixon 1994).

Random events also include potentially useful opportunities in the environment, and the organizational learning literature shows that firms differ in their ability to recognize, assimilate, and take advantage of such opportunities. In particular, some firms have a greater capacity to absorb new opportunities because of an already high level of R&D (Cohen and Levinthal 1990) and well-designed physical settings (Tyre and von Hippel 1997). Thus, in carrying out research with a stream perspective, it is important to identify salient characteristics of the venture in order to provide the context within which the learning associated with random events can be interpreted.

A third consideration for researchers selecting relevant changes in experience is to attend to both successes and failures within a given time period. Reuber and Fischer (1993) found that founders of high-technology firms considered "facing major setbacks" to be a valuable learning experience. This is consistent with theories of individual learning which suggest that learning is triggered particularly by failure because outcomes are more salient (Riesbeck and Schank 1989). In addition, theories of organizational learning suggest that both prior success and prior failure have consequences for change or the lack of desired change in organizations (Lant, Milliken, and Batra 1992; Miller 1994; Milliken and Lant 1991). In particular, success can lead to inertia, while failure can highlight the need for change.

Thus, when experience is viewed as a stream, we need to pay close attention to events which cause significant changes in experience. We need to consider the particular events which vary across business stages, the ways random events are perceived and handled by the organization, and the changes associated with both successes and failures.
Timing Issues
Stock of Experience

When founders' experience is conceptualized as a stock, the aging of the stock becomes an important timing issue. Since a stock of experience exists and is measured at a particular point in time, the core question is how long it remains valuable.

One aspect of the aging issue relates to whether the relationship between experience and expertise is linear. An example, adapted from McDaniel, Schmidt, and Hunter (1988), will illustrate this more clearly. Assume that an individual founds a firm in an industry in which the founder has worked for four years. Assume also that another individual founds a firm at the same time in the same industry but has no previous industry experience. At the end of the first year, the less-experienced founder has only 20 percent as much experience as the more-experienced founder (one year vs. five years), but if both firms survive for ten years, the less-experienced founder has roughly 70 percent as much experience as the more-experienced founder (10 years vs. 14 years). The ways in which these experiential differences are likely to relate to differences in decision-making expertise and/or in firm performance need to be specified.

For example, there are four potential relationships between experience (measured by either duration or diversity) and expertise. The first is a linear relationship, with the differences in expertise between the more-experienced and the less-experienced founder constant throughout the ten-year period. A second possible relationship has diminishing returns to experience over time due to a learning curve effect, where the most intense learning period is at the beginning of tenure in a particular context. There might be differences in expertise between the more- and the less-experienced founder at the end of the second year, for example, but few or no differences by the end of the tenth year. A third possibility is that demonstrated expertise actually declines over time with experience, because motivational factors (boredom, for example) or perceptual biases come into play to a greater extent. If this happens, the more-experienced founder might perform better than the less-experienced founder at the end of the second year, but not as well at the end of the tenth year. Finally, a fourth possibility is that over time the industry changes to resemble more closely the industry with which the second founder has previous experience. In this case, the second founder's stock of experience becomes more valuable.

Studies in non-managerial settings have examined these relationships—in particular, the relationship between job experience on the one hand and job knowledge and job performance on the other. Findings indicate that up to five years of job experience is positively related to job performance and that at more than five years a plateau is reached (Schmidt, Hunter, and Outerbridge 1986). In addition, experience is most closely related to job performance in samples with low mean levels of job experience (McDaniel, Schmidt, and Hunter 1988). In other words, these studies have found that there are diminishing returns to experience and that additional experience is more consequential for performance at lower experiential levels.

Studies in managerial settings—of Navy officers (Morrison and Brantner 1992) and restaurant managers (McEnnie 1988)—found a positive relationship between job experience and both the extent to which the job was learned and job performance. However, in the former study, job assignments were all less than 32 months long, and in the latter study, the average job experience was 2.2 years, with a standard deviation of 2.84 years. Both of these time periods are likely to be too short for diminishing returns to become evident. These non-entrepreneurial studies suggest that a simple linear relationship between experience and expertise should not be assumed. Some entrepreneurial research also supports this idea.
Doutriaux (1992) studied the "shelf-life" (the length of time that a particular type of experience remains valuable) of the stock of experience prior to start-up. He found that different types of experience had different shelf-lives. For example, a founder's previous experience in marketing and finance showed a two- to three-year effect on firm performance and a founder's previous experience with the particular market being served showed a one- to two-year effect. Reuber and Fischer (1993) compared the ratings of experiences in a prior workplace by owners of newer and older firms. There were significant differences, with owners of newer firms rating experiences in a prior workplace higher than did owners of older firms. Since chi-square tests indicate there are no significant differences between the two groups with respect to amounts of previous experience, these differences can be assumed to stem from the age of experience rather than from the amount of it.

The question of shelf-life is of practical importance to researchers. For example, there have been many empirical studies designed to test questions such as whether venture performance is related to the amount of industry experience the founder had prior to start-up or to the number of previous firms started. If previous experience becomes less valuable over time, then the relationships between experience and performance will be very different for a three-year-old firm than they are for a 15-year-old firm. It is only reasonable to expect a relationship between experience that occurred 15 years ago and current venture performance if you believe that start-up characteristics are major influences of venture performance in the long-term. Thus, when conceptualizing and measuring the impact of a stock of experience on expertise and performance, it seems necessary to consider the age of the experiences relative to the outcomes of interest, as well as the depth or breadth of those experiences.

**Stream of Experience**

When founders' experience is conceptualized as a stream, the focus is on particular experiences. An important timing issue, therefore, is the level of detail and specificity with which these experiences should be identified. Although each customer order received by the venture and each hiring of a new person constitute events, and possibly critical events, for the venture, it would be neither tractable nor useful to examine experiences at this level of specificity.

A starting point for selecting the appropriate level of detail is the basis on which the experience(s) are hypothesized to be relevant in the first place. For example, if a firm is at the start-up stage, receiving a major order is likely to be relevant experience; however, this experience is less likely to be relevant if the firm is far beyond the start-up stage.

In general it is important to capture the first occurrence of a particular type of experience. For instance, Thompson (1990) shows that negotiation skills can be improved after only one negotiation experience, and Pennings, Barkema, and Douma (1994) show that firms that have successfully diversified in the past are more likely to succeed at subsequent diversification. The idea of a learning curve helps justify this claim. Within an experiential stream perspective, we emphasize how learning in a given period leads to change in subsequent periods. On a learning curve, the majority of learning occurs the first time, or the first few times, something is experienced; though learning may occur during later repetitions of the same activity, the relative impact of the later learning is likely to be smaller. For instance, the learning associated with getting a first, or perhaps a second, domestic distributor is likely to be greater than that associated with getting a fifth or sixth. Caution must be exercised when classifying experiences as "the same," however; for example, getting an initial distributor in a foreign country during a given time period might be a very different experience.
than acquiring one more domestic distributor.

A second timing issue has to do with the timing between the learning event and the associated firm change. To detect relationships between an experience gained during one stage and some outcome such as firm performance in a subsequent stage, it may be necessary to examine multiple time periods. Keeley and Knapp (1995) report that there are lags of unpredictable length between pivotal events and their consequences. Miller (1994), reviewing the literature on organizational learning, reports that significant adaptation and change in structure and process can often take place four or more years after the organizational “lesson” is experienced. In fact, he found that the mean period length was 6.3 years, with a standard deviation of 3.7 years. It is useful to specify the relationships expected between particular learning experiences and particular organizational outcomes in order to pick reasonable time periods to examine. For example, gaining experience with acquiring distributors might affect sales performance variables in a shorter time range, whereas that same experience may affect profit performance variables in a considerably longer time range.

**Conclusion**

Although many different studies have examined different facets of founders' experience in various ways and with different measures, researchers, practitioners, and public policy makers still have little understanding of where, how, or what experience makes a difference. Despite this, they continue to believe that it does make a difference. In order to get beyond this impasse, researchers must pay closer attention to the conceptual underpinnings of experience. A stronger conceptual foundation will allow us to move closer to unravelling the complex relationships among individual and venture-related experiences and the many possible consequences of these experiences. Table 1 summarizes the two perspectives of founders’ experience which have been outlined in this article. The idea that experience is both something that a founder (or a team or a venture) has as well as something that happens to a founder (or a team or a venture) improves our ability to specify expected relationships *a priori* and to

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Two Perspectives on Founders’ Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>View of Experience</td>
<td>Stock: experiential background</td>
</tr>
<tr>
<td>Impact of Experience</td>
<td>Development of expertise and skills</td>
</tr>
<tr>
<td></td>
<td>Start-up characteristics</td>
</tr>
<tr>
<td>Primary Level of Analysis</td>
<td>Founder(s)</td>
</tr>
<tr>
<td>Qualities of Experience</td>
<td>Duration of experience</td>
</tr>
<tr>
<td></td>
<td>Diversity of experience</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Timing Issues</td>
<td>Linearity of experiential effect</td>
</tr>
<tr>
<td></td>
<td>Shelf-life of experience</td>
</tr>
</tbody>
</table>

40 JOURNAL OF SMALL BUSINESS MANAGEMENT
better assess the validity of our measures.

An understanding of the complexity of experience may help practitioners who wish to use individual or firm-level experience as evaluative criteria. For instance, incubation programs screening applicants should consider both the duration and the diversity of individuals' stock of experience, and lenders considering a firm's request for expansion capital will want to focus on the relatively recent stream of firm experiences. These examples point to another consequence of experience—its reputational effect (Starr and Bygrave 1992; Reuber and Fischer 1994). For instance, Hart, Stevenson, and Dial (1995) found that industry experience led to "being known" by resource providers, which helped in the acquisition of resources. For researchers, there are several implications of these two perspectives on experience. Key factors which should be considered in future research are outlined below.

Context Specificity

The concepts advanced in this article collectively imply that any research on the consequences of experience must be sensitive to context. Characteristics of particular entrepreneurial settings—at the levels of the environment, the industry, and the firms within a sample—will impact the way in which experience should be studied. For example, whether and how management team experience should be aggregated will depend in part on the rapidity of change within an industry and in part on the firm's management team cohesiveness. As another example, in order to consider the ways in which random events affect the experience and the subsequent behaviors of a firm, the relative turbulence of the environment must be considered, as must the resources firms have for buffering them. As a final example, the life-cycle stage of the firm is a critical contextual variable for researchers examining the prevalence and importance of routine versus non-routine events: during venture start-up, these events have much different implications than during other developmental phases.

Relationship Specification

Related to the importance of context is the need to specify expected relationships carefully. Because founders' experience is related to venture performance through the mediating effects of expertise, a dominant logic filtering perception, and the founder's decisions and actions, it is necessary to couple these constructs more tightly. Researchers should start with the final dependent variable, which is presumably an organizational outcome variable, and then specify mediating variables backwards through the chain presented in Figure 1. For example, if the organizational outcome to be explained is the early internationalization of new firms, researchers should clearly specify what decisions and actions are expected to lead to early internationalization, what aspects of a dominant logic and what skills are likely to lead to these decisions, and, finally, what experiences are most likely to develop the relevant skills or perceptions.

Distinctions between Stock and Stream

A central point of this article is that researchers need to take into account both the stock and the stream of experience when studying ventures. The distinctions between the stock and stream perspectives on experience must be recognized if good models and measures of experience are to be developed, appropriate levels of analysis specified, and relevant properties of experience studied.

If practical trade-offs need to be made for economies of data collection, examining the recent stream of experiences may be more relevant than the stock of managers' experience because of the dating of the stock. For example, three years of work experience in the software industry acquired eight years ago is probably of less behavioral consequence than experience acquired more recently.
Researchers also need to recognize the complementary nature of stock and stream, because they are interrelated. Events in the stream of experience are accumulated into the experiential stock, and the nature of this stock will determine which subsequent events are novel for the venture. Future research could look into the nature of this interrelationship, perhaps through the literatures examining individual and organizational memory.

Timing

Researchers concerned with experience will benefit from increased sensitivity to issues of timing. The relationship between the stock of experience and its consequences is likely to be weaker during time periods when the venture is facing novel events, especially random novel events. For example, although ventures founded by internationally-experienced management teams are likely to enter foreign markets earlier than ventures founded by less internationally-experienced management teams (Reuber and Fischer 1997), this experiential effect is unlikely to have as much predictive power for ventures that are becoming international after operating domestically for some time. This is not only because the stock of prior experience becomes old and is potentially dominated by more recent experiences, but also because the management of at least some ventures will be consumed with “fighting fires” or dealing with random events once the venture has started operations. Thus, we can expect that the founders’ stock of experience will have a better predictive ability at start-up than for subsequent outcomes, and a better predictive ability for outcomes in periods of relative stability than for outcomes in transition periods such as evolution between business stages.

Researchers will also need to consider that there may well be diminishing returns to experience, rather than the linear relationship between experience and its consequences that is normally assumed. If the managerial literature is a guide, the consequences of having had particular experiences are likely to lessen over time. In addition, when collecting data, we need to expect a lag between the occurrence of an event and the time at which its effects are visible.

Finally, and related to all the points above, in order to understand the relationships among experience, learning, and outcomes, we need to design research programs that are processual and longitudinal in nature. Only by studying how ventures react to the stream of experiences can we really understand the role of experience in determining outcomes.

References


