

# Is Structure Good or Bad for Startups?

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After the emergence of the Lean Startup, many entrepreneurs choose to test the market for their product and run a lot of experiments before scaling their businesses. At the same time, some take a different route: they develop their product “in house”, executing a well-thought-out strategic plan, and proceeding “in stealth mode” until they are ready to launch. Which strategy works better?

We explored this question in a [study recently published in \*Strategic Entrepreneurship Journal\*](https://onlinelibrary.wiley.com/doi/10.1002/sej.1416) (<https://onlinelibrary.wiley.com/doi/10.1002/sej.1416>). The study used data from a university entrepreneurship competition and an online experiment to gauge the types of startups that would be most likely to attract funding from investors. The upshot: what mattered to stakeholders was not just the choice of strategy, but whether the structure of the company supported that strategy well. Companies focused on experimentation were more highly rated if they had a looser, more informal structure and those focused on planning benefited if they had a more formal structure.

## The study

Experimentation and planning are two distinct choices in running a venture. Naturally, an important question is which approach works best, or, more precisely, when each approach works better.

To give an answer to this question, we focused on one element few people pay attention to in this domain—*organizational structure*. Common wisdom suggests that “all startups are flat” and thus structure is not something we should care about. However, the recent literature suggests that startups’ structure can vary quite a bit, on a spectrum ranging from very flexible to very rigid. Therefore, we wanted to understand whether structure plays a role in the choice of experimentation vis-a-vis planning. A classic argument in the management literature suggests that experimentation works best with a flexible (or, informal) structure, where team members collaborate on most

tasks, communicate fluidly and are able to change direction quickly. In more formal structures, team members know their own tasks, have specific skills and competencies and can execute efficiently.

Our study looked at a process that matters to a lot of early-stage startups—a startup competition. We collected pitch decks and evaluations from a competition based at a large private US university, involving 110 ventures and 223 judges. We coded their pitch decks to measure experimentation, planning, structure, and a series of additional characteristics. Then, we conducted an online experiment through Amazon Mechanical Turk with 162 respondents with business experience. We showed them imaginary but realistic pitch decks, with different combinations of experimentation versus planning strategy and structured versus unstructured staffs, and asked respondents whether they’d be likely to invest in the ventures.

## What we found

Both studies confirmed that having a structure that matched the venture’s strategy mattered. We found that ventures that exhibit *coherent* combinations – experimentation and informal structure or planning and formal structure – tend to receive better evaluation than those exhibiting alternative combinations. In other words, ventures that communicate “fit” between their strategy and structure appear to be rewarded by evaluators.

Different processes can contribute to this pattern. First, evaluators might infer that startups exhibiting coherence combinations might perform better in the long run. Alternatively, whether or not fit actually leads to better performance, evaluators might just view that as a “signal” of a high quality team. Finally, evaluators might just perceive coherent combinations as more “legitimate”, and thus evaluate them more positively.

## Lessons for startups



While we know it is critical for large firms, strategy-structure fit might matter also for smaller startups. In addition, contrary to what common wisdom suggests, structure might not be a purely marginal element for startups. Structure might actually matter. And whether structure is good or bad depends on the strategy a venture chooses. So, entrepreneurs seeking to get funding to build their ventures might want to take this into consideration when crafting their narratives.

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- For example, if your strategy involves experimentation in the manner of the Lean Startup, consider adopting a looser, more informal structure. Companies adopting a planning approach may want to consider a more formal structure instead.
- Startups making a pitch to investors should emphasize not just the strength of their idea and team, but also how their structure supports their strategy of experimentation or planning.
- To have a more formal structure, you can define roles precisely, design a clear hierarchy, and create business and administrative roles early on. To obtain a more informal structure, avoid assigning precise roles, keep the organization relatively “flat”, and wait before creating too many business & administrative roles.
- Investors should be aware of the role of experimentation, planning and structure when they evaluate a firm.
- Colleges running competitions, incubators, accelerators and other entrepreneurship programs should be aware of how the choice of strategy and structure may be a factor in attracting interest from evaluators, and encourage students to think these things through.

## Explore the Research

[Experimentation, Planning and Structure in Early-Stage Ventures: Evidence From Pitch Decks](https://onlinelibrary.wiley.com/doi/10.1002/sej.1416) (https://onlinelibrary.wiley.com/doi/10.1002/sej.1416) , Strategic Entrepreneurship Journal, December 2021

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