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HOW DOES STRUCTURE DEVELOP IN NEW VENTURES? (SUMMARY)

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SUMMARY

HOW DOES STRUCTURE DEVELOP IN NEW VENTURES?

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Principal Topic

Understanding how structure develops in new ventures is important because initial structures have long-lasting effects on the firm, including on its capabilities, growth, and innovativeness. In this paper, we investigate the mechanisms that help govern the development of structure (in terms of specialization, formalization, and centralization and organic versus mechanistic structures) in new ventures. The literature has tended to adopt one of two lenses to understand this – a life-cycle or a contingency theory approach. The life-cycle literature provides the argument that the development of structure is a direct function of the age and size of the firm. However, it says little about the type of structure (e.g. organic, mechanistic) that evolves. The contingency argument is that the nature of the external environment will dictate organizational structure type. For instance, Burns and Stalker (1961) find that firms with organic structures perform better in fast-changing markets while more formalized mechanistic structures are better suited for more predictable environments. However, this says little about how these structures come about, aside from noting that external pressures dictate this on the basis of fit. We contribute to the literature by examining the role of the founder in the development of structure, and in particular, his/her previous experience, human capital, and his/her founding ‘blueprint’.

Method

This study is based on survey data from approximately 120 small new ventures in the northeast USA, representing a number of industries. We control for a number of potential contingency factors and capture the key variables using multi-items validated in the literature.

Results and Implications

We show that the founder has an important impact on the development of structure in new firms. While the external environment, size, and age of the firm matter, the initial ‘blueprint’ of the founder and his/her previous experience also have a significant impact on both the time of development of structure but also the type of structure that the firms develop. As such, in line with upper echelons theory, we provide empirical evidence that demonstrates the importance of the founder to the development of new ventures. This has important implications for theory and practice.

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