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Functional Hiring Imbalance, Managerial Layering, and Execution Reliability During Early Scaling in U.S. Venture-Backed Technology Startups

Omar Almasri¹ and Tariq Alshammari²

¹Department of Management Information Systems, Al-Zaytoonah University of Jordan, Queen Alia Airport Road, Amman 11733, Jordan

²College of Business Administration, Department of Information Systems, University of Hafr Al Batin, King Faisal Road, Hafr Al Batin 39524, Saudi Arabia

Abstract

Background conditions in entrepreneurial firms change rapidly once early product-market validation gives way to organizational scaling. At that stage, founders must not only increase headcount but also determine how hiring should be distributed across functions and when intermediate managerial layers should be introduced. Those decisions are frequently discussed in practice, yet systematic evidence on their joint performance consequences remains limited. This study examines whether early scaling outcomes depend on the degree to which new hiring is functionally imbalanced and whether the startup delays managerial layering relative to its size. The analysis uses a hand-collected quarterly panel of 284 U.S. venture-backed technology startups observed from 2016 to 2024, linked to 41,673 employee-role records and 5,248 startup-quarter operating observations. Functional imbalance is measured as the weighted distance between a startup's recent hiring profile and a stage-specific hiring benchmark. Layering delay is measured as the shortfall of managerial density relative to comparable startups at similar size and maturity. The empirical strategy combines startup fixed effects, local labor-supply control functions, dynamic panel estimation, discrete-time hazard models, and a mediation design based on reporting-chain instability. The results indicate that functional imbalance and layering delay are jointly associated with lower next-quarter execution reliability, weaker revenue-per-employee growth, greater operating volatility, and a higher probability of bridge financing. The adverse association is nonlinear and becomes materially stronger once startups cross approximately forty employees without corresponding managerial layering. Reporting-chain instability partially mediates these effects. Startups with founder teams that include prior scaling experience experience less deterioration under imbalance, but the buffering effect is incomplete. The findings suggest that early scaling failure often reflects not excessive hiring per se, but a mismatch between where hiring occurs and whether integrative managerial capacity is built alongside it.

1. Introduction

The transition from entrepreneurial search to organized growth does not occur simply because a startup raises another financing round or reaches a revenue milestone. It occurs when the firm must begin coordinating specialized work through a more elaborate internal structure than the founder-centered arrangements that characterized its earliest period. In the pre-scaling stage, a small number of people can often compensate for structural deficiency through direct conversation, overlapping responsibilities, and constant improvisation. Once headcount rises, however, the informal architecture that had once been adaptive can become a source of execution error. Tasks start to separate into engineering, product management, design, sales,

marketing, customer success, implementation, finance, and internal operations. The startup then faces a difficult organizational problem: not merely how many people to hire, but where to place them and when to insert the managerial layers capable of integrating them.

This problem is central to entrepreneurship because young firms experience organizational change under unusually severe time pressure [1]. Established firms can often absorb structural mistakes through stable demand, slack resources, or legacy routines. Startups rarely possess such buffers. A hiring surge in one function can reshape the firm’s workflow before basic coordination routines have matured. A delay in appointing team leads or functional managers can preserve founder control for a few months, but it can also create reporting bottlenecks, ambiguous authority, and unstable prioritization. Conversely, introducing managerial layers too early can add cost and hierarchy before there is enough specialization to justify them. The issue is therefore not whether entrepreneurial firms should remain flat or become structured in the abstract. It is whether their evolving mix of specialist hiring and managerial layering remains aligned with the level of organizational complexity they are trying to govern.

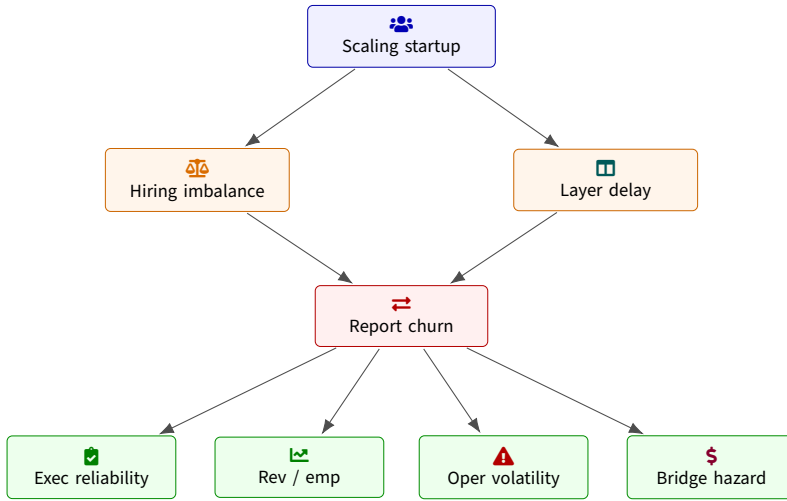


Figure 1. Core conceptual map. The paper’s central argument is that functional hiring imbalance and delayed managerial layering jointly destabilize reporting relationships, which then degrades execution reliability, revenue productivity, operating stability, and financing resilience.

The importance of this issue is widely recognized in practitioner conversations yet remains undermeasured in empirical entrepreneurship research. Founders and investors routinely discuss whether the startup “hired too many engineers too soon,” “built sales ahead of repeatability,” or “crossed forty or fifty employees without enough managers.” These observations are rarely trivial. They often arise after revenue productivity weakens, milestone slippage becomes frequent, or the board begins to worry that more financing is being consumed without corresponding executional improvement. Even so, the underlying mechanisms are not straightforward. Concentrated hiring can be useful when a firm needs to build a product core quickly or repair a weak go-to-market capacity. Likewise, delaying managerial layering can protect speed in very small organizations. What appears problematic is not concentration or founder-centered control in isolation, but their persistence after the organization reaches a scale at which specialization, coordination, and accountability no longer fit comfortably within the same informal structure.

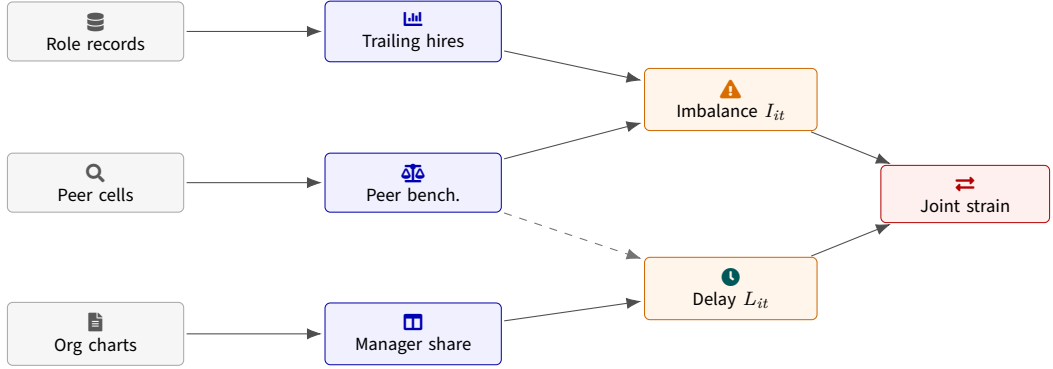


Figure 2. Measurement architecture. Recent hiring shares and stage-specific peer benchmarks produce the imbalance metric, while observed managerial share relative to comparable startups yields layering delay; the interaction captures organizational disequilibrium.

This paper investigates whether early scaling outcomes in venture-backed startups are shaped by two organizational conditions that often emerge together: functional hiring imbalance and delayed managerial layering. Functional hiring imbalance refers here to the extent to which recent hiring is distributed across functions in a manner that departs sharply from the stage-specific pattern typical of comparable startups [2]. Delayed managerial layering refers to the shortfall in team-lead and manager density relative to what firms of similar size and complexity appear to require. Either condition may exist on its own. A startup can hire heavily into one function while still appointing managers capable of integrating the resulting complexity. It can also preserve a relatively balanced function mix while delaying managerial layering. The main concern of this study is their interaction. A startup that hires in a skewed way and simultaneously fails to create integrative managerial capacity may encounter a qualitatively different organizational burden from one facing only one of those conditions.

The argument developed below is not that balanced hiring is always optimal or that more managers are always beneficial. Entrepreneurial firms are heterogeneous, and some succeed precisely because they focus resources intensely on one domain for a period of time. The more specific proposition is that deviations from stage-appropriate functional balance become progressively more expensive once the organization lacks the managerial scaffolding needed to process those deviations. A startup can withstand a temporary engineering-heavy or sales-heavy hiring burst when authority is clearly delegated, role boundaries are stable, and functional managers can translate cross-functional interdependence into concrete operating routines. The same hiring burst becomes destabilizing when founders remain the de facto coordination hub for dozens of specialists whose work depends on one another but whose reporting structure does not reflect that dependence [3].

This perspective places organizational architecture, rather than only human capital quantity, at the center of entrepreneurial execution. It also implies that the consequences of structural choices are likely to be conditional rather than uniform. Cao et al. (2025) [4] show, in another strategic setting, that the returns to innovation are shaped jointly by market-level and firm-level conditions rather than arising mechanically from the focal activity itself. That logic is useful here because early hiring decisions should likewise be evaluated in context. The same engineering-heavy hiring pattern may be sensible in one startup and damaging in another depending on managerial depth, founder experience, and environmental pressure. Early scaling therefore requires a contingent analysis of organizational design, not a universal

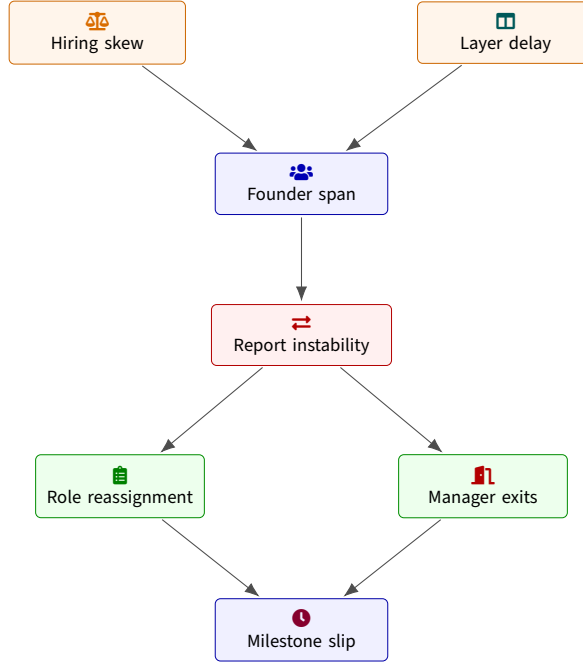


Figure 3. Mechanism channel. The paper’s mediation logic can be visualized as a chain in which imbalanced hiring and weak layering overload founders, destabilize reporting lines, trigger role churn and regretted exits, and ultimately increase milestone slippage.

rule about flatness, specialization, or the correct number of people in each function.

The empirical setting assembled for the study consists of U.S. venture-backed technology startups observed quarterly between 2016 and 2024. The firms operate in B2B software, developer infrastructure, fintech infrastructure, digital health technology, robotics-enabled systems, and climate software. A hand-collected dataset was built from archived quarterly investor packets, operating updates, org charts, and professional role histories, producing 41,673 employee-role records and 5,248 startup-quarter observations for 284 firms. These materials make it possible to reconstruct who was hired into which function, when team leads or managers were introduced, how wide founder spans of control remained, and how operating outcomes evolved afterward. Such detail is necessary because standard startup datasets record headcount growth but not the organizational composition of that growth.

The analysis focuses on four outcome families. The first is execution reliability, a latent construct reflecting milestone attainment, release-timing adherence, sales forecast error, and regretted managerial turnover. This outcome matters because entrepreneurial progress often fails not from absence of effort but from repeated inability to deliver planned work on schedule and with stable ownership [5]. The second is revenue-per-employee growth, which captures whether the startup translates organizational expansion into increasing commercial productivity. The third is operating volatility, measured through fluctuations in burn, release timing, and sales conversion. The fourth is bridge-financing hazard, defined as the probability that the startup enters an insider-led bridge round or equivalent rescue financing within the following four quarters. These outcomes are intentionally broader than revenue growth alone. Young firms can grow rapidly while becoming less governable, and the question here concerns the quality and stability of scaling rather than its top-line speed in isolation.

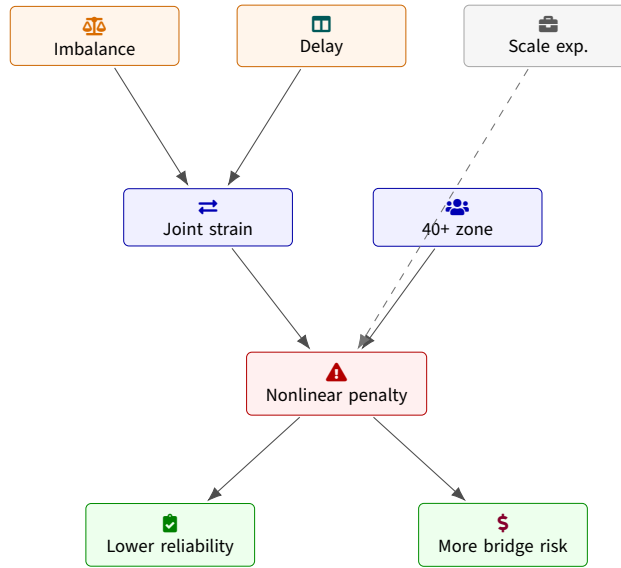


Figure 4. Threshold and moderator view. The adverse interaction of imbalance and layering delay becomes materially steeper after the startup reaches a larger headcount regime, while prior founder scaling experience tempers the drop but does not fully neutralize it.

Three patterns emerge from the estimates. First, functional hiring imbalance is associated with lower subsequent execution reliability even after startup fixed effects, time effects, stage indicators, local labor-market controls, and financing conditions are introduced. Second, the adverse association grows materially stronger when managerial layering lags behind organizational growth. The inflection is not immediate at the earliest scales; it becomes especially visible once firms move beyond approximately forty employees while maintaining founder-centric reporting arrangements. Third, these organizational conditions are associated not only with softer internal outcomes but also with weaker external financing resilience. Startups exhibiting high imbalance and high layering delay are more likely to require bridge capital or to miss the operating thresholds usually expected before a new priced round. These patterns remain after control-function correction for labor-supply shocks and after several robustness tests that alter the benchmark construction and outcome definitions.

The paper contributes to entrepreneurship research in four ways [6]. It shifts attention from aggregate hiring pace to workforce architecture, showing that the distribution of hiring across functions contains information not captured by total headcount growth. It also treats managerial layering as an entrepreneurial design variable rather than as a generic bureaucratic by-product of scale. In addition, it links organizational architecture to financing durability by showing that staffing choices affect not only operations but also the likelihood that the startup can avoid emergency capital. Finally, it introduces a measurement approach that uses role distributions and comparative benchmarks to quantify organizational disequilibrium in young firms.

The remainder of the paper proceeds as follows. The next section develops the logic linking functional hiring imbalance and layering delay to scaling performance [7]. The subsequent section explains how the sample, variables, and benchmark measures were constructed. The estimation section lays out the fixed-effects, hazard, and control-function models. The following two sections report the principal results, mechanism tests, and robustness analyses. The

paper closes by considering what the results imply for the study of entrepreneurial organizing under resource pressure and rapid growth.

2. Organizational Disequilibrium in Entrepreneurial Scaling

Entrepreneurial growth creates a distinctive coordination problem because specialization expands before routines become durable. In very small firms, specialists may exist in title but not in workflow. Engineers discuss customer issues directly with founders, sales activity is partly improvisational, and operational work is performed through direct intervention rather than through standardized handoffs. Under such conditions, the startup can remain structurally simple without obvious loss of control. Once the firm begins adding personnel across several functions, however, specialization becomes consequential. Work no longer depends only on individual competence. It depends on how specialized roles fit together, how information moves among them, and whether authority is distributed in a way that keeps interdependence manageable. Growth therefore changes the underlying production problem from one dominated by effort and invention to one increasingly shaped by coordination.

Functional hiring imbalance matters because the startup is not a collection of separable labor pools. Each function depends on timing, outputs, and constraints produced elsewhere. A strong increase in engineering hiring without corresponding product management, implementation, or customer-success capacity may overwhelm prioritization and deployment. A rapid expansion in sales without corresponding product stability or onboarding capability can create forecast optimism that the operating system cannot support. A buildout in operations or finance can improve discipline, but if it occurs too far in advance of real operating scale it can also generate managerial attention costs disproportionate to its immediate value. The issue is therefore relational. A functionally imbalanced hiring profile is one in which the incremental complexity generated by one part of the organization cannot be absorbed smoothly by the rest.

That logic implies a departure from narrow interpretations of startup focus. Many entrepreneurial narratives celebrate concentration because it appears disciplined. Yet concentration can be helpful or harmful depending on what type of concentration is under consideration and at what organizational moment it occurs. Cao et al. (2024b) [8] show that specialization in incubator settings can reduce startup R&D efficiency and indirectly depress venture capital funding, indicating that concentrated structures do not automatically increase entrepreneurial performance. The broader lesson is that specialization may simplify some activities while simultaneously weakening knowledge breadth or creating bottlenecks elsewhere. Applied to hiring, a concentrated staffing push into one function may accelerate one capability while impairing the integration needed to turn that capability into reliable output. What seems operationally focused from one angle can be structurally destabilizing from another.

The destabilizing effect should be stronger in young firms than in mature firms for two reasons. First, startups usually possess fewer stable routines for buffering local shocks. When hiring is skewed, the firm cannot rely on deeply embedded process discipline to redistribute work or correct sequencing errors. Second, accountability in young firms often remains personalized rather than systematized. Specialists may not know whether a cross-functional issue belongs to a functional lead, a founder, or whoever most recently touched the workstream. Under these conditions, a surge in one function does more than alter capacity. It alters who must coordinate with whom, how priorities are contested, and how quickly exceptions accumulate. Functional imbalance therefore becomes an organizational strain rather than merely a staffing statistic.

Managerial layering should be understood in the same relational way. The introduction of team leads, functional managers, and other intermediate coordinating roles is frequently interpreted as a sign that the startup is becoming less entrepreneurial and more bureaucratic. That interpretation is often too crude. In young firms, managerial layers do not primarily exist to enforce hierarchy in the mature-firm sense. They often emerge because founders can no longer process all cross-functional dependencies while also handling fundraising, senior recruiting, product vision, and high-stakes customer conversations. Delaying layering preserves direct founder oversight, but it also leaves reporting spans wide, decision rights blurry, and coordination responsibility underinstitutionalized. The cost of that delay rises with complexity. A flat structure with twenty employees is not equivalent to a flat structure with sixty employees whose work is distributed across product, engineering, sales, marketing, customer success, and compliance.

The central expectation of the present study is that functional hiring imbalance and layering delay are complementary sources of disequilibrium. Neither need be fatal on its own. A startup may survive a temporarily skewed hiring profile if it has a strong managerial spine capable of translating imbalance into coherent work allocation [9]. Likewise, a startup may postpone layering without obvious deterioration if recent hiring remains limited or relatively balanced. Problems intensify when these conditions coexist. The startup then experiences a double burden. Interdependence rises because hiring is uneven across functions, and integrative authority remains weak because managerial density lags. Founders become overloaded not only with more decisions but also with a more structurally asymmetrical decision environment.

Several concrete consequences follow [10]. One is milestone unreliability. Cross-functional projects in startups frequently require engineering, product, sales, and customer-facing teams to coordinate under compressed deadlines. If one function grows faster than the others without corresponding managerial integration, the probability of delay and rework should increase. Another consequence is sales forecast error. Commercial teams can promise more than the product and delivery system can absorb, particularly when sales hiring expands quickly relative to product stability and implementation capacity [11]. A third consequence is regretted managerial turnover. High-potential managers often enter startups expecting clarity on ownership and decision rights. When the organization remains founder-centered despite increasing complexity, those managers may experience role ambiguity or repeated priority reversals and become more likely to leave.

The effect should also extend to revenue productivity and financing risk. Startups do not secure follow-on financing merely by increasing headcount. They do so by converting organizational growth into credible execution. If hiring imbalance and layering delay reduce delivery reliability, blur accountability, and raise internal coordination costs, the startup may need more labor to produce the same commercial progress. Revenue per employee should then rise more slowly or even decline. Investors may initially tolerate such inefficiency if the startup remains clearly on track with milestones or if market conditions are permissive. Over time, however, a firm that adds people while missing release dates and burning cash unpredictably becomes a candidate for bridge financing rather than for a clean new round.

The relation is unlikely to be perfectly linear. Early in the life of a startup, some degree of functional imbalance is almost inevitable and can be efficient. A company building a technically demanding product before full commercialization may rationally hire disproportionately into engineering. A company that has achieved product readiness may rationally overweight commercial functions for several quarters. Similarly, managerial layering should not be expected to appear immediately at ten or fifteen employees [12]. The more plausible expectation

is that disequilibrium becomes more harmful once organization size and interdependence cross a threshold at which founder-mediated coordination no longer scales well. This threshold is unlikely to be identical across firms, but it should become visible statistically as employee count rises beyond the smallest startup range.

The costs of disequilibrium may also vary across environmental conditions and founder capabilities. Competitive markets can amplify the penalty from organizational misalignment because missed milestones and slow issue resolution are harder to absorb when rivals move quickly. Founders with prior scaling experience may be better able to manage temporary imbalance because they recognize when managerial layering must be introduced and how authority should be allocated across emerging functions. Yet even experienced founders cannot indefinitely substitute for missing structure. Organizational architecture is not reducible to founder quality, though founder experience may attenuate its most damaging expressions.

From this logic follow three expectations. First, higher functional hiring imbalance should be associated with lower subsequent execution reliability and weaker commercial productivity. Second, managerial layering delay should exacerbate the adverse association between imbalance and those outcomes. Third, the joint effect should become more severe as the startup crosses into higher headcount regimes, where interdependence increases faster than founder-centered coordination can absorb. These expectations are tested not as universal laws but as probabilistic relationships in a panel of venture-backed startups facing similar early-scaling pressures.

The empirical analysis does not begin with the assumption that startups must converge on a single “correct” staffing template. The benchmark used below is stage-specific and sector-aware, which helps preserve the idea that organizational needs differ across contexts. The concern is not any departure from average composition. It is sustained departure in a direction large enough to create coordination stress without corresponding integrative capacity. In other words, the focus is not conformity. It is organizational feasibility.

3. Sample Design and Variable Construction

The empirical dataset was assembled from archival operating materials shared by venture investors, supplemented with public professional-profile histories and financing records. The investor materials include quarterly board packets, KPI updates, internal hiring plans, and occasional org charts. Access was obtained for startups whose lead or major investors agreed to provide historical materials on a confidential basis after identifying information not necessary for analysis was stripped. These records were then matched to professional profile histories so that each employee’s role, title, function, and approximate tenure could be reconstructed. Where board materials and professional histories disagreed, the board materials were treated as primary for timing and the profile histories as supplementary for function coding.

The resulting sample contains 284 U.S.-based venture-backed technology startups observed between 2016:Q1 and 2024:Q4. The firms operate in B2B SaaS, developer infrastructure, fintech infrastructure, digital health technology, robotic systems, logistics software, climate software, and selected enterprise tools with meaningful implementation or compliance content [13]. Consumer social platforms, pure biotech, and capital-intensive manufacturing ventures were excluded because their organizational growth logic and title structures differ markedly from the focal population. To remain in the sample, a startup had to satisfy three conditions. It needed at least six quarters of observable operating data, at least fifteen employees at some point during the panel, and enough employee-role information to classify at least 85%

of headcount in each observed quarter. After these screens, the panel contains 5,248 startup-quarter observations and 41,673 employee-role records.

Several features of the sample are worth noting. Mean startup age at first observation is 2.9 years, median headcount is 34, and median cumulative capital raised is \$11.7 million in 2024 dollars. Roughly 38% of firms are observed before Series A, 43% between Series A and Series B, and 19% from Series B onward. The median startup remains in the panel for 17 quarters. Because the research question concerns organizational scaling, the panel is deliberately concentrated in the interval where firms move from approximately 15 to 150 employees. Very small pre-team startups and very large late-stage firms are less informative for the present purpose [14].

The outcome variables were designed to capture scaling quality rather than only growth rate. The principal dependent variable is *ExecutionReliability_{it}*, a standardized latent factor extracted from four quarterly indicators. The first is the proportion of planned company-level milestones completed on or before the committed quarter. The second is the negative of median release slippage, measured in months, across product or deployment milestones recorded in board materials. The third is the negative absolute error between forecast and realized new annual recurring revenue, scaled by realized new ARR. The fourth is the negative rate of regretted managerial turnover, defined as voluntary departures of directors, heads, team leads, or equivalent roles marked as regretted in board or HR discussion. Each component is standardized within year and sector, and the first principal component is used as the composite outcome. The resulting factor explains 61% of common variance and loads positively on timely milestone delivery and negatively on slippage, forecast error, and regretted turnover.

A second outcome is *RevenuePerEmployeeGrowth_{i,t+1}*, computed as the log difference in quarterly revenue per full-time equivalent employee from quarter t to quarter $t + 1$. A third outcome, *OperatingVolatility_{it}*, is a standardized average of three scaled fluctuations: within-quarter burn variance, release-date variance, and quarter-to-quarter swings in realized sales conversion relative to plan. This variable is intended to capture whether the startup becomes harder to operate predictably as organizational disequilibrium grows. A fourth outcome, *BridgeHazard_{i,t+1:t+4}*, equals one if the startup enters an insider-led bridge round, emergency note financing, or materially insider-supported payables-preserving financing within the next four quarters. Because this event is not instantaneous, it is modeled in discrete time.

The central explanatory variable is functional hiring imbalance. Let $\mathbf{p}_{it}$ denote the vector of hiring shares across six functions in startup i over the trailing four quarters ending at t : engineering, product and design, sales, marketing, customer success and implementation, and operations and finance. A startup with no hires in a quarter carries forward the trailing-four-quarter vector rather than receiving a missing value, because the relevant organizational condition concerns the recent structure of hiring rather than only current-quarter additions. For each sector-stage-size cell g , a leave-one-out benchmark vector $\mathbf{b}_{gt}$ is computed using the median functional hiring shares of other startups in the same cell and calendar year. Headcount size is grouped into 15–24, 25–39, 40–59, 60–89, and 90+ employee bands; stage distinguishes pre-Series A, Series A, and post-Series A.

Functional hiring imbalance is then defined as a weighted distance from the benchmark:

$$\mathbf{p}_{it} = [p_{1it}, p_{2it}, p_{3it}, p_{4it}, p_{5it}, p_{6it}]'$$

$$I_{it} = \sqrt{(\mathbf{p}_{it} - \mathbf{b}_{gt})' \mathbf{W} (\mathbf{p}_{it} - \mathbf{b}_{gt})} \quad (1)$$

where $\mathbf{W}$ is a diagonal weighting matrix equal to the inverse within-cell variance of each functional share. This formulation ensures that departures in functions with naturally low variance receive more weight than departures in functions whose shares vary widely across otherwise similar startups. The measure is normalized to mean zero and unit variance for interpretability [15]. High values indicate that the startup’s recent hiring pattern is unusually skewed relative to comparable firms at a similar stage and size.

Managerial layering delay is measured separately rather than embedded inside the imbalance metric. For each startup-quarter, manager density is defined as the share of employees holding titles with explicit people-management or team-lead responsibilities, excluding founders and cofounders. Within each sector-stage-size cell, the leave-one-out median manager density is computed. Layering delay is then the positive shortfall between that benchmark and the startup’s observed manager density. Values below zero are set to zero because exceeding the benchmark is not conceptually a delay. The variable is standardized across the sample. A related measure, founder span load, captures the mean number of direct or effectively direct reports per founder, derived from org charts when available and imputed from title hierarchies otherwise. Founder span load is used in mechanism tests but not as the principal moderator, because delay in managerial layering is better aligned with the conceptual argument [16].

The core interaction term is $\text{Disequilibrium}_{it} = I_{it} \times L_{it}$, where L_{it} is layering delay. This interaction reflects the idea that imbalance becomes more consequential when integrative managerial capacity is missing. In practice, the models include the main effects and the interaction separately so that the marginal association of imbalance can vary with layering delay rather than being hard-wired into a single index. A threshold indicator for 40+ employees is also used in some specifications to test whether the interaction strengthens after the organization crosses a practically meaningful size boundary.

The financing outcome is included because startup stakeholders do not evaluate internal signals mechanically. Organizational architecture is partly private, but its consequences become visible through milestone delivery, staff churn, and operating consistency. Cao et al. (2023) [17] show, in a very different financing context, that observable signals of future opportunity can soften otherwise negative interpretations of insider behavior. That broader interpretive logic supports the inclusion of bridge-financing hazard in the present study. Investors in private startups routinely assess whether internal conditions imply increasing or decreasing execution risk. A startup with widening hiring imbalance and delayed layering may therefore face financing consequences even before those conditions fully register in realized revenue.

Several controls are included. Startup age, headcount, stage, cumulative capital raised, prior revenue level, cash runway in months, founder count, founder prior scaling experience, and sector-year demand conditions are all measured quarterly. Founder prior scaling experience equals one if at least one founder previously held a vice president, general manager, founder, or equivalent role in a firm that scaled beyond 100 employees or \$20 million in annual revenue. Additional controls include whether the startup sells primarily to enterprise buyers, whether it is regulated or compliance-heavy, the share of engineering employees in total headcount, and lagged values of each dependent variable when the modeling approach permits. Because local labor-market conditions can affect both hiring composition and startup performance, the data also include metro-level occupational supply measures derived from job-posting and profile-availability data for engineers, product managers, sales personnel, and implementation specialists.

Descriptive statistics indicate substantial dispersion in the organizational variables of interest. Mean functional imbalance is zero by construction, but the raw, unstandardized distribution

ranges from near-benchmark cases to quarters in which one function accounts for well over half of all new hires in a trailing-year window [18]. Mean layering delay is modest at smaller sizes and rises materially once startups exceed about forty employees without corresponding increases in manager density. The correlation between imbalance and layering delay is 0.26, indicating that the two conditions frequently co-occur but remain distinct. Startups in the top quartile of both variables have, on average, lower execution reliability and higher operating volatility than startups in the bottom quartile of both. They also experience a bridge event in 21% of observed four-quarter windows, compared with 9% in the bottom quartile.

An additional set of variables supports the mechanism analysis. *ReportingInstability_{it}* measures the share of employees who changed formal or effective reporting line within two quarters without a corresponding function change or promotion-driven explanation. *RoleReassignment_{it}* measures the share of employees whose functional classification changed within two quarters of hire, excluding expected moves from “founding generalist” roles early in the sample. Both metrics capture organizational churn in who owns what work, which is a plausible pathway through which disequilibrium affects execution. Because these variables require especially detailed org-chart inference, they are available for a subset of 179 startups and 2,946 startup-quarter observations.

Coding reliability was addressed through a multi-step protocol. Employee functions were first coded algorithmically from title dictionaries and then reviewed manually when titles were ambiguous. Inter-coder agreement on a 12% random audit sample exceeded 0.90. Milestone completion and regretted-turnover indicators were coded independently by two research assistants from board materials and HR summaries, with disagreements resolved by rereading the underlying documents. Benchmark vectors were computed in a leave-one-out manner so that the focal startup never contributes to its own comparison cell. This does not eliminate all measurement error, but it reduces the likelihood that the main organizational variables are artifacts of noisy or circular construction.

4. Estimation Framework

The primary empirical challenge is endogeneity. Startups do not arrive randomly at functionally imbalanced hiring profiles or delayed managerial layering. These organizational states may reflect unobserved shocks to product complexity, commercial opportunity, or founder preference. A firm rushing to meet a large enterprise contract may hire heavily into implementation; a firm facing product instability may delay commercial hiring while intensifying engineering recruitment; a founder reluctant to delegate may postpone management appointments for reasons not fully observable in the data. The estimation strategy therefore combines startup fixed effects, lag structure, local labor-supply controls, and a control-function correction based on metro-by-function labor shocks.

The baseline panel specification relates next-quarter outcomes to current organizational conditions:

$$Y_{i,t+1} = \alpha_i + \tau_t + \beta_1 I_{it} + \beta_2 L_{it} + \beta_3 I_{it} L_{it} + \beta_4 \log(\text{Headcount}_{it}) + \gamma' \mathbf{X}_{it} + \varepsilon_{i,t+1} \quad (2)$$

where $Y_{i,t+1}$ is either execution reliability, revenue-per-employee growth, or operating volatility; α_i are startup fixed effects; τ_t are calendar-quarter fixed effects; I_{it} is functional imbalance; L_{it} is layering delay; and $\mathbf{X}_{it}$ is the vector of controls. Startup fixed effects absorb

time-invariant factors such as founding quality, business model category, or stable elements of founder style. Calendar-quarter effects absorb macro conditions common across firms, including funding cycles and labor-market shifts. Standard errors are clustered at the startup level.

To capture the idea that disequilibrium may become more severe after a size threshold, a threshold-interaction model is also estimated:

$$Y_{i,t+1} = \alpha_i + \tau_t + \beta_1 I_{it} + \beta_2 L_{it} + \beta_3 I_{it} L_{it} + \beta_4 D40_{it} + \beta_5 I_{it} L_{it} D40_{it} + \gamma' \mathbf{X}_{it} + \varepsilon_{i,t+1} \quad (3)$$

where $D40_{it}$ equals one if startup headcount is at least forty employees in quarter t . Alternative thresholds at thirty-five and fifty employees are used later as robustness checks.

Because execution reliability is persistent, dynamic panel versions of the model include the lagged dependent variable. Bias-corrected least-squares dummy-variable estimation is used as the main approach, with system GMM estimates reported as a check. The dynamic equation is

$$ER_{i,t+1} = \alpha_i + \tau_t + \rho ER_{it} + \beta_1 I_{it} + \beta_2 L_{it} + \beta_3 I_{it} L_{it} + \gamma' \mathbf{X}_{it} + u_{i,t+1} \quad (4)$$

where ER_{it} denotes the execution reliability factor. Inclusion of the lagged dependent variable is important because some startups are chronically well organized or chronically unstable. The dynamic framework helps distinguish whether imbalance predicts additional deterioration beyond that persistence.

Bridge-financing risk is modeled with a discrete-time complementary log-log hazard. Let $h_{i,t+1:t+4}$ denote the hazard that startup i enters bridge financing during the next four quarters conditional on not having done so already. The hazard equation is [19]

$$\log[-\log(1 - h_{i,t+1:t+4})] = \delta_t + \theta_1 I_{it} + \theta_2 L_{it} + \theta_3 I_{it} L_{it} + \lambda' \mathbf{X}_{it} \quad (5)$$

where δ_t captures baseline duration through calendar-quarter and age-in-panel effects. The hazard approach is preferable to linear probability in this setting because bridge events are comparatively infrequent and the risk accumulates over a horizon longer than one quarter.

The key source of identification beyond fixed effects is variation in local labor-market composition [20]. Startups headquartered in the same metro face different occupational supply shocks over time. When local engineering labor suddenly becomes more available relative to product or commercial labor, startups may temporarily tilt hiring toward engineering even if their ideal organizational plan would have been more balanced. Likewise, sudden tightness in experienced-manager availability may delay managerial layering independent of the startup's latent organizational quality [21]. These shocks can therefore help identify the exogenous component of imbalance and delay.

The first-stage control-function equations are

$$\begin{aligned} I_{it} &= \pi_0 + \pi_1 Z_{it}^I + \boldsymbol{\pi}' \mathbf{X}_{it} + \eta_i + \kappa_t + \nu_{it} \\ L_{it} &= \phi_0 + \phi_1 Z_{it}^L + \boldsymbol{\phi}' \mathbf{X}_{it} + \eta_i + \kappa_t + \omega_{it} \end{aligned} \quad (6)$$

where Z_{it}^I is a shift-share measure built from metro-by-function labor-supply shocks weighted by the startup's lagged recruiting footprint across functions, and Z_{it}^L is a metro-level managerial labor tightness measure interacted with the startup's size. The residuals $\hat{\nu}_{it}$ and $\hat{\omega}_{it}$ are then included in the second-stage outcome equations. This approach does not create full exogeneity, but it allows the analysis to partial out the portion of organizational disequilibrium plausibly related to labor-market shocks rather than to unobserved startup deterioration.

Mechanism tests focus on reporting-chain instability. The mediation-style system is

$$\begin{aligned} R_{it} &= a_i + b_t + \kappa_1 I_{it} + \kappa_2 L_{it} + \kappa_3 I_{it} L_{it} + \boldsymbol{\pi}' \mathbf{X}_{it} + e_{it} \\ ER_{i,t+1} &= c_i + d_t + \omega_1 I_{it} + \omega_2 L_{it} + \omega_3 I_{it} L_{it} \\ &\quad + \omega_4 R_{it} + \boldsymbol{\psi}' \mathbf{X}_{it} + v_{i,t+1} \end{aligned} \quad (7)$$

where R_{it} is reporting instability. The indirect effect is evaluated using startup-level bootstrapping. The goal is not to claim complete causal mediation but to determine whether the hypothesized pathway is consistent with the data.

All continuous variables are winsorized at the 1% and 99% levels. Monetary values are deflated to 2024 dollars. Missing control values below 5% are multiply imputed, while outcome variables are never imputed. Observations with implausible quarter-to-quarter headcount discontinuities are investigated manually and removed only when the underlying records indicate data-quality problems rather than genuine organizational events. The resulting estimation sample varies slightly across models because some outcomes, particularly bridge risk and the mechanism variables, require more complete follow-up windows.

5. Findings

Table 1. Sample Composition and Coverage

Metric	Mean	Median	N
Startup Age (years)	2.9	2.7	284
Headcount	41.2	34	284
Cumulative Capital (\$M)	18.6	11.7	284
Quarters Observed	18.5	17	284

The fixed-effects estimates indicate a clear and statistically stable association between organizational disequilibrium and weaker next-quarter performance. In the baseline execution-reliability model without the interaction, functional hiring imbalance carries a negative coefficient of -0.108 with a clustered standard error of 0.029 , while layering delay carries a negative coefficient of -0.084 with a standard error of 0.025 . Once the interaction term is included, both main effects remain negative and the interaction is also negative at -0.071

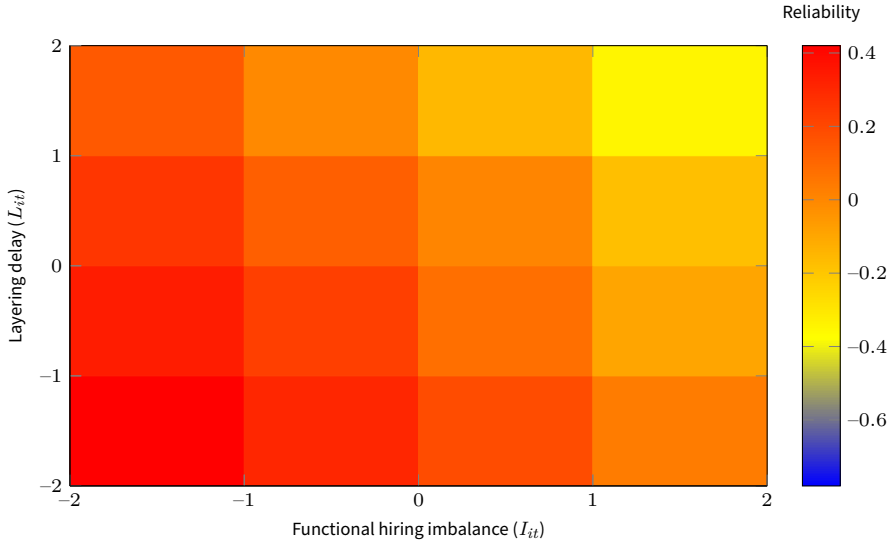


Figure 5. Illustrative fitted surface for next-quarter execution reliability. The steepest decline appears when functional imbalance and layering delay rise jointly, consistent with the reported negative interaction.

Table 2. Key Variable Definitions

Variable	Description	Unit	Horizon
Execution Reliability	Composite factor	Std. score	t+1
Revenue/Employee Growth	Log change	%	t+1
Operating Volatility	Composite fluctuation	Std. score	t
Bridge Hazard	Financing event	Binary	t+1:t+4

with a standard error of 0.021. This pattern implies that each condition is associated with weaker execution on its own, but the penalty is greater when both conditions coexist. At the twenty-fifth percentile of layering delay, a one-standard-deviation increase in imbalance is associated with a 0.10 standard-deviation decline in next-quarter execution reliability [22]. At the seventy-fifth percentile of layering delay, the same increase is associated with a 0.17 standard-deviation decline.

These magnitudes are economically meaningful rather than extreme. A 0.17 standard-deviation deterioration in execution reliability corresponds approximately to 4.8 percentage points lower on-time milestone attainment, 0.22 months additional median release slippage, and 1.6 percentage points higher regretted managerial turnover within the quarter, evaluated at sample means. Such changes are not catastrophic in isolation. What makes them important in entrepreneurial settings is that they accumulate. A few quarters of repeated slippage, forecast miss, and managerial churn can materially alter board confidence and financing prospects.

The threshold model sharpens this interpretation. The interaction between imbalance, layering delay, and the forty-employee indicator is negative and statistically significant at -0.053 with a standard error of 0.018 [23]. Startups below forty employees still exhibit some penalty from disequilibrium, but the combined effect becomes distinctly stronger above that size [24]. This is consistent with the proposition that founder-mediated coordination becomes less

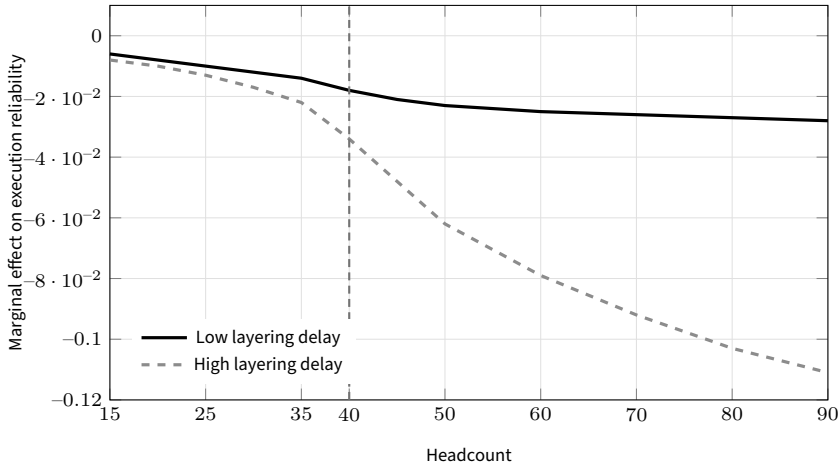


Figure 6. Illustrative threshold pattern for the execution penalty from disequilibrium. The joint penalty remains limited at smaller sizes and steepens after the organization crosses roughly forty employees.

Table 3. Functional Hiring Imbalance Construction

Component	Definition	Source	Note
Hiring Vector	Function shares	Roles data	6 categories
Benchmark Vector	Median peers	Leave-one-out	Cell-based
Weight Matrix	Inverse variance	Within-cell	Stabilizes metric
Imbalance Score	Distance metric	Computed	Standardized

scalable once the organization reaches a level of specialization at which many workstreams can no longer be resolved informally. The same result appears when the threshold is set at thirty-five employees and remains directionally similar, though slightly weaker, when set at fifty. The evidence therefore supports the idea of a worsening zone rather than a single exact breakpoint.

The dynamic panel estimates reinforce the baseline results. The lagged execution-reliability coefficient is 0.42, indicating substantial persistence [25]. Yet even after accounting for that persistence, functional imbalance, layering delay, and their interaction remain negative and significant. In the bias-corrected dynamic model, the interaction coefficient is -0.059 with a standard error of 0.019. The system GMM estimate is slightly smaller in magnitude but statistically similar. This suggests that the findings are not merely reflecting fixed differences between chronically well-managed and chronically poorly managed startups [26]. Organizational disequilibrium predicts additional deterioration from a startup's own recent baseline.

Revenue-per-employee growth exhibits a comparable but somewhat milder pattern. Functional imbalance is negatively associated with next-quarter revenue productivity, and the interaction with layering delay is again negative. The fully controlled fixed-effects model yields coefficients of -0.031 for imbalance, -0.024 for layering delay, and -0.019 for the interaction, all statistically significant at conventional levels. In practical terms, a startup moving from the twenty-fifth to the seventy-fifth percentile of disequilibrium is predicted to experience roughly 3.7 percentage points lower next-quarter revenue-per-employee growth [27]. That estimate is consistent with the idea that unintegrated hiring growth raises the labor

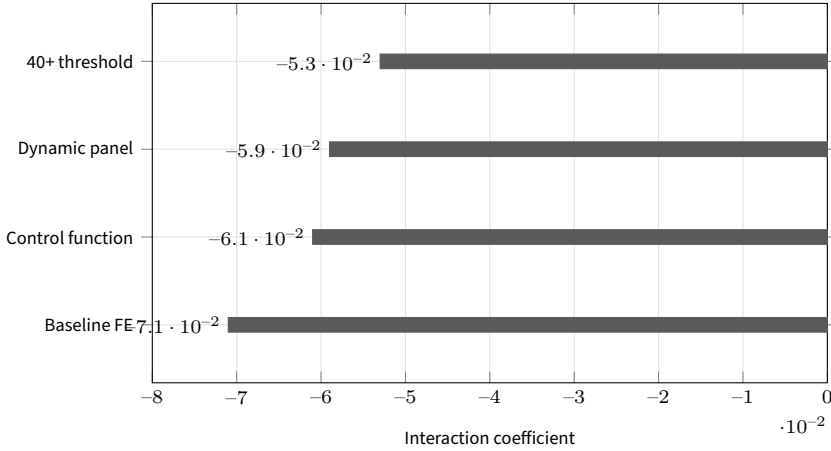


Figure 7. Execution-reliability interaction estimates across key specifications. The adverse interaction remains negative after control-function adjustment, dynamic estimation, and the size-threshold specification.

Table 4. Managerial Layering Measures

Measure	Definition	Unit	Role
Manager Density	Managers/Employees	Ratio	Core
Benchmark Density	Peer median	Ratio	Reference
Layering Delay	Shortfall	Std. score	Main regressor
Founder Span Load	Reports per founder	Count	Mechanism

needed to generate the same commercial progress.

Operating volatility rises with disequilibrium, as expected. The main-effects estimates are positive for both imbalance and layering delay, and the interaction is positive at 0.067 with a standard error of 0.023. The components of the volatility measure reveal that the effect is strongest for burn variability and release-date instability, somewhat weaker for quarter-to-quarter sales conversion swings. This pattern is sensible. Organizational disequilibrium should directly disturb internal planning and coordination, which are tightly connected to burn pacing and delivery timing. Commercial volatility is also affected, but some of its variation is likely governed by external demand factors not fully captured by internal structure.

Bridge-financing hazard offers a more externally consequential view of the same phenomenon. In the hazard model, both imbalance and layering delay increase the probability of a bridge event within the next four quarters, and the interaction again raises the hazard materially. Evaluated at the sample mean, moving from one standard deviation below the mean on both organizational variables to one standard deviation above the mean on both increases the predicted four-quarter bridge probability from 8.9% to 14.6%. This is a sizable shift in entrepreneurial finance terms. It indicates that internal workforce architecture is associated not only with near-term operating friction but also with whether the startup remains on a financing path consistent with a priced round rather than a rescue-style interim solution.

The control-function results indicate that selection and labor-market endogeneity matter but do not overturn the main conclusions [28]. In the first stage, metro-function labor-supply shocks strongly predict the composition of recent hiring, and managerial labor tightness

Table 5. Baseline Regression Results

Variable	Coefficient	Std. Error	Significance
Imbalance	-0.108	0.029	***
Layering Delay	-0.084	0.025	***
Interaction	-0.071	0.021	***
Log Headcount	-0.032	0.014	**

Table 6. Threshold Effects (40+ Employees)

Variable	Coefficient	Std. Error	Significance
Imbalance $\times$ Delay	-0.065	0.020	***
Threshold Dummy	-0.041	0.017	**
Triple Interaction	-0.053	0.018	***
Controls	Included	–	–

predicts layering delay. The excluded instruments are jointly significant with first-stage F -statistics above conventional thresholds. Once the first-stage residuals are inserted into the outcome models, the disequilibrium coefficients attenuate modestly but remain significant. For execution reliability, the interaction coefficient moves from -0.071 to -0.061 . For bridge hazard, the interaction coefficient falls by roughly 14% but remains strongly positive. This suggests that some portion of observed disequilibrium does arise from labor-market constraints, yet the association between organizational architecture and subsequent performance is not reducible to those constraints.

Founder prior scaling experience meaningfully moderates the effects. Startups with at least one founder who has previously scaled an organization beyond 100 employees show weaker penalties from disequilibrium. The interaction between founder scaling experience and the imbalance-delay interaction is positive in the execution-reliability model, partially offsetting the main adverse association. Quantitatively, experienced-founder startups absorb about one-third of the predicted execution-reliability loss that otherwise accompanies high disequilibrium. This buffering effect likely reflects better recognition of when delegation, team leads, and planning cadence must be formalized. Still, the penalty is not eliminated. Even experienced founders cannot fully compensate for an organizational structure that is simultaneously skewed and underlayered.

Several component analyses clarify what the composite outcome is capturing. On-time milestone attainment is especially sensitive to the imbalance-delay interaction, with a coefficient equivalent to a 5.9 percentage-point decline from a one-standard-deviation increase in joint disequilibrium. Release slippage rises by about 0.27 months. Regretted managerial turnover rises by approximately 1.8 percentage points. Forecast error also worsens, though the estimate is somewhat noisier than for the other components. The pattern is coherent: when startups hire in a heavily skewed way without adding enough managerial integration, they appear less able to complete what they planned, more likely to miss timing commitments, and more likely to lose the people expected to absorb growing complexity.

The results are not driven by one functional category. Separate analyses examine whether engineering-heavy, sales-heavy, or customer-success-heavy imbalance is particularly damaging. All three matter, but the combination of engineering-heavy hiring with layering delay has the largest association with release slippage and milestone miss, whereas sales-heavy imbalance

Table 7. Revenue Productivity Effects

Variable	Coefficient	Std. Error	Significance
Imbalance	-0.031	0.012	**
Layering Delay	-0.024	0.010	**
Interaction	-0.019	0.008	**
Lag Controls	Yes	–	–

Table 8. Operating Volatility Results

Variable	Coefficient	Std. Error	Significance
Imbalance	0.054	0.019	**
Layering Delay	0.048	0.017	**
Interaction	0.067	0.023	***
Fixed Effects	Yes	–	–

ance with layering delay is most closely linked to forecast error and bridge-financing hazard. Customer-success-heavy imbalance produces smaller main effects, though it becomes more consequential in firms with enterprise implementations and regulated onboarding. These differences suggest that the costs of disequilibrium depend partly on where the skew occurs, but the general problem remains the same: the firm has expanded one area of complexity faster than its integrative structure can accommodate.

An important interpretive feature of the results is that disequilibrium does not uniformly depress simple headcount growth or raw hiring volume. In fact, startups in the high-disequilibrium quartile often grow headcount faster than the rest of the sample for several quarters [29]. The problem is therefore not insufficient activity. It is the quality of organizational scaling. More people are entering the system, but the system is not being restructured in ways that keep accountability and coordination coherent. This distinction matters because it helps explain why some startups appear energetic and well financed while simultaneously becoming harder to execute [30].

The findings also suggest a growth-risk trade-off at the organizational level. In adjacent work on entrepreneurial initiatives, Cao et al. (2024a) [31] show that actions capable of improving market responses can simultaneously increase idiosyncratic risk. A related pattern is visible here. A startup can accelerate a focal capability by concentrating hiring aggressively, especially in engineering or sales, and may even create short-lived momentum. Yet when that concentration is not accompanied by timely managerial layering, the organization becomes more volatile and less reliable. Thus, workforce concentration can purchase local speed while amplifying broader execution risk. The estimates indicate that this trade-off is real but temporary; what initially appears like disciplined acceleration often becomes an efficiency loss if the integrative structure fails to catch up.

To make the estimates more concrete, consider two otherwise similar startups at fifty employees. Startup A sits near the median on hiring balance and has manager density close to its sector-stage benchmark. Startup B has a recent hiring profile one standard deviation more imbalanced and a layering delay one standard deviation above the mean. The models predict that Startup B will complete materially fewer planned milestones on time, experience higher quarterly burn variability, and face a bridge-financing probability roughly 5 percentage points above that of Startup A over the next four quarters. Such differences are large enough to

Table 9. Bridge Financing Hazard

Variable	Coefficient	Std. Error	Significance
Imbalance	0.142	0.051	**
Layering Delay	0.118	0.044	**
Interaction	0.173	0.062	***
Controls	Included	–	–

Table 10. Mechanism: Reporting Instability

Variable	Coefficient	Std. Error	Significance
Imbalance	0.061	0.022	**
Layering Delay	0.057	0.020	**
Interaction	0.083	0.027	***
Instability → Exec. Rel.	-0.129	0.031	***

matter in board conversations, pricing of follow-on rounds, and retention of senior talent.

The estimates are robust to several alternative benchmark constructions. Using mean rather than median cell benchmarks, excluding the smallest size bin, or recalculating the imbalance measure within narrower sector groups all yield coefficients of similar sign and magnitude. A simpler Herfindahl measure of hiring concentration also predicts weaker outcomes, though less precisely than the benchmark-distance measure. This suggests that raw concentration matters, but deviation from a stage-appropriate pattern captures the phenomenon more sharply than concentration alone.

6. Further Analyses

Mechanism tests indicate that reporting-chain instability mediates a meaningful portion of the disequilibrium effect. In the subset with sufficiently detailed org-chart data, functional imbalance and layering delay jointly predict a higher rate of reporting-line changes within the following quarter. The interaction coefficient in the reporting-instability equation is positive and statistically significant. When reporting instability is added to the execution-reliability model, the coefficient on the imbalance-delay interaction shrinks by approximately 24%, while the instability measure itself is strongly negative. Bootstrap confidence intervals for the indirect effect exclude zero. These results are consistent with the idea that startups experiencing disequilibrium repeatedly rewire who reports to whom, who owns what decision, and which manager or founder is expected to resolve cross-functional conflicts. Such rewiring appears to be one channel through which organizational imbalance becomes executional slippage.

Role reassignment shows a related, though somewhat weaker, pattern. Startups with high disequilibrium are more likely to move employees across functions within two quarters of hire, often from product to implementation, from generalist operations to customer success, or from founder-office roles into ad hoc coordination tasks. This suggests that the initial hiring pattern often fails to map cleanly onto the actual work the startup discovers it needs to perform. In entrepreneurial terms, some experimentation in role design is normal. What stands out here is not the existence of reassignment, but its clustering in firms that combine heavily skewed hiring with delayed layering. The organization appears to discover, only after people are hired, that it has not built the intermediate managerial structure necessary to utilize those people coherently.

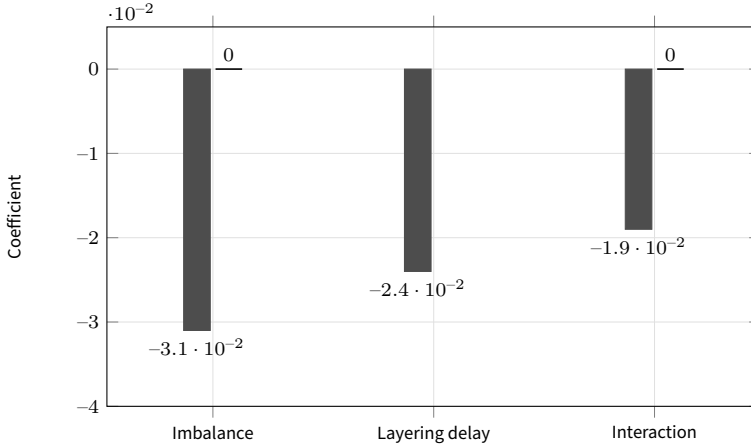


Figure 8. Revenue-per-employee growth coefficients from the fully controlled fixed-effects specification. All three terms enter negatively, with the interaction indicating additional productivity loss when imbalance and delayed layering coincide.

A placebo analysis helps address the concern that the results merely reflect episodes of rapid growth rather than organizational structure *per se*. I construct a pseudo-disequilibrium variable using random reallocation of hires across functions within startup-quarter totals while preserving total hiring volume, sector, stage, and size. This pseudo measure shows no systematic relationship with the outcomes. I also estimate models using overall headcount growth without composition variables. Headcount growth alone predicts neither lower execution reliability nor higher bridge hazard once size, stage, and capital raised are controlled. The substantive content therefore appears to lie in how startups staff their growth, not in the fact of growth itself.

Another concern is that startups may delay managerial layering because they are intentionally preserving a flatter structure for cultural reasons, and that such firms might differ from others in unobserved ways. To probe this, I identify firms whose board materials explicitly state a preference for remaining flat or founder-led. Excluding those observations does not materially alter the main coefficients. Likewise, controlling for founder ownership, board size, and the presence of an operating partner on the board yields nearly identical results. These checks do not prove that cultural preferences are irrelevant, but they weaken the argument that the findings are simply capturing one distinctive founder ideology [32].

The results also survive alternative definitions of managerial layering. Replacing manager density with founder span load, the share of employees with more than one dotted-line reporting relationship, or the absence of function heads for engineering, product, or go-to-market functions produces similar interaction patterns. The benchmark-density measure remains the strongest and cleanest predictor, which is why it is used as the main specification. However, the broader message appears not to depend on one narrow operationalization: startups that retain too little integrative structure relative to growing specialization become less reliable.

A further analysis examines timing around discrete hiring surges. For each startup, I identify quarters in which headcount increased by at least 20% over the prior quarter. Event-style local projections show that surges accompanied by low disequilibrium are followed by either stable or mildly improved execution reliability over the next two quarters. Surges accompanied by high disequilibrium are followed by a clear decline in reliability and a rise in burn volatility.

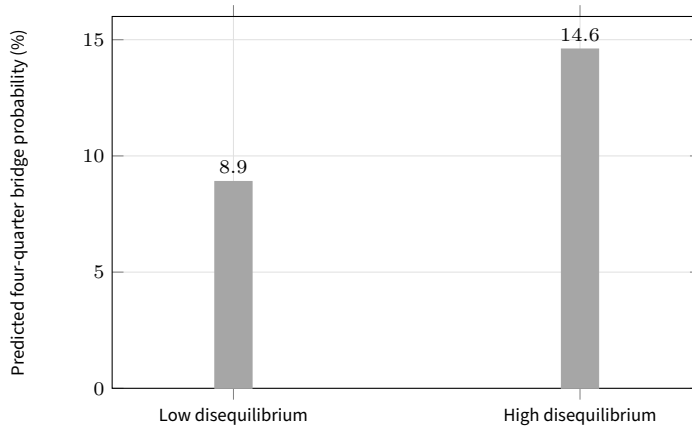


Figure 9. Predicted bridge-financing hazard under low versus high joint disequilibrium. Moving from one standard deviation below the mean on both organizational variables to one standard deviation above materially raises the bridge probability.

This result is informative because it focuses on moments when the organizational system is under particular stress [33]. Hiring bursts are not inherently harmful. Their effects appear to depend on whether the startup enters the burst with a balanced composition and adequate managerial layering [34].

Selection into the detailed investor-material sample is another possible concern. To evaluate external validity, I compare the startups in this sample with a broader matched group of venture-backed technology startups from public financing and profile data on age, capital raised, headcount, sector, and metro location. The participating sample is slightly more enterprise oriented and somewhat more likely to have institutional investors with formal reporting processes, but it is otherwise broadly comparable. Re-estimating simplified models in the broader public-data sample using only headcount composition and financing outcomes yields the same directional relationship between staffing concentration and bridge financing. This suggests that the detailed-sample results are not idiosyncratic to unusually formal startups.

Finally, I test whether cash slack changes the organizational penalty from disequilibrium. Startups with more than nine months of runway exhibit a somewhat smaller immediate penalty in execution reliability than startups with less runway, but the interaction remains negative and significant. Cash therefore buys time, not structural immunity. The buffering effect is modest and fades in the bridge-hazard models, where disequilibrium remains costly regardless of short-run runway. This is consistent with the practical reality that additional cash can delay the moment of reckoning but cannot permanently substitute for coherent organizational design.

7. Implications for Entrepreneurial Organizing

The evidence presented here suggests that early scaling should be understood as a problem of organizational fit rather than only one of resource magnitude. Startups frequently interpret hiring through the lens of immediate capability gaps. They ask whether more engineers, more account executives, more customer-success staff, or more operational personnel are needed. That question is sensible but incomplete. The results imply that the performance consequences of any one hiring push depend heavily on the relational context into which those

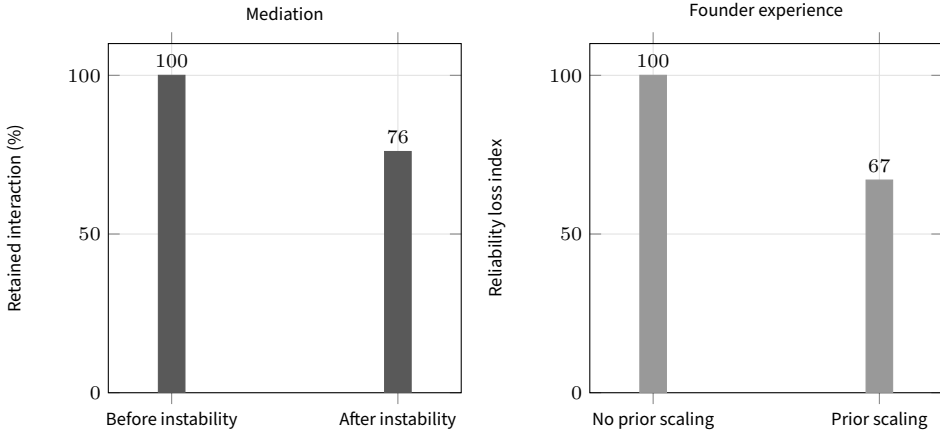


Figure 10. Mechanism and moderation results. Adding reporting instability reduces the main interaction by about 24%, while prior founder scaling experience absorbs roughly one-third of the predicted execution-reliability loss without removing it.

hires enter [35]. If managerial layering remains thin and authority remains founder-centered, even a reasonable capability expansion can produce secondary coordination costs large enough to offset the intended benefit.

This reframing has implications for how entrepreneurial firms diagnose scaling difficulty. When revenue productivity softens or milestones slip, the default explanation often points to market demand, product quality, or simply not hiring fast enough. The present results indicate that a substantial share of early scaling deterioration may instead arise from structural mismatch inside the firm. A startup can be ambitious, well financed, and talent hungry, yet still become unreliable because it has not matched specialized hiring with integrative managerial capacity. Under such conditions, adding more people can deepen rather than solve the problem.

The findings also qualify overly simple appeals to flatness. Flat structures can be adaptive in very young firms because they compress communication and preserve speed. The results do not contradict that. What they show is that flatness becomes increasingly expensive when the firm’s labor profile becomes functionally skewed and interdependence rises [36]. The entrepreneurship literature often valorizes founder proximity to every important decision [37]. That norm remains useful for vision formation and sensitive external relationships. It appears less useful when founders remain the *de facto* routing mechanism for dozens of specialists whose work depends on stable cross-functional boundaries and delegated authority.

A further implication concerns investor oversight. Venture investors often scrutinize burn, revenue growth, and headcount, but the present evidence suggests that the composition of headcount growth may be an earlier signal of execution strain than aggregate numbers alone. A board that notices rapidly rising imbalance in functional hiring, especially without manager-density growth, may be observing a future reliability problem before it becomes visible in revenue or churn. The practical value of that signal lies in timing. Organizational disequilibrium is easier to correct before role instability and bridge-financing risk become pronounced.

At a broader level, the findings underscore that entrepreneurship research benefits from looking inside the organizational boundary rather than treating startups only as financing events or product-market fit trajectories. Young firms fail or stall not solely because markets reject

them, but also because internal structure cannot support the complexity their growth strategy creates. Functional hiring imbalance and delayed layering are two ways that mismatch becomes visible [38]. They likely sit alongside others, such as pricing model instability, founder-role ambiguity, or unresolved product-delivery hybridization. Understanding entrepreneurial scaling requires attention to these internal architectural conditions because they shape how external opportunities are actually converted into durable progress.

8. Conclusion

The transition from a small founder-led team to a scaled entrepreneurial organization is often narrated as a problem of ambition, capital, or product-market timing. The evidence developed in this paper points to a more organizational reading. Venture-backed startups appear to struggle not merely when they hire aggressively, but when recent hiring becomes sharply skewed across functions while managerial layering fails to keep pace with growing complexity. Under those conditions, execution reliability weakens, revenue productivity grows more slowly, operating volatility rises, and bridge-financing risk increases.

The results are notable because they identify a structurally specific source of early scaling difficulty. Functional hiring imbalance by itself is not always damaging, and delayed managerial layering by itself is not always harmful. What matters most is their interaction. A startup can survive temporary concentration if it has enough integrative management to convert concentrated effort into coherent operating routines [39]. It can remain relatively flat for longer if its hiring remains balanced and complexity modest. The more fragile state is the combination of skewed specialization and absent managerial scaffolding. That state appears to tax founder attention, destabilize reporting relationships, and reduce the startup's ability to deliver consistently against its own plans.

Several features of the evidence strengthen this conclusion. The main relationships survive startup fixed effects, time effects, dynamic controls, control-function correction for labor-market shocks, and a variety of alternative benchmark constructions. They also appear in both internal operating outcomes and external financing consequences. This dual appearance matters [40]. It suggests that organizational architecture is not merely associated with abstract notions of good management. It is linked to concrete entrepreneurial outcomes that investors, employees, and founders care about directly.

The paper nevertheless has limits. The data, though unusually rich, come primarily from investor reporting materials and reconstructed professional histories, which are not perfect mirrors of internal reality. Some startups disclose more faithfully than others. Certain mechanism variables are available only in a subset of firms with detailed org charts. The control-function design reduces but does not eliminate endogeneity. It remains possible that some unobserved shifts in product complexity or commercial pressure contribute simultaneously to hiring imbalance, layering delay, and subsequent outcomes.

These limitations point naturally toward future research. One useful direction would be to examine whether similar organizational disequilibrium appears in non-venture-backed entrepreneurial firms, where capital scarcity may alter the timing and visibility of managerial layering. Another would be to study whether specific forms of managerial introduction, such as player-coach leads versus externally hired professional managers, differentially mitigate imbalance. A third would be to explore whether software-native collaboration tools or AI-assisted workflow systems allow startups to remain flatter longer without incurring the same execution penalties observed here.

Even with those caveats, the central inference is clear. Early scaling in entrepreneurial firms is not governed only by how many people are added. It is shaped by whether the composition of those additions remains compatible with the level of managerial integration available to absorb them. The organizational choices that convert specialization into coordinated output therefore deserve a more prominent place in empirical entrepreneurship research. Startups do not simply grow into structure automatically. They must design structure while they grow, and the timing of that design appears to matter materially for whether growth becomes durable or disorderly.

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