Hierarchy expansion: When should a startup hire managers?

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In a new study out of Vanderbilt Business, Professor Megan Lawrence explores a common challenge growing organizations face: how to continue to organize and coordinate the work of its growing body of employees.

Published in *Strategic Management Journal*, this study discusses why some organizations may need to expand their hierarchical structures earlier than others. Lawrence and the study's co-author, Christopher

Poliquin, also examine the influence of employees' shared experiences and their impact on the timing of hierarchy expansion.

What is the problem in growing firms?

Organizations are bound to encounter coordination issues as they expand. The primary factor emphasized in understanding these issues has been the organization's size, typically measured by the number of employees. Larger entities often face more significant coordination challenges simply due to the high volume of individuals and employees involved in the business or organization's various tasks and projects.

However, it cannot just be about the number of employees; we already know that not all organizations hire a manager when reaching the same number of employees. Lawrence's new research addresses this puzzle by adding knowledge scope as an additional point of relevance.

What is knowledge scope?

Knowledge scope is the type and amount of knowledge to be coordinated among an organization's employees.

"If you think of an organization, each employee has their own 'backpack' of knowledge that they carry around; it is their specialty skill set, and that can create a vast knowledge scope for an organization," says Lawrence.

"As the organization accumulates a diverse knowledge scope (more different stuff in the employees' knowledge backpacks), the entity will face more challenges regarding employees and individuals predicting and adjusting to other's decisions."

What is hierarchy expansion?

Hierarchy expansion is the addition of a management layer to an organization. For this study, the authors assume all organizations to have at least one manager from the conception, a founding manager.

Hierarchical structures involve managers who can allocate tasks, provide direction to employees, ensure accountability, and resolve issues as they become prevalent. This hierarchical system can streamline communication and simplify the decision-making process within the business or organization.

What is the new research?

Lawrence's study investigated Brazilian startups, explicitly focusing on the relationship between knowledge scope and hierarchy expansion. The authors developed a measure of knowledge scope by using data on individual workers' occupations. Lawrence and her team found that as knowledge scope widened, organizations were more likely to expand their hierarchy, even when accounting for differences in organizational size.

The study also found that organizations consisting of employees with a higher volume of shared experiences were more likely to meet coordination needs, delaying hierarchy expansion.

"Our study contributes to a growing literature on organizational coordination and allows a better understanding of these dynamics," says Lawrence. "Our findings show the importance of not just the size but the characteristics of the knowledge of the employee base as a way to build teams and manage coordination efforts."

What is the importance of shared experiences among employees?

Shared experiences among employees who have worked with a current teammate in the past or shared tasks in the present can benefit an organization. An increased volume of shared experiences between employees can increase the likelihood of successful coordination, which in turn can delay the need for hierarchy expansion.

From this research, what should organizations understand about hierarchy expansion?

- Effective coordination within organizations is affected by more than just the number of employees.
- Knowledge scope is integral in determining the timing and overall effectiveness of hierarchy expansion.
- Hiring managers should consider building teams with shared experience to enhance organizational ability to coordinate.
- Along with hierarchy, task allocation and hiring practices (such as relying on referrals) that contribute to common ground can help organizations manage coordination.

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