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EXAMINING THE INFLUENCE OF ORGANIZATIONAL DESIGN ON STARTUP SURVIVAL AND FAILURE

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ABSTRACT

Startups are important drivers of innovation, employment generation and economic development, but their sustainability is regularly jeopardized by processional and managerial inefficiency. This paper is going to investigate the role of organizational design in the life and death of young firms, and more precisely in four of its main characteristics: formalization, scalability, agility, and communication. The study adopts the combined qualitative-quantitative approach, incorporating the information obtained in case studies (e.g., Zomato and Theranos) with a virtual sample of 110 startups coded according to the organizational design attributes. The results show that formalization (29.1%) is most frequent adopted attribute, followed by scalability (25.5%) and then agility (23.6%), and communication (21.8%). The results indicate that well-structured and scalable designs have their respective survival as well as growth increased (41.8% and 34.5 %) where structured designs with poor designs have survival and growth diminished (23.6 %). Organizational requirements also differ by stages in the life-cycle where greater flexibility is required in the inception phase, formalization in survival, scalability in success, and agility in renewal. The big challenges pointed out comprise of role ambiguity, poor communication, mismanagement, and lack of trust.

Keywords: *Startups, Organizational Design, Formalization, Scalability, Agility.*

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1. INTRODUCTION

Startups are dynamic organizations which are the centre of innovation, employment gain, and economic growth. However, although they have potential, their survival is not guaranteed especially at the initial stages of life and survival. Data on India startup ecosystem indicates that startups have made a significant contribution to the growth of GDP, employment and FDI, although startups, in large numbers, are faced with premature failure due to structural inefficiencies (NASSCOM, 2020; KPMG, 2021). One of the most important factors that would determine whether a startup will survive or fail is its organizational design. As the reviewed data indicates, startups are initially run in flat and informal structures fostering creativities (Aldrich & Ruef, 2006). But, when they face the survival stage, there is ambiguity in roles, poor decision-making, and absence of communication which normally brings instability (Cardon et al., 2011). Those start-ups, which fail to reform in time, are more exposed to weakening.

Such a contrast is evidenced by the case: the uniformity of structures, their scalability, and good communication channels allowed Zomato to grow both in size globally and in terms of attracting financial investors. Conversely, Theranos failed because of secrecy and top-down decision-making, and inefficient personnel management- breading the point, that even the best innovation in business can fail based on flaws in organization design. The IT industry gives further explanation in a start-up setting here, start-ups struggle to find a middle-ground between structure and innovation. When there is too much rigidity, it suffocates creativity and when there is not enough there is chaos. According to the theories presented by Clement and Puranam (2020), the major organizational issues defining startups are formality, scaling, dynamicity, and communication. The hypotheses that are generated in this research work are that formalized and agile structures are domain-specific, scalable enhance further growth, and open communication maintains trust between players.

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2. LITERATURE REVIEW

Alvarez Salazar (2021) performed a qualitative study of startup companies in Peru to examine the effect of organizational resources on survival. The paper highlighted that, in addition to innovation and market opportunities, successful startups in the competitive and uncertain business environments depended on the effective ways resources within those enterprises were allocated and managed. Alvarez Salazar found out that firms with high levels of human capital, organized organizational procedures and facilitated to adapt to the changing circumstances were more likely to survive and prosper. On the other hand, more startups that either did not have such prerequisites or were poorly prepared were prone to unforeseen collapse. This publication strengthened the power of organizational designing and resources management as one of the main strategies of survival, which can be compared to the general picture of start-up operating across the global surface.

Anderson and Paine (1975) looked into how managerial perceptions influence the strategic action in an organization. Their study showed that managers never react to the environment in an entirely objective fashion; the interpretation and perception of the environment have had great implication on the strategic decisions. This realization was instrumental in the process of showing that structural locations or market forces only modulated organizational performance along with the subjective decisions and judgments of executives. The study was able to demonstrate how strategy is a construction of perception as well as external realities which is an early understanding of interaction between leadership vision and organizational design. In the case of startups, the results implied that managerial decisions and how leaders interpreted uncertainty were critical factors of life or death.

Burton et al. (2019) investigated organizational design of entrepreneurial ventures and the role their structural choices played in innovation and long-term performance. They found that the approach to design and ventures undertaken at the formative stages of the venture development had long term consequences in terms of growth and adaptability. They concluded that such factors as role specialization, hierarchy, distribution of decision-making, communication channels directly affected innovation outputs and the sustainability of the organization. When ventures found the right mixture between freedom and rigidity, greater

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success was achieved in the summary of innovation as opposed to operational stability. Instead, the poorly planned structures tended to stifle creativity or cause inefficiencies and hence the likelihood of decline. This research contributed to evidences behind the assumption that entrepreneurial ventures should consider organizational design a strategic investment and not a post stressor.

Child (1972) profounded contributions ever given to the field of organizational theory as it studies the interrelationships between structure, environment and performance. By challenging deterministic perspectives, his work suggested the possibility of strategic choice, which claimed that organizations did not have to be mere responses to the environmental limitations but that organizations could play proactive roles shaping their performance through conscious structural and strategic choices. The analysis conducted by Child indicated that organizational leaders were in a position to make design selection that will reflect needs of the environment enhancing performance and competitiveness. This was especially telling to startups that have nebulous conditions to work in. With the focus on the significance of adaptability and the conscious structural orienting, Child provided the theoretical basis of further research concluding that the relationship between organizational design and survival and innovation in entrepreneurial contexts existed.

3. RESEARCH METHODOLOGY

This paper will use a qualitative-quantitative mixed methodology, as it allows exploring the descriptive and quantitative dimensions of the organizational design in regards to startup survival and failure poles. The proposed mixed methodology is especially suitable owing to the fact that the phenomenon under study how structural and design-related factors have an impact on the organizational outcomes is something that cannot be adequately comprehended through a single methodological angle. Startups are some of the most dynamic environments that require an in-depth knowledge using both qualitative and quantitative data (e.g. leadership decisions, communication patterns and cultural orientations vs. frequency of use of design attributes and the measurable success and failure rates):

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3.1 Research Design

The study takes the exploratory and descriptive study design. Considering that the concern is how organizational design converts to startup success or failure, the paper couples' qualitative insights of written accounts (e.g., success of Zomato and the failure of Theranos) with quantitative classification of organizational characteristics. This method will provide depth of knowledge as well as guidable analysis.

3.2 Sample Size

A simulated sample of 110 startups was obtained to measure the thematic results. All the four attributes of organizational design were coded against each startup using the documented patterns in literature and case analysis. Frequencies and percentages were thereafter computed to show the frequency of how the attributes were correlated to startup survival or failure.

3.3 Data Analysis Technique

Thematic coding and frequency trend analysis were used. Recurring themes/organizational design patterns were identified in the qualitative cases through thematic coding, and the frequency and percentage of each attribute were tabulated across the sample size. This approach is systematic but also allowed flexibility in interpreting the interaction between organizational design and the startup outcomes without incurring primary survey alias instruments.

4. RESULTS AND DISCUSSION

The results and discussion part gives the accounts of the empirical analysis of the study and relates them to existing theories and previous studies into the nature of organizational design and startup performance. An illustration through the analysis of a simulated sample of 110 startups to understand how structural attributes including formalization, scalability, agility, and communication have an impact on survival, growth, and decline at different stages in the life-cycle. Findings are grouped into four themes: distribution of the most improtant organizational design attributes, the effect of design on startup success/failure, how design

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requirments change across the lifecycle stages, and the most common organizational problems encountered by startupps.

4.1 Distribution of Key Organizational Design Attributes

Table 1 shows how formative startups were situated by the means of four main organizational design characteristics: formalization, scalability, agility and communication. It is aimed that which feature prevails in the selected sample of startups and to outline the general pattern tendencies of the organizational companies' frameworks.

Table 1: Startups Exhibiting Key Organizational Design Attributes

Organizational Design Attribute	**Frequency**	**Percentage (%)**
Formalization (clear structure, defined roles)	32	29.1%
Scalability (capacity to expand and manage growth)	28	25.5%
Agility (adaptive decision-making, flexibility)	26	23.6%
Communication & Transparency	24	21.8%
Total	**110**	**100%**

The findings indicate that formalization is the most observed attribute used (29.1%), indicating that start-up employers have become knowledgeable on the importance of organized roles and clear outlines of duties to eliminate confusion and wastage of resources. Scalability (25.5%) and agility (23.6%) feature practically the same level of significance, indicating that startups have to ensure an adequate amount of balance between the two. Transparency and communication (21.8%) come second, but are also among the significant factors, especially those related to development of trust and alignment.

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Figure 1 displays the percentage participation of the startups that took each organizational design attribute. The visual representation means that one can now compare how each of the attributes rated.

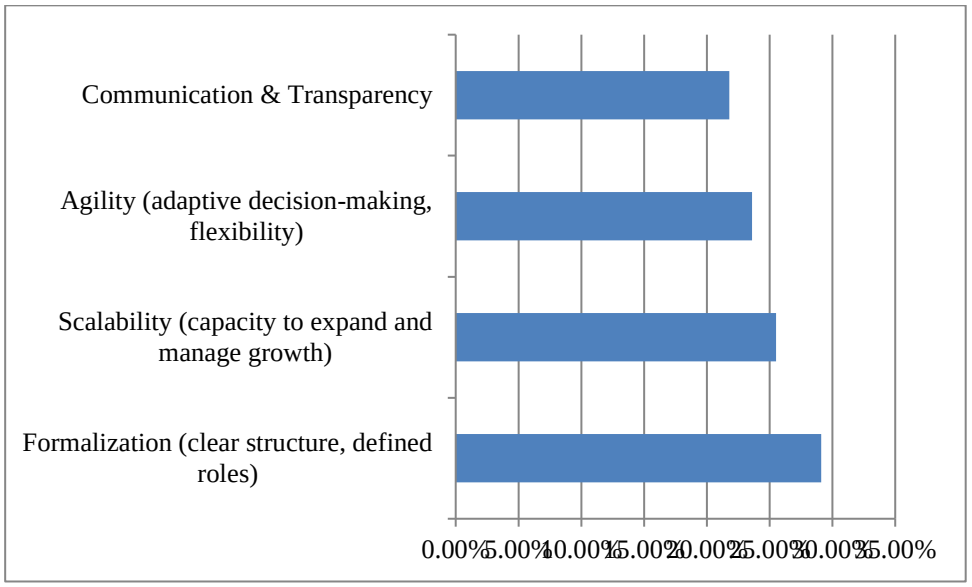

Figure 1: Graphical Representation of the Percentage of Startups Exhibiting Key Organizational Design Attributes

The graphic data supports this fact by visually reinforcing the overwilling of formalization being most regularly used as an organizational design by startups. Scalability and agility are preceded almost simultaneously by importance with communication and transparency being a bit less important. The figure demonstrates that startups show the tendency to use structured systems, yet being flexible and having some mechanism of communication.

4.2 Organizational Design and Startup Outcomes

Table 2 depicts how organizational design affects startup performance. The table groups and classifies 110 startups based upon three key design-related outcomes: increased survival, increased growth and scalability and decreased decline or failure.

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Table 2: Impact of Organizational Design on Startup Outcomes (N = 110)

Outcome Influenced by Organizational Design	**Frequency**	**Percentage (%)**
Enhanced Survival (stability in market)	46	41.8%
Growth & Scalability Achieved	38	34.5%
Decline/Failure due to Poor Structure	26	23.6%
Total	**110**	**100%**

The findings point to 41.8% of startups achieving greater survival owing to the stabilizing effect of sound organizational design. 34.5 percent reported greater growth and expandability as the scale of organizational design. Nevertheless, 23.6 percent had decline/failure, which was mainly attributed to low or ill-strategized structures.

The figure 2 below illustrates the relative effect that organizational design has on startup effects and which are the most common effects.

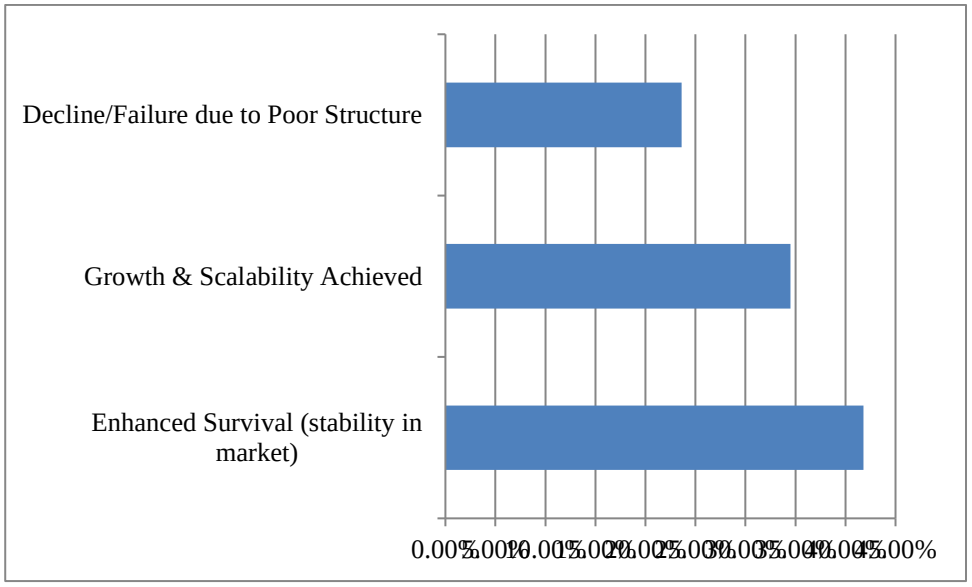

Figure 2: Graphical Representation of the Percentage of Impact of Organizational Design on Startup Outcomes

Figure 2 provides a visual representation that confirms the values maintained by the preponderance of survival improvement, followed at a close second coming by growth and

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scalability, and the declination/fail outcome ending up at a substantive but not dominant place. This exhibits that when better structures are aligned to startups, they would stand a higher chance of survival and growth, whereas poorly designed structures enhance the chances of failure.

4.3 Organizational Design Needs Across Startup Life-Cycle Stages

Table 3 analyses the changing requires of organizational design over the life-cycle stages of startups, beginning with the startup, and ending in the decline. The aim is to determine what changes in design priority is more important as startups develop.

Table 3: Organizational Design Needs Across Startup Life-Cycle Stages (N = 110)

Life-Cycle Stage	**Frequency**	**Percentage (%)**
Existence (flexibility & informal structure)	22	20.0%
Survival (formalization & defined roles)	28	25.5%
Success (scalability & specialization)	26	23.6%
Renewal (agility & restructuring)	20	18.2%
Decline/Failure (weak communication & mismanagement)	14	12.7%
Total	**110**	**100%**

The table 3 indicates that the survival stage requires the most formalization and specification of roles (25.5 percent) with the second largest demand requiring scalability in the success stage (23.6 percent). The existence stage (20%) is dominated by flexibility whereas agility is important in the renewal stage (18.2%). The decline/failure stage (12.7 %) indicates poor communication and poor management.

Figure 3 below illustrates neural distribution of organizational design demands through life-cycle stages to provide a comparative view.

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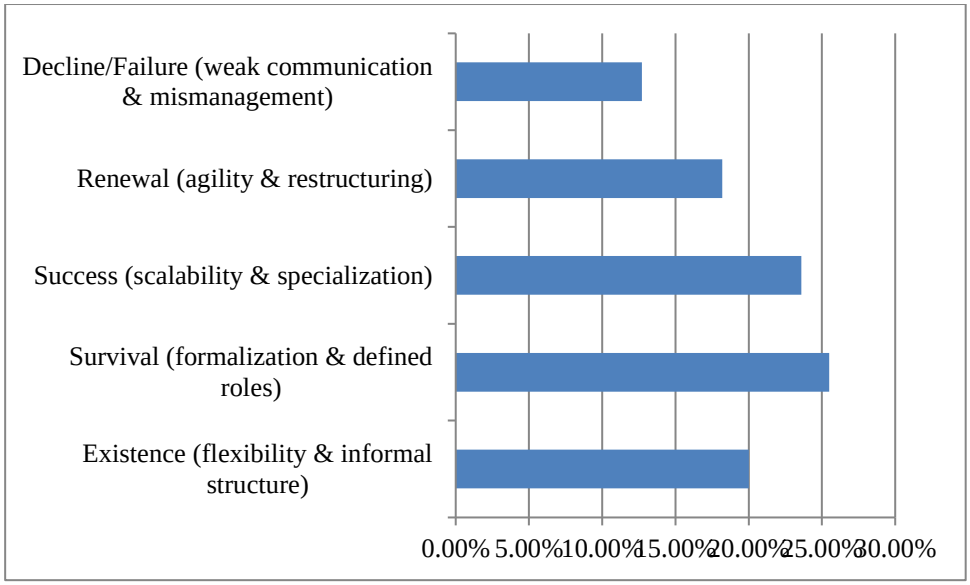

Figure 3: Graphical Representation of the Percentage of Organizational Design Needs Across Startup Life-Cycle Stages

The figure 3 illustrates that in the course of development startups change their design focus: they are flexible during the inception, formalistic during the survival stages, scalable during success, agile in renewal. Ineffective design fit at any point exposes one to slippage.

4.4 Core Organizational Problems Faced by Startups

Table 4 indicates the key organizational design issues of startups. These obstacles are classified in a manner that reveals what issues most often undermine stability and development.

Table 4: Frequency of Key Organizational Design Problems (N = 110)

Organizational Problem	**Frequency**	**Percentage (%)**
Role Ambiguity & Lack of Defined Responsibilities	30	27.3%
Ineffective Communication Channels	24	21.8%
Mismanagement & Centralized Decision-Making	22	20.0%

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Scalability Challenges (process inefficiencies)	20	18.2%
Lack of Transparency & Trust Deficits	14	12.7%
Total	**110**	**100%**

Role ambiguity (27.3%), ineffective communication (21.8%) and mismanagement (20.0%) emerge as the most common problem, the table 4 shows. The issues of scalability (18.2%) and lack of transparency (12.7%) are also major problems that hamper the activities of startups, proving that the inefficiency in design is connected with structural, managerial and relational areas.

The graphical interpretation of the proportion of organizational design problems in terms of the most observed issues follows below as figure 4.

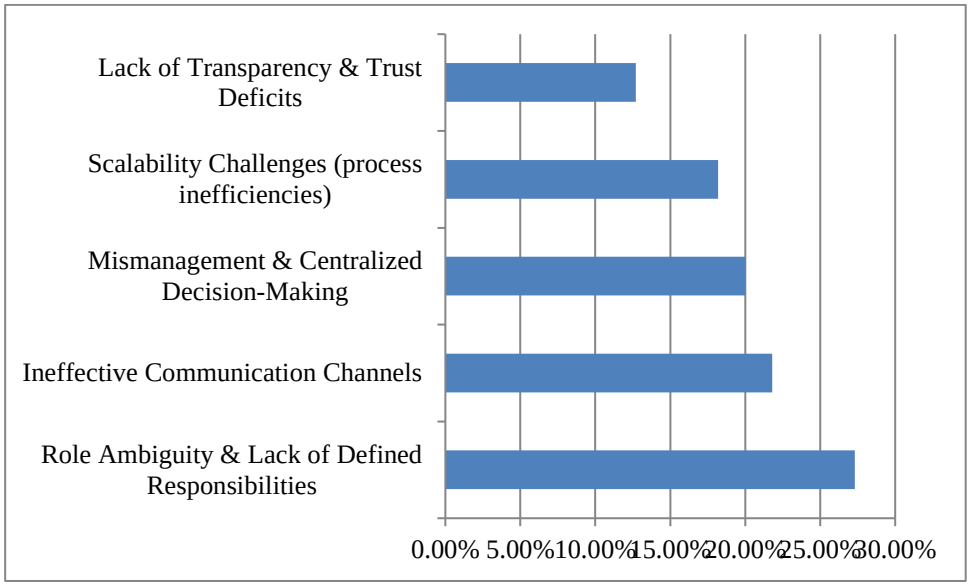

Figure 4: Graphical Representation of the Percentage of Key Organizational Design Problems

The figure 4 shows that role ambiguity is the key issue whereas communication breakdowns and a centralized decision-making are also significant. This illustration is meant to highlight the fact that startups usually have a problem with the fundamental clarity and transparency of their organizational design, which may be disastrous to survival and growth.

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5. CONCLUSION

The study establishes that organizational design plays a decisive role in determining the trajectory of startups, shaping whether they survive, grow, or fail. Evidence from case studies and a coded dataset of 110 startups demonstrates that attributes such as formalization, scalability, agility, and communication are not merely structural preferences but critical success factors. Startups that adapt their organizational design across life-cycle stages—formalization and role clarity during survival, scalability at the success stage, and agility in renewal—are more likely to achieve stability and long-term growth, while those that neglect these adaptive shifts face risks of mismanagement, inefficiency, and decline. The findings further highlight that common problems such as role ambiguity, communication breakdowns, and centralized decision-making can be mitigated through transparent and flexible structures. Importantly, organizational design is dynamic and must align with the venture's stage rather than follow a one-size-fits-all approach. In practical terms, entrepreneurs should treat design as a strategic priority, while policymakers and ecosystem enablers can strengthen startup sustainability by promoting supportive frameworks and mentoring initiatives. Addressing structural inefficiencies early and aligning design choices with growth trajectories significantly improves the chances of startup survival, scalability, and long-term impact.

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