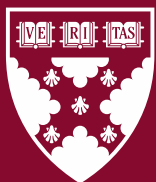


Working Paper 23-041

# Where Strategy Matters: Evidence from a Global Startup Field Study

Nataliya Langburd Wright



**Harvard  
Business  
School**

# Where Strategy Matters: Evidence from a Global Startup Field Study

Nataliya Langburd Wright  
Harvard Business School

**Working Paper 23-041**

Copyright © 2023 by Nataliya Langburd Wright.

Working papers are in draft form. This working paper is distributed for purposes of comment and discussion only. It may not be reproduced without permission of the copyright holder. Copies of working papers are available from the author.

I thank Kelly Harrington, Katelynn Kyker, Gloria Li, Wilson Powell, and Michelle Voltz for excellent research assistance. I also am grateful for the SMS SRF Dissertation Research Grant and to the participating companies that made this research possible. All errors remain my own.

Funding for this research was provided in part by Harvard Business School.

# Where strategy matters: Evidence from a global startup field study

Nataliya Wright\*

July 7, 2023

## Abstract

The role of strategy for innovative startups is theoretically ambiguous and much debated among practitioners. I interviewed executives of 253 scaling software ventures from 34 countries and scored the alignment of their market and organizational choices to detect whether they have a strategy, developing the first dataset of its kind. Having a strategy predicts performance more for non-US-headquartered startups, for which a one standard deviation increase in the strategy score is associated with an increase in valuation by over a third. Yet, non-US startups are less likely to develop a strategy; they have a 0.3 standard deviation lower strategy score than do others. Additional analyses suggest that mistakes are more costly in non-US contexts because of financial, talent, and cultural differences, penalizing firms there without a strategy that helps anticipate sources of failure. Creating a strategy, however, is more difficult without the ability to learn from prior mistakes. Together, this research suggests that in institutional contexts where mistakes are more costly, strategy matters more, but is also harder to develop.

**Keywords:** Entrepreneurial Strategy, Global Strategy, Technology Entrepreneurship

---

\*Columbia Business School (nlw2136@gsb.columbia.edu). I am grateful to Tarun Khanna, Rem Koning, Shane Greenstein, and Laura Huang for their advice and encouragement throughout this project. I also thank Luis Cabral, Ranjay Gulati, Rebecca Karp, Bill Kerr, Josh Lerner, Hong Luo, Ram Ranganathan, Jan Rivkin, Susan Perkins, David Tan, Tiona Zuzul, and participants of the AOM, CCC, Columbia/Wharton MAD Conference, DRUID, HBS internal faculty seminar, HBS RDC seminar, and HBS Strategy Alumni Conference for valuable comments. I thank Kelly Harrington, Katelynn Kyker, Gloria Li, Wilson Powell, and Michelle Voltz for excellent research assistance. I also am grateful for the SMS SRF Dissertation Research Grant and to the participating companies that made this research possible. All errors remain my own.

# 1 Introduction

Is strategy valuable for innovative startups? This question is much debated. Some argue that the value of strategy—"the smallest set of choices to guide other choices" (Van den Steen, 2017)—is limited at best. Practitioner frameworks like the Lean Startup movement encourage experimentation irrespective of if it follows from a strategy (Blank, 2013; Felin et al., 2020; Ries, 2011). As the movement's founder explains: "Rather than engaging in months of planning...entrepreneurs accept that all they have on day one is a series of untested hypotheses—basically, good guesses" (Blank, 2013). Research too suggests that adhering to a strategy may impede entrepreneurs' ability to adapt and learn in their highly uncertain environments (Bhidé, 2000; Delmar and Shane, 2003; Mintzberg and Waters, 1985).

Yet others suggest that strategy can boost entrepreneurial performance. By serving as a guiding framework for other key decisions and experiments, strategy enables startups to create "fit" across company activities (Dencker et al., 2009; Porter, 1996; Rivkin, 2000; Siggelkow, 2001; Sørensen and Carroll, 2021; Van den Steen, 2017). This strategy can therefore help startups avoid costly mistakes that would occur were these activities to clash. Such alignment might be particularly valuable as startups mature and face interconnected decisions like expanding their markets (Bingham and Eisenhardt, 2011), creating moats relative to competitors (Guzman and Li, 2022), designing their organization (Athey and Stern, 1998; Lee, 2022), and formalizing an organizational culture (DeSantola and Gulati, 2017). For example, hiring the wrong sales talent can destroy the company's culture and its ability to expand into new markets. When the same strategy underlies a startup's hiring, culture, and market expansion decisions, this clashing outcome is less likely to occur. By creating alignment, strategy can help startups achieve their goals and improve decision-making (Camuffo et al. 2020, Dencker et al., 2009, Felin et al., 2019; Gans et al., 2019).

To help reconcile these views, this paper argues that the value of strategy depends on the startup's institutional context—the bundle of resource, governance, and cultural factors that systematically vary across countries (Berry et al., 2010; Khanna and Palepu, 1997). Avoiding a clashing outcome—as strategy enables doing—might not be valuable everywhere. Returning to the sales hire example above, in institutional contexts where it is hard to find the money and talent to replace the bad sales hires and where there is a cultural stigma associated with failure, strategy might be a

matter of life or death for startups. But in other contexts where there are more plentiful financial and talent resources and a culture embracing failure, startups might not only survive from this misaligned hiring mistake, but also be able to learn from it. Having a strategy to avoid this mistake then becomes less important.

To test this argument, this paper assesses: How does strategy’s relationship with performance vary across institutional contexts? Answering this question requires measuring whether companies have a strategy. Common approaches to measuring strategy consider the substance of choices, for example, the extent of technological differentiation or whether companies expanded markets horizontally or vertically. Such choice-based approaches are more difficult to use across international contexts because there is often not a one-size-fits all solution across cross-border environments. As a result, this paper uses a definition and measurement approach of strategy that is agnostic to the nature of the choices and instead focuses on the function of strategy—to guide other choices and therefore create alignment among those choices (Porter, 1996; Van den Steen, 2017). Building on this strategy theory, measuring alignment among companies’ choices allows detecting whether they have a strategy. But doing so is nontrivial. Existing databases can reveal the choices startups made—the talent that startups hired or the new country offices they built—but not whether these choices align behind a common guiding framework. Neither do the surveys used in prior work to proxy strategic planning (Delmar and Shane, 2003; Dencker et al., 2009) capture how startups’ choices align.

To overcome this empirical challenge, this paper pursues a field methodology to measure whether a global sample of scaling startups has a strategy. This field methodology enables measuring alignment across startups’ choices to detect whether executives have a strategy. Structured interviews ask executives about their market scope, moat, organizational design, and organizational culture choices. Like the World Management Survey, the study quantitatively scores executives’ interview responses according to a rubric (Bloom and Van Reenen, 2007). Rather than scoring the use of specific practices, however, evaluators measure the alignment of these choices with the objective of the executive and with their other choices. These measures then aggregate to a numerical strategy score. Matching the strategy scores—validated with large language model (LLM) and sentence embedding approaches—with startups’ geographic backgrounds and subsequent performance outcomes enables measuring variance in the value of strategy across institutional contexts.

The resulting dataset covers the strategies of 253 software companies from 34 countries and six continents. The sample includes companies that received Series A funding (\$5–20 million) during January 2019–September 2021. These high-growth companies, which received investments from top venture capital firms like Sequoia Capital, Y Combinator, Andreessen Horowitz, and the Founders Fund, make up over 12 percent of such software Series A deals in this time frame.<sup>1</sup> They raised about \$30 million in funding and employed 90 people on average to date. This interviewed sample generally looks like the rest of the Series A population in observables like headquarters region, employee count, and initial financing amount, suggesting that it is a globally representative sample of firms in this phase. This dataset consists of roughly 190 hours of interviewing, a million words, and 63,000 coded observations. It is the first to systematically capture the strategic alignment of a globally representative sample of scaling startups.

Consistent with the idea that the institutional context shapes the value of strategy for startups, the paper finds substantial variance in strategy’s relationship with performance across international geographies. This variance particularly emerges between US and non-US contexts, where we also see stark historical disparities in startup scaling (Conti and Guzman, 2021; Kerr and Robert-Nicoud, 2020; PitchBook, 2022). While strategy weakly predicts the performance of firms, it strongly predicts subsequent performance for non-US-headquartered firms. For the median non-US firm, a one standard deviation increase in the strategy score is associated with an increase in valuation from about \$32 million to \$44 million. Institutional indicators that prior work finds important for entrepreneurial strategy and performance, such as constrained capital and labor markets (Khanna and Palepu, 1997), alone do not predict variance in the relationship between the strategy scores and performance, suggesting that a combination of institutional factors that vary between US and non-US contexts may explain these differences.

If strategy predicts performance more for non-US startups, then we would expect them to be more likely to develop a strategy to realize its seemingly high returns. Surprisingly, the study finds the opposite. Non-US firms have a 0.3 standard deviation lower strategy score, even when controlling for the strategy’s content and readability. Non-US firms are less likely to develop a strategy.

Why does strategy predict performance more for non-US startups, but is less likely to be devel-

---

<sup>1</sup>Excluding China, where it is difficult to get performance data.

oped by them? Qualitative analysis of the interview data reveals the concert of institutional factors in non-US contexts that help account for these findings. Due to a combination of financial, talent, and cultural constraints, mistakes—for example, cultivating a moat that impairs the company’s ability to enter new markets—are more costly in non-US contexts, penalizing firms there without a strategy that can help anticipate such sources of failure. Yet, it is often through their own mistakes and those of their peers, advisors, and investors that entrepreneurs gain the knowledge to develop a strategy in the first place. Consistent with this explanation, executives outside the US—that is, where mistakes are more costly and therefore less likely to be sources of learning—rely less on direct experience, investors, and advisors to inform their strategy.

These results generalize beyond US and non-US contexts. Additional analyses—using a continuous country index of the ease of recovering from mistakes—yield similar results. This index is a composite of World Economic Forum indicators reflecting financial, talent, and cultural constraints that interviews reveal make mistakes more costly in non-US contexts. Using this index, it is possible to compare strategy scores and their relationship with performance across countries where mistakes are more versus less costly; for example, comparing Israel to France or the UK to South Korea. Consistent with prior results, strategy is more predictive of performance for firms headquartered in countries where it is harder to recover from mistakes. Yet this is also where strategy scores are lower.

Together, these findings suggest that in institutional contexts where mistakes are more costly, strategy matters more, but these contexts are also where it is harder to find the knowledge—gained from prior mistakes—to develop this strategy. The results shed light on why studies such as Bhidé (2000), focusing on US firms, find that planning has limited value. Others—like Delmar and Shane (2003), focusing on Swedish firms—find a higher value. By assessing entrepreneurs across countries, this paper reveals the institutional factors that may condition both the value and development of strategy.

This study makes several contributions to strategy and entrepreneurship research. First, it contributes to the debate on whether strategy matters for entrepreneurs (e.g., Bhidé, 2000; Delmar and Shane, 2003; Dencker et al., 2009; Gans et al., 2019; Mintzberg and Waters, 1985; Ott et al., 2017; Rivkin, 2000) by showing that institutional context shapes the value of strategic planning. Specifically, resource and cultural differences across geographies influence the cost of mistakes.

Strategy, by helping startups anticipate conflicts related to fit, may particularly matter in contexts where the cost of mistakes is high. In contributing to this debate, the study sheds light on a potential cost of experimentation: the propensity to make mistakes related to fit between company activities. The modular nature of experiments makes it difficult to test interactions across company activities. Complementing experiments with strategic planning that holistically considers these activities can mitigate this risk.

Second, this study shows that not only the substance of choices, but also their alignment varies across firms and geographies. While prior work focuses on the substance of startups' market, technology, and human capital choices (e.g., Eisenhardt and Schoonhoven, 1990; Gans et al., 2021), this study reveals that understanding how choices fit with a company's objective, assumptions, and other choices is also essential. This understanding is particularly important in contexts where mistakes are more costly to help firms avoid clashing market and organizational commitments that could be fatal. Consequently, interventions to change specific strategic choices in isolation might not always be sufficient to boost entrepreneurial performance. Interventions that increase the alignment of those choices could also be necessary.

Third, the research reveals that entrepreneurs in non-US contexts face not only resource frictions (Clough et al., 2019), but also knowledge frictions that may constrain growth. Knowledge from experimentation and experience—often involving mistakes—helps shape strategy. However, the concentration of experienced entrepreneurs, investors, and advisors who can afford to learn from prior mistakes in historically successful US hubs may make it harder for ventures outside these hubs to access this knowledge. Therefore, startups outside these US hubs need to be knowledge mobilizers to grow.

Fourth, the research reveals that institutional factors—including constrained capital and talent markets (Khanna and Palepu, 1997)—that shape the cost of mistakes not only influence which strategies firms choose (Gao et al., 2017; Khanna et al., 2005; Khanna and Palepu, 1997), but also whether strategy development capabilities are rare and valuable resources (Barney, 1991; Wernerfelt, 1984). Investing in the capability to develop strategy may yield dividends for firms in institutional contexts where mistakes are costly.

Lastly, the research helps bridge the gap between the global emergence of innovative startups and entrepreneurship research that is still primarily US-focused. Through interviews with startup



executives from 34 countries and six continents, supplemented with human coding and natural language processing (NLP), the paper captures otherwise tacit strategy development among growing ventures across international contexts. The approach combines the depth of qualitative methods with the generalizability of quantitative methods to expand our geographic lens of entrepreneurial strategy and scaling.

The paper is structured as follows. Section 2 theorizes how strategy and its relationship with performance may vary across institutional contexts. Section 3 discusses the data and methodology. Section 4 discusses the results. Section 5 concludes.

## **2 Theoretical framework**

The section proposes that strategy may matter for performance more in some geographic contexts than in others, depending on how costly it is to recover from mistakes. Yet, the cost of mistakes—by shaping access to knowledge—may also influence the development of strategy. These two trends may result in a perfect storm: strategy may matter more where it is more costly to develop.

### **2.1 The value of strategy**

A rich body of scholarship suggests that strategy enables companies to develop a competitive advantage; in particular, by creating fit across company activities (Porter, 1996; Van den Steen, 2017). The interconnected nature of activities makes it difficult for rivals to duplicate efforts, even for seemingly public strategies (Rivkin, 2000; Porter, 1996). By creating fit across company activities, strategy can also improve the efficiency of internal processes, whether related to resource allocation, search, or coordination (Rivkin and Siggelkow, 2003; Seidel and O’Mahony, 2014; Siggelkow, 2001). Lastly, strategy can help companies adapt to external changes (Sørensen and Carroll, 2021; Weick, 1976). The interconnected nature of activities means that any changes in the environment will come to the radar of multiple parts of the firm at once (Siggelkow, 2001; Weick, 1976).

In scaling ventures, which are less studied in this scholarship, failing to adopt a strategy that can create fit can result in inconsistent commitments that fracture the company. This problem is unique to adolescent ventures because they face high uncertainty (Ozcan and Eisenhardt, 2009) and a relative lack of organizational knowledge and inertia (Gavetti and Rivkin, 2007). The result is

extreme sensitivity and opportunism with regard to signals and changes in the external environment, with only a thin safety blanket of knowledge and resources. While this sensitivity helps these ventures escape the trap of inertia that sometimes cripples mature organizations with good fit among obsolete activities (Siggelkow, 2001), it presents a new risk: piecemeal changes that tear away at the fabric of the company. For example, tackling a new market opportunity in the consumer space while hiring enterprise sales talent salient in the local labor market may drive the company in two incompatible directions. Given entrepreneurs' scarce organizational knowledge and resources, recovery from such a fracture may be impossible.

Avoiding such misalignment can be particularly important as ventures pursue both market and organizational growth. In the scaling phase, ventures simultaneously face choices regarding growing their customer base and growing their team that can be incompatible (Eisenmann and Wagonfeld, 2014). Indeed, commitments to expand market scope (Bingham and Eisenhardt, 2011; Santos and Eisenhardt, 2009), create a moat relative to competitors (Gans et al., 2021; Guzman and Li, 2022), design the organization (Athey and Stern, 1998; DeSantola et al., 2022; Lee, 2022; Lee and Kim, 2022), and formalize an organizational culture (DeSantola and Gulati, 2017) may not go hand in hand. For example, founding team characteristics may imprint a firm's organizational culture (Beckman and Burton, 2008; Nelson, 2003; Stinchcombe, 1965), while external signals and market dynamics might influence its market scope and professionalization (DeSantola et al., 2022; Eisenhardt and Schoonhoven, 1990) in quite a different way. When the natural tide does not result in synchronization (DeSantola and Gulati, 2017; Eisenmann and Wagonfeld, 2014), active thinking about aligning these company building blocks around a common framework becomes necessary. Strategy enables an increasingly multi-faceted venture to make commitments that complement rather than conflict with one another (Porter, 1996; Rivkin, 2000; Siggelkow, 2001; Van den Steen, 2017).

Still, strategy might not be equally valuable for all ventures. Avoiding misaligned commitments might be more important in contexts where it is costly to recover from mistakes, such as bad hires that destroy a company's ability to expand into new markets. Replacing a sales manager who proves to be a poor fit is harder where there are few sales candidates locally and limited venture capital money to cover the cost of recruiting and on-boarding a replacement, not to mention where the company will be stigmatized for having made the hiring mistake in the first place. Elsewhere,

where mistakes are less costly, companies failing to adopt a strategy might not face as high of a penalty because it is easier to try again; for example, to fire and replace a bad hire. The value of getting alignment right ex-ante—which strategy enables doing (Van den Steen, 2017)—may not be as crucial for these firms because—with sufficient resources at hand—they can achieve alignment ex-post through, for example, trial-and-error.

The cost of such mistakes might arise from scarce resources—money, talent, and customers—as well as from a cultural aversion to failure. The differences in these resource and cultural factors influencing the cost of mistakes might especially fall on geographic lines. The agglomeration of venture capital (Chen et al., 2010; Sorenson and Stuart, 2001), talent (Glaeser et al., 2015; Fallick et al., 2006; Kerr, 2018; Kerr and Robert-Nicoid, 2020; Tambe and Hitt, 2014), and a culture embracing failure (Saxenian, 1996) in hubs like Silicon Valley makes it systematically easier to recover from mistakes there relative to other locations. Therefore, startups outside of hubs like Silicon Valley may face a particularly high penalty for lacking a strategy that helps them avoid mistakes that are so costly for them.

## **2.2 The development of strategy**

The same institutional factors—such as the cost of mistakes—that systematically vary across geographies may not only influence the value of strategy, but also its development. Strategy is a product of prior knowledge. Like scientific theory, it requires primary or secondary sources to inform hypotheses. This knowledge often forms from prior mistakes. For example, the recognition that a customer success team is vital for anticipating feedback from mainstream enterprise customers might emerge from having observed such customers fail to give feedback organically in the past. Similarly, the recognition that creating a user-friendly product for engineers requires formalizing a culture of autonomy and creativity might emerge from having earlier tried out a hierarchical culture that failed to meet engineer users’ immediate needs. While a final strategy is straightforward, the process of getting to it might be anything but.

The knowledge needed to develop strategy comes from the experience—often including mistakes—of a variety of locally embedded sources. Entrepreneurs’ local experience and experimentation may shape how well their choices fit together (Dahl and Sorenson, 2012; Gans et al., 2019; Gavetti et al., 2005; Gavetti and Porac, 2018; Michelacci and Silva, 2007; Shane, 2000; Wang, 2015). For example,

directly experiencing the value of customer success teams for enterprise customers in a past venture helps entrepreneurs understand how well their subsequent hiring and market choices do or do not fit together. In place of direct experience, local advisors, investors, and peer entrepreneurs may convey similar lessons from their own experiences or those of their portfolio companies (Chatterji et al., 2019; Gavetti and Rivkin, 2007; Schilling, 2018; Vissa and Chacar, 2009). No matter the source, this knowledge conveys not only best practices but also fundamental ways of thinking about a concert of choices—mental models, so to speak (Baron and Hannan, 2002). Thus, developing strategy requires access to knowledge drawn from locally embedded experience.

But entrepreneurs in contexts where mistakes are more costly may have less access to knowledge from their own experience, or that of their peers, investors, and advisors to inform their strategy. The perceived cost of mistakes may disincentivize entrepreneurs themselves from trying new approaches. Doing so risks making mistakes, from which they may not survive long enough to learn (Cahn et al., 2021; Kerr et al., 2014; Landier, 2005). The same holds true for their local peers and the portfolio companies of local investors and advisors. Instead accessing knowledge from remote sources may prove difficult. Research shows that companies can more easily mobilize resources and the knowledge that comes with them in their local context because resource holders may be biased against foreign startups or rely on local networks to source startups (Clough et al., 2019; Lin and Viswanathan, 2016; Shane and Cable, 2002; Vissa, 2011; Wright et al., 2023a).

The resulting unequal access to knowledge may result in systematic differences in the development of strategy across geographies. Where knowledge from direct experience—including mistakes—is rare, startups may struggle to understand the holistic nature of the choices they make. Imitating another company’s specific choice, after all, is far easier than recognizing, understanding, and imitating a complex system of choices following a guiding principle (Rivkin, 2000; Van den Steen, 2017). For example, Silicon Valley entrepreneurs can rely on their own scaling experiences or those of nearby peers, investors, and advisors. These prior experiences have taught them what types of talent best fit an enterprise sales model or which types of cultural values to formalize for millennial customers. Their direct experience conveys a way of approaching strategic choices in concert rather than in isolation. Compare this to an entrepreneur in Munich who can more easily find a former corporate executive than an entrepreneur who has scaled a business. Because it is harder to find scaling knowledge locally, the Munich entrepreneur might look to the specific strategic choices

made by far-away companies, say in Silicon Valley. For example, the entrepreneur might borrow the software-as-a-service (SaaS) business model that many successful companies in Silicon Valley adopted. But that entrepreneur might fail to recognize the need to adopt a culture prioritizing feedback and transparency or to create an organizational structure based on industry divisions—choices that may have enabled the success of the SaaS model in the first place. By “mimicking” specific choices, the entrepreneur might lose sight of how these choices interact and what guiding principles drive them, inhibiting their ability to develop a strategy.

This theory suggests that strategy may be particularly valuable to help ventures avoid incompatible market and organizational commitments. However, not all companies may face the same penalty for such misalignment. The penalty might be higher where mistakes are more costly. Yet, it is in these same contexts where it may be harder to develop a strategy because entrepreneurs often accumulate knowledge to inform their strategy from prior mistakes. Thus, in institutional contexts where mistakes are more costly, strategy might matter more, but also be harder to create.

### **3 Methodology**

The methodology for this study leverages structured interviews with startup executives that elicit their market scope, moat, organizational design, and organizational culture choices, along with the reasoning behind them. Measuring the internal and external alignment of each of these choices creates a numerical measure of the extent to which a company has a strategy. This measurement approach builds upon prior strategy scholarship suggesting that strategy creates alignment among companies’ choices (Porter, 1996; Rivkin, 2000; Sørensen & Carroll, 2021; Van den Steen, 2017). Connecting this measure with firms’ financial and team data allows for measuring the relationship between strategy and performance across contexts.

#### **3.1 Structured interviews to measure strategy**

The field methodology to create a strategy measure uses data from interviews with executives of a globally representative sample of software startups beginning to scale. These interviews elicited executives’ market scope, moat, organizational design, and organizational culture choices.

The interviews capture how startup executives in the scaling phase think about key market and

organizational choices ahead of execution in the scaling phase, and how their knowledge shapes their strategy. Deriving this information from existing databases or third-party sources is otherwise virtually impossible. While such sources may show the commitments made by firms—perhaps intentionally or not—they generally do not allow one to capture the thinking that led to those commitments to test whether companies had a strategy in the first place.

The interviews targeted software companies that had raised a Series A round since 2019. They focused on the software industry because companies in this sector often pursue standardized business models, such as software-as-a-service, that make cross-country comparisons feasible. This sector also drives high-growth entrepreneurship, accounting for most of the billion-dollar-valued unicorns that have emerged worldwide. The interviews focused on the Series A phase because ventures generally have reached product-market fit within their early adopter market and are now actively thinking about scaling to a broader market. In this scaling phase, companies simultaneously face market and organizational choices that can be aligned or misaligned, allowing one to detect whether a company has a strategy (Eisenmann and Wagonfeld, 2014). Further, sampling on this funding stage allows controlling for a quality threshold, as companies undergo rigorous due diligence to get the Series A. Indeed, these firms are highly promising, with investments from prestigious venture capitalists like Sequoia Capital and Andreessen Horowitz.

These interviews resulted from directly reaching out to startup executives and getting a positive response from a representative sample. From July to November 2021, executives—generally CEOs and co-founders—of startups in the software sector who raised a Series A (\$5–20 million) round of funding since 2019, as listed in PitchBook, received a standardized email template inviting them to participate in a 45-minute interview as part of an academic project assessing how startups scale. These emails excluded companies from China because of the difficulty of getting performance data. Overall, 12 percent of such startups (253 companies) agreed to interview, exceeding the five-to-ten percent response rate seen in other research involving private sector surveys or interviews (Ben-David et al., 2013; Bloom et al., 2012a). The startups that agreed to interview do not appear to differ systematically from those that did not. For example, performance indicators do not predict whether a startup agreed to interview (Table 1). The interviewed sample generally looks like the non-interviewed sample in terms of factors such as headquarters region (Figure A.6), employee count (Figure A.7), and first financing amount (Figure A.8). The interviews occurred from July to

November 2021.

Interview questions were open-ended and future-oriented. They were open-ended to ensure the accuracy of responses by minimizing “social desirability bias” and the leading of interviewees, consistent with studies measuring management and strategy in mature firms (Bloom and Van Reenen, 2007; Yang et al., 2020). The questions were future-oriented to capture how executives think about scaling choices yet made rather than capturing retrospective accounts of decisions to reduce measurement error. The questions elicited executives’ objectives over the next 3–5 years, how they planned to expand their markets, what they saw as their biggest moat against competitors, how they planned to expand their organization, and how they defined their company’s culture. Additional questions asked executives what they surmised to be their next three action items to reach their objective, how they planned to use their Series A funding, and what they saw as their biggest uncertainties. The interviews also captured the sources of information that executives used to develop their strategy and why they did not pursue particular alternative approaches. The Appendix<sup>2</sup> shows questions from the structured portions of the interview.

Independent evaluators coded the interviews in a double-blind manner. Five coders—MBA students and those with similar experiences—coded each interview transcript independently. To quantify the strategy, coding was based on a rubric<sup>3</sup> that measured how well each interview response fit with executives’ assumptions, objectives, and other responses on a scale of one to five. Evaluators also provided binary codes (0/1) to indicate the presence or absence of particular aspects of the strategy—such as expanding across geographies or verticals—to measure the strategy’s content. The interviews were double-blind, consistent with other research scoring management and strategic practices across organizations (Bloom and Van Reenen, 2007; Yang et al., 2020). Interviewed executives did not know that their responses would get quantitative scores. Interview coders also did not have performance information about the interviewed firms. Thus, neither the interviewees nor those doing the evaluation knew the relationship between a firm’s strategy and its performance.

Using multiple independent evaluators validated the strategy coding. The coding rubric achieves a relatively high and stable inter-coder reliability: 0.9 correlation across all questions and 0.5 correlation among the questions coded one to five. This reliability is similar to correlations seen in

---

<sup>2</sup>The latest Appendix is available online here.

<sup>3</sup>This rubric was the consequence of (a) pilot interviews with colleagues who were startup executives but not in the final sample and (b) feedback sessions with the evaluators.

past research (Bloom et al., 2012a). In the final dataset, about one-fifth of the interviews received independent evaluations from two coders, and the final strategy score was the average of the two. Due to resource limitations, the rest of the interviews received evaluations from one coder each.

### 3.2 Calculating strategy scores

Measuring how well executives' market scope, moat, organizational design, and organizational culture choices align with executives' assumptions (external alignment), as well as their objective and other choices (internal alignment) creates a numerical strategy score. This score indicates the extent to which a company has a strategy. Like other strategy measures, it captures a company's market and organizational choices, but unlike other measures, it also considers their fit with a common objective and assumptions.

The strategy score reflects the alignment of executives' market scope, moat, organizational design, and organizational culture choices. The final score sums the external alignment of each choice weighted by its internal alignment (Rivkin, 2000; Siggelkow, 2001; Sørensen and Carroll, 2021; Van den Steen, 2017). Equation (1) shows the algorithm that calculates the strategy score across these four choices:

$$strategy_i = \sum_i^4 externalalignment_i * internalalignment_i \quad (1)$$

The dependent variable  $strategy_i$  is the weighted overall strategy score of a company.  $externalalignment_i$  reflects how well choice  $i$  fits with the executive's assumptions.  $internalalignment_i$  refers to how well it fits with the executive's objective and other choices.

Why not consider only external alignment? No matter how well a choice fits with an executive's assumptions, it is ineffective if it does not move the company toward a broader goal or if it clashes with the other choices. To demonstrate, Table A3 shows a company building a "one-stop-shop" for retail with a plan for designing the organization based on hiring experienced talent from around the world. While the choice fits well with the executive's assumption that there is a talent gap in the local labor market, it does not align with the company's objective to be a "super regional app with multiple services" in the Middle East. There is a discrepancy between the local nature of that objective and the global nature of the organizational design choice. As a result, this organizational design response is weighted lower in the final strategy score because it will be less likely to get the company to where it wants to be in the next three-to-five years.



The strategy score is robust to alternative coding and aggregation approaches. One alternative approach uses NLP techniques. OpenAI’s LLM (ChatGPT)—trained through reinforcement learning from human feedback (OpenAI, 2022)—enables measuring external alignment. The LLM evaluates each of the market scope, moat, organizational design, and organizational culture responses individually according to the same prompts given to human coders. These prompts include how logical and convincing are each of the responses. An SBERT model, a word-embedding model that can capture the semantic meaning of the text at the sentence level (Carlson, 2022; Devlin et al., 2018; Reimers and Gurevych, 2019), is able to measure internal alignment. Specifically, it measures the similarity between each of the market scope, moat, organizational design, and organizational culture responses and the objective. Aggregating the LLM-based external alignment measures and the SBERT-based internal alignment measures using Equation (1) creates an alternative strategy composite score. Table A5 shows that these LLM/SBERT-based measures positively correlate with the human-generated scores. The results are also robust to different ways of summing the coding variables, as shown in Table A8. These alternative measures do not fill in missing values, aggregate the scores based on simple averages, exclude fit with other choices, or double-weight the fit with the objective. The measures have at least a 0.93 correlation with the main score and with one another.

Robustness checks also show that the scores withstand differences in speaking styles. The length of responses does not predict the strategy score. This analysis reduces the concern that time constraints or speaking styles confound this measure. Later specifications also control for the English readability of the transcribed responses to ensure that language differences do not meaningfully affect score comparisons.

The strategy measure builds on a rich body of strategy and entrepreneurship research. As in Kaplan and Norton (1992), this measure brings together a view of both the customer-facing (market scope and moat) and internal business (organizational structure and culture) perspectives. While Kaplan and Norton (1992) measure the quality of each of these perspectives based on its objectives—new products for the customer perspective and technological capability for the internal business perspective—the measure presented in this paper also assesses how these choices address each other and the firm’s broader aim. It thus captures interdependence among the firm’s core decisions (Rivkin, 2000; Van den Steen, 2017).

### 3.3 Data to measure variance in strategy

The final dataset connects startups’ strategy scores and other interview responses with their team characteristics and post-interview performance outcomes. Specifically, it contains data on the firms’ financials from PitchBook, Crunchbase, and PrivCo; employee backgrounds from online resume data; website visits from SimilarWeb; technology tools from BuiltWith; and websites over time from the Internet Archives, for which summary statistics are shown in Table 2. It also includes the pitch decks of a third of the firms and the organizational charts of a fourth of them to corroborate interview information. Below are the primary dependent variables used in this study.

- **Strategy** indicates the 1–100 strategy score that is then standardized using interview data.
- **Logged post-money valuation** indicates a company’s post-money valuation, reflecting its expected value at the time of investment, using PitchBook’s database.
- **Logged valuation per employee count** indicates valuation dollars per employee as a rough metric of productivity for these young ventures, using PitchBook data.
- **Exit or additional funding** indicates whether a company achieved a successful exit in the form of an acquisition or initial public offering, as well as whether it received additional funding rounds (Series B+), using PitchBook data.
- **Logged employees** indicates the logged employee count using PitchBook data.
- **Reached 150 or 200 employees** indicates an alternative measure of employee count, that is, by whether a company has reached 150 or 200 employees—the top percentile (10-15 percent)—of the employee distribution across sampled companies.
- **Logged page visits** indicates the number of page visits to a company’s homepage, reflecting user growth, using SimilarWeb’s database. Entrepreneurship studies increasingly use website page visits as a proxy for startup performance (Cao et al., 2021; Hallen et al., 2020; Koning et al., 2022).
- **Logged technology tool count** indicates the number of technology tools installed on the company’s homepage since the interview period, using BuiltWith’s database. This variable indicates technological sophistication.

## 4 Results

### 4.1 How does strategy’s relationship with performance vary?

The study begins with assessing the baseline relationship between strategy and performance. Figure 1 shows a weak positive association between strategy on the x-axis and logged valuation—as one metric of performance—on the y-axis. To understand how this relationship varies across institutional contexts, Table 3 breaks down this relationship across several institutional indicators that prior work finds important for entrepreneurial performance using Equation (2):

$$y_i = \beta_1 indicator_i + \beta_2 strategy_{ij} + \beta_3 indicator_i x strategy_{ij} + foundedyear_i + industry_i + evaluator_j + readability_{ij} + firstfinancing_i + \gamma_{ij} + \epsilon_{ij} \quad (2)$$

The dependent variable  $y_i$  is logged valuation as a proxy of a post-interview performance outcome. Other proxies are shown in later specifications.  $strategy_{ij}$  indicates the standardized strategy score calculated using Equation (1) by a given evaluator  $j$  for company  $i$ .  $indicator_i$  indicates several institutional factors of the headquarters country of the startups that prior work finds important for entrepreneurial performance and strategy. These include financial market development, labor market development, governance and contract enforcement, entrepreneurial culture, and market size, drawn from the World Economic Forum’s Global Competitiveness Index (Berry et al., 2010; Kerr and Robert-Nicoid, 2020; Khanna and Palepu, 1997; Saxenian, 1996; World Economic Forum, 2019). The list also includes whether the startup is headquartered in the US, where a bundle of institutional factors seem to account for strong entrepreneurial performance and management practices (Bloom and Van Reenen, 2010; Bloom et al., 2012b; Conti and Guzman, 2021).  $indicator_i x strategy_{ij}$  indicates whether the relationship between strategy and performance varies across firms headquartered in these institutional contexts.

The specification also includes a number of controls.  $foundedyear_i$  indicates firm  $i$ ’s founding year to control for differences in firm maturity.  $industry_i$  indicates the industry cluster of firm  $i$  generated from a k-means clustering (unsupervised) machine learning model using the company’s keywords.  $evaluator_j$  reflects evaluator fixed effects.  $readability_{ij}$  reflects (a) the English language quality of responses, taking into account the evaluator’s attested understanding of the interview transcripts due to language barriers (irrespective of the content) and (b) the Flesch Reading Ease Score using an NLP technique from the Python textstat library. This algorithm allows for more

objectively measuring how feasible it is to read a body of text.  $\gamma_{ij}$  reflects whether the analysis filled in missing values for the strategy score of firm  $i$  with evaluator  $j$ 's average evaluations for firm  $i$ . These missing values made up less than two percent of the codes.  $firstfinancing_i$  indicates the logged initial financing amount (in USD) that company  $i$  received, which may affect the strategy score and current performance. The coefficient of interest is  $\beta_3$ . This coefficient shows how strategy scores predict performance across institutional contexts.

The results in Table 3 show that whether a startup is headquartered in the US (Column 7) most strongly predicts variance in the relationship between strategy and performance. Market size also predicts this relationship, but by substantially less. The size of the coefficient on the latter is less than 4 percent that of the former. Other institutional indicators do not meaningfully predict variance in the strategy-performance relationship.

Consistent with regressions in Table 3, Figure 2 illustrates how being headquartered in the US reveals different trends in the relationship between strategy and performance. Surprisingly, valuations appear to be sensitive to strategy scores for non-US firms, but not for US ones. Non-US firms (right panel) see a steeper slope between strategy and log valuation than do US firms (left panel). This figure suggests that strategy predicts valuation only for non-US firms.

To explore the variance in Figure 2 further, Table 4 applies Equation (2) using the US headquarters indicator with a broader set of performance outcomes. In addition to logged valuation, these include valuation per employee, future funding, exit, and a performance index that is the normalized average of the normalized transformations of the previously mentioned performance outcomes along with other funding, employee, page visit, and technology tool measures individually shown in Table A26. The regressions also control for logged GDP per capita as an underlying proxy of economic development across countries. Specifically, the table shows that strategy scores are more predictive of performance for non-US firms than for US firms. The coefficients on the interaction terms between whether a company has a headquarters in the US and the strategy score (third row) across outcomes is negative. The binscatter and regressions suggest that strategy matters more outside the US. This effect is economically significant: for the median non-US firm, a one standard deviation increase in the strategy score is associated with over a third increase in valuation—roughly from \$32 million to \$44 million.

Could these results simply reflect that US and non-US firms are in different phases of develop-

ment? US firms might not have reached product-market fit yet because they can get a Series A at an earlier stage. Thus, the results could reflect that strategy matters when companies have reached product-market fit. This would suggest that the strategy depends on the firm’s maturity rather than on its institutional context. To test this confounding variable, Table 2 compares the development phase of US and non-US companies at the time of the interview. It shows that, according to PitchBook data, US and non-US firms are equally likely to be generating revenue at the time of the interview. They are also of similar age—at about five years old. Further, US companies mention in interviews that they have reached product-market fit. For example, one US company mentioned that as part of its objective: “is a simple goal of scaling and growing...We’ve got a good product-market fit.” Together, this quantitative and qualitative evidence suggests that US and non-US companies are at a similar lifecycle phase at the time of the interview, so firm maturity is unlikely to be driving the results.

## 4.2 How does the development of strategy vary?

If strategy is more predictive of performance for non-US startups—suggesting it may yield higher returns for them—then we would expect that these firms would be more likely to develop a strategy. To test this prediction, the study assesses variance in the development of strategy among US and non-US firms. It begins by assessing the baseline score across all firms. Figure 3 shows a kernel density plot of the standardized strategy scores, which are scaled from a 1 to 100 range to a -3.2 to 3.0 range. They approach a normal distribution with a standard deviation of 0.93. A similar variance emerges when looking within particular objectives or choices. For example, firms that have a social impact objective or market scope approach focused on geographic expansion see a wide spread of strategy scores.

In contrast to the prediction that non-US startups would be more likely to develop a strategy, the kernel density plot in Figure 4 shows that the distribution of strategy scores of US firms relative to others is shifted to the right. This suggests that non-US firms have lower scores and thus are less likely to develop a strategy. Kolmogorov-Smirnov tests show that the distributions differ statistically from one another ( $p=0.02$ ).

Equation (3) measures the variance in the development of strategy between US and non-US firms more rigorously:

$$strategy_{ij} = \beta_1 us_i + foundedyear_i + industry_i + evaluator_j + readability_{ij} + \gamma_{ij} + \epsilon_{ij} \quad (3)$$

The variable of interest is  $\beta_1$ , indicating how strategy varies across US and other firms.

Table 5 shows the results from Equation (3). US firms have a 0.3 standard deviation higher strategy score than do non-US firms (Column 1). This result suggests that US firms have a higher strategy score than other firms, consistent with the kernel density plot shown in Figure 4. Specifically, it shows that US companies pursue moats that better fit other choices and assumptions by 0.2-0.3 standard deviation (Columns 6-7), have organizational designs that better fit their objective by 0.2 standard deviation (Column 8), and have organizational cultures that better fit their assumptions by 0.2 standard deviation (Column 13). The coefficients on the remaining subscores are generally positive, though not significant at the five-percent level.

This geographic variance is partially consistent with prior work on management differences across countries. The gap between US and non-US companies is similar to differences in management practices (Bloom et al., 2012a). However, this difference does not appear to be a function of GDP, as seen in the management studies. Logged GDP per capita does not predict the strategy score at the 5–10-percent–significance level.

Assessing specific subscores that vary across US and non-US firms illustrates the nature of these differences. US firms have a higher score on their moat, driven by its external alignment (Table 5 Column 7). For example, a US-based company with a recruiting platform logically laid out why its moat would be enduring:

Data...The problem with talent data is it's huge. And it is prohibitively expensive for even a multi-billion-dollar organization to try and structure data that way. So we instead were...going to build [our own data], which was a risk. And once we pulled that off, we really started to see that we could identify people in this much better way... We could also match people much better for organizations based on capability. And the people that we were putting there were so much more diverse.

The company articulated that its data moat can withstand competitors because of how difficult it was to collect and create meaningful insights from the available human resource data.

In contrast to this US company's logic of how data can create barriers to entry, a Singapore-based company creating a mobile credit-scoring platform had difficulty conveying why others would not be able to replicate its data moat:

So there are companies who are developing scorecards based on telco data. We don't consider them as a direct competitor because we have clients who are using both, right? Scorecards developed based on device, mobile device data. That is [our company]. So we can coexist together.

The company was not able to articulate why other players would not be able to build their own mobile data moat. While the company argued that it could coexist with companies providing telco data because consumers used both, it is not clear why other players would not have an incentive to produce mobile-derived data if they would achieve economies of scope providing both types of data to consumers. Table A2 shows additional examples of moat responses and scores.

US firms' higher scores on organizational design are driven by their internal alignment, specifically related to fit with the objective (Table 5 Column 8). The ability of US firms to recruit and structure their organization in closer alignment with their objective is consistent with "hiring ahead of the curve," which prior work suggests is important for scaling (Eisenmann and Wagonfeld, 2014). For example, one US company spoke of deliberately hiring for new roles and positions—particularly in sales—ahead of current demand consistent with its objective:

There's proactive hiring and then there's kind of like reactive hiring. So proactive hiring [includes] sales. And the engineering org is proactive hiring. We can't build a thing and we can't sell an incremental customer unless we have someone staffed and trained and ready to go ahead of time.

This forward-looking approach is consistent with the company's objective, focused on "not just the absolute place that we get, but the speed...\$100 million top-line business, that's kind of like the North Star." Proactive hiring enables the company to prioritize increasing revenue and doing so quickly.

On the other hand, a UK-based company desired to defer hiring as long as possible. However, this measured approach makes it difficult to achieve the company's ambitious objective.

And one of the things we want to do is stay small...So I see a lot of founders just use whatever cash they can, just really increase headcount way ahead...We're trying to stay lean. And I think what we'll do is, we will grow mainly in design and product and engineering. Basically at the rate that you see.

While reasonable on its own, this frugal approach does not align closely with the company's ambitious objective to "recreate the success of something like Slack....this means tens of millions of

users, likely across maybe a few 100,000 companies that are using this." Such a high-reach objective suggests the need for robust marketing and customer success teams to acquire and retain this large customer base. Additional examples of organizational design responses and scores are shown in Table A3.

A concern with this strategy gap is that it is capturing differences in the content of the strategies. For example, US and non-US companies might have different objectives and, therefore, might pursue them by different means. The methodology would then be comparing not only the internal consistency of planning but also its content. The calculation would then confound the results.

To address such concerns, additional analyses assess differences in the content of strategy among US and non-US firms and then control for them. US and non-US firms pursue similar financial objectives (Table A15). However, non-US firms are more likely to pursue a geographically oriented strategy in terms of seeking a global objective, expanding markets by international expansion, and hiring geographically oriented talent (Table A23). To account for this, Equation (3) controls for these geographically oriented factors. Table 6 shows the results: the strategy gap remains when controlling for the geographically oriented elements of strategy that vary among the US and non-US firms—using OLS (Column 1) and LASSO (Column 2) models—as well as for all contents of strategy (Column 3). These results suggest that the strategy gap between US and non-US firms is not driven by their content but by how aligned they are.

Another concern with these results is that underlying quality differences between US and non-US firms may be driving the results; that is, non-US firms in the final sample might be of lower quality than the US firms. Conceptually, we might expect the opposite. Financial resources are more scarce outside the US, making it harder to get Series A funding. Non-US firms that do manage to get this funding might therefore be of higher quality. However, the study mitigates that concern by controlling for various quality differences. First, the analysis controls for a threshold of quality by focusing on companies that raised a Series A round of funding, generally requiring rigorous due diligence. Second, the regressions control for the English readability of the text and for the firm's founding year, which reflects its maturity. Together, these conceptual and empirical checks suggest that underlying quality inherently unrelated to strategy is unlikely to be driving the results.

Together, these results show that strategy varies among US and other firms. Despite strategy being more predictive of performance for them, non-US firms have lower strategy scores—they are



less likely to develop a strategy—irrespective of the content of their strategy.

### **4.3 Why are strategy scores lower where they matter more? A cost-of-mistakes mechanism.**

Why do non-US firms have lower strategy scores if these scores are more predictive of performance? Qualitative analysis of the interviews reveals a cost-of-mistakes mechanism that emerges from the institutional differences in US vs. non-US contexts. Non-US firms discussed how strategic planning was important to avoid mistakes that were costly in their local environments. Yet, mistakes also helped entrepreneurs build knowledge to develop their strategy in the first place. Additional analyses using a country index of the ease of recovering from mistakes support these qualitative findings.

#### **4.3.1 Cost of mistakes and the value of strategy**

Why does strategy associate with performance more in non-US versus US contexts? Figure 2 shows that US and non-US startups get a similarly high valuation when they do have a strategy (at a higher strategy score), but non-US companies get a substantially lower valuation when they lack a strategy (at a lower strategy score). Based on the data and interviews, it appears that it is not that non-US companies get a higher reward for having a strategy, but rather that they face a higher penalty for lacking a strategy.

To understand why this penalty for lacking a strategy is higher for non-US firms, it is important to understand what it means to lack a strategy in the first place. Why does it matter at all? Turning back to the conceptual framework in Section 2, strategy can help companies avoid mistakes, particularly those related to fit (Porter, 1996; Siggelkow, 2001). Conversely, without a strategy, startups might be more likely to hire the wrong talent, enter unfruitful markets, or adopt imitable technology. To illustrate, a South Korean startup discussed how lacking strategy—not being “smarter earlier,” as the executive put it—resulted in hiring talent that did not fit with its system:

One of the main mistakes that we actually made...right after Series A is that we went on a hiring spree. And the team went from 20 to actually 70 people in less than six months. And that rapid unexpectedly damaged our culture, because a lot of new people with different ideas and different working habits came in too fast...And so there was a lot of

back progress that we have to have gone through. And that's just time and money being spent not on the company, but rather fixing mistakes that if we were smarter earlier, then we probably wouldn't have made in the first place.

The South Korean startup shows how this hiring mistake—which could have been avoided had they been “smarter earlier”—that is, had they planned ahead through a strategy—was costly in terms of “time and money.” The company faced a steep penalty for not having a strategy. Consistent with this view that lacking a strategy makes companies more likely to make mistakes, Table A14 provides suggestive quantitative evidence that a higher strategy score is associated with lower regional office or subsidiary closures—as a proxy for mistakes.

In contrast, US companies discussed how their mistakes did not incur as much of a penalty. If anything, they served as a learning opportunity. The availability of money and capital enabled them to try again, for example, by replacing bad hires. Without a strategy, these companies could end up making mistakes, but could also afford a second chance. For example, one US company noted being able to afford to make mistakes—such as hiring the wrong talent—and viewed such mistakes as a learning opportunity:

Because you have access to money and capital, then you make a lot of mistakes. And those can be expensive mistakes...Some of the biggest mistakes and learnings for me is hiring people—the right role...and who you're really hiring for, cultural fit, and things like that.

The US company paid a relatively low penalty for making a mistake related to “hiring for fit.” While a similar mistake was detrimental to the South Korean startup, the US startup perceived its own mistakes as harmless and even helpful for learning about its talent needs. This startup was not an exception in the US. Other US startup executives discussed the relatively harmless nature of mistakes, embracing them as learning opportunities. One executive noted that he “intentionally hired very smart people. So I let them be smart and execute. And I also let them make mistakes because that's how you learn.” Another US executive explained: “If a mistake happens, or like a true mistake...it's fine...What are you going to do to fix it? Great—fix it. How to prevent it? Cool, I'm not going to ask you about it again.” Indeed, Table A13 shows that US companies were more likely to discuss mistakes as learning opportunities rather than as something to avoid, suggesting that mistakes are less costly for them.

Now, why might the penalty for such a hiring mistake be higher for the South Korean startup than for the US one? Executives in South Korea and elsewhere outside the US discussed how difficult it was for them to try again because of scarce financial, talent, and customer resources and of cultural aversion to failure. Mistakes were therefore costly and strategic planning critical in order to avoid them. One Brazilian company noted the financial constraints that made trying again difficult and strategy crucial:

In the Valley, you can validate an idea really fast. You can fail fast and you can try again...And you will find a path of funding pretty—not easy—but you have many options...In Brazil, you have, like, 10 VCs...And so you need to [consider], can I extract value from this product in 24 months or maybe 36 months...and use this to self-fund the next step?

In addition to financial constraints, executives outside the US discussed the talent constraints that made mistakes more costly. For example, one Swedish company mentioned:

I believe that the best people already have jobs, so you would have to rip people away from great positions with vested equity...So talent is absolutely the hardest...I believe that the cost of a failed recruitment outweighs the benefit of speed, probably by a factor 10 or more. So hence, I'm involved in every single recruitment.

The Swedish example demonstrates how talent resources, like financial resources, were hard to find locally. As a result, companies needed to think ahead about each hire to avoid mistakes that carried a high price tag.

Like financial and talent constraints, having limited customers locally made it that much harder to try again if one of the customer relationships failed. An Australian company discussed the need to plan market expansion early because of the scarcity of local customers:

If you originate in San Francisco, as long as you focus from [there to] New York, you're pretty good to cover most of the world. But the difference in Australian companies...when you're talking about a population base of 20 million...that's not really enough to build...a billion-dollar business. And so you immediately have this perspective of, how will I scale my product into other geographies?

Making a mistake for this company in any one country market is consequential. They would need to pay the fees associated with closing an operation in the "failed" country market and then pay high fees to open up operations in a new country. Compare this approach to a US company that

fails in Pennsylvania. The cost to close up operations in Pennsylvania and open up an office in New York likely would be far lower than in the international case.

Beyond tangible financial, talent, and customer resources, non-US startups discussed how a broader cultural aversion to failure made mistakes quite costly. For example, one German startup mentioned: "What we see currently in Europe is that many mistakes are very much punished. There's not a culture of [making] mistakes." Similarly, a UK startup discussed how averse customers were to disruptions. This reality contrasted with what the interviewee considered to be the case in Silicon Valley, where customers might be more forgiving:

The approach to the development of a technology differs between Europe and Silicon Valley. In Silicon Valley, the key approach is, fail fast but move on quickly. So yes, we're losing out, if something breaks, not a big problem. Resolve it in the next release, and you're fine. Both my last business and the current one focus on providing services to institutional clients in the financial services. [For us], failing fast is not an option. So if you fail and your bank account is not accessible for whatever reason, the payment is not successful for some reason. Then that creates a headache in itself. And you may not have that customer anymore.

Like the financial and talent constraints, the cultural aversion to failure that the German company saw in its customers made it difficult to try again after a mistake.

These examples show how non-US companies face higher penalties for not having a strategy, consistent with the steeper relationship between the strategy score and valuation that we observe for these companies relative to US ones in Figure 2. Without a strategy to anticipate sources of failure, these companies are more likely to make bad hires, enter the wrong markets, or make other mistakes. And these mistakes carry steep penalties outside of the US. Trying again is difficult amid scarce financial, talent, and customer resources and a cultural aversion to failure. Having a strategy to avoid these costly mistakes becomes essential.

To what extent is the cost of mistakes a reflection of investor preferences, rather than the startup's institutional context? For example, perhaps US investors with their Lean Startup playbooks prefer their portfolio companies—no matter where they are in the world—to experiment and learn from mistakes. These investors condition their future funding on observing such experimental behavior. Investors from other parts of the world might prefer planning ahead to avoid mistakes and condition their future funding and support on having a strategy. If this were the case, then

we would see similar results as in Table 4 if we replaced the variable reflecting whether startups are headquartered in the US with whether they have US investors. Interestingly, the results do not hold with this measure: the relationship between strategy and performance does not vary based on whether startups have US investors. This suggests that the cost of mistakes is not operating through the geography of the investors, but rather through the geography of the startups.

### 4.3.2 Cost of mistakes and the development of strategy

While the cost of mistakes might make it more important for startups to have a strategy, it may also make it harder for them to develop the strategy in the first place. Interviews reveal that entrepreneurs learn from their prior experience—and specifically from mistakes—to inform their strategy. As one US startup noted:

So, nowadays, I can better plan because of those mistakes I have made in the past and because of all the feedback I have received. But for me, it has been more roll up your sleeves and just get into the work and just do it. Just because I don't know how to do it, it's not a good excuse. Go ahead and just do it and then ask for input and people will be there to help you.

But startups outside the US—where mistakes are more costly—discuss how they cannot afford to experiment and potentially make mistakes that are disruptive, even if these mistakes can inform the startup's strategy. For example, one UK executive noted how he preferred to learn from others' mistakes, given how costly it had been for his company to deal with prior hiring mistakes.

[We] went through...mistakes like that. And you think, oh, it's easy. We'll fire them. It's not easy. It always creates collateral damage. People can get toxic. Other people get disoriented...Firing the people that don't seem to fit can also be quite disruptive to your organization...I really do not like first-principle thinking, because I hate making mistakes that other people know the answers to.

Yet, relying on knowledge from others is also difficult in these contexts. When mistakes are costly, peer entrepreneurs have just as hard a time experimenting, which constrains their ability to develop a strategy that enables them to scale. Thus, there are fewer local company examples to rely on to inform a strategy (Gavetti and Rivkin, 2007). One South Korean startup recounted the difficulty of finding appropriate company examples locally:

Our situation is very unique. So I can't really come up with one [company example] in 2010 because all the well-known companies, their success formula was: scale fast, burn money fast, scale fast, become too big to fail. That was not our situation. All the players, Korean ones, you make money first and then bring your cronies together and leave in all the interests and launder your image...That wasn't the case for us. Interesting, I don't think I have ever had any role model.

This executive revealed the struggle that non-US companies faced in accessing appropriate knowledge to inform their strategy. The company could not easily turn to either foreign or local company examples. Foreign companies "burned money" in a way that could be fatal locally. Local companies pursued approaches which were well adapted to the local context but which conflicted with the focal company's ideals.

Where there are few companies historically that have experimented, made mistakes, and learned from them to develop their strategy and scale, there are also few advisors and investors who worked with such companies. Therefore, not only does the cost of mistakes make it harder for entrepreneurs to experiment themselves or to learn from other local companies that have done so, but they also have a hard time finding experienced investors and advisors locally, whom prior work shows are important inputs into entrepreneurs' strategy development (Bernstein et al., 2016; Chatterji et al., 2019; Vissa and Chacar, 2009). Consistent with this view, interviews reveal that non-US firms found it difficult to find competent advisors and investors locally as they approached scaling. An Australian company noted: "In our part of the world, there wasn't really a lot of people that we could learn from in the earliest phases of the company." Similarly, a UK-based company acknowledged that local advisors lacked experience to inform the company's strategy: "[There is] not much [reliance on advisors]—for sure, not on the organizational setup—mostly because I don't think our investors had that experience, unfortunately." A German company described that such experience is important because it helps advisors identify where they actually have the expertise to offer valuable advice on strategy:

Most of the mentors will advise you on the rest of the 50 percent, where they don't have the expertise...At least in Europe...Possibly [the] US is different. You have a high number of experienced founders in the market. They know exactly where they are good, [and] where they are not so good...That's where we see a more mature market in the US.

That example shows how experience in scaling—as, for example, seen in the US—equips advisors

with the ability to screen good from bad advice based on what worked in the past. These advisors can therefore offer wisdom to entrepreneurs that can improve strategy development.

Conversely, the companies that could access US advisors and their direct experience used the resulting knowledge to improve their strategy. For example, an Indian startup discussed the influence of US investors on its organizational structure:

One of my big advisors is...the head of product of [a successful US startup], previously, [another successful US startup]. And [a third successful US startup] is one of my investors. So we follow what these companies have historically set up, which is very par-driven structures focused on customer objectives.

Specifically, the Indian startup’s US advisors with experience in successfully scaled companies inspired it to pursue a more customer-oriented organizational design. This structure aligned well with its customer-oriented objective to be “the best partner to merchants [in Southeast Asia] in their ever-changing world."

Similarly, an Indonesian company noted adopting a customer-centric culture based on the US experiences of its co-founders:

My co-founder and I came from [a successful US startup], another co-founder came from [a US company], and the fourth one came from [an international e-commerce company]. All organizations, all four of us, are very customer-centric organizations. So from our cultural standpoint, it all starts with the customer.

The Indonesian company’s customer-oriented culture—shaped by the co-founders’ direct experiences in successfully scaled US companies—was well aligned to its user-oriented objective of “creating a new form of e-commerce [in] the smartphone era" targeted at “mom-and-pop stores." These entrepreneurs’ experiences helped improve their strategy.

Additional quantitative analyses of the interview data corroborate these qualitative insights that the higher cost of mistakes in non-US contexts makes it harder to access scaling knowledge that can inform strategy. If access to knowledge varied across US and non-US contexts, contributing to differences in their strategy scores, we would expect US executives to use more knowledge inputs than non-US ones to develop this strategy. To measure this variance, Equation (4) switches out the strategy dependent variable in Equation (3) with several knowledge inputs:

$$knowledge_{ij} = \beta_1 us_i + foundedyear_i + industry_i + evaluator_j + readability_{ij} + \gamma_{ij} + \epsilon_{ij} \quad (4)$$

The dependent variable  $knowledge_{ij}$  is an array of inputs that inform strategy, including (a) direct experience, (b) advisors, (c) investors, and (d) company examples. These sources of knowledge may expose founders to alternative approaches. Consequently, considering such alternatives is also a dependent variable in this specification. The coefficient of interest is  $\beta_1$ , which indicates whether US executives are more likely to use such knowledge inputs to inform their strategy.

Table 7 and the coefficient plot in Figure 5 show the results from this regression model. US firms are indeed more likely to use direct experience (Column 1), company examples (Column 2), advisors (Column 3), and investors (Column 4)—by 0.1 standard deviation—to inform their strategy. They also are more likely to consider alternatives (Column 5).

Together, these results reveal that the high cost of mistakes that non-US startups face makes it more costly to experiment and scale, look to other companies that have done so, and find advisors and investors who have worked with such companies. As discussed in the conceptual framework, scaling experience helps companies develop a strategy. Without the ability to acquire this experience directly—or indirectly through local company examples, investors, and advisors—companies have a harder time developing a strategy, even if it could help them avoid future mistakes, as discussed in the previous section. The cost of mistakes, therefore, is one explanation that can shed light on why non-US startups are less likely to develop a strategy, though doing so is more predictive of their performance.

#### 4.3.3 Generalizing beyond US versus non-US contexts

Do these results generalize beyond US and non-US contexts? The qualitative evidence suggests that in non-US contexts, a combination of financial, talent, and customer resources, along with cultural factors, make mistakes more costly. Strategy that can help anticipate these mistakes is, therefore, more important, though it is harder to develop without knowledge drawn from prior mistakes. These institutional factors may vary within non-US contexts to enable a more granular analysis.

In fact, a more granular analysis measuring the cost of mistakes across countries triangulates the main findings. For example, if mistakes were more costly in Japan than in Israel because of cultural and resource differences, we would expect strategy to predict performance more for Japanese companies than for Israeli ones. To measure this variance, Table A11 uses additional data from the



World Economic Forum to construct an “ease-of-recovery” country index (World Economic Forum, 2019).

The “ease-of-recovery” index is an aggregate of variables measuring financial, talent, customer, and cultural factors—inductively drawn from the interview data—that make mistakes more costly. Specifically, countries’ access to venture capital availability proxies financial constraints. Countries’ local supply of skilled employees, ability to attract talent, and flexibility to set wages reflect talent constraints. The domestic market size reflects customer constraints. Countries’ openness to entrepreneurial risk reflects cultural orientations toward failure. Figure A.9 shows the index values across countries.

The results hold when using this continuous “ease-of-recovery” index instead of the US versus non-US binary measure in Equation (2) across the same dependent variables as in Table 4. Strategy predicts performance more in contexts where it is harder to recover from mistakes (Table A11). Further, consistent with the idea that mistakes help startups build knowledge to develop their strategy, Table A12 shows that strategy scores are lower in contexts where mistakes are more costly.

Together, these results suggest that in institutional contexts where mistakes are more costly, strategy matters more, but is harder to develop. These costs come from financial, talent, customer, and cultural institutional factors. Strategy may help companies avoid mistakes as they scale. Yet mistakes offer entrepreneurs knowledge to develop their strategy. Thus, where mistakes are more costly, entrepreneurs are less able to afford this avenue of accumulating knowledge, making it more difficult to develop a strategy.

## 5 Conclusion

This paper shows that strategy and its relationship with performance vary across firms and geographies. Strategy predicts the performance of firms outside the US, where mistakes are more costly, but not of US firms. Yet, despite the sensitivity of their performance to strategy, non-US firms have lower strategy scores. This strategy gap seems to be shaped by access to knowledge, which often accumulates from prior mistakes: non-US firms are less likely to rely on investors, advisors, company examples, and direct experience to inform their strategy. Together, these results suggest that the same institutional contexts where mistakes are more costly—making strategy more important—also

make it harder to get the knowledge to develop this strategy in the first place.

These results reveal how institutional context helps determine when strategy matters in entrepreneurship (e.g., Mintzberg and Waters, 1985; Ott et al., 2017). Specifically, this research shows how strategy is especially valuable in geographic contexts where it is more costly to make mistakes. By enabling companies to achieve alignment, strategy may help startups avoid such costly mistakes.

The findings also show how not only specific strategic choices but also their alignment with one another vary across entrepreneurial firms. Research suggests that firms choose different market entry approaches (Alvarez-Garrido and Guler, 2018; Bingham and Eisenhardt, 2011), ways to position relative to competitors (Guzman and Li, 2022), organizational designs (DeSantola et al., 2022; Lee, 2022), and organizational cultures (DeSantola and Gulati, 2017). This study shows that how these choices fit together also varies across firms, with implications for performance.

Furthermore, the results suggest that knowledge of how to build a strategy may compensate for difficult venture capital conditions (Chen et al., 2010; Sorenson and Stuart, 2001), talent conditions (Fallick et al., 2006; Glaeser et al., 2015; Kerr, 2018; Kerr and Robert-Nicoud, 2020; Tambe and Hitt, 2014), governance conditions (Delacroix and Carroll, 1983; Khanna et al., 2005), and industry conditions (Delgado et al., 2016; Eisenhardt and Schoonhoven, 1990). As a result, sending additional material resources to countries may not be the only way to stimulate entrepreneurial growth. Support for accessing knowledge to form a strategy may also be a crucial intervention.

The study also reveals the intertwined nature of knowledge and resources in entrepreneurial contexts. It shows that the knowledge to inform strategy comes from the same investors, advisors, and direct experience that provide resources to grow in the first place. This endogeneity in mechanisms may emerge because young ventures’ responsiveness to external signals (Ozcan and Eisenhardt, 2009) and relative lack of organizational inertia (Gavetti and Rivkin, 2007) make the advice they get particularly influential in their strategic decisions. Ventures in geographies that lack a rich history of entrepreneurial successes and resources might be able to compensate with a strategy but may struggle to get the knowledge—often a byproduct of those same resources—to form that strategy. Thus, this research suggests that firms need to be not only resource mobilizers (Clough et al., 2019), but also knowledge mobilizers to grow.

Lastly, this research contributes to understanding the “digital divide” around the world. While

digitization has helped reduce knowledge barriers among businesses globally in some ways—for example, in terms of market or coding practices (Brynjolfsson et al., 2019; Dushnitsky and Stroube, 2021; Wright et al., 2023a-b)—knowledge frictions remain. This research suggests that firsthand experience is a source of knowledge that is difficult to codify on online platforms or other digital sources. Such experience helps entrepreneurs understand the alignment between their choices. Ultimately, these knowledge frictions may inhibit the benefits of digitization from spreading equally across firms internationally.

## Figures

Figure 1: Strategy weakly predicts performance of firms.

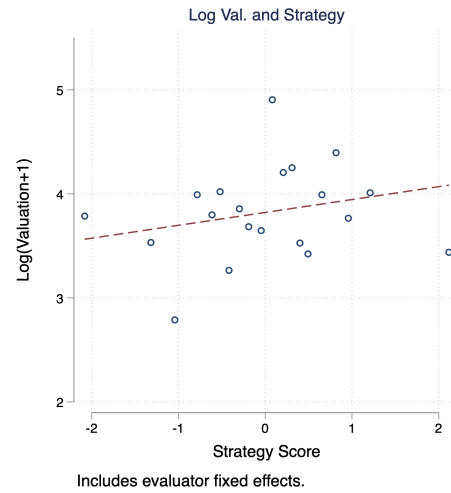
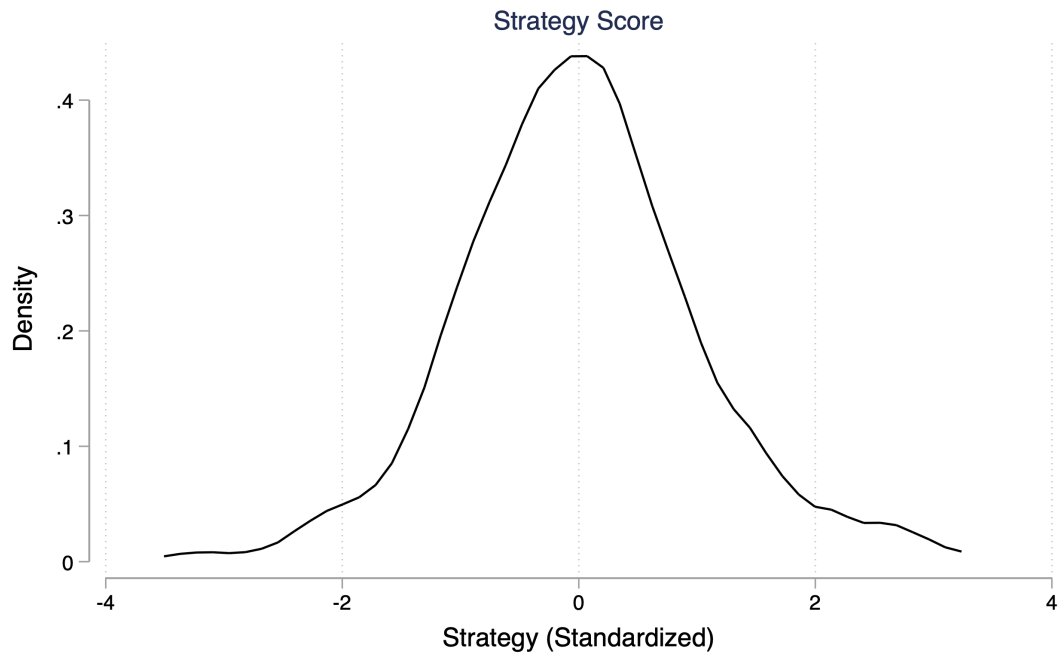


Figure 2: Strategy predicts performance for non-US firms (right), but not US ones (left).

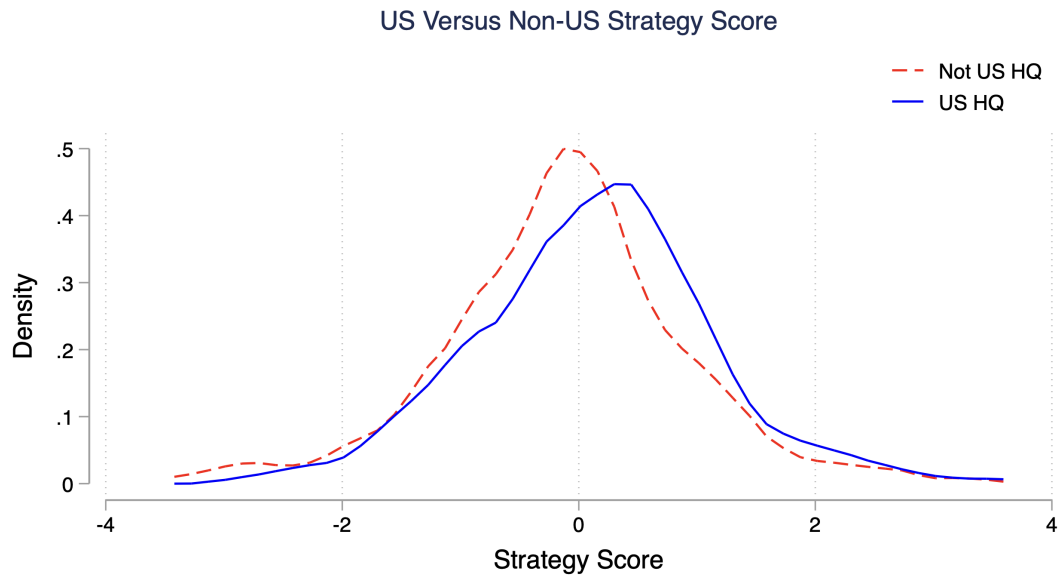


Figure 3: Kernel density plot of strategy scores



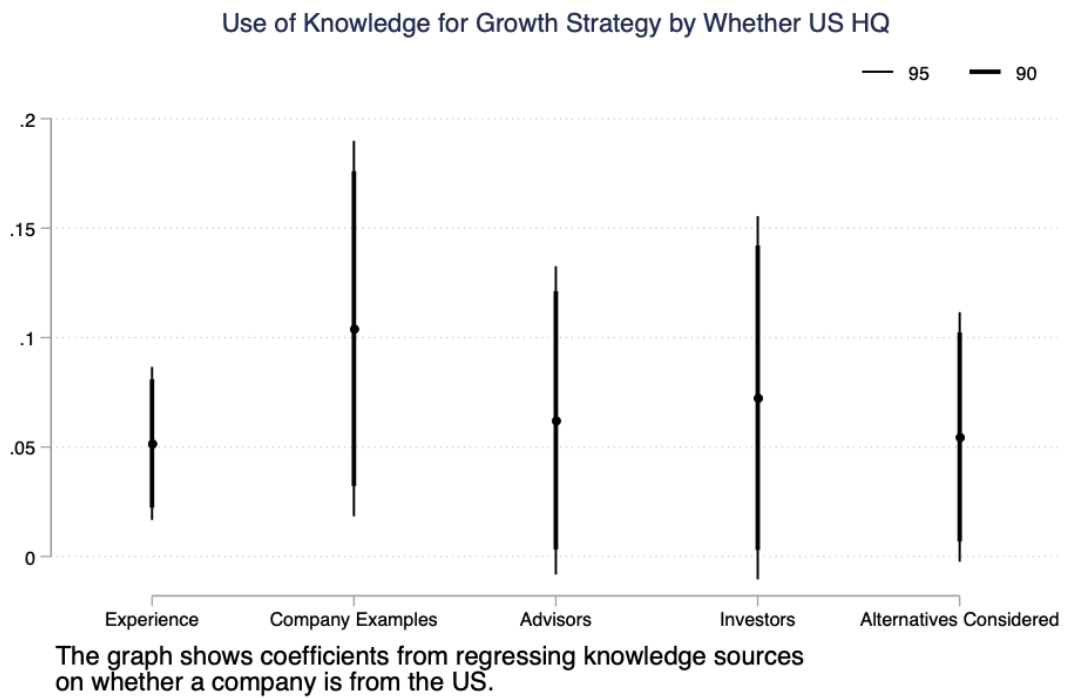
The graph shows strategy scores of interviewed companies.

Figure 4: US companies see a right shift in the distribution of strategy scores.



The graph shows strategy scores of interviewed companies. It de-means the scores by the evaluator and year founded. The two distributions are different at the 5-percent level, based on a two-sample Kolmogorov–Smirnov test ( $p = 0.02$ ).

Figure 5: Non-US companies are less likely to draw on direct experience, company examples, advisors, and alternatives to inform their strategy.



## Tables

Table 1: Sample comparison table showing that interviewed companies do not vary from non-interviewed ones based on whether they are US-based, the number of employees, funding, and valuation.

	(1)
	Whether Interviewed
Whether US-Based	-0.004 (0.034)
Log(Employees at Time of Interview + 1)	-0.016 (0.014)
Log(First Funding Value + 1)	-0.005 (0.006)
Log(Valuation at Time of Interview +1)	-0.004 (0.010)
Primarily English-Speaking Country	0.056 (0.049)
<i>N</i>	1106

The table compares interviewed versus non-interviewed companies in the sampling frame of software companies that raised a 5–20M USD Series A Jan. 1, 2019–Sep. 30, 2021 not including China. Robust standard errors (in parentheses) are clustered at the company level.

+  $p < 0.1$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$



Table 2: Summary table

	(1)				
	Non-US Obs	Non-US Mean	US Obs	US Mean	Difference
Revenue-Generating Status	129	0.98	124	0.98	0.00
Age (Years)	129	5.76	124	5.48	0.28
Num. Employees	127	107.35	124	71.92	35.43*
Log(Employees+1)	127	4.32	124	3.90	0.42***
Page Visits (Thousands) Since Oct. 2021	129	131.78	124	76.92	54.87
Log(Page Visits +1)	129	9.46	124	8.91	0.55*
Funding Amount (Millions USD)	129	34.29	124	28.08	6.20
Log(Funding Amount + 1)	129	3.01	124	3.03	-0.02
Post-Money Valuation (Millions USD)	75	76.04	120	118.01	-41.97
Log(Valuation+1)	75	3.43	120	4.12	-0.69***
Whether Acquired	129	0.05	124	0.06	-0.01
Whether Profitable	129	0.02	124	0.01	0.02
Revenue (Millions USD)	45	8.42	70	6.80	1.63
Num. Tech Tools on Website (Thousands) Since Oct. 2021	129	0.27	124	0.29	-0.02
Log(Total Tools on Website+1)	129	5.47	124	5.58	-0.10
Whether CEO/Founders Have PhD	129	0.03	124	0.05	-0.02
Whether CEO/Founders Have MBA	129	0.18	124	0.35	-0.18**
Whether CEO/Founders Have Law Degree	129	0.00	124	0.08	-0.08***
Whether CEO/Founders Have Masters	129	0.33	124	0.40	-0.07
Whether CEO/Founders Have Worked Outside of HQ	129	0.89	124	1.00	-0.11***
Whether CEO/Founders Have Worked in the US	129	0.61	124	1.00	-0.39***
Whether CEO/Founders Worked in Hub Ecosystem	129	0.79	124	0.83	-0.04
Whether CEO/Founders Worked in US Hub Ecosystem	129	0.22	124	0.87	-0.65***
Whether CEO/Founders Attended Elite Global University	129	0.34	124	0.39	-0.05
Whether CEO/Founders Attended US University	129	0.27	124	0.83	-0.56***
Whether CEO/Founders Were Previously CEO/Founders	129	0.53	124	0.54	-0.01
Whether CEO/Founders Were Previously Investors	129	0.05	124	0.08	-0.03
Whether CEO/Founders Were Previously Consultants	129	0.19	124	0.19	0.00
Whether Have US Investors	129	0.69	124	0.98	-0.29***
<i>N</i>	253				

The table shows summary statistics for interviewed firms, broken up by whether firms are headquartered in the US (right) or not (left).

Table 3: US HQ most predicts the relationship between strategy and performance.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Log Valuation	Log Valuation	Log Valuation	Log Valuation	Log Valuation	Log Valuation	Log Valuation
Financial System x Strategy Score	-0.020 (0.024)						
Financial System	0.049** (0.018)						
Governance x Strategy Score		0.012 (0.022)					
Governance		0.017 (0.021)					
Labor Market x Strategy Score			-0.017 (0.018)				
Labor Market			0.025 (0.016)				
Product Market x Strategy Score				-0.014 (0.018)			
Product Market				0.018 (0.018)			
Market Size x Strategy Score					-0.026** (0.009)		
Market Size					0.026*** (0.007)		
Entrep. Culture x Strategy Score						-0.313 (0.243)	
Entrep. Culture						0.442* (0.198)	
US HQ x Strategy Score							-0.675** (0.216)
US HQ							0.519** (0.198)
Strategy Score	1.852 (2.186)	-0.692 (1.585)	1.377 (1.383)	1.063 (1.219)	2.494** (0.890)	1.739 (1.290)	0.515** (0.185)
_cons	0.358 (2.133)	3.787+ (2.132)	3.049+ (1.719)	3.883* (1.765)	2.898** (1.087)	2.684+ (1.396)	4.611*** (1.022)
N	184	184	184	184	184	184	184
Evaluator FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Founded FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log First Financing	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Readability	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The table shows how the relationship between the strategy score and performance varies across institutional indicators of the headquarters countries of interviewed firms. The models control for the English readability of the text, firms' founding year and industry, evaluator fixed effects, whether any responses were filled in, and ventures' logged initial financing amount in USD. The sample size drops because of missing valuation and first financing size data from PitchBook. The results are robust to excluding first financing size as a control. Robust standard errors (in parentheses) are clustered at the company level.

+  $p < 0.1$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Table 4: Strategy predicts performance more for non-US firms.

	(1)	(2)	(3)	(4)	(5)
	Log Val.	Log Val. Per Employee	Exited	Exited/Raised Future Funding	Performance Index
US HQ	0.614* (0.258)	0.376** (0.119)	-0.009 (0.042)	0.164* (0.074)	0.358* (0.163)
Strategy	0.501** (0.189)	0.145+ (0.075)	0.061* (0.030)	-0.013 (0.048)	0.288** (0.110)
US HQ x Strategy	-0.669** (0.220)	-0.275** (0.090)	-0.081* (0.040)	-0.116+ (0.059)	-0.463** (0.141)
_cons	5.151** (1.819)	0.210 (0.746)	-0.243 (0.167)	1.148* (0.576)	3.904** (1.247)
<i>N</i>	184	183	230	230	230
Evaluator FE	Yes	Yes	Yes	Yes	Yes
Year Founded FE	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Log GDP Capita	Yes	Yes	Yes	Yes	Yes
Log First Financing	Yes	Yes	Yes	Yes	No
Filled-In FE	Yes	Yes	Yes	Yes	Yes
Readability	Yes	Yes	Yes	Yes	Yes

The table shows how the relationship between the strategy score and performance varies for US versus non-US firms. The models control for the English readability of the text, firms' founding year and industry, evaluator fixed effects, whether any responses were filled in, the GDP per capita of the headquarters country, and ventures' logged initial financing amount in USD. The sample size drops because of missing valuation and first financing size data from PitchBook. The results are robust to excluding first financing size as a control. Robust standard errors (in parentheses) are clustered at the company level.

+  $p < 0.1$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Table 5: Non-US firms have lower strategy scores.

	(1) Strategy Composite Score	(2) Market Internal Align.-Obj.	(3) Market Internal Align.-Other	(4) Market External Align.	(5) Moat Internal Align.-Obj.	(6) Moat Internal Align.-Other	(7) Moat External Align.	(8) Org. Internal Align.-Obj.	(9) Org. Internal Align.-Other	(10) Org. External Align.	(11) Culture Internal Align.-Obj.	(12) Culture Internal Align.-Other	(13) Culture External Align.
US HQ	0.269* (0.128)	-0.045 (0.115)	0.110 (0.117)	0.091 (0.118)	0.163 (0.104)	0.189+ (0.114)	0.283* (0.117)	0.244* (0.111)	0.104 (0.125)	0.152 (0.118)	0.068 (0.116)	0.157 (0.124)	0.212+ (0.128)
_cons	0.322 (0.569)	-0.671 (0.476)	0.847 (0.687)	-0.214 (0.547)	0.988* (0.480)	0.910 (0.570)	0.494 (0.516)	-0.001 (0.526)	-0.163 (0.665)	-0.343 (0.630)	0.914 (0.566)	0.155 (0.584)	0.094 (0.682)
N	304	304	304	304	304	304	304	304	304	304	304	304	304
Evaluator FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Founded	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Filled-In	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The table shows how being headquartered in the US associates with the strategy score and its subcomponents, including the fit of executives' market scope, moat, organizational design, and organizational culture choices with their assumptions (external alignment), as well as with their objectives and other choices (internal alignment). The models control for the English readability of the text, firms' founding year and industry, evaluator fixed effects, and whether any missing responses were filled in. The sample size is 304 because about a fifth (51) of the interviews received two evaluators to ensure the robustness of the scoring. Robust standard errors (in parentheses) are clustered at the company level.

+  $p < 0.1$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Table 6: The strategy gap between US and non-US firms remains, even when accounting for the content of strategy.

	(1)	(2)	(3)
	Strategy (OLS)	Strategy (LASSO)	Strategy (LASSO)
US HQ	0.252 <sup>+</sup> (0.130)	0.263* (0.122)	0.228* (0.109)
<i>N</i>	295	304	304
Evaluator FE	Yes	Yes	Yes
Year Founded FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Filled-In FE	Yes	Yes	Yes
Readability	Yes	Yes	Yes
Geo Oriented Content	Yes	Yes	Yes
All Strategy Content	No	No	Yes

The table shows how being headquartered in the US associates with the strategy score. Column 1 shows the same OLS model as used in Table 3. Column 2 uses an OLS model that controls for the geographically oriented content of strategy that varies across US and non-US firms, as shown in Table A23. Column 3 uses a LASSO model to control for all contents of strategy as shown in Tables A15-A22. The models also control for the English readability of the text, firms' founding year and industry, evaluator fixed effects, and whether any missing responses were filled in. The sample size is 304 because about a fifth (51) of the interviews received two evaluators to ensure the robustness of the scoring. Robust standard errors (in parentheses) are clustered at the company level.

+  $p < 0.1$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Table 7: Non-US firms rely less on direct experience, alternatives, company examples, advisors, and investors to inform their strategy.

	(1) Uses Direct Experience	(2) Uses Other Company Examples	(3) Listens to Advisors	(4) Listens to Investors	(5) Considers Alternative Options
US HQ	0.052** (0.018)	0.104* (0.044)	0.062+ (0.036)	0.073+ (0.042)	0.055+ (0.029)
_cons	0.545*** (0.086)	1.133*** (0.190)	1.217*** (0.201)	1.112*** (0.213)	0.916*** (0.131)
<i>N</i>	304	304	304	304	304
Evaluator FE	Yes	Yes	Yes	Yes	Yes
Year Founded FE	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Readability	Yes	Yes	Yes	Yes	Yes

Robust standard errors (in parentheses) are clustered at the company level.  
+  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

The table shows how being headquartered in the US associates with using different inputs to inform strategy. These inputs result from coding executives' interview responses. The models control for the English readability of the text, firms' founding year and industry, evaluator fixed effects, and whether any missing responses were filled in. The sample size is 304 because about a fifth (51) of the interviews received two evaluators to ensure the robustness of the scoring. Robust standard errors (in parentheses) are clustered at the company level.

+  $p < 0.1$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

## References

- [1] Alvarez-Garrido, E., & Guler, I. (2018). Status in a strange land? Context-dependent value of status in cross-border venture capital. *Strategic Management Journal*, 39(7), 1887–1911.
- [2] Athey, S., & Stern, S. (1998). An empirical framework for testing theories about complementarity in organizational design. NBER Working Paper, No. w6600.
- [3] Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99-120.
- [4] Baron, J. N., & Hannan, M. T. (2002). Organizational blueprints for success in high-tech start-ups: Lessons from the Stanford project on emerging companies. *California Management Review*, 44(3), 8–36.
- [5] Beckman, C. M., & Burton, M. D. (2008). Founding the future: Path dependence in the evolution of top management teams from founding to IPO. *Organization Science*, 19(1), 3–24.
- [6] Ben-David, I., Graham, J. R., & Harvey, C. R. (2013). Managerial miscalibration. *The Quarterly Journal of Economics*, 128(4), 1547–1584.
- [7] Bernstein, S., Giroud, X., & Townsend, R. R. (2016). The impact of venture capital monitoring. *The Journal of Finance*, 71(4), 1591-1622.
- [8] Berry, H., Guillén, M. F., & Zhou, N. (2010). An institutional approach to cross-national distance. *Journal of international business studies*, 41, 1460-1480.
- [9] Bhidé, A. (2000). *The origin and evolution of new ventures*. Oxford University Press.
- [10] Bingham, C. B., & Eisenhardt, K. M. (2011). Rational heuristics: The “simple rules” that strategists learn from process experience. *Strategic Management Journal*, 32(13), 1437-1464.
- [11] Blank, S. (2013). Why the lean start-up changes everything. *Harvard Business Review*, 91(5), 63–72.
- [12] Bloom, N., Genakos, C., Sadun, R., & Van Reenen, J. (2012a). Management practices across firms and countries. *Academy of Management Perspectives*, 26(1), 12–33.
- [13] Bloom, N., Sadun, R., & Reenen, J. V. (2012b). Americans do IT better: US multinationals and the productivity miracle. *American Economic Review*, 102(1), 167-201.
- [14] Bloom, N., & Van Reenen, J. (2007). Measuring and explaining management practices across firms and countries. *The Quarterly Journal of Economics*, 122(4), 1351–1408.

- [15] Bloom, N., & Van Reenen, J. (2010). Why do management practices differ across firms and countries?. *Journal of Economic Perspectives*, 24(1), 203-224.
- [16] Brynjolfsson, E., Hui, X., & Liu, M. (2019). Does machine translation affect international trade? Evidence from a large digital platform. *Management Science*, 65(12), 5449-5460.
- [17] Cahn, C., Girotti, M., & Landier, A. (2021). Entrepreneurship and information on past failures: A natural experiment. *Journal of Financial Economics*, 141(1), 102-121.
- [18] Camuffo, A., Cordova, A., Gambardella, A., & Spina, C. (2020). A scientific approach to entrepreneurial decision making: Evidence from a randomized control trial. *Management Science*, 66(2), 564-586.
- [19] Cao, R., Koning, R. M., & Nanda, R. (2021). Biased sampling of early users and the direction of startup innovation. NBER Working Paper, No. w28882.
- [20] Carlson, N. A. (2022). Differentiation in microenterprises. *Strategic Management Journal*, 1-27.
- [21] Chatterji, A., Delecourt, S., Hasan, S., & Koning, R. (2019). When does advice impact startup performance? *Strategic Management Journal*, 40(3), 331-356.
- [22] Chen, H., Gompers, P., Kovner, A., & Lerner, J. (2010). Buy local? The geography of venture capital. *Journal of Urban Economics*, 67(1), 90-102.
- [23] Clough, D. R., Fang, T. P., Vissa, B., & Wu, A. (2019). Turning lead into gold: How do entrepreneurs mobilize resources to exploit opportunities? *Academy of Management Annals*, 13(1), 240-271.
- [24] Conti, A., & Guzman, J. A. (2021). What is the US comparative advantage in entrepreneurship? Evidence from Israeli migration to the United States. *The Review of Economics and Statistics*, 1-45.
- [25] Dahl, M. S., & Sorenson, O. (2012). Home sweet home: Entrepreneurs' location choices and the performance of their ventures. *Management Science*, 58(6), 1059-1071.
- [26] Delacroix, J., & Carroll, G. R. (1983). Organizational foundings: An ecological study of the newspaper industries of Argentina and Ireland. *Administrative Science Quarterly*, 28(2), 274-291.
- [27] Delgado, M., Porter, M. E., & Stern, S. (2016). Defining clusters of related industries. *Journal of Economic Geography*, 16(1), 1-38.
- [28] Delmar, F., & Shane, S. (2003). Does business planning facilitate the development of new ventures? *Strategic Management Journal*, 24(12), 1165-1185.



- [29] Dencker, J. C., Gruber, M., & Shah, S. K. (2009). Pre-entry knowledge, learning, and the survival of new firms. *Organization Science*, 20(3), 516–537.
- [30] DeSantola, A., & Gulati, R. (2017). Scaling: Organizing and in entrepreneurial ventures. *Academy of Management Annals*, 11(2), 640–668.
- [31] DeSantola, A., Gulati, R., & Zhelyazkov, P. I. (2022). External interfaces or internal processes? Market positioning and divergent professionalization paths in young ventures. *Organization Science*, 0(0).
- [32] Devlin, J., Chang, M. W., Lee, K., & Toutanova, K. (2018). BERT: Pre-training of deep bidirectional transformers for language understanding. arXiv preprint arXiv:1810.04805.
- [33] Dushnitsky, G., & Stroube, B. K. (2021). Low-code entrepreneurship: Shopify and the alternative path to growth. *Journal of Business Venturing Insights*, 16, e00251.
- [34] Eisenhardt, K. M., & Schoonhoven, C. B. (1990). Organizational growth: Linking founding team, strategy, environment, and among US semiconductor ventures, 1978-1988. *Administrative Science Quarterly*, 35(3), 504–529.
- [35] Eisenmann, T., & Wagonfeld, A. (2014). Scaling a startup: People and organizational issues. *Harvard Business School Background Note*, No. 812-100.
- [36] Fallick, B., Fleischman, C. A., & Rebitzer, J. B. (2006). Job-hopping in Silicon Valley: Some evidence concerning the microfoundations of a high-technology cluster. *The Review of Economics and Statistics*, 88(3), 472–481.
- [37] Felin, T., Gambardella, A., Stern, S., & Zenger, T. (2019). Lean startup and the business model: Experimentation revisited. *Long Range Planning*.
- [38] Felin, T., Gambardella, A., & Zenger, T. (2020). Value lab: a tool for entrepreneurial strategy. *Management & Business Review*, Forthcoming, Bocconi University Management Research Paper.
- [39] Gans, J. S., Kearney, M., Scott, E. L., & Stern, S. (2021). Choosing technology: An entrepreneurial strategy approach. *Strategy Science*, 6(1), 39–53.
- [40] Gans, J. S., Stern, S., & Wu, J. (2019). Foundations of entrepreneurial strategy. *Strategic Management Journal*, 40(5), 736–756.
- [41] Gao, C., Zuzul, T., Jones, G., & Khanna, T. (2017). Overcoming institutional voids: A reputation-based view of long-run survival. *Strategic Management Journal*, 38(11), 2147–2167.

- [42] Gavetti, G., Levinthal, D. A., & Rivkin, J. W. (2005). Strategy making in novel and complex worlds: The power of analogy. *Strategic Management Journal*, 26(8), 691–712.
- [43] Gavetti, G., & Porac, J. (2018). On the origin of great strategies. *Strategy Science*, 3(1), 352–365.
- [44] Gavetti, G., & Rivkin, J. W. (2007). On the origin of strategy: Action and cognition over time. *Organization Science*, 18(3), 420–439.
- [45] Glaeser, E. L., Kerr, S. P., & Kerr, W. R. (2015). Entrepreneurship and urban growth: An empirical assessment with historical mines. *The Review of Economics and Statistics*, 97(2), 498–520.
- [46] Guzman, J., & Li, A. (2022). Measuring founding strategy. *Management Science*, 0(0).
- [47] Hallen, B. L., Cohen, S. L., & Bingham, C. B. (2020). Do accelerators work? If so, how? *Organization Science*, 31(2), 378–414.
- [48] Kaplan, R. S., & Norton, D. P. (1992). The balanced scorecard: Measures that drive performance. *Harvard Business Review*, 83(7), 172.
- [49] Kerr, W. R., Nanda, R., & Rhodes-Kropf, M. (2014). Entrepreneurship as experimentation. *Journal of Economic Perspectives*, 28(3), 25–48.
- [50] Kerr, W. R. (2018). *The gift of global talent: How migration shapes business, economy & society*. Stanford University Press.
- [51] Kerr, W. R., & Robert-Nicoud, F. (2020). Tech clusters. *Journal of Economic Perspectives*, 34(3), 50–76.
- [52] Khanna, T., & Palepu, K. (1997). Why focused strategies may be wrong for emerging markets. *Harvard Business Review*, 75(4), 41–51.
- [53] Khanna, T., Palepu, K. G., & Sinha, J. (2005). Strategies that fit emerging markets. *Harvard Business Review*, 83(6), 4–19.
- [54] Koning, R., Hasan, S., & Chatterji, A. (2022). Experimentation and start-up performance: Evidence from A/B testing. *Management Science*, 0(0).
- [55] Landier, A. (2005). Entrepreneurship and the Stigma of Failure. Available at SSRN 850446.
- [56] Lin, M., & Viswanathan, S. (2016). Home bias in online investments: An empirical study of an online crowdfunding market. *Management Science*, 62(5), 1393–1414.

- [57] Lee, S. (2022). The myth of the flat start-up: Reconsidering the organizational structure of start-ups. *Strategic Management Journal*, 43(1), 58–92.
- [58] Lee, S. R., & Kim, J. D. (2022). When do startups scale? Large-scale evidence from job postings. Available at SSRN: <https://ssrn.com/abstract=4015530>.
- [59] Michelacci, C., & Silva, O. (2007). Why so many local entrepreneurs? *The Review of Economics and Statistics*, 89(4), 615–633.
- [60] Mintzberg, H., & Waters, J. A. (1985). Of strategies, deliberate and emergent. *Strategic Management Journal*, 6(3), 257–272.
- [61] Nelson, T. (2003). The persistence of founder influence: Management, ownership, and performance effects at initial public offering. *Strategic Management Journal*, 24(8), 707–724.
- [62] OpenAI. (2022). Introducing chatgpt.
- [63] Ott, T. E., Eisenhardt, K. M., & Bingham, C. B. (2017). Strategy formation in entrepreneurial settings: Past insights and future directions. *Strategic Entrepreneurship Journal*, 11(3), 306–325.
- [64] Ozcan, P., & Eisenhardt, K. M. (2009). Origin of alliance portfolios: Entrepreneurs, network strategies, and firm performance. *Academy of Management Journal*, 52(2), 246–279.
- [65] PitchBook (2022). Company profile. Retrieved from Pitchbook database.
- [66] Porter, M. (1996). “What is Strategy?” *Harvard Business Review*, 74(6), 61—78.
- [67] Reimers, N., & Gurevych, I. (2019). Sentence-BERT: Sentence embeddings using siamese BERT-networks. arXiv preprint arXiv:1908.10084.
- [68] Ries, E. (2011). The lean startup: How today’s entrepreneurs use continuous innovation to create radically successful businesses. Currency.
- [69] Rivkin, J. W. (2000). Imitation of complex strategies. *Management Science*, 46(6), 824–844.
- [70] Rivkin, J. W., & Siggelkow, N. (2003). Balancing search and stability: Interdependencies among elements of organizational design. *Management Science*, 49(3), 290–311.
- [71] Santos, F. M., & Eisenhardt, K. M. (2009). Constructing markets and shaping boundaries: Entrepreneurial power in nascent fields. *Academy of Management Journal*, 52(4), 643–671.

- [72] Saxenian, A. (1996). *Regional advantage: Culture and competition in Silicon Valley and Route 128*. Harvard University Press.
- [73] Seidel, V. P., & O'Mahony, S. (2014). Managing the repertoire: Stories, metaphors, prototypes, and concept coherence in product innovation. *Organization Science*, 25(3), 691-712.
- [74] Shane, S. (2000). Prior knowledge, and the discovery of entrepreneurial opportunities. *Organization Science*, 11(4), 448-469.
- [75] Shane, S., & Cable, D. (2002). Network ties, reputation, and the financing of new ventures. *Management Science*, 48(3), 364-381.
- [76] Schilling, M. A. (2018). The cognitive foundations of visionary strategy. *Strategy Science*, 3(1), 335-342.
- [77] Siggelkow, N. (2001). Change in the presence of fit: The rise, the fall, and the renaissance of Liz Claiborne. *Academy of Management Journal*, 44(4), 838-857.
- [78] Sørensen, J. B. & Carroll, G. R. (2021). *Making great strategy: Arguing for organizational advantage*. Columbia University Press.
- [79] Sorenson, O., & Stuart, T. E. (2001). Syndication networks and the spatial distribution of venture capital investments. *American Journal of Sociology*, 106(6), 1546-1588.
- [80] Stinchcombe, A.L. (1965). Social structure and organizations. In: March, J.P., Ed., *Handbook of Organizations*, Rand McNally, 142-193.
- [81] Tambe, P., & Hitt, L. M. (2014). Job hopping, information technology spillovers, and productivity growth. *Management Science*, 60(2), 338-355.
- [82] Van den Steen, E. (2017). A formal theory of strategy. *Management Science*, 63(8), 2616-2636.
- [83] Vissa, B. (2011). A matching theory of entrepreneurs' tie formation intentions and initiation of economic exchange. *Academy of Management Journal*, 54(1), 137-158.
- [84] Vissa, B., & Chacar, A. S. (2009). Leveraging ties: The contingent value of entrepreneurial teams' external advice networks on Indian software venture performance. *Strategic Management Journal*, 30(11), 1179-1191.
- [85] Wang, D. (2015). Activating cross-border brokerage: Interorganizational knowledge transfer through skilled return migration. *Administrative Science Quarterly*, 60(1), 133-176.

- [86] Weick, K. E. (1976). Educational organizations as loosely coupled systems. *Administrative Science Quarterly*, 21(1), 1–19.
- [87] Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal*, 5(2), 171–180.
- [88] World Economic Forum. (2019). *Global Competitiveness Report 2019*.
- [89] Wright, N. L., Koning, R., & Khanna, T. (2023a). Judging foreign startups. *Strategic Management Journal*.
- [90] Wright, N. L., Nagle, F., & Greenstein, S. M. (2023b). Open source software and global entrepreneurship. *Research Policy*. Forthcoming.
- [91] Yang, M. J., Christensen, M., Bloom, N., Sadun, R., & Rivkin, J. (2020). How do CEOs make strategy? NBER Working Paper, No. w27952.