The Difference Between Hierarchical and Flat Structures in Businesses

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It's naive to fully disregard traditional pyramid-shaped corporate hierarchies as a thing of the past. They have survived for so long for a good reason: They facilitate the effective coordination of large groups of people in a stable and predictable manner.

Second, we should acknowledge that a total lack of hierarchy in organizations or social life as a whole is largely impossible. Even in the flattest, voluntary structures — e.g. a group of friends — there are implicit, intrinsic hierarchies.

These hierarchies are not rigid. Even if one person could hold higher authority in certain situations, another in other circumstances. They are dynamic, and they are not steep — in a healthy friend group, one who is positioned higher in the implicit hierarchy wouldn't hold much more influence than any other member of the group. However, they are in a way unavoidable.

So, by aiming at a flat hierarchy, we are not aiming at perfect, utopian flatness. Instead, we are simply speaking about a hierarchical structure that is less explicit, more dynamic, and flatter, even though not perfectly so.

The key thing to understand, however, is that a startup is not a small corporation, and a corporation is not a large startup. With size come qualitative differences.

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Corporations survive by achieving stability, and die when they become too volatile. A corporation has found its winning formula – a profitable business model, and it stays alive by maintaining stability in its environment and grows based on incremental improvements.

A startup is arguably the exact opposite. It starts without a working business model, often even without a working product. To survive, it needs to constantly re-discover itself and innovate. A startup is volatile in nature and survives by means of exponential change, not by maintaining the status quo.

Because of this, corporations require rigidity in their structure – they want as much predictability as possible. And startups require a structure that incentivizes creativity, flexibility, and even anti-fragility.

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A rigid pyramid structure and a fixed monthly payment isn't something that motivates employees to be proactive, to experiment and to take risks. This is something you need to think about when you are building a startup team and trying to cultivate a creative startup culture.

The early startup team needs to consist of people who have entrepreneurial qualities, and such people are rarely attracted to corporate culture and structure. On the contrary, their intolerance of such rigidity might be exactly what is attracting them to the startup realm.

Consequently, as a startup founder, it's your main job to

create an environment in which your team thrives. And while the exact details of your business structure are likely case-specific, it’s a rule of thumb that startup teams thrive on a flatter, more dynamic structure. A startup is a small organization, and it has a higher resemblance to a family or a small sports team than to a corporation. Because of this, it requires a more organic, flat structure to survive and thrive.

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