

# The Role of Accelerator Designs in Mitigating Bounded Rationality in New Ventures

(AKA How Accelerators Accelerate Learning)



Co-authored with  
Chris Bingham  
Ben Hallen

**Susan Cohen**



UNIVERSITY OF  
**GEORGIA**

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# Research Question

**How do accelerator designs help entrepreneurs overcome their bounded rationality and learn faster?**

Bounded rationality: Individuals and organizations are often unable to process the information needed to make rational decisions due to:

Incomplete information – limited prior knowledge and costly gathering

Constrained information processing – limited cognitive capabilities and utilized heuristics may introduce biases



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# Research Design: Multiple embedded case study Sampled on location and cohort size

Name	Founding Year	Location	Cohort Size	# cohort per year	Duration	Number of interviews	Number of ventures in sample	Additional data
Alder	< 2010	Mid-US	9 - 15	2	3 months	12	6	Site visit, three books, blogs
Hickory	2010-2011	Mid-US	9 - 15	1	3 months+	8	5	Site visit
Fir	2010-2011	West	9 - 15	2	10 weeks	6	5	Joint conference attendance
Redwood	< 2010	West	> 50	2	3 months*	7	6	Site visit, two books, blogs
Birch	2010-2011	East	9 - 15	2	3 months	6	3	Site visit
Pine	2012	West	<8	1	3 months*	4	3	
Chestnut	2010-2011	East	<8	Varies	3 months	8	6	Site visit
Oak	2010-2011	East	> 50	1	4 months+	5	3	Site visit



# Finding Overview

3 practice dimensions on which accelerators vary

1. Consultation Spacing: Spaced out or concentrated
2. Disclosure: Favor privacy or transparency
3. Customization: Tailored or standardized

Best practices unified in pushing entrepreneurs toward greater information consumption and disclosure (vs. being more selective)



# Dimension 1: Consultation Spacing

Should mentor meetings and customer interactions be spaced-out over the program or temporally compressed at the start of the program?

Spaced-Out  
Consultation

- **Roughly 5 Mentor meetings over 3 months (choosing from hundreds)**

*“In between the work [on your product] ... you have sessions where basically you practice your pitch for investors, and you get feedback.” - Founder at Chestnut*

Concentrated  
Consultation

- **74 Mentor meetings during 1<sup>st</sup> month**

*“We had 145 mentors who came in, and did 740 individual meetings this year. So on average 74 meetings per company in the month of June.” - Founder at Hickory*



# How Concentrated Consultation Works

- Entrepreneurs generally had a hard time knowing whether to accept advice
- Concentrating consultation allowed ventures to triangulate between information sources by increasing information volume and recency / salience
- Entrepreneurs engage in more abstract and less myopic reasoning → identify accurate information
- Concentrating consultation also delays “doing” product development until strategy is known, reduces costly rework

*“We are not saying this is the answer, we are just trying to give them lots of data points.”*



# Practice Dimension 2: Disclosure

Should accelerators adopt practices that protect privacy or encourage transparency between ventures? For example, do startups have to do a daily standup, attend group pitch presentations, or can they work in private

Privacy

- *“I never saw everybody else’s pitch.” – Founder at Oak*
- *“We were all working in these little silos” – Founder at Chestnut*

Transparency

- *“We publicly surface progress that will put pressure on other teams to execute too.” – MD at Alder*
- *“They quickly pointed out that our being secretive is not going to help us and we took their advice” – Founder at Redwood*



# How Transparency Works

- Greater peer transparency generally elevates aspirations
- Provides more accurate assessment of (non)threatening competition and increased collaboration
- Reveals causal relationships between peer practices and outcomes

*“People who might come into the program thinking, ‘Oh, we’re so far along. We’re a little bit more advanced than most people that you fund.’ Once they start seeing what the other people are building, they’re kind of like, ‘Oh wait, I’m not as far along as I thought’ - MD at Alder*





# Practice Dimension 3: Customization

Should activities like be tailored for each venture or standardized across the cohort? For example, should programs require: mentor meetings, peer gatherings, and seminar attendance or that startups work in an collaborate space? Or, should all ventures follow a single learning sequence?

Tailored

- *“It’s not one size fits all .... So if you want to go to that session, great. If you don’t want to go to that session, that’s still your thing.” - MD at Oak*

Standardized

- *“I break the three months into three segments, the month of June is mentor dating month.... the month of July is what I call the entrepreneurs MBA... August is really all about preparing for demo day.” - MD at Hickory*



# How Standardizing Activities Works

- Neither entrepreneurs nor managing directors fully understand venture learning needs
- Standardizing forces wider exploration by requiring exposure to knowledge sources that founders might otherwise skip
- Standardizing activities across cohort encourages ventures to keep pace, hurrying to catch up when perceive to be behind

*“Its’ very easy to get stuck in a decision or a problem and spin your wheels, and not really know what to do, and having people around [transitioning] helps you snap out of that, and pick the direction.”*

- Founder at accelerator that standardizes activities



# Broader Implications

Accelerators....

- Encourage ventures consider more options along more strategic dimensions before making commitments
- Help venture spot weak points and enhance efforts in those areas
- Elevate aspirations and peer-to-peer learning

At the same time, they **delay product development**. This allows ventures to learn before doing, increasing strategic commitments and decreasing time-consuming missteps

**Overall increase emphasis on “planting” strategy (making strategic decisions) rather than pivoting**



# Lessons from Partnering with 9 Accelerators

Collaborating with 9 different accelerator programs was challenging!

Nested case design reduced time commitment for each partner organization and allowed for cross-case comparisons

Collect quantitative and qualitative data at different levels of analysis, think about sample strategy at each level of analysis

Be relationship oriented ... Seed Accelerator Rankings Projects involvement grew out of research relationships



**Questions?  
Comments?**

*Susan.cohen@UGA.edu*



# Key insights

We uncovered 3 best practices unified in increasing information considered prior to action:

- Concentration consultations with mentors and customers
- Increasing transparency within cohorts
- Standardizing activities

Accelerators enrich startups' access to information, accelerating decisions and overall progress

At the same time, they delay product development. This allows venture to learn before doing, increasing strategic activities and decreasing time consuming mistakes

Evidence suggests emphasis on “planting” strategy (Making strategic decisions) rather than pivoting

