

Evolution of business models for ICT based startups: A case-based examination of antecedents, execution strategies and outcomes

Abstract

A lot of startups, especially technology startups, fail in the initial few years after their launch. Faced with a barrage of uncertain conditions due to new technologies, shorter product life cycles and tougher competition due to easy replicability leading to an increasingly hostile business environment, strategic business model transformation becomes key to growth and often survival, especially for ICT based entrepreneurial firms. There are no permanent solutions to business problems. Correspondingly, coping strategies for business problems are emergent too. Hence, the startup firm needs to continuously evolve to adapt to keep enhancing its capabilities to ensure immediate survival and later growth. Ideally, they should be able to survive if they are able to align themselves with the market needs by changing their business model. The business model is chosen as an appropriate basis for examination as it encompasses both internal and external structures that describe a business at a particular instance. But realignment is an incredibly expensive and risky exercise for such young firms. For such firms, having little to no experience of the market, coupled with the limited resources at their disposal along with minimal access to market information, such transformation decisions become very complicated. Moreover, these decisions become all the more complex primarily due to the huge risks involved in such a transformation. Hence, planning and execution of such transformation exercises involve careful acquisition and utilization of strategic market information and implementation of this learning to renew the extant business model. Thus, this study is driven by the need to understand the intricate dynamics of the business model transformation process in ICT based startups, to guide them to success.

The focus of this study is on the identification of the triggers of business model transformation, the influencers of this transformation process and the sites of impact of this process. Driven by the relative lack of extant literature on this topic and the perceived need to explore this phenomenon in depth, multiple qualitative case study design was found to be appropriate. A set of four case studies of startups across different technology domains at varying stage of growth were chosen for this research. These case studies were chosen to be exemplary of the dimensions of radicality of change and the stage of growth of the startup. Data was collected from multiple sources including interviews, analysis of both internal and external documents and direct observations. The captured data was coded and analyzed following the established norms of qualitative study design.

The analysis produced interesting insights regarding the strategic decision to transform the business model combined with a rich understanding of the business model transformation process. It was observed that strategic knowledge of the product market and the transformative capability of the firm along with the various pressures to change vary with the stage of growth of the startup business and were instrumental to the decision to adopt a business model transformation exercise. Further, the role of information permeability and corresponding active scanning of the operating environment combined with the waning impact on business model components were found to be the primary determinants of the business model transformation exercise. Finally, it was also observed that any such transformation exercise would necessarily involve changes to the customer relationships, key partnerships and revenue architecture of the startup's business model. These observations were found to be true for them across a wide diversity of technology domains and entrepreneurial ecosystems too. Further, the results of this study were validated through member checks from the case sample participants, external investors and other major stakeholders in the technology entrepreneurship domain.

Although limited by several constraints in the design of this study, the results have important implications for both research and practice. The role of the operating environment in the business model transformation was established to be central during all stages of change. This was accompanied by insights into the development of an objective scale to measure the scale of transformation. It was also found that structures governing the flow of business information were primary determinants in the strategic decision to adopt such a transformation. They were also found to be central to the overall process too. Apart from its direct contribution to theory, this study contributes to practice for entrepreneurs, venture capitalists, and other stakeholders in the entrepreneurial ecosystem. Contrary to general suggestions like the need for awareness of the operating environment, specific observations from this research such as the need to be aware of technological advancements in the domain and the need for active environmental scanning can be more readily adopted by managers of entrepreneurial firms. Businesses should carefully consider before committing to business model transformation exercises. Young firms cannot react to all observable changes in the operating environment as business model change is an expensive process. Also, not all transformations will lead to any significant improvement in performance but instead sometimes may lead to business failure and wastage. Entrepreneurs can use the insights from this study to assess specific components which they should consider for business model transformation.