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FOUNDING CONTEXT, BUSINESS MODEL AND PERFORMANCE OF NEW VENTURES IN EMERGING ECONOMIES - A LONGITUDINAL STUDY (INTERACTIVE PAPER)

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INTERACTIVE PAPER

FOUNDING CONTEXT, BUSINESS MODEL AND PERFORMANCE OF NEW VENTURES IN EMERGING ECONOMIES – A LONGITUDINAL STUDY

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Principal Topic

In a dynamic environment, entrepreneurs' role is not only creating new ventures but also negotiating them through the changing environment. Literature in entrepreneurial strategy has studied the influence of current environment, but ignored the impact of past environments in the present context. Organizational imprinting literature, on the other hand, explores the lasting impact of environmental conditions during foundation on organizations. Nature of elements institutionalized inside organizations (organizational imprints), having systematic relationship with the characteristics of founding context (Stinchcombe, 1965; Johnson, 2007), will strongly impact their adaptation and evolution in a dynamic environment. However, studies exploring the influence of founding contexts on adaptation in a changed environment lack longitudinal designs essential for understanding the dynamics of evolution. We investigate how founding conditions influence the evolution of business model and performance of new ventures.

Method

The rapidly changing business environment accompanying successful economic reforms in India provides a natural experimental setting for this study. This secondary data based longitudinal (seven years) multi-industry quantitative study with a sample of 1911 Indian private sector ventures, investigates the effects of two types of founding contexts: specific eras after economic liberalization in India, and affiliation of ventures to business groups. Two dimensions of business model studied are: orientation towards ramping up physical assets, and orientation towards developing technological capabilities. The performance dimensions studied are growth and profitability.

Results and Implications

The research reveals: the diversity of founding contexts result in variation in both firm performance and business models, but the strategic choices exercised by entrepreneurs tend to overcome these variations by dynamically moderating these effects. This leads to convergence of the firm performance over a period of time. The study validates the organizational imprinting hypothesis for broad macroeconomic founding contexts specific to emerging economies, extends the theory to illustrate how entrepreneurial strategies dynamically moderates the effect of organizational imprints on firm performance. The findings emphasize the role of the entrepreneur in reestablishing the relationship with the environment which has undergone significant change subsequent to founding and provide insights into how this is carried out.

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