TO PIVOT OR NOT TO PIVOT: WHY DO NASCENT VENTURES CHANGE THEIR BUSINESS MODELS? (SUMMARY)

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SUMMARY

TO PIVOT OR NOT TO PIVOT: WHY DO NASCENT VENTURES CHANGE THEIR BUSINESS MODELS?

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Principal Topics

For nascent ventures, becoming cash flow positive may require changes in the business model. A business model is an interconnected set of activities and exchange relationships that create value, and includes customer value proposition, source of revenue/profit, resources, capabilities and key processes (Zott, Amit, & Massa, 2011). During venture development, the entrepreneurial team makes decisions about resource and activity configurations designed to deliver value to customers (Demil & Lecocq, 2010). Nascent ventures may be under conflicting pressures—to stay the course and give the business model time to succeed and attain legitimacy, or to cut losses and make a change rapidly (Gersick, 1994; Zimmerman & Zeitz, 2002). A change, or pivot, in key value creating activities, such as distribution, product technology, or market choice can hasten an early closure. In this study, we address the following question: “What causes nascent entrepreneurs to change their business models?” Drawing from the literature on strategic change and entrepreneurship, we hypothesize that earlier stage of development, more entrepreneur experience, previous angel funding, and environmental factors will be positively associated with business model changes.

Method

Our data were drawn from a population of 906 nascent ventures in the Boston area which have applied for angel investment during the past three years. Using a survey that measured strategic change, independent variables were stage of venture development, entrepreneur experience, angel investment, and environmental factors, while the dependent variable was measured by 15 items capturing organizational change (Barton, 2010). Control variables included size and age of ventures. Our response rate was 32.6% (71 postal surveys and 224 on line).

Results and Implications

Respondents ranged across stages of development and business sector. The average number of changes was five for all ventures. Contrary to our hypothesis, businesses farther along in development were more likely to make changes in their business model. The start-up experience of the founding team was negatively related to changes in the business model; however, a greater number of angel investments was positively related. Our findings suggest that perhaps there may be some coaching associated with angel investment leading to business model changes.

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