NEW VENTURE AMBIDEXTERITY IN EMERGING MARKETS: THE CASE OF CROWDFUNDING IN INDIA

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NEW VENTURE AMBIDEXTERY IN EMERGING MARKETS: THE CASE OF CROWDFUNDING IN INDIA

Research in Progress

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Abstract

Extant literature on ambidexterity has focused primarily on established firms in existing markets. New ventures operate in a resource-constrained environment. Further, if the market is new, then identifying a suitable market strategy involves the adoption of an expensive ambidextrous stance. Using a longitudinal case study-based approach of Wishberry, a creative crowdfunding platform in India, we explore this context and propose a model for implementation of this strategy for such firms in embryonic markets. The market characteristics do change simultaneously with the product’s maturation. With this study, we attempt to identify the various ambidextrous strategies available to firms across different stages of a new product’s growth. Further, we explore the role of market maturity with the emergent ambidexterity strategy of new technology ventures. The results of this ongoing research will allow new ventures to identify an appropriate trajectory for implementation of an appropriate ambidextrous stance.

Keywords: Ambidexterity, crowdfunding, Wishberry, new venture, neoteric market.

1 Introduction

“For firms to succeed over long-time periods and in the face of environmental and technological change, it requires them to change their structural alignments”

– Schumpeter, 1934

Emerging ventures operate in a resource-constrained environment (Stinchcombe, 1965) and hence avoid expensive experimentation strategies. Their growth strategy is different from existing firms especially in the process of learning (Andren, Magnusson, & Sjolander, 2003). Their learning strategy involves simultaneous experimentation and exploitation of existing resources (Andries, Debackere, & van Looy, 2013). “Exploration includes things captured by terms such as search, variation, risk taking, experimentation, play, flexibility, discovery, innovation. Exploitation includes things such as refinement, choice, production, efficiency, selection, implementation, execution” (March, 1991, p. 71). This dual strategy of balancing two conflicting objectives is termed as ambidexterity in management literature. More specifically, ambidextrous firms can efficiently exploit current competencies while flexibly exploring future competencies with an equal degree of skill (Sebastian Raisch, Birkinshaw, Probst, & Tushman, 2009; M. L. Tushman & O’Reilly, 1996). The context of research inquiry in this discipline has primarily been on established firms with resource abundance and operating experience.

Firms need to develop ambidexterity to compete in both mature and emerging markets (O’Reilly & Tushman, 2008, p. 190). Studies by various management scholars have focussed on established firms in developed markets (Boumgarden, Nickerson, & Zenger, 2012; Harreld, O’Reilly, & Tushman, 2007). However, literature has been relatively silent on how do emerging ventures manage these conflicts and
the consequent expensive ambidextrous strategies in neoteric markets (characterized by a relative lack of market discovery and hence the absence of incumbents). Hence, our guiding research question is:

How does ambidexterity manifest itself for emerging ventures in neoteric markets?

Our research inquiry involves the exploration of this question using a case study of Wishberry, a crowdfunding venture for creative projects in India. Crowdfunding has become a valuable source of funding for entrepreneurs seeking investment. Industry reports estimate the size of global crowdfunding market in 2015 to be $34 billion (Massolution.com, 2015). However, up until the time of its launch, no such financial ventures existed on the concept of crowdfunding in India. It started in a fundamentally new market (i.e. lacking incumbents) which lacked awareness of the idea and therefore also lacked any regulations to support it, thus making exploitation strategy difficult. Apart from those, the extant socioeconomic context did not favor contributing to non-charitable projects which further required mediation by online payment systems. All these factors contributed to resistance to an exploitation strategy too. Both these stances are critical for its growth but are simultaneously very expensive from a resource perspective for a new venture. With this study, we aim to examine how such firms identify an appropriate ambidextrous strategy for initial survival and later growth. We explore ambidexterity from a dynamic perspective with focus on examination of the tensions between differentiation and integration of the ambidexterity stance of the firm. The results of this inquiry shall extend the various models of ambidexterity to the context of emerging ventures and further proposes its linkage with market maturity.

2 Theoretical Background

Firms will have to be both effective in the short term in exploiting its current strengths and simultaneously explore new strengths to be exploited in the future to survive and grow over extended periods of time (Duncan, 1976). Simultaneous engagement with both these objectives requires firms to follow both exploitation and exploration. The scarcity of resources (especially in the context of new ventures) creates a conflict between these two objectives and hence requires the top management to allocate them between the two objectives optimally (O’Reilly & Tushman, 2013). For resource-constrained new ventures, ambidexterity becomes a detrimental driver of firm-level strategy. Ambidexterity literature had its underpinnings in organizational adaptation (Schumpeter, 1934) and absorptive capacity (Rothaermel & Alexandre, 2009) to examine the idea of distinct organizational structures to cope with specific operating environment characteristics. But it is unlikely that organizational configurations supporting ambidexterity can provide the exhaustive steady-state functionality required to cope with the entire range of boundary conditions that an organization faces over time (S. Raisch & Birkinshaw, 2008). Ambidexterity is, therefore, emergent in nature and strongly contingent upon the range of conditions a firm encounters. Based on operating environment characteristics, firms choose between simultaneous, sequential and contextual ambidexterity (Sebastian Raisch et al., 2009). Various in depth studies of established businesses (Harreld et al., 2007; Tripsas & Gavetti, 2000) have studied the evolution of ambidexterity but with limited focus on the market dynamics and the overall nature of the industry. Hence, the lack of exploration of the evolution of ambidexterity in new firms and undiscovered markets, presents an opportunity for extension of this theoretical framework.

The stage of the industry’s evolution is inextricably linked to the nature of the environmental characteristics (Porter, 1980). As noted by Kauppila (2010, p. 285) “[ . . . ] Turbulent environments call for adaptive structures and innovation-focused strategies that contribute to increased exploration. Mechanistic form and short-term profit-seeking strategies promote exploitation, thus helping firms to prosper in stable environments.” Significantly high levels of uncertainty and dynamism are characteristics of neoteric markets. They create both opportunities and threats for new ventures (Zahra & Bogner, 1999). Ventures operating in such markets need to evolve rapidly to tap opportunities and adapt to imminent threats. As against exploitative business practices, the returns from exploration are less certain, more remote in time and seldom distinct from the firm’s locus of action (March, 1991). New ventures learn
to allocate their scant resources over time. Hence business models are designed towards reducing this ambiguity by implementing different modes of ambidexterity, which evolve over time (Markides, 2013).

Various new business models adopt such ambidextrous strategies as ever evolving dynamic capabilities. This is true with various crowdfunding ventures like Indiegogo etc. Academic interest on the context of crowdfunding has primarily focused on understanding the concept (Hemer, 2011; Mollick, 2014; Schwienbacher & Larralde, 2010) and evaluating the key metrics ensuring viability of this model as a valuable investment option (Ahlers, Cumming, Günther, & Schweizer, 2015; Bayus, 2013; Zheng, Li, Wu, & Xu, 2014). Crowdfunding has been primarily portrayed as a tool for entrepreneurs and has thus been explored from the perspective of entrepreneurs (Ahlers et al., 2015; Zheng et al., 2014) or investors (Schwienbacher & Larralde, 2010). However, it has not been examined from the perspective of a crowdfunding platform itself. Owing to its newness, the market for this mode of financing is underdeveloped. Hence, crowdsourcing platforms behave like entrepreneurial firms in such neoteric markets. With this study, we explore the ambidextrous stances of such new ventures emerging along with the market.

3 Methodological Approach

As we are interested in developing our understanding of the dynamic capability of ambidexterity, which can be viewed as a process that develops over time (Sebastian Raisch et al., 2009), we relied on longitudinal case study (Juni, Sarala, Taras, & Tarba, 2013). This is further justified by an exploratory stance due to the lack of extant theories (Yin, 1984), regarding ambidexterity in new ventures.

We deliberately chose Wishberry as the target case study for this research inquiry. It was a radically innovative business concept in the Indian venture ecosystem at the time of its launch, hence allowing us to examine the process of strategy emergence atomically in an unexplored market. It helped us examine its various drivers and antecedents. The focal period of interest for data collection for this study was between 2010 when it launched as a gift registry service to 2016 where it completely transformed into a creative crowdfunding platform (refer Fig. 1). We collected the data for this study from two sources namely in-depth semi-structured interviews and various internal and public documents. Such triangulation assures integrity and reliability to the study (M. B. Miles & Huberman, 1994).

The management of the ambidexterity dynamic capability rests with the top managerial team as the inevitable conflicts concerning resource allocation must be dealt with (O’Reilly & Tushman, 2011; Teece, 2007). Therefore, in line with our research inquiry, the sampling stance was purposive. Both the authors conducted interviews of both the founders together. We further interviewed various campaign owners and project backers for the platform. They were chosen from different phases of the firm’s growth to elicit richer data about the various changes in its business model over time. Apart from them, we also interviewed, Wishberry’s early investors and other mentors who helped them identify an appropriate business model for creative crowdfunding in India. This choice of data collection is based on the logic of sample completion for qualitative studies as suggested by Miles and Huberman (1994). In all, we have collected interview data of about 30 hours of interview. We plan to continue this interview process iteratively with data analysis until we reach theoretical saturation (Glaser & Strauss, 1967). The specific methodological stance followed by this study was interpretive with constant comparative analysis of data (Glaser & Strauss, 1967) which helped develop higher level categories for developing theories. The data analysis was done by the authors individually and then by an external practitioner with some experience of the crowdfunding domain. We are supplementing this data with documents like corporate press kit and public reports along with industry reports in magazines etc. for further extension.

Currently, we are in the process of enhancing the internal validity and reliability of the study through cross-examination with other sources of data. It would help establish further critical insights through testing of falsifiable theory within the context of new ventures and the stage of growth of the market. Further, we are extending the period of observation and association to capture other recent strategic maneuvers undertaken by Wishberry to improve our understanding of the observable reality.
4 A Brief History of Wishberry

Wishberry was one of the first and presently the largest crowdfunding platform in India (51% market share). It is focused on backing creative projects spanning genres like film, music, art, apps, comics etc. It helps people from these diverse genres to raise funding for their projects by creating a campaign on their platform and charges a fee for the same. It was founded in 2010 by Priyanka Agarwal, as a wedding gift registry service. The complexity of the gifting process due to the immense diversity of social systems in India led to its evolution into a crowdfunding platform.

Figure 1. Timeline of Wishberry's growth

In its early stage, it started with a strategy focussed on opportunity exploration, similar to Indiegogo (a global leader in crowdfunding) allowing projects from all genres to campaign on its platform and raise funds on both flexible funding and all-or-nothing models. By 2012, Wishberry witnessed some growth through such projects, but the success rate for projects on its platform was quite low. It was then that Anshulika Dubey joined as another founding member and the venture embarked on a new strategy. Throughout 2012, Wishberry dabbled in two different crowdfunding models: charity-based crowdfunding and rewards-based crowdfunding. While Priyanka continued to run Wishberry as a platform for all kinds of crowdfunding, Anshulika, led exploration of crowdfunding in the creative sector. In 2013, they shut down their focus on charity crowdfunding, mainly because of low profitability as commissions were low. Moreover, there were multiple gatekeepers for this format of financing and charity did not have such a pressing need for crowdfunding as it has other modes of funding. Eventually, the focus shifted to being a rewards-only crowdfunding platform but focusing on all sectors, including film, music, theater, technology and social entrepreneurship (as opposed to the specific 13 creative genres present today). Within that it became a platform for creative crowdfunding, while keeping it open to all models of funding (i.e. Flexible Funding as well as All-or-Nothing model). In this phase, Anshulika led sales and marketing efforts, while Priyanka led the new product development specifically for crowdfunding.

In the next phase of their growth, the business adopted a strategy focussed on the exploitation of key markets. In 2014, it launched an upgraded software platform with even more focus on the new business model. Simultaneously, it narrowed down their focus to the creative sector only and started in-house consultancy for campaigns. Meanwhile, it discarded technology and social entrepreneurship based projects from campaigning on its platform. Moreover, it shifted its funding model entirely to All-or-Nothing. By the end of 2014, it witnessed 200% annual growth, with a whopping 70% funding success rate. This growth surpassed that of other global crowdfunding platforms and helped it gain significant market traction. During this time, Anshulika focused further on customer segmentation for an incisive targeting, and Priyanka focused on raising funds for Wishberry. Dubey explains,

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1 https://www.indiegogo.com/how-it-works
“Wishberry’s concept was unproven, and the scale of crowdfunding for creative projects is not the same as conventional e-commerce start-ups. So, a major task was to find people who were as excited about the project.”

By the end of 2014, it raised its first round of funding of $650k from multiple investors. By early 2016, Wishberry had raised Rs 6.6 crores from more than 11,000 backers from around 60 countries. It only maintains the all-or-nothing model of crowdfunding for creative ventures. It claims a campaign success rate of 70% which is three times the Indian industry average and greater than the international average success rate of Kickstarter and Indiegogo.

5 Case Discussion

Tushman and O’Reilly (1997) have highlighted the role of the top management team in enabling organizational configurations allowing an ambidextrous strategic stance. At Wishberry, in each period of growth, the fundamental exploration and exploitation processes were divided between the two founders distinctly. Typically, team sizes are small in new ventures, therefore division of roles and responsibilities is feasible. In this case, the segregation of the two strategic stances was structurally similar to the distribution to sub-units in the case of established ambidextrous firms. However, the dominant strategy was emergent with changes in the operating environment and its own stage of growth. Moreover, the neoteric characteristics of the market did evolve with the entry of Wishberry too. The market started getting stabilized and some market structures started forming as crowdfunding started getting recognized as a viable financing option for entrepreneurial ventures due to reduced uncertainties. Priyanka (founder of Wishberry) summarizes the motivations for the firm’s early strategy as:

“A low success rate is risky for both businesses and individuals. For new ventures, the business concept is unproven and hence all of the business activities are designed around reducing uncertainty.”

5.1 Growth trajectory of the firm

5.1.1 Early stage (Exploration as dominant strategic stance)

Neoteric markets ensure low barriers to entry for new businesses. For Wishberry too, the neoteric nature of the product market ensured negligible hostility for the venture. However, the operating environment was also characterized by a lack of market familiarity and lack of other supporting mechanisms for the business in the form of infrastructure and regulations. As Agarwal asserts,

“It was difficult to sell the idea to investors because crowdfunding is barely a decade-old industry across the globe.”

Wishberry hence focussed on exploring the operating environment led by experimentation with different crowdfunding categories on a single platform. It was hence aligned to discover a viable business model which fits perfectly with the existing business environment. However, this discovery-based stance was led by replication of business models of similar platforms in other diverse markets. Replication is an important strategy for firms whose founding or early growth is closely tied to a particular innovation (in this case crowdfunding) and hence their strategy is “front-loaded” with exploration (Winter & Szulanski, 2001). Wishberry too was simultaneously exploiting business value by replicating the business model of existing global crowdfunding platforms and simultaneously aligning it to the local market needs. By pursuing this strategy, it was inherently exploiting its previous model of collection of donations for charity. Although the Indian market was unexposed to crowdfunding platforms, the idea of cumulative donations for charity through trusts was not new, which was leveraged by them. Further, their broad-based approach to market launch enabled them to identify the core strengths of their business model quickly.

2 Source: https://yourstory.com/2016/04/wishberry/
Exploration was the dominant strategic stance in this stage, and its requirements were significantly different from its exploitative stance. Hence Wishberry had to structurally segregate themselves into two distinct sub-units with temporarily decentralized control structures (Siggelkow & Levinthal, 2003). The two units were segregated into rewards and charity-based crowdfunding and responsibilities for the two units were allocated between the two leaders distinctly. It had adopted a structural stance for its ambidextrous strategy. Structural ambidexterity helps organizations maintain different competencies which allow them to address inconsistent needs arising from emerging and mainstream business opportunities (Gilbert, 2005). Organizational learning from this structural segregation enabled it to analyze and integrate its business model for the next stage of evolution.

5.1.2 Later Stage (Exploitation as dominant strategic stance)

Wishberry critically analyzed its business model and identified the issues with its differentiation focused strategy. It led to the realization of the need for replication of a relatively targeted business model with a focus on the underserved creative sector for crowdfunding. Simultaneously with the exploitation of its core business logic of crowdfunding, it started leveraging its experience of the earlier crowdfunding business model to supplement revenues by providing consultancy services to project campaigners. This discovery-based approach to ambidexterity favored a dominance of an exploitation-driven strategy characterized by refinement and routinization of earlier processes (Holmqvist & Holmqvist, 2004). Simultaneously, it engaged in the exploration of additional sources of funding and growth.

Organizational learning involves dynamics of exploitation and exploration (Holmqvist & Holmqvist, 2004). One of Wishberry’s investors, Rajan Anandan, Google India’s MD, highlights their knowledge of the market as (Krishnamurthy, 2015):

“Crowdfunding has immense long-term potential in India, and the Wishberry team has a deep understanding of what it takes to win in India.”

Wishberry adapted its ambidextrous strategy to contextually support both exploration and exploitation as needed. Contextual ambidexterity is “the behavioral capacity to simultaneously demonstrate alignment and adaptability across an entire business unit” (Gibson & Birkinshaw, 2004). The dual structure of the organization was abandoned in favor of a streamlined business unit. Both the founders were empowered to contextually integrate the two different strategic stances for a balanced outcome.

Wishberry, too, attained a relatively stable growth equilibrium between these conflicting strategies in the subsequent phase. Their learning of the Indian crowdfunding market helped it focus on the creative sector solely while simultaneously diversifying to newer sources of value capture. This further enhanced the robustness of their business model. We condense this discussion by proposing a model for ambidexterity of new ventures in neoteric markets (see Figure 2 below). It highlights the various models for ambidexterity available to new ventures in unexplored markets and the dominant trajectory for evolution an ambidextrous strategic stance. They can choose between a replication, discovery or learning based ambidextrous strategy. However, a low exploration and low exploitation strategy is unavailable to startups in neoteric markets due to compulsions of market discovery.

![Figure 2. Proposed model for ambidexterity of new ventures in neoteric markets](image-url)
Firms in the replication stage strive to consistently improve their existing processes and structures while attaining efficiencies in the related outcomes. They forego new growth opportunities and innovation to concentrate on existing market needs and try to fulfill those (R. E. Miles, Snow, Meyer, & Coleman, 1978). New ventures having inherent liabilities of smallness do pursue such a strategy in their initial stages. Wishberry, too, entered the market with a replication-focused ambidextrous strategy characterized by relatively high levels of exploitation of other successful global models. However, with increasing familiarity of the operating environment and simultaneous pressures to perform from existing processes, such ventures would need to seek new growth drivers.

Relative ampleness of resources after this stage allowed it to implement a balanced strategy characterized by a balanced focus on both exploration and exploitation activities. Moreover, exploitation and exploration strategies have to be recombined to create value (O’Reilly & Tushman, 2008; Teece, 2007). Therefore, with greater experience of the market, new ventures pursue a learning-driven approach and can determine and provide the requisite value for the customers.

5.2 Market maturity

Corey and Capon (1978) discussed four different market growth stages for new products i.e. introduction, early growth, late growth, and maturity. Neoteric markets represent this introduction for a specific product-market category. The crowdfunding market was in the introduction stage when Wishberry entered the Indian market. New products (“pioneers”) enter the market in the introduction stage. Owing to the immaturity of the market, exploitation-led strategy is not available for new products (see Figure 3). Such pioneers must be willing to commit a significant amount of investment to identifying consumer needs, development and enhancement of the product and educating customers (Schnaars, 1986). Hence, Wishberry too started its life cycle with an exploration-driven market launch strategy. It required significant investment in developing the product-market and associated market structures. Its approach was hence bifurcated into the discovery of the optimal business model (between donation and reward types of crowdfunding) along with investment in market development. It required structural segregation of the business form into sub-units headed by distinct management units to pursue this dual strategy.

However, as the market developed, new entrants entered the market and hence it had to upgrade its strategy according to extant market needs. Wishberry abandoned its earlier crowdfunding model based on donation-type and started exploiting its experience on the rewards-based model for the creative sector. It replicated the all-or-nothing model of incumbent crowdfunding platforms (e.g. Kickstarter) in other markets for this sector. This replication logic required it to improve its operational efficiency and hence required empowerment of the founders to balance between exploitation and exploration simultaneously (contextual ambidexterity). It established greater barriers to entry for new players by further exploration in this growth stage of the market by diversifying into different product categories within the creative sector like technology and gaming. Their learning-driven strategy allowed it to optimize its business model according to the dynamic needs of the newly developed market. The type of ambidextrous strategy pursued by a new product firm emerges along with the stage of the market. The choice between structural or contextual ambidexterity is simultaneously dependent on the maturity of the product and the stage of growth of the market.
Dominant ambidexterity stance

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Figure 3. Proposed model for ambidextrous strategy with market development

6 Managerial and Academic Implications

This study highlights the cumulative impact of market maturity along with firm growth on the emergent strategy of new ventures in embryonic markets. It further extends the framework for understanding organizational ambidexterity (S. Raisch & Birkinshaw, 2008) with operating environment. Firms pursuing an ambidextrous orientation without strong market orientation display a significant reduction in new product financial performance (Kyriakopoulos & Moorman, 2004). Hence, it is important to examine new product market characteristics when studying organizational ambidexterity.

Further, entrepreneurs (especially first generation ones) of new and innovative technology ventures can use the proposed model to assess the growth trajectory of their firm and hence plan to allocate resources for an appropriate ambidextrous strategy. Further, the realization of the emergent trajectory for such products shall allow them to design their venture’s form and structure accordingly.

7 Conclusion

The case of Wishberry is illustrative of the trajectory of evolution for new ventures in neoteric markets, but it is limited by the diversity of environmental and operational configurations. It would be useful to examine the propositions of this study across the dimensions of other industries and markets at different stages of maturity. Is this trajectory consistent for other new ventures in such undiscovered markets? What determines the path dependence of such emergent organizational forms? Such inquiries will help identify the role of market maturity in shaping the dominant strategy for a new venture.
References


New venture ambidexterity


