# With a Little Help from My Friends? The Growth Navigation Challenge of Start-up Ecosystems in Australasia

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## Abstract

The start-up ecosystem in Australasia, encompassing Australia and New Zealand, has demonstrated significant potential for innovation and growth. However, start-ups in this region face substantial challenges in achieving sustained growth, including limited access to capital, insufficient market knowledge, and the complexities of navigating regulatory environments. This article explores these unique challenges and examines how Information Technology (IT) service providers have emerged as central players in the start-up ecosystem, offering strategic consulting services that encompass growth and expansion. By analysing the case of Tata Consultancy Services' (TCS) Business as a Service (BaaS), the article investigates the dynamics of power and the strategies utilized by both start-ups and service providers to sustain beneficial positions within these partnerships. Utilizing a multi-theoretical lens, the article examines how strategic partnerships between start-ups and IT service providers can foster a thriving entrepreneurial ecosystem in Australasia. The findings emphasize the importance of these partnerships in creating mutual dependencies that enable growth and expansion. However, it also highlights the potential risks associated with such dependencies, urging start-ups to carefully weigh the benefits and challenges of engaging with IT service providers for strategic consulting services. This controversy accentuates the critical debate on whether start-ups should embrace these partnerships or avoid them due to the inherent risks, turning it into a key decision point for their strategic decisions.

**Keywords:** Start-up, Ecosystem, IT service provider, innovation.

## 1 Introduction

The start-up ecosystem in Australasia, encompassing Australia and New Zealand, has demonstrated significant potential for innovation and growth. With the Australian start-up ecosystem valued at over US$220 billion and New Zealand's at US$9 billion in 2024, the region is a burgeoning hub for new ventures, particularly in sectors such as fintech, health tech, ed-tech, and sustainability. Despite this promising landscape, start-ups in Australasia face substantial challenges in scaling their operations[1]. These challenges include limited access to

[1] https://granton.io/top-10-challenges-startup-founder-overcome/

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capital, insufficient market knowledge, and the complexities of navigating regulatory environments of different countries in the region.

One critical issue is the geographical isolation of Australasia, which hampers the ability of start-ups to attract international investors and expand into global markets. Additionally, many start-up founders possess strong technical skills but lack the strategic business acumen necessary for growth and expansion. This gap often leads to inefficient operations and missed opportunities. The competitive funding landscape further exacerbates these challenges, as venture capital is often skewed towards more established enterprises.

In response to these obstacles, Information Technology (IT) service providers have emerged as promising players in the start-up ecosystem, offering strategic consulting services that encompass growth and expansions[2]. This article explores the dynamics of such partnerships, focusing on the role of IT service providers in supporting start-ups. By examining the case of Tata Consultancy Services' (TCS) Business as a Service (BaaS), we analyze the power relations and strategies employed by both start-ups and service providers to maintain advantageous positions in these relationships.

Through a multi-theoretical lens (Resource-Based View of the Firm, Transaction Costs Economics, Agency Theory, and Social Exchange Theory), which are central to understanding the sourcing relationships between a service provider and a client firm (Kotlarsky at al. 2020), we investigate how strategic partnerships between start-ups and IT consultancy firms can foster a thriving entrepreneurial ecosystem in Australasia. The article aims to provoke a discussion on whether start-ups should engage with IT service providers for strategic consulting services, considering the potential benefits and risks involved.

## 2 The Start-up Ecosystem in Australasia

The start-up scene in Australasia is vibrant and diverse, with a strong emphasis on technology and innovation. According to multiple reports, the value of the Australian start-up ecosystem exceeds US$220 billion[3], with Sydney's start-up ecosystem alone valued at US$72 billion in 2024, hosting over 3,000 start-ups[4]. New Zealand's start-up ecosystem was valued at US$9 billion in 2024, with around 2,400 start-ups across the country[5].

The Australian start-up sector is characterized by its potential for rapid growth and external funding, although it remains sensitive to economic shifts and investment uncertainties. Australia ranks among the leading countries for start-ups worldwide, with venture capital investments significantly supporting the expansion of new businesses. In recent years, Australian start-ups have received about US$4 billion annually in venture capital funding, a notable increase compared to previous years. Growth in several sectors, such as fintech, health tech, ed-tech, and sustainability/cleantech, has driven this increase in investment.

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[2] https://pareekh.com/unicorn-rd-how-engineering-service-providers-can-help-themselves-by-making-startups-and-unicorns-successful/

[3] https://startupgenome.com/article/oceania-insights-rankings-and-ecosystem-pages-1

[4] https://journals.sagepub.com/doi/10.1177/09717218231201878#:~:text=This%20explains%20why%2C%20during%20the,and%20halving%20emissions%20by%202030.

[5] https://www.auckland.ac.nz/en/news/2025/01/15/8-trends-will-shape-the-startup-sector-in-2025.html#:~:text=New%20Zealand's%20ecosystem%20is%20valued%20at%20%249%20billion%20across%202%2C400%20startups.

Technology-based start-ups account for nearly half of all new businesses in Australia, reflecting the country's focus on innovation and digital transformation. The Australian government supports start-ups through grants and incentives such as the R&D Tax Incentive and the Entrepreneurs' Programme.

New Zealand's start-up ecosystem, while smaller in scale, is equally dynamic. Auckland, as a major tech hub, encompasses 58% of all start-up activity in New Zealand. Venture capital investment in New Zealand start-ups amounted to US$1.2 billion in 2024, with the vast majority of the funding going into fintech, health tech, and sustainability ventures. Similar to Australia, the New Zealand government has been proactive in supporting start-ups through various initiatives and funding programs.

While the potential for growth and impact on the local economies is high, start-ups in both countries are still sensitive to economic shifts and investment uncertainties, predominantly due to global slowdowns in investment activity. The current focus of the start-up ecosystems in both countries on Artificial Intelligence (AI), sustainability, health tech, fintech, and e-commerce is particularly promising, but not without the challenges that most start-ups face when pursuing growth.

## 3 Growth Challenges for Start-ups: The Case of the Australasian Ecosystem

The growth challenges that the Australasian start-up ecosystem faces are similar to those encountered by start-ups around the world, namely insufficient capital, resources, and knowledge needed to support market entry and expansion for business solutions anchored in emerging technologies. Being remotely located from major international markets, such as Western Europe, the USA, and Southeast Asia, has amplified these challenges. For example, start-ups in New Zealand and Australia have been reported to lack the knowledge needed to understand and navigate regulatory environments, cultural nuances, and market dynamics in international markets, simply because of their limited experience in these markets and the limited services available in these countries to support such expansion[6,7,8]. Similarly, efforts to commercialize new products and services by start-ups in Australasia come with greater risk, as the small domestic market limits the opportunities to experiment and learn from the domestic experience before expanding to international markets. Consequently, start-ups in Australasia need guidance and support in navigating these risks. While research has already pointed out the relevance of consulting services of firms specializing in the start-up growth segment[9], this article examines a recent phenomenon in which an IT service provider has assumed the role of providing support for start-ups.

## 4 Navigating Growth through Partnership: A Multi-Theoretical Perspective

The idea that firms partner to access knowledge and capabilities not available in-house is not new (e.g., Feeny and Willcocks 1998, Dibbern et al. 2004, Fisher et al. 2008, Oshri et al. 2015).

[6] https://www.mbie.govt.nz/business-and-employment/economic-growth/previous-economic-development-work/startup-advisors-council/assessment-of-the-new-zealand-ecosystem
[7] https://www.airwallex.com/au/blog/australian-startup-statistics
[8] https://techcouncil.com.au/wp-content/uploads/2023/07/Shots-on-Goal-vF.pdf
[9] https://hbr.org/2019/01/the-two-ways-for-startups-and-corporations-to-partner

The Information Systems (IS) literature has examined both the benefits and risks associated with such partnerships from multiple theoretical perspectives (Kotlarsky et al. 2020, Dibbern et al. 2004). Predominantly, these partnerships can be rooted in sourcing relationships where the client firm contracts the service provider to deliver services in exchange for a fee (Oshri et al. 2023). Such sourcing relationships bring about multiple concerns. When examined from Transaction Costs Economics (TCE), such an exchange raises concerns about the costs associated with contracting and hidden costs (Karimi-Alaghehband et al. 2011, Lioliou and Zimmerman 2015, Dibbern et al. 2008). For example, start-ups are particularly likely to struggle to allocate resources to monitor the service provider, thus elevating the level of uncertainty in such contracting and possibly creating conditions for opportunism. Studies that examined such relationships from Agency Theory have warned that information asymmetries between the service provider and the client are likely to promote opportunistic behaviour (Bahli and Rivard 2003, Dawson et al. 2010). An alternative view is anchored in Social Exchange Theory (SET), in which the idea of contracting a service provider materializes into strategic alliances through which the client firm taps into strategic capabilities not available in-house (Lioliou et al. 2014). Yet, while a SET perspective portrays a positive outcome for client firms (whether small or large), any client firm will still be concerned and possibly negatively affected by the risks associated with agency behaviour by the provider and the costs involved in contracting and monitoring. Similarly, from a Resource-Based View, contracting service providers to support growth allows start-ups to focus on their core capabilities, such as Research and Development (R&D), but not without the risks of losing control over the business functions that the service provider is supporting (e.g., commercialization) or failing to execute an effective knowledge transfer, resulting in a dependency on the service provider for non-core activities (Grimpe and Kaiser 2010). Start-ups, in particular, might face challenges of monitoring and contracting as their resources are limited. Mitigating these risks by developing strong relationships with service providers is a viable option; however, as start-ups' spending on third parties is relatively low, it is unlikely that service providers will equally invest in relational governance.

While the IS outsourcing literature has extensively revisited aspects concerning partnerships between service providers and client firms (Kotlarsky et al. 2023, Oshri et al., 2018, Aubert et al., 2015), there has been little attention to how the above concerns are perceived in the context of start-ups, particularly with regards to the challenges that start-ups face, namely growth and commercialization. We now turn to a case in point in which we examine the journey of one service provider, Tata Consultancy Services (TCS), with their consultancy service coined Business as a Service, aimed at helping start-ups in Australasia cope with growth and commercialization challenges.

# 5 Business as a Service for Australasian Start-ups: Insights from Tata Consultancy Services

Business-as-a-Service (BaaS) is a new concept in the service sourcing sector, understood as the outsourcing of management and strategic functions to a service provider, such as marketing and business development. Several IT service providers have been promoting BaaS as their engagements with client firms for technology and operations services have allowed them to gain valuable knowledge of strategic aspects concerning their client firms as well as develop in-house strategic capabilities that could further benefit their client base.

TCS's interest in start-ups and the BaaS concept in Australasia started in 2021. Realizing that other tech giants such as Google and Microsoft have been engaging with start-ups, TCS sought to enter this segment of the market and explore opportunities, particularly in countries where there is growth in the number of start-ups, but domestic conditions might challenge their expansion strategy, such as Australia. However, extending TCS services from their current focus on large global enterprises with a specialty in delivering tech-enabled solutions to strategy consulting for start-ups did not come without challenges. For one, TCS staff assigned to develop BaaS offerings for start-ups faced a major challenge in understanding how to work with small clients that operate with limited budgets. Furthermore, the BaaS solutions for start-ups were remote from the services TCS has so far specialized in delivering to its client firms, thus requiring the development of new capabilities and specialties.

To mitigate risks arising from engaging with start-ups, TCS developed a client selection and contracting approach that included the following criteria:

**Market Research and Selection**: TCS conducts thorough market research to identify countries and companies that align with their ethical values and business goals. This involves evaluating the maturity of the start-up ecosystem, the level of support from venture capitalists and governments, and the overall market potential. For example, Australia and New Zealand were shortlisted for the pilot phase due to their supportive start-up ecosystems.

**Ethical and Value Alignment**: TCS ensures that the companies they partner with share similar ethical values. They avoid working with companies involved in industries such as liquor, cigarettes, and gaming. While this aspect helped maintain the integrity and reputation of the Tata group, it was also relevant for the assessment of the financial security of the start-up and their ability to raise additional funds if needed.

**Funding and Support**: The level of funding and support that start-ups receive from venture capitalists and governments is a crucial factor in the sourcing process. TCS looks for companies that have strong backing and are well-supported, which can enhance their chances of success and growth.

**Geographical Focus**: TCS had a dedicated team for different regions, such as Australia, New Zealand, and Dubai. This regional focus allows them to tailor their sourcing strategies to the specific needs and opportunities in each market.

**Hybrid Workforce**: TCS employs a hybrid workforce model, with 80% of the team based in India or the Philippines (nearshore locations) and 20% onsite. This model helps optimize costs while ensuring that there is sufficient local presence to support the development and execution of projects.

**Revenue-Share Model**: Instead of taking equity stakes, TCS used a revenue-share model. This approach allowed TCS to share in the success of the scale-ups without the risks associated with equity investments.

A case in point is TCS's engagement with Downsizer, an Australian-based start-up. downsizer.com was founded by NSW-based Mark Macduffie and Phil Verdonin 2003. The company was originally known as Seniors Housing Online. The mission of the start-up is to offer advice and options to retirees about downsizing their accommodations. As the start-up established its presence in Australia, it sought to expand to other markets such as the UK and the USA. However, the owners lacked knowledge of these markets and therefore struggled to expand their presence outside Australia.

Selecting Downsizer for its BaaS services followed the above selection criteria. Downsizer was in a growth market, and its solutions were aligned with TCS’s values and ethics. TCS's engagement with Downsizer spanned over a year and involved three key areas: research, business advisory, and execution. Initially, TCS conducted comprehensive market research to determine the feasibility of Downsizer's expansion into the UK and US markets. This research included analysing property market regulations, financial ecosystems, and demographic trends, particularly focusing on states like California and Florida in the US. Based on this research, TCS provided strategic business advisory services, helping Downsizer identify the best developers and financial institutions to partner with. TCS's advisory services ensured that Downsizer could effectively integrate its IT platform with these partners, optimizing property listings and transactions. Additionally, TCS supported Downsizer in maximizing its profit margins by leveraging data analytics to identify high-traffic property markets and potential growth areas. This holistic approach enabled Downsizer to make informed decisions, streamline its operations, and successfully penetrate new markets, thereby solidifying its position in the property-tech industry.

From the provider's perspective, risk mitigation followed a careful selection process of start-ups as well as the deployment of well-tested practices from its traditional outsourcing practice. For example, TCS harnessed its extensive network of collaborators in the USA to assist Downsizer in accessing knowledge, technology, and contacts needed to penetrate this market. From a governance perspective, TCS deployed strict cost-to-income ratio frameworks to clearly communicate outcomes achieved and link them to the key objectives of the engagement. As such, TCS actively sought to mitigate risks associated with engagements with start-ups, by both increasing the likelihood of achieving the engagement objectives by carefully selecting candidate start-ups for BaaS engagement and by deploying well-proven practices in entrepreneurial contexts.

# 6 Navigating Growth for Start-ups through Partnerships with IT Service Providers: The Right Path?

In the competitive and dynamic landscape of start-ups, the prospect of partnering with IT service providers for strategic consulting is highly appealing. These partnerships promise access to expertise, resources, and networks that can facilitate market entry and drive growth. However, while the advantages are compelling, it is essential to critically examine these relationships by assuming risks associated with contracting.

Indeed, start-ups often lack the in-house capabilities required for strategic expansion. IT service providers, with their extensive experience and specialized knowledge, can fill these gaps, enabling start-ups to concentrate on their core competencies such as innovation and product development. This symbiotic relationship can lead to enhanced competitive advantage and accelerated growth.

However, this dependency on external expertise is not without risks. There is the danger of losing control over critical business functions and the risk of becoming overly dependent on these external entities. This dependency can stifle growth in certain strategic areas of the business, impact much-needed internal development around strategic thinking, and could affect long-term decision-making on the direction of the firm. As knowledge transfer from the service provider to the start-up is not always seamless, and as internal resources are scarce to internally develop strategic capabilities, the reliance on the provider for ongoing support and guidance in strategic areas is only going to grow over time. Furthermore, there can be a misalignment of incentives as contracting commercial models promote the revenue-share model emphasizing the provider’s vested interest in the start-up's revenue streams, thus directing strategic advice towards financial gains rather than the start-up's long-term objectives.

It is within this contested terrain that start-ups and service providers seek to find a balanced approach to partnerships. Clearly, start-ups must carefully weigh these factors and consider developing robust internal capabilities alongside external partnerships. By doing so, they can navigate the growth journey more effectively, ensuring that their reliance on service providers enhances rather than hinders their strategic objectives. The question remains: Are these partnerships the golden ticket to growth, or a trade-off with hidden costs that could ultimately undermine the very foundations of the start-up's success?

# 7 Provocative Directions for Future Research and Practice

This article has surfaced a provocative tension at the heart of start-up growth in Australasia: the appeal of strategic partnerships with IT service providers versus the risks of dependency, misaligned incentives, and strategic drift. Future research and practice must not only explore these dynamics but also confront the uncomfortable questions they raise.

## 7.1 Provocations for Future Research

**Should Start-ups Outsource Strategy?** A fundamental provocation is whether outsourcing strategic functions—once considered the core of entrepreneurial identity—is compatible with sustainable start-up growth. Future research should examine whether such outsourcing dilutes the strategic DNA of start-ups or stimulates their evolution.

**Are IT Service Providers the New Gatekeepers of Innovation?** As providers like TCS expand their influence, researchers must critically examine whether they are becoming gatekeepers of innovation, shaping the trajectory of start-ups through selective engagement and revenue-share models. Who truly benefits from these partnerships in short and long terms—and at what cost? Future research could investigate the relationship between start-ups and technology providers through the lens of value (co-)creation, examining how each party perceives and pursues value, and how it is changing over time as the relationship evolves.

**Can Start-ups Retain Strategic Autonomy in BaaS Models?** The rise of BaaS challenges the assumption that start-ups are agile and autonomous. Future studies should explore whether these models foster strategic independence or establish a new form of outsourcing dependency that is harder to escape (i.e., the lock-in effect) .

**What Happens When Strategic Advice is Commercially Biased?** The revenue-share model introduces a provocative dilemma: can strategic advice remain impartial when providers have a financial stake in outcomes? Research should explore how such models influence decision-making, innovation priorities, and long-term vision.

**Is the Australasian Start-up Ecosystem Ready for Hybrid Governance?** The Australasian start-up ecosystem may need to rethink governance. Can hybrid models—combining relational trust with formal controls—be realistically implemented by resource-constrained start-ups? Or are we expecting too much from too little? Future studies could examine the tensions associated with resource-constraints and governance approaches that start-ups employ to deal with these tensions.

### 7.2 Provocations for Practice

**Rethink the Role of Founders:** Founders must confront the uncomfortable truth: technical brilliance alone is insufficient. They must evolve into strategic leaders who are capable of executing (in-house) strategic development and implementation of the end-to-end growth strategy. The alternative is a lack of critical capability that resides in markets (i.e. external advisors). Ecosystem builders and policymakers should provoke a shift in focus—from operational support to strategic capability development. This means investing in entrepreneurial skills and founder education, strategic mentoring, and tools that help start-ups think long-term.

**Expose the Hidden Costs of Partnership:** Start-ups must be equipped to critically assess the hidden costs of partnership—loss of control, misaligned incentives, and strategic drift. Practical tools and frameworks should provoke deeper due diligence before engagement. The ecosystem needs forums for honest, critical dialogue about the risks and rewards of partnering with IT service providers. These spaces should provoke reflection, share failures, and challenge dominant narratives of growth.

## 8 Concluding remarks

This article has explored the evolving role of IT service providers in supporting start-up growth within the Australasian ecosystem, highlighting both the opportunities and the complexities these partnerships entail. Strategic collaborations, such as those enabled through Business-as-a-Service models, offer start-ups access to critical expertise, networks, and resources that can accelerate their journey toward commercialization and international expansion. However, these benefits must be weighed against the potential risks—such as dependency, misaligned incentives, and challenges in maintaining strategic autonomy. Rather than dismissing such partnerships, this article encourages a thoughtful and informed approach: one that embraces the potential of external support while fostering internal strategic capabilities and governance mechanisms that safeguard long-term growth. If start-ups fail to critically assess these relationships, they risk outsourcing not just their strategy—but their future. The real provocation is this: can start-ups afford to grow with help, or must they learn to grow without it?

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