

# Critical Success Factors of FinTech Ventures: A Qualitative Approach

## Masterarbeit

zur Erlangung des akademischen Grades „Master of Science (M. Sc.)“ im  
Studiengang Wirtschaftswissenschaft der Wirtschaftswissenschaftlichen Fakultät der  
Leibniz Universität Hannover

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Hannover, den 27.09.2018

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## 1. Introduction

### 1.1 Motivation and Relevance

*“Re-imagine how money can be managed and moved because there’s going to be more change in the next five years in the financial services than happened in the past 30.”*

– Dan Schulman (CEO PayPal, 2017)

The financial service industry is facing a radical change. Recently, the publicly listed FinTech venture Wirecard replaced the Commerzbank in the German stock index, the DAX. Valued at 23.9-billion-euro, as of September 2018, it also surpassed the Deutsche Bank (Bloomberg, 2018). At the same time, global Fintech investments rose to \$ 111 billion in 2018 (Venture Scanner, 2018), which is a 40% increase to the beginning of the year. To understand the concept of FinTechs, it is vital to acknowledge that the initiatives developed over several years and continuously increase their impact on products and services in the financial industry.

As research and practice have indicated, that was no coincidence. The incorporation of information technology (IT) is expected to fundamentally change the financial industry (Wilson, 2017). Technological innovation helps FinTech start-ups to offer customers more cost-efficient, consumer friendly and transparent services (Mackenzie, 2015, Eickhoff et al., 2017). Their initiatives are based on digital business models that can render established market players obsolete (Gomber et al., 2017, Nicoletti, 2017). Current market numbers show that FinTech initiatives have to be considered as real competitors to established financial players.

Although the term FinTech has become a buzzword for the successful integration of innovation in the financial sector, nine out of ten FinTech start-ups still fail (Finextra, 2018). Practitioners and researchers investigated the reasons why certain businesses fail and others are successful. A vast amount of academic literature exists describing general business model success factors. Previous researchers have highlighted the importance of product value and innovation (Kakati, 2003, Buddelmeyer, 2009, Groenwegen and Langen, 2012), product/ market fit (Finger and Samwer, 1998, Kakati, 2003, Ries, 2011), market timing, (Finger and Samwer, 1998, Nicoletti, 2017, Roeder et al., 2018), culture and team (Sharma and Mahajan, 1980, Finger and Samwer, 1998), entrepreneur (Duchesneau and Garnter, 1990, Finger and Samwer, 1998, MacMillan et al., 1985) and ecosystem (Finger and Samwer, 1998, Shafer et al., 2005).

Examining the literature on success factors for FinTechs, authors have found that technology and innovation (Chesbrough, 2002, Rycroft, 2006, Mackenzie, 2015, Nicoletti, 2017, Wilson, 2017, Roeder et al., 2018) customer acquisition (Dietz et al., 2015, Allayannis and Cartwright, 2017), data monetization (Dietz et al., 2015, Nicoletti, 2017) and regulatory compliance (Mackenzie, 2015, Dietz et al., 2015, Gulamhuseinwala, 2016) are most crucial.

Nevertheless, a gap of comprehensive FinTech CSF investigations exists in the literature. While some approaches highlighted success factors for FinTechs in single areas, no differentiation of critical success factors (CSFs) for business models in general and FinTechs in specific exist. Moreover, the fast paced and highly changing environment naturally demands a continuous observation of the critical factors, as Eickhoff et al. (2017), state that *“the dynamic development of the FinTech field creates a need for future investigations”*.

The current study aims to contribute to existing research by conducting a comprehensive overview of the current state-of-the-art venture success factors for FinTechs. Its primary purpose is to critically compare the up to date literature findings with results from interviews with practitioners in the financial industry, and then identify CSFs. Such an analysis can demonstrate key concepts and indicate implications for research and practice.

## **1.2 Research Question and Structure of the Thesis**

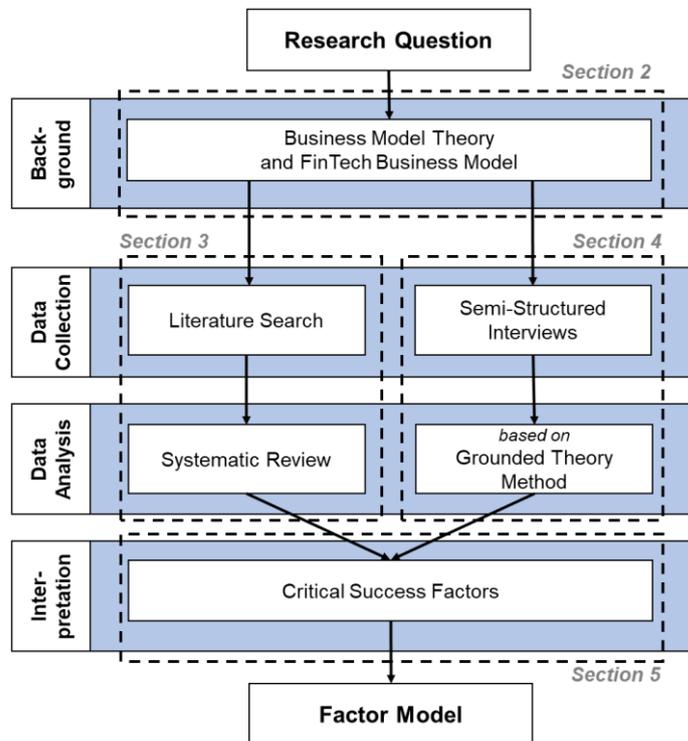
The main research question (RQ) of this thesis, which was formulated after the literature analysis, is the following:

*What are the critical success factors for FinTech ventures?*

The objective is divided into three parts: (1) provide an overview of the state-of-the-art literature on business model success factors in general and for FinTechs specifically, (2) conduct a qualitative analysis for FinTech success factors in practice, and (3) contextualize the findings in a factor model with implications for research and practice.

Figure 1 illustrates the structure of the thesis. Section 2 begins with fundamental definitions and background on the business model literature and characteristics of FinTech ventures. The research question is approached in two ways. Section 3 provides a literature review on CSFs for general business models and FinTechs specifically. A separation of business model factors that apply for businesses in general and FinTechs in specific is applied. Section 4 examines FinTech success factors from a practical perspective. To this end, semi-structured interviews with FinTech

representatives are conducted and analyzed using a grounded theory method (GTM) based approach. Section 5 contextualizes the findings to develop a factor model and provides implications for research and practice. Moreover, the research findings and methodology are critically examined and limitations to the elaboration are identified. Finally, the conclusion and outlook are presented in Section 6.



**Figure 1 - Thesis Structure**

Source: Own illustration

## 6. Conclusion and Outlook

Given the growing impacts of FinTech ventures on the financial sector, the industry landscape is changing. Market valuations of FinTech business models and customer numbers are reaching new record highs. New technologies, such as blockchain and cryptocurrencies, question the necessity of financial market incumbents and undermine the power of banks. Consequently, the financial environment is facing fundamental changes from innovative business models.

As such, this thesis aims to explore the CSFs for FinTech ventures. Given the purpose of the thesis, a qualitative approach was chosen to answer the research question. In the first step, the fundamental literature on business models and FinTech characteristics was presented as a foundation for further elaborations (Section 2). The academic literature offers a popular generalization of the business model of firms, the BMC. Together with the characteristics of FinTechs, both parts offer necessary insights for the elaboration. In the next step, a literature review drawn on Webster and Watson (2002) was conducted on the CSFs of FinTech ventures (Section 3). While the review revealed that CSFs for business models have generally been further examined in the literature, FinTech CSFs are identified in dealing with regulations, offering technology, acquiring customers and monetizing data.

The primary part of the thesis is compromised by a qualitative analysis (Section 4), because a comprehension of the concepts, rather than a confirmation of existing findings, is desired. For the methodology, a GTM-based approach from Glaser and Strauss (1967) was chosen, which is useful for the elaboration of theory from data. Semi-structured interviews with FinTech practitioners were conducted for data collection. Open, axial, selective and theoretical coding was applied based on the concepts of Glaser and Strauss (1967), Strauss and Corbin (1987) and Charmaz (2006). Within the data analysis, constant comparison and memoing were used as supportive tools. The findings identified thirteen CSFs for FinTechs, divided into factors that apply generally to all business models, namely *team* (CSF3), *entrepreneur* (CSF4), *capital* (CSF5), *product/ market fit* (CSF7), *idea and execution* (CSF8), *internationalization* (CSF11), *networking* (CSF12) and *pivoting* (CSF13), and factors that have a specific relevance for FinTechs, namely *technology* (CSF1), *regulatory knowledge* (CSF2), *B2B focus* (CSF6), *incumbent partnerships* (CSF9) and *customer acquisition* (CSF10). In the critical discussion (Section 5), the findings are contextualized with the statements from the literature review and summarized in key propositions (P1-P13). Implications for research and practice are derived on the basis of the thesis elaborations. Furthermore, limitations are presented.

In summary, the findings of the literature coincide with those of the practice. The success or failure of FinTech ventures is not purely of coincidental nature. Rather, several factors critically impact the ventures' success. FinTechs must meet all the criteria of traditional business models in addition to those of their own environment. The characteristics of the business model serve as a guideline for these CSFs. Given the development of the FinTech sector, the next step should be to investigate a deeper integration of FinTechs into the financial sector. *"I'm not so sure whether the buzzword FinTech will exist in the future [...] because everybody will accept this in their DNA to enable products and customers to do financial services"* (Interviewee 11: B.10: 156).

The gathered information has formulated a significant number of questions for further research. Whether FinTechs will seek partnerships, be acquired by market incumbents or take their places, much space exists for future investigations to offer a better understanding of the CSFs for FinTech ventures. Little is known about how FinTech partnerships should be executed, and the growing importance of the ecosystem requires a deeper investigation for market entrants and incumbents.