Business and Organizational Studies e-Journal
Vol 3 No 2, June 2025, Page 1-23
ISSN 3028-1938

ORIGINAL ARTICLE

The Role of Digital Transformation in Promoting Sustainable Business Models: Insights from Start-Ups

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Article History:
Received: February 16, 2025
Accepted: April 15, 2025
Online First: June 30, 2025

Keywords:
digital transformation; sustainable business models; startups; circular economy; artificial intelligence; digital capabilities; sustainable entrepreneurship

Abstract: Digital transformation has emerged as a structurally significant driver of sustainable business model development, particularly in the startup ecosystem, where resource constraints and competitive pressures simultaneously necessitate and incentivize innovative technological adoption. This study examined how digital technologies—specifically artificial intelligence (AI), the Internet of Things (IoT), blockchain, and cloud computing—enable startups to embed sustainability into their core operational and strategic architectures. Employing a mixed-methods design, the study drew on survey data from 350 entrepreneurs and in-depth interviews with 20 industry experts across diverse industry sectors. Structural equation modelling was applied to examine the relationships among digital exploitation capabilities, digital exploration capabilities, digital strategy adoption (DSA), digital transformation (DT), market-driven business model innovation (MDBMI), and sustainable business performance (SBP). Findings indicate that digital strategy adoption exerted the strongest effect on both SBP ($\beta = 0.245$, $p < 0.01$) and MDBMI ($\beta = 0.320$, $p < 0.01$), while MDBMI demonstrated a significant mediating pathway to SBP ($\beta = 0.398$, $p < 0.001$). Case evidence from Zerodha, Tesla, and Swiggy illustrates the mechanisms through which digitalization advances circular economy practices, energy optimization, and stakeholder accountability. The study also identifies persistent barriers—including high infrastructure costs, digital literacy deficits, and inadequate scalability frameworks—that temper the transformative potential of digital technologies for early-stage ventures. These findings contribute a theoretically grounded, empirically validated perspective on the digital–sustainability nexus and carry actionable implications for startup founders, policymakers, and institutional investors.

How to cite:
Shalini, R., & Yuvashree, M. (2025). The role of digital transformation in promoting sustainable business models: Insights from startups. *Business and Organization Studies e-Journal, 3*(2), 1-23.

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Vol 3 No 2, June 2025, Page 1-23
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INTRODUCTION

The global sustainability agenda has fundamentally altered the operational expectations placed on businesses of all sizes, compelling them to demonstrate not only commercial viability but also environmental responsibility and social accountability. Within this shifting landscape, digital transformation has emerged as one of the most consequential mechanisms through which organizations can simultaneously pursue economic growth and sustainability imperatives. For startups—organizations that are inherently resource-constrained but structurally agile—the intersection of digitalization and sustainability presents both a strategic opportunity and a design imperative (Bocken et al., 2019; Nambisan et al., 2019). Where established corporations must navigate the inertia of legacy systems and entrenched organizational cultures, startups possess the structural flexibility to embed digital and sustainable practices from the ground up, positioning them as natural laboratories for innovation at this intersection.

Technologies such as artificial intelligence (AI), blockchain, the Internet of Things (IoT), and cloud computing have materially expanded the repertoire of tools available to startups seeking to align their business models with sustainability goals. AI enables predictive optimization of resource use, demand forecasting, and supply chain intelligence. IoT generates granular real-time data on energy consumption, emissions, and operational waste, enabling evidence-based efficiency interventions. Blockchain introduces verifiable traceability into supply chains, supporting ethical sourcing commitments and reducing information asymmetry between producers and consumers. Cloud computing provides scalable, cost-effective infrastructure that substantially lowers the digital entry barrier for early-stage ventures (Vaishnav, 2024; Raut et al., 2021; Chen & Zhang, 2019). Together, these technologies constitute what scholars have increasingly termed a digital ecosystem—an interconnected technological environment that multiplies the sustainability impact of any individual tool through synergistic interaction (Brown et al., 2023; Ortiz, 2023).

Despite the growing literature on both digital transformation and sustainability, the specific nexus between the two within startup contexts remains underexplored. Most existing research either focuses on digital transformation in large, established organizations—where institutional resources and strategic planning horizons differ substantially from startup conditions—or examines sustainability in startups without adequately accounting for the enabling or constraining role of digital technology (Singh & Gupta, 2020; Chen et al., 2020). Frameworks for linking digital capabilities to scalable sustainability strategies remain nascent, and empirical evidence on how startups navigate the technological, financial, and organizational barriers to digital sustainability adoption is fragmentary. Furthermore, the mediating role of market-driven business model innovation in

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translating digital capabilities into sustainable performance outcomes has received limited theoretical elaboration.

This study addresses these gaps through three interlocking analytical contributions. First, it examines how specific digital capability dimensions—exploitation, exploration, and strategic adoption—relate to sustainable business performance and market-driven innovation among a sample of 350 startup entrepreneurs. Second, it situates these quantitative findings within a qualitative and case-based analysis of three prominent startups (Zerodha, Tesla, and Swiggy) that have successfully integrated digital transformation to advance environmental, operational, and social sustainability objectives. Third, it identifies and theorizes the principal barriers to digital sustainability adoption that constrain startup-level impact, drawing on both survey evidence and expert interviews. Through these contributions, the study aims to provide both a theoretically coherent and practically actionable understanding of how startups can leverage digital transformation to build sustainable, resilient, and scalable business models—a contribution with implications for entrepreneurs, policymakers, and institutional investors operating in sustainability-conscious markets.

Scope and Research Objectives

This study focuses on how digital transformation enables sustainable business model development within startup ecosystems. It examines the adoption of emergent technologies—including AI, IoT, blockchain, and cloud computing—as instruments for integrating sustainability into startup operations, with particular attention to resource optimization, waste reduction, circular economy practices, and stakeholder engagement. The research encompasses both quantitative analysis of digital capability–sustainability performance relationships and qualitative investigation of implementation challenges and enabling conditions. The study is geographically diverse in its survey sample, spanning multiple industry sectors, and draws on both primary data and real-world case analysis.

The study pursues three specific objectives: (1) to examine how digital transformation capabilities enable sustainable practices in startup organizations; (2) to analyze the effects of specific digital tools and strategic orientations on sustainability-oriented business model innovation; and (3) to identify actionable insights for startups, policymakers, and investors seeking to align digital strategy with sustainable development imperatives.

These objectives are motivated by six identified gaps in the existing literature: a paucity of empirical research examining sustainability transformation processes in startup-specific contexts; insufficient attention to circular economy practices as digital sustainability outcomes; limited investigation of digital stakeholder collaboration as a sustainability mechanism; minimal evidence on context-sensitive strategies for overcoming technological adoption barriers; the absence of validated frameworks linking startup digital capabilities to scalable sustainability performance; and a lack of empirically grounded guidance for connecting digital transformation strategies to measurable sustainable development outcomes.

LITERATURE REVIEW

The literature on digital transformation and sustainability converges on a central argument: that digital technologies provide both the infrastructure and the analytical capacity through which organizations can pursue environmental, social, and economic sustainability goals simultaneously. However, the empirical evidence on how this convergence operates in startup contexts specifically is heterogeneous in its coverage, theoretical framing, and methodological rigor. This review synthesizes the relevant literature across five thematic domains: digital ecosystems and sustainable scaling; circular economy integration; stakeholder collaboration; technological barriers and digital literacy; and the empirical relationships between digital capabilities and sustainability performance.

Digital Ecosystems as Enablers of Sustainable Scaling

The concept of the digital ecosystem—an interconnected network of digital technologies operating in synergistic combination rather than in isolation—has gained significant traction in the sustainability literature. Brown et al. (2023) demonstrated that digital innovation ecosystems accelerate sustainable business model development by enabling startups to simultaneously access cloud infrastructure, AI-driven analytics, and IoT-based monitoring in an integrated technological environment. The multiplicative logic of digital ecosystems is critical: while any single technology may incrementally improve a startup's resource efficiency or transparency, the combination of AI, IoT, and blockchain can generate operational intelligence, real-time accountability, and supply chain traceability in ways that individually they cannot. This argument is reinforced by Ortiz (2023), who showed that sustainable digital innovation ecosystems in global entrepreneurship significantly amplify competitive advantage by reducing the transaction costs of inter-organizational sustainability collaboration.

The scalability dimension of digital ecosystems is particularly relevant for startups, which must achieve sustainability outcomes without the capital depth of established corporations. Ahmed, Khan, and Hassan (2022) demonstrated that cloud computing architectures substantially reduce the infrastructure costs of sustainable digital operations, enabling small firms to access enterprise-level analytical and operational tools on a variable-cost basis. This cost-structure transformation is not merely operational; it is strategic—it changes the conditions under which startups can commit to sustainability-intensive business models that would otherwise be financially prohibitive at early stages of development. Lee, Choi, and Shin (2019) contextualized this dynamic within emerging markets, where digital transformation frameworks must account for infrastructural variability, regulatory heterogeneity, and institutional constraints that differ markedly from high-income economy startup environments.

Circular Economy Integration through Digital Transformation

The circular economy—a regenerative economic model premised on the elimination of waste through material reuse, product lifecycle extension, and restorative design—has emerged as one of the most substantively important applications of digital transformation in sustainable business model development. Kim, Park, and Lee (2023) demonstrated that advanced digital technologies, including IoT-based lifecycle monitoring and AI-driven material flow optimization, substantially improve the operational feasibility of circular economy implementation in manufacturing and logistics sectors. The data-intensive demands of circular economy management—tracking materials across extended supply chains, predicting end-of-life conversion pathways, and coordinating reverse logistics—are precisely the kinds of analytical challenges for which AI and IoT are architecturally suited.

Zhang, Wang, and Liu (2021) presented an integrative framework linking digital transformation with circular economy principles in startup business models, arguing that digital tools enable startups to design products and processes for circularity from inception rather than retrofitting sustainability onto existing linear business architectures. Garcia, Santos, and Fernandez (2019) extended this argument to show that circular economy integration through digital strategies generates measurable competitive advantages, as the cost savings from waste elimination and material efficiency compound over time into structural differentiation. Justyna (2023) further examined how circular economy principles embedded in digital transformation strategies contribute to corporate social responsibility positioning and long-term brand resilience, particularly in consumer-facing startup sectors where sustainability credentials increasingly influence purchasing behavior. Nakamura, Zhang, and Liu (2022) corroborated these findings in their analysis of blockchain-enabled circular economy strategies, demonstrating that distributed ledger technology provides the verifiability and immutability necessary to sustain consumer trust in circular product claims.

Digital Stakeholder Collaboration for Sustainability

Sustainability outcomes in startup ecosystems are rarely achievable through unilateral organizational action; they depend on the effective coordination of multiple stakeholders—including suppliers, customers, regulators, investors, and civil society organizations—around shared sustainability goals. Digital transformation materially expands the scope and quality of stakeholder engagement available to startups by providing real-time communication channels, shared data environments, and collaborative decision-making platforms that transcend organizational boundaries (Mishra & Sharma, 2022; Rao & Kumar, 2023).

Nakamura, Suzuki, and Yamamoto (2021) developed a digital stakeholder engagement model demonstrating that startups using integrated digital platforms for supply chain transparency, customer feedback aggregation, and investor reporting achieve significantly higher levels of stakeholder trust and sustainability alignment than those relying on episodic or unstructured engagement. Zhang, Li, and Liu (2021) reinforced this finding through their analysis of stakeholder collaboration mechanisms in digital sustainable startups, identifying co-creation platforms and open data architectures as particularly effective instruments for generating the shared knowledge and mutual accountability necessary for sustained sustainability commitment across the value chain. Ghosh and Roy (2021) examined the role of social media as a stakeholder engagement mechanism, demonstrating that strategic social media use enables startups to build sustainability narratives, attract sustainability-oriented investors, and foster community-level accountability that reinforces internal sustainability commitments. The collaborative potential of digital platforms is thus not merely communicative but constitutive: it shapes the organizational identity and stakeholder expectations within which sustainability strategies are formulated and pursued.

Technological Barriers and Digital Literacy Challenges

The transformative potential of digital technologies for startup sustainability is substantially mediated by a persistent set of adoption barriers that the literature consistently identifies. Singh and Gupta (2020) conducted a systematic analysis of startup-level digital transformation barriers, identifying technological literacy deficits, resource constraints, and the high initial capital costs of digital infrastructure as the three most frequently cited impediments. For early-stage startups operating with limited financial runway, the upfront investment required to deploy AI, blockchain, or enterprise IoT systems can represent a prohibitive commitment relative to the uncertain timeframe over which returns on that investment will materialize.

Chen, Liu, and Zhao (2020) examined the structural dimensions of digital transformation challenges in sustainable entrepreneurial ecosystems, demonstrating that inadequate digital infrastructure—particularly in developing economy contexts—creates a systemic disadvantage for sustainability-oriented startups that cannot be addressed at the firm level alone. Their analysis points to the need for public investment in digital infrastructure as a precondition for unlocking the sustainability potential of startup ecosystems in resource-constrained environments. Khan, Ahmed, and Rahman (2019) similarly found that technological barriers in sustainable digital entrepreneurship are compounded by institutional gaps—weak regulatory frameworks, limited intellectual property protection, and insufficient access to venture capital for sustainability-focused ventures—that require coordinated policy responses. Wang and Liu (2023) and Fernandez and Lopez (2022) identified cultural and organizational barriers as complementary impediments, particularly the resistance to digital-sustainable business model innovation that arises in organizations where traditional operational mindsets are entrenched. The implication is that digital literacy—the capacity of entrepreneurs to understand, evaluate, and implement digital technologies in service of sustainability goals—is not merely a training problem but a systemic challenge requiring ecosystem-level attention.

Digital Capabilities and Sustainability Performance: Empirical Evidence

The empirical literature on the relationship between specific digital capabilities and measurable sustainability outcomes provides the most direct foundation for the present study's analytical framework. Kumar, Patel, and Gupta (2020) demonstrated that digital technology adoption in sustainable entrepreneurial strategies was positively associated with operational efficiency, waste reduction, and stakeholder satisfaction across a multi-sector sample of Indian startups. Khan (2021) found that big data analytics capabilities significantly improved resource optimization in sustainability-oriented startups, offering a framework through which data-driven insights translate into measurable environmental performance improvements. Nguyen, Kim, and Park (2021) extended this to show that AI-specific strategies for sustainable digital business innovation produced significant effects on both operational and reputational sustainability metrics.

Ali and Khan (2020) examined the sustainability-enabling role of e-commerce platforms during the pandemic period, demonstrating that digital marketplace adoption allowed startups to maintain supply chain sustainability commitments under conditions of physical disruption—a finding that highlighted the resilience-building dimension of digital transformation that conventional sustainability performance metrics may undercount. Tanaka (2022) contributed a detailed analysis of energy efficiency optimization through digital technologies, demonstrating that IoT-based monitoring and AI-driven energy management systems produce measurable reductions in energy intensity for startups across multiple sectors. Patel, Gupta, and Sharma (2020) synthesized these threads in their analysis of AI strategies

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in digital sustainable entrepreneurship, arguing that the sustainability impact of AI is most pronounced when it is embedded within a coherent digital strategy that specifies sustainability performance targets, data architectures, and feedback mechanisms—a finding that directly anticipates the centrality of digital strategy adoption in the present study's empirical results.

METHODS

This study employed a mixed-methods research design to examine the relationships among digital capabilities, digital strategy adoption, digital transformation, market-driven business model innovation, and sustainable business performance in startup ecosystems. The integration of quantitative and qualitative evidence was deliberate: the quantitative component provided statistically robust estimates of hypothesized relationships, while the qualitative component—comprising expert interviews and case analysis—offered interpretive depth on the mechanisms and contextual conditions shaping those relationships.

Quantitative Component: Survey Design and Sampling

Primary quantitative data were collected through a structured questionnaire administered to 350 entrepreneurs and senior decision-makers across startups in diverse industry sectors. The instrument comprised two sections. The first captured demographic and organizational characteristics, including respondent gender, age, educational attainment, marital status, company age, company type and size, sector classification, and primary digital technologies used. The second section assessed five theoretical constructs using validated multi-item scales: digital exploitation capabilities (the use of existing digital assets and knowledge to improve operational performance), digital exploration capabilities (the pursuit of novel digital tools and configurations to generate new opportunities), digital strategy adoption (the degree to which digital technology is embedded in formal strategic planning), digital transformation (the breadth and depth of digital integration across organizational processes), and market-driven business model innovation (the responsiveness of the business model to digitally enabled market signals and sustainability demands). All items were measured on a five-point Likert scale. Construct validity and reliability were assessed through Average Variance Extracted (AVE), Composite Reliability (CR), and Cronbach's alpha, with all constructs meeting the conventional thresholds of AVE > 0.50, CR > 0.70, and $\alpha > 0.70$.

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Qualitative Component: Expert Interviews and Case Analysis

Qualitative data were gathered through 20 in-depth, semi-structured interviews with industry experts possessing direct experience in digital transformation implementation and sustainability strategy within startup and entrepreneurial contexts. Interview protocols were developed from the study's conceptual framework and addressed barriers to digital sustainability adoption, enabling conditions for successful integration, and perceptions of the most consequential digital technologies for startup sustainability. Thematic analysis following Braun and Clarke's (2006) six-phase framework was applied to interview transcripts, with coding conducted both deductively (guided by the study's theoretical categories) and inductively (open to emergent themes not anticipated by the framework). The case analysis of Zerodha, Tesla, and Swiggy was developed through secondary source synthesis, selected purposively to represent diversity in industry sector, geographic context, and technology focus.

Statistical Analysis

Structural equation modelling (SEM) was employed to test the hypothesized relationships among the study's five latent constructs, using standardized beta coefficients (Std. Beta) and t-statistics to assess the direction, magnitude, and significance of each pathway. The dependent outcome variable in all models was sustainable business performance (SBP), with market-driven business model innovation (MDBMI) modelled both as an outcome of digital capabilities and as a predictor of SBP to assess its mediating role.

RESULTS AND DISCUSSION

Sample Profile

Table 1 presents the demographic and organizational profile of the 350 survey respondents. The sample was majority male (56.9%), with 43.1% female respondents—a gender distribution broadly representative of entrepreneurial populations in emerging market startup contexts, where male founders continue to predominate despite growing female entrepreneurship rates (Kumar & Singh, 2020). The largest age cohort was 41–50 years (34.9%), followed by 31–40 years (30.3%), indicating that the sample was primarily composed of mid-career entrepreneurs with substantive professional and organizational experience. This age distribution is relevant for interpreting digital adoption patterns, as mid-career entrepreneurs may simultaneously possess the strategic maturity to appreciate digital transformation's

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long-term value and the experience-based risk aversion that can slow adoption of novel technologies (Brown et al., 2023).

Educational attainment was high, with 40.0% holding postgraduate degrees and 28.3% holding bachelor's degrees—a profile consistent with the knowledge-intensive nature of digital startup environments and with prior research suggesting that higher educational attainment is

Table 1

Demographic and Organizational Profile of Survey Respondents (N = 350)

Category / Classification	n	% of Total
Gender		
Female	151	43.1
Male	199	56.9
Age Group		
21–30 years	52	14.9
31–40 years	106	30.3
41–50 years	122	34.9
51–60 years	70	20.0
Education Level		
Bachelor's degree	99	28.3
Master's degree	140	40.0
MPhil	52	14.9
Other	59	16.9
Marital Status		
Single	184	52.6
Married	166	47.4
Company Age		
Newly established (0–5 years)	60	17.1
Emerging (6–10 years)	120	34.3
Established (11–20 years)	110	31.4
Long-standing (>20 years)	60	17.1

Category / Classification	n	% of Total
Company Type		
Public sector entities	118	33.7
Privately held firms	62	17.7
Cooperative / alliance	85	24.3
Global participants	51	14.6
Other entities	34	9.7
Company Size (Employees)		
<100 (Small)	42	12.0
100–500 (Medium)	55	15.7
500–1,000 (Large)	78	22.3
>1,000 (Corporate)	87	24.9
Not reported	88	25.1
Primary Digital Technologies Used		
Databases	92	26.3
Artificial Intelligence	87	24.9
Internet of Things	80	22.9
Cloud Computing	51	14.6
Big Data Analytics	40	11.4

positively associated with digital technology adoption and sustainability orientation (Rao & Kumar, 2023). Company age distribution reflected a mix of early-stage and established ventures, with 17.1% newly established (0–5 years) and 34.3% in the 6–10 year range, suggesting that the sample captures both nascent and scaling-stage digital adoption dynamics. Among digital technologies in use, databases (26.3%) and AI (24.9%) were the most prevalent, followed by IoT and cloud computing—a technology profile consistent with the study's theoretical focus on AI-driven sustainability strategies.

Structural Model Results: Direct Effects on MDBMI and SBP

Table 2 presents the results of the structural equation model testing the hypothesized direct effects of digital capability dimensions, digital strategy adoption, and digital transformation on market-driven business model innovation and sustainable business performance.

The structural model results reveal a consistent and theoretically coherent pattern: all five digital constructs exert statistically significant positive effects on both SBP and MDBMI, but the magnitude and pathway of these effects differ in ways that carry important theoretical and practical implications.

Digital Exploitation and Exploration Capabilities

Digital exploitation capabilities—reflecting the effective use of established digital assets, platforms, and operational knowledge—demonstrated significant effects on both SBP ($\beta = 0.215$, $p < 0.01$) and MDBMI ($\beta = 0.235$, $p < 0.05$). These findings align with the dynamic capabilities framework (Teece et al., 1997), which holds that the ability to reconfigure and extend existing technological competencies in response to market demands is a fundamental determinant of sustainable competitive advantage. In the startup context, exploitation capabilities represent the operational foundation of digital sustainability: startups that have mastered existing digital tools are better positioned to deliver consistent, measurable sustainability performance improvements in energy efficiency, waste reduction, and resource tracking (Khan, 2021).

Digital exploration capabilities—capturing the pursuit of novel digital configurations and emerging technology adoption—also exerted significant positive effects on SBP ($\beta = 0.192$, $p < 0.05$) and MDBMI ($\beta = 0.265$, $p < 0.01$). The stronger effect of exploration on MDBMI relative to SBP is theoretically interpretable: exploration-oriented startups that continuously experiment with new digital technologies are more likely to identify and implement disruptive business model innovations that expand market reach and redefine competitive positioning (Brown et al., 2023). However, the inherent uncertainty of exploration—its characteristic trade-off between discovery potential and implementation risk—may explain why its direct effect on the more operationally grounded SBP construct is somewhat weaker than its effect on the innovation-oriented MDBMI construct. This differential pattern is consistent with March's (1991) seminal exploration-exploitation trade-off framework and suggests that sustainability performance in startups may benefit from a balanced ambidextrous digital strategy that combines operational discipline with exploratory innovation.

Digital Strategy Adoption

Digital strategy adoption produced the strongest effects on both MDBMI ($\beta = 0.320$, $p < 0.001$) and SBP ($\beta = 0.245$, $p < 0.01$) among all digital capability constructs, making it the most consequential single predictor of sustainability-related outcomes in the model. This finding extends and strengthens a growing body of evidence

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Table 2

Hypothesis Testing – Direct Effects of Digital Constructs on MDBMI and SBP

H	Relationship	Std. β	Std. Error	t-Value	p
H1	Digital exploitation capabilities → SBP	0.215	0.068	3.160	**
H1a	Digital exploitation capabilities → MDBMI	0.235	0.091	2.580	*
H2	Digital exploration capabilities → SBP	0.192	0.070	2.745	*
H2a	Digital exploration capabilities → MDBMI	0.265	0.088	3.010	**
H3	Digital strategy adoption (DSA) → SBP	0.245	0.072	3.400	**
H3a	Digital strategy adoption (DSA) → MDBMI	0.320	0.090	3.556	***
H4	Digital transformation (DT) → SBP	0.220	0.066	3.333	**
H4a	Digital transformation (DT) → MDBMI	0.240	0.094	2.553	*
H5	MDBMI → SBP	0.398	0.096	4.150	***

Note. * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$. *Std. β = standardized regression coefficient; MDBMI = market-driven business model innovation; SBP = sustainable business performance; DSA = digital strategy adoption; DT = digital transformation.*

suggesting that the sustainability impact of digital technology is not primarily a function of technology type or sophistication, but of strategic intentionality—the degree to which digital capabilities are systematically embedded in the organization's formal planning, resource allocation, and performance management processes (Martin & Thompson, 2018; Patel et al., 2020). Startups that articulate a coherent digital strategy are, in effect, creating the organizational architecture within which individual digital tools can achieve their sustainability potential: strategy provides the purpose, the metrics, and the resource commitments that translate technology capability into operational outcome.

This finding carries a particular resonance for the startup context. Unlike large organizations, which typically have dedicated strategy and technology functions, startups must achieve strategic coherence under conditions of resource scarcity, team capacity constraints, and rapidly evolving market environments. The fact that DSA emerged as the dominant predictor of both MDBMI and SBP in this sample suggests that the returns to strategic clarity are particularly pronounced in resource-constrained environments, where the absence of strategic direction amplifies the waste of limited technological investment (Smith & Lee, 2019).

Digital Transformation and MDBMI as Mediator

Digital transformation exerted significant effects on both SBP ($\beta = 0.220$, $p < 0.01$) and MDBMI ($\beta = 0.240$, $p < 0.05$), confirming that broad, organization-wide digital integration—beyond any single capability or tool—independently contributes to sustainability performance. This result is consistent with Vaishnav (2024) and Raut et al. (2021), who argue that the sustainability benefits of digitalization are most fully realized when digital technologies are integrated across the full operational architecture of the organization, rather than deployed as isolated applications within specific functional domains.

The most striking finding in the structural model is the strong effect of MDBMI on SBP ($\beta = 0.398$, $p < 0.001$)—the largest coefficient in the entire model. This result positions market-driven business model innovation as a critical mediating pathway between digital capabilities and sustainable business performance: digital transformation and strategic adoption create the conditions for business model innovation, which in turn drives measurable sustainability outcomes. The implication is that the path from digital capability to sustainable performance is not direct but runs substantially through the redesign of the business model itself. Startups that leverage digital capabilities to innovate their revenue models, value propositions, and stakeholder relationships—rather than merely optimizing existing operations—achieve significantly stronger sustainability performance. This mediation logic is consistent with Bocken et al.'s (2019) framework of sustainable business model archetypes, which emphasizes that technological enablement achieves its greatest sustainability impact when it catalyzes structural business model redesign rather than incremental operational improvement.

Case Evidence: Digital Transformation in Practice

The quantitative findings are illuminated by case evidence from three startups that have implemented distinct but complementary digital transformation strategies in service of sustainability objectives.

Zerodha: Blockchain for Financial Transparency and Sustainability

Zerodha, a Bengaluru-based financial technology startup, has deployed blockchain technology to establish a verifiable, immutable record of financial transactions—a design choice that simultaneously advances operational transparency, reduces fraud risk, and eliminates the paper-based documentation processes that characterize conventional financial services. By recording each transaction on a distributed ledger, Zerodha creates a permanent, independently auditable trail that supports its sustainability commitments in the financial sector, where accountability and governance are defining dimensions of stakeholder trust. The company's use of digital platforms to communicate socially responsible investment options to clients integrates sustainability advocacy into the customer relationship itself, aligning commercial interaction with sustainability education in a manner that reinforces both goals. Zerodha's case is a demonstration of Chen and Zhang's (2019) proposition that blockchain's primary sustainability contribution in the financial sector is not energy-related but informational: by eliminating information asymmetry and creating verifiable accountability, it enables the governance transparency that sustainable finance requires.

Tesla: AI and IoT for Circular Energy Management

Tesla's integration of AI and IoT across its electric vehicle and energy storage product lines represents one of the most architecturally coherent examples of digital-sustainability convergence in the global startup-to-scale literature. The company's AI algorithms continuously optimize energy consumption in both its vehicles and its SolarCity energy systems, responding in real time to usage patterns, grid conditions, and environmental variables to maximize efficiency and minimize waste. IoT connectivity enables remote monitoring of energy consumption across Tesla's customer base, creating a platform through which individual consumption data aggregates into collective intelligence that improves system-level efficiency over time. Tesla's Gigafactory manufacturing operations extend this commitment upstream, using renewable energy sources and circular battery material recycling to minimize the environmental footprint of production itself. This case embodies the full-ecosystem logic of digital sustainability that Brown et al. (2023) describe: the sustainability impact of Tesla's digital systems is not bounded by any single technology but arises from the interaction of AI, IoT, and circular manufacturing processes across the product lifecycle. The company's experience also illustrates the scalability premium of digital sustainability strategies: the marginal cost of extending AI-driven efficiency optimization to each additional vehicle or energy storage unit is negligible, while the sustainability impact scales proportionally—a compounding return structure unavailable to resource-intensive conventional energy systems.

Swiggy: Data Analytics for Waste Reduction and Social Responsibility

Swiggy, India's leading food delivery platform, provides a case of sustainability-oriented digital strategy in a logistics-intensive operational context where the sustainability impacts of digital transformation are distributed across a

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complex network of restaurants, delivery partners, and consumers. The company employs machine learning algorithms to predict delivery demand, optimize routing, and minimize fuel consumption—a direct application of data analytics to carbon emission reduction that demonstrates how operational intelligence generates environmental as well as commercial dividends. Swiggy's food waste reduction initiative—through which surplus food from partnered restaurants is donated to charitable organizations via digital platform coordination—integrates social responsibility directly into the operational workflow, making sustainability participation a default feature of the platform rather than an opt-in corporate social responsibility program. This design choice reflects the stakeholder integration logic articulated by Nakamura et al. (2021): when digital platforms are designed to make sustainable behavior the path of least resistance for participants, sustainability outcomes are achieved at scale without requiring voluntary behavior change. Swiggy's case is particularly relevant as an illustration of how mid-stage startups can use digital capabilities to simultaneously address environmental sustainability (emission reduction), food system sustainability (waste reduction), and social equity (food redistribution)—achieving multidimensional sustainability impact through a single integrated digital strategy.

Opportunities and Challenges of Digital Sustainability in Startups

The survey data and interview findings collectively illuminate both the enabling conditions and the structural constraints that shape digital sustainability adoption in startup ecosystems.

Enabling Opportunities

Digital technologies create at least six substantively important opportunity pathways for startup sustainability. First, AI and IoT enable resource efficiency gains that are scalable and continuous—improving over time as data accumulates and algorithms refine their predictive models, unlike one-time operational efficiency improvements from conventional interventions. Second, blockchain and digital reporting platforms foster the operational transparency and accountability that sustainability-conscious investors, customers, and regulators increasingly require, reducing the reputational risk of unverified sustainability claims. Third, data analytics capabilities support the evidence-based decision-making that transforms sustainability from a values commitment into a measurable strategic orientation—enabling startups to identify, quantify, and communicate their sustainability performance with the credibility necessary for stakeholder confidence. Fourth, circular economy practices become operationally feasible at startup scale when digital technologies can track material flows, predict end-of-life conversion pathways, and coordinate reverse logistics at low marginal cost. Fifth, digital stakeholder engagement platforms enable the multi-party collaboration that sustainability challenges inherently require, allowing startups to coordinate with suppliers, customers, and community organizations in real time. Sixth, digital business models—enabled by platform architectures, API ecosystems, and cloud infrastructure—open revenue stream opportunities that are inherently less resource-intensive than physical product models, creating structural alignment between commercial and environmental sustainability objectives.

Structural Barriers to Digital Sustainability Adoption

Against these opportunities, the research consistently identifies six categories of barrier that constrain startup-level digital sustainability adoption. The high initial capital costs of enterprise-grade digital infrastructure—particularly for AI and IoT deployments—remain prohibitive for seed-stage and Series A startups operating with constrained financial runway. Digital literacy deficits among founders and employees limit the effective utilization of digital tools that are technically available but organizationally underimplemented; this is not merely a training issue but reflects systemic gaps in the educational preparation of entrepreneurs for technology-intensive business environments (Singh & Gupta, 2020). Technological infrastructure gaps in developing economy contexts create geography-based inequalities in digital sustainability capacity that no firm-level strategy can fully overcome without public investment (Chen et al., 2020). Organizational resistance to the cultural and process changes associated with digital-sustainable business model transformation is a fourth barrier documented consistently in the qualitative literature (Fernandez & Lopez, 2022). The challenge of achieving scalability in digital sustainability strategies—ensuring that environmental performance improvements scale proportionally with growth rather than being offset by scale-related resource demands—represents a design challenge that current frameworks address inadequately. Finally, data privacy and cybersecurity concerns introduce governance complexity into digital sustainability strategies, particularly when sustainability monitoring systems collect sensitive operational data from supply chain partners, employees, or customers, creating potential tensions between transparency imperatives and privacy obligations.

Managerial and Policy Implications

The findings generate a set of differentiated implications for three primary constituencies. For startup founders and managers, the central lesson is strategic: the sustainability returns to digital technology are substantially mediated by the coherence and intentionality of the digital strategy within which those technologies are deployed. Investing in digital tools without a clearly articulated digital strategy that specifies sustainability objectives, performance metrics, and feedback mechanisms is unlikely to generate proportionate sustainability performance improvements. The finding that MDBMI is the strongest single predictor of SBP in the model suggests that startups should prioritize business model innovation—the redesign of value propositions, revenue architectures, and stakeholder relationships—as the primary mechanism through which digital capabilities are converted into sustainability impact. Practically, this means that digital transformation initiatives should be evaluated not only for their operational efficiency gains but for their potential to enable entirely new approaches to value creation and delivery that are structurally more sustainable.

For policymakers, the evidence on technological and infrastructural barriers points to the need for targeted public intervention at multiple levels. Reducing the capital cost of digital infrastructure adoption for sustainability-oriented startups—through tax incentives, subsidized cloud access programs, or co-investment mechanisms—would lower the adoption barrier that currently limits the diffusion of digital sustainability strategies to well-capitalized ventures. Investment in digital literacy programs, particularly at the level of vocational and entrepreneurial education, is a systemic intervention with compounding returns: each cohort of entrepreneurs equipped with robust digital capabilities increases the collective capacity of the startup ecosystem to pursue sustainability objectives. Regulatory frameworks that provide startups with clear and stable incentive structures for sustainability reporting and circular economy adoption—without imposing compliance burdens that are disproportionate to startup capacity—would create the institutional environment within which digital sustainability strategies can be pursued with greater certainty and ambition.

For investors, the structural equation model results provide empirical grounding for due diligence frameworks that evaluate startup digital capabilities and strategic orientation as leading indicators of sustainability performance. The finding that DSA is the strongest predictor of both MDBMI and SBP suggests that investment screening criteria should include systematic assessment of whether portfolio candidates have articulated a coherent digital strategy with explicit sustainability objectives—a criterion that is operationally assessable and empirically linked to long-term performance. The strong mediating role of MDBMI further implies that investors should prioritize startups that leverage digital capabilities for business model redesign rather than merely for operational optimization.

ORIGINAL ARTICLE

Directions for Future Research

This study identifies several productive directions for further empirical investigation. Longitudinal research tracking the same cohort of startups across multiple digital transformation stages would substantially improve causal inference about the relationship between digital capability development and sustainability performance, moving beyond the cross-sectional snapshot that the present study provides. Comparative studies examining digital sustainability adoption across geographically distinct startup ecosystems—particularly comparing high-income economy contexts with developing economy contexts, where infrastructure and institutional conditions differ markedly—would generate more nuanced evidence on the contextual boundary conditions of the relationships identified here. Future research should also develop and validate more granular frameworks for circular economy integration through digital transformation, specifying the technological configurations, organizational competencies, and stakeholder coordination mechanisms that most effectively support circular economy practice adoption at different stages of startup development. The role of digital stakeholder collaboration as a sustainability mechanism deserves independent investigation through network analytic approaches that can map the structure and intensity of inter-organizational digital sustainability relationships. Finally, the barriers to digital sustainability adoption warrant longitudinal qualitative investigation that can trace how specific startups navigate—or fail to navigate—the financial, organizational, and institutional obstacles identified in the present study, generating the situated knowledge that can inform both practitioner strategy and policy design.

CONCLUSION

This study has examined the role of digital transformation in promoting sustainable business models among startup organizations, drawing on structural equation modelling of survey data from 350 entrepreneurs, expert interviews with 20 industry specialists, and case analysis of three digitally advanced startups. The evidence consistently supports the conclusion that digital capabilities—spanning exploitation, exploration, strategic adoption, and broad organizational transformation—exert significant positive effects on both market-driven business model innovation and sustainable business performance. The strongest effect in the structural model was that of market-driven business model innovation on sustainable performance, positioning MDBMI as the critical mediating mechanism through which digital capabilities translate into measurable sustainability outcomes. This finding underscores a theoretically important lesson: digital transformation achieves its fullest sustainability impact not through incremental operational optimization, but through the fundamental redesign of how value is created, delivered, and captured.

Digital strategy adoption emerged as the most consequential single predictor of sustainability performance in the model, reinforcing the argument that technological investment without strategic intentionality generates substantially lower sustainability returns. This finding has direct implications for how startups should approach their digital journeys: the adoption of any given technology is less important than the clarity and coherence of the strategic framework within which that technology is deployed. The case evidence from Zerodha, Tesla, and Swiggy illustrates with specificity how blockchain-enabled transparency, AI-IoT integration, and data-driven waste reduction can each advance sustainability objectives across financial, energy, and logistics domains—while the structural model evidence establishes that these outcomes are not idiosyncratic to these particular companies but reflect generalizable relationships between digital capability and sustainability performance.

At the same time, the study is unequivocal in acknowledging that the transformative potential of digital sustainability strategies is constrained by structural barriers—financial, organizational, and institutional—that disproportionately affect early-stage ventures in resource-constrained environments. Addressing these barriers requires coordinated action by policymakers, investors, and entrepreneurship support ecosystems, not individual startup effort alone. The present study contributes both the empirical evidence and the analytical framework to motivate and guide that coordinated response, offering a rigorous foundation for the expanding scholarly and policy conversation on digital sustainability in entrepreneurship.

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