## A PERCEIVED ROLE OF OFFSHORE OUTSOURCING STRATEGY IN ACHIEVING SUCCESS OF TECHNOLOGY START-UPS

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## ABSTRACT

*This qualitative phenomenological research paper addressed the problem of lack of understanding about the reasons of the continuing underachievement in success of offshore outsourcing strategies. The purpose of this paper was to examine the perceived effect of offshore outsourcing strategies on success of technology start-ups. The study involved an exploration into the experiences of 43 organizational leaders and entrepreneurs who had experience with offshore outsourcing activities within technology start-ups from Silicon Valley, California. The study utilized semistructured in-depth interviews to collect the data. Data were managed with NVivo 8.0 software for data analysis. The findings reveal that offshore outsourcing strategy could help technology start-ups to achieve success if they monitor and control the outsourcing activities. The findings suggest that technology start-ups may wish to consider setting up a design center or branch in the Asia Pacific region as an alternative to offshore outsourcing. The findings of the study could contribute to the survival and success of start-ups through success of outsourcing, which in turn contributes to society and the growth of economy through the retention of existing jobs and the creation of new jobs, and new innovation.*

**Keywords**: small business, start-up, success, outsourcing, offshore outsourcing, success strategy

### INTRODUCTION

As globalization intensifies, organizations are facing greater pressure to expand their operations, enhance productivity, and lower the operational cost. Offshore outsourcing is a strategy through which organizations can achieve cost efficiencies. By definition, offshore outsourcing is a strategy where an organization contracts some work to an independent organization based in another nation to accelerate product development by taking advantage of cost reduction and the local talent pool (Bhagwati, Panagariya, &

Srinivasan, 2004). In the initial stage of inception, technology start-up organizations mainly depend on a single, innovative product or service (Nobeoka & Cusumano, 1997). It is crucial for technology start-ups to outsource some functional tasks and come out with the product in time to meet the high demands of the market.

The use of offshore outsourcing strategies may help organizations to achieve success of projects, produce products on time, and generate revenue (Kakabadse, 2005). The failure of offshore outsourcing strategies by start-ups causes financial loss to financially limited start-ups, along with a possible risk of missing the opportunity to release products in time due to the loss of project time. Earlier researchers estimated that 70% of offshore outsourcing tasks are either rescinded or re-negotiated (Ferguson, 2004). The failure of offshore outsourcing strategy is a major concern for entrepreneurs and organizational leaders of small business organizations, including technology start-ups. Even though the failure of offshore outsourcing affects organizations negatively, in a technology start-up, the failure could be a heavy loss both financially and in time-to-market aspects. Hence, this paper includes a focus on technology start-ups.

The current qualitative phenomenological research paper examined if start-ups can use offshore outsourcing to benefit from this strategy at the cost of potential risks; and if so, how the adoption of offshore outsourcing strategies could affect the success of technology start-ups. This paper also includes an examination of how to overcome the challenges and risks involved in offshore outsourcing to achieve success of offshore outsourcing; and finally, the perceived role of alternate solutions for offshore outsourcing, such as setting-up a

design center or branch in overseas to achieve success of start-ups. The degree to which the outsourcing objectives are achieved is defined as success of offshore outsourcing (Misra, 2004).

**Technology Start-ups and Offshore Outsourcing**. The emergence of start-up organizations into an industry enables the evolution of the industry; is crucial for economic development in general; and results in innovation through the introduction of new products (Harris & Gibson, 2006). Start-up organizations are significant to any nation's economic growth because they result in the creation of jobs and technological innovation (Harris, Grubb, & Hebert, 2005). Failure of start-ups is a major concern for entrepreneurs, venture capitalists, and economic growth professionals (Taylor & Seanard, 2004).

The major benefits of offshore outsourcing include (a) a reduction in operating cost (Oke, Maltz, & Christiansen, 2009), (b) reduction or transfer of the risk to the offshore outsourcing provider who has capabilities to manage the risks using their core competencies (Farrell, 2004; Taylor, 2006), (c) globalization and intense worldwide presence to meet worldwide competition (Kumar, van Fenema, & von Glinow, 2009), (d) improvement in quality (Beaumont & Costa, 2002), (e) savings in project time (Denny, Mani, Nadella, Swaminathan, & Samdal, 2008), and (f) a chance to refocus on core business and technology (Cecere, 2005). Both large and small organizations use offshore outsourcing as a strategy to gain an advantage over the competition and reduce costs.

However, the offshore outsourcing includes several risks and challenges as well. Evidence indicated offshore outsourcing

organizations face many challenges such as management of intellectual property (IP) and capital, which are critical to an organization's core business and survival (Barthelemy, 2003). Evidence purported that a large scope exists for leakage of innovation ideas and information technology through offshore outsourcing (Kleim, 2004). Other prominent disadvantages of offshore outsourcing include (a) a loss of quality control because offshore outsourcing reduces the amount of control the organization has over the quality of the services outsourced, (b) difficulty in reversing offshore outsourcing decisions, (c) concerns regarding the security of the data (Burns, 2008), and (d) technical obsolescence (Swartz, 2004). Swart and Kinnie (2003) purported knowledge and information transfer freely to the outside world as a result of offshore outsourcing. Because innovation ideas and technology are important for any start-up, the offshore outsourcing can be a risky strategy for start-ups.

The continuing failure of offshore outsourcing indicates the concrete reasons behind such failures are still unknown, despite significant research contributions in the field. An empirical research on offshore outsourcing strategies in technology start-ups is lacking. Moreover, all the organizations that adopt offshore outsourcing strategy face challenges. A need exists for a study to aid in understanding how to overcome the problems and achieve success in offshore outsourcing strategy by start-ups.

*Problem and Purpose Statement.* The problem addressed in this paper is the continuing underachievement in success of offshore outsourcing strategies, which often results in the failure of start-up organizations (Kang, Wu, & Hong, 2009).

According to the latest Bain Survey report, more than half of the organizations that have adopted offshore outsourcing strategy have failed to meet the expected benefits (Aron & Singh, 2005). The problems associated with failure of offshore outsourcing strategy include complaints on defected products and bad quality, employee dissatisfaction, lost competencies, and leakage of intellectual property (Hameri & Tunkelo, 2009). The failure of an offshore outsourcing strategy in a technology start-up might lead to failure of project, which in turn could lead to failure of start-up.

The purpose of this paper was to explore the experiences of 43 organizational leaders and entrepreneurs who were involved with both successful and failed offshore outsourcing activities within technology start-up organizations located in Silicon Valley, California; as well as to examine three specific aspects. These aspects include examination of (a) the perceived effect of offshore outsourcing strategies on success of technology start-ups; (b) how to achieve success of offshore outsourcing by overcoming the challenges and risks involved in offshore outsourcing strategy by technology start-ups; and (c) the perceived effect of alternate solution for offshore outsourcing such as setting-up an overseas design center or branch on the success of technology start-ups. The selected start-ups included companies from the hardware, software, and semiconductor industries. The general population of the current study was the organizational leaders and entrepreneurs within technology start-ups. These organizational leaders were the formal authorities who were involved in outsourcing activities within the start-up organization. Even though success in offshore outsourcing is significant for all organizations, success in offshore

outsourcing is crucial for technology start-ups. Hence, the main focus was given to technology start-ups.

## RESEARCH METHODOLOGY

To address the research shortfall, qualitative phenomenological study was used to explore the central phenomenon of achieving success of offshore outsourcing strategies by technology start-ups. As the nature of the current study was exploratory, and the use of qualitative study allows a focus on understanding the problem in detail based on participants' experiences and insights, the qualitative research method was appropriate for the current study (Vishnevsky & Beanlands, 2004). Because the intent of the current paper was not to examine the relationships among the categories of the central phenomenon of achieving success of offshore outsourcing strategies by technology start-ups, the use of a quantitative research method was not appropriate. The mixed method approach was not appropriate because the current study does not contain quantitative elements. This paper included an examination of the essence of a phenomenon through the perceptions of individuals (Conklin, 2007). The phenomenological research design was appropriate because of the need to examine various individuals in different industries to identify common themes and understand the central phenomenon under study (Giles, 2007).

**Research Questions**. To achieve a thorough understanding of the effect of offshore outsourcing on the success of technology start-ups and to discover the effect of alternate solutions such as setting-up a design center or branch in overseas on success of technology start-ups, the current

study included the use of the following research questions:

> *R1: How do entrepreneurs and organizational leaders perceive the role of offshore outsourcing strategies, regarding the success of start-ups?*
>
> *R2: How do entrepreneurs and organizational leaders achieve success by overcoming challenges in offshore outsourcing?*
>
> *R3: How do entrepreneurs and organizational leaders perceive setting-up a design center / branch overseas as an alternate solution for offshore outsourcing?*
>
> *R4: Which countries do the entrepreneurs and organizational leaders perceive suitable for setting-up a design center / branch?*

Based on the original research questions, several open-ended phenomenological interview questions, leading questions, and probing questions were used as an instrumentation tool to collect data from participants. Appendix illustrates some of these open-ended interview questions that significantly enhanced the goal of answering these research questions.

**Sampling Method and Size**. The use of semistructured interviews of 43 entrepreneurs and organizational leaders from Silicon Valley, California-based start-up organizations, who were involved with successful and failed offshore-outsourcing, encouraged discussion on the successful offshore outsourcing phenomenon. The current phenomenological study used purposive sampling and snowball sampling methods to identify and select the specific population from the general population of entrepreneurs and organizational leaders

who were involved with offshore outsourcing strategies within successful start-ups. The use of the purposive sampling technique aided in the selection of information-rich participants for studying the phenomenon in detail (Cooper & Schindler, 2003). The use of snowball sampling occurred to select a greater number of participants because the purposive sampling did not result in appropriate candidates to yield data saturation.

**Data Collection and Analysis**. The instrumentation tools used to collect the data for this phenomenological study included demographic survey and single-instance, semistructured, face-to-face interviews with participants. The use of an

in-depth interview approach helped to facilitate a vivid description and deeper insights of the participants' experiences and perceptions. The use of face-to-face, in-depth interviews helped to facilitate high accuracy and complete coverage of the research questions. The demographic information included two primary areas related to (a) general, (b) start-ups, and (c) offshore outsourcing (see Table 1). Table 1 summarizes the key demographics of participants related to start-ups. The demographics' findings related to start-ups included (a) overall industry experience, (b) total start-up experience, (c) number of start-ups, (d) number of successful start-ups, and (e) usage of offshore outsourcing strategy.

**Table 1: Participants' Demographics**

| Participant's Code | Start-up experience / Overall industry experience (years) | Number of start-ups worked / Successful Start-ups | Participant's Code | Start-up experience /Overall industry experience (years) | Number of start-ups worked/ Successful Start-ups |
|---|---|---|---|---|---|
| P1 | 20 / 28 | 2 / 5 | P23 | 21 / 28 | 2 / 3 |
| P2 | 15 / 24 | 3 / 4 | P24 | 18 / 31 | 1 / 4 |
| P3 | 18 / 26 | 2 / 3 | P25 | 12 / 18 | 2 / 3 |
| P4 | 22 / 28 | 3 / 4 | P26 | 9 / 19 | 2 / 4 |
| P5 | 16 / 23 | 1 / 3 | P27 | 14 / 18 | 3 / 3 |
| P6 | 21 / 31 | 2 / 4 | P28 | 15 / 15 | 2 / 4 |
| P7 | 14 / 23 | 2 / 3 | P29 | 8 / 14 | 2 / 3 |
| P8 | 18 / 25 | 1 / 4 | P30 | 17 / 21 | 3 / 5 |
| P9 | 22 / 28 | 3 / 5 | P31 | 11 / 18 | 3 / 5 |
| P10 | 24 / 32 | 2 / 4 | P32 | 17 / 23 | 2 / 5 |
| P11 | 22 / 29 | 2 / 2 | P33 | 9 / 11 | 2 / 3 |
| P12 | 26 / 37 | 3 / 5 | P34 | 18 / 25 | 3 / 5 |
| P13 | 20 / 33 | 2 / 5 | P35 | 22 / 28 | 3 / 3 |
| P14 | 14 / 27 | 1 / 2 | P36 | 20 / 31 | 2 / 5 |
| P15 | 24 / 30 | 2 / 4 | P37 | 16 / 26 | 3 / 3 |
| P16 | 15 / 23 | 2 / 3 | P38 | 20 / 30 | 3 / 4 |
| P17 | 24 / 31 | 3 / 6 | P39 | 8 / 21 | 2 / 4 |
| P18 | 17 / 32 | 2 / 3 | P40 | 24 / 32 | 4 / 5 |
| P19 | 25 / 30 | 1 / 4 | P41 | 13 / 20 | 2 / 2 |
| P20 | 16 / 35 | 1 / 5 | P42 | 18 / 23 | 4 / 5 |
| P21 | 14 / 16 | 2 / 2 | P43 | 15 / 22 | 3 / 5 |
| P22 | 17 / 23 | 1 / 2 | | | |

The current study included the use of Moustakas's (1994) modified van Kaam methodology for data analysis. The NVivo 8 qualitative analysis software tool developed by QSR International was used in facilitating data horizonalization; identifying and validating invariant constituents; clustering invariant constituents into themes; and creating and combining textural and structural descriptions into themes.

### RESULTS

Open-ended phenomenological interview questions related to outsourcing strategies significantly enhanced the goal of answering the research question on outsourcing. Based on their experiences, the 43 participants described the outsourcing strategies in terms of five themes and four sub-themes (see Table 2). Table 2 shows a summary of the offshore outsourcing related themes and subthemes described in the following subsections. The '*n*' column reflected the number of participants who provided a response, and the percentage column reflected the percent of participants who provided responses. Indented entries indicate emerging subthemes

### Table 2: Outsourcing Strategies Factor Related Themes and Subthemes

| Themes and Subthemes | N | % |
|---|---|---|
| Offshore outsourcing strategy | 39 | 90.7 |
| Selection of the correct offshore outsourcing vendor | 36 | 83.7 |
| Offshore outsourcing strategy may fail if not controlled properly | 34 | 79.0 |
| Offshore outsourcing and success of projects and start-ups | 39 | 90.7 |
|     Cost reduction | 39 | 90.7 |
|     Speedy completion | 33 | 76.7 |
|     Use of technical knowledge and patents | 31 | 72.0 |
| Alternative to offshore outsourcing - Setting up design center | 35 | 81.0 |
|     India / China | 34 | 79.0 |

**Theme 1: Offshore Outsourcing Strategy**. Thirty-nine participants (90.7%) perceived offshore outsourcing as an important strategy that enhanced the chances of completing initial projects at their technology start-ups. Four participants (9%) noted an offshore outsourcing strategy failed in their start-ups because of the lack of proper management, cultural differences, and other mismatches. All participants agreed that an offshore outsourcing strategy would help in the completion of the project in time and the success of technology start-ups if (a) the selection of outsourcing firm is appropriate, (b) there is a correct match between the two firms, and (c) it is well managed. When asked about what the participants did differently in successful start-ups from failed start-ups, the majority of participants indicated that the adoption of an offshore-outsourcing strategy was the difference between the successful and failed start-ups. The participants revealed three sub-themes in support of offshore outsourcing and the success of projects and start-up themes: (a) cost reduction, (b) speedy completion, and (c) use of technical knowledge and patents. Table 3 shows the excerpts that indicate the examples of how the participants stated that the offshore outsourcing strategy is an important task to

achieve successful completion of projects and success of projects and start-ups.

**Cost Reduction**. Thirty-nine participants (90.7%) perceived reduction of cost as a major motive behind adopting an offshore outsourcing strategy. Four participants noted offshore outsourcing could be very costly if it fails, in terms of both operational cost and time. The following Table 4 shows the excerpts that indicate the examples of how the participants perceived reduction of cost as a major motive behind adopting an offshore outsourcing.

**Table 3: Excerpts of Participants on Outsourcing Strategies**

| Participant | Excerpts |
| --- | --- |
| Participant 7 | We have outsourced the work to overseas and liked the work done by outsourcing vendors. Usage of patents along with cost reduction was the reason for our outsourcing strategy. And we got it. |
| Participant 26 | I have used outsourcing at two start-ups. It was fruitful at both start-ups. It allowed us to tap into knowledge that was available with our offshore outsourcing vendors, that too at a lower price. |
| Participant 18 | Offshore outsourcing benefits are cost savings and time savings. Time savings and capital savings allowed us to refocus on other core business areas. Reduction in cost and speedy completion are the primary drivers in success of start-ups. |
| Participant 11 | Offshore outsourcing has positive impact on success of start-ups. My earlier start-ups outsourced design verification and software development to companies in India and got economic and technological advantages over our competitors. |
| Participant 34 | We were able to reduce the operational costs using the outsourcing provider's skills and capabilities, and knowledge base. This is the main criterion that brings success to a start-up. Start-ups can leverage their skills, resources for increased competitiveness. |

**Table 4: Excerpts of Participants on Cost Reduction**

| Participant | Excerpts |
| --- | --- |
| Participant 19 | The main reason for adopting outsourcing at my previous start-ups is the cost reduction. Both large and small organizations use offshore outsourcing as a strategy to gain an advantage over their competition. |
| Participant 10 | We gained over our competitors by offering lowest price. This was possible because we had a gain in reduction in overall operational cost through overseas outsourcing. |
| Participant 31 | Of course, cost reduction and savings is the reason behind the idea of outsourcing. We have saved capital because of wage differences between US and India. We have outsourced to India in all start-ups. |

**Speedy Completion**. Thirty-three participants (76.7%) described the speedy completion of a project as an important motive behind the idea of offshore outsourcing. Ten participants (23%) noted offshore outsourcing saves time only if outsourcing objectives were met; otherwise, offshore outsourcing could be a total loss. The following Table 5 shows the excerpts that indicate the examples of how the participants described the speedy completion of a project as an important motive behind the idea of offshore outsourcing.

**Table 5: Excerpts of Participants on Speedy Completion**

| Participant | Excerpts |
|---|---|
| Participant 10 | Other benefit is the speedy completion of project. Companies can spend that time and capital savings in other areas of core business plan. |
| Participant 36 | Outsourcing allowed us to get advantage in quick completion of project through round-the-clock activities. We used offshore outsourcing to Indian companies and reduced the project time in half. |
| Participant 18 | I had a positive experience in offshore outsourcing. It allowed us to use an expanded time zone to work 24x7 and is a solution to speedy completion of projects. |

**Use of Technical Knowledge and Patents**. Thirty-one participants (72%) described how start-ups can use technical knowledge and patents available with offshore outsourcing vendors in foreign countries. The participants cited the use of patents of other companies as another reason for having an outsourcing strategy, in addition to cost reduction. The following Table 6 shows the excerpts that indicate the examples of how the participants described usage of technical knowledge and patents as an important motive behind the idea of offshore outsourcing.

**Table 6: Excerpts of Participants on Usage of Technical Knowledge and Patents**

| Participant | Excerpts |
|---|---|
| Participant 15 | In my opinion, reinventing the wheel is waste of time and money. When the desired technology is with somebody, I don't feel it is wise thing to reinvent it rather than partner with them [vendors]. Moreover, not all start-ups have the time or ability to gain the expertise that the outsourcing vendor is offering. The technology is changing at a rapid pace. Firms are often challenged to keep up with that pace. Rather than spending the time investigating on new technologies and ramping up capabilities, start-ups choose to outsource this. |
| Participant 2 | In my case, we adopted outsourcing to use the technology that my foreign outsourcing vendor has already. |
| Participant 24 | That time we had to develop two core blocks and we knew that overseas company X had that block already. So, we just outsourced that block to them while we spend all our efforts on development of other core block. This way, outsourcing to overseas company helped us in primary focusing ourselves in core IP development without having worried about other tasks. |

**Theme 2: Selection of Right Offshore Outsourcing Vendor**. The open-ended question on what start-up managers and organizational leaders need to do to make an outsourcing strategy successful revealed the emergence of themes on the selection criteria of the offshore outsourcing vendor. Thirty-six participants (83.7%) perceived the selection of the right outsourcing vendor as an important factor that determines the offshore outsourcing as successful strategy for start-ups. The participants noted that the selection of the right offshore outsourcing vendor has a positive impact on the success of outsourcing for projects and start-ups. When asked about what the participants did differently in successful start-ups from failed start-ups, the majority of participants indicated the selection of the right offshore outsourcing vendor was the difference between the successful and failed start-ups. The following Table 7 shows the excerpts that indicate the examples of how the participants stated the selection of the right offshore outsourcing vendor is an important task to achieve successful completion of projects and success of projects and start-ups.

**Table 7: Excerpts of Participants on Selection of the Right Outsourcing Organization**

| Participant | Excerpts |
| --- | --- |
| Participant 4 | Yes. Success or failure with outsourcing depends on to which company you are going to outsource. Cultural differences and remote management plays a vital role in this. I had both, success and failure experiences regarding offshore outsourcing. |
| Participant 19 | The success with outsourcing depends on how the outsourcing has been used. Offshore outsourcing can help a start-up or hurt a start-up significantly. It can help a start-up, because on demand it can add to your manpower very quickly and get you going. On the other hand, it can hurt you, because there will be no commitment from outsourced company and hence they can take your technology anywhere else. |
| Participant 18 | In my opinion, right selection of offshore outsourcing firm is the key determinant in whether outsourcing strategy becomes successful or failure. I have seen many outsourcings that became miserable to companies. I even had a bad experience with outsourcing at [company name]. We faced the problem of protecting our IP. It was a total miserable experience. |
| Participant 33 | I would say that outsourcing is not an easy task. There are many challenges like cultural differences between different countries, long distance collaboration and communication with outsourcing firms, different work environments, and different time zones. Right match is essential for outsourcing strategy to be successful. |

**Theme 3: Offshore Outsourcing Strategy Might Fail if Not Controlled Properly**. Thirty-four participants (79%) noted offshore outsourcing might fail if not controlled properly. The participants perceived a potential loss of control over outsourced projects and complexities in managing projects at remote distances, an idea associated with outsourcing. When asked about what the participants did differently in successful start-ups from failed start-ups, the majority of participants indicated that they have properly managed and controlled the outsourced work in the start-ups that became successful.

**Table 8: Excerpts on Failure of Offshore Outsourcing if not Controlled Properly**

| Participant | Excerpts |
|---|---|
| Participant 42 | Offshore outsourcing has some drawbacks. Poor communication is the main problem with outsourcing. Cultural differences and protecting the IP are other problems with offshore outsourcing. |
| Participant 21 | You see, there is a good thing and bad thing with outsourcing. The leakage of innovative ideas and innovative technology is a major problem with outsourcing. The good things are, as we already discussed: cost reduction, speedy completion, etc. |
| Participant 5 | Overseas outsourcing strategy might fail if not managed or controlled properly. Loss of control is the main issue. Your controlling power is very limited here. You cannot control the quality of services outsourced offshore. There is a chance of lack of quality when you do not control the outsourced tasks. |
| Participant 24 | There are pros and cons [with offshore outsourcing strategy]. The pros are that it can be very cost effective to outsource an engineering work overseas. However, you need to have a good communication and good tracking system. Because of time differences, it [communication and tracking] is very challenging to do and secondly, controlling the project is hard, because the people are not communicating face-to-face. Another disadvantage is that if you outsource your work you don't build internal IP. That is another problem. |
| Participant 23 | We faced tons of problems with offshore outsourcing as there was no commitment from other side. There was no scope for trust; and ultimately that project was screwed up by vendors. It was total loss. |

Table 8 shows the excerpts that indicate the examples of how the participants stated offshore outsourcing might fail if not controlled properly.

**Theme 4: Alternative to Offshore Outsourcing - Setting up an Overseas Design Center**. The open-ended question on which strategies the participants adopted as an alternative to an offshore outsourcing strategy revealed the emergence of new themes on setting up a design center, or a branch, in foreign countries. Thirty-five participants (81%) suggested setting up an overseas design center as an alternative to outsourcing. When asked about what the participants did differently in successful start-ups from failed start-ups, the majority of participants indicated that they have set up a branch or design center overseas in the start-ups that achieved success. Thirty-two

participants (74%) explained that the strategy of setting up a design center in foreign countries led to the globalization of start-ups. The participants noted all the advantages of offshore outsourcing strategy are available with the strategy of setting up an overseas design center. Thirty-two participants (74%) explained the strategy of setting up an overseas design center as an alternative to offshore outsourcing also leads to cost reduction. These participants noted that the strategy of setting up an overseas design center as an alternative to outsourcing also enables the speedy completion of projects due to round-the-clock activities. Thirty participants (69.7%) noted that the strategy of setting up an overseas design center also allows the use of available technical knowledge in the local talent pool. The following Table 9 shows the excerpts that indicate the

examples of how the participants suggested setting up an overseas design center as an alternative to offshore outsourcing

*India or China*. The open-ended question as to which foreign country the participants prefer to have a design center or branch alternative to offshore outsourcing located in revealed the emergence of a sub-theme on setting up design centers in India or China. Thirty-five participants (81%)

suggested setting up a design center as an alternative to offshore outsourcing strategy. Among these, 26 participants preferred India whereas eight participants preferred China, and another participant preferred Israel. The following Table 10 shows the excerpts that indicate the examples of how the participants preferred India to set up an overseas design center as an alternative to offshore outsourcing.

**Table 9: Excerpts of Participants on Setting up a Design Center or Branch**

| Participant | Excerpts |
| --- | --- |
| Participant 12 | Setting-up a branch in overseas provides a compelling alternative to high U.S. salaries due to the cheap labor costs from overseas. |
| Participant 2 | Offshore outsourcing opens door to free transfer of our knowledge and information to the outside world. In my view, for any given start-up, the initial innovation ideas, architecture, and technology are very, very crucial. |
| Participant 39 | Outsourcing overseas causes leakage of our new innovation and technology at the cost of advantage in reduction of costs. So, I believe some other alternatives to the outsourcing might help the start-ups, such as setting-up its own overseas design center in countries like India, China, Japan, and Singapore, where the outsourcing is advantageous. |
| Participant 17 | The most disadvantage with outsourcing lies in the fact that the wide variations between countries in the laws governing IP. Once IP is stolen, it cannot be recovered and it may cause total failure of a start-up which is based on that innovative IP. Alternatives could be set up a new branch in foreign country. IP will be within the company itself along with additional advantages like expansion of company and globalization. Remember that all the advantages of outsourcing like low operational cost, same local talent pool remains intact in this scenario. I prefer India as the most favorable country to set up a design center or R&D [Research and Development] center. |
| Participant 20 | Offshore outsourcing creates problems due to cultural differences, time and distance variations. These will automatically impact negatively on the project progress. These drawbacks can be reduced with the idea of starting a branch over there. |
| Participant 11 | If you set up an overseas R&D center, it gives an opportunity to spread or expand your business across a wider market base, attract and gain access to new overseas customer base, globalization, and capitalize on your overseas core competencies. I have experienced overseas R&D center more fruitful than overseas outsourcing. |

**Table 10: Excerpts of Participants on Preferences of Countries to Set-up Design Center**

| Participant | Excerpts |
|---|---|
| Participant 10 | India is a country that provides not only cheaper labor, but also has highly skilled workforce. Needless to say, the engineers in India have comparable skills and technical knowledge to their counterparts in the U.S. |
| Participant 22 | India has a number of advantages such as the availability of high skilled English speaking talent pool at a fraction of the cost compared to the U.S. labor cost. This makes India as best bet to start a design center. |
| Participant 40 | I agree, which country we are going to outsourcing is also important. Some countries attract with so many offerings. For example, if we look at India and China; these days they are offering many benefits. After India, China, I think Russia, Canada, and European countries are best suit for U.S. and U.K. companies. |

## DISCUSSIONS

My results confirm that offshore outsourcing strategy could enhance the chances of success of technology start-ups, specifically if the technology start-ups manage and control the outsourced tasks carefully and provide a platform that facilitates effective communication with vendor organizations. My results suggest setting up a design center in the Asia-Pacific region, especially India or China, as an alternate to offshore outsourcing. It is evident from my results that cost reduction, speedy completion, and the usage of technical knowledge and patents were the advantages in offshore outsourcing, consistent with results of earlier researches, (Quelin & Duhamel, 2003; Wu, Li, Chu, & Sculli, 2005); although these earlier researchers focused on big organizations. On par with the findings of a study by Wu et al. (2005), the current findings support that start-ups can enhance performance by using offshore outsourcing strategy. This is because outsourcing yields to an increased quality of products, eliminates the production bottleneck, and lowers the production cost.

The findings from this study show that offshore outsourcing strategy helps start-ups to develop good intellectual capital management and allows the organization's core team to focus on other important tasks. It was also evident that the usage of patents available from other companies is an important reason behind an offshore outsourcing strategy, which is on par with findings of Levy (2005). Levy (2005) stated that offshore outsourcing is not done simply to take advantage of cost reductions, rather it is a strategy to utilize the client's knowledge, patents, and expertise.

**Challenges and Risks.** My results show that a lack of commitment and trust by outsourcing vendors and a lack of effective communication plays a vital role in the underachievement of success in offshore outsourcing. It is apparent from results of this study that the main complaints with offshore outsourcing include security of intellectual property, cultural differences, a lack of commitment from the offshore outsourcing provider, a lack of communication, as well as the political instability in offshore outsourcing countries. Krishna, Sahay, and Walsham (2004) also conducted postmortems of such failed

offshore outsourcing projects and concluded that communication challenges, client dissatisfaction, cultural differences, and a lack of commitment are some of the reasons for failure of offshore outsourcing. My results indicate that a lack of trust and a refusal to divulge the information or knowledge with each other are other key reasons for failure of offshore outsourcing projects. In consistence with my results, earlier researchers found that trust between offshore outsourcing partners positively influences the success of offshore projects (Desouza, 2008).

**Successful Strategies**. The current findings suggest that to achieve success offshore outsourcing tasks need to be monitored, managed, and controlled efficiently by technology start-ups. The lack of direct control by technology start-ups on outsourced tasks is another challenge that exists with an offshore outsourcing strategy. Rajkumar and Mani (2001) also found that the strong partnership between outsourcing vendors and client firms is the key to successful outsourcing. Both vendors and client organizations need to manage the offshore tasks effectively (Lacity, Willcocks, & Rottman, 2008). In consistence with my results on the requirement of technology start-up to manage the offshore outsourcing activities, Benamati and Rajkumar (2008) state that proper management of the offshore outsourcing activities is imperative for success of offshore outsourcing.

The current results illustrate the importance of the proper selection of offshore outsourcing vendors. My findings reflect that to achieve success by technology start-ups the selection of offshore outsourcing vendor is vital, which is in line with findings of study of Oke et al. (2009). Though focused on large and medium sized

companies, Oke et al. found that selection of a suitable provider plays a key role in achieving success of outsourcing tasks. Wadhwa and Ravindran (2007) also found that the correct selection of vendors is the one factor that achieves success to outsourcing strategy. The selection of an offshore outsourcing vendor should be appropriately based on their delivery reliability and quality, as well as the proximity relating to both geographic and cultural distance (Oke et al., 2009).

**Setting-up an Overseas Branch or Design Center**. The current findings show that an overseas design center or branch helped their parent technology start-ups and enhanced their productivity. Another advantage with setting-up branches or design centers includes the possibility of having a platform that provides joint problem solving, fine-grained information transfers, and trust. My results are in line with Todo and Shimizutani's (2008) study. Todo and Shimizutani (2008) examined the Japanese multinational enterprises to investigate the impact of overseas subsidiaries on the productivity growth; the results showed that overseas branches raise the parent organization's productivity growth. My results indicate that all the advantages of the offshore outsourcing strategy could also be available with the strategy of setting up an overseas design center. The strategy of setting up an overseas design center or branch also leads to a cost reduction and enables the speedy completion of projects due to round-the-clock activities. Globalization, commitment, and trust are other added advantages with setting up a branch or (R&D?) or design center overseas. My results on setting-up a design center or branch are consistent with results of Kotlarsky and Oshri's (2008) study. Kotlarsky and Oshri (2008) found that organizations gained cost benefits, as

well as increased quality and productivity by setting-up overseas design centers. The rationale for setting-up branches or design centers includes cost reduction, usage of local talent, and an ability to enter new markets (Carmel & Tjia, 2005).

Surprisingly, my results indicated only one country as a preferred destination. The current findings indicate India as a first preferred country for setting up a branch or design center or R&D. It is apparent from results of this study that other countries, such as China, got next preference for setting up a branch or design center or R&D. However, my findings contradict the earlier study of Kotlarsky and Oshri (2008) on the issue of country attractiveness. Kotlarsky and Oshri found that country attractiveness plays a less significant role in selection of a country for setting-up a design center or R&D center. However, my results show that the host country's industry-specific technological capabilities attract more outsourcing activities.

## LIMITATIONS AND IMPLICATIONS

The study contained limitations associated with geographical location and generalizability. I used the participants from one geographical area, Silicon Valley, California. Limiting the study to focus solely on Silicon Valley start-ups might have helped to identify the causes of offshore outsourcing successes or failures, specific only to the Silicon Valley organizations and excluding the causes of offshore outsourcing successes or failures for technology start-ups in other locations. This results in limitations to the generalizability of the over-all results to all start-ups in the same sectors located in other regions, or to all start-ups in other sectors worldwide. The study might have had

different results if other regions of the United States had received consideration.

**Practical Implications**. The findings from this paper have significant implications for the widely prevalent strategy of offshore outsourcing. Even though this study focused on technology start-ups, the findings can be applied to all organizations irrespective of their size. The implications are two-fold; first, when willing to enter into offshore strategy the organizations need to be very careful and cautious in selection of vendor. Second, the organizations entering into offshore agreements should proactively monitor, manage, and control the offshore outsourcing tasks on a regular basis, as well as to provide guidelines and feedback. The misalignment of these practices might lead to a failure of offshore outsourcing. Setting up a branch or design center could be the alternate solution that overcomes the challenges and risks involved in offshore outsourcing, with the added advantage of having global presence.

**Implications for Future Research**. Many additional directions for future research present themselves as a result of this analysis. Future research can be carried out using large and medium sized companies as samples in an attempt to find out to what extent my results can be generalized to large and medium sized organizations. Future research should include participants from other regions of the United States, or worldwide. Future researchers can investigate practices that can help organizational leaders to better manage the relationship with offshore outsourcing vendors. A more complete understanding of offshore outsourcing strategy requires additional research that elaborates on the criteria for selecting offshore outsourcing vendors. Another fertile area for future research includes investigating which

country is best suitable to set up a design center or branch for every other country.

## CONCLUSIONS

The current qualitative phenomenological research paper includes the exploration of the experiences of 43 organizational leaders and entrepreneurs who had experiences with offshore outsourcing activities within successful technology start-up organizations located in Silicon Valley, California. The paper also examines the perceived role of offshore outsourcing strategies in achieving success at technology start-ups. This paper includes the perceived effect of alternate solutions for offshore outsourcing such as setting-up a design center or branch in overseas on the success of technology start-ups. To successfully meet the objectives of offshore outsourcing strategy, three main lessons should be taken learned from the results of the current research: (a) selection of offshore outsourcing vendors needs to be done very carefully and cautiously because any mismatches in culture or environment might force the offshore outsourcing strategy to fail, (b) offshore outsourced activities / tasks need to be closely managed, controlled, and monitored continuously, and (c) setting-up a design center or branch overseas could be an alternate solution that will enhance the value proposition through globalization and overcome the challenges and drawbacks of offshore outsourcing.

The conclusions of the study allowed the formulation of recommendations for technology start-ups to achieve success in offshore outsourcing activities and thereby the success of start-ups. The recommendations may enable start-up leaders and entrepreneurs to understand how to achieve success in offshore outsourcing strategy, which in turn, may

lead to the success of projects, and thereby the success of start-ups. The organizational leaders of the start-ups may wish to consider adopting outsourcing strategy. Offshore outsourcing helps technology start-ups in achieving the success of outsourcing tasks by offering several advantages: (a) cost reduction, (b) the speedy completion of outsourced tasks, and (c) the use of the technical knowledge and patents of the offshore outsourcing vendor company. Other advantages of offshore outsourcing strategy include the usage of the local talent pool and speedy completion of projects due to extended time zones. The organizational leaders of the start-ups may wish to consider being very cautious while selecting the offshore outsourcing vendor because any mismatches in culture or environment may force the outsourcing strategy to fail. The organizational leaders of the start-ups may wish to consider managing and controlling the outsourced work skillfully.

The organizational leaders of start-ups may wish to consider setting up a design center or branch overseas, especially in an Asia Pacific region such as India or China, as an alternative to offshore outsourcing. This recommendation could solve the problems associated with offshore outsourcing such as (a) security of the data, (b) loss of control of quality, (c) communication problems, and (d) cultural differences. Moreover, all the advantages associated with the offshore outsourcing strategy are also available with the strategy of setting up an overseas design center: (a) cost reduction, (b) speedy completion of a project due to round-the-clock activities, and (c) the use of technical knowledge of the local talent pool. Setting up a branch or design center for the organization may also increase the value of start-up organizations because of

globalization and its ability to attract global customers.

The study recommends that future researchers conduct similar studies using a larger population of organizational leaders and managers from start-ups in other cities in the United States, or from around the world. The recommendation is to conduct similar phenomenological studies from different perspectives, or to conduct grounded theory studies. The use of grounded theory designs might provide similar theoretical outcomes through the expansion of research stemming from combinations of different perspectives. The grounded theory approach, or other methodologies, could provide theoretical support for the existing concept, or a new theoretical basis for refining the concept.

This study was significant as it results in an in-depth understanding about how start-ups could achieve success through adaptation of offshore outsourcing strategies. The significance of the current paper is related to four aspects: (a) process improvements in offshore outsourcing strategies, (b) financial savings, (d) society and economy, and (c) globalization. The outcomes of the current study with regard to better outsourcing strategies for start-up organizations may be applicable to organizations of any size, universally. The findings of the study may contribute to the survival and success of start-ups, which in turn may contribute to society and the growth of economy through the retention of existing jobs, as well as the creation of new jobs and new innovations. The implementation of offshore outsourcing strategies, as well as as alternate solution such as setting up a branch or design center overseas, may result in financial savings to start-ups. Setting up a branch or design center overseas may enable start-ups, or any

organization, to globally expand their customer base.

The potential value for readers includes providing a better understanding of the underlying aspects of the successful offshore outsourcing strategies, as well as facilitating awareness of the newly researched and documented successful alternate solution for offshore outsourcing, aimed to achieve success of outsourced tasks. Other potential values for readers include (a) applying the new knowledge as process improvement strategies to achieve the success of start-ups or organizations of any size; (b) applying the new knowledge to prepare and effectively overcome the challenges in achieving success of outsourced tasks at technology start-ups; and (c) establishing the basis for a new area of research oriented to the intangible forces and considerations impacting the success of offshore outsourcing and start-ups.

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