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Founding with components: benefits of outsourcing in entrepreneurial firms

Master's thesis

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Throughout this thesis, all gender-specific terms are to be considered to refer to both the feminine and the masculine form. For the sake of simplicity and readability I use the male form predominantly.

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List of abbreviations

CEO	Chief Executive Officer
CTO	Chief Technology Officer
ds	decisecond
e. g.	for example
h	hour
HR	Human Resources
IT	Information Technology
min	minute
MNE	Multi National Enterprise
PC	Personal Computer
PR	Public Relation
RBV	Resource Based View
R&D	Research and Development
s	second
SEO	Search Engine Optimization
SLA	Service Level Agreement
SME	Small and medium-sized enterprise
TCT	Transaction Cost Theory

List of symbols

@@	start of anonymization
##	end of anonymization
&	and

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Abstract

Outsourcing is widely researched in studies on big, established corporations. However, literature on outsourcing in the context of entrepreneurship is scarce. Therefore, as a first step I construct a theoretical basis to underline the potential benefits of entrepreneurial outsourcing. I do this by drawing on both classical outsourcing literature, as well as on entrepreneurship research. In a second step, I use these theoretical assumptions as the base for an empirical case study conducted with 10 entrepreneurs. My theoretical and empirical research suggests that entrepreneurial firms benefit from outsourcing in several ways. These include lower up-front investment needs, higher product and process quality, an increased focus on core competencies, and the improved scalability of the business model. My findings implicate that future research should be conducted on the benefits and risks of entrepreneurial outsourcing. They further suggest that entrepreneurs should at least consider the possibility of using outsourcing as a beneficial tool for their start-up.

1 Introduction

"I've never understood a thing about engines. My engineers took care of that." – Enzo Ferrari[1]

This quote by the motorsport legend shows that despite the general perception of the founder as a *"jack-of-all-trades"* (Lazear, 2004), the entrepreneur does best if he focuses on activities in which he excels; or in other words, if he focuses on his core competencies.

Faltin (2008) addressed this issue in his best-selling book "Brain versus Capital", postulating that there is no need for founders to be *"genius[es]"* (Faltin, 2008, p. 65) or *"extreme sports athletes with a touch of masochism"* (Faltin, 2008, p. 64) due to the variety of responsibilities and long working hours they face. Instead, he claims that entrepreneurial success can be approached systematically and without the need for huge amounts of capital, if two aspects are considered. First, the founder needs to develop a sound business concept (rather than just an idea) in order to define a clear and marketable customer value as well as a sustainable competitive advantage. The second part deals with the implementation of the business concept, which Faltin (2008, p. 96) calls *"founding with components"* (Faltin & Ripsas, 2011, p.15). For the implementation of this business concept, Faltin (2008) advises the entrepreneur to use components, which are existing suppliers of products or services. Like a composer who appoints different tasks to various musicians for the final piece of music, the entrepreneur empowers various external parties to provide necessary business activities such as goods and services.

Because the approach of founding with components is not regarded in academic literature, a similar approach must be found. In management practice and research a large part of this approach would be called (strategic) outsourcing, which is very common in the context of large multinational enterprises (MNEs).

Outsourcing is used for the strategic decision to have an external supplier provide a business activity, namely a service or a product, which could possibly also be conducted in-house. Thus, it is a strategic decision to reject internalization (Gilley & Rasheed, 2000). However, a common definition for the term outsourcing does not exist, nor does a basic outsourcing theory as is shown in Chapter 2.

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[1] This quote is attributed to Enzo Ferrari, however, the primary source could not be found. The quote is taken from Faltin (2008, p. 69).

Nevertheless, outsourcing research has grown massively in the last two decades due to its high practical relevance for established corporations. Indeed, almost all major corporations in developed countries engage in outsourcing in some part of their business (Hätönen & Eriksson, 2009).

Hätönen and Eriksson (2009), who provided a well-reputed meta-analysis on 30-plus years of outsourcing history in theory and practice, explicitly point out the limited amount of research on outsourcing in the field of small and medium-sized businesses.

This view is supported when considering the lack of literature on strategic outsourcing as a strategic entrepreneurship approach (Davari & Razazadeh, 2015). In an entrepreneurial context, focusing on core competencies and outsourcing the rest is very scarcely considered, and outsourcing research on early-stage ventures it is almost non-existent.

To summarize, outsourcing literature deals mainly with large corporations, while research for young and small entrepreneurial companies is very scarce. By definition, however, entrepreneurship literature conducts research in the field of entrepreneurial firms. Therefore, entrepreneurship lacks research about outsourcing since this is a classical domain of management theory in large corporations.

The goal of this paper is to contribute to research in that scarcely researched field at the interface of management theory and entrepreneurship. Founding with components – also described as entrepreneurial outsourcing – could be an excellent way to found a company, and is therefore highly relevant for entrepreneurship in practice. However, *"the concept of entrepreneurial outsourcing has been elaborated only recently"* (Antonietti, Ferrante, & Leoncini, 2016, p. 244).

Previous entrepreneurship literature has recognized two main approaches for this matter. One is called "bootstrapping", which implies starting an entrepreneurial venture primarily through self-financing and doing a great deal of work single-handedly in order to save costs. The other approach involves either debt financing via bank loans, for example, or raising equity funds from business angels, venture capitalists or an investing crowd (Erkinheimo, Jussila, & Kärkkäinen, 2015).

Entrepreneurial outsourcing, however, is a third option that might be a royal road to founding a company, as it enables founders *"to act big by staying lean"* (Faltin, 2008, p. 102). Therefore, the research question of my thesis concerns whether the following assumptions about the benefits of entrepreneurial outsourcing are supported:

1) Cost structure is improved as fixed costs are transformed into variable costs. This results in smaller up-front investment needs and therefore a faster achievement of the break-even point.

2) Founders are empowered to focus scarce resources on core competencies, since non-core competencies are outsourced. Resources such as time and money are thereby saved for value-adding tasks. Instead of being overworked and lost in details, founders keep a clear head and do not lose sight of their goal.

3) Founders are enabled to work with a predictable and standardized quality right from the start of the venture, which would not necessarily be the case if the respective business task was conducted in-house. Furthermore, an external service provider might perform better in certain areas, which are non-core competencies of founders, but core competencies of the specialized service provider, such as accounting for example.

4) Finally, outsourcing of non-core competencies results in a leaner organization and a flexible and scalable business model, thus preventing growth crises prone to happen in young entrepreneurial companies.

Apart from verifying empirically whether or not the assumptions hold, it is of high interest to examine the background of the respective assumptions. Considering the cost assumption, it is of particular interest whether unexpected costs or negative experiences occur in the outsourcing relationship, and why this is the case. Regarding quality, it is important to examine how founders assure and assess quality without being experts on the subject. Considering the focus on core competencies, it is also essential to know what founders perceive to be their core and non-core competencies in the first place, before researching their decision to outsource or not.

Given *"the absence of small firm outsourcing theory"* (Murphy, Wu, Welsch, Heiser, Young, & Jiang, 2012, p. 253) and the fact that "how" and "why" explanations are particularly important for this paper's research question, according to Yin (2008) an empirical case study approach is most appropriate.

The paper is structured as follows: First, important terms are explained and defined, such as outsourcing in Chapter 2 and entrepreneurial firms in Chapter 3. Since no entrepreneurial outsourcing theory currently exists, in Chapter 4 I develop and describe a theoretical foundation for the assumed benefits, including: costs (Chapter 4.1), focus on core competencies (Chapter 4.2), quality (Chapter 4.3) and scalability (Chapter 4.4). This theoretical construct is the foundation for the empirical research part of this paper. After explaining the qualitative case-study methodology in Chapter 5.1, research results are presented (Chapter 5.4) and discussed (Chapter 5.5) following the same structural pattern as in the theoretical part. Finally, in the conclusion (Chapter 6), I summarize all findings, outline my own contribution to this research field, describe the limitations of this study and offer suggestions for future research.

2 Outsourcing

To assess the potential benefits of entrepreneurial outsourcing, the term outsourcing must first be defined and described. This chapter sheds some light on the topic by defining what outsourcing is and explaining various outsourcing modes and motives. Finally, I present a working definition of the term for this thesis.

2.1 Modes and definition

The term outsourcing is derived from the nouns “Outside“ and ”Resourcing“ (Bruch, 1998), which taken together mean external sourcing. But despite its common use in business practice, there is no universal definition for the term outsourcing in academic literature (Gilley & Rasheed, 2000; Edvardsson & Teitsdóttir, 2015). Nevertheless, there are certain common elements in most definitions: in all cases there is a third party involved (in addition to a company’s employer and employee) and the term outsourcing can be applied to the production of goods or services (Jagersma & Van Gorp, 2007). Manning, Massini and Lewin (2008) state, that outsourcing denotes *“the delivery of products or services by an external provider”* (Manning, et al., 2008, p.39).

According to Everaert, Sarens and Rommel (2007), this external provider could either be a single person or a single company. Of course, this requires the single person to be external as well as distinguished from staff members of the outsourcing company. If a company provides the outsourced service, it also must be distinguished from companies in partnerships, networks or joint ventures; this is because the flow of resources in outsourcing relationships is one-way, meaning in the direction from provider to user as Belcourt (2006) explains. This means there is usually no mutual contribution or profit sharing. Thus, the legal dimension of the outsourcing relationship is that of subcontracting (Sinha, Michele, Ding, & Wu, 2011). However, as is shown in the empirical part of this paper, the contract does not necessarily have to be formally written.

One of the first approaches to categorizing outsourcing was to follow a “functional” manner. Everaert et al. (2007) found that many prior empirical studies distinguished between firms that did or did not outsource a certain business function (such as HR). Busi and McIvor (2008) found the same to be true for both production-related outsourcing and support processes (such as IT, accounting, and HR). However, in considering this approach, two questions remain: how many different functions a company is outsourcing and how intensive is each outsourcing relationship?

Gilley and Rasheed (2000) propose that outsourcing is not a one-dimensional concept. They therefore examine not only whether a certain business activity is outsourced, but also how many different tasks are outsourced in a single company. Outsourcing modes can best be thought of as having two properties: breadth and depth. Breadth describes the number of activities outsourced – for example, accounting, customer service or maintenance – as a percentage of the total activities in which a company could be engaged. Depth refers to the part of value outsourced for each activity. Thus, the question arises of whether the whole production is outsourced, for instance, or just a small part of it. The term for this differentiation is hereby known as partial or total outsourcing.[2] For example, Lacity and Willcocks (1998) made this distinction for the IT industry as well, differentiating between total insourcing, total outsourcing and selective outsourcing.

Alongside this concept is the local dimension: is the outsourcing supplier a domestic or foreign person or company? For the first case, nearshoring would be the correct term. Offshoring (i.e.: offshore outsourcing) refers to international outsourcing, where the outsourcing party contracts with a foreign supplier for a certain business activity (Di Gregorio, Musteen, & Thomas, 2009).

Another important distinction must be made between outsourcing and purchasing. The question here is: where does outsourcing “start”, considering the value chain of a product or service? For example, if a small ice cream parlor does not own a milk-producing farm for its ice cream, it could hardly be said that the ice cream parlor is outsourcing their milk production. Such a farm is simply another business sector. As straightforward as this example might be at first sight, it still raises an important question: when do we speak of procurement of raw materials, products and services, and when is “outsourcing” the correct term?

[2] This difference is also made by Quinn, 1992; Hirschhorn & Gilmore, 1992; Sharpe, 1997; Choi & Davidson, 2004.

Gilley and Rasheed (2000) shed some light onto this confusion by arguing that outsourcing is a strategic decision. This means that outsourcing is the rejection of internalization. In other words, if a company has the managerial or financial capabilities to provide the respective business activity (production of a good or service) internally but decides to source it externally, then outsourcing is the right term. However, if the company has no choice but to solicit the given business activity from an external provider, then we speak of procurement instead. Outsourcing is possible via either substitution – which means vertical disintegration – or abstention. The latter term refers to an outsourced activity that has not previously been performed in-house.

I would like to add a few thoughts about externality, internality and interdependence in the outsourcing context. It is important to consider whether the outsourcing supplier is dependent on the company outsourcing the respective business activity, in any way other than the legal dependency resulting from the outsourcing contract. If there is no other dependency, this relationship is referred to as external outsourcing; if any sort of dependency is involved, then it is called internal outsourcing. According to Murphy et al. (2012), one mode could be inter-outsourcing. This form involves a firm and its external supplier in a type of symbiotic relationship, where both partners benefit from the exchange of outsourcing services (Jiang, Reinhardt, & Young, 2008). For example, Motorola outsourced its logistics operations in China to UPS and MAERSK, and these firms bought their telecommunications processes from Motorola in return (Jiang, 2002). Another internal dependency mode would be spinout outsourcing, which means that a department or unit of a firm is spun out of a company and becomes a separate distinct entity. However, the new company maintains previously performed operations from an external position (Tubke, Saavedra, & Gonzalez, 2004). For example, ABB spun out its plastics production department, which then served as the main supplier of plastics for ABB products (Brandes, Lilliecreutz, & Brege, 1997). Still, the question remains of whether it is fair to speak of outsourcing when the "outsourcee" is somehow dependent on the outsourcer, be it via shareholding or due to the fact that the outsourcer is the only customer of the "outsourcee".

Previous explanations are intended to provide the reader with a basic understanding of outsourcing modes and definitions. As this thesis focuses on outsourcing in the context of young entrepreneurial firms, the following outsourcing definition is used throughout his paper:

"*Outsourcing is a company's strategic decision to source a certain business activity, which could be a service or the production of goods, to an independent external supplier, instead of delivering that activity in-house, which could theoretically be another option under realistic assumptions*."

2.2 Motives

Before tackling outsourcing in the entrepreneurial context later on in this thesis, it is important to provide the reader with a fair understanding of general outsourcing motives for why organizations – mostly large and multinational corporations – engage in outsourcing relationships. Among other less important motivations, at least five main motives for outsourcing have been cited in past studies on the subject.[3] These motives are briefly explained below:

First, the ability to reduce costs in various aspects while maintaining the same level of quality or even improving it is one of the most cited reasons for outsourcing (Edvardsson & Teitsdóttir, 2015). The goal here is to maintain identical services or even improve them by contracting out, with the assumption that current in-house operations are more expensive than the purchase of external services. This cost discrepancy could be true due to lower labor expenses and less restrictive bureaucracy abroad, lower transport and travel costs, reduced fixed investments, lower capital expenditures and lower prices for raw materials. Furthermore, cost reductions are achieved as a result of simplified infrastructure, a reduced workforce and increased awareness for cost control (Quinn, 1999; Kremic, Tukel, & Rom, 2006; Van Gorp, Jagersma, & Livshits, 2007; Lacity, Willcocks, & Rottman, 2008; Kotabe, et al., 2008; Di Gregorio, et al., 2009).

This so-called cost outsourcing is driven by transaction cost economics (Williamson, 1979), which means that companies take into consideration not only the immediate costs of obtaining the respective goods or services, but all relevant costs pertaining to the new structure of the business activity. This process includes monitoring performance, managing the contractual relationship and supervising the workforce (Klaas, 2008). Due to economies of scale, contractors can achieve cost savings compared to the in-house units involved.

[3] Please note the following, important papers on outsourcing motives: Edvardsson & Teitsdóttir, 2015; Arbaugh, 2003; Gilley & Rasheed, 2000; Parker, 2010; Baloh, Jha, & Awazu, 2008; Kotabe, Mol, & Murray, 2008; Belcourt, 2006; Abdul-Halim, Ahmad, & Ramayah, 2012; Leavy, 2004; Joardar, Wu, & Chen, 2014; Salimath, Cullen, & Umesh, 2008;

Second, outsourcing can improve the quality of goods and services in various ways. On the one hand, it can improve quality of business activities by choosing the best-of-breed contractor for that respective task (Baloh, et al., 2008; Belcourt, 2006). This could be, for example, the outsourcing of former in-house logistics processes to a more professional external supplier. On the other hand, outsourcing enables companies to access unique resources and rare talents, skills and capabilities possessed by others (Edvardsson & Teitsdóttir, 2015). Access can also be gained to new technology and specialized up-to-date services which are not available in-house (Belcourt, 2006; Gramm & Schnell, 2001). This could include outsourcing parts of R&D as well as parts of taxation to specialized service contractors or consultants.

The third reason for outsourcing is strategic focus. Outsourcing started to become popular in the late 1980s, mostly within large corporations as a means to reduce expenses in functional units of organizations as explained above (Bettis, Bradley, & Hamel, 1992; Quinn, 1992). Because of this functional approach of cost cutting, research was conducted from more of a tactical rather than strategic perspective at first (Arbaugh, 2003). In recent years it has become more popular to look at strategic reasons for outsourcing (Edvardsson & Teitsdóttir, 2015). Thus, managers should not think from a functional perspective in the organization, but look at the firm as a whole and grasp its organizational activities and capabilities (Kraut, Steinfield, Chan, Butler, & Hoag, 1999; Quinn, 1999; Smith, Mitra, & Narasimhan, 1998).

One of the most popular strategic reasons for outsourcing is the focus on a company’s core competencies. This focus on the core business activities results in a competitive advantage compared to one’s competitors (Edvardsson & Teitsdóttir, 2015). The company should identify those components and activities which are essential to its business and therefore must be done in-house. Top management would be a reasonable example of such a core activity. However, certain other business activities, which are not core activities and are therefore called non-core competencies, should be outsourced (Insinga & Werle, 2000). When these outsourcing decisions have been made, the company begins to seek contractors who can perform these activities and likely execute better than their in-house competition (McDermott & Handfield, 2000; Quinn, 1999). This increased focus on the most important tasks of an organization and the outsourcing of non-core activities is an essential benefit of strategic outsourcing (Gilley & Rasheed, 2000; Dess, Rasheed, McLaughlin, & Priem, 1995; Parker, 2010; Kotabe & Murray, 1990; Baloh, et al., 2008; Quinn, 1992; Leavy, 2004; Belcourt, 2006; Venkatraman, 1989). According to Costa (2001), the focus on core competencies and lack of internal resources, skills, and time are the main reasons for the outsourcing of IT in Australia.

The fourth motive for outsourcing is an increased flexibility in outsourcing companies. Outsourcing companies are leaner (Kotabe, et al., 2008) and costs related to bureaucracy are therefore lower (D'Aveni & Ravenscraft, 1994). Furthermore, it is easier for an outsourcing company to switch from one supplier to another if necessary (Harris, Giunipero, & Hult, 1998). An outsourcing company can also better react to demand swings, because it can adjust volumes from external suppliers (Edwardsson, et al., 2015). If the business activity was conducted in-house, Kotabe et al. (2008) argue that in this case response time to external events would be longer and would result in high restructuring costs. This demand swing can also be upwards, meaning the demand for this respective business activity could increase drastically. For example, a young company could face high growth of demand for their product and would therefore need to adjust their production accordingly. If the production is outsourced, the company can simply increase orders or source from an additional supplier. In this case outsourcing companies have a better ability to scale due to their flexible reaction to demand increases (Leavy, 2004).

In addition to increased flexibility in coping with demand swings, another outsourcing motive mentioned is that of reducing company risk by sharing it with suppliers (Kremic, et al., 2006; Di Gregorio, et al., 2009; Lacity, et al., 2008; Quinn, 1999; Tam, Moon, Ng, & Hui, 2007; Vietor & Veytsmann, 2005). As a result of other factors such as improved quality, lower fixed investments and the ability to react flexibly to external shocks, overall risk in an outsourcing company is reduced (Belcourt, 2006; Gilley & Rasheed, 2000). Risk is reduced by sharing it with suppliers (Edvardsson & Teitsdóttir, 2015; Quinn, 1992), but it should not be denied that the outsourcing company will strongly depend on the competence and reliability of its external service provider (Quélin & Duhamel, 2003), with potential interface problems for the management (Schätzer, 1999).

To conclude, literature (mostly about large and multinational corporations) shows several objectives for outsourcing: reduction of costs and bonded capital, access to improved quality standards, increased focus on a company's core business, and a more flexible and less risky organization. However, the question remains, if the same holds true for young entrepreneurial firms. Therefore, the next chapter examines the specifications of entrepreneurial firms in order to answer the question whether outsourcing motives of large multinational corporations can be applied to entrepreneurial companies as well.

3 Entrepreneurial firms

Several characteristics of entrepreneurial firms have been identified in various papers. The two most common criteria are age and size (Miller & Friesen, 1983; Salimath, et al., 2008; Hanks, Watson, Jansen, & Chandler, 1993; Quinn & Cameron, 1983). Other distinctive factors include innovation and governmental structure (Miller & Friesen, 1982; Salimath, et al., 2008; Dess, Lumpkin, & Covin, 1997). Furthermore, it is important to distinguish between the context of entrepreneurship and business administration. Thus, I discuss the properties age, size and the entrepreneurial context in the following sections.

3.1 Age

There are different definitions for young companies in entrepreneurship literature. However, most papers refer to companies which are in the founding stage or shortly thereafter. Bantel (1998) defines that young companies are 12 years old or younger. Salimath (2008) considers 16 years as the age limit for young companies. Wherever this limit for a young company might be, there are certain differentiations between these and older, more established companies.

Young age is often cited as a reason for failure of companies (Brüderl & Schüssler, 1990; Henderson, 1999). Stinchcombe (1965) concluded that the risk of failure decreased with increasing age of the company, referring to this empirical evidence as liability of newness. Other studies find similar empirical evidence (Evans, 1987; Aldrich & Auster, 1986; Freeman, Carroll, & Hannan, 1983; Caroll & Delacroix, 1982; Singh, Tucker, & House, 1986).

According to Stinchcombe (1965), this evidence is due to the internal and external liabilities of young companies. Internal liabilities include the fact that young companies have not yet established clear responsibilities. This process takes time and requires a great deal of learning, and is prone to conflicts. Additionally, in a company's early stages the social network between employees is still missing. External liabilities as explained by Stinchcombe (1965) include newness to the market and lack of experience, legitimacy and reputation compared to established competitors. Furthermore, the company's external network is not yet fully established.

Nevertheless, there are also certain benefits of young age. According to Autio, Sapienza and Almeida (2000), younger companies have a *"Learning Advantage"* (Autio, et al., 2000, p.

919), which means they are better able to absorb new information and gain knowledge. Furthermore, these companies have less structural inertia (Hannan & Freeman, 1984; Autio, et al., 2000; Ranger-Moore, 1997). Their processes, behavior and thinking are more flexible, more open to change and less path-dependent. Communication is informal and hierarchies are typically not that established compared to larger companies, where norms and habits are more institutionalized (Tushman & Romanelli, 1985).

3.2 Size

Analogous to the "liability of newness", a "liability of smallness" can be found in the literature. It has been empirically observed that the smaller companies are, the more failure rate increases, considering they have the same age (Aldrich & Auster, 1986; Ranger-Moore, 1997; Freeman, et al., 1983; Evans, 1987; Hannan & Freeman, 1984). Thus, similar to the liability of newness theorizing that younger companies have a higher failure rate, also smaller companies are prone to fail. There are several reasons for this finding.

First, resources are often considered to be scarce in small businesses (Salimath, et al., 2008; Kuratko, 2008; Gartner & Bellamy, 2008; Timmons & Spinelli, 2007). Aldrich and Auster (1986) state that small companies have limited access to capital markets and generally obtain less external financing, because they are perceived to be riskier than large, established corporations.

The same holds true for human capital resources. According to Aldrich and Auster (1986), small companies have a disadvantage in attracting talents compared to large corporations. Larger companies are perceived to be safer and offer more career opportunities. As a result, these companies are often preferred by employees. Additionally, Abdul-Halim et al. (2012) state that smaller firms often cannot employ specialists because their limited size does not allow them to reap the benefits of economies of scale, and they cannot afford to hire them.

The inability to reap benefits from economies of scale and scope also results in higher manufacturing costs compared to larger companies, as well as lower negotiation power with suppliers and other stakeholders (Wholey, Christianson, & Sanchez, 1992).

Another disadvantage of small-sized companies is their small resource buffer in crises. Because of smaller capital buffers, smaller companies are more heavily affected by economic downturns (Hannan & Freeman, 1984; Carter, 1990). Failure rates among small companies are exceptionally high during these troublesome times.

On the other hand, small size has advantages such as flexibility. Smaller companies have the ability to react faster compared to larger companies (Kuratko, 2008), they are more agile in exploiting new opportunities and can adapt faster to market changes (Salimath, et al., 2008; Ranger-Moore, 1997). Larger companies, however, are associated with structural inertia, which inhibits them in responding flexible to entrepreneurial opportunities (Salimath, et al., 2008; Hannan & Freeman, 1984). Additionally, smaller companies have a leaner corporate structure, are less bureaucratic and less hierarchical, and are able to decide fast and implement these decisions faster (Kuratko, 2008).

3.3 Entrepreneurship versus business administration

Apart from the obvious characteristics of young and small entrepreneurial firms, they also possess a more subtle property: entrepreneurial firms differ from other business entities due to the fundamental difference between entrepreneurship and management.

According to Faltin (2001), the manager of an established company operates mostly within a relatively stable and predictable environment *"under normal conditions"* (Faltin, 2001, p. 125), and is concerned with a large propart of routine administrative business functions which do not change very much over time. Meanwhile, quite the opposite is true for the entrepreneur: *"Here, you have to emphasize the innovative momentum and a fresh start in contrast to the organizational aspects of existing entities"* (Faltin, 2001, p. 125). An entrepreneur creates a business essentially from scratch, which is a relatively risky venture. Building something out of practically nothing is a creative act of developing and implementing an entrepreneurial idea (Timmons, 1994), which differs from the more analytical and administrative approach of traditional management theory and practice. This goes back to Schumpeter (1993), who thought of the entrepreneur as a person who leaves well-trodden paths to open up new territories and turns his vision into reality via *"creative destruction"* of the existing business reality (Schumpeter, 1993, p. 100).

This difference between management and entrepreneurship is also mentioned in several studies about the existence and differentiation of a lead entrepreneur and management team in start-ups (Bygrave, 1994; Ensley, Carland, & Carland, 2000). According to Ensley et al. (2000), different abilities, skills and characteristics are necessary for the management and entrepreneurial aspects of a venture, and therefore these tasks are often carried out by different people. According to Herron (1990), entrepreneurial drive and skills, risk-taking propensity, and a strong belief in one's own abilities and entrepreneurial idea are important factors for venture performance, and thus necessary characteristics of the lead entrepreneur (Ensley, et al., 2000).

According to Lau, Shaffer and Au (2007),*"entrepreneurial firms are a natural extension of entrepreneurs"* (p. 126). That means that the ideal typical entrepreneurial firm is innovative and proactive in creating new goods, services and ventures, and acts in a risky environment (Wu, Daewoo, Chinta, & Cunningham, 2010; Miller & Friesen, 1982; Dess, et al., 1997; Hitt, Ireland, Camp, & Sexton, 2002; Covin & Slevin, 1989), which differs from the rather stable environment of large, established corporations.

In addition to risk propensity, pro-activeness and innovation (Miller, 1983), there is another distinctive factor in entrepreneurship: the relationship between the entrepreneur and his venture is different than the general relationship of a manager to his company. The entrepreneur tends to be owner-manager and often retains control over the company (Salimath, et al., 2008). He influences the organization's activities to a large extent (Joardar, et al., 2014), which has certain effects on firm performance (Daily, Mc Dougall, Covin, & Dalton, 2002). Some researchers argue that a control in the governance structure might be the key for effective innovations (Daily, et al., 2002; Merz & Sauber, 1995), while others argue that sole ownership may not be optimal in that respect, since there is limited input from outside advisors (Markman, Balkin, & Schjoedt, 2001). Diether, Boerner and Lanwehr (2004) found a curvilinear relationship between innovativeness and control levels, arguing for the existence of an optimal level of ownership for the entrepreneur with regard to innovativeness of the firm.

Whatever the level of ownership and the resulting benefits for the entrepreneurial firm might be, entrepreneurial firms are generally characterized by a stronger influence from the entrepreneur, resulting from the governing structure and other factors. This is different from larger companies, where the shareholdings of the entrepreneurs or managers decrease in more mature lifecycles of the company (Salimath, et al., 2008).

To conclude, small, young entrepreneurial companies differ from large, established MNEs in various aspects: due to their liabilities of newness and smallness, young companies are likelier to fail compared to big, established corporations. Additionally, SMEs lack the experience, resources, reputation and bargaining power of their bigger and older competitors. However, entrepreneurial companies are innovative, fast learning and less bureaucratic. Furthermore, the entrepreneurs are more innovative and risk-seeking and generally influence their respective firms to a greater extent than hired executives.

4 Benefits of entrepreneurial outsourcing

Two things can be taken from the previous chapters: firstly, small, young entrepreneurial companies differ substantially from large, established MNEs and secondly, outsourcing is rather common and rather extensively researched in the context of big, established corporations.

However, a fundamental outsourcing theory on entrepreneurial firms, especially for very young companies, is lacking. Therefore, I draw on outsourcing and entrepreneurship literature to outline the benefits of entrepreneurial outsourcing in this chapter. I develop assumptions and questions from these theoretical thoughts, which are the foundation for the empirical part of the paper (Chapter 5). In order to establish these assumptions theoretically, the following procedure is used: first, existing outsourcing literature is used to explain the theory behind the respective benefit, and empirical results of previous studies are presented. Next, the differences related to the entrepreneurial compared to the corporate setting of large companies are taken into account. Finally, propositions and questions concerning benefits of entrepreneurial outsourcing are derived and summarized in Table 1 at the end of this chapter.

4.1 Costs

As already introduced in Chapter 2.2, achieving cost reduction while maintaining quality is one of the most cited reasons for outsourcing in academic literature (Edvardsson & Teitsdóttir, 2015; Sinha, et al., 2011; Belcourt, 2006), and the majority of companies state this as their main motivation for establishing outsourcing relationships (Oke, Maltz, & Christiansen, 2009; Gray, Roth, & Tomlin, 2009; Teng & Jaramillo, 2005; Roth, Tsay, Pullman, & Gray 2008).

In general, cost reduction is one possibility for companies to develop a competitive advantage (Porter, 1980, 1985). In today's globalized economy, and with increasing world-wide competition, many companies try to realize these cost advantages via outsourcing (Sinha, et al., 2011). The assumption behind cost-based outsourcing is that current in-house expenses exceed the external purchase price of that business activity (Edvardsson & Teitsdóttir, 2015). This could be the case due to less restrictive work rules and lower wages abroad, lower material costs, lower capital expenditures, and less storage and transportation costs. Furthermore, indirect cost savings in the form of simplified infrastructure and stricter cost control can also be realized (Lacity, et al., 2008; Kremic, et al., 2006; Di Gregorio, et al., 2009; Van Gorp, et al., 2007; Quinn, 1999). Specialized suppliers often use economies of scale to carry out a business activity more economically (Edvardsson & Teitsdóttir, 2015).

However, cost-driven outsourcing is based on transaction cost economics (Williamson, 1979). Following the transaction cost theory (TCT), which is the most common theoretical foundation of outsourcing according to Murphy et al. (2012), companies must take into account not only the immediate costs (e.g. manufacturing costs), but all costs relevant to the outsourcing transaction. These costs include finding a supplier, specifying agreements, enforcing contracts, managing contractual obligations, and monitoring and supervising the supplier and others (Sinha, et al., 2011; Kraut, et al., 1999; Klaas, 2008). Outsourcing companies often fail to consider all of these so-called transaction costs (D'Aveni & Ravenscraft, 1994; Bruch, 1998; Gilley & Rasheed, 2000; Teng & Jaramillo, 2005; Oke, et al., 2009; Quinn & Hilmer, 1994), which can in turn result in a disappearance of the expected cost advantage of outsourcing (Quinn & Hilmer, 1994).

Nevertheless, several studies show that cost advantages can be realized if the outsourcing relationship is successfully managed (Bardhan, Mithas, & Lin, 2007; Petersen, Frayer, & Scannell, 2000; D'Aveni & Ravenscraft, 1994). Cost savings ranging from 10-20 percent with an average of 15 percent have been achieved in outsourcing arrangements of at least two years' duration (Henneman, 2005; Adler, 2003; Oshima, Kao, & Tower, 2005).

As stated above, outsourcing is very common within large companies (Arbaugh, 2003). However, knowledge about cost outsourcing within small and medium-sized enterprises (SMEs) is somewhat limited (Abdul-Halim, et al., 2012). In general, resources are much more scarce in SMEs than in larger companies (Hambrick & Crozier, 1985; Brush, Greene, & Hart, 2001), which makes it even more important for them to save resources. Arbaugh (2003) concludes that in general, a purely production cost-based decision would suggest that the SME pursues more rather than less outsourcing. However, the transaction costs, which are exceptionally high for SMEs compared to larger companies, may make it more cost-effective for the SME to perform these activities in-house (Kraut, et al., 1999; Arbaugh, 2003). The volume of outsourced work must be large enough to cover additional transaction costs, so that overall savings can be achieved (Lacity, et al., 2008). Furthermore, entrepreneurial companies lack an adequate comparison for their costs of a business activity previously conducted in-house, which the entrepreneur or the team has probably done on his or its own. This is in line with former studies, which found small firms to generally be more reluctant to outsource compared to their larger competitors due to their low negotiation power and higher opportunity risks (Belso-Martinez, 2010; Edvardsson, Oskarsson, & Vesteinsdóttir, 2011; Edvardsson & Teitsdóttir, 2015). Therefore, I propose:

Proposition 1a: *Entrepreneurial outsourcing reduces overall cost, however this is not the primary motivation for outsourcing in entrepreneurial firms.*

Research shows that the cost structure is changed by outsourcing as well. In the case of production outsourcing, this means that fixed investments in production facilities and human capital to run these facilities are reduced (Belcourt, 2006). Thus, products are ordered from suppliers only as they are needed (and can be sold), resulting in variable costs that are dependent on sales instead of fixed costs that must be paid independently of realized sales (Gilley & Rasheed, 2000).

Outsourcing reduces the capital investments for projects, which in turn results in faster achievement of the break-even point (Gilley & Rasheed, 2000). For large companies, outsourcing reduces capital investments and therefore leads to a higher return on equity (Kotabe, et al., 2008). Considering that entrepreneurial companies are much more resource constrained than established corporations with regard to capital investments and workforce, it is likely that such companies can profit from outsourcing (Sinha, et al., 2011). Faltin and Ripsas (2011) state several reasons for this. First, costs must only be paid when orders come in. Second, very little upfront capital investment is needed at the beginning of a venture, which makes the time-consuming search for external capital suppliers obsolete. And lastly, the capital need, fixed costs and thus the risk associated with high spending at the beginning of ventures when revenue is still small and unsafe, are reduced. Therefore, I propose the following:

Proposition 1b: *Entrepreneurial outsourcing reduces periodic fixed costs.*

Proposition 1c: *Entrepreneurial outsourcing reduces the initial, up-front capital investment.*

Proposition 1d: *Entrepreneurial outsourcing helps to achieve the break-even point faster.*

According to Bahli and Rivard (2005) and Agrawal, Goswami and Chatterjee (2010), many firms do not consider unexpected costs in their outsourcing relationships. Some reasons for these costs include inefficient and unreliable suppliers, and the need for renegotiation of contracts, solving disputes and litigation (Sinha, et al., 2011). These problems often arise from choosing the wrong supplier or mismanaging the relationship with the supplier. Literature shows that outsourcing often brings these hidden costs (Sanders, Locke, Moore, & Autry, 2007) associated with staff training, monitoring and communicating with overseas suppliers (Ellram, Tate, & Billington, 2008), increased costs for traveling and transportation, and extra costs of marked-based transactions (Gilley & Rasheed, 2000). Furthermore, the cost advantages might not be as great as assumed in the first place (Gilley & Rasheed, 2000). According to a survey among outsourcing companies by the American Management Association, three quarters of companies failed to meet their expectations due to hidden costs and other risks (Barthelemy, 2003). Barthelemy (2003) named hidden costs as one of the seven *"Deadly Sins of Outsourcing"* in his identically titled paper.

Because of the important role of hidden costs in outsourcing, it is very important to avoid these costs. Therefore, the interviewees are asked about their experience with this in the empirical part of this paper:

Question 1: *Have you experienced unexpected costs in your outsourcing relationship and what is your strategy to avoid them?*

Another problem of cost-based outsourcing is ignoring of other key factors of business success (Bruch, 1998; Oke, et al., 2009). Companies that focus only on the cost side of outsourcing and neglect other important factors often fail to succeed in their outsourcing project, because outsourcing is only successful if several factors come together (Oke, et al., 2009).

4.2 Focus on core competencies

"Do what you can do best – outsource the rest" (attributed to Peter Drucker; see Szyperski, Schmitz, & Kronen, 1993, p. 237; Szyperski & Kronen, 1991, p. 17).

With this quote the famous management researcher Peter Drucker asks companies to do two things. First, they should concentrate on their strengths, which are called core competencies in academic literature (Prahalad & Hamel, 1990). The second part of Peter Drucker's quote refers to outsourcing. He suggests that companies should outsource business activities which they cannot execute better than their competitors. This statement summarizes the advantage of achieving a stronger focus on core competencies by outsourcing non-core competencies.

In addition to this quote, many studies in academic literature address the positive impact of outsourcing on core competencies (Lei & Hitt, 1995; Gilley & Rasheed, 2000; Dess, et al., 1995; Quinn & Hilmer, 1994). The reasons for this positive influence mostly include saving resources such as time and money, which are free to be spent on core competencies when strategically unimportant activities are outsourced (Quinn & Hilmer, 1994; Gilley & Rasheed, 2000).

The theoretic roots of Drucker's statement can be traced back to Ricardo's (1817) Law of Comparative Advantage. Ricardo (1817) hypothesized that the value of the entire economy would increase if providers of goods and services would focus their capabilities on those activities in which they had a competitive advantage, and then engage in trading with other players.

A more recent theoretical approach is Barney's (1986) resource-based view of a firm (RBV). Following the RBV, a company's competitive advantages are not attributed to external factors such as those stated in Porter's model of five forces (Porter, 1980), but rather the internal resources of the company. These factors are specific and valuable to the respective company, rare among current and potential competitors, hardly imitable and non-substitutable (Barney, 1986; Arnold, 2000). Prahalad and Hamel (1990) later called these valuable resources core competencies.

Still, the positive effect of outsourcing on performance is assumed to result only if non-core competencies are outsourced. If core competencies are outsourced, certain shortcomings are prone to happen. These include the loss of the company's specific skills and knowledge, and long-term weakening of the competitive advantage (Quinn & Hilmer, 1994; Lei & Hitt, 1995; Gilley & Rasheed, 2000; Prahalad & Hamel, 1990). Other potential disadvantages of core outsourcing are declining innovation (Kotabe, 1990; Teece, 1987) and eventual competition from suppliers who enter the market of the outsourcing company (Bettis, et al., 1992; Prahalad & Hamel, 1990; Quinn, 1992). This results in reduced firm performance (Gilley & Rasheed, 2000). Bettis et al. (1992) found that the decline of several U.S. industries such as television, bicycles and automotive was severely affected by offshoring to Japanese suppliers who ended up being competitors.

To conclude, it seems to be the general consensus that companies should not outsource core competencies (Boyson, Corsi, Dresner, & Rabinovich, 1999; McDermott & Handfield, 2000; Quinn, 1999). But many companies are not aware of the danger of outsourcing their core competencies, as these competencies are often difficult to identify.

Therefore, the term core competency must first be defined. Prahalad and Hamel (1990) define core competencies as the knowledge and skills possessed by the company, which are important to provide substantial value to the customer. They are also referred to as the collective knowledge of a company (Prahalad & Hamel, 1990). Because an exact definition is difficult to establish, literature focuses more on certain characteristics of core competencies. Quinn and Hilmer (1994) list seven such characteristics, which should help companies to better understand their core competencies: 1) core competencies are always skills or knowledge; 2) core competencies are always long-term oriented and adaptable; 3) they are limited to two to five per company; 4) they fill thus far undiscovered knowledge gaps; 5) core competencies exist in areas, which can be dominated; 6) they can provide a long-term competitive advantage; and 7) core competencies are imbedded in the whole enterprise.

Understanding core competencies is important for their correct identification. However, this step is difficult in practice. Pralahad and Hamel (1990) therefore developed three questions to test whether a certain task is a core competency and should therefore be considered for outsourcing: does this competency allow access to a variety of markets? Does this competency contribute to the perceived customer value? Is this competency hard for competitors to imitate? If all three questions are denied, then it can be concluded that the respective competency is not a core competency.

To summarize, a company that understands its core competencies can benefit from focusing on these most value-creating tasks through systematic outsourcing of non-core activities. Oshima et al. (2005) found that companies engaging in non-core competency outsourcing reduced administrative tasks by more than half and increased their strategic focus by 40%.

If this is true for large, established corporations then what about entrepreneurial firms? As shown in Chapter 3, entrepreneurial companies differ substantially from their large, established competitors.

First, it must be stated that the topic of non-core competency outsourcing for entrepreneurial companies is hardly seen in academic literature. A great deal of research can be found on the subject in the context of larger corporations, but in the context of SMEs literature is scarce, while for very young and small entrepreneurial firms it is almost non-existent. Faltin and Ripsas (2011) published one of the few papers on this topic, which is discussed later on in this chapter.

Companys and McMullen (2007) conclude that firm growth is an important aspect in the context of entrepreneurial companies. And for the entrepreneur to enable his company to grow, an adequate focus must be placed on the most important tasks. According to Takeishi (2001), these should be the company's core competencies.

But what are the entrepreneur's core competencies? Faltin and Ripsas (2011) state that development and ongoing improvement of the entrepreneurial design is part of the core competencies of the entrepreneur. This implies the constant re-thinking of the value proposition for the customer and working on how this proposition can be achieved efficiently with scarce resources. Furthermore, the entrepreneur should coordinate the different components of his company, including employees as well as outside stakeholders. However, there is the danger that the entrepreneur will become lost in administrative, organizational or legal details, and thus loses focus on the most important parts of the venture. This danger is lowered by Faltin and Ripsas's (2011) concept of *"founding with components"* (Faltin & Ripsas, 2011, p. 170). This concept draws on Anglo-Saxon literature, which distinguishes between entrepreneurship (establishing something innovative), and business administration (managing organizational and administrative tasks), a difference which is also summarized in Chapter 3.3 of this paper. Today both fields, entrepreneurship and business administration, are so extensive, that the founder can hardly accomplish both.

Outsourcing, which is the usage of existing components to support the entrepreneurial concept, could be the solution for the founder to save valuable time and focus on the most important parts of his business – the core competencies – instead of becoming lost in the daily administrative aspect (Faltin & Ripsas, 2011). This theory is supported by Musteen and Ahsan (2013), who argue that young firms often lack resources. Therefore they cannot use economies of scale for certain auxiliary and support functions, which are not part of the core business in the same manner as their larger competitors. Thus Musteen and Ahsan (2013) conclude that outsourcing such non-core activities might be beneficial in order for young companies to overcome this problem. Additionally, Arend and Wisner (2005) state that by outsourcing time-consuming non-core competencies, innovative small businesses can leverage their scalable competencies such as new product development and design.

Since the availability of human time is generally a fundamental and scarce resource (Juster & Stafford, 1991), substantial research has been conducted on time-allocation of employees (Becker, 1965). However, this is not the case for time allocation of entrepreneurs. Research on this topic is still rather scarce (Carree & Verheul, 2009), even though self-employed people usually are considered to have more freedom to allocate their time (Wales, 1973). Carree and Verheul (2009), however, conclude that outsourcing has similar time-saving effects as hiring employees. This is especially helpful for *"time-consuming (routine) business activities for which the self-employed may have relatively low productivity"* (Carree & Verheul, 2009, p. 1513).

Saving time is also important for another reason. Musteen and Ahsan (2013) state the importance of speed in the commercialization of new business ideas, concluding that by outsourcing certain non-core competencies, companies' time-consuming in-house development is saved. This allows young companies to reduce lead times and focus on other more important aspects of the business, such as marketing their products and services.

Although this theoretical concept is straightforward, other literature suggests that younger and smaller companies focus more on developing internal skills, knowledge and capabilities, and do not consider outsourcing as a fitting option because external relationships might take longer to establish (Quinn & Hilmer, 1994; Prahalad & Hamel, 1990; Brüderl & Preisendorfer, 2000; Autio, et al., 2000; Lee, et al., 2001). According to Anderson and Schmittlein (1984), firms may also decide not to contract activities out if it is difficult to evaluate performance and if the task is particularly important to the company. Arbaugh (2003) concludes that young firms are less likely to outsource such activities. This finding relates back to the core competency approach and the consensus not to outsource core competencies. Nevertheless, entrepreneurial companies have scarce resources and must focus on most the value-creating activities according to Abdul-Halim et al. (2012). Outsourcing non-core business activities could therefore be a viable solution for this problem, and I propose:

Proposition 2a: *Entrepreneurs do not outsource their core competencies.*

Proposition 2b: *Entrepreneurs outsource non-core competencies in order to focus on their core competencies.*

Question 2: *What do entrepreneurs define as their core competencies and non-core competencies?*

4.3 Quality

The integrated oil and gas company British Petroleum (BP) outsourced HR to Exult, a specialized service provider, for three main reasons according to a study by Belcourt (2006). The first reason was to reduce costs, the second was to focus on the core business activities and the third was to assure good quality work. A vice president of HR commented that *"the quality of the delivery was uncertain"*, when conducted in-house (Belcourt, 2006, p. 269).

Belcourt (2006) concludes that if organizations need experts but cannot afford to hire or train them, then outsourcing might be a suitable solution. This may apply not only for production, but also and especially for a company's non-core business services such as HR, as the BP example shows.

According to Porter (1980) and the five-forces model he developed, there are three different strategies for a company to gain a competitive advantage. One of them, the differentiation strategy, consists of having a unique product or service to offer to the market. This uniqueness can be a better quality product or service. If the customer perceives and prefers this quality difference, then the offering company has a competitive advantage over their competitors. Porter's theory is criticized because of the assumption that it is nearly impossible for a company to pursue two strategies at the same time, such as the differentiation strategy explained above and the cost leadership strategy for example. The latter is another of Porter's strategies, and basically implies offering a low-cost version of the respective product or service (Porter, 1980, 1985). However, both the cost leadership and differentiation strategies could be pursued via outsourcing, as suppliers might deliver better quality at lower costs compared to conducting the business activity in-house.

Before discussing quality, the term must first be defined. Quality is not uniformly used in academic literature. Some studies see quality as simply the absence of mistakes in the product, or the fulfillment of earlier specified product requirements (Crosby, 1979; Oke, et al., 2009; Baiman, Fischer , & Rajan, 2000; Gray, et al., 2009). Others focus on the satisfaction of individual customer needs of a product (Kaya & Özer, 2009; Garvin, 1984).

For the empirical research on quality of entrepreneurial outsourcing (Chapter 5.4.3) I define quality as the absence of mistakes, and the fulfillment of prior individually specified requirements of products and services.

Regarding the impact of outsourcing on quality, academic literature shows mixed results, which are stated as follows:

One advantage of outsourcing is that after defining the task to be outsourced and a quality level to be achieved for this task, the outsourcing company can choose the *"best-of-breed"* supplier for this respective task (Baloh, et al., 2008, p.103). The rational hereby follows Porter's differentiation strategy approach: most outsourcing suppliers are highly specialized players in the market, where most likely at least one can be chosen who is able to deliver better quality than in-house operations would yield. This results in improved service or product quality for the outsourcer (Kotabe & Murray, 1990; Abdul-Halim, et al., 2012). Furthermore, by choosing the best outsourcing provider companies can learn from the suppliers' know-how (Quinn & Hilmer, 1994). By outsourcing items and establishing relationships with suppliers, firms might be able to learn and develop innovative ideas based on this new information (Kotabe, et al., 2008). This could be an important part of the outsourcing relationship especially for SMEs (Di Gregorio, et. al., 2009).

Another advantage of outsourcing is that the necessary specialists cannot be found within the company in the first place. If expertise in a certain area is needed and the company cannot afford to hire or train an expert in-house, outsourcing might be a good solution (Belcourt, 2006). Resource-constrained start-ups in particular hardly can afford to employ people for highly sophisticated but standardized non-core activities, such as accounting (Everaert, et al., 2007; Abdul-Halim, et. al., 2012). If many regulations and laws are involved with the business task, then doing it oneself carries substantial legal risks apart from the obvious risk of yielding insufficient quality. Both risks can be reduced by contracting out to experts, such as professional accountants and tax advisors (Belcourt, 2006). Belcourt (2006) therefore concludes: *"Outsource when somebody can do better than you"* (Belcourt, 2006, p. 273).

Nevertheless, a main drawback of outsourcing is the risk of becoming too dependent on external suppliers who are responsible for the quality of the product or service. If a company is too dependent on its supplier, it can be very difficult to switch suppliers if quality decreases, and the danger of increasing prices could then arise (Everaert, et al., 2007). This results in an overall deterioration of market performance (Kotabe, 1990; Bettis, et al., 1992).

In light of superior quality being one of the strategies for achieving a competitive advantage, outsourcing of core business activities resulting in decreased innovation in the company leads to a deterioration of quality of the outsourcing company (Chapter 4.2). Furthermore, critical knowledge and skills could be lost by outsourcing core competencies. Even worse, former suppliers could establish themselves as serious competitors for the outsourcing company. Both points lead to a drain of competitiveness in the long run (Arbaugh, 2003; Bettis, et al., 1992).

As shown in Chapter 4.2, these problems could be solved if only non-core activities are outsourced. *"Peripheral outsourcing"* (Gilley & Rasheed, 2000, p. 770) of standardized tasks and processes, which may even be highly sophisticated, can be very beneficial for SMEs (Everaert, et al., 2007). This therefore does not lead to the loss of critical knowledge, deterioration of innovation and creation of new competitors. Competition for these tasks is usually very high among suppliers, which should enable low prices and allow for a best-of-breed selection.

Certain risks concerning quality remain even when only non-core competencies are outsourced. These include, for example, deterioration of product quality if manufacturing is outsourced and the supplier is then responsible for quality assurance (Kaya & Özer, 2009; Gray, et al., 2009; Roth, et al., 2008). Product recall programs are often cited as an example of these quality risks (Roth, et al., 2008; Gray, et al., 2009). A famous product recall was conducted in the U.S. in 2007 after contaminated herbal protein was detected in animal feed from China. This case triggered a heavy echo in the media and strengthened awareness about quality issues concerning imported goods (Roth, et al., 2008).

In conclusion, a study of quality issues in the context of entrepreneurial companies and outsourcing thus far does not exist. However, for entrepreneurial companies in particular, the advantages of outsourcing with regard to quality could be substantial. Using existing suppliers for a certain business activity allows start-ups to standardize quality right from the start of their venture (Faltin & Ripsas, 2011). This could be true not only for non-core business services, but also for manufacturing. Therefore, considering the literature, I propose and question:

Proposition 3: *Entrepreneurial outsourcing improves both service and product quality.*

Question 3: *How do entrepreneurs judge the quality of certain business tasks if they are inexperienced in the respective field, and how do they assure this quality?*

Entrepreneurs are more generalists than specialists, and entrepreneurial companies are cash-starved and lack economies of scale; this makes it difficult for them to develop auxiliary and support functions in-house (Musteen & Ahsan, 2013). Outsourcing might be a solution to enable sufficient quality for these non-core business tasks. Furthermore, the founder's lack of experience can be compensated for by relying on professional components for certain business activities such as accounting, for example (Faltin & Ripsas, 2011).

Musteen and Ahsan (2013) conclude that most innovative business models bring together external suppliers and own processes. Furthermore, the development of technology and globalization in recent years has made it possible for even small start-ups to buy products with standardized quality on public markets. More and more services are also commoditized, which in turn leads to rapid growth in the service offshoring industry (Di Gregorio, et al., 2009). This development could be a good sign for entrepreneurial outsourcing in the future however, these matters have not yet been researched extensively.

4.4 Scalability and the avoidance of growth crises

Previous chapters – costs (4.1), focus on core competencies (4.2) and quality (4.3) – are constructed in a way, that classical outsourcing motives of large, established corporations are explained to the reader at first and then these motives are discussed in the context of entrepreneurship in order to derive assumptions about benefits of entrepreneurial outsourcing. The following section differs from this approach. The basis in this chapter is an issue that is particularly important for start-ups, but is not a classical goal of outsourcing. Following this path, I will explain why this goal can be achieved by outsourcing.

In particular, an important aspect for the success of start-ups is to survive the initial phase in the first place, and then grow sustainably in order to avoid typical growth crises faced by start-ups.

The scalability of the start-up's business model is thereby a factor that enables fast and sustainable growth (Linder, 2004). In the context of start-ups, scalability means that the offered services or products can be multiplied without increasing associated costs proportionally with increasing revenues due to synergies. This is the case for software, for example, which the customer can download and purchase via the internet (Faltin & Ripsas, 2011). If high investments are needed to expand capacities in order to grow, as is the case when people must be hired and machinery must be bought first, then the business model is less scalable compared to the software case. Running a steel production company would be an example of a constrained business, considering the scalability of its business model.

The next factor – reciprocal to scalability, understood as frictionless growth – is the avoidance of growth crises, which means not failing during business expansions from the initial phase (Linder, 2004). Generally speaking, the risk of business failure is particularly high for start-ups, which becomes obvious when looking at their rate of bankruptcies. According to different studies at least 50% of start-ups will fail during the first five years.[4] Therefore, it can be seen as a success if start-ups survive this phase in the first place (Smart & Conant, 1994).

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[4] While Scott (1982) as one of the more optimistic researchers found that 40% of start-ups failed within the first five years, Hoad and Roscoe (1964) found that 43% failed yet within the first three years and Churchill (1955) found that over 30% of start-ups failed within the first year, topped by Siropolis (1977) stating that 50% of all

Reasons for start-up failure are manifold and have been the topic of various studies in the past. Obviously the business concept could turn out to be unsustainable to begin with. Thus, the value for the customer could be lower than anticipated beforehand, and the demand therefore too little or competition to strong (Faltin, 2001).

If this is not the case, there are several problems that often occur in various start-ups when the business idea is implemented. The main reasons for start-up failures are therefore the lack of marketing and financial know-how within the start-up, managerial competence and experience of the founders as well as personal problems, including disagreement within the founders' team or between the entrepreneurs and their employees, which emerge over time (Watkins, 1982; Berryman, 1983; Carson & Cromie, 1989).

A fundamental problem thereby exists if the entrepreneurial firm is not able to react to changing factors outside of the start-up, as well as changing circumstances within the start-up. If the start-up grows too fast and in an uncontrolled manner, growth crises can emerge. These have been categorized by Parks (1977) as follows:

1. The Start-up Hurdle: Despite the business concept being innovative and valuable, founders fail because they are not able to manage the operative part of the business. Founders underestimate the time required for and their own capabilities in management and business administration tasks. They tend to be especially overburdened with finance and accounting issues.
2. The Cash Flow Hurdle: Cash flow seems to be the greatest hurdle. Founders underestimate the risk of entering insolvency despite rising sales, since fixed costs produced a continuous cash outflow while, for example, cash inflow is absent because of bad invoice management or poor payment habits of customers or other players. This results in a cash crunch.
3. The Delegation Hurdle: If founders reach a point when the company grows so large that they can no longer do everything on their own, they must delegate some tasks. However, many founders fail to do so due to intellectual, psychological or emotional reasons. This is a serious inhibition for continuing growth.
4. The Idea Hurdle: The business concept must be continuously developed. Therefore the founder should ensure that a continuous influx of new ideas reaches the company and

ventures fail within the first one and a half years. Erkinheimo (2015) even claims that round about three out of four ventures fail eventually.

thus employ the right people, or otherwise ensure that fresh ideas for the business are created.

5. The Leadership Hurdle: In most cases the entrepreneur starts the venture with a relatively informal and flexible leadership style, which becomes difficult to maintain when the company grows larger. This hurdle could also be understood as the planning or control hurdle, since the entrepreneur spends more time planning and controlling and less time actually working on the business in this stage of the company's life-cycle.

With the explanations in the previous chapters on costs (Chapter 4.1), focus on core competencies (Chapter 4.2) and quality (Chapter 4.3), it becomes clear at this point how outsourcing can help to overcome the various crises explained above. For example, the Cash Flow Hurdle could thus be prevented through lower fixed costs achieved by outsourcing. A large part of problems associated with accounting and tax issues as well as other parts of the operative business could be outsourced as non-core competencies to specialized providers right from the start, thereby preventing the Start-up, Delegation and Leadership Hurdles. As more time and capacities are freed up for the development of ideas as a core competency of the entrepreneur, the problem of the Idea Hurdle could also be solved. These explanations and the reference to the respective chapters cited above present the first pillar of the theoretical construct: the assumption that entrepreneurial outsourcing increases the scalability of a business or makes a business model scalable in the first place, and prevents growth crises from happening to start-ups.

The second pillar is presented in the following. Literature shows that a start-up should generally be able to react as flexibly as possible to changing circumstances, for example by increasing growth (Erkinheimo, et al., 2015). As explained previously, it is important for a start-up to have a scalable business model, which starts with small revenues and ideally grows as smoothly as possible without the occurrence of growth crises. Erkinheimo, et al. (2015) concluded that start-ups should therefore *"make their operations as agile and lean as possible"* (Erkinheimo, et al., 2015, p. 19).

The creation of a flexible corporate structure is thus a stated goal of outsourcing in large, established enterprises (Parker, 2010). However, this has been researched rather scarcely in the context of entrepreneurial firms (Davari & Razazadeh, 2015; Salimath, et al., 2008).

Considering large, established corporations, Harrigan (1985) states that when keeping the production department in-house, the company is determined to use a certain technology; when the technology finally becomes obsolete, it can then be expensive and troublesome to replace it. Gilley and Rasheed (2000) and Harris et al. (1998) therefore concluded that it is possible to react to changing technology more easily by simply changing the supplier, provided that the company is already outsourcing its production department, resulting in a faster response time to external events. According to Kotabe et al. (2008), demand can simply be handed over to the manufacturing supplier, whereas with in-house production demand fluctuations are much more difficult to handle. The latter approach results in high restructuring costs and a longer response time. A strongly growing demand typical in the growth phase of a start-up (Parks, 1977) could therefore not be easily met via in-house production.

A similar picture has been drawn by research on outsourcing non-core services such as accounting (Edvardsson & Teitsdóttir, 2015), as well as strongly decreasing instead of increasing demand as usually happens in economic downturns (DeDee & Vorhies, 1998; Latham, 2009; Bumgardner, Schuler, & Crissey, 2011; Edvardsson & Teitsdóttir, 2015). In both cases, outsourcing non-core competencies increases the flexibility of the company.

For young companies as well, Musteen and Ahsan (2013) assume that the externalization of the value chain could increase the flexibility of the company, thereby creating the ability to react quickly to changes in the environment of the young firm. Di Gregorio et al. (2009) also anticipate that SMEs may benefit from increased flexibility of their organizational structure through outsourcing of production and certain services.

D'Aveni and Ravenscraft (1994) state, that bureaucracy is reduced by outsourcing in larger corporations. In general, large corporations tend to slow down and become reluctant to react quickly to changes due to bureaucratic hurdles within the company. This can be prevented from happening, if bureaucracy is basically outsourced together with the task. Start-ups could especially profit from such an outsourcing of bureaucracy, since regulatory hurdles such as the workplace regulations should not be underestimated according to Faltin & Ripsas (2011).

To conclude, in their meta-analysis of outsourcing history Hätönen and Eriksson (2009) speak of *"Transformational Outsourcing [as a] new buzzword of the 21st century"* (Hätönen & Eriksson, 2009, p. 144) when referring to the increased corporate flexibility that comes with outsourcing. Hätönen & Eriksson (2009) differentiate this term from the transaction cost-based approach to outsourcing, which is mainly about saving costs, and the strategic approach to outsourcing, which establishes the principle of focus on core competencies. Hätönen and

Eriksson (2009) state that transformational outsourcing is about creating a borderless organizational structure in order to be as flexible as possible, which in turn enables the company to develop and implement totally new business models that could change entire industries. However, Hätönen and Eriksson (2009) add that outsourcing research on entrepreneurial SMEs has not yet been sufficient, and they explicitly suggest giving more attention to this subject in the future.

Apart from Faltin and Ripsas (2011) and Linder (2004), until recently the literature has not extensively noticed outsourcing's impact on the improvement of scalability of entrepreneurial firms as well as the prevention of growth hurdles. Leavy (2004) researched different outsourcing strategies in his paper and mentioned one case, explained briefly under the headline *"Scaling without mass"* (Leavy, 2004, p. 21), in which outsourcing turned out to be an attractive way to keep entrepreneurial agility and speed within a company. However, the case was made about large companies like Nokia and Nike, which have succeeded in scaling their business due to a higher degree of outsourcing. Thus, young small entrepreneurial companies have not yet been researched. However, Leavy (2004) makes the following remarkable statement: *"Why do companies fail? They fail because processes don't scale"* (Leavy, 2004, p. 22), and concludes that outsourcing would be an appropriate way to ensure this scalability.

In line with these findings, I assume the following impacts of entrepreneurial outsourcing on scalability and growth hurdles:

Proposition 4a: *Outsourcing increases the scalability of the business model of the entrepreneurial firm, or outsourcing turns a business model into a scalable one in the first place.*

Proposition 4b: *Outsourcing helps to prevent entrepreneurial growth hurdles.*

Table 1 summarizes all propositions and questions derived from the literature research presented in this chapter regarding impact of entrepreneurial outsourcing on costs, focus on core competencies, quality and scalability. Propositions and questions will be tested and discussed in the following empirical part of this paper.

Insert Table 1 from Appendix 1 about here

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5 Empirical research

In order to find evidence whether these propositions are supported or not and in order to answer the questions derived from literature research, I conducted an empirical study, which is presented in this chapter. Firstly, the research methodology is outlined in Chapter 5.1, then the data is described in Chapter 5.2, and the sample is illustrated in Chapter 5.3. Finally, the results are presented in Chapter 5.4 and discussed in Chapter 5.5.

5.1 Methodology

Given the lack of entrepreneurial outsourcing theory, I use the case study methodology for this empirical study (Hitt, Harrison, Ireland, & Best, 1998; Birkinshaw, 1997; Eisenhardt, 1989). In a case study explanations can be developed, especially when a topic is new (Yin, 2008). Due to a lack of the sample's uniformity, I could not compare the interviewed start-ups using identical standards. Therefore, in this thesis I examine the research question by using personally conducted interviews with subsequent qualitative data analysis. A case study approach is used to research complex processes and causalities using different strategies than a classification on a scale (Kuckartz, Dresing, Rädiker, & Stefer, 2008; Dresing & Pehl, 2015; Mayring, 2012). Thus, a qualitative interview analysis is always recommended when motives and the background of decisions as well as an overall picture of the respective research subject ought to be formed (Dresing & Pehl, 2015).Whereas the quantitative approach tests preliminary considerations and hypotheses, an essential feature of qualitative interviews is that they contribute to the generation of hypotheses and theory development (Lamnek, 2010, p. 80). For this thesis, the considerations described above justify the application of the case study approach.

5.2 Data

The qualitative data was collected from 10 personally conducted interviews with founders of start-ups, whose characteristics are described in the following chapter. A four-part questionnaire served as an interview guide for orientation during the interviews (Appendix 2).

The first part of the interview guide contains general questions about the founder, his start-up and his personal definition of success. The second part is about asking founders general outsourcing-related questions considering their motivation, experience and the extent to which they are outsourcing. The third part addresses the impact of outsourcing decisions on costs, strategic focus, on quality, scalability, and growth crises. Furthermore, challenges of outsourcing experienced by the entrepreneurs are questioned as well. In the fourth part, I asked the founders to make recommendations and give instructions to a potential new founder based on their experiences.

I personally carried out all interview sessions from January until February 2016 by conducting them either on-site at the start-up's office (interview 1) or on the telephone. The interviews were recorded as audio files. The duration of each individual interview has been between 45 and 91 minutes. In total 601 minutes of audio material has been taped, rather exactly one hour per interview on average. Since the interviews were conducted in German, I translated those into English. My goal was translating them as literally as possible in order not to change the original meaning. For better correspondence with the respective audio files, the transcribed interviews are marked with timestamps: #h:min:s:ds #. For details on transcription, analysis and anonymization of interviews see Appendix 3.
Figure 1 in Appendix 4 shows the code-tree of analyzed categories.

Insert Figure 1 from Appendix 4 about here

5.3 Sample

Interviewees were selected according to the following criteria: firstly, the interview partner is an entrepreneur, who founded his start-up either alone or in a team and is still an active member of the board or even the CEO of the company influencing business decisions to a great extent. This ensures that the respective interviewee knows exactly what his company experienced from the past until now. Secondly, the entrepreneur should have made experiences with the subject of outsourcing. Whether these experiences were positive or negative was not clarified beforehand and therefore this was not a selection criteria. The third point tackles the goal to establish a diversified sample. Therefore I interviewed founders of companies among different ages and business sectors. However, in line with literature findings explained in Chapter 3.1 the upper age limit for the companies in order to still qualify as a start-up was set to 15 years. The lower age barrier was set to two years in order to make sure that the result of outsourcing decisions can already be evaluated.

I contacted potential interview partners after having conducted research on the internet or having used personal contacts to the Munich-based start-up environment.

The finally chosen 10 interview partners meet all selection criteria mentioned above. The age of the companies ranges from the "very young" at 2-4 years (I1-I7; I9) and "young" at 14 (I8) and 15 (I10) years. Thus, the success of entrepreneurial outsourcing could be examined over a satisfactory time span. The business sector of the start-ups varied between manufacturing and commerce as well as marketing, R&D and design service providers. However, the focus of the business models of the sample companies is on commerce conducted online as well as offline. A more detailed description of the interviewed founders and their respective companies can be found in Appendix 5.

Table 2 provides a brief summary about interviewed founders and their companies.

Insert Table 2 from Appendix 6 about here

5.4 Results

The results of the qualitative analysis of the conducted interviews are presented in this chapter, which is structured into costs (Chapter 5.4.1), focus on core competencies (5.4.2), quality (5.4.3) and scalability (5.4.4). Direct and indirect quotes exclusively refer to the transcribed interviews and are marked as described in Appendix 3.

5.4.1 Costs

All interviewed founders started their businesses with relatively little initial capital, and therefore always had in mind their initial capital requirements and opportunities to reduce costs. The low initial capital also contributed to the conviction that it would be affordable to engage in outsourcing (I1; I4; I9). The necessity to outsource is indeed shared by most founders (I1-I3; I6-I8; I10), but opinions diverge about the timing of outsourcing, i.e. sooner or later. According to all founders, an alternative to outsourcing is always to perform the business task in-house. Furthermore, automation was mentioned as a third alternative (I5).

Andreas (I1) of ALFA reports: *"I1: We have been trying in the beginning (...) to outsource sparsely"* (I1, 52) due to the capital requirements and *"I1: (...) have (...) done quite a lot by ourselves in the beginning"* (I1, 52). However, some non-core competencies such as content writing and backlink creation were outsourced later on. The founder experienced a *"I1: serious"* (I1, 40) positive impact of outsourcing on financial success: *"I1: Very extreme. So, it was basically the key to scalability"* (I1, 38).

Bert (I2) of BRAVO needed relatively low investments to start his business, because production, logistics, accounting and tax issues were outsourced from the very beginning. His company grew rapidly and started outsourcing to a fulfillment and telephone provider a few months after the first orders came in. Because of his positive cost-related outsourcing experiences, he recommends: *"I2: As long as the margin is high enough, I would tend to increase rather than decrease outsourcing"* (I2, 60). But, for start-ups producing losses in the first years, outsourcing appears significantly less likely to him.

Christoph (I3) of CHARLIE bootstrapped, using his own money and outsourced production and logistics from the very beginning. Questioned about his cost experiences with outsourcing, he answered: *"I3: (...) if I'm looking at the outsourced components that I have, like logistics, the tax consultant and so on, I've done very well with my costs, better as if I would have done it differently"* (I3, 36).

Dieter (I4) of DELTA and Emil (I5) of ECHO thought early on about the opportunities of outsourcing, but wanted to start with doing as much as possible by themselves due to cost reasons: *"I4: (...) at that time we had the philosophy to make as much as possible by ourselves to keep the costs low, and where possible to postpone [bills]"* (I4, 24). Dieter (I4) of DELTA therefore tried to split the design agency's first major bill several times.

Emil (I5) of ECHO wanted to keep the initial capital requirement low and focused first on gaining *"I5: enough revenue"* (I5, 56) before he intended to consider outsourcing. In addition to the cost consideration, he wanted to ensure that only non-core competencies were outsourced: *"I5: (...) the cost is not a reason to outsource. As I said, it must be an issue (...), must be an activity that is not a core competency"* (I5, 40).

Fritz (I6) of FOXTROT, possessing sufficient initial capital, regularly employed designers for his business service from the start while the IT for his website was set up. However, he switched to design freelancers relatively quickly in order to save costs. This reduced total overall expenses and changed the fixed costs to variable costs. He also engaged in outsourcing in the IT department, but not due to cost reasons: *"I6: (...) it was not to save money, it was about our focus"* (I6, 114).

Gernot (I7) of GOLF has been outsourcing production and logistics from the start, also to ensure the hygienic handling of his product. However, packaging and shipping were retained in-house to save costs, as revenues were low: *"I7: However, at the moment we simply are saving this money (...),it [outsourcing] is (...) a privilege that you should do best when your sales planning is right"* (I7, 24). The question of whether he could have created his business without outsourcing of production and logistics, he commented: *"I7: No, not at all, not at all, not at all, not at all"* (I7, 32).

After founding his company, Helmut (I8) of HOTEL wanted to preserve the freedom to work on his business idea: *"I8: Because, (...) one of the major problems I always see [is] that financial pressure limits creative freedom"* (I8, 50). He came to the conclusion not to establish *"I8: an organization in the company"* (I8, 22) with office spaces and employees, as long as sales were not yet available, but to keep the initial capital requirements low using outsourcing. His conclusion is: *"I8: If I'm outsourcing, I can definitely minimize those costs first"* (I8, 22).

Ingolf (I9) of INDIA agrees: *"I9: I tend to need less money"* (I9, 69). And he states the following about outsourcing to the bottling service provider after founding his company: *"I9: We would not have managed to start that quickly. (...) the expense would have been higher [otherwise] (...), the costs above all"* (I9, 67).

Julian (I10) of JULIETT shares this opinion when speaking about founding together with his outsourcing partners, which he calls components: *"I10: [The reason] that I was able to found in the first place, was that I have done it with components"* (I10, 52).

The lower costs resulting from outsourcing are attributed to the cost structure of the company. Outsourcing increases variable costs, and decreases fixed costs. Several statements of the interview partners support this finding: *"I2: Outsourcing mainly impacted the variable costs. The variable costs increase, of course, but fixed costs are actually very low. And that is why outsourcing is in our case, so very, very, very positive*" (I2, 46), or: *"I3: (...) as a very small-scale company you have the opportunity (...) to operate on a large-scale with low fixed costs"* (I3, 48), or: *"I9: (...) it is good to have such a component, with just slightly higher variable costs (...), but (...) the risk is a bit smaller, or you can afford it in the first place"* (I9, 75), or: *" I10: [It is] by outsourcing, above all, it is the type of outsourcing that we have had much less costs than we expected"* (I10, 64).

The statements can be summarized as follows: on the one hand, fixed costs are avoided, for example by employing design freelancers where costs only accrue when customers buy the service (I6), or by avoiding investments in production equipment, machines and regular employees (I7; I9; I10); on the other hand, the founder *"I3: did very well"* (I3, 36) when in spite of higher variable costs, rising sales were associated with outsourcing. Furthermore, this enabled the founder to start the company in the first place, because otherwise the huge up-front investment would have made venturing impossible (I7; I9; I10). Outsourcing of non-core competencies allowed the founder to focus on his core competencies, which subsequently unleashed growth potential. This was experienced by Bert (I2) of BRAVO: *"I2:*

Without outsourcing we could never have grown as we have grown. Of course, the tasks that you contract out and therefore are not doing it yourself, cost money. But you do that with the goal in mind to focus on other competencies in order to grow. So I cannot say that we would have less cost if we would not have outsourced" (I2, 48). That was also stated by Andreas (I1) of ALFA: *"I1: We are (...) two owner-managers. We have only (...) limited time and (...) must (...) always try to get (...) the maximum profit (...) out of this time"* (I1, 58).

The two older companies (I8, I10) have already reached the break-even point, as well as half of the younger ones aged three (I9) and four (I1; I2; I4) years have. Outsourcing is cited as a reason for positively influencing both the cost (I1; I9; I4) and the initial capital requirement (I8, I10). The founders of the start-ups, which have not yet reached the break-even point, stated the following causes for that: insufficient marketing efforts (I3), high fixed costs of regular employees (I6), as well as not enough focus on profitability aspects (I7).

Apart from minor cases, unexpected costs were not experienced by most of the surveyed entrepreneurs (I1; I3; I6-I10): "*I1: (...) the costs (...) caused by (...) errors are (...) marginal or negligible"* (I1, 64). Following unexpected costs are mentioned: mistakes (I1), the re-print of a booklet due to a misunderstanding, which the contractor paid for (I7), and express surcharges (I9). According to the founders, the reasons for not having experienced substantial unexpected costs are the following: careful partner selection (I3; I6), clearly stated agreements (I8) and planning including a time buffer (I10). Only Emil (I5) of ECHO experienced unexpected costs for installing his corporate design through several iterations. However, as a reason he stated the lack of his own experience regarding this task.

Table 3 collects selected quotes of interviewed founders related to costs.

Insert Table 3 from Appendix 7 about here

5.4.2 Focus on core competencies

It is remarkable that all interviewed entrepreneurs are familiar with the terms outsourcing, core competency and non-core competency, and have sophisticated opinions on these matters. For example, I6 stated that in order to facilitate outsourcing one must be sure of one’s core competencies in the first place.

5.4.2.1 Definition of core competencies

According to the interviewed entrepreneurs, core competencies reflect unique abilities and capabilities of the founders and the entrepreneurial firm: *"I6: If you state that one thing is* *your strength, then you should keep that in-house"* (I6, 40). The founder's main tasks are to develop ideas and to inspire others (I7), as well as working *on* the company instead of *in* the company right from the beginning (I1). Entrepreneurs need to develop a feeling for what their strengths are (I6) and must recognize activities that lead to a start-up culture within their company (I5). They need to find out what they can do better than their competition on a strategic level (I1), which thus makes up the founder's and the company's core competencies.

The core competency must be of strategic nature, or must be something that is difficult to outsource, e.g. developing a product and checking whether the process and quality are sufficient (I7). Also, if the founders possess certain skills, for example software coding, product development or strengths in finance or sales, these should be leveraged in the company (I4). Certain attributes such as perseverance – which means being able to work long hours on the refinement of an idea, as well as spreading this idea – are also part of the core competencies of an entrepreneur (I10). Additionally, moderation skills, i.e. finding a common ground with different kinds of people, are another example of a founder's core competencies (I10).

Another founder's core competency is the entrepreneurial idea and its refinement (I8), also called the essence of the company (I7), on which the whole company with its core competencies is based. Activities that are directly related to the entrepreneurial idea are core competencies, which are continuously developed by the creator of the idea, who is most likely the founder of the business (I8). Marketing, strategy and business development, controlling and customer relationship management were also stated as core competencies several times, independent of the different business models of the companies (I2-I9).

Even a recurring task which was previously outsourced can be changed into a core competency and taken back in-house, if this process generates additional integrative benefits. If internal flexibility is more important, e.g. for a complex and integrated product, which skills are built up internally for, then this changes to a core competency (I4). Table 4 lists the interviewed founders' core competencies.

Insert Table 4 from Appendix 8 about here

5.4.2.2 Outsourcing core competencies

According to all founders, core competencies should not be outsourced, and they rarely are. Core competencies should have high leverage on the *"I1: company's operating performance"*

(I1, 50). Activities, in which something can be learned, and which are useful for the company, should not be outsourced (I5). Furthermore, activities contributing to a good corporate culture should never be outsourced: *"I5: We have that kind of culture, that we are always tinkering and working on new things and do adventure"* (I5, 52) and *"I5: We should never outsource skills"* (I5, 52).

However, if core competencies are outsourced, then this should be done solely under the close professional guidance of the founder. For example, it was necessary for I6 to outsource in order to build an IT platform, because it was particularly difficult to assemble an IT team in-house up-front to do the job. But this outsourcing agreement took place under strict control and supervision by the founder (I6). If a core competency is outsourced to freelancers due to the lack of own capacity, then the freelancer is professionally and closely monitored and controlled by the founder (I1; I7).

5.4.2.3 Definition of non-core competencies

Non-core competencies are tasks and *"I1: (...) work (...) that is not a core competency of us, [a task] of which we have no idea and do not really want to have (...)"* (I1, 18). Non-core competencies are recurring tasks (I4) and routine jobs (I3), and, if there is no time to do the work in-house, *"I4: spontaneous quick stuff"* (I4, 28) which cannot be tested in-house or no one wants to work on in a more sophisticated manner, e.g. certain registrations with authorities, taxes and customs issues. Non-core competencies are activities that are necessary but not part of the core business. For non-core competencies it does not pay off to employ someone, they are not fun to do, and they do not contribute to the entrepreneurial culture (I5). Furthermore, non-core competencies can be clearly defined and they sometimes need external expertise (I5).

Table 5 summarizes all non-core competencies mentioned by the founders.

Insert Table 5 from Appendix 9 about here

5.4.2.4 Outsourcing non-core competencies

In general, only non-core competencies are outsourced, and core competencies are not (I1). Thus, outsourcing takes place only when *"I4: (...) it is assumed that it is not one's core competency"* (I4, 54) and when the requirement and the goal are clearly defined, as well as how to measure quality and how to deal with bad quality (I4). Another reason for outsourcing is if no one in-house has the relevant skills or expertise to do it (I6) and spending a lot of time on the task in-house would limit growth (I4). Thus, it is suggested to define components and processes of the business first and then engage in outsourcing, if it is a non-core activity (I1) or for capacity reasons (I5). According to I4, everything that is structured and can be explained and defined in a specification book can be outsourced.

If the selected service providers are seen as part of the team, the entrepreneur can better focus on his core competencies, such as marketing, strategy and business development, as more resources are available for such activities – especially time (I1; I2; I8; I10). This focus on core competencies achieved by outsourcing leads to stronger growth: *"I2: Without outsourcing we could never have grown as we have grown"* (I2, 48) and: *"I2: You are doing so [outsourcing] with the goal to focus on other competencies, in order to grow"* (I2, 48). Thus, entrepreneurs should examine what the business's core competencies are early on and outsource unfavorable tasks not meeting these criteria soon enough, because only then can high growth be accomplished (I2).

However, outsourcing might increase the complexity, because there are more stakeholders of the company to deal with, but if outsourcing is done properly, it definitely improves performance (I5). The question of whether or not to outsource a complex and integrated product is a strong issue of cost and efficiency: what are the costs, and how much flexibility gets lost if the task is outsourced? I4 has an integrated and complex product, because they offer many different combinations of ingredients. Their fulfillment service provider could not handle that complexity. I4 reasoned that the provider's small size was the problem. Therefore I4 decided that the fulfillment of DELTA's products is a core competency and it was taken back in-house.

Regarding time advantages of outsourcing, it can be stated that a founder's commitment and work load are very high in general (I2). The goal is to make the most out of that limited time (I1; I8). Via outsourcing of non-core competencies, the founder's total working time remains the same, but a significant amount of time is spent on core competencies instead of non-core competencies, as several founders experienced (I1; I2; I8; I9). Thus, outsourcing of non-core competencies saves time to focus on core competencies. For I5, this efficiency is the main reason for outsourcing, because the founders have no time for certain activities and must focus on the most important, essential activities (I2; I5) due to time constraints. Time is saved in order to optimize existing processes and in order to work more *on* the company and less *in* the company (I1). This focus on managing, distributing and controlling work lowers the failure rate and improves quality: outsourcing together with controlling mechanisms improves performance (I1). However, time savings are also experienced with less control by the founders and more freedom to act for the partners, which in the long run leads to greater efficiency (I10).

Activities for which skills are lacking and therefore take a lot of time to perform in the start-up, should also be outsourced for time reasons. This is because others can execute such tasks not only better, but also quicker (I5). But outsourcing an activity or hiring and training employees for the job must require less time than doing it oneself (I5). This clear focus of the entrepreneur's time on value-creating tasks allows him to keep a clear head (I9). Nevertheless, starting an outsourcing project is time-consuming since certain tasks must be performed in advance. These include doing research, getting quotes, writing specifications and calculating the internal costs of all activities which are up for outsourcing. If outsourcing is done without having performed the business activity in-house before, potential challenges must be clarified. One possibility for doing so is by engaging in fee-based workshops with various service providers (I4). Until all outsourced business activities are established, entrepreneurs must initially invest a great deal of time (I8).

The search for suitable outsourcing partners as well as their familiarization with the task (I1; I4), subsequent coordination (I5) of the close cooperation (I4) and coaching (I5) of the service provider are all (I3) time-consuming at least initially (I1-I4). Controlling the service provider also takes time, however it is significantly less time-intensive compared to doing the task oneself (I2) because time-consuming non-core competencies like packaging, certain phone calls and customer acquisition (I7) are eliminated (I2), and time is no longer wasted on activities that are not part of the core business (I9).

Overall, time is saved by outsourcing if it is done correctly from the start (I4). After outsourcing has been implemented, the time load of the founders is considerably lower compared to performing these tasks in-house (I2). For example, this was the case for bottling and marketing campaigns (I7), wherein a constant time requirement was experienced at the beginning (I7).

Table 6 collects selected quotes of interviewed founders related to focus on core competencies.

Insert Table 6 from Appendix 10 about here

5.4.3 Quality

Andreas (I1) affirmed the question whether the quality of ALFA's services or processes has been improved by outsourcing: *"I1: [Quality] has indeed become more professional"* (I1, 72). This results from the outsourcing supplier having more time to focus on his task. Furthermore, Andreas (I1) has more time to control and supervise the execution. However, Andreas (I1) concluded that quality is obviously a question of the price you are willing to pay. Thus, Andreas (I1) is always trying to find an optimum between price and quality. In general, he would *"I1: urgently suggest [to outsource] highly complex activities, which you could not complete in the same quality yourself (...) compared to somebody else"* (I1, 50). In Andreas' (I1) case this is true for taxes, accounting and IT server matters, for which supplied quality is much more professional.

According to Andreas (I1), it is important for entrepreneurs to be able to judge the quality of an outsourced activity. He suggests that either the entrepreneur should have done this activity on his own at least once before or has a third party judging it professionally. For example, the back link development is such an outsourced activity at ALFA, whose quality is checked by an external service supplier.

To assure quality he proposes two things: the selection of reliable service providers and to make sure that the *"I1: chemistry is right"* (I1, 80) in the ongoing outsourcing relationship. To choose the right suppliers he suggests to do test projects and then to either personally check the quality or to have it checked by a reliable third party. He thinks that communication is very important in managing the outsourcing relationship. In general, he prefers informal and personal relationships and communication, because formal contracts are practically useless, since they take years to be enforced, if they can be enforced at all.

Bert (I2) experienced higher professionalism when outsourcing components compared to the in-house solution, which he explains in various examples: outsourcing to a telephone service provider helped BRAVO to develop a more professional appearance compared to the former solution of only having an answering machine receiving their customers' calls and suggesting the customers to write an email. Furthermore the fulfillment company also improves quality and the image of the company, because the supplier uses more professional equipment for packaging compared to BRAVO's former and rather unprofessional solution of using old newspapers for packages in order to protect goods. Furthermore, professional suppliers generally get better conditions for their services. Thus, for example the fulfillment supplier has “DHL-Business Partner” status, which allows him to send packages faster and cheaper. Thus, Bert (I2) states about outsourcing’s impact on quality: *“I2: (...) thereby, I must say, I only had positive experiences”* (I2, 56).

Considering the judgment of quality, he suggests that the entrepreneur should *“I2: objectively request several tenders, because then you develop a better overview, what the service is worth”* (I2, 58). Another possibility is trying to get a personal recommendation, however he would not solely rely on that.

Bert (I2) thinks that the initial supplier selection is very important to assure quality, because it is harder to change a supplier, if the relationship is already established. He suggests that an unexperienced entrepreneur should at first analyze, what his non-core competencies are and should consider outsourcing those. Secondly, the entrepreneur should analyze several offers in order to learn what is important considering quality of products and services.

Christoph (I3) also experienced quality to improve when several components of his business were outsourced. He began to mix cosmetics in his private kitchen and comments on that procedure: *“I3: That is obviously not the process safety I’m aspiring”* (I3, 54). Thus, he outsourced manufacturing and bottling to ensure that *“I3: quality is sustainable, i.e. our product is eco-certified, which means, it fulfills all requirements, which are requested by the market in the cosmetic industry”* (I3, 54). Furthermore, CHARLIE’s logistics and fulfillment services were outsourced from the start, because Christoph *“I3: didn’t want to label [the products] in the basement”* (I3, 20) and because cosmetic products *“I3: need to be protected from heat and cold, and thereby it is appropriate that you simply don’t take the garage or the basement (...), but (...) to employ someone, who professionally stores that”* (I3, 20). Furthermore Christoph (I3) outsourced tax affairs to a specialized tax advisor, since Christoph (I3) was, according to his own words, *“I3: not the expert (...) and he [the tax advisor] might have a couple of tricks, which you yourself doesn’t have”* (I3, 32).

In order to judge product and service quality he achieved to get very familiar with the industry. He formerly was employed in the chemical industry, which helps him as well. In order to learn more about start-ups, he read many books about that topic.

Considering quality assurance Christoph (I3) points out that it is important to choose the right supplier. Thereby price, quality and flexibility are important criteria in finding the right one. However, it is also important, if a trustworthy personal relationship can be established with the supplier. This plays a more important role than formal contracts, according to Christoph

(I3). If a problem occurs, he is able contact the support and work out a mutually beneficial solution together with the supplier, which is *"I3: (...) then taken care of from supplier side"* (I3, 60).

Dieter (I4) experienced a positive impact of outsourcing on quality when quality can be easily measured, such as production-related tasks. For example, here it can easily be seen whether labels were put on correctly. However, he states that quality can only indirectly be measured for the fulfillment service. Quality is *"I4: only relatively late and diffusely recognizable"* (I4, 34) as a result of the fact that the customer needs to complain first when a mistake occurs considering fulfillment. In general, quality of most outsourced activities has been high so far, however Dieter (I4) adds, that this is also a matter of the price you pay: *"I4: If you want high quality, (...) the costs go up naturally"* (I4, 34).

To be able to judge quality Dieter (I4) states: *"I4: In general, we start doing everything on our own or at least inform ourselves"* (I4, 52). He suggests that even if it is *"I4: (...) not a core competency (...) you should know exactly what the standard is, what the goal is, how to measure quality and how to deal with it, if quality is bad"* (I4, 54).

DELTA relies less on formal contracts in order to assure quality as *"I4: it is very, very difficult for us as a smaller start-up to enforce these"* (I4, 34). Therefore Dieter (I4) suggests to spend sufficient time choosing the right supplier and to define the outsourced activity as precise as possible beforehand to avoid insufficient quality from occurring. The later includes a precise calculation of costs and the decision, whether an internal employee should do the task or if it should be outsourced. Then multiple tenders have to be invited and references have to be checked. He also looks out for *"I4: best practices, [which] other people already did"* (I4, 54) and *"I4: what (...) other people say about it"* (I4, 54). When the outsourcing relationship is finally entered, Dieter (I4) treats the external suppliers like internal employees of DELTA: *"I4: You also have to motivate [them], (...) you also have to integrate [them]"* (I4, 54). To ensure ongoing controlling, he receives periodic reports of key performance indicators from the supplier.

Emil (I5) stated two potential reasons to outsource considering quality: firstly, if it is not possible to conduct that business activity in-house. This has been the case for corporate design and taxes at ECHO. And secondly, if it is important for the outsourcing company to receive a standardized and reliable quality, outsourcing can be a solution. In general, Emil (I5) states that quality of outsourced activities was neither especially good nor bad, but *"I5: just as we expected"* (I5, 76).

Emil (I5) believes that it is important to understand the outsourced task to a sufficient extent in order to be able to judge quality. Thus, Emil (I5) proposes that the activity should be conducted in-house some time before outsourcing is considered.

Quality is assured by spending enough time to choose the right supplier in the first place, which, of course, is also a matter of price, according to Emil (I5). The process of choosing the right supplier involves researching on the internet, judging different reference projects of the supplier and finally to choose one of the offers.

Overall Fritz (I6) experienced a positive impact of outsourcing on quality. The designers and IT experts delivered sufficient quality so far, whereas head hunters' performance was mixed and the tax advisor, which was chosen at first, performed insufficiently. Fritz (I6) states that the main reasons for outsourcing are the following: an activity should be outsourced, if it is not a core competency and if it cannot sufficiently be delivered in-house. Furthermore an activity is prone to be outsourced, if the payment is based on performance. This is the case for the headhunters, who are only paid, if the candidate they suggested is finally employed.

According to Fritz (I6), in order to assure quality, *"I6: you must have an idea about the matter"* (I6, 118). The quality monitoring should ideally be done by the entrepreneurs themselves or by a close friend or colleague. In case of FOXTROT Fritz (I6) is the IT-expert and therefore able to judge the quality of IT-service suppliers. Fritz (I6) reasoned that the lack of this ability was the problem concerning the first tax advisor, which failed to perform.

Fritz (I6) states that the selection process is another important way to assure quality. He reasons that he and his partner might have spent too little time researching the tax advisor and therefore the quality was insufficient. Considering the importance of initial selection, FOXTROT has *"I6: a four-tier selection process"* (I6, 20) for their designers including a formal application, interviews and a case study. However, this procedure is not possible for IT-experts, due to the tight labor market. In this case, Fritz (I6) asks for references from former jobs of the respective IT-freelancer. Fritz (I6) in general prefers to work with people he already knows or when he received an excellent personal reference about the applicant. *"I6: Trust and personal matters are the most important [issues] for me. I'm not the kind of person for contracts"* (I6, 30). Thus, Fritz (I6) established contracts, if he had to, but he prefers an open and relaxed personal relationship with the internal and external workers in order to keep motivation high and have interests aligned.

Gernot (I7) and his team started doing most business activities on their own. But they *"I7: recognized very soon, that this simply doesn't have the level of professionalism, which we would like to have (...). That is one point, the second is: with some you haven't got the chance to do it on your own in the first place, namely the bottling. It is because you lack the machinery or the packages as well or the laser cutter or the stamping machine (...)"* (I7, 14). Asked about the impact of outsourcing on quality, Gernot (I7) stated that the change was *"I7: only for the better"* (I7, 56) and named the design, bottling, production as examples.

Judging quality is rather straight forward according to Gernot (I7). He compares, if delivered quality is different from the quality level agreed on beforehand. To assure a certain quality standard, various product tests are periodically conducted. In order to reach a beneficial price/performance-ratio the selection of the right contractor is rather important according to Gernot (I7). Thereby he relies on testing samples delivered by various suppliers and then choses among them the best value product. He adds: *"I7: There partly are really big differences, so it pays off extremely to look at that"* (I7, 46).

Helmut (I8) reasons that outsourcing must have a positive impact on quality of products or processes, because otherwise he would not do it. He adds that it should also be considered that the quality of the entrepreneurs' activities is improved, when non-core competencies are outsourced and a clear focus on core competencies is established: *"I8: Indeed I improve quality with specific outsourcing and finally, if it is just serving the purpose, that I personally have a clear mind again in order to take care of certain core competencies"* (I8, 30).

In order to judge quality of outsourced tasks he suggests to learn about that subject or to get recommendations. He mentions the German website "Komponentenportal" [5], where start-ups can find suppliers for a wide range of tasks, from manufacturing, bottling and logistics to taxes, and online marketing. According to Helmut (I8), this website *"I8: simply professionalizes (...), that somebody recommends you a tax advisor [for example]"* (I8, 34). Helmut (I8) trusts that only reliable suppliers are listed there, because if several customers complain about a certain supplier, he will be excluded from the website. Therefore Helmut (I8) found his tax advisor, the logistic supplier and the bottling company on that website.

To assure quality he chooses suppliers from personal recommendations or from Komponentenportal, since it *"I8: simply pools experience"* (I8, 34). He always compares several different tenders. To finally choose the right one, Helmut (I8) listens to the candidates

[5] www.komponentenportal.de

carefully and in the end he must *"I8: have the feeling that he [the supplier] knows, what he is talking about (...), you develop a certain feeling for that in the course of time"* (I8, 34). For the logistics component he listens closely to the customers as they are a reliable source of information, whether packages are delivered without flaws and on time. According to Helmut (I8), two things matter in the end: *"I8: Are the customers happy? Is your margin alright?"* (I8, 34).

Ingolf (I9) states that the goal for outsourcing of previously in-house conducted tasks is, that quality is kept constant *"I9: and if that is achieved, it is already pretty good"* (I9, 63). For the activities, which have not been conducted in-house before, quality should obviously not be worse than expected.

Ingolf (I9) states that judging the quality of outsourced activities is a problem for the entrepreneur, if he is unexperienced in the beginning: *"I9: If you have no idea, it is either luck (...) or trust"* (I9, 57). Trust is established, *"I9: if (...) you know the component somehow (...) or receive a recommendation"* (I9, 57). However, Ingolf (I9) recommends that the entrepreneur establishes a basic knowledge about a certain task, even if he plans to outsource that task: *"I9: I let one, two, three people do it or produce it or whatever and then I look at it and say: I see! This one does it like that and with that one it is like this (...), then this is actually already the first step for me to develop a certain expertise"* (I9, 59).

Quality assurance is an important issue for Ingolf (I9). INDIA's products are made in foreign countries including various developing countries in Asia and elsewhere. Therefore, Ingolf (I9) visits all production facilities personally, in order to assure the products' quality. Furthermore, he assures that matters of corporate social responsibility are taken care of. According to Ingolf (I9), Fair-Trade certificates or suchlike *"I9: often are not worth the paper they are printed on. Let's say it how it is: well, in Third World countries it is often simply just a question of money to receive a piece of paper"* (I9, 43). But if you visit facilities personally, *"I9: you sense relatively quickly, what kind of person you face"* (I9, 41). Furthermore, he outsources the analytical residue testing of the product to a laboratory in Germany. The quality assurance of the other activities is straight forward to Ingolf (I9), he just compares the delivered quality to the quality level, which was agreed on, for example, if labels are printed correctly, the right weight has been bottled, etc. These are all tasks, which can be checked rather easily.

Julian (I10) has been very pleased with outsourcing quality so far. However, he is not able to compare the quality of outsourced tasks with their in-house equivalent, because he outsourced almost all components of his business from the beginning. He thinks that it is good way to start the implementation of a business idea, since *“I10: the chance might be lower that you have made technical mistakes somehow”* (I10, 82). He experienced that despite big suppliers sometimes being more professional in delivering business activities, it can be advantageous to outsource to small suppliers. For example the smaller logistic component provided a better quality, since the employees were more concerned with service quality and could be addressed in more personal fashion.

Considering quality assurance, Julian (I10) is skeptical, whether a lot of checking and controlling positively affects the outcome. He reasons that *“I10: bottom-line, you receive a better quality, if you give people the freedom to do it [the activity] the way they want to do it with their expertise”* (I10, 74). To assure quality he likes to *“I10: keep an overview”* (I10, 78) and *“I10: keep a good contact to various partners in the value chain”* (I10, 78). Due to the latter point, Julian (I10) reasons that he is receiving feedback on quality issues quicker and in a more honest fashion compared to his strictly controlling competitors.

It is remarkable that Julian (I10) neither relies on fixed delivery dates nor on a lot of control, nor on reminder fees, and still his business concept works, how he wants it to.

Table 7 collects selected quotes of interviewed founders related to quality.

Insert Table 7 from Appendix 11 about here

5.4.4 Scalability

Andreas (I1) is convinced that scalability of the business models is an important topic. He founded another start-up prior to his current company, which was difficult to scale. Therefore, he shut it down after some time in order to focus on his new company. Considering his current business, an online-marketing agency, he would normally trade *“I1: (...) time against money; thus, the typical service business: I sit down one hour and I get X Euro for that (...)”* (I1, 40). However, he adds: *“I1: By outsourcing one was able to not just supervise one project, but for example ten projects”* (I1, 40). From this, Andreas (I1) deducted that outsourcing was *"I1: (...) in principle, the key to scalability [of the business model]" (I1, 44)* for ALFA. He experienced a *“I1: serious”* (I1, 40) positive financial impact of outsourcing, since working time remained more or less constant, while many more projects could be realized: *“I1: It [outsourcing] has, later one, immense affected scalability and growth and earnings growth”* (I1, 54).

Andreas (I1) did not experience growth hurdles such as cash flow problems. He attributes this to the stable, constantly growing business model and his low-risk start as a classical service provider. Andreas (I1) and his partner started out by doing most work themselves and they began outsourcing after the business concept has proven to work.

Bert (I2) noticed that outsourcing had a considerable impact on the growth of his start-up: *"I2: Without outsourcing we wouldn't be able to have grown as we actually have grown"* (I2, 48). Bert (I2) interprets scalability in the following manner: how easy is it to transfer the business model from the domestic to foreign markets. According to Bert (I2), it is essential to look for business partners for internationalization: *"I2: This [internationalization] is only possible, if we're outsourcing"* (I2, 50). This is true, because founders probably lack experience in these foreign markets and foreign languages could be a problem. Therefore, partners such as local traders or Amazon.com can help. Asked about BRAVO's previous growth in German-speaking countries, he remarks that the fulfillment service provider – whose tasks have been to store goods, send out the packages and invoices, and report changes in stock – was a decisive component for growth. Bert (I2) points out: *"I2: Without him we wouldn't have been able to grow this fast (...), wouldn't have reached these sales goals, how we proved it in the last two years"*(I2, 16). Outsourcing improves the flexibility to react to demand swings. Bert (I2) considers this increased flexibility a success: *"I2: It has been a great success on the one hand that we simply are much, much more flexible [and] are able to serve the customer much, much faster"* (I2, 16).

However, growth hurdles were experienced as well: in the early phase, order quantity was too low due to insufficient capital and the founders' lack of experience. These small quantities were then quickly sold, which resulted in *"I2: a gap of supply"* (I2, 54), which the manufacturing component could not fill fast enough. Another problem arose when BRAVO's rather small fulfillment service provider, which was only using DHL as a shipping provider, did send out the products too late. This was the case, because workers went on strike at DHL in Germany and because the small service provider was dependent on DHL. This resulted in *"I2: daily calls and mails"* (I2, 54) from customers, who blamed BRAVO for the delay. Furthermore, the fulfillment supplier sometimes had problems serving demand peaks. This was the case during the Christmas season when the company was also providing a high volume of fulfillment services to other customers. Sometimes packages were sent to the wrong addresses, for instance. Because of this, Bert (I2) is thinking about changing the fulfillment provider, but has not yet actually done accordingly. Handling the fulfillment in-house at BRAVO is not an option for Bert (I2).

Christoph (I3) considers that CHARLIE's business model is scalable. He defines scalability as having cost and complexity disproportionally increasing with increasing revenues. This scalability is ensured when external components are used. Christoph (I3) concludes: *"I3: Yes, I would say, it [CHARLIE's business model] is scalable. The future complexity, when revenues are growing, is taken care of by adding the components"* (I3, 66).

Christoph (I3) states that he did not experience serious growth crises with CHARLIE, although he explains one growth hurdle: raising awareness for the business. He comments that an *"I3: awareness level"* (I3, 80) must be established and *"I3: (...) in this case (...) components (...), the logistic and the manufacturer and so on, the tax advisor (...) don't help, when it is about the brand or the product being recognized"* (I3, 80). Thus, Christoph (I3) contracted operative marketing out to a public relations agency specialized in CHARLIE's industry. However, he adds that this is difficult when *"I3: bootstrapping"* (I3, 82) without an investor in the beginning, because the service's costs are not variable but fixed, which should not be underestimated.

Dieter (I4) from DELTA remembers that his start-up team *"I4: (...) has thought very, very much [about the scalability of DELTA's business model] in the last years"* (I4, 40). He thinks that part of scalability means that the business model can be transferred to foreign markets without much trouble. In his view, this should be done by working together with partners such as *"I4: (...) distributors or importers (...) in order to keep on scaling"* (I4, 40). Outsourcing non-core competencies therefore increases scalability: *"I4: I absolutely think that it [outsourcing of non-core competencies] reinforces it [scalability]. To outsource non-core competencies, especially in areas (...) [such as] internationalization or if new products are offered, it is definitely (...) important (...) to do the thing, you concentrate on, exceptionally well in order to get an advantage from that and to leave everything else (...) apart"* (I4, 42). Growth has also been achieved, because *"I4: (...) we said that is not our core competency (...) it would restrain our growth, if we would keep that in-house"* (I4, 36). However, this is only true for stable, precisely defined processes, which do not change very much. Dieter (I4) concludes: *"I4: The more complex the processes are, the more difficult it gets to outsource"* (I4, 44). For these complex processes, people have been regularly employed at DELTA. DELTA's complex and integrated product has been a problem for logistics providers, thus the commissioning and fulfillment was insourced some time ago and is currently taken care of in-house. So, it is important to know, what should be outsourced. Thereby, *"I4: (...) stable, defined interfaces, which also aren't changing that much (...) [are] actually suited for it [outsourcing]"* (I4, 44).

Regarding growth hurdles, Dieter (I4) states that DELTA *"I4: (...) always [had] very, very tight cash flow"*(I4, 36), which could have resulted in a serious problem, if DELTA had not *"I4: drawn loans (...) from investors (...) in order to bridge [the lack of] cash flow"* (I4, 36).

Emil (I5) does not perceive the business model of ECHO, a research and development service provider, to be *"I5: as scalable as an app for example"*(I5, 84), however, he believes it is still quite scalable. For example, ECHO functions as a chief technology officer and holds shares in certain start-ups, which purchased ECHO's services beforehand. Thus, ECHO is scalable if these start-ups are scalable, and some are. In general, Emil (I5) perceives that outsourcing has an amplifying effect on the scalability of business models, because *"I5: (...) in order to scale up, you need partners for sure"* (I5, 86). When speaking about partners in the case of a manufacturing company, for instance, he thinks of hired manufacturing service providers instead of building *"I5: an own production site"* (I5, 86). Thus, outsourcing is not the reason for scalability of the business model, but it can nevertheless support it: *"I5: This differs from company to company"* (I5, 88).

ECHO has so far *"I5: been growing organically"*(I5, 90), which means that the *"I5: revenue always (...) financed it [growth]"* (I5, 90). Thus, no larger growth crises appeared. However, he states that growth is becoming stronger at the moment and he does not exactly know how to manage that. Asked about possible management hurdles, he replied that the founding team's lack of experience surely brought some difficulties and could also potentially be a problem in the future. Nevertheless, this should not be a major problem for ECHO due to its conscious and organic growth and the intense building of competencies within the company, according to Emil (I5). In the case of management problems, he does not think of outsourcing as a proper solution, since the company needs some employees, who must be managed, and this cannot be outsourced as it is a core competency of the entrepreneur.

Fritz (I6) of FOXTROT perceives scalability as a particularly important topic, and views outsourcing as a component of FOXTROT's scalability. Firstly, FOXTROT scales better than its competitor, because it employs freelancers instead of regular employees as designers. Second, due to logistics and fulfillment being outsourced, *"I6: (...) we are able to super-easily go to another country. We only have to connect (...) retailers and we have to find some designers, who use our tool, and as early as that we are in a different country; [it is]*

relatively simple" (I6, 82). However, Fritz (I6) underlines that this is only true for outsourcing of non-core competencies. The creation and development of the internet platform where products and services are offered is one of FOXTROT's core competencies, and therefore should not be outsourced. This is also true for putting together the team, which the *"I6: founder has to do himself, unconditionally"* (I6, 36). Furthermore, the founder has to recognize, that in order to start an outsourcing project, there is an initial effort when integrating the component into the team. The more internal or external people the founder has to manage, the more complex it gets, according to Fritz (I6). Nevertheless, this has worked very well for Fritz (I6) so far, especially with respect to the accountant and tax advisor *"I6: (...) the effort doesn't increase anymore, zero, and it scales anyway"* (I6, 94).

Fritz (I6) did not experience growth crises. For example cash flow has not been an issue until now. The goal for FOXTROT was always *"I6: [to stay] lean and outsource"* (I6, 116) instead of building a large team from the start, which would result in large blocks of fixed costs and the risk of having management and delegation problems.

Gernot (I7) perceives GOLF's business model as scalable in general. According to his view, outsourcing supports the scalability to that extent, that it saves costs, which theoretically can be invested in marketing, for example resulting in higher sales and growth.

However, GOLF unfortunately failed "*I7: to advertise more aggressively*" (I7, 76) in the beginning. This led to a growth crisis after their first Christmas business, when sales decreased to a larger extent. As a second problem, which is a rather personal issue, some of the founders have decided to pursue their careers elsewhere. According to Gernot (I7), although, the team is *"I7: super relaxed"* (I7, 70) and there have not been many disputes among team members, one of the founders has already left the company in order to take another job opportunity. Afterwards, the introduction of a new team member failed. For these problems, Gernot (I7) states that outsourcing had neither an increasing nor a decreasing impact.

Helmut (I8) of HOTEL thinks outsourcing should be done in the first place in order to improve the company's scalability. When he outsourced his non-core competencies, he was able to focus on his core competencies and the rest was taken care of by the external product and service suppliers. *"I8: If I then ship 50 packages per weak or 500, he [the logistics provider] simply can do it"* (I8, 38). Furthermore, *"I8: for the tax advisor it doesn't eventually matter at all (...) how much revenue is managed eventually"* (I8, 38).

According to Helmut (I8), growth crises can result in two ways: first, the growth can happen to quickly. This could be a problem, if production and fulfillment of the products do not keep pace with demand. Second, growth crisis takes place, when growth stops or sales develop worse than expected. For both cases Helmut (I8) considers *"I8: components (...) [as] very useful measures, if I keep them scalable and start small"* (I8, 42). This results in *"I8: the freedom, to work on the entrepreneurial idea"* (I8, 42) and means less financial pressure for the entrepreneur. Thus, his business idea can be started small and the company can grow organically without large bank loans for example. Helmut (I8) adds *"I8: I prefer to finance growth with generated revenues"* (I8, 42) and in order to stay independent and preserve the entrepreneurial freedom *"I8: scalable components are very good"* (I8, 42). Finally, Helmut (I8) did not experience any growth crises with HOTEL.

Ingolf (I9) perceives INDIA's business model as being scalable. In his view, the complexity and time invested in the business by the founders increases disproportionally with increasing sales: *"I9: The shipping and the logistics process (...) simply scales very, very good"* (I9, 83). However, Ingolf's (I9) view on costs is different. Since costs vary depending on sales, they increase together when sales increase: *"I9: That means there are points [in time], when we (...) would change a component against (...) well, at least a new payment model, which then benefits us more"* (I9, 81). In general, outsourcing is seen as the reason for scalability: *"I9: Of course, we can only scale that good, because the outsourcing does (...) scale that good"* (I9, 85).

If INDIA did more in-house, it would reach capacity limits: "*I9: (...) if (...) tomorrow (...) 1000 customers stood before the door and wanted (...) to buy, then this is easier to do with outsourced components as if I had to do everything by myself. Then we would have to expend [into] a hall or whatever"* (I9, 85). In this regard, growth crises could be avoided. Also, in case of a rapid increase such as *"I9: twenty times the amount of packages per week compared to [the] usual [amount]"* (I9, 89), as it has occurred when marketing activities were conducted and just before Christmas, can be handled well. In general, he perceives outsourcing as *"I9: a means to an end"* (I9, 97) and in no way the single most important success factor for an entrepreneurial company. However, he suggests that entrepreneurs should think about scalability right from the start of their venture. In order to achieve scalability, outsourcing is a good instrument.

Julian (I10) takes an ambivalent view on the scalability of business models in general. On the one hand the company obviously must grow, while on the other hand, he wants his company to stay within a certain *"I10: maximum size"* (I10, 84) because he wants to keep the *"I10: organizational culture"* (I10, 84) he built within his company. In any case however, outsourcing supports the scalability of the business model according to his view. For instance, if production was performed in-house, the company would not be able to balance production peaks compared to an external supplier, which produces for more than one company. Furthermore, doing everything in-house results in inefficiency, and it is expensive and harms the environment as resources are wasted, according to Julian (I10). Thus, production and almost every other operative part of JULIETT's business have been outsourced from the start.

As mentioned above, Julian (I10) criticizes growth at all costs and states that *"I10: If we grow more than 10% per year, then we need a bank, because otherwise we can't finance production and we also can't do that organizationally"* (I10, 84). In the first quarter of the year 2012, a cash flow crisis resulted when JULIETT *"I10: (...) grew more than 30% in the first quarter of that year (...) that lead to us not being liquid anymore and not being able to pay our suppliers that fast"* (I10, 97). However, this situation was able to be solved because JULIETT maintained very good long-term relations with its distributers, who helped JULIETT by paying their invoices faster in order to increase JULIETT's liquidity. JULIETT in turn was able to pay their suppliers without delay. Julian (I10) therefore points to the fact that this would not have been possible if the relations were not very good. According to him, this is very important. He adds that this option also would not have been possible if he had not outsourced distribution in the first place. Thus, outsourcing has in this case worked as *"I10: (...) a hidden insurance for crises situations"* (I10, 99).

Table 8 summarizes selected quotes of interviewed founders on scalability.

Insert Table 8 from Appendix 12 about here

5.5 Discussion

In this section, I compare the results of the case study with literature findings, and discuss the propositions and questions raised in Chapter 4.

5.5.1 Costs

To conclude, all surveyed founders were keen on keeping initial capital requirements as low as possible and tried to save costs whenever it was not conflicting with other goals. For them, one method for saving upfront investments was doing a lot of work on their own. This is in line with entrepreneurship literature about bootstrapping, in which entrepreneurs save costs in order to prevent the need for external financing. One of the possibilities most often used for the entrepreneur to achieve this is do-it-yourself (Freear, Sohl, & Wetzel, 1995; Ebben & Johnson, 2006; Barringer & Ireland, 2006). According to Murphy et al. (2012), bootstrapping can lead to very few buyer-supplier relationships. However, the interviewees were also keen on the possibility to save costs via outsourcing. Outsourcing leads to lower total costs in the experience of the majority of the founders, although saving costs is not the primary motivation for engaging in outsourcing. This is in line with *Proposition 1a.*

Furthermore, outsourcing lowers financial pressure and leaves the entrepreneur more room for creativity and the development of his entrepreneurial idea. According to Faltin (2001), the development and constant improvement of the entrepreneurial concept should be one of the core competencies of the entrepreneur, and therefore there should be enough room for this activity. However, the interviewees also stated that one must be able to afford outsourcing. This means that the margin on the product or service which the start-up provides must be large enough to pay for the variable costs of outsourcing. As the margin grows, more activities are up for outsourcing. By outsourcing non-core competencies right from the start, less initial capital investment was needed according to the interviewees. These findings are also in line with the literature as can be seen in Chapter 4.1. The lower costs are said to result from the change in cost structure compared to the alternative of not outsourcing. Variable costs were increased, e.g. by contracting out to design-freelancers instead of employing them at the own company or sourcing products. However, in this case investments on machinery and production equipment were saved. The result is that costs must only paid when sales are achieved, and fixed costs are substantially reduced via outsourcing. One very impressive example was I10, who reported a rough seven-digit annual revenue with a three-digit amount of monthly fixed costs.

To conclude, *Proposition 1b* on lower periodic fixed costs and *Proposition 1c* on lower initial investment are supported.

The older and more heavily outsourcing companies in this sample have already reached the break-even point. Outsourcing is named as one reason, since it positively influences both the periodic cost as well as the initial capital requirement. Even though the majority of companies in the sample reached break-even, not all did. The founders of these companies mentioned small marketing activities and high fixed costs, as well as a lower focus on profitability as reasons for this.

Proposition 1d on break-even is supported although it must be added that reaching break-even as fast as possible is not the primary goal of all founders.

One additional important finding is that many ventures could only be started in the first place because of the fact that high capital investments were not necessary, and for this reason outsourcing played a major role. This leads to a new assumption: outsourcing helps entrepreneurial firms to start up.

Apart from minor instances, unexpected costs were not experienced by the surveyed entrepreneurs as investigated under *Question 1* in Chapter 4.1. This result is somewhat surprising considering the academic literature on that matter (see “hidden and unexpected costs” in Chapter 4.1), and is worthwhile to be examined in future research. In short, however, according to the founders these observations result from careful selection of outsourcing partners, clear agreements and planning with a sufficient temporal buffer.

5.5.2 Focus on core competencies

5.5.2.1 Core competencies and outsourcing

According to the interviewees, core competencies reflect unique skills and strengths of the founders and the start-up, respectively. Given the entrepreneurs self-reported core competencies, it can be shown that these are always long-term strategic in their nature. This is in line with literature based on Pralahad and Hamel’s (1990) research, which is discussed in Chapter 4.2. Thus stakeholder management, which includes customers, suppliers, service providers and employees, as well as strategic marketing, controlling and innovation were named as core competencies by most founders. Companies with several employees also included establishing and maintaining a productive corporate culture as a core competency. Another important task of the entrepreneur is to generate fresh impetus and ideas to improve the initial entrepreneurial idea. This is described by Faltin & Ripsas (2011) as working on the entrepreneurial design, idea refinement and management of the components as shown in Chapter 4.2. Sometimes core competencies seem to be non-core competencies at first, for example repetitive tasks like logistics of an integrated product. However, if strategic benefits arise from bringing the respective task back in-house, for example if the product is too complicated for an external logistic provider to handle and a competitive advantage arises from that, then this activity is considered a core competency.

In general, core competencies are outsourced very rarely. In fact, this was only the case for one of the interviewees due to capacity shortcomings. Core competency outsourcing was implemented under tight management and control by the founders. This is in line with literature on outsourcing in general, as well as outsourcing within SMEs: outsourcing of core competencies should not been done as a general guideline, while allowing for certain exceptions. According to Belcourt (2006), core functions that should not be outsourced include leadership development, employee relations, final selection, performance management, succession management and organizational change, because these functions depend on confidential information as well as organizational culture, a long-term orientation, consistency in decisions, and trust.

5.5.2.2 Non-core competencies and outsourcing

To conclude, only non-core competencies are outsourced by the interviewed entrepreneurs, as a company's focus should not be on such tasks. These activities are clearly structured and defined, are routines with the same scheme and are regularly recurring; considering these activities, it is obvious what to do and how to do it. So, non-core competencies are time-consuming tasks that the company lacks adequate skills for and no one wants to become familiar with, because such activities are often boring, strategically irrelevant and do not contribute to the start-up culture. Thus, keeping them in-house limits growth. As shown in Chapter 4.2, non-core competencies can be identified using Prahalad's and Hamel's (1990) three questions of whether a business activity provides any direct access or value to the customer, and whether it can easily be imitated by competitors. If all three points are denied then the business activity in question should be a non-core competency. This is the case for the non-core competencies stated by the interviewees.

In conclusion, *Question 2 is answered (see Table 4 in Appendix 8 and Table 5 in Appendix 9),* and *Proposition 2a and 2b are* supported.

By outsourcing these non-core competencies, most founders experienced more time to focus on their core competencies, such as marketing and strategic business development, for example, which leads to higher growth levels. This is in line with Faltin's and Ripsas' (2011) theory that buying existing components for the non-core competencies and building the business with them could be a way to increase focus, efficiency and growth of the start-up, while also giving the entrepreneur enough time to work on the business model and develop the business without being stuck in administrative aspects of the business.

According to the interviewed founders, time savings are achieved via outsourcing. This leads to a better focus on the company's core competencies and the entrepreneurial idea and its development, as well as to control performance and working *on* the company instead of *in* the company. The time saved is perceived as efficiency optimization by the founders, who generally have a high work and time load. These findings are basically congruent with the findings of Musteen and Ahsan (2013) and Carree and Verheul (2009) emphasizing the importance of an adequate focus on the most important parts on an entrepreneurial business in order to increase productivity and facilitate growth.

On the one hand, time is saved by outsourcing tasks for which skills are lacking and engaging in these activities would be time-consuming, while on the other hand founders state that a great deal of time is initially required in order to start an outsourcing project. A suitable business activity supplier must be found, which can be time-consuming. The outsourcing project must initially be specified, and all outsourceable content must be recognized, defined, evaluated and then installed at the service provider. The subsequent coordination and coaching of the service provider, along with the ongoing monitoring, is time-consuming as well. Another shortcoming is that outsourcing increases complexity, because more stakeholders must be dealt with. Some of the existing literature in Chapter 4.2 conclude that entrepreneurs might not pursue outsourcing, because outsourcing relationships could take a long time to be established, and performance is difficult to measure.

The interviewees nevertheless conclude that if outsourcing of none-core competencies is planned and exercised diligently from the very beginning, it saves the founder's time and improves performance. However, outsourcing a complex and integrated product or task is not recommended, as too much flexibility is lost and the quality of the supplier will most likely not be sufficient.

5.5.3 Quality

Most interviewed founders (I1-I4; I7-I10) state that quality has improved when outsourcing their non-core competencies to external providers. For I6 the results with outsourcing have overall been satisfying except for the initially authorized tax advisor. I5 experienced the quality to be just how he expected it to be. He neither was enthusiastic, nor disappointed about it. Thus, it can be concluded that these findings support *Proposition 3*.

Considering quality, interviewed founders state that one reason for outsourcing is that it is virtually impossible to conduct a certain activity in-house (I1; I3; I6-I10), because either expertise or resources are missing. As another reason for outsourcing, founders stated that the outsourcing provider is able to provide professional quality. This has been the case for bottling (I8), product storage (I3), server hosting (I1), fulfillment (I2; I3; I6; I8; I9), public relations (I3), telephone services (I2), design (I6), just to name a few. These findings are in line with literature presented in Chapter 4.3. Belcourt's (2006) statement: *"Outsource when somebody can do better than you"* (p.273) could be extended by *"Outsource, if you cannot do it yourself"*. However, the latter statement is not sufficiently regarded by entrepreneurship literature, despite being reasonable for founders in practice.

It can be stated that first of all, it is important to the founders that the quality is judged one way or another, because otherwise it is dangerous for the entrepreneur to rely on the goodwill of the supplier. In the beginning, this judgment does not necessarily have to be done totally by the entrepreneurs themselves, but a third party could help out. This third party could be a professional one such as an agency (I1) or food laboratory (I9) or simply a friend or colleague (I6), who has experience in that matter. Later on the entrepreneurs themselves gain experience by dealing with these issues more often. In any case, the entrepreneurs should keep at least an overview over the task (I10) and know how much it is worth (I2). Thereby, I1, I4 and I5 followed the strategy of doing most activities on their own first to learn what the task is about before outsourcing it to a service provider, whereas I2, I3, I6, I8-I10 outsourced a lot of their value chain right from the start. I8, being one of the latter group, mentioned a website[6], where entrepreneurs can find different service providers such as the logistics, tax or accounting component for example. The website helps the entrepreneur with establishing the relationship and guarantees certain quality standards to be met. According to I8 this website just professionalizes a personal recommendation. For entrepreneurs in practice, this could be interesting in two ways: Firstly, they can get inspired what possibilities they have to outsource non-core competencies and secondly, all registered service providers are already filtered with regard to sufficient quality as well as their motivation to work with entrepreneurial firms. This could help to partly substitute the limited amount of available personal recommendations, which were named by most entrepreneurs as an important aspect in choosing the right contractor.

For quality assurance, entrepreneurs named basically two major ways: Firstly, the initial selection of an appropriate supplier and secondly, the ongoing management of the relationship with the provider. All interviewees stated that it is important to choose the right supplier early on. Thus, the entrepreneurs are choosing their components carefully by taking several offers

[6] www.komponentenportal.de

in, checking suppliers' references, doing test projects or requesting samples and choosing among them the best price/performance-deal. However, it is particular important for most entrepreneurs that apart from that, a personal relationship using informal communication patterns is established with the supplier (I1, I3, I4, I6-I8, I10). Therefore, it is also important, that the *"chemistry is right"* (I1, 80) from the beginning. In conclusion, all entrepreneurs engage in some sort of quality testing throughout the relationship and established criteria for the initial selection of the contractor.

When establishing an outsourcing relationship, it however is remarkable that the majority of interviewed entrepreneurs perceived a formal contract as rather unimportant (I1; I2; I3; I4; I6; I8; I10) compared to the personal relationship and trust. Entrepreneurs reasoned that contracts practically cannot be enforced due to the costly and time-consuming procedure. This does not mean that formal contracts are not used at all, as they are at least for one component in every start-up participating in this study. However, the extent is less than it could be expected when researching academic literature. For example, Gulati (1995) found that formal contracts are especially important in the beginning of partnerships reasoning, that expectations of both parties must be clearly defined in the contract in order to work out. Other studies however are in line with the findings presented here, stating that contracts are rather a hindrance for the establishment of a trustworthy relationship (Ghoshal & Moran, 1996; Adler, 2001; Malhotra & Murnighan, 2002), as negative feelings arise from control and the burden to achieve the performance (Goshal & Moran, 1996). Accordingly, the relationship is perceived as a pure professional one, which results in a lack of cooperation and motivation to establish superior quality (Malhotra & Murnighan, 2002).

Since interviewees reported a satisfying outsourcing quality and rather informal relationship with the components, this is a rather remarkable finding, which is prone to future research. It could be assumed that this personal rather than professional relationship with informal communication could outweigh the liabilities of newness and smallness assumed for outsourcing entrepreneurial companies. A rather extreme case in that respective was demonstrated by I10, who despite having neither established tight controls, nor fixed delivery dates, nor reminder fees, but successfully grew his business every year for 14 years up to now. As it is shown in more detail in Chapter 5.5.4 his start-up once experienced cash flow problems resulting from fast growing demand. He managed to get paid earlier by his distributors in order to be able to pay his company's bills in return. He reasons that this was only possible, because of the exceptional good relations he engaged in earlier on.

5.5.4 Scalability

It should be noted that the interviewed founders already had a concrete image of the term scalability, even though it is a rather complex term compared to costs and quality, for example. On the one hand, interviewees interpreted scalability as the ability of the company to grow sustainably in terms of revenue, earnings and the whole company itself, without proportionally increasing complexity (I3; I9), time (I1) and financial (I3; I7) expenses. A scalable business model therefore demonstrates fewer growth barriers and problems with growing the business (I4; I6; I8). On the other hand, scalability was interpreted as the ability to transfer the business model to foreign markets (I2; I4; I8). Thus, the founders' definitions of scalability are similar to the definition shown in the literature (Chapter 4.4).

Likewise, similar to research findings, interviewees consider scalability as an important issue for a start-up. Thus, I1 founded a new start-up as it became obvious that his former start-up would not scale. Also, many founders thought about the scalability of their business model early on when they founded their companies (I4; I6; I8; I9). I9 explicitly suggests that founders should think about that matter right from the start when planning to start a company. Thus, most founders assess their business model as a scalable one (I1-I9), while I10 answered that he wants his company to stay at a certain maximum size and does not want it to grow beyond that.

Regarding the impact of outsourcing on scalability of start-ups, *Proposition 4a* – that outsourcing increases the scalability of business models – is supported by all interviewees. Some of the founders said outsourcing had a very significant influence on barrierless growth (I1; I2; I6) and for I8 scalability was the main reason to outsource in the first place. It is also remarkable that I6 compared his start-up to another with a similar business model in a different field, which does not outsource certain activities and therefore scales less well than I6's company, which outsources these parts. I2 supposes that his start-up would not have grown as well if he and his partner had not decided to outsource certain tasks from the start.

Proposition 4b was supported by I1, who founded his second start-up with a classical service provider business where he exchanged his working time against project-based payment. Because he started to contract out several non-core competencies, he could work on many more projects, which increased revenues and earnings enormously as he states. Thus, he explicitly confirms that outsourcing *"I1: (...) was the key to scalability"* (I1, 38) for his business. The remaining interview partners already had scalable business models from the start, so this assumption was only relevant to I1.

Referring to scalability, interviewees repeatedly point out that only non-core competencies (I6; I8) and standardized, clearly defined processes (I4) should be taken into consideration for outsourcing. Tax advisory matters and accounting (I6; I8), along with the logistics and fulfillment components for e-commerce companies (I2; I3, I8; I9) were mentioned by the founders as components that scale very well.

Growth hurdles or crises did not occur in half of the interviewed entrepreneurial firms (I1; I5; I6; I8; I9). This can be traced back to founding the company as lean as possible and focusing on sustainable organic growth (I1; I5; I6; I8), which were made possible by outsourcing, among other factors. I1 started his company with low risk as a service provider and started scaling up after a proof-of-concept, when he took on more projects and outsourced certain tasks. I8 sees growth crises as resulting from two different points: on the one hand, if growth is too low, and on the other hand, if growth is too strong and fast. Therefore he believes that it is important to be able to react flexibly to demand changes and, above all, that a start with small quantities is possible, from which point quantities sold can be increased as demand increases. In his view, this is possible by using components for production, logistics and other services such as accounting. These findings support the propositions made in Chapter 4.4. Thus, founders partly reject having external capital such as bank loans or equity investors (I1; I5; I8; I9), but want to grow organically. I4 and I6 do have investors within the company, however I6 also suggests starting as lean as possible and outsourcing non-core parts of the business in order to achieve this.

The problems named by other interviewees have been mostly related to financial matters (I2; I4; I10), marketing (I2; I7) or management and experience (I2; I5). To summarize, most problems were not severe in most companies; for example, the lack of experience in management of teams (I5) did not result in greater problems, and the lack of cash flow was able to be solved with loans from investors (I4). However, I10 had a cash flow crisis in 2012 when the company grew too fast and ran out of cash, which was needed to pay its suppliers on time. However, this problem was able be solved due to his remarkably good relations with his distributors, which in turn agreed to pay their bills earlier in order to facilitate an early payment to JULIETT's suppliers. I2 also had problems with insufficient capital in the beginning and ordering excessively low quantities in the early days of starting up; however, this was solved as experience and the capital buffer grew.

As a solution for many problems, it was suggested to start as lean and cost-saving as possible. According to the interviewees it is best to start with small units and to gradually increase these units after this concept has been proven. Further growth should be facilitated organically, which means that revenues from goods and services sold finance further growth. Creating a large organization right from the start should be avoided, and the entrepreneur should slowly grow into managing internal or external personnel. Outsourcing can therefore play a major role, as it decreases capital needs and increases the start-up's flexibility to react to demand swings.

6 Conclusion

Summary

Inspired by Faltin's (2008) founding-with-components concept, the goal of this thesis was to identify and empirically check the potential benefits of entrepreneurial outsourcing. However, research on entrepreneurial outsourcing, a topic at the interface of entrepreneurship and management literature, is scarce. Therefore, a theory on the benefits of entrepreneurial outsourcing has not yet been established. As a first step to building such a theory, I derived four potential benefits of entrepreneurial outsourcing by drawing on classical outsourcing literature on big, established corporations. I then put these benefits in the context of small, young entrepreneurial companies.

Using this approach, I identified the following benefits: an improved cost structure, an increased focus on core competencies, higher quality standards, improved scalability, and the prevention of growth crises. I investigated propositions and questions related to these benefits in an empirical case study. To this end, I interviewed 10 different entrepreneurs about their experiences with outsourcing. In general, the results of these interviews clearly support the assumptions. Furthermore, the additional questions led to remarkable new insights into how entrepreneurs deal with the topic of outsourcing. The most important findings are summarized in the following.

Keeping the company's costs as low as possible is an important factor for entrepreneurs. Outsourcing helps to achieve that goal as it keeps the initial, up-front capital investments low, reduces periodic fixed costs, and therefore helps to more quickly achieve the break-even point. After evaluating the results of the interviews, another proposition also became clear: outsourcing helps entrepreneurs to start-up in the first place. This is because it would be impossible for a lot of founders to finance their venture without outsourcing. Another remarkable finding was that, apart from minor issues, the founders did not experience unexpected costs. This conflicts with findings from several outsourcing studies. The interviewees stated that important reasons for success are clear goal setting, conservative planning, and the careful selection and management of outsourcing partners.

Next to cost savings, another important benefit of outsourcing is that it allows entrepreneurs to focus on their core competencies. Core competencies, such as strategic marketing and controlling, are strategically important to a company. A core competency of the entrepreneur is the constant re-thinking and development of the entrepreneurial concept, as well as ensuring a constant influx of fresh ideas by establishing an innovative culture within the company. Furthermore, the management of all stakeholders, including customers, employees, and external components, is also a core competency. Core competencies are rarely outsourced as they provide long-term value to the company.

In order to achieve that focus on core competencies, non-core competencies are outsourced. The latter are strategically irrelevant and do not contribute to an entrepreneurial corporate culture. If the entrepreneur lacks skills in non-core competencies, and if they can be clearly specified, monitored, and controlled, then they are prone to outsourcing. This is especially the case if these tasks are recurring routine jobs. Examples of non-core competencies in the case of a regular online shop would be accounting, fulfillment, and logistics. The strategic focus achieved by outsourcing results in time savings for the entrepreneur and a better firm performance regarding financial and growth aspects. Furthermore, the entrepreneur is able to work *on* the company instead of *in* the company. This is a remarkable finding scarcely considered in academic literature: the entrepreneur needs time and must “keep a clear head” in order to be able to think about the entrepreneurial concept and the future strategy of the company. This is his core competency. If the entrepreneur is kept busy with the non-core competencies, he will not be able to achieve this task.

Furthermore, when these non-core competencies are outsourced to professional service suppliers, findings suggest that quality increases. Contractors deliver a standardized quality, on which the entrepreneur can rely. This process safety is not guaranteed for certain tasks conducted in-house in early phases of the start-up. The expertise to execute a certain task is often either missing or costly and time-consuming to establish in-house. Therefore, entrepreneurs should outsource when external contractors can perform a certain task better, or if the respective task cannot be performed in-house in the first place.

In order to reap the quality benefits of outsourcing, it is important to be able to judge quality and to assure that this quality is yielded by the outsourcing provider. Initially, judging quality appears to be a challenge, since the entrepreneur often lacks experience in various non-core competencies of the business. However, this judging works in the same way as it does in daily private life. For example, if one had to go to an auto repair shop or a tax advisor and one was not an expert on that matter, one would probably go there anyway. However, one would probably do some research beforehand, for example on the internet, regarding which service provider would yield the best quality at a reasonable price. Otherwise, one would ask friends or colleagues for recommendations. The same applies to outsourcing entrepreneurs. They ask for help either from their private and professional networks, or they employ specialized providers, such as food laboratories for example, to check quality. The entrepreneur must keep an overview of the execution, and it does not harm to learn more about these activities. However, it is an important finding that the entrepreneur does not have to be a "jack-of-all-trades" in order to start a company, as is often suggested in entrepreneurship literature.

Entrepreneurs mainly use two ways to assure quality: the diligent selection and management of outsourcing providers. Outsourcing literature on big, established corporations suggests that formal contracts are the predominantly used method to assure quality of outsourcing relationships. However, according to my findings, this might be different for entrepreneurial companies. My empirical findings suggest that entrepreneurs rely more on personal relationships and trust than they do on formal contracts. Thus, they carefully determine whether the outsourcing provider complies with their values, before engaging in an outsourcing relationship. The interviewees in this study indicated that they had experienced few problems with quality. Furthermore, they selected their partners and managed their relationship with their partners differently than is suggested in the literature. These findings are remarkable and require further research.

Finally, I examined the impact of outsourcing on the scalability of business models and on the prevention of growth crises. Scalability was understood as the business's ability to grow sales without having costs increase proportionally, and as the ability to transfer the business model to other countries without problems. Outsourcing of non-core competencies increases scalability, as the company becomes leaner and more flexible in order to react to demand. If entrepreneurs want to internationalize their business, they can do so more easily, since external components can simply be added. Therefore, outsourcing increases the scalability of a business model or can even turn a non-scalable business model into a scalable one. One of the interviewees empirically supported this last point. He started with a regular service business, trading his personal working hours against profit. By using outsourcing, he was able to decouple his time from the earnings of the company and therefore turned his business into a scalable one.

The literature suggests that start-ups are bound to face various growth hurdles. However, only half of the interviewed founders experienced these problems. In general, growth hurdles or crises can have several reasons, and outsourcing affects only some of them. However, outsourcing can prevent certain hurdles, since the company is started as leanly and flexibly as possible. For example, problems resulting from scarce cash flow can be prevented if business activities are outsourced, since fixed costs and up-front investments are reduced, as has already been explained. Management and leadership hurdles can be prevented if the company is kept lean. This is especially true in the beginning, when entrepreneurs are still learning to lead a team and manage a company. To conclude, outsourcing helps to start small and to scale the business if the entrepreneurial concept has been proven. Outsourcing enables entrepreneurs to react flexibly to demand swings, which is also advantageous in an economic downturn.

Limitations and future research

The results of this paper are limited for theoretical and methodological reasons. Firstly, there is no claim of completeness regarding the selected benefits. For example, the impact of outsourcing on risk could be examined in more detail, since it is particularly important for young entrepreneurial companies to lower their high failure rates. Another theoretical limitation arises from the focus on benefits of entrepreneurial outsourcing. Due to the scope of this master thesis, I only partly analyzed risks and drawbacks when asking interviewees about unexpected costs, quality issues, and other problems (and I detected no severe problems). Therefore, future research should use a counterfactual approach and explicitly focus on examining potential risks and drawbacks to complete the picture of entrepreneurial outsourcing.

Because of the case study approach with a small sample of 10 interview partners, results of this study might be limited to those specific entrepreneurial firms and should not be generalized. Therefore, this study should be seen as a basis for subsequent research, which should be conducted with a larger sample and using a different methodology. For example, this could include a quantitative approach to test hypothesized relations. Furthermore, research should be conducted among various entrepreneurial firm ages and industries, and with an internationally diversified sample of firms. It would be interesting to investigate whether the benefits of entrepreneurial outsourcing would be supported in a large-scale study.

Another aspect that requires future research is the question of “how” entrepreneurial outsourcing is conducted. This paper focuses on the question of “why” entrepreneurs should consider outsourcing, as various benefits are described. My empirical results suggest that the selection and the ongoing management of the outsourcing relationship is important for outsourcing success, whereas formal contracts are not as relevant, as explained above. I displayed the benefits of outsourcing and the moderating effect of the potential key success factors, partner selection, and management in a model (Figure 2 in Appendix 13). These findings should be examined further, as well as other potential key success factors for entrepreneurial outsourcing.

Contributions to literature

As explained above, I have contributed to entrepreneurial outsourcing literature in three ways. Firstly, I have developed a theoretical underpinning for the benefits of outsourcing in the context of entrepreneurship. Until now, such a theoretical framework has been missing in entrepreneurial outsourcing research. Secondly, I tested propositions derived from literature in an empirical study, and my results support my propositions regarding the benefits of entrepreneurial outsourcing. Thirdly, in order to gain a greater understanding of the background of entrepreneurial outsourcing, I asked additional questions related to these propositions. My findings suggest that the outsourcing relationship and the way in which entrepreneurs choose partners differ significantly from the way in which outsourcing is conducted in big, established corporations. This has also not been acknowledged by outsourcing research or the entrepreneurship literature until now.

Implications for practice

My research has several implications for entrepreneurs. Firstly, they should consider what their core and non-core competencies are, and how to deal with them. This is an important step to better understanding their business. Secondly, it is important to recognize that outsourcing is a means to an end and not the end in itself. Furthermore, outsourcing should only be used if the business concept has a durable competitive advantage and returns a satisfactory margin. However, if that is the case, then entrepreneurs should at least evaluate whether outsourcing could benefit their companies. Entrepreneurs might find similarities between their own start-ups and the case studies presented in this paper, which generally support the assumed benefits of entrepreneurial outsourcing. Thirdly, if entrepreneurs consider outsourcing as a tool, they should look at how other entrepreneurs select and manage their outsourcing relationships. My empirical research suggests that this approach might differ substantially from outsourcing in established companies, as trust and a personal relationship play important roles.

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Appendices

Appendix 1:

Table 1: Propositions and questions derived from the literature

Costs:

Proposition 1a: *Entrepreneurial outsourcing reduces overall cost, however this is not the primary motivation for outsourcing in entrepreneurial firms.*

Proposition 1b: *Entrepreneurial outsourcing reduces periodic fixed costs.*

Proposition 1c: *Entrepreneurial outsourcing reduces the initial, up-front capital investment.*

Proposition 1d: *Entrepreneurial outsourcing helps to achieve the break-even point faster.*

Question 1: *Have you experienced unexpected costs in your outsourcing relationship and what is your strategy to avoid them?*

Focus on core competencies:

Proposition 2a: *Entrepreneurs do not outsource their core competencies.*

Proposition 2b: *Entrepreneurs outsource non-core competencies in order to focus on their core competencies.*

Question 2: *What do entrepreneurs define as their core competencies and non-core competencies?*

Quality:

Proposition 3: *Entrepreneurial outsourcing improves both service and product quality.*

Question 3: *How do entrepreneurs judge the quality of certain business tasks if they are inexperienced in the respective field, and how do they assure this quality?*

Scalability:

Proposition 4a: *Outsourcing increases the scalability of the business model of the entrepreneurial firm or outsourcing turns a business model into a scalable one in the first place.*

Proposition 4b: *Outsourcing helps to prevent entrepreneurial growth hurdles.*

Source: Own illustration

Appendix 2:

Interview guide

Company-related questions

- Please introduce yourself shortly, and describe your role in the company.
- How did it happen that you started a business?
- When was your company founded?
- How many people work in your company?
- What does business success mean to you personally?

General outsourcing-related questions

- Please describe your experience with outsourcing.
- How would you describe the degree of outsourcing in your business?
- Which components do you outsource considering your company?
- Since when do you outsource certain components?
- How did it happen that you started to outsource certain components?
- What were general reasons for you to take outsourcing into consideration for your company?

Impact of outsourcing decisions on start-up success

Focus on core competencies

- Please describe how your working hours (e.g. per week) is split between "routine activities" and other activities. First of all, please explain what you mean by routine activities.
- Please describe how you generally deal with accruing routine activities. (Do-it-yourself, automate, delegate, outsource.)
- Which components of your business do you consider outsourceable and which ones you don't consider outsourcable?
- I am interested in your opinion, why you believe certain activities are not outsourceable.
- Please describe the extent, to which the decision to outsource affects time and resources that you can utilize to focus on the "essence" of your company?

Costs

- Please describe to what extent the decision to outsource certain activities had an impact on the initial capital requirement of your business.
- (...) impact on the achievement of the break-even point?
- (...) impact on the cost structure (fixed costs, variable costs)?
- Please tell me, whether and to what extent you experienced cost advantages or disadvantages because of your outsourcing decision.
- Please describe, to what extent "everything went according to plan", and where unexpected costs occurred.

Quality

- Please describe to what extent outsourcing affected your product/service/process quality or the quality of your "professional appearance (in the internet, etc.)"?
- Please describe your personal impression: Do you, as a start-up, have access to similarly professional components compared to large corporations within the same industry? How do you arrive at that conclusion?
- Could you generally perform the outsourced activities yourself yielding a sufficient quality, and if this is the case, why are you outsourcing these activities?
- Which difficulties considering quality do you particularly see for your outsourcing start-up?
- How do you solve these problems, and how do you assure quality?

Scalability

- Please describe, to what extent the business model of your company is scalable. (Scalable is defined as follows: The costs, the complexity and the personally required time increase disproportionally with increasing sales.)
- How does outsourcing of non-core competencies influences scalability? Please tell me your experience and thoughts about that matter.
- (...) costs?
- (...) complexity?
- (...) personal time requirement?

Growth crises

- Please describe to what extent you already experienced growth crises. This could have been the case for example when production, stocks, logistic capacity, etc had to be expended. Or this could have happened, when the team had to be changed or increased, when a lot of tasks had to be delegation, personnel or management problems arised, or due to increasing capital requirements. Please tell me everything that comes to your mind.
- Please tell me the extent to which outsourcing has played a role in relation to these growth crises. (was the reason for the crises to occur, prevented crises from happening, reduced extent of the crises or increased the extent of the crises?)

Liabilities of smallness / newness

- According to what criteria do you chose your outsourcing components?
- Please describe how you conduct business with outsourcing service providers, producers, etc.?
- To what extent do (formal) agreements, trust and personal relationships with outsourcing providers play a role for the success of outsourcing and the company's success?
- Please, describe in particular the challenges you were confronted with as a small company in comparison to larger businesses when conducting outsourcing. (With respect to quality assurance, cultural differences, Corporate Social Responsibility (CSR), price and quality, negotiation power, etc.)

Implications for future entrepreneurs

- Please describe whether and to what extent you consider the issue of outsourcing to be relevant for the success of your start-up.
- Please outline whether and to what extent you want to change your outsourcing decision in the future (e.g. outsource more or reverse outsourcing decisions?)
- To what extent has this already been initiated?
- What have you learned from your previous outsourcing experience?
- Regarding outsourcing, what advice you would give me, if I wanted to found a start-up in the e-commerce sector?
- What do you perceive to be success factors considering outsourcing in your start-up?

Appendix 3:

Transcription, analysis and anonymization of interviews

Transcription of interviews

All interviews were transcribed using a transcription system, which focuses on the content of the interviewee's statements (Kuckartz, et al., 2008, p. 27). Both the transcription and the textualization rules are based on the system of Dresing and Pehl (2015). The transcribed interviews can be found in the supplementary material of this thesis. In order to ensure that direct quotes can be found easily in the transcript, each of these transcripts has numbered questions and answers according to Kuckartz et al. (2008, p. 77).

Analysis of interviews

The transcribed interviews were analyzed in category-based fashion, which means that all are interviews were reviewed according to a certain aspect, the so-called category (Kuckartz, et al., 2008, p. 36). Based on these categories, the transcribed interviews were read and statements belonging to a thematic category were grouped together for each interview. The coding strategy applied was inductive (Corbin & Strauss, 2008), thus the coding scheme was revised during the evaluation process, which means that categories were expanded to a final list of 25. Each category was iterated three times in order to condensate the content. Resulting subcategories were not iterated anymore. Figure 1 from Appendix 4 shows all categories as a code-tree.

Direct and indirect quotes were sourced exclusively from the transcribed interviews. Indirect quotes in the text are provided with the matching interview number in parentheses at the end of the sentence (for example: I5), and direct quotes, written in italic and signaled with quotation marks, are marked with the corresponding interview and paragraph number at the end following the approach of Kuckartz et al. (2008). Thus, for example "(I5, 46)" refers to the paragraph 46 of interview five.

Anonymization of interviews

Following the indications of Meyermann & Porzelt (2014), I as the primary researcher formally anonymized the interviews, since I possess the expertise concerning the research data (Liebig, Gebel, Grenzer, Kreusch, Schuster, Tscherwinka, Watteler, & Witzel, 2014). Formal anonymization removes identifiers (names of people and places) from the research data. I replaced the available information considering the person under examination by expressions of similar meaning. The interview anonymization was applied to all interviews in accordance with the guidelines of the University of Leeds (Leeds, 2008). All anonymization tracking tables can be found in the supplementary material of this thesis. All replacements start with @@ and end with ##. I replaced the names of the interviewed companies with the terms of the ICAO/NATO alphabet; the first name of the interviewee starts with the same letter as the anonymized company name. For example, “Andreas (I1)” of “ALFA” is the first interviewee. Due to data protection and privacy reasons, all tracking tables are retained separately from the interview transcripts and are therefore not part of this paper.

Appendix 4:

Figure 1: Code-tree of evaluated categories

Entrepreneur & business

- Entrepreneur
- Business
- Definition of success

General outsourcing experiences

- Experiences
- Degree of outsourcing
- Outsourced components
- Beginning of outsourcing
- Motives

Impacts of outsourcing on start-up success

- Costs
  - Costs increased / decreased
  - Cost structure
  - Up-front capital needs
  - Break-even point
  - Unexpected costs
- Focus on core competencies
  - Definition of core competencies
  - Core outsourcing
  - Definition of non-core competencies
  - Non-core outsourcing
- Quality
  - Quality increased / decreased
  - Quality judgment
  - Quality assurance
- Scalability
  - Definition & business model
  - Scalability increased / decreased
- Growth crises
  - Definition of growth crises
  - Growth crises happened or not
  - Outsourcing's impact

Liabilities of smallness / newness

- Selection of components
- Handling of components
- General challenges

Implications for own business

Source: Own illustration

Appendix 5:

The sample of interviewed founders

Andreas (I1) of ALFA: ALFA was founded by the current director Andreas (I1) and his partner four years ago. ALFA is an online marketing agency for search engine marketing and search engine optimization with a focus on customers in Germany, Czech Republic and Switzerland. The 2015 sales of ALFA were in the six-figure range. In addition to Andreas (I1) and his partner 20 freelancers work for the company. Andreas (I1) knows how to program software, however he taught himself all matters relating to online marketing. ALFA already reached the break-even point. Andreas (I1) thinks ALFA's degree of outsourcing is high. Andreas (I1) defines entrepreneurial success in two ways: on the one hand, success correlates with the financial components such as sales and profits. On the other hand, he defines business success as the freedom to work on his own responsibility and to determine what, how, where and when he wants to conduct business.

Bert (I2) of BRAVO: Bert (I2) and his partner founded BRAVO four years ago. Originally, they thought about establishing a website for reviews on golf equipment. However, they decided to manufacture and sell sports equipment instead, since it appeared more promising. BRAVO is legally registered as a sports equipment manufacturer selling its own brand. However as Bert (I2) decided to outsource production to China, he considers BRAVO to be more of an e-commerce company for sports equipment. BRAVO focuses on customers in German-speaking countries and returned six-figure sales in 2015. The company's break-even point has already been reached in the first year. Apart from one working student, Bert (I2) and his partner have no employees. The number of external supporters of the company is unknown, however the degree of outsourcing is high. Considering entrepreneurial success, it is important for Bert (I2) that he succeeds in establishing his business idea in the market by creating a business with stable revenues and profits over a longer period.

Christoph (I3) of CHARLIE: Christoph (I3) founded CHARLIE two years ago. CHARLIE manufactures and distributes high-quality cosmetic products with only natural ingredients. Christoph (I3) was employed in the chemical industry before founding Charlie. The company's turnover is still small and the company's break-even point has not yet been reached. The customer focus is still on the German-speaking countries, however Christoph (I3) plans to expand business over the next years. Apart from the founder, no other person is permanently employed up to date. However, a total of 15 external persons provide various business activities for CHARLIE. The degree of outsourcing is high. Christoph (I3) defines entrepreneurial success as being able to generate revenue and to finance new product derivatives with that revenue.

Dieter (I4) of DELTA: Dieter (I4) founded DELTA together with his two partners four years ago. DELTA manufactures and distributes customized drinks. Since there are many different ways for the customers to configure their products, Dieter (I4) classifies DELTA's products to be very complex and integrated. DELTA focuses on customers of German-speaking countries, however business activities have already been expanded to other countries as well. The €-sales in 2015 reached in the range of seven digits, and the company's break-even point has already been achieved. Apart from the founders, seven permanent employees and an equal number of working students are working for the company. Additionally, an undisclosed number of external providers work for DELTA. The degree of outsourcing is stated to be medium, since the company back-sourced the fulfillment of their online shop. Dieter's (I4) defines entrepreneurial success in a multifaceted way: he wants to bring his ideas to market, win customers over, establishing a broad product portfolio and finally create value. Furthermore, he aims at creating more and more jobs in the long run. He perceives that it is very important for the company to achieve these goals. Furthermore, he thinks that it should always be closely considered what the customer needs and wants. Thus, the company has to be continuously developed and the team should always try to quickly find and iterate new ideas.

Emil (I5) of ECHO: Emil (I5) founded ECHO together with four partners three years ago. ECHO develops products and add-ons for established corporations as well as technology start-ups. Therefore, ECHO can be classified as a research and development service provider. However, ECHO achieves that by drawing on a network of roughly 600 young technology experts such as students, young professionals and researchers from colleges and universities. Furthermore, ECHO serves as a CTO for some of the start-ups, which purchased ECHO's services beforehand, and continues to develop high-tech products for them. In return, ECHO receives shares of these start-ups. Thus, the second business segment could be classified as an investment or holding business. A third business segment is the development of innovative products on behalf of several authorities in the Middle East in order to foster entrepreneurship in this region. If projects are acquired, then specialists from the network are temporary employed in order to work on that project. After the project ends, the employment contracts ends as well. In general, the degree of outsourcing is very high. The €-sales of 2015 were in the range of seven digits. No details about the achievement of the break-even point were provided. Emil (I5) defines entrepreneurial success as follows: entrepreneurial success is given, if the entrepreneurial firm can sustain on its own, even when the market and sales go down and, if the company sustains for a long time. Furthermore a company is successful, if the employees and partners stay within the company and if the processes work out.

Fritz (I6) FOXTROT: After finishing his information technology studies, Fritz (I6) worked as a consultant and in a start-up, which was sold in the end. Inspired by this successful exit and because he always wanted to start a business, he and his partner founded FOXTROT two years ago. FOXTROT is an online-based platform, which offers interior design services and sells furniture via drop-shipping. A customer, who wants for example to have his apartment furnished can visit FOXTROT's website in order to let a professional interior designer furnish his apartment. The customer can either solely purchase the design services or the design service together with the furniture, which the designer has suggested. In the second case FOXTROT charges no fee for the design, if a certain minimum volume is ordered via its platform. FOXTROT currently focuses on customers from German-speaking countries, however plans exist to internationalize the business. Apart from the founders, 14 permanent employees work together with 25 interior design freelancers. Therefore, the degree of outsourcing is high. FOXTROT achieved €-sales in the range of seven digits in 2015, however the company's break-even point has not been reached yet. Fritz's (I6) definition of entrepreneurial success is visionary: he wants to establish something challenging, which is not existent yet. He wants to accomplish that people cannot imagine that the respective product or service has not always been existent and ready to use. Fritz (I6) names Facebook and the Internet in that respective as especially successful examples for such innovations. According to Fritz (I6), entrepreneurial success is, *"I6: if you have accomplished that"* (I6, 12).

Gernot (I7) of GOLF: Gernot (I7) founded GOLF together with three partners four years ago. GOLF sells wine sets via an online-shop with the focus on customers in German-speaking countries. These sets are come with instructional material on how to professionally conduct wine testing sessions. The product is considered to be bought as a gift or as entertainment for group events. The company's turnover is still small and the break-even point has not yet been reached. The degree of outsourcing is high, since no additional employees work for GOLF. The number of external supporters through outsourcing was not disclosed. Considering entrepreneurial success, Gernot (I7) wants to develop and market a product that one can identify with. It is also important for Gernot (I7) that the product allows one to have a clear conscience. For example, he would not want to sell insurance policies to people, which they do not need.

Helmut (I8) of HOTEL: Helmut (I8) founded HOTEL together with his partner 15 years ago. He has the longest outsourcing experience of my sample. HOTEL distributes its own olive oil brand focusing on customers in German-speaking countries as well as the rest of Europe. HOTEL's €-turnover was in the range of seven digits in 2015, and the break-even point has already been reached years ago. In addition to the two founders, seven permanent employees and an undisclosed number of outsourcing service providers work for HOTEL. According to Helmut (I8), entrepreneurial success consists of two factors: the entrepreneur must be able to finance his living expenses from the earnings of the company and the company must allow him financial freedom. For Helmut (I8) that freedom means *"I8: (...) to be able to do the things I want to do"* (I8, 8). These things involve consulting and lecturing activities as well as the interview Helmut (I8) conducted with me. According to Helmut (I8), the best reward one can have is the creation of something valuable. In case of HOTEL that is offering a high-quality product for a reasonable price. Helmut (I8) wants *"I8: (...) a little bit to change the world for the better"* (I8, 8). Furthermore, he likes about his business that he is in contact with many people in a *"I8: very lovely way"* (I8, 8); he was able to develop personal relationships and friendships with various people in countries around the Mediterranean See. Helmut (I8) was able to have unique insights into their culture and their way of life: *"I8: And that is a comprehensive form of wealth that includes far more than monetary success"* (I8).

Ingolf (I9) of INDIA: Ingolf (I9) founded INDIA together with two partners three years ago. INDIA specializes in the online distribution of various spices. INDIA's customer base is predominantly present in German-speaking countries. INDIA achieved six-digit €-sales in 2015 and the break-even point has already been reached. In addition to the three founders, one regularly employed person and an unknown number of outsourcing suppliers work for INDIA. The degree of outsourcing is rather high. Ingolf (I9) states that entrepreneurial success means two things: firstly, the company is economically successful and secondly, there is a reason for the company to exist beyond money-making. He wants to implement his ideas without losing his values. Entrepreneurial success for him is: *"I9: If both fits together, I perceive the (...) complete package to be successful"* (I9, 6).

Julian (I10) of JULIETT: Julian (I10) founded JULIETT 14 years ago. He defines his role as *"I10: central moderator"* (I10, 2) of the company, because he wanted all stakeholder of the company including customers and suppliers to have a voting right for important decisions.

JULIETT is a soft drink producer and distributor with the focus on German-speaking customers. The business consists of Julian (I10) and about 1,750 internal and external partners who take care of all processes of the company from manufacturing of the products until the products finally reach consumers. Therefore the degree of outsourcing is very high. The €-sales in 2015 were in the range of seven digits and the break-even point has already been reached years ago. For Julian (I10) entrepreneurial success means that the company is able to exist in the first place. Furthermore he adds: *"I10: Even better success is, if we manage not only to exist, but to provide five rewards to all those, who are involved "* (I10, 14). These five rewards beyond the very existence of the company relate to the finances of the company, the company's stability, the freedom of the employees, the meaning of their business activities and the spreading of Julian's (I10) ideas. He wants to help other people to experience the same entrepreneurial success by giving lectures and speeches on his leadership style and his perception of entrepreneurship.

Appendix 6:

Table 2: Sample at a glance

Interview	Company Founder	Business Idea	Age	BEP	Sales (€)	Employees	Degree of Outsourcing
I1 47 min	ALFA Andreas (I1)	Online-Marketing Agency	4 y	yes	6 digits	2 + 20 C	high
I2 66 min	BRAVO Bert (I2)	Sports Equipment	4 y	yes	6 digits	2 + x C	high
I3 45 min	CHARLIE Christoph (I3)	Cosmetics	2 y	no	small	2 + 5 C	high
I4 68 min	DELTA Dieter (I4)	Customized Drinks	4 y	yes	7 digits	17 + x C	medium
I5 47 min	ECHO Emil (I5)	R & D Services	3 y	x	7 digits	22 + 600 C	very high
I6 49 min	FOXTROT Fritz (I6)	Design & Furniture Distribution	2 y	no	7 digits	15 + 25 C	high
I7 57 min	GOLF Gernot (I7)	Distribution Wine	4 y	no	small	5 + x C	high
I8 91 min	HOTEL Helmut (I8)	Distribution Olive Oil	15 y	yes	7 digits	9 + x C	high
I9 57 min	INDIA Ingolf (I9)	Distribution Spices	3 y	yes	6 digits	4 + x C	high
I10 74 min	JULIETT Julian (I10)	Soft drinks	14 y	yes	7 digits	1 + 1750 C	very high

Source: Own illustration

Abbreviations: C: component; I: interview; x: unknown; y: year

Appendix 7:

Table 3: Quotation table on costs

Interviewee	Statement
Proposition 1a: *Entrepreneurial outsourcing reduces overall cost, however this is not the primary motivation for outsourcing in entrepreneurial firms.*	
Andreas (I1)	*"I1: serious"* (I1, 40) was the experienced positive impact of outsourcing on financial success. *"I1: Very extreme. So, it was basically the key to scalability"* (I1, 38). *"I1: We are (...) two owner-managers. We have only (...) limited time and (...) must (...) always try to get (...) the maximum profit (...) out of this time"* (I1, 58) he argues for outsourcing.
Bert (I2)	*"I2: As long as the margin is high enough, I would tend to increase rather than decrease outsourcing"* (I2, 60).
Christoph (I3)	*"I3: (...) if I'm looking at the outsourced components that I have, like logistics, the tax consultant and so on, I've done very well with my costs, better as if I would have done it differently"* (I3, 36).
Dieter (I4)	*"I4: (...) at that time we had the philosophy to make as much as possible by ourselves to keep the costs low, and where possible to postpone [bills]"* (I4, 24).
Emil (I5)	"I5: (...) the cost is not a reason to outsource. As I said, it must be an issue (...), must be an activity that is not a core competency" (I5, 40).
Fritz (I6)	*"I6: (...) it was not to save money, it was about our focus"* (I6, 114), when he engaged in outsourcing, but not due to cost reasons.
Gernot (I7)	*"I7: However, at the moment we simply are saving this money (…), it [outsourcing] is (...) a privilege that you should do best when your sales planning is right"* (I7, 24) keeping some activities in-house to save costs, as revenues are low, but he outsourced some to keep initial capital investement low. *"I7: No, not at all, not at all, not at all, not at all"* (I7, 32) is his answer to the question of whether he could have created his business without outsourcing.
Helmut (I8)	*"I8: Because, (...) one of the major problems I always see [is] that financial pressure limits creative freedom"* (I8, 50). Therefore he keeps the initial capital requirements low by outsourcing.
Ingolf (I9)	*"I9: I tend to need less money"* (I9, 69) referring to initial, up-front capital investment. *"I9: We would not have managed to start that quickly. (...) the expense would have been higher [otherwise] (...), the costs above all"* (I9, 67).
Julian (I10)	*"I10: [The reason] that I was able to found in the first place, was that I have done it with components"* (I10, 52). *"I10: [It is] by outsourcing, above all, it is the type of outsourcing that we have had much less costs than we expected"* (I10, 64).
Proposition 1b: *Entrepreneurial outsourcing reduces periodic fixed costs.*	
Bert (I2)	*"I2: Outsourcing mainly impacted the variable costs. The variable costs increase, of course, but fixed costs are actually very low. And that is why outsourcing is in our case, so very, very, very positive"* (I2, 46).
Christoph (I3)	*"I3: (...) as a very small-scale company you have the opportunity (...) to operate on a large-scale with low fixed costs"* (I3, 48). *"I3: did very well"* (I3, 36) when in spite of higher variable costs, rising sales were associated with outsourcing.
Fritz (I6)	An activity is prone to be outsourced, if the payment is based on performance (I6). He did not experience growth crises. Cash flow has not been an issue. The goal for FOXTROT was always "I6: [to stay] lean and outsource" (I6, 116) instead of building a large team from the start, which would result in large blocks of fixed costs and the risk of having management and delegation problems (I6).
Ingolf (I9)	*"I9: (...) it is good to have such a component, with just slightly higher variable costs (...), but (...) the risk is a bit smaller, or you can afford it in the first place"* (I9, 75).
Proposition 1c: *Entrepreneurial outsourcing reduces the initial, up-front capital investment.*	
Andreas (I1)	*"I1: We have been trying in the beginning (...) to outsource sparsely"* (I1, 52) keeping initial capital investment low. *"I1: (...) have (...) done quite a lot by ourselves in the beginning"* (I1, 52).
Bert (I2)	*"I2: Without outsourcing we could never have grown as we have grown. Of course, the tasks that you contract out and therefore are not doing it yourself, cost money. But you do that with the goal in mind to focus on other competencies in order to grow. So I cannot say that we would have less cost if we would not have outsourced"* (I2, 48).
Emil (I5)	*"I5: enough revenue"* (I5, 56) he wanted to gain before considering outsourcing for keeping the initial capital requirement low.
Gernot (I7)	*"I7: No, not at all, not at all, not at all, not at all"* (I7, 32) is his answer to the question of whether he could have created his business without outsourcing.
Helmut (I8)	*"I8: an organization in the company"* (I8, 22) he does not want to establish to keep the initial capital requirements low.

	"I8: If I'm outsourcing, I can definitely minimize those costs first" (I8, 22) meaning the initial, up-front capital investment.
Ingolf (I9)	*"I9: (...) it is good to have such a component, with just slightly higher variable costs (...), but (...) the risk is a bit smaller, or you can afford it in the first place"* (I9, 75).
Julian (I10)	*"I10: [The reason] that I was able to found in the first place, was that I have done it with components"* (I10, 52). *"I10: [It is] by outsourcing, above all, it is the type of outsourcing that we have had much less costs than we expected"* (I10, 64).
Proposition 1d: *Entrepreneurial outsourcing helps to achieve the break-even point faster.*	
General comments	The two older companies (I8, I10) have already reached the break-even point.. Half of the younger ones aged three (I9) and four (I1; I2; I4) years have reached break-even point. Outsourcing is cited as a reason for positively influencing both the cost (I1; I9; I4) and the initial capital requirement (I8, I10), which helps reaching the break-even point. The founders of the start-ups, which have not yet reached the break-even point, stated the following causes for that: insufficient marketing efforts (I3), high fixed costs of regular employees (I6), as well as not enough focus on profitability aspects (I7).
Question 1: *Have you experienced unexpected costs in your outsourcing relationship and what is your strategy is to avoid them?*	
General comments	Apart from minor cases, unexpected costs were not experienced by most of the surveyed entrepreneurs (I1; I3; I6-I10). Founders' strategy to avoid unexpected costs: careful partner selection (I3; I6), increase own experience (I5), clearly stated agreements (I8), planning including a time buffer for supplies (10).
Andreas (I1)	*"I1: (...) the costs (...) caused by (...) errors are (...) marginal or negligible"* (I1, 64).
Julian (I10)	*"I10: [It is] by outsourcing, above all, it is the type of outsourcing that we have had much less costs than we expected"* (I10, 64).

Source: Own illustration

Appendix 8:

Table 4: Interviewed founders' core competencies

Core competency	Interview source	Core competency	Interview source
Accounting, strategic	I5	Organization of partners	Î10
Bottling (complex product)	I4	Overview	I10
Business idea	I7; I8; I9; I10	Picking, individual	I4
Complaints processing	I8	Product derivatives	I3
Controlling	I2; I4	Product description	I7
Core issues of the enterprise	I5	Product design	I7
Corporate culture development	I5	Product development	I4; I5
Customer service	I6	Product planning	I2
Customer and producer contact	I7; I8; I9	Public relations	I9
Dispatching, cooperation with business partners	I2	Reporting	I2
Dissemination of ideas	I10	Retour workup	I2
Distribution	I2; I3; I4; I5	Sales & customer happiness	I6
Distribution of complex product	I4	SEO	I2
Entrepreneurship	I10	Shipping process	I9
Financing	I2; I4; I7	Strategy of the company	I7
Homepage	I2	Strategic development	I2; I3
Human Resources	I6	Strategic management	I1
IT	I4	Strategic marketing	I6; I7
IT platform building	I6	Strategic planning	I7
IT platform development	I5	Supply chain management	I2
Marketing	I2; I3; I4; I6; I7; I8; I9	Supplier search	I9
Moderation of business partners	I 10	Team building	I6
Moderation of stakeholder earnings	I10	Technology scouting	I5

Source: Own illustration (alphabetical order, green: more than 2 mentions, yellow: 2 mentions)

Appendix 9:

Table 5: Interviewed founders' non-core competencies

None-core competency	Interview source	Non-core competency	Interview source
Accounting	I1; I4; I6; I8 - I10	Logistics	I2-I4; I7-I10
Add-on development	I5	Order acceptance	I3
After-sales services	I2	Order passing	I3
Bottling	I3; I4; I7	Packing the packages	I2; I7; I9
Taking packages to the post office	I2	PC office work	I1
Corporate design	I5; I7	Production	I2; I3; I7; I10
Customs consultancy	I4	Production of the packaging	I3; I7
Dealer	I6	Routine activities	I6
Designing	I4; I7	Sales and delivery	I2; I4; I9
Designer	I6	Server	I1
Design of the packaging	I7	Staff management	I4
Fulfillment	I2; I4	Tax counseling	I1; I3; I4; I7
Haulier	I4	Tax issues	I5
Headhunter	I6	Telephone service	I2
IT in the tool environment	I6	Text creating	I1; I7
Laboratory analysis	I9	Website	I8
Legal counseling	I4	Worker	I6

Source: Own illustration (alphabetic al order, green: more than 2 mentions, yellow: 2 mentions)

Appendix 10:

Table 6: Quotation table on focus on core competencies

Interviewee	Statement
Proposition 2a: *Entrepreneurs do not outsource their core competencies.*	
General comments	According to all founders, core competencies should not be outsourced, and they rarely are (I1-I10). If the selected service providers are seen as part of the team, the entrepreneur can better focus on his core competencies, such as marketing, strategy and business development, as more resources are available for such activities – especially time (I1; I2; I8; I10).
Andreas (I1)	*"I1: company's operating performance"* (I1, 50) core competencies should have high leverage on. *"I1: (...) work (...) that is not a core competency of us, [a task] of which we have no idea and do not really want to have (…)"* (I1, 18). In general, only non-core competencies are outsourced, and core competencies are not (I1). If a core competency is outsourced due to the lack of own capacity, then the outsourcee is professionally and closely monitored and controlled by the founder (I1). It is suggested to define components and processes of the business first and then engage in outsourcing, if it is a non-core activity (I1).
Bert (I2)	*"I2: Without outsourcing we could never have grown as we have grown"* (I2, 48). *"I2: You are doing so [outsourcing] with the goal to focus on other competencies, in order to grow"* (I2, 48).
Dieter (I4)	*"I4: spontaneous quick stuff"* (I4, 28). According to I4, everything that is structured and can be explained and defined in a specification book can be outsourced.
Emil (I5)	*"I5: We have that kind of culture, that we are always tinkering and working on new things and do adventure"* (I5, 52), that means activities contributing to a good corporate culture should never be outsourced. *"I5: We should never outsource skills"* (I5, 52). *"I5: Because to scale up, you need partners for sure"* (I5, 86). Activities, in which something can be learned, and which are useful for the company, should not be outsourced (I5). Outsource core competencies only due to capacity reasons (I5).
Fritz (I6)	*"I6: If you state that one thing is your strength, then you should keep that in-house"* (I6, 40). If core competencies are outsourced, this outsourcing agreement takes place under strict control and supervision by the founder (I6). Another reason for outsourcing is, if no one in-house has the relevant skills or expertise to do it (I6). He underlines that being more scalable is only true for outsourcing non-core competencies (I6).
Gernot (I7)	If a core competency is outsourced due to the lack of own capacity, then the service provider is professionally and closely monitored and controlled by the founder (I7).
Proposition 2b: *Entrepreneurs outsource non-core competencies in order to focus on their core competencies.*	
General comments	Via outsourcing of non-core competencies, the founder's total working time remains the same, but a significant amount of time is spent on core competencies instead of non-core competencies, as several founders experienced (I1; I2; I8; I9).
Andreas (I1)	Time is saved in order to optimize existing processes and in order to work more *on* the company and less *in* the company (I1). This focus on managing, distributing and controlling work lowers the failure rate and improves quality: outsourcing together with controlling mechanisms improves performance (I1). By outsourcing he has more time to control and supervise the execution of outsourcing (I1).
Bert (I2)	This focus on core competencies achieved by outsourcing leads to stronger growth: *"I2: Without outsourcing we could never have grown as we have grown"* (I2, 48).*"I2: You are doing so [outsourcing] with the goal to focus on other competencies, in order to grow"* (I2, 48). Entrepreneurs should examine what the business's core competencies are early on and outsource unfavorable tasks not meeting these criteria soon enough, because only then can high growth be accomplished (I2). Time efficiency is the main reason for outsourcing, because the founders have no time for certain activities and must focus on the most important, essential activities (I2). Outsourcing is significantly less time-intensive compared to doing the task oneself (I2). Time-consuming non-core competencies are eliminated (I2) After outsourcing has been implemented, the time load of the founders is considerably lower compared to performing these tasks in-house (I2).
Christoph (I3)	*"I3:[I] didn't want to label [the products] in the basement"* (I3, 20).
Dieter (I4)	*"I4: I absolutely think that it [outsourcing of non-core competencies] reinforces it [scalability]. To outsource non-core competencies, especially in areas (…) [such as] internationalization or if new products are offered, it is definitely (…) important (…) to do the thing, you concentrate on, exceptionally well in order to get an advantage from that and to leave everything else (…) apart"* (I4, 42). Growth has also been achieved, because *"I4: (…) we said that is not our core competency (…) it would restrain our growth, if we would keep that in-house"* (I4, 36).

Emil (I5)	Outsourcing of non-core competencies saves time to focus on core competencies (I5). Time efficiency is the main reason for outsourcing, because the founders have no time for certain activities and must focus on the most important, essential activities (I5).
Gernot (I7)	Time-consuming non-core competencies like packaging or certain phone calls are eliminated (I7).
Helmut (I8)	By outsourcing of non-core competencies, he can focus on his core competencies and the rest is taken care of by the external product and service suppliers. *“I8: If I then ship 50 packages per weak or 500, he [the logistics provider] simply can do it”* (I8, 38). *“I8: for the tax advisor it doesn’t eventually matter at all (…) how much revenue is managed eventually”* (I8, 38). The quality of the entrepreneurs’ activities is improved, when non-core competencies are outsourced and a clear focus on core competencies results from that: *“I8: Indeed I improve quality with specific outsourcing and finally, if it is just serving the purpose, that I personally have a clear mind again in order to take care of certain core competencies”* (I8, 30).
Ingolf (I9)	This clear focus of the entrepreneur’s time on value-creating tasks allows him to keep a clear head (I9). Time is no longer wasted on activities that are not part of the core business (I9).
Julian (I10)	He started with almost all components of his business contracted out. He thinks that that is good way to start the implementation of an idea, since *“I10: the chance might be lower that you have made technical mistakes somehow”* (I10, 82).
Question 2: *What do entrepreneurs define as their core competencies and non-core competencies?*	
General comment	According to the interviewed entrepreneurs, core competencies reflect unique abilities and capabilities of the founders and the entrepreneurial firm (I1-I10). Marketing, strategy and business development, controlling and customer relationship management were also stated as core competencies several times, independent of the different business models of the companies (I2-I9). Table 4 in Appendix 8 lists the interviewed founders’ core competencies. Table 5 in Appendix 9 lists the interviewed founders’ non-core competencies.
Andreas (I1)	Non-core competencies are tasks and *"I1: (...) work (...) that is not a core competency of us, [a task] of which we have no idea and do not really want to have (…)"* (I1, 18). The founder’s main task is working *on* the company instead of *in* the company right from the beginning (I1). They need to find out what they can do better than their competition on a strategic level, which thus makes up the founder’s and the company's core competencies (I1).
Christoph (I3)	Non-core competencies are routine jobs (I3).
Dieter (I4)	Outsourcing takes place only when *"I4: (...) it is assumed that it is not one’s core competency"* (I4, 54). Non-core competencies are recurring tasks (I4). Outsourcing takes place when the requirement and the goal are clearly defined, as well as how to measure quality and how to deal with bad quality (I4). If the founders possess certain skills, for example software coding, product development or strengths in finance or sales, these should be leveraged in the company (I4). Tasks, which cannot be done in-house due to time constraints or *"I4: spontaneous quick stuff"* (I4, 28), which cannot be tested in-house, or no one wants to work on in a more sophisticated manner, e.g. certain registrations with authorities, taxes and customs issues (I4). *“I4: The more complex the processes are, the more difficult it gets to outsource”* (I4, 44). *“I4: (…) stable, defined interfaces, which also aren’t changing that much (…) [are] actually suited for it [outsourcing]”* (I4, 44).
Emil (I5)	Founders must recognize activities that lead to a start-up culture within their company (I5). Non-core competencies are activities that are necessary but not part of the core business. For non-core competencies it does not pay off to employ someone, they are not fun to do, and they do not contribute to the entrepreneurial culture (I5). Non-core competencies can be clearly defined and they sometimes need external expertise (I5).
Fritz (I6)	*"I6: If you state that one thing is your strength, then you should keep that in-house"* (I6, 40). Entrepreneurs need to develop a feeling for what their strengths are (I6). Even a recurring task which was previously outsourced can be changed into a core competency and taken back in-house, if this process generates additional integrative benefits (I6). The main reason for outsourcing is, if the respective activity is not a core competency and if it cannot sufficiently be delivered in-house (I6). The creation and development of the internet platform where products and services are offered is one of FOXTROT’s core competencies, and therefore should not be outsourced (I6).This is also true for putting together the team, which the *“I6: founder has to do himself, unconditionally”* (I6, 36).
Gernot (I7)	The founder’s main tasks are to develop ideas and to inspire others (I7). The core competency must be of strategic nature, or must be something that is difficult to outsource, e.g. developing a product and checking whether the process and quality are sufficient (I7). He calls core competency the essence of the company, on which the whole company is based (I7).
Helmut (I8)	A founder’s core competency is the entrepreneurial idea and its refinement (I8). Activities that are directly related to the entrepreneurial idea are core competencies, which are continuously developed by the creator of the idea, who is most likely the founder of the business (I8).
Julian (I10)	Certain attributes such as perseverance – which means being able to work long hours on the refinement of an idea, as well as spreading this idea – are also part of the core competencies of an entrepreneur (I10). Moderation skills, i.e. finding a common ground with different kinds of people, are another example of a founder’s core competencies (I10).

Source: Own illustration

Appendix 11:

Table 7: Quotation table on quality

Interviewee	Statement
Proposition 3: *Entrepreneurial outsourcing improves both service and product quality.*	
Andreas (I1)	ALFA's services or processes has been improved by outsourcing*: "I1: [Quality] has indeed become more professional"* (I1, 72). *"I1: Urgently suggest [to outsource] highly complex activities, which you could not complete in the same quality yourself (…) compared to somebody else"* (I1, 50).
Bert (I2)	*"I2: I only had positive experiences"* (I2, 56) with improved quality. He experienced higher professionalism when outsourcing components compared to the in-house solution (I2). The fulfillment service provider is improving quality and the image of his own company (I2). The professional supplier gets better conditions for their services, which allows him to send packages faster and cheaper (I2). He concluded about outsourcing's impact on quality: *"I2: (…) thereby, I must say, I only had positive experiences"* (I2, 56).
Christoph (I3)	*"I3: That is obviously not the process safety I'm aspiring"* (I3, 54) meaning making it in-house. *"I3: Quality is sustainable, i.e. our product is eco-certified, which means, it fulfills all requirements, which are requested by the market in the cosmetic industry"* (I3, 54). *"I3: Need to be protected from heat and cold, and thereby it is appropriate that you simply don't take the garage or the basement (…), but (…) to employ someone, who professionally stores that"* (I3, 20). *"I3:[I am] not the expert (…) and he [the tax advisor] might have a couple of tricks, which you yourself doesn't have"* (I3, 32). *"I3: (…) then taken care of from supplier side"* (I3, 60), if quality problems arise.
Dieter (I4)	He experienced a positive impact of outsourcing on quality in production-related tasks (I4). Good quality is a matter of the price you pay: *"I4: If you want high quality, (…) the costs go up"* (I4, 34).
Emil (I5)	One reason to outsource considering quality is, if it is not possible to conduct that business activity in-house, and you get at least a standardized and reliable quality (I5).
Fritz (i6)	Overall Fritz (I6) experienced a positive impact of outsourcing on quality (I6).
Gernot (I7)	Doing most business activities on their own *"I7: simply doesn't have the level of professionalism, which we would like to have"* (I7, 14). The impact of outsourcing on quality is experienced *"I7: only for the better"* (I7, 56) naming the design, bottling, production (I7). *"I7: There partly are really big differences, so it pays off extremely to look at that"* (I7, 46).
Helmut (I8)	He confirms that outsourcing had a positive impact on quality of products or processes (I8). Also the quality of the entrepreneurs' activities is improved, when non-core competencies are outsourced and a clear focus on core competencies results from that: *"I8: Indeed I improve quality with specific outsourcing and finally, if it is just serving the purpose, that I personally have a clear mind again in order to take care of certain core competencies"* (I8, 30).
Ingolf (I9)	First goal considering quality for outsourcing of former internally conducted activities is, to hold quality constant at first *"I9: and if that is achieved, it is already pretty good"* (I9, 63).
Julian (I10)	He experienced good quality when outsourcing (I10). He reasons about the advantage to contract out to a small supplier. For example the smaller logistic component yielded a better quality, since the employees were more concerned with service quality and could be addressed more personally (I10). *"I10: The chance might be lower that you have made technical mistakes somehow"* (I10, 82). *"I10: bottom-line, you receive a better quality, if you give people the freedom, to do it [the activity] the way they want to do it with their expertise"* (I10, 74).
Question 3: *How do entrepreneurs judge the quality of certain business tasks if they are inexperienced in the respective field, and how do they assure this quality?*	
Andreas (I1)	Concerning judging the quality he suggests that either the entrepreneur should have done this activity on his own at least once before or has a third party judging it professionally (I1). The selection of reliable service providers and to make sure that the *"I1: chemistry is right"* (I1, 80). To choose the right suppliers he suggests doing test projects and checking the quality or having it checked by a reliable third party (I1). He thinks that communication is very important in managing the outsourcing relationship (I1). In general, he prefers informal and personal relationships and communication, because formal contracts are practically useless as they take years to be enforced, if they can be enforced at all (1).
Bert (I2)	*"I2: objectively request several tenders, because then you develop a better overview, what the service is worth"* (I2, 58). He recommends receiving a personal recommendation (I2). He thinks that the initial selection is very important to assure quality (I2). Several offers should be looked at and analyzed in order to learn what is important considering quality of products and services (I2).

Christiph (I3)	He outsourced taxes to a specialized consultant, because he is *"I3: not the expert (…) and he [the tax advisor] might have a couple of tricks, which you yourself doesn't have"* (I3, 32). It is important to choose the right supplier (I3). Thereby price, quality and flexibility plays a major role in finding the right one, but also if a trustworthy personal relationship can be established with the supplier, which plays a more important role than formal contracts (I3). If a problem occurs, the supplier is *"I3: (…) then taken care of from supplier side"* (I3, 60).
Dieter (I4)	*"I4: If you want high quality, (…) the costs go up naturally"* (I4, 34). *"I4: In general, we start doing everything on our own or at least inform ourselves" (I4, 52).* *"I4: (…) not a core competency (…) you should know exactly what the standard is, what the goal is, how to measure quality and how to deal with it, if quality is bad" (I4, 54).* *"I4: it is very, very difficult for us as a smaller start-up to enforce these [contracts]"* (I4, 34). *"I4: best practices, [which] other people already did"* (I4, 54). *"I4: what (…) other people say about it"* (I4, 54). *"I4: You also have to motivate [them], (…) you also have to integrate [them]"* (I4, 54). He suggests to spend sufficient time choosing the right supplier and to define the outsourced activity as precise as possible (I4).
Emil (I5)	It is important do understand the topic in order to judge the quality of the outsourced task. Thus, he proposes that the activity is conducted in-house some time before outsourcing is considered (I5). Quality is assured by spending enough time to choose a right supplier (I5).
Fritz (I6)	*"I6: you must have an idea about the matter"* (I6, 118). If not, quality judgment should ideally be done by the entrepreneurs themselves or by a close friend or colleague (I6). *"I6: A four-tier selection process"* (I6, 20) for the designer. *"I6: Trust and personal matters are the most important [issues] for me. I'm not the kind of person for contracts"* (I6, 30). He establishes contracts, if he has to, but he prefers an open and relaxed personal relationship with the internal and external workers in order to keep motivation high and have interests aligned (I6). He states the selection process of the service provider as an important way to assure quality (I6).
Gernot (I7)	To assure a quality standard, various tests are conducted with the product in at regular intervals (I7). The selection of the right contractor is rather important (I7). He relies on testing of samples delivered by various suppliers and then choses among them the one with the best price/performance-ratio. He adds: *"I7: There partly are really big differences, so it pays off extremely to look at that"* (I7, 46).
Helmut (I8)	He suggests to learn about that subject or to get recommendations otherwise, e.g. by the "Komponentenportal". This website *"I8: simply professionalizes (…), that somebody recommends you a tax advisor [for example]"* (I8, 34). To assure quality he chooses suppliers from personal recommendations or from the "Komponentenportal"-website, as it *"I8: simply pools experience"* (I8, 34). He always compares several different tenders (I8). In the end he must "*I8: have the feeling that he [the supplier] knows, what he is talking about (…), you develop a certain feeling for that in the course of time"* (I8, 34). He states for measurement: *"I8: Are the customers happy? Is your margin alright?"* (I8, 34).
Ingolf (I9)	Judging the quality of the outsourced activity is a problem for the entrepreneur, if he does not know a lot about the task in the beginning: *"I9: If you have no idea, it is either luck (…) or trust"* (I9, 57). Trust is established, "*I9: if (…) you know the component somehow (…) or receive a recommendation"* (I9, 57). He recommends the entrepreneur to establish a basic knowledge about a certain task: *"I9: I let one, two, three people do it or produce it or whatever and then I look at it and say: I see! This one does it like that and with that one it is like this (…), then this is actually already the first step for me to develop a certain expertise"* (I9, 59). He visits all production facilities personally, in order to assure the products' quality , because *"I9: You sense relatively quickly, what kind of person you face"* (I9, 41). Fair-Trade certificates *"I9: often are not worth the paper they are printed on. Let's say it how it is: well, in Third World countries it is often simply just a question of money to receive a piece of paper"* (I9, 43).
Julian (I10)	*"I10: keep an overview"* (I10, 78). *"I10: keep a good contact to various partners in the value chain"* (I10, 78).

Source: Own illustration

Appendix 12:

Table 8: Quotation table on scalability

qwer

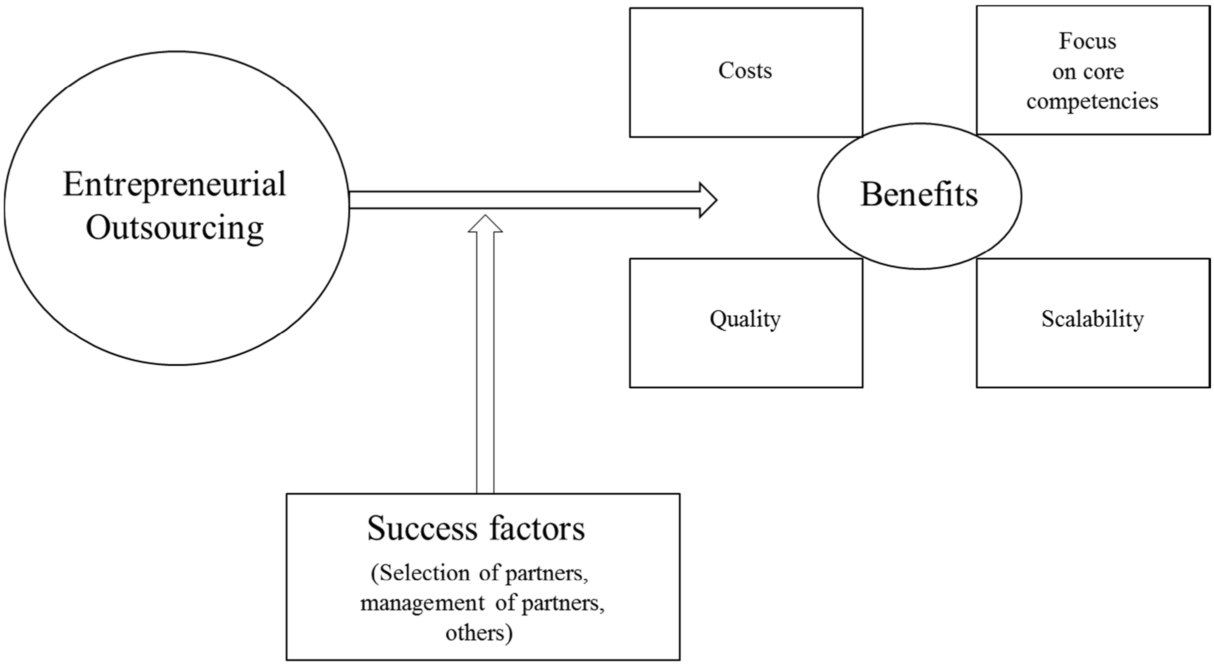
Interviewee	**Statement**
Proposition 4a: *Outsourcing increases the scalability of the business model of the entrepreneurial firm, or outsourcing turns a business model into a scalable one in the first place.*	
Andreas (I1)	*"I1: By outsourcing one was able to not just supervise one project, but for example ten projects"* (I1, 40). From this, Andreas (I1) deducted that outsourcing was *"I1: (...) in principle, the key to scalability [of the business model]"* (I1, 44) for ALFA, and experienced a *"I1: serious"* (I1, 40) positive financial impact of outsourcing as working time stayed more or less constant while many more projects could be realized. *"I1: It [outsourcing] has, later one, immense affected scalability and growth and earnings growth"* (I1, 54).
Bert (I2)	He interprets scalability as how easy it is to transfer the business model from the domestic market to foreign countries. Due to the lack of skills in foreign markets and potential language barriers, he understands it as essential to look for business partners in these markets. He adds: *"I2: This [internationalization] is only possible, if we're outsourcing"* (I2, 50). In German-speaking countries, he remarks that the fulfillment service provider was a decisive component outsourced for growth. *"I2: Without him we wouldn't have been able to grow this fast (…), wouldn't have reached these sales goals, how we proved it in the last two years"*(I2, 16).
Christoph (I3)	He describes CHARLIE's business model as scalable, whereby scalability is defined as a disproportionally low cost and complexity increase with increasing revenues (I3). Using external components ensures this scalability, as he concludes: *"I3: Yes, I would say, it [CHARLIE's business model] is scalable. The future complexity, when revenues are growing, is taken care of by adding the components"* (I3, 66).
Dieter (I4)	The founding team *"I4: (…) has thought very, very much [about the scalability of DELTA's business model] in the last years" (I4, 40).* Part of this scalability means that the business model can be transferred to foreign markets by working together with partners such as *"I4: (…) distributors or importers (…) in order to keep on scaling"* (I4, 40). Outsourcing non-core competencies therefore increases scalability (I4). *"I4: I absolutely think that it [outsourcing of non-core competencies] reinforces it [scalability]. To outsource non-core competencies, especially in areas (…) [such as] internationalization or if new products are offered, it is definitely (…) important (…) to do the thing, you concentrate on, exceptionally well in order to get an advantage from that and to leave everything else (…) apart"* (I4, 42).
Emil (I5)	The business model of ECHO is nor perceived to be *"I5: as scalable as an app for example"*(I5, 84), however, he believes it is still quite scalable (I5). In general, he perceives that outsourcing has an amplifying effect on the scalability of business models, because *"I5: (…) in order to scale up, you need partners for sure"* (I5, 86). When speaking about partners, he thinks of hired service providers instead of building *"I5: an own production site"* (I5, 86). Thus, outsourcing is not the reason for scalability of the business model, but it can nevertheless support it: *"I5: This differs from company to company"* (I5, 88).
Fritz (I6)	*"I6: (…) we are able to super-easily go to another country. We only have to connect (…) retailers and we have to find some designers, who use our tool, and as early as that we are in a different country; [it is] relatively simple"* (I6, 82). Building a team the *"I6: founder has to do himself, unconditionally"* (I6, 36). *"I6: (…) the effort doesn't increase anymore, zero, and it scales anyway"* (I6, 94). *"I6: [to stay] lean and outsource"* (I6, 116). Outsourcing non-core competencies also affects scalability in that respect, as the product becomes cheaper and prices are more predictable due to economies of scale used by providers, which in turn might increase sales (I7).
Gernot (I7)	He sees GOLF's business model as scalable in principle (I7). According to his view, outsourcing supports the scalability in so far as it saves costs, which theoretically can in turn be invested in marketing, for example resulting in higher sales and growth (I7).
Helmut (I8)	The reason to outsource in the first place is the improvement of the company's scalability (I8). By outsourcing of non-core competencies, he can focus on his core competencies and the rest is taken care of by the external product and service suppliers. *"I8: If I then ship 50 packages per weak or 500, he [the logistics provider] simply can do it"* (I8, 38). *"I8: for the tax advisor it doesn't eventually matter at all (…) how much revenue is managed eventually"* (I8, 38).
Ingolf (I9)	In general, outsourcing is seen as the reason for scalability: *"I9: Of course, we can only scale that good, because the outsourcing does (…) scale that good"* (I9, 85). INDIA's business model is perceived being scalable (I9). The complexity and time invested in the business by the founders increases disproportionally low with increasing sales: *"I9: The shipping and the logistics process (…) simply scales very, very good"* (I9, 83). If INDIA did more in-house, it would reach capacity limits: *"I(9) (…) if (…) tomorrow (…) 1000 customers stood before the door and wanted (…) to buy, then this is easier to do with outsourced components as if I had to do everything by myself. Then we would have to expend [into] a hall or whatever"* (I9, 85). In general, he perceives outsourcing as *"I9: a means to an end"* (I9, 97) and he suggests that entrepreneurs think about scalability right from the beginning of their venture, and for that matter outsourcing should be a good instrument.

Julian (I10)	He takes an ambivalent view on the scalability of business models in general (I8). On the one hand the company obviously must grow, while on the other hand, he wants his company to stay smaller than a certain *"I10: maximum size"* (I10, 84) because he wants to keep the *"I10: organizational culture"* (I10, 84) he built within his company. In any case, however, outsourcing supports the scalability of the business model in his view (I10). As mentioned above, Julian (I10) criticizes growth at all costs and states that *"I10: If we grow more than 10% per year, then we need a bank, because otherwise we can't finance production and we also can't do that organizationally"* (I10, 84).
Proposition 4b: *Outsourcing helps to prevent entrepreneurial growth hurdles.*	
Andreas (I1)	*"I1: It [outsourcing] has, later one, immense affected scalability and growth and earnings growth"* (I1, 54).
Bert (I2)	Bert (I2) noticed that outsourcing had a considerable impact on the growth of his start-up: *"I2: Without Outsourcing we wouldn't be able to have grown as we actually have grown"* (I2, 48). The flexibility to react to demand increases is seen as a reason for this: *"I2: It has been a great success on the one hand that we simply are much, much more flexible [and] are able to serve the customer much, much faster"* (I2, 16). Growth hurdles were experienced due to insufficient capital and founders' lack of experience resulting in *"I2: a gap of supply"* (I2, 54), and when the fulfillment service provider could only send out the products late because workers went on strike at DHL Germany. This resulted in *"I2: daily calls and e-mails"* (I2, 54) from customers, who blamed BRAVO for the delay (I2). The fulfillment supplier had problems during the Christmas due to less capacity (I2).
Christoph (I3)	He did not experience serious growth crises with CHARLIE, although he explains one growth hurdle: raising awareness for the business (I3). Thus, Christoph (I3) contracted operative marketing out to apublic relations agency specialized in CHARLIE's industry. However, he adds that this is difficult when *"I3: bootstrapping"* (I3, 82), because the service's costs are not variable but fixed (I3).
Dieter (I4)	Growth has also been achieved, because *"I4: (…) we said that is not our core competency (…) it would restrain our growth, if we would keep that in-house"* (I4, 36). His start-up *"I4: (…) always [had] very, very tight cash flow"*(I4, 36), which could have resulted in a serious problem, if DELTA had not *"I4: drawn loans (…) from investors (…) in order to bridge [the lack of] cash flow"* (I4, 36).
Emil (I5)	ECHO has so far *"I5: been growing organically"* (I5, 90), which means that the *"I5: revenue always (…) financed it [growth]"* (I5, 90). Thus, no larger growth crises appeared (I5).
Fritz (I6)	He did not experience growth crises. Cash flow has not been an issue. The goal for FOXTROT was always *"I6: [to stay] lean and outsource"* (I6, 116).
Gernot (I7)	GOLF failed *"I7: to advertise more aggressively"* (I7, 76) in the beginning, which led to a growth crisis after their first Christmas business as sales decreased to a larger extent (I7).
Helmut (I8)	To prevent growth crises he recommends that *"I8: components [are] very useful measures, if I keep them scalable and start small"* (I8, 42) resulting in *"I8: the freedom, to work on the entrepreneurial idea"* (I8, 42) and less financial pressure. He adds *"I8: I prefer to finance growth with generated revenues"* (I8, 42) and in order to stay independent and preserve the entrepreneurial freedom *"I8: scalable components are very good"* (I8, 42). He did not experience any growth crises with HOTEL (I8).
Ingolf (I9)	In this regard, growth crises could be avoided. Also, in case of a rapid increase such as *"I9: twenty times the amount of packages per week than [the] usual [amount]"* (I9, 89), as has occurred with marketing activities and before Christmas, can be handled well.
Julian (I10)	In the first quarter of the year 2012, a cash flow crisis resulted when JULIETT *"I10: (…) grew more than 30% in the first quarter of that year (…) that lead to us not being liquid anymore and not being able to pay our suppliers that fast"* (I10, 97). JULIETT's distributers helped by paying their invoices faster in order to foster JULIETT's liquidity. This would not have been possible if the relations were not very good. According to him, this is very important. Thus, outsourcing has in this case worked as "I10: (…) a hidden insurance for crises situations" (I10, 99).

Source: Own illustration

Appendix 13:

Figure 2: Benefits of entrepreneurial outsourcing and potential success factors



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