

# Returning from Offshore: What Do We Know?

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**AFTER EXPERIENCING DECADES OF OFFSHORING**, involving not only manufacturing (Fratocchi et al., 2014) but also business functions and services (Albertoni & Elia, 2014; Lewin et al., 2009; Manning et al., 2008), some companies have started to bring back their activities to their home country. This phenomenon has been labelled with several terms; in this short paper we use the term *reshoring* and we focus on the voluntary (i.e., not forced by host country governments) corporate strategy regarding the home-country's partial or total relocation of production or other business functions to serve the local, regional, or global demands.

This phenomenon has been acknowledged by the economic press (*The Economist*, 2013), consultancy companies (Sirkin et al., 2012), and transnational institutions (UNCTAD, 2013). The interest in reshoring is based on the opportunity to recover from the loss of jobs from offshoring in advanced economies (e.g. Gray et al., 2013; Pisano & Shih, 2012). To date academic research has devoted only a little attention to reshoring, and only recently has started to investigate this phenomenon. The existing literature has traditionally focused on the description of the relocation of manufacturing operations (see, among others, Ellram, 2013; Ellram et al., 2013; Fratocchi et al., 2014; Kinkel & Maloca, 2009; Martinez-Mora & Merino, 2014; Tate et al., 2014). Three main drivers were proposed to explain such a phenomenon: changes in the business context (Martinez-Mora & Merino, 2014), managerial errors (Kinkel & Maloca, 2009), and the strong interconnections along the value chain (Steinle & Schiele, 2008). However, the phenomenon needs a deeper analysis as regards the theoretical explanations, the empirical evidence, and the managerial and policy implications.

Regarding the first driver (changes in the firm's environment), the real option portfolio perspective suggests that firms decide to locate their activities in growing markets following the macro-economic performance of the host countries. According to this view, companies—thanks to a widespread presence in several countries—can shift their business activities from one location to another (including their home country) in order to respond to market dynamics (Belderbos & Zou, 2009). For example, the inflation of Chinese wages—that increased more than 20% annually in the last 5 years (Shih, 2013)—made this host country gradually less attractive. In this perspective, reshoring can be considered as one of the options available to a firm that is willing to relocate its foreign activity after a change of the macro-economic business context. It is worth highlighting that not only do the macro-economic conditions affect the business environment (e.g., the inflation of labour wages), but also the institutional and cultural framework (e.g., the political instability or cultural clashes).

Concerning the second driver, managerial error, relocation decisions are made considering whether the outcome of the offshoring initiative is able to meet the expectations belonging to the earlier implemented off-shoring strategy. Indeed, offshoring seems to be increasingly inadequate to guarantee cost savings, quality standards and organizational flexibility (Platts & Song, 2010). As consequences of managerial errors, firms might decide to bring back their activity to their home country, thus triggering the reshoring activities.

The third driver is related to the increasing awareness that offshoring can threaten the capabilities to coordinate different activities, and that the inter-connections along the value chain often lead to the need to co-locate different activities. Given that coordination costs negatively affect the net benefit associated with the adoption of offshoring solutions (Larsen et al., 2013; Meijboom & Voss, 1997), recent research has started to emphasize the role of intra-organizational relationships and linkages among the different parts of the value chain. In particular, innovative and productive activities are affected by strong interdependencies and complementarities, and the co-location of R&D and manufacturing is critical to foster innovation (Alcacer & Delgado, 2014; Berry, 2014; Steinle & Schiele, 2008). Hence, the loss of manufacturing capabilities and, more generally, the loss of business capabilities, implies the reduction of innovation competencies (Pisano & Shih, 2012). Due to these strong interdependences among the stages of the value chain, a company might decide either to offshore also the R&D function close to the manufacturing activity, or to bring back the offshored manufacturing activity. In this latter case reshoring takes place.

Next we provide some empirical evidence for what we know regarding the reshoring phenomenon so far. We then conclude with some implications for managers and policy makers and some possible research paths for academics.

## What Do We Know? Evidence on the Reshoring Phenomenon

The evidence concerning manufacturing reshoring is sourced from the dataset provided by the project “Uni-CLUB MoRe reshoring”, which was developed by five Italian Universities (Catania, L'Aquila, Udine, Bologna, Modena-Reggio Emilia). It is based on secondary data regarding single reshoring decisions in cases of multi-reshoring firms. The most up-to-date data from this research group account for more than 400 companies, mainly from the US and EU (Fratocchi et al., 2015a). The evidence concerning the reshoring of business functions is sourced from the

dataset provided by the Offshoring Research Network project, which has been developed since 2004 by Duke University and its corporate and university partners to study and collect data on the offshoring (and reshoring) of business functions that occurred from 2005 to 2011 all over the world.

## Manufacturing Activities

The Uni-CLUB MoRe database—to date—consists of 501 cases belonging to 423 companies, as 58 companies (13.7% of the total) implemented more than one reshoring operation (from 2 to 6). Breakdown by home country reveals that EU and US companies are almost equally represented (respectively 52.3% and 45.9%). The three countries with the highest number of cases are the US, Italy, and Germany which are among the developed countries with the strongest specialisation in manufacturing. Italian, German, and French firms have quite often implemented “multiple reshoring initiatives”. As for the host country whence reshoring strategies took place, around 73% of total operations involving China (58.8%) and other Asian countries (14.1%), whereas Eastern Europe accounts for around 10%. In particular, 73% of initiatives by US companies involve activities located in Asia (including China), around 20% of decisions by EU companies concerns instead activities located in Europe. This result confirms the region-centric approach of EU companies in term of manufacturing off-shoring strategies (see, among others, Alajääskö, 2009; Daudin et al., 2011). Finally, no reported reshoring experience belongs to companies headquartered in emerging economies (with the exception of Taiwan). This result might—at least partially—be explained

**Table 1: Manufacturing Reshoring: Breakdown by Home and Host Country**

Host country	Home country/ Home region			Total
	Western Europe	North America	Asia (other than China) and Oceania	
China	119	168	8	<b>295</b>
Asia (other than China)	38	32	1	<b>71</b>
Eastern Europe & former USSR	48	1		<b>49</b>
Western Europe	34	6		<b>40</b>
North America	8	18		<b>26</b>
North Africa & Middle East	9	1		<b>10</b>
Central & South America	6	2		<b>8</b>
Oceania		2		<b>2</b>
<b>Total</b>	<b>262</b>	<b>230</b>	<b>9</b>	<b>501</b>

Source: Uni-CLUB MoRe database (updated July 2015)

by the fact that FDI from emerging markets’ companies are relatively recent, and also by the fact that these investments tend to be market seeking, thus making reshoring implausible.

Reshoring strategies were implemented in a wide range of manufacturing industries, independently of their level of technology intensity and their capital/labour intensity nature. In this respect, it is worthy of notice that the highest number of cases concern Clothing & Footwear—traditionally classified as low-medium technology intensive and labour intensive—and Electronics (including PC)—considered, on the contrary, medium-high technology intensive and more capital intensive.

With respect to the motivation of reshoring decisions reported by the firms, the most common is related to costs (144 cases). In particular, the labour cost gap reduction is indicated in 73 cases. Consistent with previous studies, logistics costs are the most important reshoring motivation in our sample (92 cases). The Uni-CLUB MoRe reshoring data further confirm the importance of logistics in terms of increased delivery time in offshore locations (70 cases), especially when the offshoring strategy is not market-seeking. Among the home country-related elements, many companies reported the so-called “made in” effect (82 cases). As far as the host country related elements are concerned, the main reshoring motivation is the poor quality of offshored production (73 cases). Among the remaining motivations (firm-specific and marketing-related) the most frequently indicated are the firm’s global reorganization (35 cases) and the improvement of customers’ services (44 cases). The latter may capture elements related to logistics (e.g., the speed and reliability of deliveries), which are worsened both by “long” supply chains and by manufacturing units spread globally. Finally, generic global crisis related motivations do not appear as relevant as they have been depicted in the literature. These motivations mainly refer to untapped production capacity at home and to the domestic unions’ pressure.

## Business Functions

Data from the ORN survey show that the reshoring of business functions is still a limited phenomenon. Indeed, only 113 offshoring initiatives out of 1,577 (corresponding to 7.17% of observations) involve a reshoring phenomenon (Table 2 reports only 101 observations due to some missing data on the home and host country dimensions).

Among the reshored activities, the number of initiatives that were offshored in-house is larger (35.40%) than the number of initiatives that were previously outsourced (22.12%). This means that reshoring is more likely to reflect the decision to relocate back to the home country the business functions that were object of foreign direct investments, rather than the switch from one supplier to another.

European firms tend to reshore their business functions more than US firms, the former being responsible for 77% and the latter for 22% of the reshoring initiatives. As regards the host country (i.e., the geographical areas from where companies tend to escape), reshoring plans are more frequent from India (40.71%), Asia (except India and China, 12.39%), Eastern Europe (11.50%) and Western Europe (10.62%). On the one hand, this evidence seems to suggest that the business context of Asian countries is not as attractive as it was in the past, probably due to the increase of wages, to the floating exchange rates, and to the downturn of the several Asian economies, as has been observed recently for China. On the other hand, it emerges that reshoring flows are not necessarily

from emerging to advanced countries, but they can depart also from advanced countries such as Western and Eastern Europe.

Information Technology (24.78%), Call Centres (18.58%), and Software Development (13.27%) are the business functions that are more likely to be reshored. It seems rather difficult, hence, to rely on reshoring of business functions as a strategy to restore advanced competences and skills, given that this phenomenon does not involve the high-value added activities (such as product design, engineering and R&D) but mainly middle- and low-value added tasks.

## Implications for Managers, Policy Makers, and Researchers

Our analyses show that reshoring is often associated with less favourable host country business contexts (with respect to the time in which the offshoring decision was implemented) and to performance shortcomings (not only economic and financial ones). This means that, before engaging in an offshoring initiative, managers and practitioners should more deeply evaluate the host country's business conditions and the threats associated with offshoring. In so doing they would avoid strategic errors that would end up into a costly reshoring experience.

However, even when companies adopt a proper offshoring strategy, managers should constantly monitor both the business context—as the host country's location advantage might be eroded by macro-economic changes—and the offshoring venture, making the offshoring operations no longer profitable. In both these cases, reshoring becomes the next-stage strategy that follows the offshoring venture, rather than being a remedy to performance shortcomings arising from managerial errors. It is a further step in a non-linear internationalization process (Fratocchi et al., 2015b). Hence, managers should plan in advance a reshoring strategy in order to be able to implement it quickly and less costly when the business context changes or when the goal underlying the offshoring initiative is fulfilled.

**Table 2: Business Function Reshoring: Breakdown by Home and Host Country**

Host country	Home country/ Home region			Total
	Western Europe	North America	Asia (other than China) and Oceania	
China		1		<b>1</b>
Asia (other than China)	41	17	1	<b>59</b>
Eastern Europe & former USSR	14			<b>14</b>
Western Europe	12			<b>12</b>
North America	2	2		<b>4</b>
North Africa & Middle East	3	3		<b>6</b>
Central & South America	1			<b>1</b>
Oceania		4		<b>4</b>
<b>Total</b>	<b>73</b>	<b>27</b>	<b>1</b>	<b>101</b>

Source: our elaboration on ORN data

A deeper understanding of reshoring could also help policy makers to understand to what extent this phenomenon can be beneficial to improve employment rates and restore the innovation capability of advanced countries. A system of incentives set up by policy makers could probably trigger the reshoring of high value added manufacturing activities and business functions. However, policy makers should be primarily concerned with: (i) enhancing the innovation capabilities for existing companies, in order to avoid that they are delocalized somewhere else; (ii) encouraging the birth of new entrepreneurial ventures within their countries; (iii) and attracting new ventures and fresh capital from abroad.

Policy makers should also try to draft laws that properly inform the final customer regarding the origin of the products they buy. Consumers often prefer products entirely made in a given country, and this turns into a competitive advantage for companies based in that country. However, legislation does not always protect local producers and, often, controversial labels mislead the final consumer. A narrow legislation on the “made-in” effect could trigger a reshoring phenomenon, especially in some specific industries such as food and fashion. Conversely, other industries involved in the production of more standardized goods might continue to improve their efficiency thanks to the adoption of offshoring practices (Pisano & Shih, 2012). Therefore, the offshoring and reshoring phenomena require further investigation and research in order to understand their ultimate impact on the economic system:

- What are the consequences of reshoring?
- Can it really re-store the competences and the skills that have been displaced by offshoring?
- Should policy makers support and actively incentive this phenomenon?
- Should managers design and implement reshoring strategies?
- What are the costs and the advantages of reshoring for companies?

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