Offshoring and backshoring: A multiple case study analysis

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A R T I C L E I N F O

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A B S T R A C T

Motivations underscoring offshoring and backshoring are typically investigated as separate entities in the academic literature. This separation undermines a deeper comprehension of the two phenomena, and implicitly denies the conceptualization of backshoring as a possible step of the firm internationalization process. Our paper seeks to fill this gap by (1) understanding the relations (if any) among offshoring and backshoring motivations at firm level; (2) exploring whether backshoring is a “failure” of the offshoring initiative, or rather the evolution of the firm’s competitive and location strategies. A content-based literature review provides the base for the identification of the key motives for offshoring and backshoring, which are then organized using a theory-grounded framework. Next, we conduct a multiple case study analysis based on four companies, searching for common patterns in offshoring and subsequent backshoring initiatives. Cases allow understanding how the motivations (Why) connect with the governance modes (How), and the location choice (Where). Building on the case findings, the paper presents some propositions for future empirical research.

1. Introduction

Since the early 1990s, offshoring – namely, the location of firms’ activities in foreign countries irrespective of the governance mode adopted (i.e. make/captive, hybrid/collaborative, buy/outourcing) (Jahns et al., 2006; Bals et al., 2013) – has emerged as one of the most widespread strategies implemented by Western manufacturing companies in order to maintain or to foster their competitive advantage (Contractor et al., 2010). Although offshoring is far from petering out, in the last decade a counter trend has emerged, whereby companies that had offshored their production have started bringing production back to their home countries (Ellram et al., 2013; Kinkel, 2012).

This phenomenon – known to most with the label “reshoring” – has been defined as “the relocation of value creation tasks from offshore to geographically closer locations […] irrespective of the ownership mode” (Foerstl et al., 2016: 495). From a geographical point of view, this concept can be further broken down into backshoring (Foerstl et al., 2016) or backreshoring (Fratocchi et al., 2014), i.e., the relocation back to the home country of the firm, and nearshoring (Foerstl et al., 2016) or near-reshoring (Fratocchi et al., 2014), i.e., the relocation to a location closer to (but not within) the home country. The remainder of this paper will focus on the return of manufacturing to the home country of the firm, and the label backshoring (Foerstl et al., 2016) will be adopted.

To date, much of the scholarly debate on backshoring has addressed the question “Why do firms backshore?”. The analysis of motivations is of great relevance because it can throw light on whether de-internationalization patterns are “purposeful and goal oriented” (Benito, 2015). In addition, grasping why firms backshore provides the basis for understanding which value activities are involved in backshoring initiatives, where activities are located, and how they are governed (ibid.).

A wealth of very different backshoring motivations have been proposed in the literature (Bals et al., 2016; Foerstl et al., 2016; Fratocchi et al., 2016; Stentoft et al., 2016a). One of the earliest hypotheses posited that backshoring arose from the correction of managerial errors such as insufficient planning and knowledge of the offshore location (Kinkel and Maloca, 2009). Later, backshoring was acknowledged as the reversal of a fully rational offshoring decision, motivated by contingencies and changes in the offshore or home country environment, such as the rising total costs of ownership in China, or the lower costs of energy in the West (Martínez-Mora and Merino, 2014; Simchi-Levi et al., 2012; Tate et al., 2014).

Other scholars have argued that backshoring may follow from the inability of firms to solve complex challenges created by offshore production (Manning, 2014). Finally, backshoring has been associated with consumers’ pressures on companies, stemming from...
perceived higher quality of western productions (“made in” effect) (Ancarani et al., 2015; Fratocchi et al., 2016; Grappi et al., 2015; Martínez-Mora and Merino, 2014; Robinson and Hsieh, 2016; Tate et al., 2014).

The heterogeneity of motivations suggests that “multiple” backshoring typologies may be at play (Foerstl et al., 2016), possibly influenced by factors such as the industry, the firm’s strategic focus, the firm’s offshoring/internationalization path, and the motivations that led the firm to offshore. Although there are studies comparing offshoring and backshoring motivations at the aggregate level (Kinkel et al., 2007; Kinkel and Maloca, 2009), with few exceptions (Gylling et al., 2015; Robinson and Hsieh, 2016) the micro (individual firm) level motivations underlying backshoring have mostly been investigated independently from the analysis of the offshoring decision that predated them. This approach implicitly assumes that backshoring is independent of why value chain activities were previously offshored, when and where they were offshored, and to whom these activities were delegated (Joubioux and Vanpoucke, 2016).

The joint analysis of offshoring and backshoring at firm level is a missing link that could throw light on the evolution of internationalization strategies and could help understand when backshoring actually follows from a “failure” of the offshore strategy. Further, from a theoretical standpoint, this disconnection between the analysis of offshoring and backshoring implicitly denies the possibility that backshoring is one of the possible steps in the internationalization strategy of firms (Fratocchi et al., 2014, 2015a), and rather depicts it as an “odd” phase when compared to a more “orthodox” linear model of international expansion, as predicted by theoretical approaches such as Internationalization theory (Vernon, 1966) and Internationalization Process Theory (Johanson and Vahlne, 1977).

Our paper attempts to fill this gap by pursuing the following research questions:

- Are the motivations for backshoring and offshoring at firm level related, and how?
- Does backshoring suggest a “failure” of the offshoring initiative, or rather an evolution of the location and competitive strategy of the firm?

Because addressing the above research goals at firm level requires detailed historical company information, the case study methodology emerges as the ideal approach. Since backshoring is a phenomenon still in the making and only partially investigated, we select the inductive case study methodology with multiple perspectives (McCutcheon and Meredith, 1993; Patton, 2002; Yin, 2003). We focus on companies operating in Textile, Clothing, Leather and Footwear (TCFL) industry, whose products are often sensitive to the shore location advantages (Dachs and Kinkel, 2013).

Results allow developing a set of propositions linked to the above research questions and encompassing three key aspects of offshoring and backshoring decisions: a) Why, i.e., the “nature” of offshoring/backshoring motivations; b) How, i.e., the offshore and backshore governance modes; c) Where, i.e., the geographical location of the offshored and backshored activities.

The paper is organised as follows. The next section presents the background literature concerning offshoring and backshoring motivations and discusses the research framework. Next, the multiple case study methodology is presented. The within case and cross case analyses lead to the formulation of the research propositions. We conclude with a discussion of results and limitations.

2. Offshoring and backshoring motivations: a structured literature review

2.1. Theoretical perspectives for offshoring and backshoring

While the theoretical underpinnings of manufacturing offshoring have been extensively discussed in the literature, the theoretical explanations underlying backshoring are more fragmented. In this respect, although several theoretical perspectives have been proposed, many backshoring studies are not theory-based. With respect to the international business tradition, Internalization Theory (Buckley and Casson, 1976) and Dunning’s “eclectic paradigm” (1980, 1988) are the ones most frequently referred to (Fratocchi et al., 2016). According to the Internalization Theory, backshoring can be explained by changes in the fundamental characteristics of the world economy (Casson, 2013) – which reduce the value of local specialization – and/or by the increased (relative) costs of managing ownership in distant location (Martínez-Mora and Merino, 2014). On the contrary, Dunning’s eclectic paradigm interprets backshoring as a response to a deterioration of one or more of the offshore location advantages (Dachs and Kinkel, 2013). In this vein, Ellram et al. (2013) point out that backshoring decisions are a reaction to changes occurring not only outside the organization and at different levels (e.g., industry-, country-, and global level), but also inside the firm (for instance, productivity improvement due to production rationalization).

Other authors have explained backshoring adopting Strategic Management perspectives, such as TCE (Williamson, 1975) and the RBV (Barney, 1991). According to the former, backshoring could be driven by the higher control and coordination costs of globally extended supply chains (Kinkel and Maloca, 2009; Martínez-Mora and Merino, 2014). These cases encompass companies repatriating production activities to better connect R&D, engineering and manufacturing units. On the contrary, according to the RBV backshoring strategies could be motivated by the firm’s inability to develop distinctive resources abroad, and/or to properly exploit the host country’s resources in order to establish competitive advantage (Canham and Hamilton, 2013). This is the case of backshoring decisions based on the “made in” effect (Diamantopoulos et al., 2011), such as in the fashion industry and, more generally, for consumer goods. In this respect, Grappi et al. (2015) show that customers tend to assign a higher value to the products of backshoring companies.

More recently, Bals et al. (2016) have proposed four different future research avenues for research on backshoring, suggesting the integration of established theoretical perspectives on production relocation (RBV, RDT, dynamic capabilities, TCE, and Contingency Theory) with
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