ABSTRACT

We throw light on factors affecting the duration of manufacturing off-shoring prior to the back-shoring of operations for EU and US based companies. We use a firm-level data set including 295 return experiences enacted by manufacturers with production activities abroad, to which we apply a survival modeling approach. Two models encompassing different hypotheses about the distribution of off-shoring duration are estimated, namely a model assuming a Weibull distribution of survival times and a Cox proportional hazard model. Results from both models signal that the industry, the host country of off-shoring, and the size of the firm are relevant in determining the timing of back-shoring.

KEYWORDS: Reshoring, Manufacturing, Offshoring, Duration, Outsourcing

INTRODUCTION

There is a recent trend worldwide toward reshoring production activities back to the home country of the parent company, and both prominent companies - such as Apple, General Electric, Philips and Renault - and smaller firms have decided to reverse previous off-shoring decisions. Returning production to the home country is generally referred to in the literature with different labels, including “back-shoring”, “reshoring”, “on-shoring” and “in-shoring”. Debates on reshoring have become increasingly common in the economic press (e.g. The Economist, 2013), in white papers by consulting firms (e.g. Sirkin et al., 2012), and in reports of international institutions (e.g. UNCTAD, 2013). In fact, especially after the onset of the global financial crisis, the repatriation of manufacturing activities has been viewed as a means to increase production capacity available at home and to limit job redundancies.
Despite the importance attributed to the phenomenon, back-shoring has received so far limited attention from scholars, with some notable exceptions (e.g. Renz, 2005; Kinkel & Maloca, 2009, 2013; Ellram, 2013; Fratocchi et al., 2014). Available information is in fact often anecdotal in nature; moreover, reliable and quantitative evidence is scant. Benito (1997) partially explains the lack of research with the limited availability of longitudinal data sets, especially in the case of companies not listed in stock markets (Jagersma & Van Gorp, 2003). Moreover, since the unit of analysis on back-shoring is often “below the level of plant (at the product or component level), public secondary data will be difficult if not impossible to obtain” (Gray et al., 2013: 31).

To date, evidence is gradually accumulating on the underlying motivations of companies reversing previous off-shoring decisions but little is known about key questions such as the magnitude of repatriations, their geographical boundaries, and the length of their off-shoring experience.

The aim of this paper is contribute to fill this gap by throwing light on the factors explaining the duration of off-shoring prior to the decision to back-shore operations. To the best of our knowledge, the factors determining the length of the off-shoring experience of companies is a completely unexplored issue, whereas it can contribute to our understanding of the dynamics of international expansion and contraction, and of the evolution of multinational firms. The increased organizational complexity that follows from off-shoring involves a number of operational challenges and related costs, which may not be anticipated when off-shoring decisions are made and which may lead to early returns to home headquarters (Larsen et al., 2013). On the other hand, repatriations may follow not from “previous wrong decisions” but rather from the deterioration of the relative advantages of the offshore location with respect to the home country.

To explore the survival in off-shore locations prior to back-shoring, we use a firm-level data set built on secondary data, including 295 back-shoring experiences. By using a survival modeling approach, we estimate models encompassing different hypotheses about the distribution of off-shoring duration.

The paper is organized as follows. First, we introduce the criticalities of off-shoring processes that may lead firms to terminate the experience by bringing the location of their foreign investments in the home country of the parent company or in a nearby region. Next, we bring in the concepts of back- and near-reshoring, and summarize the emerging literature on the topic. Third, we introduce our research topic, namely the duration of off-shoring in manufacturing, by presenting contributions in the field of international business that have looked at the duration of specific forms of international operations. Our survival model is then introduced, followed by a description of model results. A discussion and implications of results for internationalization processes in manufacturing conclude.

LITERATURE REVIEW

Off-Shoring Decisions: Drivers and Criticalities

Off-shoring consists in the relocation of organizational tasks in foreign countries that can be executed through different governance modes, ranging from non-equity based collaborations (generally defined as outsourcing off-shoring) to wholly owned subsidiaries (captive off-shoring) (Anderson & Gatignon, 1986). The onset of off-shoring strategies in manufacturing can be traced back to the seventies (Lewin & Peeters, 2006). A broad set of drivers explains the growth of off-shoring strategies in the following decades, starting with manufacturing and then spreading to information technology, accounting, finance, sales and other business processes (Kotabe et al., 2009). According to the eclectic paradigm of international production (Dunning, 1988), the propensity of firms to engage
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in foreign production may be explained by three categories of factors (generally summarized as OLI): asset Ownership (e.g., brands, patents, know-how, and other firm-specific skills), Location-bound endowments (e.g., input prices, investment incentives, infrastructure), and Internalisation of cross-border market transactions (e.g. minimisation of transaction costs). According to this paradigm, off-shoring drivers can therefore be grouped in market seeking, resource seeking, efficiency seeking, and strategic asset seeking (Dunning, 1993).

Transaction Cost Economics (TCE), Resource Based View (RBV), and International Product Life Cycle (IPLC) offer different perspectives to interpret the relative relevance of these drivers. TCE theory emphasizes the role of lower overseas costs, both for captive off-shoring and offshore outsourcing (Stratman, 2008; Ellram et al., 2008; Vivek et al., 2008). RBV explains off-shoring as linked to the availability abroad of specific factors, such as qualified personnel or capabilities for business process redesign (Nachum & Zaheer, 2005; Lewin & Peeters, 2006) or by the possibility of deploying underutilized resources in new markets (Trevino & Grosse, 2002). The IPLC model postulates that firms move continually between different locations to chase their transitional comparative advantages (e.g., Vernon, 1966; Wells, 1968). According to this model, products are firstly produced in higher income countries. They are then off-shored to developing countries if for instance the domestic demand is saturated, the product standardised, or the need arises to reduce costs (in particular labour costs) (e.g. Sim & Pandian, 2003).

Closely related to off-shoring is the literature on the location choice. Location theories (e.g., Hoover, 1948; Dicken & Lloyd, 1990) study the worldwide distribution of MNE’s activities, by focusing on the interaction between transportation costs and technological and pecuniary externalities in the location choice process (Pusterla & Resmini, 2007). Accordingly, location determinants of off-shoring activities can be grouped into three categories (e.g. Bajpai & Dasgupta, 2004; Nassimbeni & Sartor, 2008): proximity to other network nodes (e.g., customers, key suppliers, and other facilities), access to factors of production (e.g., raw materials and skilled or low cost labor), and national and regional characteristics (e.g., protected market, tax conditions, exchange trade risk, language, culture, politics, advanced infrastructures, labor practices, and environmental regulations). By matching the features of the off-shoring destinations with the importance attributed by companies to these aspects, the literature explains why a location were selected.

A part of the off-shoring literature is devoted to the identification of the criticalities/risks linked to off-shoring initiatives, which could be seen as possible drivers of back-shoring decisions. Among these risks, the danger of subtraction of confidential data (Khalfan, 2004; Willcocks et al., 1995; Smith et al., 1996) and of violation of intellectual property rights (Smith et al., 1996; Carmel & Agarwal, 2002; Monczka et al., 2005) is often reported. These issues arise more frequently in offshore locations where the interests of foreign operators may be not adequately safeguarded by local industrial policies and legislative systems. Another critical aspect can be the distance, expressed in both geographical and cultural terms (Carmel & Agarwal, 2002; Espinosa & Carmel, 2004; Ganesh, 2004). This distance must be carefully controlled since it influences the effectiveness and costs of the negotiation processes and of communication and organizational coordination (Carmel & Agarwal, 2002). A related risk is referred to the foreign country system, whose political, legal and financial profile can be radically different from the domestic one. Offshore outsourcing, especially in developing countries, can require supplier training and assistance, with specific investments that can be lost in the case of switching of the relationship. Moreover, the knowledge and information exchange that develops in buyer–supplier interactions makes the customer vulnerable to suppliers’ opportunistic behaviors. Finally, other typical pitfalls are linked to the de-motivation of the internal staff (after the dismantling of the internal structure) and the difficulties of monitoring and controlling quality levels.
Reversing Off-Shoring: Back- and Near-Reshoring

Different labels have been proposed to define the phenomenon of production repatriation in the home country of the parent company: among them, the most widespread are “return relocation” (e.g. Jungnickel, 1990), “in-shoring” (e.g. Skipper, 2006; Dholakia et al, 2012), “reshoring” (e.g. Ellram, 2013; Gray et al, 2013; Tate et al., 2014), and “back-shoring” (e.g. Fisher, 2006; Holz, 2009; Kinkel & Maloca, 2009; Kinkel, 2012).

The “back-shoring” term - the most used - has soon brought to some (sub)definitions focused on specific typologies of the phenomenon: “direct back-shoring” (Renz, 2005), “internal back-shoring” (Kinkel & Maloca, 2009), and “captive back-shoring” (Kinkel & Zanker, 2013) for a repatriation through proprietary solutions; “indirect back-shoring” (Renz, 2005) and “external back-shoring” (Kinkel & Maloca, 2009) for a domestic relocation of suppliers; “back-reshoring” for both equity and non-equity production repatriation in the firms’ home country (Fratocchi et al., 2014).

Elaborating on the features of repatriations identified by different contributions, we propose the unifying term back-reshoring, to mean “a voluntary corporate strategies to partially or totally relocate production (in-sourced or out-sourced) to the home country of the company to serve local, regional or global demand” (Fratocchi et al., 2014: 56). Correspondingly, we define near-reshoring as the case in which production activities, previously off-shored in a relatively distant country, are relocated in a third country, belonging to the same firm’s home region (Ohmae, 1985).

Emerging empirical research focuses mainly on companies’ motivations for back-reshoring obtained from survey data, and on the geographical characterization of back-shoring in terms of involved host countries. With respect to home countries, longitudinal survey data are available for three waves of a survey (2006, 2009, and 2012) on back-shoring strategies implemented by German companies (Kinkel & Maloca, 2009; Kinkel, 2012; Kinkel & Zanker, 2013), which show that back-reshoring phenomenon concerns about 25% of the firms in the sample. With respect to the host country, the majority of repatriations of German firms derive from new Eastern European Union countries (the so called EU-12). In terms of duration, the initial off-shoring decision was mostly reversed after 3-5 years. This finding leads Kinkel and Maloca to conceptualize back-reshoring as “short-term corrections of prior location misjudgements, rather than a long-term reactions to slowly emerging local development trends” (2009: 159).

In 2013, survey data on firms which back-reshored between 2007 and mid-2009 became available for eight other European countries (Austria, Croatia, Denmark, Finland, Netherlands, Slovenia, Spain and Switzerland). The European survey detects a marked difference in the magnitude of the phenomenon across countries, with back-reshoring companies accounting for only 2% in Germany, but for more than 7% in Spain, Denmark and Finland (Dachs and Kinkel, 2013). Findings show that firms back-reshoring are generally large ones which operate in high-technology industries. EU-12 countries emerge as the most frequently “abandoned” host countries, with Asian locations accounting for one fourth of the cases. Commenting on the results of the European survey, Dachs & Kinkel (2013) supplement their initial “error” perspective, allowing for the fact that back-reshoring may partially depends on the deterioration over time of locational, ownership, and internalization advantages (Dunning, 1995), on which the initial off-shoring decision was based. According to the analysis of data, back-reshoring seems to be predominantly motivated by concerns about loss of flexibility and ability to deliver on time and quality issues (Kinkel & Zanker, 2013).

A recent survey on factors affecting manufacturing location decisions of US companies (Ellram et al., 2013; Tate et al., 2014) provides useful insights into factors affecting back-reshoring strategies in the US. Government trade policies are identified as a key factor in increasing the appeal of the US as a manufacturing location, possibly a reflection of the Obama’s
administration incentives to repatriate production from off-shore locations. Also, supply-chain related factors are identified as important in affecting the risk of a manufacturing location, a result that is confirmed also by a study investigating Danish companies (Arlbjørn & Lüthje, 2012).

Many questions concerning the repatriation of manufacturing remain still open. The theoretical models originally developed to explain the motivations and drivers of off-shoring activities could be applied to interpret the reverse decision to back- or near-reshore. Back-reshoring might be explained by a change of the host (or home) country characteristics in relation to the off-shoring drivers, consistently with the OLI paradigm. In this view, back-reshoring arises from a gradual change in the off-shore environment that erodes the comparative advantages of the location (e.g. labor availability and costs) (Kinkel & Zanker, 2013). In addition, a value chain activity located abroad may be relocated if the realized benefits fall short of expectations. This latter case envisages mistaken managerial decisions: as already noted, early contributions on back-reshoring considered repatriations as a mere “correction mechanism” (Kinkel & Maloca, 2009; Kinkel, 2012). This hints at the fact that there might be other factors, mostly firm- and industry-specific, which are at the base of the back-shoring phenomenon that are still unexplored.

### The Duration of Foreign Ventures

The duration of a foreign investment has been considered an important research topic by the international business scholars, since shorter survival for foreign subsidiaries is taken to be inversely related to the performance of internationalization processes. In this respect, three main research streams can be identified, which relate the duration respectively to investment-, host country- characteristics, and company specific characteristics.

Though these studies are important to shed light on the relative relevance of factors affecting the survival of foreign investments, most of the studies focus on a specific entry mode (mainly joint ventures), country (mainly China) or industry (e.g. automotive). As a consequence, most of the achieved results cannot be generalized.

The contributions related to investment specific characteristics include the seminal works of Habib and Mella-Barral (2007) and Jiang et al. (2011) that study the duration of a joint venture (JV) with respect to some characteristics of the assets shared among partners (mainly their economic value and their tangible and intangible characteristics). Other studies link the duration with the share of the subsidiary equity, the adoption of greenfield vs acquisition entry strategy, the subsidiary limited vs unlimited liability (Li, 1995).

Host country specific characteristics are addressed by studies of the impact of the stability of the hosting country’s industrial policy (Blodgett, 1992; Boddeyn & Brewer, 1994; Yan & Gray, 1994). There is evidence that FDI duration is longer when firms are granted favorable policies by the government of the hosting countries (financial support and market protection) (Jiang et al., 2011). Jiang et al. (2009) demonstrate that high levels of technological uncertainty lead to shorter FDIs’ duration. Finally, with reference to the “timing of entry in the hosting country”, later joint ventures have a longer duration than earlier ones (early movers seem take high degree of the risks related to market uncertainties) (Jiang et al., 2011).

Finally, the analysis of company specific characteristics shows that FDI’s duration is shorter for firms with limited previous international experience (Mata & Portugal, 2000) as well as for companies that have an unstable company strategy.

The analysis of the duration of foreign investments has not yet been undertaken with respect to “exit strategies” but has merely considered survival before a divestment from the host country. This study contributes to close this gap in the literature, by studying the survival of foreign investments that are concluded through a specific exit strategy, namely the partial or total back- or near-reshoring of operations. In addition, whereas extant research has only considered the
survival in case of equity entry modes, this study also deals with the frequent cases of offshore outsourcing, to explore whether they present a shorter survival time.

**MODEL**

In this study, the length of the off-shoring experience prior to the decision to re-shore operations is analyzed using a survival modeling approach (Cox & Oakes, 1984; Hosmer & Lemeshow, 1999; Kalbfleisch & Prentice, 2002). Survival analyses, also known as duration models, measure the time until a certain event occurs. Our model analyzes the time elapsed between the two events, the off-shore and the back-shore decision, which is a continuous variable. The survival model regresses the duration of an activity on a set of covariates.

The use of survival models in order to model duration is based on the fact that time, as a dependent variable, is strictly positive. Hence, the error distribution is skewed to the right and the assumption of normality is violated.

Two main issues must be addressed when analyzing survival models: the identification of the data set and of the estimation model, and the censoring of the data. With regard to the first issue, since our data set is cross-sectional, a time-invariant model was adopted. In terms of censoring, a survival time is described as censored when there is a follow-up time but for some of the observations the event that signals “failure” has not yet occurred. Since our data set only includes companies that have completed the offshore experience by back-shoring operations, the length of the offshore operation is completely determined, so data are uncensored.

Modelling of survival data usually employs the proportional hazard or the log hazard function. Let \( T \) represent survival time. Let \( T \) be a random variable with cumulative distribution function \( P(t) = \Pr(T \leq t) \). The hazard function assesses the instantaneous risk of failure (i.e. re-shoring, termination of offshore operation) at time \( t \), conditional on survival to that time (Fox, 2002):

\[
h(t) = \lim_{\Delta t \to 0} \left( \frac{\Pr\left( (t \leq T < t + \Delta t) | T \geq t \right)}{\Delta t} \right)
\]

If a constant hazard, \( h(t) = \nu \), is assumed, this implies an exponential distribution of survival times. Another common hazard model considers the Weibull distribution of survival times (Cox and Oakes, 1984).

\[
h(t) = p \exp (x \beta) t^{p-1}
\]

In the Weibull distribution, the hazard can either increase or decrease monotonically with time depending on the value of \( p \); in particular, \( p > 1(<1) \) indicates that hazard increases (decreases) with time. By setting \( p = 1 \), the exponential distribution of survival times is obtained as a special case.

The Cox model, or proportional hazard model, in contrast, leaves the baseline hazard function (the hazard when all covariates are zero) unspecified, while covariates enter the model linearly.

**DATA**

In order to analyse the duration of the offshore stay prior to back-shoring we developed a data set based on secondary data. Secondary data has been adopted in International business and in Operations Management research (Yang et al., 2006; Roth et al., 2008; Mazzola & Perrone, 2013). Their use is granted by the lack of data from official sources and by the absence of survey studies that can provide information on length of stay offshore.

Among sources of secondary data, a specific role is played by written records such as newspapers and magazines, which have been considered useful when no other sources are available (Cowton, 1998; Franzosi, 1987).
The data set on back-reshoring and near-reshoring operations was developed from 2011 to 2013 from several sources. We first considered the historical archives of relevant international business newspapers (e.g., Wall Street Journal, Financial Times, Sole 24 Ore) and other national-level newspapers, and business magazines (e.g., The Economist, TIME, Bloomberg BusinessWeek). We searched for articles published until January 15, 2014 adopting selected key words (reshoring, back-shoring, insourcing, on-shoring, in-shoring, reverse globalization, relocation, repatriation in combination with manufacturing). We then searched in white papers by major consulting companies (e.g., Boston Consulting Group, McKinsey, Accenture and Grand Thornton). Finally, we used internet search engines with the above mentioned keywords to further check that no relevant news concerning back-reshoring and near-reshoring experiences was missed out.

The unit of analysis was the single decision to move back earlier off-shored production activities and not the firm implementing such a decision. Therefore, for instance, if a company back-reshored production from two different host countries, in our database it accounts for two pieces of evidence. For each piece of evidence collected, we supplemented the information about the backshoring operation (year in which off-shoring strategy was implemented, year in which the back-shoring strategy was implemented, reasons for back-shoring, “abandoned” country, greenfield vs. merger & acquisition entry mode) with data on the characteristics of the company, namely corporate dimension (small, medium, large), industry, headquarter country of origin.

The database actually consists of 295 cases deriving from 254 companies. This discrepancy is due to the fact that 25 companies in the sample (9.8%) implemented more than one back-reshoring operation.

The presence in the sample of both U.S. and EU companies, which are almost equally represented, constitutes in our view an interesting addition to previous research, either focused on EU based or US based companies. However, we are aware that the composition in terms of home country of the parent company could be a direct consequence of the data collection methodology. The three countries with the highest number of cases are Germany, Italy and the U.S., which are among the developed countries with the strongest specialization in manufacturing. As for the host country, whence back-shoring took place, almost 70% of cases concern China and other Asian countries.

RESULTS

In what follows, two estimated survival models are presented: a maximum likelihood model assuming a Weibull distribution of survival times, and a Cox proportional hazard model. A model with exponential survival times was estimated as well, but this exhibited a higher log-likelihood than the Weibull model and was therefore discarded.

Let y represent the duration of the event under study (the offshoring experience). The equations estimate the percentage change in hazard due to the change in a vector of covariates, X. Covariates chosen were meant to capture relevant industry-, firm-, and country-specific effects, in addition to motivations for back-reshoring. In particular, the electronics and the automotive sectors were chosen as covariates because they were depicted as industries with the highest propensity to both offshore and back-reshore (i.e., “mobile industries”) by previous works (Kinkel & Zanker, 2013). The selection of the Asian countries as host of offshoring locations was driven by the need to account for cultural distance, while distinction between firms based in Europe versus other countries (and most notably US) was motivated by the international business literature that has emphasized differential patterns of internationalization (Bartlett & Ghoshal, 1989). Concerning firm specific characteristics, firm size and offshoring governance mode (outsourcing vs. insourcing) were considered. Finally, among the motivations provided by the firms for explaining back-reshoring, we selected Quality, Total costs, Customer services, and
Delivery delays because of their relation with the four main dimensions of firms’ performance, namely quality, costs, service, and time. The so-called “Made-in” effect has been taken into account because it captures the increasing importance that customers attach to goods being produced in locations well-reputed for their specialization in those productions (e.g. clothing and leather from Italy, cars from Germany, wines from France), thus allowing firms to charge premium prices for these products. In addition, back-shoring as part of a global reorganization of the firm may proxy the impact of the economic crisis that has compelled many firms to redefine their international strategies and among them the location decisions.

The results concerning the reshoring motivations should be interpreted as follows: if a factor has a significant effect on offshoring duration this means that it has a different impact on companies at earlier stages of their international expansion than on firms with a long lasting presence (i.e., “veteran” foreign ventures). In other words, if a motivation significantly shortens the duration this means that it is crucial for “newborn” foreign ventures while it is less important for “veteran” foreign ventures because either they have already solved/overcome the problem or they have already been relocated back/nearshore.

Table 1 presents the results from the estimation of Cox and Weibull models. Results of the Cox proportional hazard model are comparable to those of the Weibull model. The sign of the relations between duration and co-variates are the same, and so are significant covariates. This can be considered as evidence of the robustness of the models considered and of the selected covariates. However, the log-likelihood is sensibly lower in the case of the Weibull model, leading us to prefer this specification. The ancillary parameter $p$ in the Weibull regression is always $> 1$, signaling that hazard is increasing with time, rather than constant.

In terms of data set adopted, three different equations were estimated: the first referring to the sample as a whole ($n = 249$), the second to European firms ($n = 109$), the third to US-based firms ($n = 114$). Sub-samples for European and American based firms were adopted because EU firms have been deemed to have adopted different internationalization strategies and to manage in different ways their foreign subsidiaries (see, among others, Bartlett & Ghohal, 1989).

In what follows, we restrict our analysis of results to the Weibull regression in Table 1. In order to interpret the estimated coefficients as the percentage change in hazard, it is necessary to subtract 1 the hazard ratio reported in every cell. For continuous/categorical covariates (e.g. firm size: $1 = $small, $2 = $medium, $3 = $large), the percentage change in hazard measures the percentage change in the hazard for 1 unit increase in the value of the covariate. This means that our results in column (1) suggest that if the firm is large, the hazard is about 22% lower than for medium sized firms. For dummy variables, the percentage change in hazard is measured with respect to absence of the characteristic. Hence, if the offshore activity was located in Asia, the hazard is 49% higher with respect to other locations.

Taking the entire sample into account, the table shows that statistical significant covariates are the industrial sector the firm operates in, with firms in the electronics and automotive sectors returning earlier than firms in other industries. For firms which offshored to Asia, the change in hazard is 49% higher than in other host countries. Further, the size of the firm is relevant in determining the hazard rate, with large firms having a hazard 22% lower than medium enterprises, and medium firms a hazard 22% lower than small firms. Firms having their headquarters in Europe have a significant higher risk of early back-shoring with respect to firms located elsewhere (59% higher). Finally, among the motivations provided for back-shoring, concerns with quality issues (Quality_issues) reduce the survival of off-shoring (89% shorter).

The first two models in Table 1 (Weibull and Cox on the complete sample) were re-estimated with analogous results excluding the nine cases for which the parent company was located neither in US nor in Europe.

The equations for Europe and the US return a slightly more nuanced picture: most notably, the variable “Made in” effect is significant in both equations but with different signs, thus explaining
the lack of significance of this covariate in the complete sample model. In particular, the “made in” effect reduces the duration of offshoring for EU firms and increases duration for US firms. Finally, back-reshoring as part of the firm’s global reorganization significantly increases the length of offshoring for EU firms (by 34%).
### DISCUSSION AND CONCLUSIONS

This paper has investigated the survival of a set of offshore initiatives that have terminated through the repatriation of foreign activities, with the aim to understand whether the exit hazard is higher according to the host country, home country of the parent company, industry of the company, size, and motivations for reversing the off-shore location.

In general terms, foreign locations are expected to be associated with higher exit hazards because of the difficulties of integrating the foreign subsidiary into the parent system (in case of equity modes). However, we find that there are distinct regional specific effects on survival, both in terms of the host and home country of the parent company. In particular, in the case of Asia, returns are swifter than from other locations, irrespective of the country of origin of the company. On the one hand, this may be considered evidence of the fact the risks of international
expansion should not be underestimated, especially when the cultural distance between the home and the host country is large and off-shoring companies do not adequately analyse the political, social, and other factors in the host market when making foreign investment decisions. On the other, the earlier returns from Asia could also be the consequence of a closing gap between labour costs in Asia and western economies and the recognition that logistics costs are higher than expected. However, since labour and logistic costs as such do not appear to explain the duration of off-shoring experiences in our data set, we would favour the first explanation. Concerning the home country of origin, European companies seem to be more affected by earlier returns with respect to US-based companies. One trivial explanation is that US companies off-shored earlier than European companies, which accelerated their off-shoring activities more recently. Given that the back-shoring experiences contained in our data set have a comparable return date (2007-2013), this could account for the result. However, the fact that the off-shoring strategy has been undertaken in the more recent past, may also signal that European firms had less time to build that process of knowledge development and incremental commitment that may have enhanced the survival probabilities of foreign subsidiaries in the face of the global financial crisis. Also, it must be recognized that among the European firms in our data set firms in sectors such as Footwear & clothing are prominent. Off-shoring activities in these sectors have clearly been motivated by costs savings which, as already discussed, have shrunk in the last few years.

It is well known that firms that off-shore tend to be larger, although smaller firms may have the so-called “born global” capabilities to develop complex international resource combinations across the world. Results from our study suggest that smaller firms tend to back-shore earlier than larger firms. This finding may be read in opposite ways, since either it may signal that smaller firms are more flexible and can therefore adapt their location to changing advantages (costs, resources of the host country, etc.), or, on the other hand, it may be read as a failure, indicating that limited resources thwart smaller firms’ plans to reap benefits from off-shore locations.

Quite interestingly, no noticeable difference emerges when comparing the survival of off-shoring in wholly owned facilities with off-shoring by outsourcing to foreign suppliers. This result is in a way unexpected, since outsourcing involves a lower commitment in the foreign location with respect to equity investment, and it shows that the benefits derived from these “easier” entry strategies may not offset the difficulties in integrating the foreign supplier with the buyer firm. Finally, quality issues rank top among motivations for early returns. This confirms previous results that location decisions (either off- or back-shoring) depend on a bundle of different motives, including the ability to supply locally and to maintain adequate quality standards.

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