

**After two decades of massive Off-shoring, does Re-shoring represent the next credible strategy for western Multi-National Companies?**

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# Abstract

With the emergence of globalization in the early 1980s, the business industry has drastically changed, and the business map been remodelled. Globalization, coupled with impressive technological progresses led the commercial world to be a much more competitive place than it used to be (Ellram, 2013). Since then, Multi-National Companies are making tremendous efforts to be cost efficient. This necessity to get the lowest costs drove companies to relocate part or all their operations overseas where wages were low: Off-shoring was born. Today, the trend for Multi-National-Companies is still to Off-shore massively, however if it was a very profitable strategy in the early 1980s, is it still the case today?

This dissertation will therefore seek to answer the following question: After two decades of massive Off-shoring, does Re-shoring represent the next credible strategy for western Multi-National Companies?

This paper is articulated around a few distinct sections. It will start with a literature review presenting the Re-shoring phenomenon, stating and comparing different point of views and presenting the status of the current research on this topic. The following part will be focusing on a synthesis and an analysis of the data collected during the interviews.

The method adopted to collect data is a qualitative approach, with semi-structured interviews. Four interviewees were selected based on their respective in depth knowledge of either Off-shoring or Re-shoring. Four main topics were discussed during the interviews: Cost Management, Supply-chain efficiency, Political involvement and Branding & Corporate image. The information collected was compared, discussed and linked to the main concepts highlighted in the literature review.

The results show that despite some ethical and political desires to bring jobs “back home” the Re-shoring phenomenon only represents a questionable advantage for MNCs, and a very marginal proportion of the number of jobs created in the “Off-shoring” countries.

The author of this dissertation considers in conclusion that, if Re-shoring appears to be a very noble concept, it does not globally represent (for the moment) the next credible alternative to Off-shoring.

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# 1. Introduction

Over the past decades, the world has witnessed the emergence of globalization. The precedent economic theories have been remodelled and barriers to international trades removed. In addition to this, the role of the state in the western economy reduced, and the international investment flows deregulated. Moreover, the rapid development of technology since the 1980s pushed down the costs of telecommunication and transport. All those factors put together, in addition to difficult economic conditions have globally increased the level of competition, and drove Multi-National Companies (MNCs) to adapt their supply chain strategy in order to remain competitive, meaning in the vast majority of cases, reducing costs. The Cost Leadership Strategy defined as being “the lowest cost producer in the industry through economies of scale or other sources of cost advantages” (Porter, 1985) appears to be an option largely adopted by MNCs in term of market differentiation since the early 1980s. This is how Off-shoring which is also called the “third Industrial Revolution” (Blinder, 2008) became very popular in the western world.

During this dissertation, the term Off-shoring will refer to “the process of sourcing and coordinating tasks and business functions across national borders. Off-shoring may include both in-house and outsourced activities, which are delivered by an external provider – that is from outside the boundaries of the firm” (Lewin, 2008).

Also, the term Multi-National Companies (MNCs) will be used in the sense of large corporations producing and selling goods or services in various countries. Taking the US case for example, Off-shoring is an important trend, “It is expected that by 2015 the U.S. market will outsource 3.3 million employment opportunities and will pay an estimated \$136 billion in salaries to Asian countries” (Hemphill, 2004). If a large number of MNCs are today fully integrating Off-shoring as part of their business strategy, this is not without controversy. Two schools of thought exist: On one hand the supporters of the Transaction Cost of Economics (TCE) which support the idea that Off-shoring has a promising future and that firms will continue moving from higher costs to lower costs destinations (McIvor, 2013); on the other hand, the opposite camp, thinking it is now time to stop Off-shoring and to bringing jobs back to their initial country. Talking about Off-shoring, the leader of the “anti-Off-shoring” camp in the US declared: “In their excessive focus on Off-shoring of manufacturing, many MNCs make suboptimal decisions, actually reducing the long-term return to their shareholders” (Moser, 2013). Declaring this, Moser, founder of the Re-shoring Initiative defends one of Barack Obama’s milestones during his campaign for the presidential election: Bringing jobs back

to America. In this dissertation, the term Re-shoring will be defined as “the decision to relocate in the firm’s home country production of supply previously off-shored” (Fratocci, 2014). The term “western” countries in this dissertation will be associated with Occidental countries, such as USA, or Occidental Europe (Moser, 2013).

Wal-Mart, Apple, Ford or General Electric; here are some of the names of Multi-National Companies already involved in a Re-shoring plan, and bringing back progressively a part of their production, and mechanically jobs back from overseas, mainly China (Moser, 2013).

With the recent increase of Chinese wages and also the desire from western politicians as well as population to see jobs coming back to their countries, Re-shoring is receiving a large interest lately (Gray, 2013). Said that, for Multi-National Companies and western countries the question today is to see if Re-shoring represents a credible alternative to Off-shoring. Is localization – producing near to customer – the answer to high unemployment rates in western countries as suggested by western political leaders and supporters of the Re-shoring Initiative? Why would Re-shoring be more interesting for MNCs than Off-shoring? If this initiative receives a large support from citizens, which proudly prefer buying “made in home” products, are MNCs ready to change their mind? If many MNCs pretend today being “interested” in the project, how many of them will really do it? Do companies only see this trend as a strategic branding tool to differentiate from their competitors or is there a more rational choice behind?

A lot of researches were conducted on Off-shoring over the past twenty years, mainly due to the importance of this phenomenon. Re-shoring being a newer practice, the literature volume in term of academic research is more limited; however, more and more case studies emerge every month. Also, if most of the information available is mainly referring to the Off-shoring and Re-shoring flows between the United States of America and China, others countries will be evocated in this dissertation. A lot of researches made over the past five years on the future of Off-shoring are referring to the emergence of Re-shoring in the western world, with generally interrogations about the weight it will take in the long run. The rationale behind this dissertation is to determine if this option is credible; doing a literature review, and also conducting a qualitative research interviewing active actors of the Re-shoring action such as Harry Moser, President and Founder of the Re-shoring Initiative in the USA. Representatives of companies currently gaining a competitive advantage Re-shoring will also be interviewed. To balance this, a Director from a company which at the opposite

considers Off-shoring as being the only option to maintain their market positioning will also be interviewed.

This dissertation is articulated around five main sections and will follow the suggested structure proposed by (Robson, 2002). After the abstract and the introduction, the initial interest will be focused on a review of the current literature, comparing the different academic points of view. This will be the occasion to outline the main themes related to the subject of this dissertation.. Then a second part will be dedicated to streamline the research problem and the aim of this research. The next section is a description of the research methodology, where will be exposed the research design, the structure of the interviews as well as the way data will be collected. Ethical considerations will also be presented in this section. The term method during this dissertation will refer to the techniques and procedures used to obtain and analyse data, and the term methodology will refer to the theory of how research will be undertaken (Saunders, 2009).

Findings from the interviews will be exposed in the following part. Each main section of the findings will have a conclusion where will be compared the main ideas collected from the interviews and the academic theories from the literature review.

The last part will be the conclusion where the most important aspects of this dissertation will be covered and discussed and the question to know if Re-shoring represents the next credible strategy for western Multi-National Companies will be answered.



## 2. Literature Review

This literature review is articulated around two sections. The first part is focusing on the rational reasons behind Re-shoring. What are the endogenous reasons pushing organisations to bring a part of their business back? The second section focuses on the intangible reasons pushing Multi-National Companies Re-shoring. In other words, what are the exogenous factors behind the Re-shoring trend? Is society playing a role? What about politics?

### 2.1 Academic definitions of the terms Off-shoring and Re-shoring

Before starting both sections of the literature review, the terms Re-shoring & Off-shoring will be defined on an academic prospective.

#### 2.1.1 Re-shoring academic Definition

From the definition of (Gray, et al., 2013) Re-shoring is mainly a location decision. At the difference of (Moser, 2013) which broadly defines the term Re-shoring as the action of bringing back work that went offshore, (Gray, et al., 2013) provide a more detailed approach making the distinction between four types of Re-shoring:

##### Reshoring Options

		To Onshore	
		In-House	Outsourced
From Offshore	In-House	In-House Reshoring	Reshoring for Outsourcing
	Outsourced	Reshoring for Insourcing	Outsourced Reshoring

Source: (Gray, et al., 2013)

- a) In-House Re-shoring, meaning a company is bringing back its Off-shore production centres in order to fulfil its local demand

- b) Re-shoring for outsourcing, in which case the company fulfils demand in its local market by relocating manufacturing activities performed in wholly owned Off-shored production centres back to local suppliers closer to the market.
- c) Re-shoring for Insourcing, meaning the company fulfils demand by bringing back in-house a production activity which was previously off-shored to external suppliers.
- d) Outsourced Re-shoring, in which a firm fulfils demand in its local market by relocating manufacturing activities being performed by offshore suppliers closer to the market.

All Re-shoring options presented appear to be different from each other, however, they are united by the fact all of them are linked to location decisions (Gray, et al., 2013).

### **2.1.2 Off-shoring academic definition:**

A lot of literature has been written on Off-shoring, much more than Re-shoring. During this dissertation, and in order to be as clear as possible, we will use the term Off-shoring and Outsourcing in the following senses: “Off-shoring is the performance of tasks in a country different from where a firm’s headquarters are located” and “outsourcing the performance of tasks under some contractual arrangement by an unrelated party” (Grossman & Rossi-Hansberg, 2006).

We will see in this literature review that the Off-shoring of activity can sometimes be a controversial topic, especially when it comes to economical patriotism during times where the unemployment rate is high. Gregory Mankiw is a Harvard professor who has been involved in politics especially under the Bush administration, cynically described Off-shoring as “the migration of jobs, but not the people who perform them, from rich countries to poor ones” (Blinder, 2006).

## **2.2 Information collected from literature review**

After having defined the term Re-shoring and Off-shoring, the next step is a research of the current literature on the Re-shoring phenomenon. The first part of this academic research (part A) is focused on the endogenous reasons pushing MNCs Re-shoring, the second part (Part B) will cover the exogenous reasons.

### **A- Endogenous reasons pushing Multi-National Companies Re-shoring**

From a survey conducted by the MIT, American Multi-National Companies are bringing more and more business back “not only because of job losses in the U.S, but also because the economics that made Off-shoring attractive in the first place have changed” (Simchi-Levi, 2012). This first section of the research will detail the reasons behind Re-shoring. What are the endogenous reasons pushing organisations to bring back a part of their production? The questions of cost, location, Efficiency and socio-political factors will be discussed.

#### **A.1 Cost**

Cost is obviously an important factor pushing organisations Re-shoring. (Simchi-Levi, 2012) gives four main reasons for this: The oil price which has tripled in the last decade, and the labour costs which have increased by almost 20% each year in the case of China. Also, automation of processes in the western world obviously has an impact, since it “reduces the importance of low labour costs”. Last point highlighted by (Simchi-Levi, 2012) is the risk exposure for MNCs to have geographically diverse supply chains. From Levi’s statement, the rationale behind Companies’ decision to practice Re-shoring is mainly to increase profitability by reducing costs. This observation is against most of the existing theories about costs, and globalization: On one hand Moser, father of the Re-shoring Initiative is a supporter of the Total Cost of Ownership theory which “enables aggregation of all cost and risk factors” (Moser, 2014). Moser insists on the fact that if organisations practicing Off-shoring are including all costs, meaning direct and indirect costs, the conclusion is that organisations would be better off producing locally. This vision is obviously not in line with the vision of businessmen or some economists such as (Heineman, 2012) who is arguing that Off-shoring must be defended as it is

the only option to reduce cost, saying “It is vital for global businesses, which may be subject to exacting scrutiny, to defend Off-shoring with clear positions and clear actions” (Heineman, 2012).

Based on a survey prepared by Accenture about gaining a competitive advantage by getting closer to the customer by either Near-shoring or Re-shoring, it appears that “the direct cost components that make up most organizations’ total cost models are changing. Labour, for example, has become a decreasing percentage of the total cost picture—typically not more than 5 percent to 10 percent of cost of goods in Accenture’s experience. We have already seen how extreme volatility in transportation costs, energy costs and exchange rates are impacting other direct cost categories (Ferreira, 2011). This conclusion from Accenture is going in the sense of Moser’s theory, saying that organisations should review their cost calculation method, and also consider that business profitability is not centralised around price. Cost volatility can have a significant effect on the performance of an organisation.

For this reason, Moser has developed a tool to help organisations calculating their Total Cost of Ownership: “the majority of manufacturers make sourcing decisions based on price alone. This results in a 20 to 30% miscalculation of actual Off-shoring costs. What the TCO Estimator allows its users to do is effectively account for all relevant factors when determining their total cost of ownership. This includes under-the-radar dynamics like overhead, balance sheet, corporate strategy, intellectual-property risk, inventory-carrying costs, the complexities of having a lengthier supply chain, innovation, and other external and internal business costs” (Moser, 2013). From a survey conducted by the Boston Consulting Group, this phenomenon starts to be less and less isolated since they found that “21 per cent of a sample of 200 executives of large manufacturers were either already relocating production to the US, or planning to do so within the next two years” (Crooks, 2013).

General Electrics is a pioneer in term of Re-shoring. Jimmy Immelt, Chairman and CEO of the company, defends his decision to Re-shore saying that “Factors encouraging this reversal include sharply rising relative manufacturing costs in China, accentuated by stagnant U.S. wages and productivity gains, steady renminbi appreciation, steeper transportation costs as oil prices rise and costlier maintenance of longer supply chains” (Knowledge@Wharton, 2012).

From this brief overview, cost appears to be a rational driver pushing organisations to bring business back from overseas. If production cost is inevitably an important factor when companies are thinking about Off-shoring or Re-shoring, efficiency is another one to take into consideration.

## A.2 Efficiency

From a study conducted by the Boston Consulting Group, Zinser puts in advance the fact Off-shoring has its limits, essentially in term of efficiency and control over the supply chain: “In a longer supply chain, you’ve got less control over the manufacturing process. You have less control over the quality. You also have all of the associated handling that happens with taking it from a plant to put on a ship, then take off a ship and put on a train, then put on a truck, and so on. You introduce a lot of opportunities for damage and reduction in quality” (Zinser, 2013). If sending business overseas was a cost efficient decision twenty years ago, it seems to be no longer the case based on Porter’s comment saying that “Choosing the right location for producing a good or a service is an inexact science, and many companies got it wrong” and that “a lot of chief executives offshored too quickly and too much” (Booth, 2013). It also seems that distance has a negative effect on efficiency: “Firms are now discovering all the disadvantages of distance. The cost of shipping heavy goods halfway around the world by sea has been rising sharply, and goods spend weeks in transit. They have also found that manufacturing somewhere cheap and far away but keeping research and development at home can have a negative effect on innovation” (Booth, 2013).

Efficiency, seems to be a critical point for MNCs who offshored massively. A few inefficiencies seem to be recurrent for those companies, which is giving a certain credit to the supporters of the Re-shoring Initiative. The Re-shoring Initiative advocates proximity between production and buyers in order to reduce associated third party costs such as logistics, and delivery, in addition to energy, especially in the current economic climate.

### **A.3 Location advantage, the end of the Eldorado?**

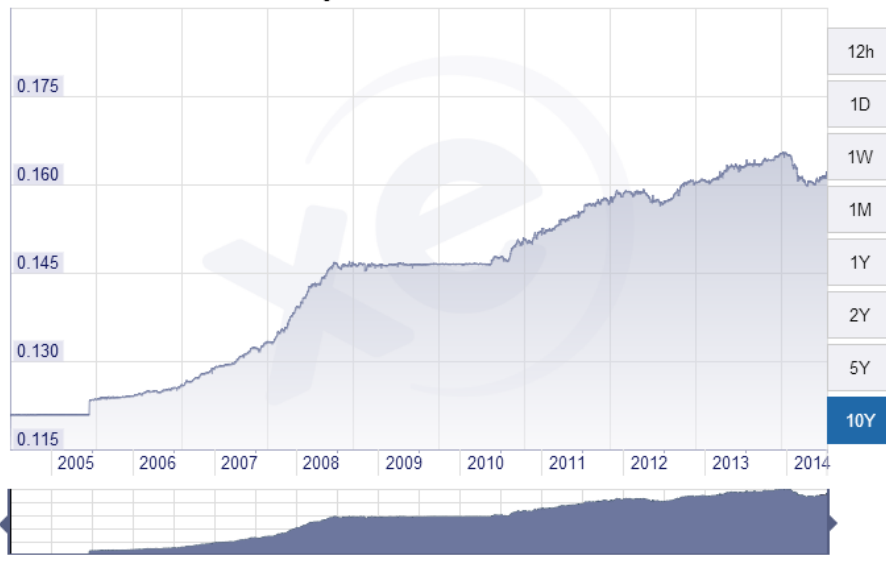
Over the past thirty years, MNCs have developed a strong partnership with countries such as China and India, acting in favour of Multi National Off-shoring. As we have seen previously, since the 1980's MNCs have made important savings, mainly due to low costs of labour, overhead, a very flexible atmosphere, and a very welcoming tax regime for Off-shoring companies.

As explained by Farrell while taking the example of China, the local government has authorized businesses coming from the Occident to have a tax relief if companies are exporting products out of China (Farrell, 2006). If the conditions that brought businesses to come over to India or China in the first place are still favourable, the economists and business leaders start realizing that the business climate is changing, essentially because they realize the cost advantages are melting. In this section we will investigate in which way MNCs are affected by the current changes. We will also see that MNCs are starting to look after alternative solutions to continue producing their products at a lower cost.

Since China has unpegged its currency against USD, the currency trend is definitely bullish as evidenced on the below graphic\*. What is the economic impact for MNCs of such a change in the monetary policy of the country? It actually all depends on how the contract was originally negotiated (in USD or in CNY). As Farrell explains, if the suppliers are paid in USD, the increase in the currency value will directly affect their profitability; however in the event of a negotiation in CNY, the company Off-shoring will have no other choice than reflecting the increase in the product price (Farrell, 2006). Farrell also acknowledges the fact that due to the increase of their production capacities Chinese suppliers gained in negotiation power and therefore managed to gain more and more contracts in their local currency, which is affecting MNCs negatively.

## USD per 1 CNY

31 Jul 2004 00:00 UTC - 28 Jul 2014 20:00 UTC  
CNY/USD close:0.16161, low:0.12074, high:0.16546



\*Source: <http://www.xe.com/currencycharts/?from=CNY&to=USD&view=10Y>

It is indisputable, VAT rebate reduction was part of the reasons pushing MNCs Off-shoring in the first place. However, is the Tax situation as advantageous as it was? Based on a study prepared by the Tax Department of the audit group Ernst & Young, the future doesn't seem to be very promising for MNCs producing abroad: "While everyone hopes the volume of VAT regulatory changes will reduce, we anticipate that in the next few years it will actually accelerate; due mainly to the expansion of the Pilot and move towards overall reform. It will be increasingly important to stay ahead of the changes or risk getting left behind" (Smith, 2012). This is illustrated by a report conducted by the Law firm McDermott Will & Emery, in which lawyers explain that if Chinese politicians have already started pushing for a VAT rebate reduction, this is not only to increase Taxes and generate more profits for the country, but as well to answer the Chinese supplier's general frustration, which were finding their Tax situation relatively unfair compare to MNCs (Emery, 2013).

Another factor not playing in favour of MNCs Off-shoring is the fact minimum wages are increasing substantively in most of the countries where MNCs are Off-shoring their production. The title of an article from BusinessWeek says a lot: "As Wages Rise, Time to Leave China?" (Manget & Mercier, 2010).

As explained in the article written by Manget & Mercier (2010), the situation at the time was not totally alarming "Over the past 20 years, productivity increases have broadly matched wage increases, negating their impact. The pay rises came from a very low base, so while average wages grew 19 percent a year from 2005 to 2010, this amounted to only \$260 a month per employee, a

sum that could be offset by more efficient production or switching to cheaper sources of parts and materials. If labour costs continue, however, to increase at 19 percent a year for another five years, monthly wages would grow \$623 per month, according to BCG estimates. Such an increase would ripple through the economy in the form of higher prices for components, business services, cargo-handling, and office staff” (Manget & Mercier, 2010). We are today in 2014, and wages never stopped progressing in China, and India to only take those examples.

From the last three paragraphs we can understand that the situation for MNCs Off-shoring in countries such as India and China start reducing progressively their cost competitive advantage due to local currencies less and less favourable to the US Dollar; a system of tax rebate advantage which starts being less and less attractive, and lastly, local wages increasing as fast as the countries are growing.

From this first part of the literature review, a few major elements need to be remembered. Cost and efficiency management appear to be two of the key endogenous reasons pushing MNCs to opt for Re-shoring. Those two factors, added to the fact market conditions in countries where MNCs are Off-shoring their production start to be less and less attractive are giving more and more credit to the supporters of Moser and its Re-shoring theory.

If Re-shoring appears to be one of the three options for MNCs interested in making changes in their manufacturing strategy, (Ellram, 2013) at the difference of (Zinser, 2013) sees other solutions than Re-shoring. One solution being “Transferring production to another country geographically closer to the firm home country (for instance from China to Mexico in the case of the US) (near-Reshoring)” and a second, maybe more contestable in term of ethical consideration being “further Off-shoring” (Ellram, 2013) in order to try to gain additional competitive advantage thanks to lower wages (for example moving from China to Bangladesh).

Let’s now investigate the exogenous reasons pushing companies Re-shoring, in the light of political lobbying, branding, and also a certain form of corporate societal responsibility.



## **B- Exogenous reasons pushing Multi-National Companies Re-shoring**

From a survey realised by the British Polling Council, “Only 20% of the UK population believe that outsourcing helps” their economy (Concil, 2012). The negative public perception of outsourcing is not new, but it is getting reinforced since unemployment is affecting most of the western economies. Citizens have the feeling MNCs and Governments should act to bring businesses back to their initial countries, and this is shown in the citizen’s appreciation of the “Made in Home” products.

### **B.1 Political aspect**

Politicians are nowadays proud sponsors of the Re-shoring Initiative. Barack Obama in the USA, David Cameron in the UK, or Arnaud Montebourg in France; long is the list of politicians involved in bringing jobs back to their country to reduce unemployment. Re-shoring was only a small trend a few years ago, and is now a major subject in the highest political debates, such as the annual World Economic Forum in Davos. Barack Obama declared: “My message to business leaders is simple: Ask yourselves what you can do to bring jobs back to your country, and your country will do everything we can to help you succeed.” (Obama, 2012). This type of message was already in the president’s investiture, and is repeated again: Barack Obama is pushing large organisations to be more patriotic. From a research conducted by the BCG Consulting group the “Made in USA” is popular and customers are even ready to pay more for an American made product “More than 80 percent of U.S. consumers and, perhaps more surprising, over 60 percent of Chinese consumers say that they are willing to pay more for products labelled “Made in USA” than for those labelled “Made in China” (Fondiller, 2012).

Arnaud Montebourg, the former French Industry Minister in charge of the French Re-shoring plan noticed that “companies which took jobs overseas are finding that hidden costs, rising labour and transport costs, quality issues, and the need to be close to customers, and consumers’ growing appetite for made-in-France products are hampering them” (Glannoulis, n.d.). Based on these comments, it appears politics are making a certain effort in assisting organisations to bring back businesses, but how do they technically do this?

In the United Kingdom for example, the British government just put in place a leading manufacturing organisation named “Re-shore UK” in charge of assisting businesses interested in coming back from overseas. “Re-shore UK will provide a matching and location service, access to advice and support and a named individual to help each company. MAS’s role is to help support small and medium sized businesses (SMEs) to be globally competitive and to ensure there is capacity in the UK supply chain to take advantage of the Re-shoring opportunities” (Coyne, 2014). This organisation is very similar to the Re-shoring Initiative led by Harry Moser. Even if the headlines seem appealing in both cases, are CEOs seduced? Scott Paul, Executive Director at the Alliance for American Manufacturing is confident Re-shoring is a trend that will continue growing. However when it comes to the political support, he thinks the US government is not legislating enough in favour of organisations Re-shoring to the US. He insists on five points where the US administration should be more protectionist: “Adopt insourcing tax incentives”, “Work to balance our trade account” mainly by trying to have China stop manipulating its currency, “invest in infrastructure” to make the US economy more productive and competitive, with for example reforming the educational system, “apply the Buy America laws” and “invest in our workers” (Paul, 2012).

From Scott Paul and the previous examples, we understand that politicians and industry members agree on the fact this trend exists, however, if politicians are very optimistic, and communicating a lot about the success stories, a lot of efforts are still to be made to assist companies planning to come back. One thing is sure; Re-shoring represents a strong political lobby these days, and that politicians will continue pushing MNCs bringing back businesses from overseas.

(Leunig, 2011), famous economist and historian at the London School of Economics is less categorical when claiming Re-shoring is a political lobbying simply invented to hide the incapacity of successive occidental governments in finding a viable solution to answer unemployment in crisis times. He declares in his article on lobbying that the success of the Re-shoring Initiative “would be a dream for Barack Obama, a politician from America’s industrial heartland. So too for David Cameron and Nick Clegg in the UK, eager to prove that we are all in it together. Manufacturing jobs have traditionally paid well and offered good careers to men who did not excel at school. This group has been hard hit by the past 25 years of economic change. It is no surprise politicians love manufacturing jobs” (Leunig, 2011).

This section on politics, allows us to realise there are two schools of thought. On one hand Moser and the supporters of the Re-shoring theory, that put in advance all the disadvantages and especially the increasing costs of producing in Asia, and on the other hand the camp of those thinking Re-shoring is only a political theory invented by politicians but which has no real economical credibility. This second group advocates the fact instead of Re-shoring to re-gain a better cost advantage; companies should look for relocating their offshored plants to countries where wages and setting up costs are even lower, such as Bangladesh.

This ultimate reflection leads us to the next section on the corporate aspect and Corporate Social Responsibility image that can push companies Re-shoring.

## **B.2 Corporate aspect and Corporate Social Responsibility image**

If MNCs in the light of Apple and General Electrics have communicated a lot about their respective Re-shoring plan, it is certainly because it has a positive effect on their corporate reputation. Eric Stavriotis, expert in Corporate Strategy resumes the rationale behind this affirmation saying “At a time when corporate social responsibility is considered a significant factor in business success, companies may think twice about employing workers in countries with poor human rights records or overly lax labour standards. In the case of customer service call centres, some companies are deciding it makes sense to pay more for U.S. workers who may be better able to serve and communicate with customers. And, some consumers simply prefer to do business with firms that commit to a domestic workforce. Add to this the fact that high quality, affordable labour is available in many smaller U.S. markets, and it is not surprising that the On shoring trend is gaining currency” (Stavriotis, 2009). Corporate Social Responsibility represents a serious branding tool for MNCs Re-shoring or planning to since the last ten years, and the management team at Walmart well understood this. The company, pioneer in Re-shoring is permanently promoting the “Made Home” products, and the results are here: Customers appreciate products made in their country. The example of the “Made Here” towels at Walmart is a good example said Michelle Gloeckler, senior vice president of Walmart U.S.'s home business and a leading executive on the retailer's Made-in-America commitment: “Wal-Mart crunched the numbers and agreed to carry 1888 Mills' "Made Here" towels for an undisclosed number of years. It also agreed to stock 600 stores at first and then adds more as production increased, a staged rollout unusual for the chain. The "Made Here" towels are selling 30 percent better than those they replaced on the shelf that were made outside the United States by another supplier” (Woh & Kelleher, 2013).

The best counterexample is probably the company Nike. Nike is a MNC which has decided since the early stage to outsource its production massively to China, to take advantage of the low costs of labour as well as poor human rights and controls in the countries where production was outsourced. As explained by Spar, Nike is a perfect example of MNC which suffered from a bad Corporate Image after the world discovered the scandal concerning child labour. The question that comes up immediately here is, producing cheaper, maybe, but until which limit? Should the company respect the corporate rules of the Headquarter country or of the country where the production is outsourced?

As described by Spar, outsourcing can have sometimes a dramatic effect on Businesses. For her, Nike appears to be the perfect example proving it. She advocates that for Nike, “labour criticism drove the 1998 downturn: Nike became a victim of its own popularity remarked one analyst: “When I was growing up, we used to say that rooting for the Yankees is like rooting for U.S. Steel. Today, rooting for Nike is like rooting for Microsoft.” The company asserted that criticism of Nike’s labour practices had nothing to do with the downturn. But it was clear that Nike was suffering from a serious image problem. For whatever reasons, Americans were sick of the swoosh” (Spar, 2002).

After these examples we understand that CEOs should pay a particular attention to their corporate image. This is what acknowledges (Fine, 2013) when he suggests that “Intelli-sourcing” will be the future trend for the location decisions and that MNCs will no longer consider low costs of production as their most important priority but instead, will be more careful about their corporate reputations by having a very transparent and ethical supply chain, including manufacturing location as well as sourcing decision.

As we have seen in this section, in term of Branding, Re-shoring appears to be a good branding exercise, very well appreciated from customers.

### **B.3 Environmental reasons**

Environmentally speaking, Re-shoring and Near-shoring appear to be a good thing. This is highlighted by Kim Kelley who declared that “Relocating production to the United States also yields a number of soft but important benefits. These include better control of the manufacturing process, an ability to respond swiftly to customers, and a much smaller impact on the environment as the U.S. plant uses less energy than its Chinese counterpart and is 7,500 miles closer to where the product is sold” (Woh & Kelleher, 2013).

This is also what (Mueller, et al., 2011) are suggesting when they highlight that excluding the labour costs, one of the main reasons why MNCs decided to massively Off-shore to countries such as India and China two decades ago is also the fact those countries had poor environmental concerns whereas in the USA or in Europe, politics and the general opinion was getting more and more concerned for the environmental cause. (Mueller, et al., 2011) are also taking the example of the success of the company Starbucks which is known for its dedication to doing ethical and environmental friendly business, putting in advance the importance of the environmental perception of a company as a positive differentiation factor.

We understand on this short chapter on the environmental reasons that could push organisations Re-shoring that, Off-shoring can have a bad environmental perception and therefore Re-shoring or Near-shoring could potentially be a good alternative for an organisation, especially in term of brand image.

## **Conclusion on literature review**

From this literature review we have learnt that the reasons pushing MNCs Re-shoring can be diverse. On one hand, the rational or endogenous reasons which include, global costs, efficiency, and all the reasons linked to the location advantage; and on the other hand, the intangible reasons such as politics, the corporate social responsibility, the branding strategy and the environmental reasons.

If costs and efficiency really appear to be on the top of the list of the reasons pushing MNC's Re-shoring, it is clear that the political influence has a strong role in this phenomenon too. From Obama to Moser or European leaders, politicians are trying to find ways (tax discount is one of them) to bring businesses back home, and urging CEOs to do so.

Are all types of Businesses Re-shorable? To that question, (Moser, 2013) is saying yes. (Booth, 2013) has a different opinion stating that some industries like those shipping heavy goods definitely have an advantage doing it, however industries such as services or IT should not have issues with staying Off-shored.

(Ellram, 2013) is pointing out the fact that another alternative to bringing business back home could be practiced: "further Off-shoring", meaning transferring manufacturing from a country where cost of labour was interesting for the company Off-shoring, but no longer is, to a country where wages are lower.

### 3. Research Problem and aims of research

As presented in the introduction, and exposed in the literature review, the Re-shoring phenomenon is relatively new. If academic research on this subject is still at its early stage compared to the studies made on a topic such as Off-shoring; it is interesting to see that the number of case studies is increasing every month, and so is the media coverage.

If some rational reasons such as cost, efficiency and reduction of the risks are often evocated, other factors can also be considered as catalysts when it comes to Re-shoring. From Obama's speeches in the USA (Obama, 2012) to Montebourg's pressure to bring manufacturing jobs back to France (Glannoulis, n.d.), it seems clear there is a trend in the politician world: Doing business patriotically. Are the efforts made in appearance by western politicians trying to bring jobs "back home" sufficient to stop the transfer of manufacturing jobs overseas? Regulations and taxation policies in third world countries are usually very favourable to western countries when they outsource. Are western governments capable to compete on this field?

Another point highlighted in the literature review is efficiency. Inefficiency, high inventories and risks of obsolescence in offshored factories are often pointed as strategic issues for Off-shoring organisations. In this instance, does Re-shoring represent the only option? What are the global costs associated to such transition? Would Re-shoring be interesting for all type of industries or some more than others?

As shown in the literature review, products "Made in home" are well appreciated. Said that, can we consider Re-shoring as a competitive advantage in term of branding strategy for MNCs doing it? What is the effect of Re-shoring on sales?

If a lot of studies were conducted on the results of the Re-shoring Initiative in the USA, what is the current situation in Europe? This question will lead us to wonder if the political camp of countries government effects on MNCs decision's to Re-shore.

Another interesting point will be to ask the interviewees questions about the financial performance of companies before and after Re-shoring and determine, based on those live case studies, the repercussions of such strategic decision.

The aim of this study is to identify if this new trend that is Re-shoring represents the next strategy for MNCs or if this trend is simply a minor trend followed for branding purposes, publicity and political lobbying.



# 4. Methodology

## 4.1 Research Design

In order to achieve the purpose of this dissertation, a basic qualitative research method is used. According to (Merriam, 2009), this method is the ideal method in order to extract information based on experience. The Re-shoring phenomenon being a relatively young trend, the literature on this subject is limited; and therefore this research method appears to be ideal, especially since the phenomenon is so far observed, but not fully understood. Moreover, going for a quantitative research would have not been strategic because public is in general not fully aware of Re-shoring, and therefore the information extracted from the questionnaires would have not been very accurate. One option could have been to send questionnaires to people directly involved in Re-shoring, however, it was discovered that it is very difficult to access people having such strategic positions, and that for confidentiality purposes, most of them would refuse any form of communication and exchanges on this subject. Therefore, the sample of information collected would have been too small. To conclude, quantitative research does not appear as the correct way to collect information on Re-shoring.

For (Merriam, 2009) in qualitative research, data is collected via interviews and case studies.

The research is conducted by doing a series of interviews with leaders which are either involved in a Re-shoring plan directly, or part of an organisation sponsoring it. To balance this, an interview was conducted with the director of a company which has Off-shoring as business model and do not intend to change this.

Most of the research and thesis done on this subject are based on facts rather than on a confrontation of reasons pushing MNCs Re-shoring. This dissertation will be different on that aspect, especially due to the diversity of the panel of interviewees and their strong involvement and knowledge in both camps, Off-shoring and Re-shoring.

## 4.2 List of Interviewees

For the purpose of this Qualitative research on Re-shoring, 4 leaders were interviewed. In order to get as relevant information as possible the decision was taken to interview the following leaders:

**Interviewee 1:** Working as Senior Vice President in Merchandise Finance & Strategy for one of the largest American Food Retailer. His company is currently Re-shoring. Interviewee 1 was contacted by Harry Moser on my behalf, and for the purpose of this dissertation. He accepted the interview, but expressively requested his name and the name of his company not to appear on any document publically available. Interviewee 1 has a MBA in Finance from UCLA, and has worked at several positions within the organisation over the past 16 years.

**Interviewee 2:** Paul Ruiberege is working as Brand Director for a multinational food and beverage company in Jakarta. Born in Geneva, he decided to expatriate to Indonesia after receiving his Masters from the University of Saint Andrews. Rich of 21 years' experience in Indonesia including 12 years working for his company's main competitor, and nine for the company he is currently working for, Paul is giving us the opportunity to discover a business which has outsourced a part of its global production from Europe to Indonesia, but which due to the recent bad product perception of some of its products produced in Indonesia had no other choice than sending the production back to Europe in order to stabilize the loss in sales. Paul was first met at the "Off-shoring Week" exhibition held in Paris in June 2014, where Paul was representing his company.

**Interviewee 3:** Harry Moser is the Founder and President of The Re-shoring Initiative, American organisation sponsored by the Obama administration, supporting American companies in their Re-shoring procedure. I managed to contact Harry via LinkedIn. He immediately proposed me the possibility of a meeting or to have a phone interview. Harry being living in Chicago, we decided to spend time over the phone. Two interviews were conducted, one in May, the second one in July 2014. Harry has a MBA from The University of Chicago and was President of a number of American organizations before starting The Re-shoring initiative in 2009.

**Interviewee 4:** Working as an Associate Director for an Asset Manager based in Dublin, Seamus C. has a background of over 14 years in Finance and Structured Products. The company he recently joined is Jersey based and has Off-shoring as part of their business strategy since inception. It has been clearly mentioned from the first minute of the interview, its company (which prefers not to have its name mentioned in any thesis or dissertation) has no intention to Re-shore its business back to Europe. Seamus C. is currently finalizing his MBA at National College of Ireland.

Regarding the sample of interviewees, the first one to be approached and who immediately accepted is Harry Moser, which was contacted via LinkedIn. He introduced me to interviewee 1.

A total of eleven potential interviewees were contacted via LinkedIn, telephone and email. Six positively answered and five were interviewed. Only four were selected in the end, for the relevance of the information resulting from the interviews. The fifth interview was very short, and the interviewee clearly mentioned that his organisation was very strict and limited in term of the information he could provide me with due essentially to confidentiality, and the sensitivity of the information on the strategic point of view. Therefore it was decided to remove this interviewee from the list.

### **4.3 Interview Structure**

Despite the disparity of the interviewees and their different backgrounds, the same four topics were discussed during each interview, and this, in order to be able to later on, analyse and compare the data collected. The four pillars which will be in each questionnaire are:

- 1- Cost Management (direct & indirect)
- 2- Supply-chain Efficiency
- 3- Political involvement
- 4- Branding, Impact of Re-shoring / Off-shoring on the organisation (reputation, sales, financial performance, and Corporate Social Responsibility aspect)

The questions during the interviews were similar, and only a few points differed depending in which of the below type the interviewee was:

- a- Member of a company Re-shoring, or working at a Re-shoring plan
- b- Member of an organisation sponsoring the Re-shoring initiative
- c- Member of a company Off-shoring

Interviews lasted approximately one hour each, and the transcript of the interviews is available upon request. The type of interview was semi-structured as per Patton's model (Patton, 2002) below. The results of the interviews will be analysed and compared per topics in the "Findings" section.

<b>The informational conversational interview</b>	<b>The interview guide</b>	<b>The standardized open-ended interview</b>
<u>Unstructured</u>	<u>Semi-structured</u>	<u>Semi- structured</u>
<p>Questions flow from immediate context; no predetermination of questions, topic or wording</p> <p>→ Conversational flow as a major tool of fieldwork</p>	<p>The interview guide provides topics or subject areas in advance, in outline form</p> <p>→ Within the framework of the guide, the interviewer is free to explore, probe, and ask questions</p> <p>→ However: focus on a particular predetermined subject</p>	<p>The exact wording of questions and their sequence are predetermined</p> <p>→ Each respondent gets to answer the same questions in the same way and in the same order, including standard probes</p>
Data gathered will be different for each person interviewed	Data collection more systematic	Enhanced comparability of data

*Source: Patton (2002)*

## 4.4 Data analysis

Each interviewee will be asked a series of questions on the following topics:

- (i) Original reasons pushing MNCs Off-shoring
- (ii) Risks of Off-shoring
- (iii) Re-shoring
- (iv) Cost Management (direct & indirect)
- (v) Supply-chain Efficiency
- (vi) Political involvement
- (vii) Branding, Impact of Re-shoring / Off-shoring on the organisation (reputation, sales, financial performance, and Corporate Social Responsibility aspect)

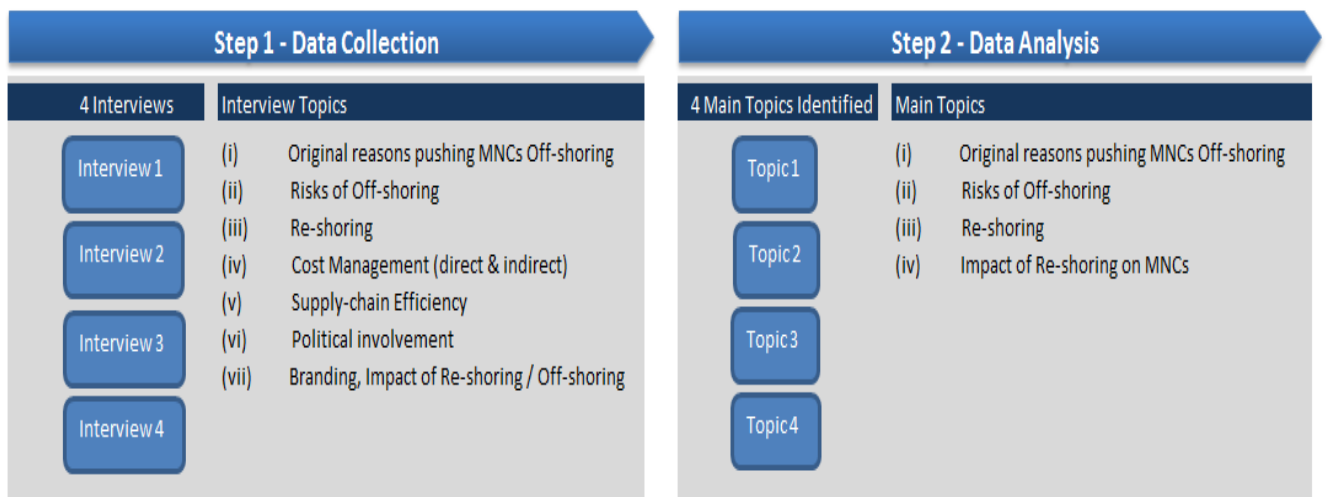
Answers will be regrouped and the analysis and comparison of the answers will be presented in the next section. The finding section of this dissertation will be composed different sections corresponding to the main topics discussed during the interviews.

Answers coming from each interviewee will be exposed, compared and discussed. The interviewee’s point of view will also be linked to the literature review, previous section of this dissertation.

The information collected in the data section; in addition to the literature review previously performed contribute to present a very complete view of the Re-shoring phenomenon on both aspects, technical and theoretical. The below methodology description chart shows step by step the way the method used during the following section.

For the sake of clarity and in order to synthetize the information collected during the interview, a summary table will be presented in the Appendices (Appendix 1), which will allow the reader to link the information collected during the interviews against the information evidenced in the literature review.

### Methodology Description Chart





## 4.5 Pilot Study

Considering the quality of the panel of interviewees selected for this dissertation, and their respective experience on the subject, and the level of reliability on the information collected, no pilot study was conducted.

## 4.6 Ethical issues

It has to be noted that no ethical considerations are arising as a result of this research. However, some interviewees refused to have their family and company names diffused in a dissertation publically available, and this for confidentiality and corporate strategy purposes. The transcripts of the interviews will be kept by the author of this dissertation. The author agreed with all interviewees to destroy them once the dissertation has been corrected.

Three of the interviews were conducted over the phone and lasted approximately one hour (interviewees 1,2 & 3) and the last interview was conducted in a classroom at National College of Ireland.

Before the end of each interview, the interviewee was given the main ideas collected by the interviewer in order to make sure data collected was accurate. Also, an email was sent to each interviewee with the main points discussed during the interviews and this in order to be fully transparent.

## 5. Findings & Discussion

The aim of the interviews is to understand the original reasons which pushed MNCs Off-shoring, to analyse the different risks of doing it, and get the interviewees point of view on Re-shoring as being the next credible strategy for MNCs to remain competitive. The following points were discussed during the interviews and the result of these discussions will be presented below following this order:

- (i) Original reasons pushing MNCs Off-shoring
- (ii) Risks of Off-shoring
- (iii) Re-shoring
- (iv) Impact of Re-shoring on MNCs

The information collected during the interviews will be linked and compared to some of the theory highlighted in the literature review.

### 5.1 Original Reasons pushing MNCs Off-shoring

When asked about the original reasons which pushed companies Off-shoring in the first place, cost of labour appeared to be the first evident reason for interviewees (i), (ii) and (iv). Paul Ruiberege from Nestle declared that twenty years ago at the start of his career, not following the trend of Off-shoring, would have had a devastating effect on the company in which he was working at the time. “All of our competitors were doing it, and therefore increasing their net margins, not doing it would have been a suicide at the time”. Interviewee (i) had a similar reaction, and added that at the time, Off-shoring in the Food Industry was much easier than is it today and this mainly due in his case to “the bad customer perception of Offshored product in this industry”.

At the difference of interviewees (i) and (ii), the interviewee (iv) is working for an organisation for which it was decided to setup a production centre in India since the creation of the organisation, and therefore did not have to suffer from a transition period. “Founded in 1984, our company decided to setup directly an office in India rather than opening in Europe and only after, sending operations abroad and running the risk of having a transition period, with a potential negative aspect on the commercial side. Our main idea was obviously to manage to get the lower prices possible for our clients by Off-shoring part of our production to India. The first years were challenging mainly due to

communication issues as well as a high turnover. After a few adjustments, essentially in term of controls, the operations were rationalised after just above a year”.

When asked the same question to Moser, the interviewee (iii) declared that “most of the time organisations moved and are still moving their production sites to low labour countries only thinking about the economies they will realize on the wages. They do not thing of the global picture, something we call the Total Cost of Ownership (TCO). Most of the time, the Total Cost of Off-shoring the manufacture is not as good as what CEOs would think it is”.

Interviewees (i), (ii) and (iv) all admitted that Off-shoring in the 1980’s was very advantageous on the taxation side, since the countries welcoming MNCs were offering massive tax deductions.

## **Conclusion and discussion on the original reasons pushing MNCs Off-shoring**

From this section on the original reasons pushing MNCs Off-shoring in the first place, it was shown from the interviews that the low cost of labour was the main reason for Off-shoring. It was also recognised by one of the interviewees that Off-shoring was a trend, and a market practice in some industries. It was acknowledged that not following the trend would have had some bad repercussions on the profitability of the organisations.

If wages represent an important reason for Off-shoring, Tax deductions offered by China and India to MNCs sending their production abroad appear to also represent a non-negligible competitive advantage.

Those reasons evocated during the interviews have to be linked with the information collected during the literature review. If Off-shoring was cost effective in the past, is it still the case in 2014? From (Simchi-Levi, 2012), we understand that oil price was three times cheaper ten years ago, which means the total cost of producing a unit; including the transportation cost was more interesting in the past. Levi also pointed out the fact wages have increased by over 20% a year in China recently. From Levi, there is less and less competitive advantage by having its production in India or China. This point of view is balanced with the vision of (Heineman, 2012) for whom, despite the increase in transportation costs and wages; Off-shoring remains the only option to remain price competitive.

After this conclusion regarding the reasons pushing MNCs Off-shoring in the first place, let’s now have a look at the actual risks behind Off-shoring.



## 5.2 Risks of Off-shoring

For interviewees (i) and (ii) the main risk appears to be the reputation risk. Ruiberege declared that “having worked in the very specific industry of the nutrition for new-borns for the past nine years in Jakarta he realises some products should probably not be outsourced”. Taking the example the Nestle Scandal with baby food, Ruiberege argued that “when it comes to the food industry, CEOs should be very careful about what they decide to Offshore and when they Offshore, where they would like to Offshore. People today have no problem buying a t-shirt made in Bangladesh; the customer answer would be different if we were talking about food or even automobiles”. Interviewee (i) added that his “company made a large campaign of “Made in Home” products three years ago. It was impressive to see customer’s responsiveness to this. Sales on local food productions went up by over 15% over the first 8 weeks on certain products”.

When asked the same question about the main risk when a company is Off-shoring to interviewee (iv), the answer was clear: “Communication is definitely one of them”. This is actually the main reason why his company centralized all the customer service activity in Europe and did not Off-shore it.

Moser obviously had a long list of Risks regarding the Off-shoring activities which are giving more weight to the supporters of the Re-shoring Initiative. He answered “language is one, as communication is key in any job, at any level, but Off-shoring represents much more risks that should not be underestimated like the cultural gap. Hierarchy and respect for management is very different in a country such as China compared to India, or Morocco. Other issues can happen in countries living in political instability where a president can be replaced in a couple of days and therefore destabilize the entire economic context”. He added that “a large proportion of MNCs Off-shoring from the USA to China is seeing their margins reduced every five years. Indeed, the Chinese government is re-planning its budget every five years, and obviously the subject of the taxation for foreign companies is discussed, and as a result taxes keep rising up”.

## **Conclusion and discussion on Risks of Off-shoring**

From this section on the risks of Off-shoring for organisations, we understand from the feedback of all interviewees that Off-shoring is not a risk free operation. All interviewees appear to agree that sometimes the quality of the final product delivered by offshored business is not as good as it should be, and this, not only during the transition phase (when the company starts its offshored activity). This information collected during the interviews regarding the risks of Off-shoring can be linked with what Zinser (2013) acknowledged in his report when talking about the risks of having a long supply chain and the “opportunities for damage and reduction in quality” (Zinser, 2013).

An interesting point which was also evocated by the interviewees is the fact the reputation of the company Off-shoring can quickly be affected. This acknowledgement can easily be linked to the section of the literature review on the Corporate Social Responsibility aspect of business, and what Stavriotis (2009) declared that CSR is nowadays “a significant factor in business success, and that companies may think twice about employing workers in countries with poor human rights records” (Stavriotis, 2009). As exposed previously, Nike is the best example of a company which went too far in its Off-shoring process and paid out the full price for it, in term of brand reputation and image.

Depending on the type of product Offshored, customers will perceive differently the fact the company is Off-shoring. Customer would be much more Offshore tolerant with products such as textile than they would be with food for example.

From the interviews, we also learnt that communication and cultural gaps also appear to be serious issues with all companies Off-shoring.

## 5.3 Re-shoring

### 5.3.1 Reasons pushing organisations Re-shoring

Moser is the father of the Re-shoring Initiative in the USA. When asked about the main reasons why should businesses think about Re-shoring, he immediately jumped on the occasion to say that Western large organisation should start realising how blind they were over the past couple of years, arguing that “CEOs should start seeing the reality of the cost of producing abroad. Figures are explicit: To take only the example of the wages, Chinese wages converted in US dollars went up by 25% per year over the past ten years when in the US it only went up by 2%! A second thing is that CEOs should also realize that the economies they were doing on a product ten years ago are today certainly not as attractive as they were. Business has changed drastically”.

Moser was asked to give his top 10 of the best reasons for an organisation to Re-shore. His answers were:

- 1- Delivery time improvement. By getting closer to the final customers you can serve them faster
- 2- Total Cost of Ownership
- 3- Quality Improvement
- 4- Freight / Transportation Costs Improvement
- 5- Wage Cost Improvement
- 6- Customer Responsiveness Improvement
- 7- Image / Brand in the sense of customers prefer consuming produces locally made
- 8- Higher Productivity
- 9- Innovation and Product Differentiation Improvement
- 10- Inventory Improvement

This list of 10 reasons was exposed to the interviewee (iv) which is working for a European Asset Manager based in Ireland, and has no intention doing any Re-shoring. He acknowledged that “the question of the wages increase was always taken into consideration when organising the annual forecast for the organisation. He said that “on our side, we do not suffer from any issue with time delivery since our product is basically computerized data; also, our quality is our priority since the beginning. If most of the operations are processed from India in our Production Centre, all controls and validations are performed from our “excellence centre” in Europe, mainly in Dublin and London.

This resolves the issue with investors getting worried with transaction controls sent out or Europe, and also ease the relationship with the Central Banks in the UK and in Ireland. I agree on one of the points from Moser regarding the image of the company and the quality: We faced challenges in term of communication when first arrived to India and therefore immediately decided to keep all client exposed positions in Europe. The other main issue was the shortage in qualified employees, but this issue is less and less true. Overall, the decision for the organisation to Offshore its production from the beginning was good, the plan is even to start developing more training in India in the coming years in order to develop local talents and maybe tomorrow's leaders". Exposed that way, it gives the idea that this company will never decide to Re-shore to Europe, and that Off-shoring seems to be the ideal option for organisations in Financial Services.

A question was asked to Moser regarding the type of industry where companies are currently Re-shoring. Moser answered that "there is no particular industry; all industries can gain with Re-shoring. Industries such as food and chemical first come to mind, as both are hard to ship and can be done competitively closer to home. Automotive and machinery are part of the industries we are targeting with the Re-shoring Initiative. If it made sense to send those industries abroad in the 90's, this is no longer the case today. To answer the question with simplicity, all type of industries have an interest Re-shoring, and this is shown in the disparity of businesses doing it, from General Electrics to Wham-O, a company producing Frisbees who recently decided to relocate its production from China, back to California!". From Moser's answer it appears capital for organisations to reduce the size of the supply chain in order to gain competitively.

Interviewee (i) went in the sense of Moser when asked about the outcomes of Re-shoring for its organisation: "by selling products sourced locally, we managed to increase the amount of sales, and reduce our transportation costs drastically. Our margins were increased and clients were more satisfied. Overall this has been a very positive decision at the group level, and also for the country since jobs were created in the US".

### **5.3.2 Impact of Re-shoring on MNCs**

If the pervious section was focusing on the reasons pushing organisations Re-shoring, this section will cover the impact of Re-shoring in term of Branding, reputation, and finance.

A question was asked to Moser about the impact of Re-shoring on MNC's brand recognition. Moser started by highlighting the fact that "in today's economic situation, where unemployment is high,

seeing an American company sending its business back home and creating jobs locally can only be well received by customers. On that field, Re-shoring represents a Win-Win situation for the company and for the local economy". Interviewee (i) indicated that "in the food industry, sourcing locally and selling "Made In Home" products definitely has a positive impact on sales".

With his company sending production back from Jakarta to Europe, Ruiberege obviously agreed to say that Re-shoring is very positive for the image of his company. He added "after the scandal of the Infant Nutrition in Asia, we kept losing sales every month for six consecutive months. We renamed the product, and highlighted the fact the product was made in Europe and saw the sales progressively coming back to where they were before the scandal".

## **Global conclusions on discussion and findings**

In this global conclusion on the section “Discussion & Findings” we will be going through the four main topics mentioned below and summarize the main ideas and concepts collected and discussed:

- (i) Original reasons pushing MNCs Off-shoring
- (ii) Risks of Off-shoring
- (iii) Re-shoring & (iv) Impact of Re-shoring on MNCs

### **(i) Original reasons pushing MNCs Off-shoring**

Interviewees agreed to say that the initial reason pushing MNCs Off-shoring is usually cost, and this goes in the sense of the opinion of (Heineman, 2012) who thinks Off-shoring is the only business model that should be defended. If most companies decided to relocate for cost reasons as well as a strong desire to remain competitive and maintain comfortable margins –and this, despite communication and quality issues - other companies admitted they initially did not think about Off-shoring in the first place, but simply felt they had to follow the trend and send production abroad.

### **(ii) Risks of Off-shoring**

Offshoring is not a risk free operation for MNCs. First of all there is a risk during the Off-shoring transition, and as agreed by all interviewees, day to day business is also riskier when Off-shoring. This is also acknowledged by (Zinser, 2013) who highlighted that businesses are riskier when supply chains are longer.

### **(iii) Re-shoring & (iv) Impact of Re-shoring on MNCs**

From Moser and the other interviewees we understand that if Off-shoring was an excellent way to remain competitive in the past thanks to low wages and low ethical considerations, the situation is very different today and companies are now seeing Re-shoring phenomenon differently. Reducing the size of the supply chain seems to be an objective for more and more MNCs.

On the branding side, customers seem to perceive positively when MNCs are RE-shoring or Near-shoring.

Politically speaking, presidents of the western countries are putting an effort on trying to bring business back to their country. It was acknowledged by two of the interviewees that the political

lobby exists when it comes to Re-shore business. One interviewee admitted that for him, the Re-shoring concept was probably invented by politicians to solve the unemployment equation.

After this brief conclusion on the finding & discussion section, the next and final section of this dissertation will be the conclusion.

## **6. Conclusion**

If some people consider Moser as being too optimistic, it is clear that the idea of Re-shoring business starts to be in people's mind and that, in the business news, in political discourses and also in the corporate world. As of today, the number of jobs directly linked to the Re-shoring phenomenon is still marginal; however it was demonstrated by recent surveys that a significant number of US CEOs are planning to re-shore to the US (Mouhoud, 2007).

### **6.1 Limitations**

One of the limitations of this study was the research design, with questionnaires for four interviewees covering four main areas of Off/Re-shoring. The number of interviewees and the number of subjects covered certainly represent a limitation to this research, and this, despite the quality of the panel of interviewees.

Another limitation to this study is the fact most literature available on Re-shoring is linked to researches made on US MNCs bringing back business to the US, and therefore the information is quite restricted about European countries Re-shoring or any other country in the world doing so.

The last limitation is the fact this subject, at the opposite of Off-shoring is relatively new, and therefore the amount of literature and researches covering this subject remain limited.

### **6.2 Future research**

This study gave us the opportunity to have a good overview of the Re-shoring phenomenon. However, based on the information collected during the interview process and the literature review, some areas appear to be interesting subjects for future researches.

One suggestion would be to do a dissertation based on case studies of a certain number of MNCs Re-shoring and analyse their location decision strategies.

One other suggestion would be to analyse the role of politics on the Re-shoring movement, in other word, establishing if MNCs would or wouldn't Re-shore without political pressure.



In this dissertation we analyse the Re-shoring phenomenon versus the Off-shoring one, it would also be interesting to conduct a research on Off-shoring versus the Further-shoring phenomenon.

## 6.3 Conclusion

In conclusion, based on the results of this research, we can clearly say that the phenomenon starts being established in the business world. The reasons pushing MNCs Re-shoring are endogenous and exogenous: On one hand the desire to control costs – rising traveling costs, rising wages, energy cost, rising Taxation – and to control efficiency by producing locally and reducing the size of the supply chain. On the other hand, the pressure from politics to bring business “back home”, and the importance nowadays of Corporate Social Responsibility in business.

Today in 2014, Western politicians are trying to bring jobs “back home” and stopping the transfer of manufacturing jobs overseas. Even if USA are starting to show encouraging signs regarding the taxation of US MNCs ready to bring back all or part of what they initially Off-shored, it appears that taxation policies in countries such as India or China are still very favourable to Western countries Off-shoring and therefore Western governments still have difficulties competing on this field.

From this study we understand that Re-shoring can in theory be applied to any business previously Off-shored, however it appears some sectors would gain more advantages Re-shoring than others. For example, the technology industry or the financial services appear to be industries ideal for Off-shoring, essentially due to the inexistence of transportation costs. Other industries such as automobile firms, with high transportation costs would have a higher interest in Re-shoring.

Today the Re-shoring movement only represents a very small portion of the job creation in the US. If Moser’s supporters acknowledge that the phenomenon is now taking more and more importance; a more sceptical camp is simply answering that Re-shoring’s impact on growth and job creation is very marginal.

Considering the information gathered during this research, thanks to interviews and a review of the current literature on the subject, the author of this dissertation considers in conclusion that, if Re-shoring appears to be a very noble concept, it does not globally represent (for the moment) the next credible alternative to Off-shoring, even if it could be in some rare cases.

Two options appear more credible in the eyes of the author for the future of companies who decided to Off-shore in the first place: The first one being Near-shoring in the light of what a few US

MNCs are doing while bringing manufactories back from China to Mexico, the second one being Further-shoring with the example of certain MNCs of the textile industry which are transferring manufactories from Thailand to Bangladesh to maintain the lowest wages possible.

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## Appendix 1. Summary of Data collected during Interviews & linkage to literature review

Topics Proposed to interviewees	Summary of Data collected during Interviews	Link to literature
1- Cost Management (direct & indirect)	Interviewee 3: Cost = Main factor pushing Organisations Reshoring (Costs= Wages, oil, Taxes, efficiency,..)	Simchi-Levi, 2012 describes 4 main cost pushing organisations Re-shoring: Oil price, Labour costs, Automation processes, The end of Tax advantages
	Interviewee 4: Some supporters of Off-shoring maintain their initial idea and will not change to Re-shoring but will most likely opt for "Further-shoring"	At the opposite: Heineman, 2014 acknowledges the only way for Organisations to remain competitive is to continue Off-shoring
2- Supply-chain Efficiency	Interviewee 3: Total Cost of Ownership allows companies to see if Re-shoring could be an alternative to the Off-shoring	Moser, 2014 has developed a method called the TCO (Total Cost of Ownership) which includes all costs factors and shows that in the end Off-shoring is often no longer the most profitable way to remain competitive
	Interviewee 3: Importance of sponsoring the shortest possible supply chain via Re-shoring or alternatively Near-shoring	Booth, 2013 acknowledges companies are now discovering the disadvantages of distance and long supply chains
3- Political involvement	All interviewees recognised a higher level of damages when Off-shoring However, for interviewee 4, it will not change the corporate strategy of his company since cost advantages are still very high	Zinser, 2013: Higher level of damages on production sites when Off-shoring
	Interviewee 3: Politics must push MNCs reshoring as it is better for organisations and also allows wester countries to fight against unemployment	Moser, 2014: Politicians in the US should encourage MNCs Re-shoring via Tax reductions in the US
	Interviewee 3: Currencies are not playing in favour of countries Off-shoring	Smith, 2012: Currency risk with companies Off-shoring in China
4- Branding, Impact of Re-shoring / Off-shoring	Interviewees 1,2 &3: Sourcing locally has a positive impact on results. Doing patriotic business increases sales	Moser, 2014: Re-shoring & Near-shoring - Fondillier, 2012 on "Made in USA" products Leuning, 2012: Sceptical on Re-shoring: "only an alternative to hide political incapadities to resolve unemployment"
	Interviewees 1&2 realised Off-shoring had a bad impact on sales due essentially to the bad perception of Off-shored products in their respective industries Since they Re-shored / Near-shored the product perception is better	Who & Kelleher, 2013: "Made Here" products are sold more than any other products Spar, 2012: The example of Nike Fine, 2013: The next step is intelli-sourcing
Interviewee 4 does not intend to Re-shore as Off-shoring was in the Corporate strategy since inception and is part of the business model		

# Submission of Thesis and Dissertation

**National College of Ireland**  
**Research Students Declaration Form**  
*(Thesis/Author Declaration Form)*

**Name:** Vincent PETITJEAN

**Student Number:** X12101702

**Degree for which thesis is submitted:** Master in Business and Administration

## Material submitted for award

- (a) I declare that the work has been composed by myself.
- (b) I declare that all verbatim extracts contained in the thesis have been distinguished by quotation marks and the sources of information specifically acknowledged.
- (c) My thesis will be included in electronic format in the College Institutional Repository TRAP (thesis reports and projects)
- (d) *Either* \*I declare that no material contained in the thesis has been used in any other submission for an academic award.  
*Or* \*I declare that the following material contained in the thesis formed part of a submission for the award of

---

*(State the award and the awarding body and list the material below)*

**Signature of research student:**



**Date:** September 1<sup>st</sup> 2014