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SCHOOL OF BUSINESS, ECONOMICS AND LAW

RESHORING

- RATIONAL OR IRRATIONAL MOTIVES
BEHIND THE DECISION TO RESHORE

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Abstract

Offshoring has historically been the norm for American originated multinational corporations (MNC), to utilize advantages specific for the offshore location, such as low wages. After several years of this trend a new phenomenon has emerged, which possibly can be a new and upcoming trend, called reshoring. Reshoring is the bringing back of an operation from the offshore nation to the country of origin, the 'home country'. Why is this potential shift taking place?

Since no theories are yet formulated purely for reshoring, this thesis will use different classical theories to analyze the reshoring phenomenon, in order to answer the research question "What are the motives behind reshoring?" The classical theories will be used on data found via case studies on reshoring MNCs and manufacturing competitiveness in two countries of focus, China and the United States.

This thesis reveals and disregards both rational and irrational motives regarding the decision to reshore. It is concluded that there are motives that can be disregarded, motives that are non-generalizable as well as rational motives that are likely and generalizable for reshoring. However, there are also several irrational motives that are likely and generalizable, and when compared with the rational, the irrational motives seem to be more dominant. Due to non-generalizable motives for specific cases, reshoring could be rational, however this implies that reshoring, as a generalizable business strategy, would be irrational.

Keywords: *reshoring, offshoring, rational, irrational, motive, USA, China*

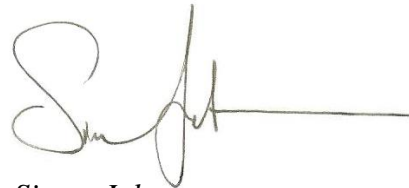
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The authors,



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Simon Johansson

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1. Introduction

1.1. Background

The reshoring phenomenon, to bring back operations to the country of origin, is a new phenomenon that has attracted the attention of many. To fully understand reshoring, the following section will provide a description of the historical development of the globalization of the global economy.

Charles W. L. Hill (2011) states that, over the past thirty years a fundamental change has been taking place in the world economy. Step by step, the economy has been moving away from the time when national economies were relatively self-contained entities, often isolated from each other by barriers hindering cross-border trade and investments, to a more global economy. This process of declining cross-border barriers is often referred to as globalization. The globalization of production is the sourcing of goods and services from locations around the globe to take advantages of national differences in cost and quantity of factors of production, such as labor and capital.

Hill further determines that in today's interdependent global economy an American may own a computer, with some of its components manufactured in China, other components produced in India, all later assembled in South Korea, and then shipped to retailers in the United States (U.S.). Behind such global production networks are strategic decisions much based on different motives, such as efficiency trying to reduce costs. China is long known for its low labor- and production costs, attracting inward foreign direct investment (FDI) since late 1978 when the leadership of China decided to move its economy away from a centrally planned socialist system to an economy that was more market driven. Contributing to the approximately 10% growth rate annually compounded, attracting huge amounts of FDI.

Also, labor abundant countries, such as China, have advantages in labor intensive production compared to the capital abundant west. This was a contributing reason for the massive movement of production from Western countries to labor abundant countries with far more favorable wage levels for equivalent work skills. This approach where production is moved abroad, either in-house or outsourced, is called offshoring. It became a necessity for many companies as one of the principal ways of cutting costs to maximize shareholder wealth, and has thus been a trend for the last decades. However, during the past few years a new alleged trend has emerged among American originated MNCs with offshore production in China. Several of these MNCs are now bringing back e.g. production to the United States, a phenomenon now known as reshoring.

1.2. Problem Discussion

With offshoring being such a salient trend during the last decades, the phenomenon of reshoring has received quite some attention in media. This section will bring up some current debates on the topics of offshoring and reshoring in order to examine this supposedly new shift in globalization.

As globalization has unfolded and global production networks have been established, there are now hardly any large MNCs that have not sent essential parts of their production and other operations overseas. Some industries, such as consumer electronics, are almost exclusively offshored to Asia (Booth, 2013). However, the movement from West to East has naturally resulted in Western workers losing their jobs, with anxiety growing among those Westerners who believed their jobs were protected from foreign competition (Hill, 2011). Subsequently offshoring became something the public in Western countries feared. According to a survey done in 2010 by NBC and the Wall Street Journal (Booth, 2013), 86% of the Americans polled blame offshoring for the current financial crises. These views of the public could be an underlying reason why MNCs are reshoring production to the U.S. from China and for the protectionist policies now arising in the West, with politicians arguing for keeping jobs local and buying local.

In this vein, the U.S. ‘Reshoring Initiative’ (N.D.) was founded in 2010, promoting U.S. MNCs to bring back offshore production to the United States. This is against most accepted theories on globalization used during the past decades, such as Oliver E. Williamson’s (1981) transaction cost theory or John Dunning’s (1988) eclectic paradigm, basically dictating companies to seek cost advantages in emerging economies. The Reshoring Initiative has the mission “to bring good, well-paying manufacturing jobs back to the United States by assisting companies to more accurately assess their total cost of offshoring, and shift collective thinking from ‘offshoring is cheaper’ to ‘local reduces the total cost of ownership’.” (Reshoring Initiative, N.D.). This group is consequently trying to bring back the production it considers good and well-paying. However, if its agenda and promotion efforts, which they would like to categorize not as lobbying but as “education, encouragement, and enablement” (Moser, 2013, personal correspondence), but which arguably also could be called protectionist lobbying, have had effect or not on the motives for reshoring of MNCs will be researched. Regardless, it is clear that the Reshoring Initiative has received a good deal of attention lately, with several reports and articles written on the matter, one example being The Economist’s special report ‘Outsourcing and Offshoring’ in January (Booth, 2013). In the wake of this report, the founder

of the Reshoring Initiative, Harry Moser, the former president of GF AgieCharmilles, participated in a debate arranged by The Economist (2013b) discussing the questions “Do you think that companies owe anything to the place they came from? Or is the notion of ‘home’ now largely irrelevant for the corporate world?” (The Economist, 2013b) Moser won the debate on January 22nd, 2013 by 54% to 46% arguing that MNCs have a duty to maintain their strong presence in the country of origin, contributing to job opportunities for the citizens of the nation. His opponent, Professor Jagdish Bhagwati, a strong free-trade advocate, argued that as long as the investments abroad are not a result of distorting tax policies but of other advantages the investments will be beneficial for the MNC, and thus also for the country of origin. He states that reshoring makes little sense if it does not produce any new externalities that in the end increase profit for the MNC. Promoting, subsidizing, or forcing MNCs to reshore would thus be in vain.

Besides political lobbying, the Reshoring Initiative (N.D.) has created a Total Cost of Ownership Estimator™ that aims to give a clear view of costs, direct and indirect, by measuring 36 different variables of production allocation in the U.S. and abroad. These could be costs derived from logistics, tariffs, travels, and communication as well as risks such as currency fluctuations, quality issues, political instability, and intellectual property risks. On that account, as wage differences in the world even up and automation grows in many industries, which will be explored further in this thesis, there comes a point when these costs become greater than what can be saved from allocating production in labor abundant countries. Implementing these 36 different variables into the earlier mentioned classical theories makes cost estimations of offshoring a no-brainer. It would be very helpful for managers to be able to use well-known and readily accessible theories since the phenomenon of reshoring is quite new and thus not reviewed in textbooks and with few or perhaps no theories yet formulated purely for it. However, if the adoption of classical theories, such as the previously mentioned by Williamson (1981) and Dunning (1988), is to provide realistic results, depends on the accuracy of the variables used in them. It is possible that the 36 different variables presented by the Reshoring Initiative could be biased, maybe excluding some important variables, thus providing decision makers of the MNCs with answers working in the Reshoring Initiative’s advantage.

Nevertheless, something has made U.S. originating MNCs such as Apple, General Electrics, and numerous other American originated MNCs to reshore, or plan to reshore, previously offshore production (Booth, 2013). These companies could be taking on the social responsibility to create more jobs and reduce the trade deficit, which Mr. Moser is arguing for

(The Economist, 2013b). However, as stated by Professor Bhagwati (The Economist, 2013b), the entire world is the 'home market' for an MNC and the country of origin will benefit as long as production is placed where it is most profitable, provided that no distorting policies and subsidies exist. Furthermore, the U.S. government could provide these companies with distorting subsidies, but if not so, these reshoring companies must be, or at least believe that they are, reaping other benefits, such as the externalities Professor Bhagwati is mentioning. It is also possible that these companies believe that the turning point in cost benefits of having production in China has been, or soon will be reached and that costs can be minimized in the longer run by reshoring back to the United States. Additionally, it is possible that profits can be generated by appealing to U.S. consumer preferences, possibly affected by political agendas, of 'buying American', with reshoring then being mainly a publicity stunt.

1.3. Research Question

On these grounds, this thesis is intended to answer the following question:

What are the motives behind reshoring?

This will be explored by researching the following:

1. What is the reasoning behind reshoring from China for U.S. MNCs?
2. What are the direct and indirect costs?
3. What are the competitive advantages in China and the U.S.?
4. How do political agendas and lobbying groups such as the Reshoring Initiative affect reshoring?

1.4. Purpose

The purpose of this thesis is to help MNCs acquire more insight on their global production networks. More specifically, the research aims to provide corporations with new points of views regarding the localization of manufacturing to truly understand why or why not to relocate production.

1.5. Limitations

The research will be based on American originated MNCs that have already reshored, are now reshoring, or plan to reshore their offshore manufacturing, in-house or outsource, back to the United States. The reason for focusing on American originated MNCs is because most data can be found on them. Therefore, our findings will not necessarily be applicable to MNCs originating from countries other than the United States. Additionally, our focus will primarily be on operations offshored to China, and for that reason the research may also not be applicable to U.S. offshoring and reshoring in other countries.

1.6. Disposition

The thesis is introduced by a background chapter of global production networks and the development towards offshoring, providing a foundation for the Problem Discussion chapter, which in turn addresses current debates on reshoring and leads up to the research question, the purpose of the research and its limitations. The Methodology that follows explains the chosen methods to collect data of this new phenomenon of reshoring, not abundant in research studies. Due to the scarcity of theories purely for reshoring, the literature review in the Theoretical Framework chapter that will follow will cover classical theories that could be used to explain reshoring. The data on reshoring will then be presented in the Empirical Findings chapter in the form of Case Studies and Studies of Competitiveness of the U.S. and China. Thereon, the data will be analyzed in the Discussion chapter by the adaption of the classical theories to the data on reshoring. The Conclusion chapter will then state the motives that the analysis has shown can be disregarded, non-generalizable as well as likely and generalizable.

2. Methodology

2.1. Research Design

In order to achieve the purpose of this thesis a Basic Qualitative Research method is used. This method is, according to Sharan B. Merriam (2009), used in order to make sense of experiences. This would arguably suit the case of reshoring, where the phenomenon has been observed but not yet been understood. Merriam states that data for a Basic Qualitative Research is collected through interviews, observations, and documents. The research also has characteristics of Merriam's Qualitative Case Study, since cases are studied. However, these cases are not analyzed in-depth as this method suggests, since research on stated motives behind the reshoring of the American originated MNCs would in itself not provide an objective view on the motives to reshore. This since MNCs might not mention, or even realize, every contributing motive behind the decision. Due to this, the observations of stated motives of the chosen American originated MNCs are used mainly as a tool to compare with additional findings based on the differences of the U.S. and China. Consequently, the majority of the research is based on found facts about each nation that can support or challenge the stated motives to reshore, rather than focusing on finding numerous American originated MNCs that have reshored and their stated specific motives behind the decision.

Six reshoring American originated MNCs as well as one American provider, promoting reshoring to its clients, are studied for this purpose. The choice is not based on finding specific firms in a specific industry nor finding specific firms of a specific size, rather is the choice aimless.

Few or no textbooks mention this new supposed trend of reshoring. Therefore, research is mainly conducted by studying secondary data, i.e. literature in the form of debates, newspaper and journal articles, business economic theories, and other publications as well as researching current events via media and looking at case findings. Primary data works as a complement with interviews of parties concerned. The research will thus, in line with Merriam's Basic Qualitative Research method, consist of data from interviews, observations, and documents, which is then processed to provide an interdependent explanation.

2.2. Approach

The research is conducted by testing if possible motives to reshore, based on both primary and secondary data in the Empirical Findings, are valid in the chosen theories. Deductive research is the testing of theories by the examining of reality (Solér, 2013). The research is therefore deductive.

2.2.1. Primary Data - Interviews

The goal is to interview several managers of MNCs that have reshored, other firms, organizations and interest groups affecting or that is affected by reshoring as well as scholars interested in the subject. This is accomplished by e-mail questionnaires and telephone to the reshoring MNCs, potential American suppliers for the reshoring MNCs, the Reshoring Initiative, and free-trade advocates opposing the Reshoring Initiative. The reason why face-to-face interviews cannot be conducted is because the interviewers are located in Sweden, whereas the interviewees are primarily located in the United States. The interviewees are asked open questions about their general views, experiences, and concerns on reshoring, as well as, what they base this knowledge on.

However, after numerous attempts to contact several of these, only three participants were possible to reach. These were: Mr. Tim Nakari at Intertech Plastic, who answered an e-mail interview; Professor Jagdish Bhagwati at the Columbia University and Mr. Harry Moser at the Reshoring Initiative, who both replied to e-mails. These responses will not be used as the main source, but rather as complements to our other findings.

2.2.2. Secondary Data - Literature Research and Study

The secondary data is obtained from articles in newspapers and journals, primarily from 2011, 2012, and 2013 to provide up-to-date information. The news articles provide easy access to information about reshoring and are where most data about reshoring is located currently, since reshoring is a new phenomenon not found to be written about in textbooks. Additionally, statistical studies on manufacturing competitiveness are gathered to compare the U.S. and China in the search for other possible motives behind reshoring. Data is also gathered by researching the websites of firms that have reshored or plan to reshore and lobbying groups of reshoring. This to find their stated motives and reasoning behind reshoring, when an interview is not necessary or possible.

Regarding the choosing of theoretical framework, well-known theories in areas closely linked to reshoring is studied and combined, in order to build a foundation together with the empirical findings for the analysis and discussion of the motives behind reshoring.

2.3. Validity

The validity depends on if the collected data is relevant for the purpose of the study and if it produces an accurate version of the studied phenomenon (Bloor and Wood, 2006). In the case of this thesis, the validity depends on if the Case Studies and Studies of Manufacturing Competitiveness add relevance for the study on motives to reshore.

2.3.1. Internal Validity

Internal validity according to Bloor and Wood (2006) is if the conclusions, made from the studied data, are credible or not. Internal validity is said to be high if other research on the subject comes to the same conclusion, this is however complicated in social science since history is said to never repeat itself and thus will always alter the input data in some way. Accordingly, one way to see if the findings are credible is according to Bloor and Wood to use triangulation, the attacking of the same problem from different angles. Norman Denzin (1970, p.301) argues that there are four ways to triangulate: data triangulation, the use of different sources of data; investigator triangulation, the use of different researchers; theoretical triangulation, the use of different theoretical frameworks; and methodological triangulation, the use of different methods. This research focuses on the theoretical triangulation with different renowned theories from two fields of science: the transaction cost theories and research in economic sociology. Nevertheless, data triangulation is also used since the studies on the competitiveness for MNCs sourcing decisions in the U.S. and China are compared to case studies on the stated motives to reshore of the MNCs. This is also complemented by the primary data from the interviews. This should result in the concluded motives being credible contributors to the reshoring decision, thus facilitating internal validity.

2.3.2. External Validity

Bloor and Wood (2006) define external validity as whether the conclusion can be generalized to situations other than what is studied. The conclusions of this thesis can be generalized to American originated MNC, since the majority of our research is based on facts of the U.S. and China and not primarily on the statements of each individual firm that has its own specific motives to reshore. Therefore, the conclusions should be applicable for the majority of American originated MNCs offshored to China.

2.4. Research Reliability and Objectivity

Reliability is to what extent the research can be replicated and still produces the same result (Bloor and Wood, 2006). Much of the research is based on secondary data. The secondary sources used are replicative, however, since the majority of the research is qualitative, the variance among these data are in the different interpretations by the different authors or researchers, in contrast to quantitative secondary data. This obligates strong evaluation of sources.

The evaluation of sources is also crucial since, for instance, secondary interviews found in articles may have leading questions and biased narrators, which is guarded against when

possible, with the use of seemingly unbiased, recognized sources. However, when sources with dubious objectivity are used, this is stated. Furthermore, when discovering several sources stating similar results and facts, it could indicate that those specific facts are more reliable to use. Also, all articles used are reliable in the sense that they are up-to-date.

When working with qualitative sources, it is also crucial not to be subjective. To facilitate objectivity when the data is gathered, it is important to use sources from different viewpoints, which is done throughout both the primary and secondary empirical findings. When the primary data is gathered, the interviews and questions are composed in a way aiming to be open and non-leading, in order to let the interviewee discuss the subject from his or her own point of views.

Since the data used in the Discussion is based on different sources and analyzed through different theories this should guard against the influence of subjective beliefs. The findings derived from the different theories in the Discussion are compared to each other to provide an interdependent and objective conclusion on the motives to reshore.

3. Theoretical Framework

There are several theories that describe why firms behave in certain manners, such as Oliver E. Williamson's (1981) transaction-cost theory, John H. Dunning's eclectic paradigm (1988; 2000; Dunning and Lundan, 2008), W. Richard Scott's (2003) contingency theory and socioeconomic theories like Richard Swedberg's (2003), John W. Meyer and Brian Rowan's (1977) different works on institutionalism and Paul J. DiMaggio and Walter W. Powell's (1983) isomorphism. These theories are not formulated explicitly for the reshoring phenomena. Therefore, careful consideration of these chosen theories has been crucial to provide a good framework to help answer the research question.

3.1. Rational Motives - Increasing Profits

Theories that could be used to analyze motives based on sensible facts will be covered in this section. The increasing of profits by minimizing costs is a strategy that would be sensible for an MNC, and theories covering this will thus produce rational motives to reshore.

3.1.1. Is Reshoring Minimizing Costs?

Currently there is much discussion on China and its labor force. Since this study focuses on the motives behind reshoring of originally American based MNCs that have offshored to China, it is important to realize all factors that can be the triggers to reshore, including labor costs. Therefore, a model that will be used in the analyses is the Lewis Turning Point (LTP). It was developed in the 1950's by Arthur Lewis (1954) implying that the citizens of the non-capital 'subsistence sector', which could be compared to the rural parts of a society, migrate into the 'capital sector', which would be the developed cities of the society, in search for jobs. As long as there is an unlimited supply of labor from the subsistence sector, wages in the capital sector will be low at a constant level. However, when the last available unit of labor in the subsistence sector willing to work for the low level of wage in the capital sector, has been exhausted, supply of labor will decrease. To increase the supply of labor companies in the capital sector must increase wages. This has been realized during for instance the industrial revolution and can now be related to China's situation with labor moving from the rural west to the developed coastal eastern provinces.

In a more general way, covering all sorts of costs is Williamson (1981) transaction cost theory. It implies that "a transaction occurs when a good or a service is transferred across a technologically separable interface" (Williamson, 1981, p.52). In the case of reshoring this would be interpreted as the transactions between the nation offshored to, and the country of origin, as well as the transactions of the goods from the offshored manufacturing. Companies

try to minimize the cost of exchanging resources and bureaucracy; hence companies locate their operations and organize economic transactions to minimize overall costs, which in turn maximizes profit. Managers must weigh the external transaction costs of locating operations abroad, such as risks, core company assets, costs related to contracts with suppliers, meetings, supervision of expats, etc., with the internal costs of keeping operations domestic. However, according to Richard Scott's contingency theory (2003) it is not directly cost analyses that determine organizational structures and thus the location of operations and global production networks of the firms. Scott summarizes contingency theory as "The best way to organize depends on the nature of the environment to which the organization relates" (2003, p.96). This theory points out that managers design their organizational structure to handle uncertainties in the internal and external environments effectively. Every firm has its own contingencies, such as governments, suppliers, consumer interest groups and technology that result in different levels of uncertainty. For instance, if consumer preferences are believed to change, firms may alter their location of operations.

3.1.2. Is Reshoring Creating Efficient Global Production Networks?

As the transaction cost theory focuses on minimizing costs, which is arguably what Western firms do to maximize shareholder wealth, another seemingly accurate theory to explain motives behind the decision of where to locate manufacturing, which therefore can be applied to explain reshoring, is John Dunning's 'Eclectic Paradigm', also known as the 'OLI-model' (Dunning, 1988; 2000; Dunning and Lundan 2008). Dunning means that it must not only be factor endowments that are the reason for locating an operation in a specific geographical area, which several other theories such as the Heckscher-Ohlin theory (Ohlin, 1933) imply. Dunning's OLI-model (2008) states that other factors, not equally accessible to all firms also contribute to where an operation is located. There are three factors to consider in order to gain comparative advantage, which are important for firms to stay productive: Ownership-specific advantages (O), Location-specific advantages (L), and Internalization advantages (I).

O-advantages are advantages of the company derived from assets, tangible or intangible that are likely to generate future revenue, such as advantages in technology and information, managerial, marketing and entrepreneurial skills, organizational systems, trademarks, products, etc. L-advantages are the advantages a company can establish by taking advantage of locational attributes, such as input prices, quality and productivity, infrastructure, spillovers, cross-country cultural, language, and political differences. Dunning also explains that there exists I-advantages if the firm believes that the O-advantages are best utilized by the company itself, rather than if offered to other firms by some sort of agreement, such as licensing,

contracting or joint venture. Some of the advantages seen by Dunning due to keeping operations in-house are avoiding costs due to search and negotiation, moral hazards and broken contracts, the protection of quality, and the control of the production.

3.2. Irrational Motives - Society and the Firm

Theories that could be used to analyze motives based on unsubstantiated ideas, persuasions, and arguments in favor of reshoring will be covered in this section. The society's pressure on MNCs would be in line with this, and theories covering this will thus produce irrational motives to reshore.

3.2.1. Is the U.S. Government Promoting Reshoring?

As mentioned in the problem discussion, there might be political motives behind reshoring, thus the following theories will be useful tools to later analyze if there are any political motives behind reshoring. First it would be interesting to understand why the politicians see reshoring as something important, since they will in turn affect motives to reshore for MNCs. This is not explained by Adam Smith's (1776) classical three duties of the sovereign, since they merely include protection of the society from foreign threats, as well as threats from the inside, and the creation and maintaining of institutions. However, a vast number of states today see the encouraging of economic growth as their responsibility, something not included in Smith's theories. This has become so important that the success or failure of the government almost solemnly rest on the level of employment, and could thus arguably be seen as "the fourth duty of the sovereign" (Swedberg, 2003, p.182). The creation of domestic jobs, e.g. via reshoring, could be very beneficial for the political group currently in office and thus create incentives for policies in line with it, despite the fact that these policies might be economically questionable.

3.2.2. Is the U.S. Government Affected by the Reshoring Initiative?

The politicians are also affected and influenced by different interest groups, such as the Reshoring Initiative. Thus, George J. Stigler's (1971) research on economic regulation and Mancur Olson's (1982) theories in his 'The Rise and Decline of Nations' will be briefly covered, both involving how the state is affected by interest groups. Stigler (1971) states that economic regulations and policies are seldom a result from ideas to benefit the public, but rather the result of attempts by interest groups to convey the state to act on their behalf. These interest groups may give voice to concerns otherwise neglected by the politicians, but often the interest groups rather set the public and general interest aside. This is further explained by Olson (1982) by seeing that it is easier and more profitable to capture existing increasing parts

of economic production rather than further expand production as a whole and get a share of the proceeds. Thus the economy suffers from different interests trying to impact the existing market. Olson supports his theories of impeding of economic growth by the interest groups, by referring to the excellent recovery of Germany and Japan after World War II, during which most interest groups were destroyed and thus, he states, facilitated the economic growth.

3.2.3. Is the Society Affecting the Firms to Reshore?

The above mentioned interest groups affect institutions in a society, which in turn according to Meyer and Rowan's (1977) as well as DiMaggio and Powell's (1983) different works on institutionalism affect organizations, such as a firm. The only goal of organizations in such an environment is to survive, and in order to do so it can not only look at profit and the theories of cost minimization, but also need to maintain legitimacy and the approval from different stakeholders. The organization must then at all times reflect the contemporary society's expectations no matter if this yields efficiency in production or not, in order to convey the impression of being a well governed and legitimate organization deserving support and trust. This can be typified by the fluctuations on the American stock market where a company announcing plans for structural change in a manner currently praised may see their stock price soar, even though these changes just as well later could have catastrophic effects on the company. (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Bolman and Deal, 2003)

The adaptation to society can further be explained by DiMaggio and Powell's (1983) isomorphism where organizations homogenize due to three different reasons. The reasons are coercive isomorphism, where the organizations become alike due to external pressure or demands; mimetic isomorphism, which is the copying of other generally successful organizations often in uncertain environments on the grounds that it is difficult to prove that one way to conduct its operations is better than the other; and normative isomorphism, caused by the values and ideas that is the norm among professionals because of similar background and teachings from shared institutions, such as renowned schools. These teachings that cause normative isomorphism might not be the best, or even not up to date, but they are known, accepted and believed in, and thus widely spread.

The result of these changes that occur due to institutionalism and isomorphism may remain in the organization without any proof of enhanced efficiency. They are according to March and Olsen (1976) ritual rather than rational and give benefits not to the actual products but instead because the organization will be similar to others and thus able to reduce costs in transactions of especially intangibles and intellectuals between firms.

4. Empirical Findings

The Empirical Findings chapter contains the section on Case Studies of firms that made the decision to reshore and their stated motives behind it. Subsequently, the section on Studies on Competitiveness will follow, in order to relate the stated motives of the studied firms with other empirical findings. The Empirical Findings chapter will thus be the foundation for the discussion on the motives behind reshoring.

4.1. Case Studies

The Case Studies include a selection of American originated MNCs, stating their motives behind the decision to reshore. They will give an idea of the most common stated motives behind reshoring, which will be discussed and analyzed in the subsequent chapter. However, the gathered information for the Case Studies is based on secondary data from independent news sites and other sources. Therefore, there may be information not mentioned in the data found to describe the whole story of the motives behind reshoring of an individual MNC. The narrators of the secondary data may also be biased, which is guarded against by, when possible, using recognized sources.

4.1.1. Outsite Networks

Anton Bakker launched his company, Outsite Networks, in 1999, and only a few years later in 2004, as scales increased for the company, Bakker decided to search for more competitive, cost-effective products. He had a difficult time producing products to a competitive price. Thus, he took the decision to outsource and locate 90% of the manufacturing to suppliers based in China, Malaysia, and Tokyo. At first the decision seemed to be right, however, in 2011 something changed since the company switched to a domestic supplier, Zentech Manufacturing based in Baltimore, to carry out the company's orders. Bakker explains that there were several reasons to this surprising decision, including the rapid improvement of American technology. This meant that labor costs, which had initially driven Bakker to seek cheap labor costs overseas, were now a smaller percentage of total costs. Nevertheless, wages in China had started to go up simultaneously as other costs such as shipping increased. (Markowitz, 2012)

4.1.2. Peerless Industries

Peerless Industries is a manufacturer of audio-visual mounting solutions. Its line of mounting equipment includes a broad selection of solutions for televisions and VCR's, LCD, and plasma screens, monitors, projectors, speakers, and more. Peerless Industries decided to discontinue its outsourcing to China and pull all production out of China in 2010, which was

equivalent to 30% of its total operations on behalf of the building of a plant in Aurora, Illinois, keeping manufacturing in-house. The motives were primarily because the company suspected that production costs in China would eventually exceed U.S. costs. Michael Campagna, president and chief operating officer of Peerless, has indicated that the company is since the reshoring more competitive in terms of costs. The firm recently double-checked the labor cost in China to make sure that the company made the right decision, and found that they did since labor costs in their sector in China had gone up after they had left the country. Campagna also mentioned the weaker USD, making it more expensive for Campagna to import from abroad and simultaneously making exports from the U.S. cheaper for other countries with stronger currencies. (Tung, 2012) Furthermore, Campagna also stated that the moving back of manufacturing to the U.S. “gives you a lot more flexibility and control of your destiny [...] we did have some patent issues with other companies knocking off our stuff in China, so we thought we should do a little better job of protecting ourselves” (Jimi Allen Productions, 2010).

4.1.3. Sleek Audio

Mark and Jason Krywko, are the founders of Sleek Audio, a small business from a small-town in Florida, making in-ear headphones for iPods and other audio devices. In 2007, after searching for the most cost beneficial location to produce their products, they decided to outsource and contract with a factory in Guangdong province, China. However, in 2010 they reshored production back to Florida in the United States. Their motives for this decision was that they were fed up with low quality, too much travel, communications problems, shipping delays, rising costs, and worst of all a ruined shipment of 10,000 sets of earphones that cost millions and nearly brought the company to its knees. Now they do not have to wait for production and they control the quality themselves. (Prasso, 2011) Furthermore, Jason Krywko said in an interview that “it is so much faster and in the end we saved money by not having to ship large amounts back and forwards” (Krywko, 2010). He further explains that “I rather employ my neighbor, if a neighbor loses a job, you could be next, so I rather employ someone locally instead of going somewhere else” (Krywko, 2010), furthermore, they estimate that their orders from various U.S. companies now support 100 jobs (Prasso, 2011). This indicates that Sleek Audio had several partial motives that together became the motive to reshore.

4.1.4. Neutex

“While many companies are eliminating employees, outsourcing manufacturing abroad and cutting services to their clients, we are doing the opposite. We are returning previously

outsourced jobs and creating new ones, as we continue expanding services and operations” said John Higgins (Neutex Lighting, 2011), the president and CEO of Neutex, a light bulb manufacturing company headquartered in Houston, Texas. The company brought back its outsourced production from Shanghai after realizing the fact that the Chinese factory had five workers do the same thing as one worker in America did, since the Chinese factory did most production by hand. This affected the output and quality of the products. Also, the company had quality issues and language barriers hindering things actually being completed. In addition, Higgins had to travel ten times more than if he had decided to produce in-house in the U.S., since production was difficult to supervise when it was half way around the world. Another contributing factor to the decision to bring production back to the U.S. was that when Higgins was in China overseeing production, volumes went up, whereas volumes went down when he left. He also said that it became costly in the long run to have employees working at 2am in the U.S. to keep communication with the manufacturing facility in China. (Leisemann Imme, 2013)

Additionally, Higgins says in an information video about the decision to reshore that “we had such quality problems and other issues manufacturing outside of ourselves that we figured it was time that we moved manufacturing to the United States, our American pride kicked in. We wanted to pull our own products, we wanted to go ahead develop and manufacture here, make the jobs here, bring the technology back here and improve it here” (Neutex Lighting, 2012). He further explains that they discovered that the universities would back them up by having access to their technology and labs, and that the new technology in LED light bulbs is taking over, which is the main focus of the firm. He further explains that after looking at all factors in Houston, including infrastructure, highways, taxes, the port that they have, the technology that is already in Houston, and the fact that Houston is the energy capital of the world, the answer to reshore was because of the long list of benefits of being located in Houston. (Neutex Lighting, 2012)

4.1.5. Apple

Incorporated in the U.S. in 1977, Apple is now one of the world’s leading companies in mobile communications, media devices, and personal computers. Although its largest revenues are in the Americas (Apple, 2013a), during the past decades Apple had the majority of its production in China, primarily outsourced to the Taiwanese company Foxconn Technology Group (Prince and Plank, 2012). Tim Cook, the CEO of Apple has now announced (Tyrangiel, 2012) that some of the Mac-computers will once again be manufactured in the United States. Apple investing USD 100 million into the project will

however not mean that Apple will do any manufacturing themselves, according to Cook. He further says “we’ll be working with people, and we’ll be investing our money” and that “we have a responsibility to create jobs. I don’t think we have a responsibility to create a certain kind of job, but I think we do have a responsibility to create jobs”. (Tyrangiel, 2012)

Aside from this reasoning of social responsibility, there are pure economic incentives mentioned (Jorgensen, 2012). Oil and gas prices are increasing, which is naturally affecting transportation costs. Since Apple releases new products to the U.S. market first and then rolls them out through the rest of the world, the time consuming and increasingly costly transportation from manufacturing sites in China makes less and less sense. This is also an explanation as to why the Macs, bulkier and larger in physical size compared to the iPods and iPhones, are the ones moving back to the United States. The growing wage level in China is also mentioned (Jorgensen, 2012), in which Apple has seen massive increases much due to the scandals arising from Foxconn where poor working conditions and low salaries led to suicides among workers. After pressures from outside, including from Apple, Foxconn more than doubled some wages in 2010 and much improved employees’ working and living conditions (Hamlin and Zhou, 2013).

However, the USD 100 million invested into reshoring some of the production of Macs, should be put in its factual context. The Mac is firstly a product line currently less important for Apple, accounting for just above 10% of the company’s revenues, (Apple, 2013a) and the amount of the investment made should be compared to the company’s available cash in current assets of over USD 63 billion (Apple, 2013b), or 2011 fiscal year’s total payment of USD 378 million to Cook himself (Grandoni, 2012).

4.1.6. General Electrics

General Electrics (GE) has also followed the supposed trend to bring back some of its production of outsourced washing machines and heaters from China to Louisville, Kentucky in the U.S. (The Economist, 2013a). The motives behind this decision were explained by a GE executive, Rick Calvaruso, saying that GE had to “look at total costs of the whole product” (Mayer, 2012), especially when producing a product far away from where the target market purchases the products of GE. Calvaruso further explains that there are costs such as shipping, duties, customs, and the burden having to bind capital in inventory that is necessary to have in stock when not producing the product near the selling place, and if the factory is domestic you can respond faster. Finally Calvaruso expresses that going for cheap labor is not always the best answer.

Table 4.1.

Compiled Information on Studied MNCs

	Outsite Networks	Peerless Industries	Sleek Audio	Neutex	Apple	GE
Production Control in China	Out-sourced	Out-sourced	Out-sourced	Out-sourced	Out-sourced	Out-sourced
Motives						
Patent Issues		✓				
Increasing Chinese wages	✓	✓			✓	
Shipping ¹	✓		✓		✓	✓
Productivity	✓			✓		
Quality Issues ²	✓	✓	✓	✓		
Communication Problems			✓	✓		
Excess Travelling			✓	✓		
Weaker USD		✓				
Clusters ³				✓		
Social Responsibility ⁴			✓	✓	✓	
Duties and Customs						✓
Proximity to Target Market ⁵		✓	✓			✓
Rising Costs (non-specific)			✓	✓		

Notes: 1. includes: "shipping costs", "shipping delays", "ruined shipping", "oil and gas prices"; 2. includes: "quality control", "more control", "quality"; 3. includes: "technology in Houston", "universities"; 4. includes: "employ someone locally in the U.S.", "make the jobs in the U.S.", "responsibility to create jobs"; 5. includes: "more flexibility", "faster in the U.S.", "binding capital in inventory".

4.1.7. Intertech Plastics

To have insight into an American company that has not reshored manufacturing itself, rather has witnessed its customers reshore, provides the reader with another point of view that will increase the understanding of how an American firm may or may not support the apparent reshoring trend, and perhaps be a motive itself for its customers to reshore.

The American based molder company Intertech Plastics supports the new trend of reshoring. The president of the company, Noel Ginsburg, stated in a telephone interview with Frank Antosiewicz, the author of the article "Reshoring fuels growth at Colorado molder Intertech Plastics", that the economy is changing since he is noticing that the costs for production, research and development (R&D), and shipping are increasing for his customers. He also indicated that there is higher demand for quicker turnaround, which is achieved by having manufacturing based in America where the target market is located. Furthermore, Ginsburg also said in the interview that during a consumer electronics show he met six potential customers that made it clear that they were only searching for U.S. based suppliers. (Antosiewicz, 2012)

Moreover, in an interview when asking the Senior Account Manager, Marketing Director of Intertech Plastics, Tim Nakari (2013, personal correspondence), about the company's

general insights, perceptions, and thoughts on reshoring, he responded that “We are excited to be a part of it. It is great to see companies taking a broader look at their total cost of sourcing, and realizing that in many cases they’re better off keeping manufacturing here in the US”. He further mentions that his company is helping their customers “realize their total costs of outsourcing, and evaluate that effort with both foreign and domestic molding.” He also argues that they can “offer design, assembly, packaging, pad printing, even fulfillment- all managed from one location. We can also guarantee a higher level of integrity with proprietary products, and of course respond quickly to changes in customer demand or to resolve issues.” (Nakari, 2013, personal correspondence) These statements are indications on the willingness of Intertech Plastics, and possibly also other American Companies, to ‘bring back’ potential customers from e.g. China and also support reshoring companies that will become potential customers. Nevertheless, it is important to state that the reshoring of the customers is of course in the best interests of Intertech Plastics, since it would contribute to more business.

4.2. Studies of Manufacturing Competitiveness of the U.S. and China

4.2.1. An Overview of Competitiveness

As the Case Studies exemplify stated motives behind the decision to of reshore a few MNCs, they are subjective views of the firms. Therefore, further research on possible motives to reshore will take place by exploring the competitiveness in manufacturing in the two countries and looking into what drives companies to facilitate these relative advantages of each nation.

All countries have their pros and cons when it comes to the environment for manufacturing opportunities. Deloitte’s ‘2013 Global Manufacturing Competitiveness Index’ (‘GMCI’) (Giffi, et al., 2013), includes various macro data and over 550 survey responses from CEOs around the world and provides perspectives of key drivers of different nations’ manufacturing competitiveness. It has been developed in collaboration with the U.S. Council on Competitiveness, which aims to strengthen the competitive advantage of America by acting as a catalyst for innovative public policy solutions. Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries all over the world, making Deloitte a well-established and trusted consulting firm. Although, awareness of the possibility of independent interests must be mentioned, nevertheless, this index can be seen as based on well-established sources and thus helpful to answer the research question of this thesis. In this index the executives polled in the ‘GMCI’ currently believe that China leads overall markets and will continue to do so in five years’ time (see Table 4.2.). The U.S. is currently placed third following Germany, however, in five years the executives

believe that India and Brazil will surpass the U.S. and Germany pushing the U.S. down to fifth place on the index. While the U.S. has relatively high labor costs and high corporate taxes in direct contrast to China, the U.S. offsets these factors with significant labor productivity.

The report on ‘GMCI’ also showed that executives overall considered talent driven innovation to be the most important factor of a nation’s ability to compete (see Table 4.3.). This is measured by test scores in math and science, patents and researchers per capita, as well as an innovation index score. Although China tops the chart in math and science test scores, the three latter elements of the innovation factor makes China lag behind.

Following talent driven innovation as the second most important factor is a nation’s economic, financial, and tax system. China currently does not have the most developed economic, tax, or financial system, but the country has huge goals to improve them, and still have lower corporate taxes in general. (Giffi, et al., 2013)

The third most important factor for the executives in the ‘GMCI’ is the cost of labor and material, followed by supplier networks. These factors can be directly controlled by the firm, in contrast to the two first factors of a nation’s ability to compete in manufacturing, talent driven innovation and a nation’s economic, financial, and tax system. The report indicates that individual corporations recognize that making locational decisions is not simply based on the access of low labor and material costs, which is not a sustainable strategy over the long term. At the same time, the report suggests that China’s increasing middle class does attract many MNCs hoping to seize the growth opportunities. (Giffi, et al., 2013)

Table 4.2.

Current competitiveness

Rank	Country	Score
1	China	10.00
2	Germany	7.98
3	U.S.	7.84
4	India	7.65
5	South Korea	7.59

Competitiveness in 5 years

Rank	Country	Score
1	China	10.00
2	India	8.49
3	Brazil	7.89
4	Germany	7.82
5	U.S.	7.69

Reproduced from: Giffi et al., 2013

Notes: Scores on a 10 point scale, where 1 being "Least competitive" and 10 being "Most competitive".

Table 4.3.

Global Drivers of Manufacturing Competitiveness Index

Rank of Importance	Key Driver	China Score	U.S. Score
1	Talent driven innovation	5.89	8.94
2	Economic, trade, financial and tax system	5.87	6.83
3	Cost and availability of labor and materials	10.00	3.97
4	Supplier network	8.25	8.64
5	Legal and regulatory system	3.09	8.46
6	Physical infrastructure	6.47	9.15
7	Energy cost & policies	7.16	6.03
8	Local market attractiveness	8.16	7.60
9	Healthcare system	2.18	7.07
10	Government investment in manufacturing and innovation	8.42	6.34

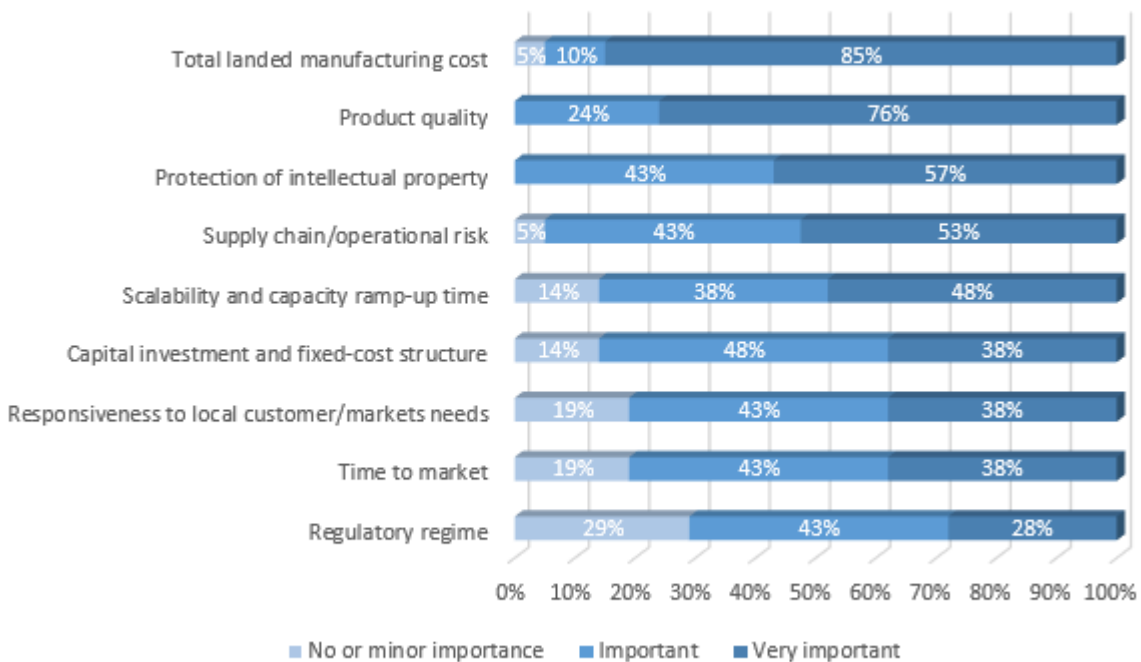
Reproduced from: Giffi et al., 2013

Notes: Scores on a 10 point scale, where 1 being "Least competitive" and 10 being "Most competitive" — adjusted for country, size, and industry.

This report can be compared and contrasted with the data collected in the Supply Chain Optimization study, a study of self-selected firms having substantial manufacturing in low cost countries that the Hacket group, a global strategic advisory firm, has used to come up with the report ‘Reshoring Global Manufacturing: Myths and Realities’ (Janssen, Dorr, and Sievers, 2012), from now on referred to as the ‘Hacket-report’. In this report the authors have listed nine drivers for manufacturing sourcing decisions (see Figure 4.1.), which have quite similar definitions to the factors of competitiveness of nations in the ‘GMCI’ (Giffi, et al., 2013). The latter is however more focused on comparison between the countries, while the ‘Hacket-report’ (Janssen, Dorr, and Sievers, 2012), focuses on what costs drives the firm to improve competitiveness by relocating. The most important driver for sourcing decisions according to the study is found to be what they call ‘total landed manufacturing cost’, a cost that includes estimations on raw materials and component costs, manufacturing costs, transportation and logistics, inventory carrying costs, as well as taxes and duties. By contrast, the ‘GMCI’ (Giffi, et al., 2013) rank these kinds of costs lower than talent-driven innovation, moreover talent-driven innovations are not an explicit part of the ‘Hacket-report’ (Janssen, Dorr, and Sievers, 2012). This is somewhat contradicting since in the ‘Hacket-report’ it is suggested that costs drive the firm to make new sourcing decisions, whereas the ‘GMCI’ (Giffi, et al., 2013) indicates that there are other factors that the firm values more.

Figure 4.1.

Level of Importance of Manufacturing Sourcing Strategy Decision Driver



Reproduced from: Janssen, Dorr and Sievers, 2012

The ‘Hacket-report’ (Janssen, Dorr, and Sievers, 2012) further explains that the reason for the history of offshoring to China is that China has offered the most balance between all key decision drivers, apart from when it comes to the protection of intellectual property. When combining the results on the different drivers and their relative importance, China has thus been the country with the highest value. However, when looking at the changes in performance of the low-cost countries in the last five years, they conclude that even though factors like quality, time to market, responsiveness, and scalability has improved and matured, other factors such as total landed costs, protection of intellectual property, risks, and regulatory regime have not. This they say is indicating that these factors are more difficult to further improve, also contradicting the ‘GMCI’ study (Giffi, et al., 2013) where China is projected to make huge improvements in the majority of these issues.

The research in the ‘Hacket-report’ (Janssen, Dorr, and Sievers, 2012) also shows that when the gap of total landed costs between the two countries is approaching 20%, companies begin to consider moving production offshore. When the gap is dropping to 18% the companies consider moving to other low-cost countries, and finally when the gap is down to about 16% the companies see reshoring as viable. With these tipping-points Janssen conclude that the net-effect of offshoring and reshoring is “zero”. “Some of these jobs that are coming back get a lot of press,” he says. “There are just as many that get no press coverage still going offshore.” (Janssen, 2012 cited in Lynch, 2012)

A third study on the reshoring phenomenon called ‘Made in America, Again’ is done by the Boston Consulting Group (BCG) (Sirkin, Zinser, and Hohner, 2011), henceforth called the ‘BCG-report’. In this report they conclude that, “by sometime around 2015 - for many goods destined for North American consumers - manufacturing in some parts of the U.S. will be just as economical as manufacturing in China.” (Sirkin, Zinser, and Hohner, 2011, p.3) This is said to be due to a number of reasons, the first one being that wage and benefits are assumed

Table 4.4.

Chinese Factors Compared to U.S.

	2000	2015
<i>Wages</i>	4.6%	25.4%
<i>Productivity</i>	13.0%	42.0%
<i>Savings on Labor</i>	65.0%	39.5%
<i>Total Savings</i>	16.3%	9.9%

Reproduced from: Sirkin, Zinser and Hohner, 2011

Notes: Chinese factors of U.S. equivalent. *Total Savings* when labor account for 25% of total cost.

$$\text{Savings on Labor} = 1 - \frac{\text{Wages}}{\text{Productivity}}$$

to increase by 15% to 20% annually, which when adjusted to higher productivity in the U.S. will mean that the labor cost advantages China had in 2000 with 65% over the U.S. will decrease to 39% in 2015. This is thus saving companies even less money, since labor cost is often representing a small proportion of the total costs, normally between 7% to 25%, meaning that the savings on the total costs from China’s primary cost advantage would at its best be less than 10% (see Table 4.4.).

Furthermore, the money that still will be saved from low-cost labor will however, for many products, is taken away by the higher costs on transportation, duties, supply chain risks, industrial real estate, and other costs. This is indicating a significantly lower saving on total costs than the 16% tipping-point that according to the ‘Hacket-report’ will result in companies to consider reshoring (Janssen, Dorr, and Sievers, 2012). The ‘BCG-report’ (Sirkin, Zinser, and Hohner, 2011) continues by admitting that automation would improve production in China, however since it would be undercutting the primary reason for offshoring to China, access to cheap labor, it will not be sufficient to preserve the country’s advantages. This is said to be even more the fact also if automation would be mimicked from U.S. facilities and thus be equivalent to U.S. productivity, since this would almost entirely obliterate the primary incentive for offshoring to China. The authors of the report are however very clear on the fact that this is only the case for many goods destined for North American consumers. Since the demand on the Chinese domestic market is growing rapidly, MNCs are according to the study better of reshoring some of the production destined for the U.S. and focusing the remaining on the local Chinese market rather than staying offshore and shipping products back home.

The high-skilled production is in all three reports estimated to some extent reshore to the U.S., whereas low-skilled production according to the ‘BCG-report’ will move to even cheaper low cost countries such as Vietnam, Indonesia or Mexico. However, China has the largest population in the world, and also the highest proportion of able-bodied adults in the workforce, 84%, out of whom 28% are employed in industries. That is 215 million industry workers, 58% more than the industrial workforce of entire India and South East Asia combined. Thus, the entire workforce cannot be replaced by other countries in the region, where productivity is also much lower. Nor can these countries offer the infrastructure and education-level, advantageous political treatment or supplier networks and cluster of the Chinese coastal provinces, especially necessary for high-skilled production. Thus ‘BCG-report’ suggests that it will still make sense to manufacture many products in China, for places such as Europe and South East Asia. However, due to these mentioned factors high-skilled production will, according to the ‘BCG-report’, see a “U.S. manufacturing renaissance” (Sirkin, Zinser, and Hohner, 2011, p.4).

4.2.2. Trends in Costs

In the following section a thorough description of some of the earlier mentioned Chinese and U.S. trends in costs will follow. This is in order to give a deeper understanding to some of the costs effect on competitiveness, and to be able to analyze whether these can be considered motives or not.

4.2.2.1 Chinese Wage Growth

In several of the case studies and reports one frequently mentioned cost is the increasing Chinese wages. The ‘BCG-report’ states that the wage gap between the U.S. and China is now shrinking (Sirkin, Zinser, and Hohner, 2011) and recent research on this has shown “The gap between manufacturing costs in the U.S. and China has almost halved in the past eight years and will fall to 16 percent this year” (Hamlin and Zhou, 2013).

Additionally, research on wage costs in China has shown that “the Chinese government has set a target for annual increases in the minimum wage of 13% until 2015. Strikes are becoming more frequent, and when they happen, says one executive, the government often tells the plant manager to meet workers’ demands immediately” (Booth, 2013, p.5). For instance, in 2012, wages in the manufacturing industry have increased on average by 10%, with companies such as Foxconn, manufacturing Apple’s iPads and other products, increased its wages by 16% to 25% between January and February last year (The Economist, 2012). Nevertheless, there is still discontentment in the Foxconn factory located in central China (Hamlin and Zhou, 2013). Workers such as Wang, aged 22 and working at a Foxconn factory, demanded at least 3,500 Chinese yuan (CNY) per month, which is approximately USD 565, an increase from his CNY 1,600 (USD 260) in December. Contrast this with a hypothetical U.S. case. Firstly, the U.S. federal minimum wage is USD 7.25 per hour (United States Department of Labor, 2013). By multiplying the minimum wage by 8 hours per day, 5 days a week, and 4 weeks, it can be estimated that an American worker can earn at a minimum USD 1,160 a month ($7.25 \times 8 \times 5 \times 4 = 1,160$), when working 40 hour weeks. This is approximately 4.5 times the Chinese wage at USD 260 per month, and the double of the USD 565 per month. This comparison suggests that Wang works the same amount of hours as the U.S. example, and it should be kept in mind that if he does not, the difference will change. If Wang works more than 40 hours per week, the difference will be larger.

Furthermore, wage attitudes are changing in China, much exemplified by Wang’s statement above and in the ‘BCG-report’ (Sirkin, Zinser, and Hohner, 2011). Driving factors behind the increase in wages include China’s shrinking pool of young workers, which shrank by 30 million in five years, a result of the decreasing amount of laborers from the inlands migrating to the coastal cities; just as 33 million new jobs were introduced into China’s industry (Hamlin and Zhou, 2013). China’s demographics will continue to affect, not to say the least, the Chinese economy greatly. Estimations by Das and N’Diaye (2013), the writers of the ‘IMF’s working paper on Chronicle of a Decline Foretold’, indicates that between 2030 the asymmetric in age groups will bring consequences. In only a few years the working

population will hit its peak and then decline, with the core working age group of 20 to 39 year olds already. Das and N'Diaye state that “With this, the vast supply of low-cost workers—a core engine of China’s growth model—will dissipate” (Das and N'Diaye, 2013, p.17). This implies that as the population ages, the share of China’s workforce shrinks while the share of elderly grows. Das and N'Diaye further estimated that if factors remain as they are, China will reach the Lewis Turning Point between 2020 and 2025, since China’s capital sector is still shrinking despite an excess of new workers migrating into the capital sector of China. The underlying factor for the decline is the one child policy that has resulted in China falling below the replacement level affecting long-term population stability.

4.2.2.2. Energy and Shipping Costs

Regarding reshoring and its costs, Booth (2013) has shown that the successful extraction of natural gas from shale has lowered the price of energy in the United States. “PricewaterhouseCoopers, an accounting firm, reckons that these lower American energy prices could result in 1m more manufacturing jobs as firms build new factories” (Booth 2013, p.6). However, according to Deloitte’s ‘GMCI’ (Giffi, et al., 2013) China still has lower energy costs than the U.S., but the fact that energy costs are decreasing in the U.S. may be a contributing motive to reshore manufacturing from China. Furthermore, transpacific shipping has become more expensive due to higher fuel costs, falloff in shipbuilding and lower container port capacities (Sirkin, Zinser, and Hohner, 2011).

4.2.2.3. Industrial Land

According to the ‘BCG-report’ (Sirkin, Zinser, and Hohner, 2011), the cost of industrial land in China has increased to a level that is not competitive with some U.S. states. The study compares the industrial land costs of the most advanced industrial cities of the Chinese east coast, such as Ningbo, with industrial land at USD 11.15 per square foot (sqft), Nanjing (USD 14.49/sqft.), Shanghai (USD 17.29/sqft), and Shenzhen (USD 21/sqft) to the cheapest industrial land in the U.S. where costs are USD 1.86 to USD 7.43/sqft in Alabama, and USD 1.30 to USD 4.65/sqft in Tennessee and North Carolina. It is certainly questionable if the comparison between the two extremes in the countries provides relevant data. BCG is, however, rationalizing this by saying that although moving manufacturing to inland China would decrease industrial land costs to a competitive level, this would make transportation costs increase and the company would lose the advantages of being inside the developed industrial clusters of these cities.

4.2.2.4. Risks and Costs in Property Rights

Historically when foreign corporations located production in China, companies had to take on a Chinese majority partner and consequently lost control of much of the enterprise. These regulations have changed and now foreign firms are not required to partner with a Chinese corporation, but the risks remain for firms choosing to partner with a Chinese firm. Nevertheless, beyond the risk of losing control of the enterprise, American companies must in many cases also turn over their technologies and processes to their Chinese partners and in some cases these so-called ‘partners’ will use this intellectual property in independent operations, or even turn it over to other Chinese companies. This is a risk resulting in costs for the American originated company. (Navarro, 2013)

Navarro states that “a rising number of companies have found China simply to be fool’s gold. The most naïve — typically smaller companies — have seen their corporate blueprints, processes or technologies quickly stolen and have lost their proverbial shirts. But even large American corporations with sophisticated management structures have had their pockets picked.” (Navarro, 2013)

4.2.3. Political Influences

This section will look deeper into current indications of possible political activities in China and the U.S. that can affect competitiveness, and thus also motives to reshore. Furthermore, the following section will also describe possible lobbying groups influence on MNCs to reshore.

4.2.3.1. The Obama Administration - the Argument of “Made in America”

President Barack Obama said in a speech on reshoring (The White House, 2012), or what the Obama administration calls ‘onsourcing’, last year “I don’t want America to be a nation that’s primarily known for financial speculation and racking up debt buying stuff from other nations. I want us to be known for making and selling products all over the world stamped with three proud words: ‘Made in America.’ And we can make that happen.” He further states that “I don’t want the next generation of manufacturing jobs taking root in countries like China or Germany. I want them taking root in places like Michigan and Ohio and Virginia and North Carolina” (Obama, 2012 cited in The White House, 2012). This is much in accordance with what Tim Nakari, Senior Account Manager and Marketing Director at Intertech Plastics, said that some of his customers “are motivated to offer ‘made in the USA’ products” (Nakari, 2013, personal correspondence). Also, in relation to Obama’s statements, the BCG (2012) conducted a survey in September 2012, asking more than 5,000 consumers in the U.S, China, Germany, and France about their buying behaviors and attitudes towards the value of the ‘made in

America' brand. This survey concludes that more than 80% of U.S. consumers and, perhaps more unexpected, over 60% of Chinese consumers say that they are willing to pay more for products labeled 'Made in America' than for those labeled 'Made in China'. (BCG, 2012). The results further reveal that U.S. consumers will pay a premium for the 'made in America' brand across a broad range of product categories. Although the premium varies significantly depending on the category of products, the BCG concluded that in every one of the ten categories, at least 20% of U.S. consumers are willing to pay a premium of more than 10 %.

Obama continued in his speech on reshoring by expressing his views on the moral obligation of restoring hope and creating jobs (The White House, 2012). He believes that companies have to bare in mind "the country that made all this incredible wealth and opportunity possible" (Obama, 2012 cited in The White House, 2012). The following statement by Obama exemplifies a clear view of what he is pushing for:

"So my message to business leaders today is simple: Ask yourselves what you can do to bring jobs back to the country that made our success possible. And I'm going to do everything in my power to help you do it. We're going to have to seize this moment. American workers are the most productive and competitive in the world right now. When you factor in all the costs, we have an outstanding market; we have the most innovative entrepreneurs, the best research universities. And part of what our session this morning was all about was just helping people to take a look at what this moment is and where we're going to be five years from now. Because when people take a second look, it turns out that the potential for job growth and American manufacturing and the service industry is incredible" (Obama, 2012 cited in The White House, 2012)

Furthermore, the Obama administration wishes to scrap tax deductions for shipping jobs overseas (The White House, 2012; 2013), hindering to some extent the three decade trend of offshoring, and rather offer new incentives for the return of U.S. jobs, as he stated in his speech, "we're going to have to do more. And that's why, in the next few weeks, we're also going to put forward new tax proposals that reward companies that choose to bring jobs home and invest in America. And we're going to eliminate tax breaks for companies that are moving jobs overseas" (Obama, 2012 cited in The White House, 2012). The Obama administration is consequently pushing for ending tax breaks offered to firms planned to offshore in order to make the U.S. more competitive. Therefore, as U.S. tax breaks and subsidies are closing up on Asian, it might make the decision to reshore easier when other costs also are shifting, such as

wage levels and shipping costs (Sirkin, Zinser, and Hohner, 2011). In accordance with the previous statements, Harold Sirkin (2012) indicated that tax regulations such as these may accelerate the trend of reshoring, by triggering the thoughts of managers of MNCs to think about the possibility to reshore. Conversely, these factors are according to Bhagwati distorting and not rational in the long term, since manufacturing could be located in less productive and less profitable economies (The Economist, 2013b).

Meanwhile, Republican presidential candidates have mentioned the need to push China to actively revalue its currency higher (Roth and Gross, 2012). A move that would make reshoring more attractive for American originated MNCs, since that will increase import costs for the U.S. from China. However, according to predictions by analysts the CNY is unlikely to revalue or appreciate sharply in 2013 (Liang and Li, 2013; Mu, 2013). Keep in mind that the terms revalue and appreciate are both used for the CNY relative to the USD, since the CNY is partially pegged to the USD. If the People's Bank of China actively makes calculated adjustments to strengthen the CNY, it revalues (Investopedia, 2013a), however, if an outside force strengthens the CNY, it appreciates (Investopedia, 2013b).

4.2.3.2. China's Politics and the Influence on Reshoring

Every five years China develops a five-year plan, to guide officials and decision makers. China's current 12th five-year plan was partially developed to help maintain its top ranking for future competitiveness (Sirkin, Zinser, and Hohner, 2011). Additionally, a survey conducted by the BCG revealed that Chinese executives have observed that the Chinese government has and are establishing new policies in infrastructure, workforce development, safety, health and sustainability, and science and technology, which is intended to further develop China to become more competitive. However, these policies bring consequences, such as increasing costs for numerous companies. Also, China is changing its FDI policy focusing on other key industries, such as high-end equipment manufacturing, clean-energy vehicles, new energy and biotechnology, rather than continuing to encourage inward FDI of low skilled manufacturing products, since China has already established adequate amounts of know-how to produce such products. (National People's Congress, 2011; Sirkin, Zinser, and Hohner, 2011)

4.2.3.3. The Reshoring Initiative

When researching the subject of reshoring it is unavoidable to come across the Reshoring Initiative. It can be seen as a lobbying group promoting reshoring, patriotic towards the U.S. and thus very biased. However, in personal correspondence with Moser (2013), the founder and president of the Reshoring Initiative, he stated that "The Initiative is not a lobbying group.

We educate, encourage and enable companies and we create the database on reshoring results and costs”. One or the other, this group is seen and talked about frequently in several media sites informing about reshoring, and providing tools for managers of MNCs having offshored, such as the Total Cost of Ownership Estimator™ that was mentioned in the problem discussion. The estimator aims to help MNCs obtain an idea if reshoring is cost-wise in the best interest of the firm. However, it is important to bare in mind that the Reshoring Initiative has its own agenda and interests, thus as noticed in the Problem Discussion, the variables used in the Total Cost of Ownership Estimator™ may provide biased results. The Reshoring Initiative also provides lectures and other events for interested individuals and organizations.

There are also non-cost reasons the Reshoring Initiative argues are motives for MNCs to reshore. The group has included (Reshoring Initiative, N.D.) that the U.S. trade deficit is a cause of declining manufacturing jobs in the U.S. and can be reduced by bringing back production, which in turn reduces imports from abroad. Finally, the initiative says that the high unemployment rate in the U.S. can be reduced by reshoring, not only production but also other operations.

5. Discussion

The empirical findings will in this chapter be applied to the chosen theories to see if there are some motives that can be disregarded and if there are some more likely and generalizable.

5.1. Rational Motives

This section will explore possible rational motives to reshore by using the theories covering cost minimizing and creation of GPNs.

5.1.1. Motives Derived From: Is Reshoring Minimizing Costs?

There has been much discussion about the labor force and increasing wages of China. These factors can be analyzed through Arthur Lewis's 'Lewis Turning Point' (LTP) theory (1954). It implies that when the supply of labor, from a subsistence sector of a nation, willing to work for the minimum wage level provided in the capital sector has been exhausted, the wages in the capital sector will increase. Das and N'Diaye's (2013) indications of the decreasing migration from the rural parts of China, the 'subsistence sector', into Shanghai and other more developed regions, the 'capital sector', supports the LTP theory, with the country approaching its turning-point. The point has not yet been reached, since there still is an excess of labor in the rural parts of the nation. With this said, the LTP theory does not currently provide an explanation for the rising wages in China that has been occurring, since the last unit of labor willing to work for the lowest wage level in e.g. Shanghai has not yet been exhausted. Accordingly, other forces must be the reason for the increasing wages in China, implying that the LTP theory does not provide an explanation of the increasing wages of China. Rather the LTP theory indicates that future wage levels in China will increase. This in turn suggests that the motive for MNCs to reshore, seen through the LTP theory, is the worry of increasing Chinese wages in the future. When relating this to the Case Studies of, Outsite Networks (Markowitz, 2012), Peerless Industries (Tung, 2012) and Apple (Jorgensen, 2012) specified that one partial motive to reshore was because of wages. However, all stated that wages had already gone up, which cannot yet be explained by the LTP theory.

As these three examples from the Case Studies, along with Sirkin, Zinser, and Hohner's 2011 'BCG-report', and Hamlin and Zhuo (2013) all indicate increasing Chinese wages as an important contributing reason for reshoring, Williamson's (1981) transaction cost theory can be applicable, saying that companies try to minimize costs in order to maximize shareholder wealth. Because of increasing wages in China, the wage gap between the U.S. and China is decreasing, which might in the future govern for many American originated MNCs, using a moderate amount of labor in production, to reshore. However, when only looking at the wage

level, the findings show that even though wages have increased they are still lower in China relative to the U.S., and when analyzed through Williamson's transaction cost theory the current wage level in China is still minimizing costs and thus is not in itself a motive for reshoring.

Furthermore, the Obama administration has been clear in that it is pro reshoring (The White House, 2012), and states that it will remove incentives to offshore by decreasing taxes and other governmental costs, which will favor reshoring (The White House, 2013). Even though these costs could be converging, because of lower taxes and bureaucratic costs in China (Giffi, et al., 2013) this is not yet minimizing costs, and thus not a motive to reshore, according to Williamson's (1981) transaction cost theory.

This is also the case regarding energy costs, as Booth (2013) has shown that the successful extraction of natural gas from shale has lowered the U.S. price of energy. Even though energy prices are becoming lower in some areas of the U.S., they are still lower in China. Again not a motive to reshore analyzed through Williamson's (1981) transaction cost theory.

Regarding industrial land costs in the two countries, the 'Hackett-report' (Janssen, Dorr, and Sievers 2012) indicates that although generally being lower in China, these costs are significantly higher in Chinese coastal cities than in some cheap U.S. states. Although inland China has considerably lower costs on industrial land, moving inland would also increase transportation costs and eliminate the advantages of being inside the industrial clusters of these areas (Sirkin, Zinser, and Hohner, 2011). Due to these disadvantages a company offshored to China could find that it would be a drawback to move inland, and rather reshore to cheaper locations in the U.S., provided that these locations sufficiently satisfy the needs of the firm previously met in the Chinese coastal cities. If so, the higher costs of industrial land in the most developed parts of China could be a motive to reshore according to Williamson's (1981) transaction cost theory.

Other additional costs for American originated MNCs, having production in China, include expatriate costs, extra travel costs, shipping costs, inventory costs, and custom costs. Arguably, these costs should each constitute a smaller share of total costs. However, if the firm has several of these additional costs due to the manufacturing in China, and one or several of the costs start to increase, the total cost of production in China can eventually increase to the point that it is no longer worth staying there. For instance, as exemplified in the Case Studies, GE (Mayer, 2012) mentioned that binding of capital in inventory is costly but necessary, since the firm must have extra stock when not producing the product near the target market. GE also stated that custom-, duty-, and shipping costs were added costs when not having production in

the United States. All costs equaled together, eventually encouraged the firm to reshore. Also exemplified in the Case Studies was Outsite Networks (Markowitz, 2012), which implied that one partial motive to reshore was because of increasing shipping costs. However, the shipping cost alone was not a motive to reshore, rather it was a combination with the firm's other costly problems including quality control problems in China, increasing wages in China and productivity issues, which in turn contributed to that total costs in China were no longer more beneficial compared to the U.S. Additionally, Sleek Audio (Krywko, 2010) said that a contributing motive to reshore was because of their experiences in shipping delays and ruined shipping. However, similarly to the earlier mentioned MNCs, Sleek Audio's shipping problems did not alone motivate reshoring, but rather Sleek Audio had other costly problems such as, quality control problems, excess traveling costs, and communication problems with China resulting in indirect costs, which together motivated the decision to reshore. Therefore, these exemplified additional costs of having manufacturing in China for the U.S., in themselves added to the already stated costs do not generate the motive to reshore when analyzed by Williamson's (1981) transaction cost theory. However, all additional costs can together generate such an amount that they mean that manufacturing in the U.S. would minimize costs, thus becoming a motive to reshore accepted by Williamson's (1981) theory.

Due to the additional costs of having manufacturing of products destined for the U.S. market in China, the cost gap is as argued, supposedly significantly smaller than for products manufactured for the Chinese market. This is also clarified in the 'Hackett-report' (Janssen, Dorr, and Sievers, 2012), the 'BCG-report' (Sikin, Zinser and Hohner, 2011), and supported by the findings in the Case Studies, with the reshoring MNCs all offering products to the U.S. market in various but significant degrees. This is in line with our findings using Williamson's theory, concluding that many of the transaction-cost-motives to reshore are only applicable to MNCs producing for the U.S. market, since if the offshore manufacturing is producing for other markets, many of the additional costs, such as transportation costs are unavoidable wherever manufacturing might be sourced. This could, however, be remedied by splitting manufacturing in different areas providing different regions, but in this case one has to consider the loss of economies of scale.

However, also affecting the view on if it is worth to reshore or not, is to not only taking additional costs in consideration but also all investments the firm has already made in China. In contrast to easily abandoned contracted agreements, large investments in e.g. property and global supplier networks can make the firm reluctant to leave this behind, thus making the decision of reshoring more difficult. This can be compared to the studied MNCs in the section

of Case Studies that all indicated that they had outsourced production (see Table 4.1.), not having invested capital in building new factories. This can be considered as an indication that it is more common for MNCs, which have only contracted with a Chinese partner, to reshore.

A final remark on the analyses based on Williamson's (1981) transaction cost theory, is that the majority of input costs in China are today still less expensive, and both the 'GMCI' (Giffi, et al., 2013) and the 'Hacket-report' (Janssen, Dorr, and Sievers, 2012) has indicated that China is still the leading nation in manufacturing competitiveness. Therefore, since costs in China are still relatively lower than in the U.S., even when weighing in additional costs that occur when having production of products destined for the U.S. market based in China, a final overall view on Williamson's (1981) transaction cost theory concludes that reshoring is not necessarily the best sourcing decision.

Uncertainties and risks, or contingencies, might also be possible motives to reshore, which are propositions that are neither necessarily true nor necessarily false. Scott's (2003) contingency theory suggests that a corporation must in "the best ways organize itself depending on the nature of the environment to which the organization must relate". Therefore, if there are many contingencies in the present environment or even in the future environment in the location of e.g. the manufacturing of an MNC, managers might rethink where to locate their manufacturing, allowing them to consider reshoring as the best option.

An uncertainty for MNCs might be the changing Chinese wages, as the 'BCG-report' (Sirkin, Zinser, and Hohner, 2011) has indicated is currently occurring in China. Likewise, the example of Wang's wage demands (Hamlin and Zhou, 2013), also emphasizes the fact that workers are demanding higher wages. Whereas Lewis's (1954) LTP theory implies that the supply of labor from the rural parts of China will be exhausted, this in turn increases wages further. Additionally, the Chinese government plans to increase the minimum wage by 13% until 2015 (Booth, 2013). These factors might convince managers that it is too risky to stay in China because of the supposed increases in Chinese wages. Actually, increasing Chinese wages was a partial motive to reshore for Outsite Networks (Markowitz, 2012) and Peerless Industries (Jimi Allen Productions, 2010) to reshore, exemplified in the Case Studies chapter. As a result it can be argued that, the contingency of suspected and observed increases in Chinese wages can motivate reshoring analyzed through Scott's (2003) contingency theory.

Another uncertainty found to be a likely motive for MNCs to reshore, is altering consumer preferences. If an American originated MNCs that has offshored to China notices diminishing demand for its Chinese produced products, the manager may realize that it is because of changing consumer preferences to buy 'made in America' products. If the manager also

believes that it is likely demand for 'made in America' products will continue to increase in the future, he might decide to reshore production. Additionally, the BCG has found in their survey conducted in 2012, that American consumer preferences are often in favor for 'made in America' products. The survey concluded that in every one of the ten categories of product type, at least 20% of U.S. consumers are willing to pay a premium of more than 10%, indicating that there is a willingness to buy 'made in America' products. Also, the Reshoring Initiative is pushing a lot for 'made in America' production. Moreover, it is even more convincing that changing consumer preferences can be a motive to reshore in the future, since the Obama administration pushes to increase jobs and are promoting 'made in America' products, which may affect consumer preferences. This may convince even more Americans that the 'best thing' is to buy 'made in America' products. Consequently, if MNCs realizes that consumer preferences are changing in their industry, these MNCs might consider reshoring if demand increases considerably for such products. Similarly, if an MNC has noticed decreasing sales and suspects it is because of changing consumer preferences to buy 'made in America' products, and recognizes the risk of it continuing in the future, it might consider reshoring.

Other contingencies mentioned by the MNCs are the risks associated with intellectual property. Regarding the intellectual property concerning production, there are risks seen in the theft of these. China has historically been known not to have much technical know-how itself; rather e.g. American MNCs have been the partner providing the secrets of their technical know-how to the Chinese. Especially with China's past inward FDI policy demanding joint ventures with local companies, additionally, requiring that the Chinese partner must have the majority share. Therefore, a possible motive to reshore for a U.S. originated MNC is the risk of undesirable handover of technical know-how to China, an argument to reshore by for instance the Reshoring Initiative (N.D.). On the other hand, China is becoming more developed, and looking at Chinese test scores in math and science (Giffi, et al., 2013) it can be concluded that the Chinese population is becoming more skilled in developing new technological know-how. Also the possibility to now operate a wholly-owned business in China is minimizing this risk.

Intellectual property that is associated with trademark and specific products could on the one hand certainly be argued to be at risk in China, with logo-mimicking and concept-stealing (Daily Mail, 2011). On the other hand, these are cumbersomeness that will have to be put up with in the Chinese market no matter where production is based, and thus may be affecting marketing strategies, but arguably not reshoring.

Promises of future tax modifications can also be a contingency resulting in reshoring analyzes through Scott's (2003) contingency theory. Harold Sirkin (2012) indicated that tax regulations may accelerate the suspected trend of reshoring. For instance, the Obama administration has indicated future tax alterations favoring reshoring, such as Obama's statement that "we're going to have to do more. And that's why, in the next few weeks, we're also going to put forward new tax proposals that reward companies that choose to bring jobs home and invest in America" (The White House, 2012). This external influence from politicians can make manager aware of the possibility of reshoring and impact managers' option about the possibility to reshore. Even if this is not exemplified as a motive to reshore by the MNCs in the Case Studies chapter, it can possibly motivate reshoring. On the other hand, taxes and the political environment in a location can change very fast, which can counteract the force suggesting that reshoring might be beneficial. As Professor Bhagwati argued, that as long as the investments are not a result of distorting tax policies but of other advantages the investments, or in this case 're-investments', they will be beneficial for the MNC (The Economist, 2013b). There are thus two forces pulling against each other. Either a manager can believe that reshoring is the best option in the hope to take advantage of future tax regulations, or the belief that taxes can change quickly again, and do not bother consider the possibility to reshore.

An additional contingency that can contribute to reshoring is the currency volatility risk. Peerless Industries mentioned that one contributing motive to reshore was because of the weaker USD relative to the CNY, since that contributed in increasing import costs. However, as Liang and Li (2013) and Mu (2013) mentioned, the CNY is not expected to appreciate sharply against the USD in 2013, which suggest that the transaction risk, the result of importing and exporting goods between nations with fluctuating currency pairs, is not a likely motive to reshore, at least not during this year analyzed through Scott's (2003, p.96) contingency theory, which states that "the best way to organize depends on the nature of the environment to which the organization relates."

5.1.2. Motives Derived From: Is Reshoring Creating Efficient Global Production Networks?

Dunning's (2008) OLI model can also explain where to locate operations, often used for motivating offshoring. Nevertheless, it can also exemplify possible motives for reshoring. The ownership (O) advantages, including gaining trademark and technical know-how, could be contributing motives to reshore. The history of Chinese joint-ventures and theft of know-how taking place in these 'partnerships' might scare off American MNCs. However, as discussed previously, the Chinese labor is becoming more skilled and innovative (Giffi, et al., 2013),

implying that Chinese innovations are more likely and that the theft of already existing and thus 'old know-how' is less likely than in the past. An MNC might thus rather want to stay in China to make use of the growing innovation. However, innovation is still considered significantly higher in the U.S. (Giffi, et al., 2013), and could thus still, in the short run, act as a motive to reshore.

There are other O-advantages that are arguably not motives for reshoring, such as the mentioned advantages associated with trademark. These are, as argued in the previous section on contingencies, not dependent on where production is based, but rather where the market is. This would thus be affecting the MNCs decision on whether to have China as a market, but should not be a motive to reshore manufacturing.

When it comes to the locational (L) advantages it has been clear that firms have moved to China to take advantage of the low wages and other inputs for production that have been cheaper. However, as stated, wages are increasing in China, the advantage of lower labor costs are therefore diminishing, but as concluded by Williamson's (1981) transaction cost theory, it is not a motive on its own when only looking at costs. Rather if it is a motive to reshore, it would be because of the worry of increasing wage levels shown by Arthur Lewis's (1954) LTP theory and Scott's (2003) contingency theory.

Another L-advantage is taxes, also discussed previously, that may become a motive to reshore in the future if the Obama administration provides e.g. sanctions for reshoring companies, or as promised fulfill the abolishment of policies said to facilitate offshoring (The White House, 2012; 2013). Although future changes in taxes is a possible factor making the total costs of offshoring higher than reshoring, it can be stated that taxation is still more advantageous in China (Giffi, et al., 2013) and thus not currently a motive for MNC to reshore. This is much in line with what was concluded in Williamson's (1981) transaction cost theory.

As seen in Williamson's (1981) transaction cost theory, the manufacturing in China might induce additional costs in quality controls, travelling and communication also exemplified in the Case Studies (Prasso, 2011; Neutex Lighting, 2011; Markowitz, 2012), that could have been eliminated if production instead was to be placed in the U.S., provided that the MNC is of American origin. This is thus L-advantages of having production in the U.S. for American originated MNCs.

Furthermore, provided that the target market is the U.S., avoiding costly customs, tariffs and duties not having to ship across borders, not having to bind loads of capital in inventory would be L-advantages of having manufacturing in the U.S. that can be seen as partial motives to reshore. An additional L-advantage acting as a motive to reshore to the U.S. is not

surprisingly the advantage of time to market, when the target market is in America as the GE case exemplified to be one contributing motive to reshore (Mayer, 2012).

Being located in an industrial cluster facilitates innovation. Although this is an obvious L-advantage, prospering clusters can be found in both countries. It can be discussed whether there exists corresponding clusters in the two countries that are equivalent and specialized in the same fields. Neutex argues that a contributing motive to reshore was because Houston provided the firm with specific spillovers that it did not receive in China, such as the benefit of Houston being “the energy capital of the world” (Neutex Lighting, 2012). Accordingly, if an offshore American originated MNC realizes that it is operating in an industry with no cluster in China providing the desired spillover that otherwise can be provided in the U.S., this might be a motive to reshore. However, the general need for a cluster is not in itself a motive to reshore, since these exist in both countries, but rather potential specializations of them. These specializations could arguably exist in both countries, making the generalization of the motive questionable.

Also when analyzing the motives that can be derived from clusters and spillovers, the cost of the location of the cluster would be an important factor to consider. As seen in the discussion on the transaction cost theory, the Chinese locations generally providing the most prosperous clusters are significantly more expensive than some U.S. states (Sirkin, Zinser, and Hohner, 2011). These cheaper locations in the U.S. could be less expensive based on the fact that they are possibly not providing these spillovers, and would accordingly be a contributing motive not to reshore. Whether this is a motive to reshore or not is thus depending on the specific spillovers of the area and the cost of locating to that specific area. Thus it is not a generalizable motive to reshore.

In the line of innovation, the talent driven innovation in China is gaining momentum with significantly better scores on science and math tests than the U.S., however according to the ‘GMCI’ (Giffi, et al., 2013) the talent driven innovation is still higher in the United States. Thus locating manufacturing in the U.S. will most likely provide the company that has decided to reshore with more talent driven innovation, which would in the short run act as a motive to reshore.

Dunning (2008) explains that I-advantages exists if the firm believes that O-advantages are best utilized by the MNC itself. Therefore, e.g. if an American originated MNC has an agreement with a Chinese firm to license production to this firm, or form a joint venture with it, the American originated MNC might realize that it is losing its control over supplies and quality, or that communication and negotiation costs becomes too high, due to having this

Chinese partner. This can be exemplified with the Case Study of Peerless Industries, stating that the firm reshored in order to attain more flexibility and control (Jimi Allen Productions, 2010). However, if the American originated MNC has found that manufacturing in China would be profitable and that the contract with the Chinese firm can be terminated, should it then stay in China and build or buy a manufacturing facility itself? Well, certainly *if* the firm has the liquidity, knowledge and knows that it will be more profitable staying in China than moving back to the United States. However, to invest in a facility in China, in order to avoid having to contract a Chinese firm, is very costly, time consuming, difficult with language barriers, etc. Therefore, seemingly it is much easier to come back to the United States. I-advantages can thus lead a firm to opt out from outsourced manufacturing in China, which can be a motive to reshore if the firm sees difficulties in keeping operations in-house in China.

5.2. Irrational Motives

This section will first describe why the U.S. government promotes reshoring, in what way it is affected by the Reshoring Initiative in order to act as a societal base that then by affecting firms contributes to irrational motivations to reshore.

5.2.1. Is the U.S. Government Promoting Reshoring?

Swedberg (2003) points out the importance for a government to facilitate economic growth and create jobs. This is the case also for the U.S. government. The government is trying to decrease the unemployment and increase job opportunities (The White House, 2012), which would improve and stabilize the economy. With reshoring this would arguably be the case. This is therefore providing strong incentives for the U.S. government to promote reshoring, which in turn would affect the entire view of the society, and subsequently the companies (Meyer and Rowan, 1977; DiMaggio and Powell, 1983).

5.2.2. Is the U.S. Government Affected by the Reshoring Initiative?

The previous section indicated that the U.S. government is promoting reshoring. Furthermore, it is in the society's best interest to increase welfare, and therefore it could be argued that the state would set regulations in line with this. However, this is not necessarily the case as Stigler (1971) suggests in his research on economic regulation. The reasons behind the promotions may be that the state is influenced by interest groups. The Obama administration has stated that it will remove incentives to offshore and lower taxes in order to create incentives for reshoring (The White House, 2012; 2013). Bhagwati argues that the largest amount of welfare is gained if manufacturing is based where it is most profitable and productive, even for the country of origin (The Economist, 2013b). It can be assumed that manufacturing in the U.S.

would not be most profitable and productive for every single MNC. Thus, it is questionable if the regulations to promote reshoring would create more welfare, than what would have been created by having production located where it is most profitable and productive for every individual firm. Since the Obama administration is promoting reshoring to every single offshored American originated MNC, saying that it is the firms' social responsibility to create more jobs in the U.S. (The White House 2012; 2013), and trying to attract these firms with beneficial taxes, it can be argued that the Obama administration has, in line with Stigler's (1971) findings, been influenced by other factors than the creation of welfare, such as by the lobbying of interest groups such as the Reshoring Initiative. This is supported by the fact that Moser, the founder of the Reshoring Initiative, has been in contact with the president and held lectures in the White House regarding reshoring (Reshoring Initiative, 2012).

As Olson (1982) points out, the economy would be more efficient if there were no interest groups trying to push the same part of an economy in different directions. In this case it would be the Reshoring Initiative trying to move back every kind of manufacturing to e.g. increase job opportunities, although wanting the best for the U.S. economy, it is possible that this is not the most beneficial solution for the society as a whole. Thus, the U.S. government has not only its own incentives for promoting reshoring, it is also affected by the Reshoring Initiative and possibly other interest groups, which in turn also affects the society in whole, which is then affecting the firms (Meyer and Rowan, 1977; DiMaggio and Powell, 1983).

5.2.3. Motives Derived From: Is the Society Affecting the Firms to Reshore?

The two previous sections on the U.S. government and the effect on it by the Reshoring Initiative, together with the somewhat noticed protectionist consumer preferences to buy 'made in America' products (BCG, 2012), as well as the public's negative attitude towards offshoring after the previous global crisis (Booth, 2013), is here used to provide a foundation for describing the views on reshoring of the U.S. society. According to Meyer and Rowan (1977) as well as DiMaggio and Powell (1983) this will in turn affect how firms behave in order to fit in to the society. These changes are according to March and Olsen (1976) ritual or irrational rather than rational and can remain in the organization without any proof of enhanced efficiency. The reasoning behind this can be explained by isomorphism (DiMaggio and Powell, 1983) and its three reasons for homogenizing: coercive, mimetic and normative.

Coercive motives forces MNCs to follow external pressures including the government and interest groups. One can then argue that if an MNC reshores due to this, the motivation behind the decision is only to keep on good terms with society, and thus handling the importance of maintaining a good reputation. Factors behind creating this kind of external pressure might

include the abiding by regulations or rules or the appeal to the views of politicians as well as strong societal values. (DiMaggio and Powell, 1983)

There are indications of future changes in regulations regarding incentives for offshoring and reshoring in the U.S. and China (The White House, 2012; 2013; National People's Congress, 2011). However, these supposed changes are primarily alterations of current policies in taxes, duties or subsidies and are highly unlikely to force or prohibit the relocation of MNCs. Nevertheless, depending on how significant these alterations in the policies will be, they could create strong push and pull effects. This can result in a very similar effect to that if a forcing or prohibiting law was to be implemented, which of course would motivate a firm to reshore due to rational thinking using the rationales provided by the Government or e.g. the Reshoring Initiative, from lectures or by using their Total Cost of Ownership Estimator™. However, as seen in the discussion on why the U.S. government promotes reshoring, and how they are affected by the Reshoring Initiative, the regulation, policy or the promotions themselves are often not the result of some rational analysis of public welfare. This is according to Bhagwati (The Economist, 2013b) thus not a long term rational motive for reshoring.

Besides external pressures created by regulations, there are also similar external forces derived from the need to appeal to the views of the society and its leaders, in this case the U.S. and the Obama administration, which also can be explained by coercive isomorphism. An American originated MNC might realize that it can reshore just for the reason to appeal to the U.S. society, being the firms main market, and gain support and trust by taking on social responsibility. This should certainly increase publicity and goodwill of the firm, however, when analyzing if this increased goodwill is beneficial through e.g. Williamson's (1981) transaction cost theory it may indicate that it is not worth to reshore. It is also difficult to predict how much, if at all, the goodwill will increase overall revenue. This indicates that the MNC could also be motivated to reshore as a result of irrational thinking, as explained by March and Olsen (1976), where the American society exerts pressure on the company to implement changes, in this case to reshore, which would not necessarily increase profit.

An example of coercive isomorphistic influences on a company is the case of the reshoring of Apple, a firm not necessarily reshoring because of cost benefits, rather because of the social responsibility, such as increasing jobs in the U.S., its original home market. Apple actually indicated that one major argument for its decision to reshore is to provide more jobs in the U.S. (Tyrangiel, 2012), which is much in accordance with what Obama indicated in his speech on this matter mentioning that "it is a moral obligation to create jobs" (The White House, 2012).

Since, it is known that the American economy is suffering of e.g. high unemployment, a trade deficit and budget deficit, many would think that the reshoring of Apple will help improve the U.S. economy. Arguably it is possible that Apple reshores to show its support to the society, or rather believes it is necessary to reshore because of pressures to support the U.S. society, even if the operation it reshores is not necessarily providing increasing revenue, which can be explained by coercive isomorphism (DiMaggio and Powell, 1983). Apple has decided to reshore some of its Mac division (Tyrangiel, 2012), which is when compared to their other products, a part of the company that is much less important, constituting a smaller share of total revenue (Apple, 2013a). The investment assigned to its reshoring is also marginal for a company the size of Apple (Apple, 2013b; Tyrangiel 2012). Therefore, it can be argued that Apple is not risking much, and probably thus not basing its decision to reshore purely on cost analysis, but rather motivated to please the U.S. society in line with coercive isomorphism (DiMaggio and Powell, 1983).

When Cook says that he considers Apple to have a responsibility to create U.S. jobs, but not a certain kind of job in the U.S. (Tyrangiel, 2012), it could be seen as a strategy to appeal to the U.S. society, even by not reshoring all manufacturing. If manufacturing is more profitable in China, it would create profits and job opportunities for the country of origin as well, which is in line with Bhagwati's argument (The Economist, 2013b). In the case of Apple, more profits could create more jobs at the different Apple offices in the U.S., rather than within manufacturing. This statement by Cook could be interpreted as an indication that Apple considers China as more profitable for manufacturing, but still is trying to appeal to the U.S. society, influenced by coercive isomorphism (DiMaggio and Powell, 1983), by creating other kind of jobs.

Very similar to this, is the appealing to consumer preference. Changes in preference could be a result of the values of society discussed in the previous paragraph, but focused on the actual product rather than the organization. The alterations of products is not a factor included in Meyer and Rowan's (1977) or DiMaggio and Powell's (1983) theories of institutionalism and isomorphism, since the adding of the 'made in America' label would be a rational alteration of the product, in order to comply with consumer preferences and thus increase profits. However, as seen in the discussion on Scott's (2003) contingency theory, the stronger patriotic views of the society would not only affect the views on MNCs discussed here in the lights of coercive motives, but also the more specific demand on the 'made in America' products. Looking at the example of Apple, they may reshore because of the publicity, which may just be a good PR-hoax, thus a rational decision to increase profits and not because of

pressures from the society in the way coercive isomorphism describes it (DiMaggio and Powell, 1981).

Since reshoring is a new phenomenon, the decision making regarding reshoring is still very uncertain, thus facilitating the second reason behind the homogenizing of firms, mimetic isomorphism (DiMaggio and Powell, 1981). For instance, if one firm notices that its competitor is reshoring, then it might mimic it and reshore itself. The motivation behind such a decision might be the worry that its competitor will gain advantages by reshoring, and to hinder the competitor to gain too much. Another situation of mimicking a reshoring company could be when another firm, seen as particularly successful, decides to reshore. This could also be exemplified by the reshoring of Apple. Other companies, although being significantly different from Apple, could still draw the conclusion that Apple must have valid reasons to reshore. This could thus be a motive to reshore for companies uncertain of how to analyze the reshoring and instead trust the analysis of the seemingly successful Apple, due to mimetic isomorphism (DiMaggio and Powell, 1981). However, this is not stated as a motive in the Case Studies, which could be explained by the probability that it is something a company would be reluctant to admit.

The third and final possible reason behind DiMaggio and Powell's (1981) isomorphism is because of normative thinking. Learning develops normative thinking, which can be exemplified by the classical theories of Williamson (1981) and Dunning (1988) that possibly led to offshoring being preached in the last decades (Booth, 2013). This supposed knowledge of offshoring being the way to go could make managers use this set of thoughts, and none other, when considering offshoring. The normative thinking hinders them to think outside the box, because a certain way is seen as the right or maybe only way (DiMaggio and Powell, 1981). With the background of offshoring, it is difficult to argue that managers of MNCs would have been taught theories dictating reshoring, since teachings on offshoring seems more likely. However, managers of different MNCs can still influence each other, and new ideas, such as reshoring, can proliferate as the norm in this group of society. Thus, according to the normative view on isomorphism (DiMaggio and Powell, 1981) the acting as one's peers could be a motive to reshore.

Another possible situation affected by normative isomorphism (DiMaggio and Powell, 1981) is the hypothetical scenario of firm 'A' in the U.S. having a potential customer, firm 'B', currently manufacturing in China using a Chinese equivalent supplier. Because of similar values and other common attributes due to common norms and backgrounds of the management, firm 'A' might be able to convince firm 'B' to change supplier to instead

contract with firm 'A'. Both firm 'A' and firm 'B' would then most certainly see benefits in being close to each other, as e.g. Williamson's (1981) transaction cost theory would argue. Therefore, reshoring to the U.S. becomes something firm 'A' would promote and firm 'B' would see as motivated. This scenario is very similar to what has been observed in the Case Studies regarding the promoting of reshoring by the service provider Intertech Plastics to its potential customers located in China (Nakari, 2013). This is thus supporting this take on the theory of normative isomorphism (DiMaggio and Powell, 1981), with the motive to reshore being that the staff and managers of the potential American originated customer in China has more similarities with the staff and managers at Intertech Plastics than to the staff and managers of the Chinese firm.

6. Conclusions

To answer the research question, a conclusion on the conducted research will follow. This by combining the findings of the different theories used in the Discussion as interdependent motives. Depending on the findings, the motives will be categorized in three groups; disregarded motives, non-generalizable motives, and finally likely and generalizable motives. Concluding reflections on these findings will then follow.

6.1. Disregarded Motives

The Discussion has revealed some factors that should be disregarded as motives for reshoring through the theories used. These include the current level of wages, taxes and current costs for energy, as well as the risk of losing intellectual property regarding trademark.

6.2. Non-Generalizable Motives

There are also some factors that cannot be generalized as motives for reshoring for every firm when analyzed through the theories used. These are either due to specific interests of an individual MNC, such as the costs of industrial land, protection of intellectual property regarding production, as well as the cost of shifting from outsourced production to in-house production in China if this is desired. Alternatively, factors could also be specific for firms producing to a large extent for the U.S. market. These include the cost of having extra inventory near the market, duties, customs and tariffs, shipping (including shipping costs, risks of ruined shipping and delayed shipping) and the time to market.

6.3. Likely and Generalizable Motives

Finally, in the Discussion, some factors are found to be more likely and generalizable motives for reshoring production today. These include the rational motives due to cost of travelling, communication and quality controls. In the short run the need for talent driven innovation is also a motive to reshore. The worry about the future could in itself also be seen as a motive to reshore today, with the worrying of increasing wages, changes in regulations, altering consumer preferences and the currency volatility. However, the findings also include irrational motives, such as the abiding by ideas of the government, feeling the need to take on social responsibility to fit into society, the copying of competitors to not lag behind in an environment where decisions are uncertain, the following of successful firms just because their decisions could be trusted in uncertain environments, the need to have partners with same norms, as well as doing what your peers do because of similar norms.

6.4. Concluding Reflections on the Findings

The reshoring MNCs covered in the Case Studies are all found to have used outsourced production in China to supply the U.S. market, to significant degrees. These are two previously discussed preconditions that are important to realize also when looking at the motives to reshore of the MNCs covered in the Case Studies. Firstly, as mentioned in the Discussion, it can be troublesome to reshore production if large investments in e.g. in-house manufacturing are made in the offshore location. Secondly, if companies supply products for the U.S. market to a large extent, there are additional costs that would occur wherever production is offshored, such as tariffs, duties and extra shipping costs, etc.

The fact that the studied MNCs all to some extent comply with these two preconditions, provides some food for thought. This could imply that the motives found to be likely and generalizable, might not be significant enough. Additionally, several of the motives stated by the MNCs in the Case Studies, are due to costs of: having extra inventory stock near the market, duties, customs and tariffs, shipping (including shipping costs, risks of ruined shipping and delayed shipping) and the time to market. This also supports the less significant degree of the likely and generalizable motives, since the stated motives are motives in this thesis categorized as non-generalizable and specific for firms producing to a large extent for the U.S. market.

Costs of travelling, communication and quality controls are rational motives found to be likely and generalizable but are when previously discussed assumed to constitute a minor share of total cost, thus reducing their importance as motives to reshore. Furthermore, these are factors that could be minimized with proper planning, training and understanding of the foreign business culture, thus potentially mainly relevant motives for companies inexperienced and ignorant of Chinese culture. Also some of the motives are due to worries about the future, and it is questionable if future worries should be valid motives to reshore today. This suggests that the irrational motives seem to be dominant in motives that are likely and generalizable. Due to non-generalizable motives for specific cases, reshoring could be rational, however, this implies that reshoring, as a generalizable business strategy, would be irrational. This in turn reinforces the assumption on the nationalistic views of American originated MNCs still having a 'home country' although acting on a global market, which could be entailed by the thoughts of the free trade advocate Professor Jagdish Bhagwati (The Economist, 2013b).

We, the authors, have in our research found that several motives to reshore previously offshore Chinese production to the U.S. are specific for individual firms and non-

generalizable. Many motives are also only applicable to U.S. MNCs with production primarily for the U.S. market. We have also been able to distinguish some motives that should be generalizable, and some factors that can be disregarded as motives. These findings are however based on the U.S. and China case, and primarily providing managers at other MNCs with a train of thought and reasoning to understand why or why not to relocate production. Thus, we would like to see future research in the subject with other 'home countries' to reshore to and with other offshore locations than China. It would be fascinating to cultivate a new theoretical framework purely for the phenomenon. With inspiration from our tutor, Richard Nakamura, we suggest that such a theory could be designed in the form of a negative FDI-model, covering Foreign De-Investments rather than Foreign Direct Investments.

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8. Appendices

8.1. Appendix A

8.1.1. Introduction

Nakari, T., tnakari@intertechplastics.com, 2013. *Intertech Plastics Inc.'s Marketing Director's Views on Reshoring*. [email] Message to S. Johansson (gusjohsia@student.gu.se). Sent Saturday 07 May 2013, 18:00.

8.1.2. Transcript

In the thesis reshoring is referred to as the bringing back of offshore production and manufacturing to the country of origin, with a focus on the reshoring of U.S. originated MNCs' production and manufacturing in China. Intertech Plastic is not an OEM, rather a service provider to OEMs. The OEMs Intertech Plastic provides its services to will be referred to as 'the customers'.

What is Intertech Plastic's general insights, perceptions and thoughts on reshoring?

“We are excited to be a part of it. It is great to see companies taking a broader look at their total cost of sourcing, and realizing that in many cases they're better off keeping manufacturing here in the US.”

What made Intetech Plastic look into reshoring?

“We service OEM's who own their own proprietary injection molded products, with injection molding, assembly, printing, and other fulfillment services. Becoming a more turn-key supplier to that market has enabled our customers to receive more value from us, compared to what they had been receiving overseas, which in many cases was just the molded parts.”

In what way, if any, is Intertech Plastic benefiting from reshoring?

“We are able to make more products in the US, grow our business, and employ more American workers.”

In what way, if any, is Intertech Plastic promoting reshoring to the customers?

“We are helping them realize their total costs of outsourcing, and evaluate that effort with both foreign and domestic molding. We also offer design, assembly, packaging, pad printing, even fulfillment- all managed from one location. We can also guarantee a higher level of integrity with proprietary products, and of course respond quickly to changes in customer demand or to resolve issues.”

What motives, if any, do you see for the customers to reshore?

“Some are motivated to offer ‘made in the USA’ products, and we help them achieve that. Others just want to lowest total cost of production, and by leveraging our volume material purchases, high speed equipment, automation, and other in-house value add activities, we’re able to help them achieve that goal as well.”

Does Intertech Plastic see any non-cost benefits, for the customers or for Intertech Plastic itself, as a result of the customers' reshoring?

“Absolutely, by building and sustaining a profitable business we’re not only able to provide jobs, but also provide value to other services that benefit the community, for example the United Way, CAMA (Colorado Advanced Manufacturing Alliance), and Goodwill Industries of Denver. We’re competing locally, but delivering positive local impact, which supports our mission of Molding a Better World.”

What, if any, is Intertech Plastic's responsibility to the society and economy?

“We want to make a major impact to our employees, their families, and their communities, and where possible have a similar impact to our customers. By investing in education, fostering positive career development, and engaging in technical training, it’s our hope that people are better off after their interaction with Intertech Plastics than they were before.”

Why reshore and not expand the market into China to a greater extent instead?

“Reshoring isn’t the answer for everything, and in many cases it makes perfect sense to continue to mold products in China. The easiest example is products that are sold into the Asian markets- cutting out the ocean from the supply chain makes just as much sense from the other hemisphere, as it does from our own here in the US. So while it feels good to create jobs and sustain a business, it’s not all about philanthropy- it’s about building a strong economy, and no one would be doing this if it didn’t make sense from a cost perspective.”