An Extended Abstract of

Reputational risk as a factor in offshore location choice – a high-cost perspective

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Introduction

In today's interconnected economies and a rapid pace of transparent supply chains, it is still difficult to detect obstacles caused by inadequate supplier oversight (Fine, 2013). Traditionally, when researching risks within the global supply chain, the focus has been on issues such as lead times and the quality and quantity of a supply, since these can have serious consequences for production and services (Maltz et al., 2011; Lemke and Petersen, 2018). While cost considerations remain a concern and a key performance indicator when managing global supply chains, aspects of a firm's reputation that can be affected by public relations scandals, supplier malfeasance, manufacturing footprint, sustainability efforts and the political climate, have gained in focus (Glover et al., 2014; Hannibal and Kauppi, 2018). Hence, among the most important and demanding pressures along today's global supply chains are the ethical concerns surrounding environmentally damaging practices, human rights abuses and corruption. Failure to detect, manage and mitigate such issues can have a detrimental effect on a firm's reputation (Foerstl et al., 2018).

Despite the heightening of reputational risks that at first glance are perceived as non-operational or non-financial, a firm's reputation has an important impact on its economic performance. Shareholders might, for example, choose to withdraw their investments because of the fear of diminishing value as a response to unethical behaviour, even if not engaged in by the focal firm (Schwartz, 2000; Foerstl et al., 2010; Wagner et al., 2011). Hence, reputation can have both an indirect and direct effect on different members of a supply chain via activities conducted by a key partner or supplier beyond the first tier at a foreign location. As such, reputation is an aspect that can navigate both upstream and downstream, irrespective of firm boundaries (Petersen and Lemke, 2015; Lemke and Petersen, 2018). Literature on reputational risk has mainly targeted the effects concerning business-to-consumer markets, where brand image and reputation have frequently been highlighted, especially within the field of international marketing, but rarely discussed reputational risk effects on the business-to-business (B2B) sector. It has been argued that this phenomenon does not have the same impact on customers in the B2B sector (Cedrola and Battaglia, 2012; Manello and Calabrese, 2019).

Nowadays, however, negligent supplier behaviour may be projected on to the buying firm, bringing negative publicity and reputational damage as well as high legal expenses (Fine, 2013; Busse et al., 2017). Thus, reputation is a critical aspect that ties members along a supply chain or network, highlighting why reputational risk in buyer–supplier relations does matter; it influences not only the financial aspects, but also the reputation of the industry and country in which the firms operate (Hoejmose et al., 2014; Cedrola et al., 2016).

Design/methodology/approach

The study employs a multiple-case study using qualitative methodology by conducting in-depth, semi-structured interviews with eight firms. As such, it responds to the calls of Birkinshaw et al. (2011) who highlight the need for more qualitative methodological approaches when investigating IB phenomena, as well as of Bunyaratavej et al. (2010) who called for more qualitative research when studying offshoring location choices. The major benefit of the qualitative approach is that it provides a depth and richness of data which is difficult to attain in quantitative research (Voss et al., 2002). Thus, to guide our empirical study, we developed the following research question: *How does reputational risk influence the location decision?*

Findings

The study finds that reputational risk is a construct based on managerial perception, which influences a firm’s propensity to engage with certain offshoring locations over others. With regard to the role that firm, supplier and country reputation plays in offshoring decisions, the study shows that a firm’s reputation and a country’s reputation are given more recognition than a supplier’s reputation. Although an important factor, supplier’s reputation does not seem to affect risk-based decisions.

Relevance

While quantity, quality and contractual aspects have received much recognition within the field, less attention has been devoted to reputational risk. Hence, understanding the impact of reputational risk in relation to offshoring decisions is particularly important for firms, as it will enable them to better manage and mitigate against such risk. For academics, a better understanding of how firms reflect on reputational risk with respect to supplier engagement and location decisions can enhance the inadequate body of knowledge. The ambition is not to disregard the importance of other risk factors that need to be considered when location decisions are to be made. Rather, we seek a more balanced and complementary account of firms' reputational risk-based decisions.

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