

What's next? Strategic reactions to post-offshoring performance

Alfredo Valentino

ESCE International Business School, France

Stefano Elia

Politecnico di Milano, Italy

Anthony Goerzen

Queen's University, Canada

Lucia Piscitello

Politecnico di Milano, Italy

ABSTRACT

As the costs to move goods and services, information, and people have fallen, multinational corporations (MNCs) have taken advantage by reorganizing their global value chain via offshoring to exploit location advantages. However, expected performances of offshore operations are not always realized suggesting that MNCs need to improve their understanding of this key decision. This paper offers a finer-grained interpretation of the strategic reaction of decision makers to unmatched offshoring performance. Specifically, we distinguish between four reactions, i.e., expansion, relocation to a third country, relocation to home country, or change of the entry mode. We relate them to the offshoring performance exploring how efficiency-seeking performance, quality-seeking performance, and market-seeking performance influence differently the strategic reaction implemented by firms after a prior offshoring decision. Moreover, we contribute to the emergent research agenda on the “relocation of second degree” phenomenon and on the link between performance and foreign location decisions.

Keywords:

Relocation of second degree, Reshoring, offshoring, Performance, global value chain, location strategy

Introduction

In the last twenty years, the impact of globalization on firms' behaviour and location decisions has received increasing attention in the international business literature; firms are internationalizing their value chains, organizing them into globally dispersed production networks. Firms react to growing global competitive pressures by fragmenting and relocating their activities across borders and by sourcing inputs internationally (OECD, 2006). These international strategic decisions are a combination of location and modes of entry.

An MNC's location choice is whether to locate a given activity at home or abroad whereas the mode choice is whether to conduct those activities in-house or by another firm. When set against each other, it becomes clear that the MNC's options include outsourcing, in-sourcing, offshoring, and offshore outsourcing. In the context of these choices, firms attempt to gain new forms of competitive advantage by exploiting "location advantages" either directly or through a third party (Dunning, 1980, Rugman, 1981), such as tax rates, tariffs, incentives, wage rates, energy costs, currency changes, as well as proximity to customers and suppliers. The growing trend towards value chain fragmentation makes it increasingly important for scholars and managers to understand its processes and implications (Blinder, 2006, Coucke & Sleuwaegen, 2008; Brennan, Ferdows, Godsell, Golini, Keegan, Kinkel, Srari, & Taylor, 2015; Farrell, 2005; Globerman & Vining, 2006; Levy, 2005).

Through offshoring, firms aim to improve their performance exploiting by location specific advantage and searching new sources of competitive advantage. Specifically, considering the OLI (Ownership-Location-Internationalization) paradigm (Dunning, 1980), scholars explain the offshoring decision in terms of efficiency-seeking, strategic asset-seeking and market-seeking. Although much of the traditional literature on this topic still stresses the importance of efficiency advantages, firms seek for strategic assets and new resources and capabilities, and expansion possibilities by offshoring as well (Kedia & Lahiri, 2007; Lewin et al., 2009; Massini et al., 2010;

Roza et al., 2011). Thus, offshoring is “*a new variation of FDI, or international joint ventures, or partnerships*” (Lewin et al., 2009: p. 919) to profit from worldwide markets.

However, offshoring success and performance are far from certain (Manning, 2014), despite growing experience in making offshoring decisions. In fact, many factors of the offshoring decision are not easily quantifiable in advance including the various types of risks incurred (e.g., quality risk, currency risk, intellectual property risk, etc.), the operational difficulties associated with a specific location due to cultural or language differences, and the loss of quality control of the international subcontractors’ operations. Other challenges are related to macro-economic changes at the global as well as regional and local levels that can influence positively or negatively the attractiveness of offshoring. Scholars speak about hidden costs of offshoring that can eventually reduce or even void previous advantages (Barthelemy, 2011; Larsen, Manning & Pedersen, 2013; Massini, Perm-Ajchariyawong & Lewin, 2010; Stringfellow, Teagarden, & Nie, 2008). In addition, new technologies or innovations (Grandinetti & Tabacco, 2015; Laplume et al., 2016) as well as sustainability considerations such as low wage workers, child labour, environmental degradation, and workplace standards (Doh, 2005; Ashby, 2016) also change the performance equation causing firms to rethink their global manufacturing footprint or their prior offshoring decision.

While scholarly attention to offshoring has increased considerably, explicit attention to what happens after the decision to offshore has not followed suit. Most of the studies dealing with the “relocations of second degree” (RSDs) – i.e. location decisions that modify a prior one -, focus on “reshoring” where location decisions are reversed (e.g., Albertoni, Elia, Massini & Piscitello, 2017; Ellram, Tate, & Petersen, 2013; Gray, et al., 2013; Presley, Meade, & Sarkis, 2016).

However, reshoring is only one option the decision maker of a firm can take into account in case of unmatched expectations of offshoring decision. Beyond reshoring, decision makers have several strategic options in response like relocation to a third country, a change of entry mode (for example, switching from captive offshoring to offshore outsourcing or vice versa), or even expanding the investment in the host location. While existing literature acknowledges these options

(e.g. Albertoni et al., 2017; Fratocchi et al., 2014; Manning, 2014; Mugurusi & de Boer, 2013), scholars have predominately investigated reshoring (Barbieri et al., 2018).

In this paper, therefore, we investigate the strategic reactions of MNCs to unmatched expectations from an offshoring decision due to hidden costs. Specifically, we relate post-offshoring strategic reactions to different kinds of offshoring performance. We distinguish between efficiency-seeking performance (in terms of productivity), strategic asset-seeking performance (in terms of quality), and market-seeking performance (in terms of access to new markets). Hence, we answer the following research question: What is the impact of the offshoring performances on the post-offshoring strategic reactions?

We answer our research question using a sample of 433 worldwide offshoring initiatives of business functions occurred between 1964 and 2009. Data come from the Offshoring Research Network (ORN) survey.

Therefore, the aim of this paper is twofold. First, we intend to advance our understanding of the offshoring decision and particularly we clarify the post-offshoring strategic reactions, providing additional, complementary insights on global manufacturing networks in case of unmatched expectations. Second, we contribute to the literature that links performance to strategic decisions and entry modes by showing how strategic decisions are sensitive to performances distinguished by efficiency, strategic asset, and new markets.

Our paper also offers managerial implications in that our results empirically support the idea that the configuration of a firm's global manufacturing footprint is not static. Thus, we help MNC managers to identify the range of post-offshoring strategic decisions they can implement and to take the right decision.

Theoretical background

The Offshoring decision and offshoring performance

Globalization, technological advancements, and the fall of trade barriers have created a more turbulent and competitive business environment and, at the same time, provided many potential opportunities for firms. In response, many firms in various industries are unbundling their value chain activities in order to reach a larger number of markets, suppliers of inputs, and potential business partners (Kedia & Mukherjee, 2009). They look for new sources of competitive advantage, managing and redeploying domestic and international resources, and gaining more flexibility. Increasingly, manufacturing and value activities, business processes as well as high-value-added activities including R&D and product design are being offshored (Lieberman, 2004). For many firms, offshoring is becoming an effective source of business renewal and firm transformation (Li, Liu, Li, & Wu, 2008).

The importance and growth of offshoring have spawned greater interest by international management scholars to understand better its drivers and how to create additional value for firms (Bertrand & Mol, 2013, Coucke & Sleuwaegen, 2008, Doh, 2005, Kedia & Lahiri, 2007, Lewin & Peeters, 2006, Roza, Van den Bosch, & Volberda, 2011). Offshoring is defined as “*an organizational reconfiguration in which originally co-located activities are relocated across distances in captive or outsourced arrangements*” (Mudambi & Venzin, 2010). To explain this strategic practice better, scholars have tried to account the main drivers and advantages. A stream of research has explained offshoring through location-specific resourcing advantages. Especially in the international business literature, location characteristics play an important role in taking decision (Nachum, 2000). This concept, known as “location advantage”, is one of the three elements of the OLI paradigm proposed by Dunning (1977). According to it, these advantages are related to resources, relationships, institutions, and other advantages that are specific to a country and external to the firm (Dunning, 1993, Singh & Kundu, 2002). In this domain, extant research (Gray et al., 2013; Ellram et al., 2013; Kinkel & Maloca, 2009; Lewin et al., 2009) has suggested many drivers of offshoring decision, usually categorized in: market advantages (such as market size and accessibility or proximity to main customers/stakeholders), efficiency advantages (such as cost-

related factors, like low wages and low cost natural resources, taxation structure, tariff barriers, and so on), and strategic-asset advantages (such as the research of new resources, knowledge, competences as well as new sources of competitive advantage). However, much of the traditional literature on offshoring emphasizes efficiency motivations while recent discussions have adopted more fine-grained approaches to investigate the antecedents, processes, and advantages that drive location decisions and performance. Scholars link offshoring success to the achievement of the aforementioned location advantages (Ellram et al. 2013; Gray et al., 2013). They parse offshoring performance into efficiency performance, quality performance and market performance (e.g. Foerstl et al., 2016; Stentoft et al., 2015):

- Market performance, related to the market size and accessibility, and the potential foreign revenues the offshore activities are able to generate as well as the possibility to entry in similar or close markets;
- Efficiency performance, such as cost reductions or the exploitation of cost advantages due to the reconfiguration of value chain activities across dispersed locations;
- Quality performance, concerns the increase of knowledge, resources and competencies as well as their control and synergies related to a local presence and partner.

Hidden costs and offshoring performance

A substantial body of research has demonstrated that offshoring performances are not always achieved and that offshoring decisions are more expensive than expected, reducing or even voiding previous advantages (Larsen, Manning, & Pedersen, 2013, Massini, Perm-Ajchariyawong, & Lewin, 2010, Stringfellow, Teagarden, & Nie, 2008). In this direction, scholars speak about hidden costs.

Such costs are defined as implementation costs that are *ex ante* unaccounted, but they use to materialize *ex post* as a discrepancy between expected and realized performance (Larsen et al., 2013). Managers overlook them in taking decisions, for this reason “hidden”. Therefore, hidden

costs are as a “post-decision surprise”. In literature, scholars relate them to three main views. The first associates hidden costs to the unbundling and reallocation of value chain activities (e.g. Kumar et al., 2009; Srikanth & Puranam, 2011). Offshoring reconfigures value chain activities across borders and can create unexpected organizational issues. Here, hidden costs are related to the loss of internal efficiency, the need to improve control and coordination mechanisms for subsidiaries or activities geographically dispersed. At the same time, they can be also consequences of exogenous changes at the host location, i.e. changes in the institutional qualities, increase in corporate taxes as well as employment or input costs. Such costs influence negatively the offshoring efficiency performance.

The second view links hidden costs to mistakes in the strategic choices between vertical integration and outsourcing (i.e., captive offshoring or offshore outsourcing). The focus is on the loss of control and transaction costs resulting from the shift of ownership to an external partner with the disadvantages of eroding firm’s capabilities and resources (Dibbern, Winkler, & Heinzl, 2008; Reitzig & Wagner, 2010). Here, hidden costs are associated to a loss of quality, a reduction of in-house learning processes, and of core competencies. For example, Stringfellow et al. (2008, p. 166) speak about “*hidden communication-related costs associated with the use of foreign service providers*”. Losing control on quality and on resources and competencies, offshore activities might achieve lower quality performance.

The third view relates the hidden costs to the effects on the financial value of offshore activities (e.g., Overby, 2003). Here, hidden costs are generated by a wrong selection of vendor or host market as well as by managing an offshore contract with negative consequences on the financial value of offshore activities. The failure of offshore operations due to negative financial performance generates a knock-on effect that might threaten the value of the entire MNE. Such hidden costs affect directly the offshoring market performance.

The offshoring performance and post-offshoring strategic reactions

According to decision theory, the decision-making process is driven by the expectation of future returns (Berger, 1985). Firms implement strategic decisions to maximize their performance and previous performance is valuable in shaping future decisions (Sousa & Tan, 2015; Tan & Sousa, 2018). Thus, we argue that in case of unsatisfactory performance in their offshore activities stemming from an increase in hidden costs firms react reconsidering their prior offshoring decision. Some scholars speak about “relocations of second degree” (Di Mauro, Fratocchi, Orzes, & Sartor, 2018; Fratocchi, Di Mauro, Barbieri, Nassimbeni, & Zanoni, 2014, Gray, et al., 2013; Stentoft, Mikkelsen, & Jensen, 2016) focusing predominantly on reshoring. However, the focus only on reshoring is narrow in scope enabling the broader range of post-offshoring strategic choices firms can implement.

When their offshoring performance expectations are negatively un-matched, managers immediately react shaping a new strategy. They re-think their offshoring configuration and they may decide to invest in a new host country, relocate back home (reshoring) or change the mode of entry with the switch from captive offshore to offshore outsourcing or vice versa. Motivations for such reactions may differ each other and we argue they are related to the expected offshoring performance.

Offshoring may hamper operational efficiency due to organizational, design and specification costs (Vlaar et al., 2008). At the same time, mistakes in reconfiguring a firm’s internal and external value chain increase a lack of communication in the process of delivering tasks and interacting with offshore units generating conflicts and misunderstandings. Therefore, the correct interpretation of information from offshore units becomes more complicated, and miscommunication and mutual misinterpretation increase organizational and coordination costs. Such hidden costs increase the discrepancy between expected and realized offshoring efficiency performance. Hence, firms, and especially efficiency seeking firms, would react looking for another host location. They move to another country where they can better exploit location advantages and improve operational efficiency minimizing hidden costs. So, we propose that firms which have

experienced unsatisfactory offshoring efficiency performance react offshoring again the unit to a third country respect to other post-offshoring reactions. Specifically:

H_{p1}: The lower the offshoring performance in terms of efficiency, the higher the likelihood of a relocation to a third country respect to other post-offshoring reactions

Unsatisfactory offshoring performance may stem also from strategic choices between international outsourcing and vertical integration, i.e. the dilemma between captive offshoring or offshore outsourcing. This choice can generate hidden costs due to the loss of control on quality and firms' capabilities and resources (e.g. Reitzig & Wagner, 2010). A direct consequence of such costs is a negative discrepancy between expected and realized offshoring quality performance. Hence, firms would react looking for an alternative way of operating abroad, switching their entry mode. They attribute lower quality performance to the strategic choice between outsourcing and vertical integration more than to the characteristics of the host location. We propose that firms which have experienced unsatisfactory quality performance in the previous offshore location react changing the entry mode respect to other post-offshoring reactions. Specifically:

H_{p2}: The lower the offshoring performance in terms of quality, the higher the likelihood of the change of the entry mode respect to other post-offshoring reactions

In line with previous study (e.g. Barthélemy, 2001; Overby, 2003), we recognize that hidden costs of offshoring can negatively impact also the financial and market value of offshore units. In this circumstances, hidden costs stem from inappropriate choice of country and market segment(s) leading to insufficient demand for product or service (Javalgi et al., 2011), lack of communication with local partners (Lu & Hebert, 2005) or mistakes in selecting the right partner, and inability to manage an offshore contract. Unsatisfactory market performance represents the most basic motives

for market exit. At the same time, it may mean the failure of the offshoring strategy pushing firm to react re-focusing operations in the home market. Hence, we propose that in response to lower offshoring market performance firms react reshoring back home offshore units. Specifically:

Hp3: The lower the offshoring performance in terms of market, the higher the likelihood of a relocation to home country

Empirical evidences

Data, Variables and methodology

Data

We answer to our research question through a quantitative analysis on a sample of 433 offshoring initiatives involving business functions and occurred from 1964 to 2009. Data come from the Offshoring Research Network (ORN) and have been collected through a survey project developed by the Duke University (United States) and launched from 2004 to 2009 in 13 different countries.

Table 1, 2 and 3 show the distribution of the observations of our sample across the business functions, the home countries and the host countries, respectively. The most offshored research functions are information technology and software development (accounting for 81 and 79 observations, respectively). The main home country is the United States, which are responsible for 201 offshoring initiatives, while the main host country is India, which is recipient of 214 initiatives.

insert Tables 1, 2 and 3 about here

Variables

Dependent variable. In order to account for the four alternative post-offshoring strategic choices, we employed four different dummy variables, all coming from the answer to the following question of the survey: “What are the plans for this implementation for the next three years?”. The four variables are (i) *Expansion*, which takes value of 1 if the company answered “yes” to the option “Expand the activities in the current offshore location” and 0 if answering “no”; (ii) *Relocation to Third Country*, which takes value of 1 if the company answered “yes” to the option “Relocate to another offshore location part or all offshore activities” and 0 if answering “no”; (iii) *Relocation to Home Country*, which takes value of 1 if the company answered “yes” to the option “Relocate back to home country part or all offshore activities” and 0 if answering “no”; (iv) *Change of the Entry Mode*, which takes value of 1 if the company answered “yes” to the options “Spin off part or all offshore activities from a wholly owned subsidiary to a third-party service provider” or “transfer part or all outsourced offshore activities to a wholly owned subsidiary offshore” and 0 if answering “no”. The variables are not mutually exclusive, as they are based on intentions. In our sample, the offshoring initiatives for which the respondents declare the intention to (i) expand the activity, (ii) relocate the activity in another country, (iii) relocate the activity back to the home country and (iv) change the entry mode are 249, 45, 22 and 46, respectively.

Explicative variables. To account for the performance of the offshoring initiatives, we employed three different variables reflecting the satisfaction as regards the level of efficiency, the type of resources and the access to the market achieved by the company. Specifically, we considered the following question in the ORN questionnaire: “To what extent do you agree that offshoring has measurably led to the following outcomes?”, and, among all the possible answers, we focused on the following ones: “Increased productivity/ efficiency”, “Better access to qualified personnel”, “Better access to new markets”. Based on the answers to these three questions, whose values range from 1 to 5 on a Likert scale, we build three performance variables, namely *Efficiency Performance*, *Quality Performance* and *Market Performance*, respectively.

Control variables. We employed several control variables that might be relevant in explaining the four post-offshoring decisions that represent our dependent variables.

A first set of control variable refer to the company. Specifically, we employ *Firm Experience*, a dummy taking value of 1 when the company has at least one previous offshoring activity and 0 if the company is undertaking the first offshoring initiative, and *Firm Size*, whose proxy is the natural logarithm of number of employees of the offshoring firm (data provided by the ORN survey).

A second set of control variables refer to the home and host countries variables. As regards the former, following Elia et al. (2018) we control for the institutional and economic context of the host location by employing four variables arising from a factor analysis. Specifically, we employed different items provided by the World Competitiveness Yearbook (WCY) and the Worldwide Governance Indicators (WGI) (see table 4 for details)ⁱ. The four resulting variables are *Host Country Political Stability*, which accounts for the quality of the political infrastructures of the host country; *Host Country Market Attractiveness*, which reflects the potential market growth of host countries; *Host Country Human Resources*, which accounts for the amount of skilled labor available in the host country; *Host Country Low Labor Cost*ⁱⁱ, which accounts for low cost of labor in the host countries.

insert Table 4 about here

As regards the home country, we introduce the dummy variable *Home USA* to control for the high number of offshoring initiatives that originate from the United States. We also take into account the cultural diversity between the home and host country through the variable *Cultural Distance*, which is computed by applying the Kogut & Singh (1988) index to the items provided by Hofstede (2001).

A third set of control variables focus on the characteristics of the implementation. The first one is *Offshoring Age*, which control for the timing of the initiative and which is computed as the difference between the year 2011 (the most recent year when the survey has been released) and the year of the offshoring initiative. We then control for the entry mode of the initiative through the variable *Captive*, a dummy taking value of 1 if the entry mode was captive and 0 if outsourcing, and for the complexity of the initiative through the variable *Single Tasks*, a dummy taking value of 1 if the company offshored discrete tasks and 0 if offshoring entire processes. A final group of control variable accounting for the implementation refers to the drivers of the initiatives. Specifically, we employ *Market-seeking investment*, *Efficiency-seeking investment* and *Strategic asset-seeking investment*, which are discrete variables based on a Likert scale scoring from 1 to 5. The variables derive from the answers to the ORN question: “What is the importance of each of the following drivers in considering offshoring this function?”, being three possible answers “Access to new markets for products and services” (market-seeking), “Enhancing efficiency through business process redesign” (efficiency-seeking) and “Access to qualified personnel offshore” (strategic asset seeking, i.e. human resources).

Finally, we control for the value added of the function and the technology intensity of the industry involved in the deal. As regards the former, we employ the variable *High value function*, a dummy taking value of 1 in case the offshoring involves high value-added activities (product design, research and development, engineering services) based on the classification provided by Youngdahl, Ramaswamy, and Dash (2010). As regards the industry, we introduce the variable *HT and KI Industries*, a dummy taking value 1 if the industry of the offshoring company belongs to the categories “High Tech Manufacturing Industries”, “Medium-High Tech Manufacturing Industries” or “Knowledge Intensive Service Industries” according to the classification provided by Eurostat-OECD (2007) and 0 otherwise.

Methodology

Given the nature of our four dependent variables, which are four not-mutually exclusive dummies reflecting the intentions as regards the future plans of the offshoring companies, we employed a Multivariate Probit analysis, which allows us to take into account the interdependences of these choices. Table 5 reports the descriptive statistics and the correlation matrix of the variables included in the analysis.

insert Table 5 about here

Results

Table 6 reports the results of the econometric analysis. The four columns show the results for the four different dependent variables, i.e. *Expansion*, *Relocation to third country*, *Relocation to home country* and *Change of the entry mode*. As regards the first hypothesis, our results show that, unlike our expectations, *Efficiency Performance* is positively and significantly correlated with the variable *Relocation to third country* ($p < 0.05$), meaning that a high satisfaction with the efficiency performance push firms to look for other offshoring initiatives in other countries. Hence, H1 is not supported by our results.

In the second hypothesis, we investigate the effect of unsatisfactory quality performance on the post-offshoring reactions. Specifically, we suggest that a lower quality performance increases the likelihood of a change in the entry mode. The *Quality Performance* is negatively correlated with *Relocation to home country* ($p < 0.05$) and *Change of the entry mode* ($p < 0.01$), meaning that a satisfactory performance in the quality of the service increases the likelihood of an expansion of the foreign venture, while a performance shortcoming trigger either a relocation back to the home country or a change of the entry mode. Therefore, H2 is partially supported.

In hypothesis 3, we investigate the effect of unsatisfactory market performance on the post-offshoring reactions. We argue that a lower market performance pushes firms to relocate back home their offshore units. The variable *Market Performance* is positively and significantly related with

Expansion ($p < 0.05$) and negatively correlated with *Relocation to home country* ($p < 0.05$), meaning that a positive performance with the market is likely to trigger the expansion of the foreign venture, while a negative performance increases the likelihood of going back home. Hence, H3 is supported.

Some interesting insights also arise from the control variables. As regards *Firm Experience*, it turns out that experienced firms are less likely to change the entry mode (column 4), meaning that they probably become more able to select the most appropriate entry mode. As regards the *Firm size*, it seems that large firms are more likely to expand their venture (column 1), while they are also less likely to reshore their activities at home (column 3). As regards the host country characteristics, the political stability does not seem to favor the expansion of the venture (column 1), probably because most of the offshoring initiatives take place in emerging countries (e.g. India and China) with an unstable and evolving political context. The availability of human resources might trigger either the expansion of the venture (column 1) or the relocation to a third country (column 2), probably in search of additional and superior human resources. Finally, if the host country enjoy a low cost location, it decreases the probability of both expanding the venture (column 1) and relocating the venture to a third country (column 2), while slightly increasing the probability to change the entry mode (column 4). As regards the home country, U.S., companies seem to be less likely to back-reshore their initiatives (column 3). At the same time, cultural distance decreases the probability to expand the venture (column 1) while increasing the probability to relocate it in a third country (column 2). Looking at the offshoring age, it seems that oldest ventures are less likely to be expanded (column 1) and more likely to be relocated (column 2). Captive initiatives are more likely to be expanded than outsourcing initiatives (column 1), while no effects emerge as regards the probability to change entry mode (column 4). Single tasks are less likely to be relocated (column 2). As regards the drivers, it seems that firms driven by market-seeking reasons are less likely to expand (column 1) - although they do it when the market performance is good - while they are less likely to change the entry mode (column 4). Also, efficiency-seeking firms are less likely to expand their activity (column 1). Finally, it turns out that firms operating in high-tech and knowledge

intensive industries are more likely to expand their activity (column 1) and less likely to change the entry mode (column 2).

insert Table 6 about here

Discussion and Conclusion

The aim of this paper is to answer the research question: *What is the impact of the offshoring performances on the post-offshoring strategic reactions?* Our results provide evidence of the relationship between unsatisfactory offshoring performances, distinguished by efficiency, quality and market, and the different post-offshoring strategic reactions, in term of relocation to third country, reshoring to home country and change of the entry mode. Our results show that performances can influence differently the post-offshoring strategic decision of firms. Specifically, they show that when the offshoring activities achieve satisfactory performances in the quality of service and in new market opportunities, companies are more likely to expand their foreign venture, while a performance shortcoming triggers either a reshoring back home or a change of the entry mode. The results related to efficiency performance are interesting and for some extent counterintuitive. Positive efficiency performances push companies to relocate their offshored activities to third country. This finding means that companies able to reduce costs or increase efficiency in their offshored location are more likely to exploit the same opportunities moving their activities across countries, in terms of arbitrage opportunities. In other words, relocating frequently their activities in other countries, they look for new sources of cost-saving advantages, exploiting arbitrage opportunities (footloose multinational corporations).

This study contributes to the international business literature offering new insights on location decisions by highlighting the relationship between the offshoring performance and the subsequent strategic choice. Different from previous studies that have focused their attention on the “Relocation of second degree” and particularly on reshoring (e.g. Gray et al., 2013, 2017; Fratocchi

et al., 2014), we consider a broader range of post-offshoring strategic choices. Further, we relate such strategic options to the realized performance, and not to the location drivers underlying the previous offshoring decision. We contribute also to the literature that links performance to strategic decisions of firms. Particularly, we have shown how different types of performance, in terms of efficiency, quality and market, may push firms to implement different post-offshoring strategic choices.

Our preliminary results offer also potential implications for managers. Particularly, they stress the importance of performance in taking post-offshoring strategic decisions. It means that managers should plan several potential strategic options after a prior offshoring decision and be ready to switch these options respect to the achieved performances. In this way, managers can anticipate potential constraints and opportunities. At the same time, our paper shows the importance of taking a dynamic perspective going abroad pushing managers to consider different post-offshoring options.

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Tables

Table 1: Business functions involved in the offshoring initiatives.

| Functions | N. | % |
|----------------------------------|------------|---------------|
| Software Development | 79 | 18.24 |
| Call center and customer contact | 57 | 13.16 |
| Design | 15 | 3.46 |
| Engineering services | 41 | 9.47 |
| Finance and accounting | 54 | 12.47 |
| Human resources | 12 | 2.77 |
| Information technology | 81 | 18.71 |
| Knowledge services | 27 | 6.24 |
| Legal services | 3 | 0.69 |
| Marketing and sales | 26 | 6.00 |
| Procurement | 25 | 5.77 |
| Research and development | 13 | 3.00 |
| Total | 433 | 100.00 |

Table 2: Home countries of the offshoring initiatives.

| Home countries | N. | % |
|-----------------------|------------|---------------|
| Australia | 5 | 1.15 |
| Denmark | 8 | 1.85 |
| France | 6 | 1.39 |
| Ireland | 1 | 0.23 |
| Luxembourg | 1 | 0.23 |
| Netherlands | 77 | 17.78 |
| Norway | 4 | 0.92 |
| Spain | 14 | 3.23 |
| Switzerland | 25 | 5.77 |
| United Kingdom | 12 | 2.77 |
| United States | 280 | 64.67 |
| Total | 433 | 100.00 |

Table 3: Host countries of the offshoring initiatives.

| Host countries | N. | % |
|-----------------------|------------|---------------|
| Argentina | 8 | 1.85 |
| Australia | 2 | 0.46 |
| Brazil | 12 | 2.77 |
| Canada | 10 | 2.31 |
| China | 44 | 10.16 |
| Colombia | 1 | 0.23 |
| Costa Rica | 7 | 1.62 |
| Czech Republic | 6 | 1.39 |
| Denmark | 2 | 0.46 |
| Ecuador | 1 | 0.23 |
| El Salvador | 1 | 0.23 |
| Finland | 2 | 0.46 |
| France | 3 | 0.69 |
| Germany | 5 | 1.15 |
| Hungary | 6 | 1.39 |
| India | 201 | 46.42 |
| Indonesia | 4 | 0.92 |
| Ireland | 1 | 0.23 |
| Italy | 4 | 0.92 |
| Jamaica | 1 | 0.23 |
| Japan | 2 | 0.46 |
| Luxembourg | 2 | 0.46 |
| Malaysia | 6 | 1.39 |
| Mexico | 10 | 2.31 |
| Netherlands | 1 | 0.23 |
| Norway | 3 | 0.69 |
| Pakistan | 2 | 0.46 |
| Peru | 1 | 0.23 |
| Philippines | 34 | 7.85 |
| Poland | 7 | 1.62 |
| Portugal | 1 | 0.23 |
| Romania | 5 | 1.15 |
| Russia | 5 | 1.15 |
| Singapore | 7 | 1.62 |
| Slovakia | 2 | 0.46 |
| South Africa | 2 | 0.46 |
| Sweden | 5 | 1.15 |
| Taiwan | 1 | 0.23 |
| Thailand | 1 | 0.23 |
| Turkey | 1 | 0.23 |
| United Kingdom | 5 | 1.15 |
| United States | 6 | 1.39 |
| Uruguay | 1 | 0.23 |
| Vietnam | 2 | 0.46 |
| Total | 433 | 100.00 |

Table 4: Factor analysis for the host country variables

| First order construct | Items | Source | Description | Scale | Loading | Alpha |
|---|---|---------------|--|---------------|----------------|---------------|
| Host Country Market Attractiveness | Gross Domestic Product | WCY | Gross Domestic Product | US\$ billions | 0.9864 | 0.7939 |
| | Gross Fixed Capital Formation | WCY | Inward Foreign direct investments | US\$ billions | 0.9519 | |
| | Direct Investment Inflows Inward | WCY | Direct Investment Inflows Inward | US\$ billions | 0.8724 | |
| | Government Consumption Expenditure | WCY | Government Consumption Expenditure | US\$ billions | 0.9726 | |
| | Household Consumption Expenditure | WCY | Household Consumption Expenditure | US\$ billions | 0.9698 | |
| Host Country Political Stability | Political Stability and Absence of Violence/Terrorism | WGI | Perception of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism. | -2.5/2.5 | 0.8783 | 0.9696 |
| | Government Effectiveness | WGI | Perception of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. | -2.5/2.5 | 0.8556 | |
| | Regulatory Quality | WGI | Perception of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. | -2.5/2.5 | 0.9011 | |
| | Rule of Law | WGI | Perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. | -2.5/2.5 | 0.8859 | |
| | Control of Corruption | WGI | Perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. | -2.5/2.5 | 0.8544 | |

| | | | | | | |
|--|-----------------------------------|-----|--|------|--------|---------------|
| Host Country Low Labor Costs | Remuneration Call Center Agent | WCY | Gross annual income including supplements such as bonuses - Call Center Agents | US\$ | 0.7480 | 0.7849 |
| | Remuneration Manufacturing Worker | WCY | Total hourly compensation for manufacturing workers (wages + supplementary benefits) | US\$ | 0.7606 | |
| | Remuneration Department Head | WCY | Gross annual income including supplements such as bonuses - Department Head | US\$ | 0.7254 | |
| | Remuneration Personal Assistant | WCY | Gross annual income including supplements such as bonuses - Personal Assistant | US\$ | 0.7622 | |
| Host Country High Value-Added Resources | Information Technology Skills | WCY | The extent to which the country can rely on information technology skills | 0/10 | 0.8036 | 0.9237 |
| | Qualified Engineers | WCY | The extent to which qualified engineers are available in labor market | 0/10 | 0.9310 | |
| | Skilled Labor | WCY | The extent to which skilled labor is readily available in labor market | 0/10 | 0.9000 | |

Note: The factor analysis has been performed on 60 countries. The items have been included in the factor analysis as the average value of the period 2004-2011. Higher values reflect better outcomes for all items. WCY stands for World Competitiveness Yearbook (WCY), published by the International Institute for Management Development (IMD) of Lausanne (<http://www.imd.org/wcc/>), while WGI stands for Worldwide Governance Indicators (WGI), published by the World Bank (<http://info.worldbank.org/governance/wgi/index.asp>).

Table 5: Correlation matrix and descriptive statistics

| Variables | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|--------|-------|--|
| 1 Expansion | 1.000 | | | | | | | | | | | | | | | | | | | | | | | |
| 2 Relocation to third country | -0.121 | 1.000 | | | | | | | | | | | | | | | | | | | | | | |
| 3 Relocation to home country | 0.007 | 0.197 | 1.000 | | | | | | | | | | | | | | | | | | | | | |
| 4 Change of the entry mode | -0.022 | 0.104 | 0.466 | 1.000 | | | | | | | | | | | | | | | | | | | | |
| 5 Efficiency Performance | 0.067 | 0.104 | 0.065 | -0.108 | 1.000 | | | | | | | | | | | | | | | | | | | |
| 6 Quality Performance | 0.042 | 0.035 | -0.050 | -0.214 | 0.541 | 1.000 | | | | | | | | | | | | | | | | | | |
| 7 Market Performance | -0.148 | 0.012 | -0.105 | -0.118 | 0.078 | 0.225 | 1.000 | | | | | | | | | | | | | | | | | |
| 8 Firm Experience | -0.008 | -0.026 | -0.065 | -0.155 | -0.100 | 0.046 | 0.164 | 1.000 | | | | | | | | | | | | | | | | |
| 9 Firm Size | 0.132 | 0.035 | -0.036 | -0.021 | -0.027 | 0.053 | -0.195 | 0.131 | 1.000 | | | | | | | | | | | | | | | |
| 10 Host Country Political Stability , | -0.215 | 0.076 | -0.058 | -0.049 | -0.150 | -0.003 | 0.171 | 0.044 | -0.092 | 1.000 | | | | | | | | | | | | | | |
| 11 Host Country Market Attractiveness | 0.029 | -0.040 | -0.016 | 0.066 | 0.053 | 0.002 | -0.033 | -0.065 | -0.093 | -0.266 | 1.000 | | | | | | | | | | | | | |
| 12 Host Country Human Resources | 0.184 | 0.095 | 0.058 | 0.119 | 0.008 | -0.058 | -0.297 | -0.097 | 0.294 | 0.050 | 0.035 | 1.000 | | | | | | | | | | | | |
| 13 Host Country Low Labor Cost | -0.185 | -0.081 | 0.015 | 0.029 | -0.096 | 0.015 | 0.062 | 0.056 | -0.008 | 0.271 | 0.076 | -0.005 | 1.000 | | | | | | | | | | | |
| 14 Home USA | 0.156 | -0.017 | -0.181 | -0.027 | 0.059 | -0.055 | -0.202 | 0.108 | 0.162 | -0.068 | 0.148 | 0.207 | -0.063 | 1.000 | | | | | | | | | | |
| 15 Cultural Distance | -0.106 | 0.052 | 0.076 | -0.011 | -0.023 | -0.041 | 0.072 | 0.093 | -0.015 | -0.314 | -0.132 | -0.251 | -0.130 | -0.194 | 1.000 | | | | | | | | | |
| 16 Offshoring Age | -0.301 | 0.140 | 0.002 | 0.088 | -0.160 | 0.034 | 0.377 | -0.095 | -0.030 | 0.317 | -0.051 | -0.044 | 0.170 | -0.224 | -0.045 | 1.000 | | | | | | | | |
| 17 Captive | 0.034 | 0.058 | 0.119 | -0.025 | -0.036 | 0.002 | 0.235 | 0.163 | -0.026 | 0.172 | -0.065 | -0.099 | 0.059 | -0.123 | 0.062 | 0.178 | 1.000 | | | | | | | |
| 18 Single Tasks | 0.028 | -0.135 | -0.065 | -0.003 | -0.052 | 0.083 | 0.081 | -0.040 | -0.118 | -0.071 | 0.052 | -0.013 | 0.022 | 0.062 | -0.012 | -0.041 | -0.199 | 1.000 | | | | | | |
| 19 Market-seeking investment | -0.124 | 0.007 | -0.083 | -0.187 | -0.042 | 0.153 | 0.652 | 0.075 | -0.219 | 0.235 | 0.040 | -0.239 | 0.087 | -0.037 | -0.085 | 0.206 | 0.195 | 0.159 | 1.000 | | | | | |
| 20 Efficiency-seeking investment | -0.109 | 0.005 | -0.036 | -0.156 | 0.185 | 0.369 | 0.349 | 0.098 | 0.145 | 0.106 | -0.072 | 0.011 | 0.115 | -0.062 | 0.001 | 0.071 | 0.090 | 0.048 | 0.268 | 1.000 | | | | |
| 21 Strategic asset-seeking | 0.023 | 0.075 | 0.019 | -0.038 | 0.319 | 0.232 | -0.028 | -0.145 | -0.038 | -0.017 | 0.135 | -0.004 | 0.078 | 0.152 | -0.083 | -0.060 | -0.089 | 0.012 | 0.076 | 0.078 | 1.000 | | | |
| 22 High value function | 0.004 | 0.017 | 0.014 | 0.034 | 0.077 | -0.054 | 0.159 | -0.012 | -0.138 | 0.048 | 0.066 | -0.112 | 0.006 | -0.021 | -0.058 | 0.070 | 0.109 | 0.002 | 0.207 | -0.091 | 0.116 | 1.000 | | |
| 23 High Tech and Knowledge Intensive Industries | 0.236 | 0.003 | 0.034 | -0.008 | 0.048 | -0.085 | -0.283 | -0.186 | -0.152 | -0.028 | 0.136 | 0.130 | -0.101 | 0.267 | -0.227 | -0.270 | -0.059 | -0.151 | -0.049 | -0.167 | 0.263 | -0.066 | 1.000 | |
| Observations | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | |
| Mean | 0.575 | 0.104 | 0.051 | 0.106 | 3.644 | 3.360 | 2.575 | 0.550 | 8.581 | 23.700 | 41.561 | 44.242 | 26.143 | 0.647 | 2.118 | 7.464 | 0.427 | 0.635 | 2.460 | 3.203 | 3.621 | 0.159 | 0.707 | |
| Std. Dev. | 0.495 | 0.306 | 0.220 | 0.308 | 0.944 | 1.036 | 1.364 | 0.498 | 2.785 | 11.110 | 13.989 | 16.775 | 10.657 | 0.479 | 1.074 | 4.984 | 0.495 | 0.482 | 1.411 | 1.316 | 1.310 | 0.366 | 0.456 | |
| Min | 0.000 | 0.000 | 0.000 | 0.000 | 1.000 | 1.000 | 1.000 | 0.000 | 0.693 | 4.000 | 4.000 | 3.000 | 2.000 | 0.000 | 0.020 | 2.000 | 0.000 | 0.000 | 1.000 | 1.000 | 1.000 | 0.000 | 0.000 | |
| Max | 1.000 | 1.000 | 1.000 | 1.000 | 5.000 | 5.000 | 5.000 | 1.000 | 12.766 | 56.000 | 58.000 | 57.000 | 57.000 | 1.000 | 5.933 | 47.000 | 1.000 | 1.000 | 5.000 | 5.000 | 5.000 | 1.000 | 1.000 | |

Table 6: Results of the Multivariate Probit Analysis

| Variables | (1) Expansion | (2) Relocation to third country | (3) Relocation to home country | (4) Change of the entry mode |
|---|----------------------|---------------------------------|--------------------------------|------------------------------|
| <i>Efficiency Performance</i> | -0.138 (-1.39) | 0.263** (2.00) | 0.262 (1.53) | -0.118 (-0.93) |
| <i>Quality Performance</i> | 0.197** (2.31) | -0.014 (-0.12) | -0.336** (-2.00) | -0.396*** (-3.16) |
| <i>Market Performance</i> | 0.200** (2.49) | -0.140 (-1.37) | -0.304** (-2.16) | 0.047 (0.46) |
| <i>Firm Experience</i> | -0.100 (-0.65) | 0.051 (0.25) | 0.047 (0.18) | -0.557*** (-2.77) |
| <i>Firm Size</i> | 0.073** (2.55) | 0.009 (0.23) | -0.087** (-2.08) | -0.056 (-1.62) |
| <i>Host Country Political Stability</i> | -0.023*** (-2.99) | 0.009 (0.95) | -0.019 (-1.31) | -0.014 (-1.16) |
| <i>Host Country Market Attractiveness</i> | -0.006 (-1.07) | -0.000 (-0.06) | -0.001 (-0.14) | 0.005 (0.64) |
| <i>Host Country Human Resources</i> | 0.014*** (2.93) | 0.017** (2.28) | 0.015 (1.62) | 0.010 (1.41) |
| <i>Host Country Low Labour Cost</i> | -0.013* (-1.90) | -0.020** (-2.01) | 0.023 (1.57) | 0.018* (1.65) |
| <i>Home USA</i> | 0.021 (0.13) | -0.034 (-0.15) | -0.598** (-2.10) | -0.106 (-0.49) |
| <i>Cultural Distance</i> | -0.178** (-2.34) | 0.219** (2.29) | 0.116 (0.92) | -0.063 (-0.55) |
| <i>Offshoring Age</i> | -0.105*** (-4.75) | 0.058*** (3.09) | 0.028 (1.02) | 0.012 (0.56) |
| <i>Captive</i> | 0.480*** (3.19) | 0.022 (0.11) | 0.276 (0.97) | -0.041 (-0.21) |
| <i>Single Tasks</i> | 0.209 (1.37) | -0.446** (-2.28) | -0.131 (-0.50) | 0.071 (0.34) |
| <i>Market-seeking investment</i> | -0.126* (-1.76) | 0.117 (1.32) | 0.076 (0.63) | -0.287*** (-3.11) |
| <i>Efficiency-seeking investment</i> | -0.156*** (-2.58) | -0.052 (-0.67) | 0.074 (0.74) | 0.007 (0.09) |
| <i>Strategic asset-seeking</i> | 0.002 (0.04) | 0.126 (1.50) | 0.007 (0.06) | 0.019 (0.24) |
| <i>High value function</i> | 0.273 (1.37) | -0.028 (-0.11) | -0.157 (-0.41) | 0.242 (0.95) |
| <i>HT & KI Industries</i> | 0.567*** (3.19) | -0.130 (-0.54) | 0.002 (0.01) | -0.409* (-1.67) |
| <i>Constant</i> | 0.640 (0.89) | -3.629*** (-3.84) | -1.570 (-1.27) | 1.030 (0.95) |
| Number of observations | 433 | 433 | 433 | 433 |
| chi2 | 191.377*** | 191.377*** | 191.377*** | 191.377*** |

Z-Statistics between brackets. Please note: * p<0.1, ** p<0.05, *** p<0.01

ⁱ Using data from multiple sources reduces the sample bias (e.g. common method bias) (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003).

ⁱⁱ This variable has been reversed coded by giving the scores a negative sign, since the original items display high values when labor costs are high. By employing the variable with negative sign, we associate high scores to countries with low cost of labor.