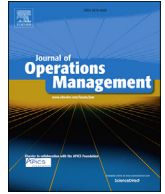




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The impact of reshoring decisions on shareholder wealth

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ABSTRACT

Interest in reshoring, defined as the return of manufacturing and service operations from previously offshored locations to the U.S., has gained momentum recently. Yet, there is no academic evidence on the shareholder value implications of reshoring decisions. This paper analyzes the shareholder wealth effects of 37 reshoring decisions announced by U.S. firms during 2006–2015. Our results indicate that reshoring announcements result in positive abnormal stock returns. Mean (median) abnormal stock returns on reshoring announcements are 0.45% (0.29%), corresponding with a mean (median) market value change of \$322.57 million (\$31.60 million). Our findings imply that the benefits associated with the reshoring tend to outweigh the costs. This finding is relevant for firms faced with the decision of whether to move business activities from offshore to domestic locations. It is also of interest to policy makers who may seek to further stimulate the reshoring phenomenon.

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1. Introduction

Changes in global economic conditions have reignited the debate surrounding manufacturing and service location decisions. Many have been quick to point to recent announcements of firms including General Electric, Caterpillar, Ford, and Apple, as evidence of a nascent trend to move business activities from foreign locations to domestic markets. Although these decisions have been labelled with terms such as back-shoring, homeshoring, onshoring, reshoring, and back-reshoring (Gray et al., 2013; Fratocchi et al., 2014), the term reshoring seems to be most commonly used in the business press and academic literature.

While previous studies have provided valuable insights into the determinants of reshoring (Porter and Rivkin, 2012; Ellram et al., 2013; Tate et al., 2014), they have yet to determine its impact on shareholder value. Given the current debate about reshoring decisions, a rigorous study of their stock price effects appears particularly timely. Our study fills this gap by analyzing the shareholder wealth effects of firms' decisions to reshore operations to their country of domicile. We focus on U.S. firms, as the reshoring

movement is so far mostly a U.S. phenomenon (The Economist Intelligence Unit, 2013).

Whether reshoring decisions result in positive or negative stock price reactions is an empirical question, as it depends on the relative magnitude of their predicted benefits and costs. Using event study methodology on a sample of 37 reshoring decisions announced by publicly traded U.S. firms between 2006 and 2015, we find that reshoring creates positive shareholder wealth effects. The magnitude of the mean (median) stock price effect is 0.45% (0.29%), which corresponds to a mean (median) market value gain of \$322.57 million (\$31.60 million).

By documenting the sign and magnitude of the shareholder wealth effects of reshoring announcements, our results offer guidance to managers deciding on whether to move business activities from offshore to domestic locations. Our findings suggest that the benefits of reshoring decisions outweigh their costs, on average. This evidence can serve as a further justification for government and industry incentives stimulating the reshoring phenomenon.

The remainder of this paper is structured as follows. Section 2 develops our hypotheses on the shareholder wealth effects of reshoring decisions. Section 3 describes the sample and methodology. Section 4 gives the empirical results. Section 5 discusses the implications and limitations of our work, as well as possible avenues for future research.

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2. Hypotheses

The geographical location of manufacturing and service facilities can affect the performance of firms and their supply chains. Recently, firms have started to re-evaluate prior offshoring decisions and are reshoring their operations to so-called 'high-(labour) cost' locations (The Economist Intelligence Unit, 2013). The literature suggests several benefits of reshoring decisions. Reshoring may enable firms to manage their production capacity and inventory more efficiently, for example by eliminating safety stock held at offshore distribution centres (Tate et al., 2014). Domestic production might give firms the flexibility to postpone production orders until they have a better estimate of demand, thereby reducing the risk of either excess production or stockouts (De Treville and Trigeorgis, 2010). Offshore fashion apparel producers, for example, can find themselves marking down substantial portions of their clothes due to overproduction, while at the same time experiencing a shortage of more popular items (Porter and Rivkin, 2012). Once the flexibility of shortening the supply chain has been taken into account, manufacturing at home may actually be cheaper than abroad (De Treville and Trigeorgis, 2010).

Reshoring could also lower the risk of supply chain disruptions resulting from product quality failures and intellectual property theft, which tend to be more common in offshore locations such as China (Ellram et al., 2013; Zimmerman, 2013). Furthermore, reshoring is likely to result in lower packaging, travel, and telecommunication costs (Porter and Rivkin, 2012).

In addition, reshoring may enable firms to respond faster to changing consumer or customer demands through locating production closer to their end users (Ellram et al., 2013). Bringing back operations from offshore locations could also spur innovation by reducing the physical and cultural distance between design and manufacturing units (Tate et al., 2014). Finally, there could be marketing benefits associated with being able to claim that a product has been 'Made in America' (Robinson, 2015). Together, these benefits may result in positive incremental cash flows for the focal firm.

However, studies also cite a number of costs and expenses associated with reshoring decisions. First, reshoring decisions may result in higher labour costs. Although the wage gap between domestic and offshore locations is decreasing (Li et al., 2012; Tate et al., 2014), salaries in domestic locations still tend to be several times higher than those in the most popular offshore locations. For example, whereas U.S. hourly compensation costs relating to manufacturing were \$35.67 on average in 2013, countries such as the Philippines, Mexico, and Taiwan all had average rates of less than \$10 (U.S. Bureau of Labor Statistics, 2013). Proponents of the reshoring movement may argue that, while the U.S. has higher labour costs compared with many offshore locations, it also has a higher labour productivity per output (Ellram et al., 2013). Nevertheless, investors might still be concerned about labour costs increases associated with a move back to the U.S.

Reshoring can also result in setup and switching costs associated with moving facilities to the domestic location (Tate et al., 2014). For example, firms might need to build new factories and adopt new processes for inventory management. Finally, investors may be concerned about the currency risk and tax implications associated with a reshoring move. Although the U.S. government has provided several subsidies and tax breaks for firms repatriating business activities, its taxation system is still unlikely to favour the U.S. as a manufacturing location (Porter and Rivkin, 2012; Tate et al., 2014). Together, these costs may result in negative incremental cash flows for the focal firm.

In sum, the direction of the impact of announcements of reshoring decisions on shareholder wealth cannot be determined a priori. It depends on the relative magnitude of the predicted

positive and negative cash flow implications of reshoring. We thus obtain the following competing hypotheses:

H_{1a} Reshoring announcements will result in positive stock price reactions for the focal firm.

H_{1b} Reshoring announcements will result in negative stock price reactions for the focal firm.

3. Sample and methodology

This section first discusses the construction of our data set of reshoring announcements. Subsequently, we briefly outline the event study methodology.

3.1. Sample of reshoring announcements

We compiled the data set of reshoring announcements through a key word search in Factiva, a business information and research tool owned by Dow Jones & Company. Factiva aggregates content from more than 32,000 publication sources such as conference call transcripts, newspapers, newswires, and journals. We also checked alternative sources of information such as Google News and www.reshorennow.org, the website of the Reshoring Initiative (an industry-led initiative to bring jobs back to the U.S.). We focus on the U.S. as a reshoring destination, since the reshoring movement has been much more limited in other parts of the world (The Economist Intelligence Unit, 2013).

Our search terms consisted of combinations of key words such as made in USA, manufacturing plant, moving back, new facility, relocation, reshoring, U.S. jobs, and other relevant phrases. Our search window ranged from January 1 2006 until June 30 2015, and we restricted our search to English language media. We read the full text of articles and press releases meeting the search criteria. For a reshoring announcement to be included in our final sample, we used the following criteria:

- The reshoring firm must be domiciled in the U.S.;
- The reshoring firm or its parent firm must have stock price data available on the Center for Research in Security Prices (CRSP) for the full year prior to the reshoring announcement date, until two trading days after the announcement date;
- The reshoring announcement or accompanying announcements must mention an offshore location from which the firm moved (part of) its operations. We imposed this requirement to weed out announcements that mainly pertain to manufacturing expansions or factory openings, rather than to manufacturing relocation decisions;
- We must be able to retrieve a time stamp for the earliest public announcement of the reshoring decision. We imposed this requirement in order to be able to align calendar dates to event dates. We retrieved time stamps from sources such as Associated Press, Dow Jones, and PR Newswires.

These sample cleaning operations resulted in a sample of 37 reshoring announcements. Examples include:

- "Whirlpool shifts some production to U.S. from Mexico", The Wall Street Journal, December 19 2013. This announcement refers to Whirlpool Corporation (NYSE: WHR)'s decision to shift washing machine production from Monterrey, Mexico to Clyde, Ohio;
- "Apple plans investment in U.S. manufacturing", Dow Jones News Service, December 6 2012. This announcement refers to Apple (NASDAQ: AAPL)'s decision to invest over \$100 million to

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