



Reshoring from a demand-side perspective: Consumer reshoring sentiment and its market effects



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ABSTRACT

Reshoring is the company decision to relocate activities back to the home country. Our study complements the existing research in IB by adopting a demand-side perspective. We identify new, demand-based drivers for reshoring that integrate with the firm-based ones, thereby further informing the company decision process in this context. We develop a Consumer Reshoring Sentiment (CRS) scale through multiple studies conducted on consumers (total = 1149) in two countries. Our findings reveal: six demand-based drivers that compose CRS; a link between CRS and consumer willingness to reward the reshoring company; and the effectiveness of CRS in segmenting and targeting the market.

1. Introduction

Our study aims to analyze an emerging and increasingly important phenomenon, namely, company decisions to relocate activities back to the home country. We conceive of reshoring as a voluntary decision on the part of a company to relocate its activities back to the home country after having implemented an offshoring decision in the past, regardless of the ownership of the activities reshored (Ellram, 2013; Gray, Skowronski, Esenduran, & Rungtusanatham, 2013). Our work complements the existing research in international business (IB) on reshoring by analyzing the phenomenon from a demand-side perspective (Priem, Li, & Carr, 2012; Siqueira, Priem, & Parente, 2015), arguing that the home country's demand characteristics can play a role in explaining company reshoring decisions. Thus, we aim to contribute to IB research by adding a new element to the existing knowledge base about the drivers for reshoring, namely, Consumer Reshoring Sentiment (CRS). CRS collects generalized, positive beliefs that home-country consumers associate with reshoring, and which companies should consider when the decision to relocate activities is evaluated. To this end, we look outside the company—towards its actual and potential end users (i.e., consumers)—to analyze the reshoring phenomenon. From this point of view, reshoring is examined as a way to increase the value created within a company's value system by emphasizing value-creation for consumers.

Reshoring practices are quite recent and relatively understudied to date, so that their scope and functions, for instance, are still largely

unknown. Reshoring usually concerns international companies that decide to return to their highly developed countries of origin. The relevance of reshoring is steadily increasing (Sirkin, Zinser, Hohner, & Rose, 2012), but more research is required to ascertain the full consequences of such a decision (Gray et al., 2013; Tate, Ellram, Petersen, & Schoenherr, 2014). Despite the difficulty of obtaining public data (Gray et al., 2013), recent empirical research has begun to describe reshoring. Kinkel and colleagues (Kinkel & Maloca, 2009; Kinkel & Zanker, 2013; Kinkel, 2012) found that reshoring has been a concern in about 25% of the German companies sampled. Dachs and Kinkel (2013) analyzed reshoring in eight European countries, revealing marked differences in the amount of reshoring. Researchers recently developed a specific data base consisting of 294 reshoring operations based on secondary data (Fratocchi et al., 2011; Fratocchi, Barbieri, DiMauro, Nassimbeni, & Vignoli, 2013; Fratocchi, Di Mauro, Barbieri, Nassimbeni, & Zanoni, 2014). The predominant countries in the data base are the U.S., Germany, and Italy, suggesting that reshoring is clearly more common in some countries than others.

Current literature on reshoring has mainly focused on the definition of the phenomenon (Ellram, 2013; Fratocchi et al., 2014; Gray et al., 2013) and its geographical boundaries, including, for example, the identification of the host countries most involved (Dachs & Kinkel, 2013). Specific attention has also been given to the drivers for a company's reshoring decision and, to this end, Transaction Cost Theory (TCT) (Williamson, 2008), the Resource-Based View (RBV) (Teece, Pisano, & Shuen, 1997), internalization theory (Casson, 1976, 2011,

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and Dunning's "eclectic paradigm" (Dunning, 1980, 1998) have been widely applied (Fratocchi et al., 2016). Adopting the firm-side perspective, several studies (e.g., Canham & Hamilton, 2013; Casson, 2013; Dachs & Kinkel, 2013; Dachs & Zanker, 2015; Ellram, Tate, & Petersen, 2013; Fratocchi et al., 2016; Gray et al., 2013; Kinkel & Maloca, 2009; Kinkel & Zanker, 2013; Kinkel, 2012, 2014; Martínez-Mora & Merino, 2014; Nujen, Halse, & Solli-Sæther, 2015; Wu & Zhang, 2014) have identified important firm-based drivers underlying reshoring, shedding unique light on the company decision-making process. This important progress notwithstanding, a demand-side perspective also can be critical to company value creation: companies must pay attention to consumer demand in strategic decision-making (e.g., Priem et al., 2012). For example, Grappi, Romani, and Bagozzi (2015) reveal some preliminary results on positive beliefs consumers have about this major strategic decision. This notwithstanding, much remains to be learned about whether, and to what extent, demand factors can bring new elements into the company decision process that are useful and measurable (i.e., demand-based drivers for reshoring). Extending this demand-side perspective to the reshoring context, we argue that reshoring decisions can be driven in part by the home country's local demand characteristics.

To this end, we explore the relevant, generalized, long-term positive beliefs that consumers hold about reshoring. These beliefs are part of an overall appraisal structure that we conceptually and empirically investigate under the label of Consumer Reshoring Sentiment (CRS). CRS collects new, demand-side drivers that companies should consider, together with the firm-side drivers identified in previous IB research, when they evaluate reshoring. Taking into consideration CRS, a company will be able to examine and assess, through the reliable and validated measurement scale developed in this paper, the extent to which reshoring can increase consumers' perceived value of its offerings, and thus the extent to which reshoring can expand the overall consumer value created by the company. By including demand-side considerations, we help deepen and extend our current understanding of the reshoring decision-making process and provide new empirical evidence on the demand-side perspective. The empirical work that examines the impact of home country local demand on a company's reshoring decision is sparse. Our paper is among the first we know to examine demand-side predictions in the reshoring context, thereby complementing the existing IB research on reshoring (for similar contributions in different IB contexts, see Bailey & Li, 2015 and Krause, Filatotchev, & Bruton, 2016).

The remainder of the paper is structured as follows: 1) we present a review of the literature to identify how reshoring is currently studied in the IB field. 2) We then present a preliminary qualitative study aimed at analyzing reshoring from the demand-side perspective, identifying key consumer beliefs associated with reshoring. The findings become the starting point from which we develop the CRS construct and its measures. 3) Then follows the development process of a reliable and valid measurement scale of CRS (the CRS scale). Based on our proposed conceptualization, a series of complementary studies on Italian consumers is carried out to validate a psychometrically sound scale, which is further tested on American consumers to strengthen its generalizability and practical applicability. In fact, as this theme can be sensitive to the social and political climate of one country, we developed the CRS scale by focusing on one specific country (Italy) and subsequently tested its characteristics by applying it in a different country (the U.S.), reinforcing its ecological validity. 4) Differential market reactions depending on CRS are then identified. We reveal positive links between CRS and consumers' market responses to reshoring (i.e. attitudes towards companies that reshore, positive word of mouth, and intentions to buy the reshoring company's products), thereby confirming the ability of reshoring to increase value created within the company's value system. 5) Finally, we show the effectiveness of CRS in segmenting and targeting home country markets. Following a cross-country validation of the CRS scale, we present an empirical application

showing the effectiveness of CRS in segmenting home country consumers, together with another relevant dimension (i.e., ethnocentrism) that is related to, but different from, reshoring sentiment. In short, by adding the demand-side perspective on reshoring to that of the firm-side, we raise consumer issues to the strategic level, adding complexities that have the potential to enrich IB research in new and original ways.

2. The reshoring phenomenon

2.1. Theoretical framework

Based on the principal theoretical perspectives used in studying reshoring (i.e., TCT, RBV, internalization theory, and Dunning's "eclectic paradigm") current research delineates the decision-making process of the company as primarily guided by the following drivers for reshoring. Advantages of costs (i.e., cost-based drivers for reshoring) are identified by current research as pivotal factors for decisions to reshore activities from abroad. Cost considerations favoring reshoring can derive from corrections of a previous miscalculation of the actual costs of offshoring (Gray et al., 2013; Kinkel & Maloca, 2009), or from a deliberate decision related to exogenous changes (e.g., labor cost gap reduction, Kinkel and Zanker, 2013; Kinkel, 2012; , 2014; increased home country productivity, Nujen et al., 2015) or endogenous changes (e.g., increased coordination costs, Dachs & Kinkel, 2013; Dachs & Zanker, 2015; Kinkel & Maloca, 2009). Using a macro-level perspective, other studies found that reconfiguration decisions, including reshoring, can be also favored by changes in the global economy (e.g., cost and risk-related factors that affect location characteristics, Casson, 2013) or by governance choices (e.g., changes in the competitive model that lead to changes in the supply chain structure, Martínez-Mora & Merino, 2014). Reshoring has also been studied adopting a multi-dimensional view, not focused primarily on how to lower unit costs but on how to obtain unique sets of resources and competences able to give a sustainable competitive advantage to the company (i.e., resource-based drivers for reshoring). Strategic resources and capabilities are considered crucial drivers for the company's location decisions (Barney, 1991). In this perspective, reshoring decisions reflect the company's efforts in developing critical assets by moving activities back to the home country (e.g. to ensure a higher level of production quality, Ancarani, DiMauro, Fratocchi, Orzes, & Sartor, 2015; Canham & Hamilton, 2013; to get access to materials, infrastructure, local talent, and/or suppliers, Ellram et al., 2013; to improve the relationship with distributors, Martínez-Mora & Merino, 2014; to ensure a higher level of flexibility so as to avoid problems associated with market size shrinking and volatility; Wu & Zhang, 2014).

All these studies shed a unique light on the company decision-making process in terms of relocating activities back to the home country, but they explain the phenomenon as mainly stemming from negative performance assessments of the previous offshoring decision (Fratocchi et al., 2014; Kinkel & Maloca, 2009; Kinkel, 2012). Albertoni, Elia, Massini, and Piscitello (2017), by applying the disintegration, location-specific, and externalization (DLE) framework (Kedia & Mukherjee, 2009) for studying reshoring of business services, found that reshoring can be explained not only as a result of a company's response to performance shortcomings of offshoring, but also as a company decision motivated by persisting with original offshoring decision (disintegration advantages, accessing new markets, and cost-saving), regardless of offshoring performance.

Despite the numerous and important findings provided by the existing research mentioned above, these studies largely neglect the demand-side factors that may also help to further our understanding. It is this lack of attention to demand-side factors that provides the motivation for our research. Currently, we know very little about whether demand factors affect and complement the existing literature on reshoring and, if they do, to what extent they can usefully integrate new

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