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Bringing Back Jobs: the Factors That Influence Decisions to Offshore and Reshore Jobs Back to the U.s.

Jessica R. Wahlen
Andrews University, wahlenj@andrews.edu

John Nevins Andrews Scholars
Andrews University Honors Program

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Jessica R. Wahlen

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Primary Advisor: Dr. Annetta Gibson

Primary Advisor Signature: ____________________________

Department: Accounting, Economics and Finance

Abstract

Offshoring has become an integral aspect of many American businesses. Companies may choose to send some or all of their manufacturing and service-related jobs to other countries for a variety of reasons. These reasons may be financial (e.g. lower labor costs abroad) or strategic (e.g. a desire to keep core competencies within the U.S., while sending other jobs abroad). Tariffs, quotas, and local content requirements placed on companies may also influence these decisions.

A relatively recent trend has been the return of some of these offshored jobs to the U.S. In this project, I refer to this trend as "reshoring." Despite companies' original reasons to offshore, some find they have equally good reasons to reshore jobs. These reasons may be economic (e.g. an increase in minimum wages abroad), strategic (e.g. ability to advertise as 'Made in America'), operational (e.g. shorter lead times), cultural (e.g. differences between host country and home country management styles), ethical (e.g. host country corruption), etc. This research project attempts to discover if factors like these have influenced the hiring decisions of specific companies in the Upper-Midwestern portion of the U.S. as well, or if they have worked through an entirely different decision framework.

Introduction

There are many costs that go into a product. Before a company can set a selling price, they must first factor in the cost of their raw materials, the labor that goes into the product, as well as the overhead costs, relating to the overall operation. As a part of their strategy, many companies have made an effort to decrease some of their labor costs, in addition to reductions in materials and overhead costs. As the minimum wage in the United States continues to rise, companies are increasingly looking to other options, such as sending their manufacturing work overseas. The term "offshoring" is generally used when jobs that were originally based in the United States are sent to other countries where labor is cheaper or more accessible.

Offshoring has become an integral aspect of many American businesses. The factors that influence companies to offshore may be economic (e.g. lower labor costs abroad) or strategic (e.g. a desire to keep core competencies within the U.S., while sending other jobs abroad). Tariffs, quotas, and local content requirements placed on companies may also influence these decisions. Offshoring is a sensitive issue for some Americans, because they see it as a threat to their job security. Those who feel strongly enough may attempt to buy only products made in the U.S. Other Americans feel the cheaper goods that can be obtained as a result of offshoring, make the process worthwhile.

"Reshoring" is a relatively recent trend, referring to the return of some of these offshored jobs to the U.S. Though companies may have many reasons to offshore, some find they have equally good reasons to reshore jobs. These reasons may be economic (e.g. an increase in minimum wages abroad), strategic (e.g. ability to advertise as 'Made in America'), operational (e.g. shorter lead times), cultural (e.g. differences between host country and home country management styles), ethical (e.g. host country corruption), etc. American attitudes toward reshoring are generally favorable, as it may give them a better chance of finding work. However, as the trend is rather recent, Americans aren't necessarily aware of the causes and effects of reshoring. What kinds of jobs are being brought back to the U.S.? Why are they being brought back? How many jobs? How many companies are participating in the trend? Will there ever be a time when all jobs are brought back? This research project asks these questions of top executives of companies in the Upper-Midwestern portion of the U.S., and also seeks answers as to why the initial offshoring trend became so popular.

Literary Review

A special report in *The Economist* focused on the current situation with offshoring and reshoring in the world. "Offshoring in its traditional sense, in search of cheaper labour anywhere on the globe, is maturing, tailing off and to some extent being reversed" (The Economist 5). Some of the reasons the report gives for this reversal are the high cost of shipping heavy goods around the world, the desire to move production to be closer to new markets, and the increase in wages in countries like China and India. The article does not suggest that multinational companies will bring all labor back to their home countries, but it does say that companies' framework for making job location decisions may have changed. Though original reasons to offshore may have been based only on cost, these days companies "distribute their activities more evenly and selectively around the world, taking heed of a far broader range of variables than labour costs alone" (The Economist 5). And it isn't just American companies that are making offshoring and reshoring decisions. Lenovo, a Chinese technology group, recently "offshored" by opening a factory for personal computers in North Carolina. As the process for producing personal computers becomes more automated (thus, requiring less labor costs), and the gap between Chinese and American minimum wages narrows, Lenovo has come to see manufacturing in the U.S. as an option, especially since it will allow them to adapt to American consumers' preferences faster (The Economist 3).

In addition to manufacturing jobs, offshoring may also take place in some service industries. An article by Steven Mintz discusses a recent trend among CPA firms to outsource the preparation of tax returns. (Outsourcing is a broader term than offshoring, but in this article, and subsequent ones within the literary review, outsourcing refers to offshoring, specifically.) Outsourcing enables a firm to process more returns each season without hiring additional employees and lowers the cost of preparation significantly. The author cites the several rules in the AICPA Code of Professional Conduct that present an ethical dilemma to outsourcing tax returns. These rules concern the fact that the client is not informed of the outsourcing, that the CPA is unable to properly supervise the processing of the return, and that confidentiality is not guaranteed. Although the AICPA has not taken a stand against this practice, the article calls for CPA firms to consider the ethical implications of the trend, rather than its mere legality. (Mintz 6).

Despite the ambiguity of the tax return offshoring trend, Paul Davidson, of USA Today, writes that "once services are offshored, they probably won't come back" ("U.S. Businesses Worry They Can't Compete" B1). And service firms continue to send more and more jobs abroad. A study conducted by the Hacket Group said that about 663,000 jobs had been offshored since 2002 in the areas of information technology, human resources, and finance and purchasing. It is much more common for manufacturing jobs to be reshored than it is for services, with the exception of call center jobs. Sometimes companies reshore call centers "to improve sales and service" ("U.S. Businesses Worry They Can't Compete" B1). The perception may be that customers prefer to solve problems with workers that have a similar accent and country of origin to theirs.

Cutting costs used to be a primary reason for companies to offshore, but an article in the *Journal of Management and Organization* summarizes several additional perspectives on the issue. The economic perspective involves choosing a supplier (whether local or abroad) based on financial factors. The strategic perspective focuses more on the core-competencies of the company by outsourcing those activities that are not core-competencies. The human resources and behavioural perspectives offer differing motivations for outsourcing as well (Hunter 77). When companies choose to reshore their call centers "to improve sales and services," as discussed in the USA Today article, they are looking at reshoring from a human resources perspective. Although the economic perspective is traditionally attributed to outsourcing, it is important to examine other possible motivating factors as well.

One such factor, a Business Insider article suggests, is "a shortage of skilled domestic employees" ("Here's the True Reason US Companies Offshore Jobs"). Duke University's Fuqua School of Business assisted in an annual study on companies' outsourcing trends and discovered that the primary reasons for outsourcing have shifted. Companies now realize that recognizing cost reductions from outsourcing may take time and involve a decline in efficiency across-the-board. A focus on the multiple layers of potential improvement from outsourcing must be gained if the trend is to continue ("Here's the True Reason US Companies Offshore Jobs").

In addition to a shortage of workers, companies may also reshore so that they can supervise the production process more closely, or avoid poor quality goods that sometimes emerge from offshoring ventures. However, Jan Rivkin, a Harvard business professor, says the amount of reshoring that companies are doing isn't enough to "reverse the long-term trend," because “the dominant flow remains outbound.” (“U.S. Businesses Worry They Can’t Compete” B1). It will be interesting to see if the reshoring trend makes a long-term difference in the U.S. labor market.

Significance of Study

With constant increases in technology, communication abilities, and travel speed, offshoring is a practice that is becoming accessible to even very small companies. Much research has been done on the benefits of offshoring, (such as cost reduction,) as well as the drawbacks, (such as the loss of jobs for domestic workers). This project seeks to reference these things, while also examining why some companies make the decision to bring jobs back to the United States. This relatively recent trend is referred to as “reshoring,” and it would not occur if it didn’t make sense economically and/or strategically in some situations. Therefore the question about whether to offshore or not, is no longer simply a matter of weighing cost cuts against job cuts; this project seeks to discover why contemporary companies would offshore and then reverse their actions.

Methodology

In order to understand more about specific companies’ experiences with offshoring and reshoring jobs back to the United States, I have chosen to conduct qualitative research. While similar projects might choose to send out written surveys and find correlation between responses statistically, qualitative research has allowed me to look in-depth at specific instances where offshoring has been either successful or unsuccessful. This has added a richness to the project that would have been lost in a survey. To achieve this goal, personal interviews have been conducted with executives at five companies in the Upper-Midwestern portion of the United States. A convenience sample was taken, based on contacts gained through Dr. Ann Gibson, my primary advisor, Larry Holben, of the Berrien County Manufacturer's Council, and Scott Thayer, who recommended one of his suppliers to be interviewed. To be selected for an interview, participants must have had accurate knowledge of their companies' decisions to offshore and reshore, as well as the factors that played into those decisions. A list of relevant questions was designed to guide the interview discussions, and the questions were adapted as some companies' unique experiences with offshoring and reshoring were brought to light. The interview outline can be found in the Appendix.

Interviews typically lasted between 30 and 50 minutes. Two were conducted in person at the interviewees' respective places of employment, and three were conducted over the phone, as they were located farther away Andrews University. Before each interview was conducted, the interviewee was asked if an audio recording might be created for future reference. The intent of the audio file was to allow the interviewer to focus on building rapport with the interviewee, as some of the questions pertaining to offshoring motives can be sensitive, and to continue asking relevant questions in a conversational style. If any of the interviewees had felt uncomfortable with having the conversation recorded, a scribe would have accompanied the interviewer to take notes. Fortunately, all five interviewees agreed to an audio recording.

The interviewees at each company were given an informed consent form to sign, telling the interviewer the level of privacy they wished to have in the final report. Four interviewees have allowed me to identify them and their company by name, and one has asked that I avoid specifically identifying them in this final report.

A transcript was created, based on each audio file. Then analysis of each interview's content was conducted to identify themes among the factors that influenced offshoring and reshoring decisions. The themes were chosen after reading a variety of articles on the topic (see Bibliography) and finding commonalities. The themes used were: economics, strategy, operations, ethics, and culture. Content of each interview was evaluated according to which theme(s) it could be most closely associated with. (See Fig. 1 for a content analysis chart of sample words). Comparisons were made among interviews and with the relevant literature. Interviews were also compared within the Motivation-hygiene theory, proposed by Frederick Herzberg. The theory basically says that motivational factors are somewhat unrelated to de-motivational factors. "Hygiene" needs are basic needs, like pay, benefits, and good working conditions. Applied to my research, the basic needs would be the economic, strategic, and operational categories. "Motivators" on the other hand, are people's needs for achievement, growth, or responsibility. As it applies to companies' decisions, I believe the motivator needs would be the ethical and cultural categories. Hygiene needs must be met before motivation factors will have any affect. Therefore in the context of offshoring and reshoring, I hypothesized that most of the factors influencing companies' decisions in these areas will be based on economic, strategic or operational issues. Cultural and ethical issues would likely play a role as well, but decisions about jobs would probably not be made based solely on these issues.

Content Analysis				
Hygiene Factors			Motivational Factors	
Economic	Strategic	Operational	Ethical	Cultural
Examples:	*Examples:*	*Examples:*	*Examples:*	*Examples:*
cost	innovation	flexibility	corruption	communication
budget	niche	inventory	quality	management style
finance	competitive advanta	cash	working conditions	cultural barriers
income	goals	process	human rights	mannerisms
profit	core competency	production	freedom	unspoken rules
minimum wage	target market	shortage	environment	barriers
solvent	strength	supply chain	oversight	cultural bias
viable	weakness	manufacturing	relativity	authority
quantitative	opportunity	assembly	principles	individualism
inflation	threat	value chain	right/wrong	collectivism

Fig. 1

Results

In February and March, I conducted five interviews that are described in the following paragraphs. Each interview was unique and merits its own discussion, nevertheless, there were a few common themes. As I had hypothesized before beginning the interviews, the common themes involved economic, strategic, and operational factors, which all fall under the category of "hygiene factors." Some "motivational factors," relating to culture and ethical factors, were discussed, but they were not as frequently mentioned. One surprise discovery was that some companies may make decisions to offshore or not based on political factors. This was something I had not considered and I hadn't seen any literature discussion on it. These findings are presented in the fifth interview. The interviewee for this interview wished to remain anonymous. However, the other four interviewees spoke about their companies' experiences openly. My first interview was with Gast Manufacturing.

Gast Manufacturing

Gast Manufacturing is a pneumatics business based in Benton Harbor, Michigan. Their primary products generate or use air in some way; examples would include vacuum pumps, compressors, and air motors. I spoke with Kevin White, the President of Gast, to learn more about the company's offshoring and reshoring practices. The company began offshoring around 2006 to their parent company's factory in China. The original intent was to manufacture product in Asia for Asian customers, although at least at first, a lot of their products ended up being exported to the U.S. as well, to take advantage of the cheaper labor costs. The factors that influenced Gast's decision to offshore originally related to economics, strategy, and operations. In regards to economics, they were able to achieve lower labor costs and lower costs by having a local supply chain. Strategically, they wanted to make product in Asia to supply the Asian market. This idea of having localized manufacturing for each market a company sells to, can both save costs, and keep the labor force in each location more engaged, because they know that the product they are making is staying local, and they can see more of the process from manufacturing to distribution and use. Operationally, Gast realized shorter lead times. By having products made in Asia and sold to Asian customers, the amount of time between an order being placed for a product, and the customer actually receiving the product could be greatly reduced. White mentioned that prior to the time Gast's Asian operations were created, product might be on the water for 4-6 weeks as it made its way from the U.S. to China. Much of this time was eliminated by adding Asian production facilities.

In 2012, Gast began making significant steps to reshore some of their manufacturing. White says that 75% of the manufacturing jobs that Gast originally offshored either have been reshored already or will be reshored soon. Sales support and engineering functions, on the other hand, will have a very small percentage of jobs, if any, come back. These kinds of jobs were placed in China "to support growth in the region, as opposed to a cost play" (White, Personal Interview). Gast's reasons for reshoring jobs were also related to economic, strategic, and operational issues, though they were different from the original reasons to offshore. The company soon realized that most of the costs that went into their product were not labor-driven, and as such, they were not saving a lot of money through cheaper labor costs abroad. Because of this, the main economic issues that they ended up facing were transportation costs, taxes, and duties, all of which made it more expensive to produce in Asia for their American market. Making product in Asia for Asia continued to be cost-efficient, however. So their strategy became even more focused on having duplicate capacity in each country that they did business in. Gast hires local managers in each country, rather than sending American managers to cover each foreign base of operations. Some companies experience cultural friction when home country managers try to impose their ideas on foreign country operations, but Gast has avoided this issue for the most part by growing local talent. Lead times, an operational factor, also factored into the decision to reshore, because although lead times were reduced by offshoring jobs to Asia to serve the Asian market, any product that Gast shipped from Asia back to the U.S. would suffer the 4-6 week time on the water, mentioned previously. Ultimately, making product in each country to sell in that same country is the strategic goal of Gast, as long as it remains economically feasible. White also said that ethical issues did not play a role in Gast's decision to reshore. They are very selective with their suppliers, and are focused on maintaining ethical practices (White, Personal Interview).

Whirlpool

I had the privilege of interviewing Jeff Noel, the VP of Communications & Public Affairs at Whirlpool. Whirlpool was founded in 1911 in the town of St. Joseph, Michigan. Lou Upton got the business started when he sold 100 wringer washing machines to a company in Chicago. Today, 102 years later, Whirlpool is based in Benton Harbor, Michigan and has grown to sell home appliances (such as washing machines and kitchen appliances) in 52 locations around the world. Similar to Gast Manufacturing, Whirlpool's strategy is to make products where they sell them; in fact, 80% of Whirlpool products sold in the U.S. are also made in the U.S. The small amount of offshoring that Whirlpool has done was sent to Mexico and China. The situation in Mexico was mainly economic, but partially strategic. The company moved its production of Top-Mount refrigerators to Mexico because they were unable to compete with the competitors prices while manufacturing in the U.S. By moving to Mexico, like the rest of their competitors had already done, Whirlpool was able to make product at a lower cost, and sell it at a competitive price. It was determined that Mexico was also a better place for this particular product because its sale in the U.S. had declined sharply, while demand in Mexico had risen. Making the product in the region where demand was highest seemed logical. The Top-Mount refrigerator was not reshored to the U.S. The factors going into the decision to offshore to China were mainly economic, but slightly strategic and operational as well. The company sent the production of its hand mixers to China because a lot of hand labor went into them, and the low demand volumes made their overall unit costs rather expensive, due to fixed costs. Eventually Whirlpool was able to reshore these 25 jobs back to the U.S. because an extensive investment in marketing channels drove volume up. High volume enabled U.S. production, as the fixed cost per unit manufactured had dropped. Spreading the fixed costs over a large number of units reflects the ideas of efficiency and "economies of scale," and these were competitive advantages (strategic & operational issues) for Whirlpool (Noel, Personal Interview).

Quality Bicycle Products

"Every butt on a bike," is the motto of Quality Bicycle Products, which is based in Minnesota. The company opened its doors thirty years ago, doing parts and accessories distribution, and today they are a wholesale bicycle distributer, promoting their high-end bicycle brands: Surly, Salsa, Civia, All-City, and Foundry. I interviewed Scott Thayer regarding QBP's experience with offshoring and reshoring. QBP has always chosen to design their products in Minnesota, but as most of the bicycle industry is located in Southeast Asia, their decision to offshore involved Taiwan and China. This was a decision made by considering mainly operational and economic factors. Operational factors were probably the most prevalent that Scott mentioned, specifically listing transportation, consistency and lead time. He also said costs played a role. But having said this, QBP has elected not to offshore to the countries with rock-bottom prices, like Vietnam and Cambodia. Cambodia is a particularly risky place to offshore to, as it is a developing country with poor infrastructure and an untrained workforce, but companies that do choose to go there can take advantage of Cambodia's lack of duty (which, in places like Europe can be 40-50%) and affordable labor. QBP chooses to do business in Taiwan and China instead, because of their package of overall good qualities, both economic and operational. The company began reshoring some of its process two years ago, when it realized that it could assemble bicycles cheaper than Taiwan could do it, due to a lack of duty, freight, and commission fees. These economic reasons for reshoring did not extend to the manufacturing segment of QBP's business, so they have kept their manufacturing jobs abroad and bear with the fact that the parts often take 3-5 months in lead time to be shipped from Taiwan to the U.S. This requires careful initial planning, but the cost savings have been about $150-200 per bike. Add that to the fact that QBP has the capability and the parts to assemble bikes to meet local customer demand (an operational factor), and you see why the company considers its reshoring decision to be a success. Fifteen jobs have been reshored for this U.S.-based assembly department, called Bike Builder. This addition brings fairly low overhead costs, because QBP is able to do bike assembly within one of their existing buildings.

QBP faces no ethical or cultural issues in their business in Taiwan that would influence a decision to reshore. Their 18-year relationship with their trading agent allows them to have complete confidence that the Taiwanese base is being managed well and that their intellectual property is being protected. The company's operations in China are another story. Scott says that the "level of trust and confidence just isn't there," (Thayer, Personal Interview) and that QBP really has to cover their bases when doing business in China. But although this ethical/cultural issue in China could potentially be involved in a conversation about reshoring, it would never drive the decision, as costs and operational items like lead times and manufacturing expertise are more important to QBP (Thayer, Personal Interview).

Hayes Components

Hayes Components is a manufacturer of braking systems for bicycles, as well as companies like Harley Davidson, Caterpillar, John Deere, and the aforementioned Quality Bicycle Products. I spoke with Darren Campbell about the company, which began its operations in the 1940s in Wisconsin, where it remains to this day. When it started out, the company hardly did any business outside the U.S.; its offshoring practices had their beginning when Hayes realized the importance of the bicycle market as a global market. Cycling is a lot more popular in Europe than in the U.S., for one thing. Also, the majority of high-end bicycles on the market today are manufactured in Taiwan. Hayes began to experience increasing pressure from its bicycle assembly customers in Taiwan, who encouraged Hayes to start manufacturing there and providing more immediate service as a vendor. This was a strategic factor influencing Hayes' decision to offshore for the first time. Campbell says that the pressure to offshore to Taiwan was not a threat, but an offer of partnership. Hayes was just entering the bike industry and needed guidance on how best to stay afloat in the growing, global market. Offshoring was a culture shock for the Wisconsin-based business, but over time, they went from having 100% of their bicycle manufacturing in the U.S., to having only 5% here, and 95% located in Taiwan. Campbell acknowledged that low-cost labor can influence these kind of offshoring decisions in general, but said that Hayes' decision was based mainly on the long-term strategy of being able to supply the global market. Hayes has never reshored per se, but they have experienced a growth in U.S. jobs, due to an overall growth in the business. There has been an increase from 15 jobs to 50 jobs in the U.S. since the company first began offshoring. The workers employed in the U.S. are generally engineers, product managers, sales people, and warranty people, as opposed to the employees in Taiwan, which are mainly production workers. The reasons for creating the new jobs in the U.S., rather than placing nearly all jobs abroad, relates to further strategic and cultural issues. Hayes wants most of its innovation and idea people in the U.S. because it helps to facilitate communication on product development. The employees in Taiwan mainly focus on the production side of the business because it's assumed by Hayes that they don't have the market exposure, core knowledge about the business, or creativity that U.S. employees generally would. In the long-term, economics are also an influencing factor for

Hayes' creation of jobs in the U.S., though in the short-term they pay more for their U.S. staff. Hayes is willing to spend more on staff in the short-term, however, because having certain employees in the U.S. facilitates its overall strategy of being a global company (Campbell, Personal Interview).

A Tube Assembly Company

One of the interviewed companies manufactures tube assemblies for aircraft, fuel systems, and exhaust systems for trucks. They are a "job shop" that produces custom-made items to customer specifications. This interviewee asked that he and his company not be mentioned by name in the final report. This company is different from the others interviewed in that it has not reshored or even offshored, but it has strong reasons for choosing to avoid these practices. Although the focus of this report is on economic, strategic, operational, cultural and ethical factors that lead to job sourcing decisions, this company only cited one major reason for offshoring, and that was political. It produces a number of parts for airplanes, and the ambiguity in the regulations of various government organizations make it difficult and risky to export or offshore these kinds of products. An example he gave was of Boeing, who received the go-ahead from the President of the U.S. to sell their popular 737 aircraft abroad. Unfortunately, after they did so, they were fined half a million dollars because it was determined that the chips in the airplane's guidance system could be reconfigured for the military purposes of the countries they were exported to. In fact, UPS and FedEx were both notified of violations to laws like these and were fined as well. "If the U.S. government would come out clearly and say what you can do and what you can't do, it would be easy" (Anonymous, Personal Interview) the interviewee said, pointing out he'd rather not offshore at all to avoid fines, given the current situation. Another reason the interviewee cited for avoiding offshoring, was the protection of intellectual property rights, which is a strategic issue. He pointed out that countries like China don't acknowledge U.S. trade laws. The U.S. government actually prohibits foreign countries from purchasing certain kinds of technology from U.S. companies. The foreign countries have found a way around this by purchasing whatever U.S. company they want technology from. In effect, this is the same thing, as they still end up with the product, but there is technically no law against it. The interviewee's negative views on offshoring extend past government applications, to nearly every technology on the market. "Even in the smallest technology…when you give it to them and they don't have it, you are helping them and hurting us" (Anonymous, Personal Interview). Even a company like Whirlpool, that sells home appliances, would fall under this category. I asked if his views only applied to exports, but not to offshoring American products that could be brought back to the U.S. and sold. He replied that you can't move jobs to foreign countries without teaching them how to make the product, and if they know how to make the product, they can steal the idea that helped produce it. This perspective on the negatives of offshoring, and of the political climate affecting this industry, was very unique among the other interviews. It provides another glimpse of what factors play into companies' decisions to offshore and reshore (Anonymous, Personal Interview).

Discussion

Factors Driving Offshoring & Reshoring

Business decisions should never be made based on just one factor. Prior to starting this research, I assumed that offshoring was something that every large company would take advantage of if they had the ability. I also assumed that cheap labor was always the reason for it.

Interviewing executives that have been on the front lines, helping to make these strategic decisions, has opened my eyes to the variety of influencing factors for offshoring and reshoring. When he summarized our interview at its close, Kevin White, of Gast Manufacturing, said he appreciated some of the categories of factors that I'd laid out (e.g. economics, strategy, etc.) but that it tended not to be one kind of factor in isolation (White, Personal Interview).

Several common themes that I found throughout the interviews were: costs, lead times, and target markets. The first, costs, was an expected find. Every business is ultimately and primarily driven by costs. When it fails to manage costs and make a profit, it goes out of business. Cheap labor abroad may have inspired some companies to offshore, but an inflation of wages abroad made reshoring seem more of a possibility. Transportation costs tended to influence reshoring because even if the product can be made cheap abroad, when high transportation costs are allocated to each unit, the cost to the company goes up and offshoring may prove unhelpful after all. Other companies cited lead times a motivating factor. The amount of time between when a company places an order and when it receives it should be as short as possible. When lead times are short, a company can minimize its inventory holding costs by ordering product often and in small quantities, even incorporating a just-in-time inventory system. This provides a great deal of flexibility when it comes to changing orders. However, when product spends several weeks on a ship crossing the Pacific Ocean, lead times are long and companies must plan far ahead to make sure they will always have product on hand. Reshoring is one of the easier alternative solutions. Target markets were a third theme that was prevalent in the interviews. Companies realized that people in Asia, Europe, Africa, and South America might want to purchase their products. By establishing manufacturing plants in each of their major markets, companies are able to have shorter lead times and also focus their marketing and distribution efforts to meet the needs of each country. There is no need to have only one factory to serve the entire population of the world. Having a few large factories, rather than many small ones, can save money due to economies of scale, but if transportation costs are high enough, the benefit is lessened.

In addition to common themes, I also noticed that although many companies seem to be reshoring jobs, most of them aren't doing it in large quantities. Whirlpool reshored 25 jobs and QBP reshored only 15. Gast's reshoring agenda seems slightly more aggressive, but no exact number of jobs was given. Apparently the type of job that is reshored varies as well. QBP decided to bring back bike assembly jobs. While parts can be made cheaper abroad, bikes assembled in the U.S. are cheaper to send to U.S. customers. Hayes chose to create new jobs in the U.S. that performed design and support functions, rather than production line functions; their idea was that the United States offers more innovative workers than foreign countries do, and therefore these jobs should be in the U.S. and the factory labor can be kept overseas. Contrary to these examples, Gast says that 75% of its manufacturing jobs will be reshored, whereas supporting jobs, like sales, customer service, and engineering, will likely never be reshored. Gast put these jobs in China "to support growth in the region" (White, Personal Interview) rather than to take advantage of cheap labor.

Offshoring and reshoring are influenced by a company's industry and price range. The tube assembly company that I interviewed was an example of an industry that is not encouraged to offshore, at least when they are making parts for aircraft. Most manufacturing companies are in industries where they could consider offshoring, (unless they make items that are extremely heavy or bulky, raising transportation costs) but that particular industry was prevented from an easy entry into the offshoring/reshoring scene due to high amounts of government regulation.

The price range of a company's products can also influence them to offshore or reshore. When they sell inexpensive, household goods that a lot of other companies produce as well, companies may want to compete to be the lowest cost producer of the item. In such a case, offshoring would make sense. Cheaper labor abroad would allow them to charge less for their product and probably sell a higher volume. Jeff Noel, from Whirlpool, mentioned that his company eventually had to move some of its home appliance manufacturing to Mexico because its competitors had already done so (Noel, Personal Interview). To be able to sell product at a competitive price, Whirlpool felt the need to move its manufacturing. The high-end bicycle industry, however, is a completely different story. Companies in this industry compete more on the basis of a differentiated product than on a low price, so they can technically manufacture anywhere. The reason Hayes and QBP still offshored some jobs to China and Taiwan was because most of the key players in the bike industry are already there and supply chain coordination is easier when companies aren't spread too far apart.

American Perception of Offshoring

In all of my interviews, I asked the following question:

> *"Many workers seem upset over the loss of jobs due to offshoring, and yet many Americans also enjoy the benefits of less expensive goods due to offshoring. In your perspective, do you believe that more Americans view offshoring in a positive or a negative light?"*

My interview with Jeff Noel at Whirlpool yielded an interesting answer to this question. He said that Americans "vote with their pocketbook" (Noel, Personal Interview). He was led to this statement by recognizing the popular American opinion that companies have a duty to "invest in the American worker" (Noel, Personal Interview). Whirlpool takes their American footprint very seriously, so this is not an issue for them. But Noel did say that Americans don't see the connection between where they spend their money and where the jobs are. By purchasing less expensive goods from other countries, they are discouraging U.S. companies that still have a lot of their labor in the U.S., from hiring more American workers. Companies don't always have the money to both pay more people (raise their costs) and sell their product cheaply (cut their prices). Noel suggests that before we make any snap judgments about a company's offshoring decisions, we consider what kind of jobs we are voting for with our pocketbooks (Noel, Personal Interview).

Relation to Previous Studies

Many studies have been conducted on the pros and cons of companies' decisions to offshore. As reshoring develops into a trend, other studies are being conducted on it as well. "Here, there and everywhere," an article in the Economist that was cited in the literary review section, is an example of such a study. It considered offshoring and reshoring as it relates to the entire global marketplace. My research looks at similar information, but focuses on a specific region of the United States. I wanted to discover if offshoring and reshoring trends in the Upper-Midwestern portion of the U.S. were similar to trends worldwide. Since I was only able to interview five companies, I cannot state with certainty whether they are or not. However, there were many similarities between the articles cited in the literary review and the interviews I conducted. Costs, lead times, and target markets were several of these similar factors found to influence companies, as related in the discussion section.

Strengths and Weaknesses

The strength of this project lies in its nature as a qualitative study. As mentioned before, I believe that doing a qualitative study based on personal interviews with executives has given this project a richness (through a variety of responses and interesting stories) that couldn't be gained from a mere statistical analysis. The format I have chosen allows for a variety of explanations for offshoring and reshoring because the global market and the decisions that are made in it are not all black and white. Furthermore, business decisions are rarely made in isolation, but are the culmination of many factors.

There are also several weaknesses associated with the project. First of all, although a qualitative study can yield more interesting and varied responses, it is also more difficult to compare results between interviews and measure them against an original hypothesis. Also, although a sample size of five is adequate for a study like this one, it is smaller than that of most quantitative assessments. Because of this, making broad, sweeping statements about the larger population is impossible. Also, when comparing the results of the various interviews, I've realized that any similarities may or may not actually represent trends. Without a larger sample, I can't rule out the idea that similarities may be a coincidence. Since a convenience sample was taken, based on contacts gained mostly through my primary research advisor, Dr. Gibson, it becomes even more difficult to make broad statements about the results. Unless a random sample is taken, there is always the potential for interviewer bias in the selection; results may be skewed a certain way because the interviews were conducted only with certain types of companies that I had access to. Having said this, I believe this report's findings can be quite beneficial when its purpose as a qualitative study is kept in mind.

Another interesting point is that while most of the interviews brought up economic, strategic, operational, and even cultural factors that influenced them to offshore or reshore, no one claimed much of an influence by ethical factors. Though the lack of ethical problems is a good thing for business, there is also a possibility that the interviewees didn't feel comfortable sharing their companies' ethical dilemmas with an outsider. If an anonymous survey were conducted asking about this issue, the results might have been different.

Recommendations

There are a variety of directions one could take to follow up on this project. One very simple follow-up would be to interview a larger number of companies. The five interviews I conducted for this project were interesting because of the variety of executive responses and backgrounds, but a larger sample size could yield even more varied results for interesting discussion, or better yet, show common results, indicating trends. The article I read in the USA Today about how other countries were participating in offshoring and reshoring led to another idea: why not interview companies headquartered in other countries to see if factors influencing their decisions were similar or different from those in the U.S.? Conducting interviews abroad might be difficult and costly, but if an efficient way to do so could be found, the report would be very informative.

A third follow-up direction that could be taken is that of a statistical analysis. I had my reasons for conducting this report in a qualitative fashion, but a simple survey could have some benefits as well. It would be quicker and easier to administer, and could have a high response rate. It is difficult to place cold calls to businesses and get interviews without being referred through a common acquaintance, but with a survey, busy professionals might be more likely to respond. Results could also be more easily compared and statistics regarding the percentage of jobs offshored and reshored in certain industries could be identified.

Conclusion

In an attempt to gain higher profits, many companies have chosen to decrease their labor costs through offshoring. But although offshoring has been an integral aspect of American business for some time now and reshoring has become a new trend in the global marketplace, there is still much we can learn about what truly drives these critical decisions. A company must make balanced decisions, by choosing an overall strategic focus, remaining profitable, streamlining operations, working with managers in other cultures, and maintaining their commitment to ethical practices. Offshoring and reshoring are multi-faceted decisions and managers that make them need to be aware of the global economic situation, and their company's place in it. Is reshoring the next "big trend" in business? It is certainly one of them. But time will tell whether the concept of reshoring gets embraced by every business school textbook or pushed to the back burner. It is companies like Gast, Whirlpool, QBP, Hayes, and an anonymous tube manufacturer that are making that decision for us right now.

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Appendix

Interview Outline

1. Please give me a background on the history of your company, details about your products, your company's mission, etc.
2. What do you consider to be your primary products?
3. Has your company offshored any of its production or services in the past?
4. Does your company currently offshore any of its production or services?
    a. If so:
        i. When did the company first begin offshoring?
        ii. What does it offshore?
        iii. Approximately what percentage of labor costs does the company spend offshore?
            1. ***Alternate:*** What percentage of jobs does it offshore?
        iv. What locations does it offshore to?
            1. What factors led to this location being chosen, as opposed to other possible locations?
        v. What kind of economic/strategic/operational factors contributed to the decision to offshore?
            1. **Economic** (e.g. minimize: labor cost/hour or total cost of ownership)
            2. **Strategic** (e.g. focus the firm's attention on its unique strengths, while sending work that appears to not be core competence offshore. (Hunter & Hall article))
            3. **Operational** (e.g. In the 6th annual study on corporations' offshoring trends, by Duke University, it was found that most American companies cite a "shortage of skilled workers" as the primary reason for offshoring, rather than cost cutting. Did a shortage of skilled workers play a role in your company's decision to offshore? (Business Insider article))
        vi. In retrospect, was the original decision to offshore a good decision?
            1. If so: Why?
            2. If not: Would offshoring to a different host country be considered?
    b. If not:
        i. What factors have made production/services in the United States more attractive than offshoring?
        ii. Has the company ever considered offshoring?
        iii. MOVE TO QUESTION #6
5. **Background:** An international survey conducted by Dun and Bradstreet discovered that "25% of outsourcing clients brought originally outsourced services back in-house" "because their outsourcing objectives were not fulfilled." Also, 20% of outsourcing agreements tend to be terminated after 2 years, and 50% after four years. (Freytag, Clarke, and Evald article)
   Question: Has the company reshored (brought back to the United States) any of its lines of production and/or services?

a. If so:
    i. At what point did your company make the decision to reshore?
    ii. Approximately what percentage (or number) of jobs have been added in the U.S. because of the decision to reshore
    iii. Were they brought back to their original communities or different ones?
        1. If different:
            a. What about these communities made them better locations for your production/services than the original locations?
    iv. What economic issues factored into the reshoring decision? *(Open-ended question - examples given only if requested by interviewee*)
        1. _Examples:_
            a. High transportation costs
            b. A raised minimum wage in the host country
            c. Waste due to poor quality/consistency
            d. Other
    v. What operational/strategic issues factored into the reshoring decision? *(Open-ended question - examples given only if requested by interviewee*)
        1. _Examples:_
            a. Lack of flexibility to change orders quickly
            b. Wanting to reduce pipeline and surge inventory impact on just-in-time operations.
            c. Desire to reduce intellectual property and regulatory compliance risk
            d. Desire to cluster manufacturing near R&D facilities, enhancing innovation
            e. Other
    vi. What cultural issues factored into the reshoring decision? *(Open-ended question - examples given only if requested by interviewee)*
        1. _Examples:_
            a. Communication difficulties/barriers
            b. Difference in management styles between host and home countries
            c. Other
    vii. Did your company experience any difficulties with ethics, that helped lead to the reshoring decision? *(Open-ended question - examples given only if requested by interviewee)*
        1. _Examples:_
            a. Quality issues
            b. Employment practices (working conditions, hourly rates, required hours of work per day)
            c. Human Rights (freedoms of association, speech, assembly, movement, etc.)
            d. Environmental
            e. Host country government corruption
            f. Other
        2. Only for service companies, etc.:

a. Is there any oversight board that regulates your profession?
b. What kind of guidelines has the oversight board established that impact your offshoring or re-shoring decisions?

3. In certain host countries, local laws may allow behavior that is not ethically permissible in the U.S. How does your company find a balance between these what is technically allowed and what is considered ethical in the U.S.?

viii. What economic/operational/ethical/cultural etc. improvements have been seen as a result of reshoring?

ix. Has the company used the fact that it has reshored jobs as a marketing tool?
   1. Have there been any noticeable changes in company sales as a result?

x. How has reshoring benefited the community in which the jobs were made available?

xi. Does the company have plans to reshore more production facilities or services in the future?
   1. Why or why not?

xii. Do you think there will ever be a time in which all jobs at the company are reshored?
   1. Why or why not?

6. Many workers seem upset over the loss of jobs due to offshoring, and yet many Americans also enjoy the benefits of less expensive goods due to offshoring. In your perspective, do you believe that more Americans view offshoring in a positive or a negative light?
   a. If positive:
      i. Why?
   b. If negative:
      i. Why?
      ii. Has your company taken steps to convince the public of the possible benefits of offshoring? Please explain.