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Entry modes in reshoring initiatives: a study on the factors influencing relocation choices

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Abstract (English version)

From the 90s onwards, the growing competition in international markets that characterizes the business environment has pushed companies to develop new strategies to maintain their competitive advantage. Internationalization was one of the strategies most taken into consideration, in particular offshoring, which has allowed companies to gain a competitive advantage over local competitors. However, offshoring not only brings benefits but also hides risks. Furthermore, its impact does not only concern the company but also extends to the countries involved in the process, producing effects on the workforce at the national level.
For these reasons, in recent years companies have begun to pay more attention to the configuration of their value chain and the topic has also gained the interest at the academic level. In particular, the companies have begun to change their strategies in the international field, undertaking reshoring initiatives which consist in the change of the destination with respect to the country in which the first offshoring was carried out.
Reshoring is commonly referred to as Relocation of Second Degree (RSD) and can take different forms such as Relocation to a Third Country (RTC) or Relocation to Home Country (RHC).

The aim of this research is to give an overview on how reshoring takes place and to define the entry strategy during the initiatives. The so-called "entry mode" in a host country is a topic widely dealt by the classical theories of IB but not applied extensively during reshoring initiatives. My goal is to try to extract from the existent theory the factors that can determine a change or maintenance of this choice during a reshoring initiative.

In the first chapter I will provide a review of the existing literature regarding the definition, process and drivers that characterize reshoring. In the second chapter, I will instead focus on the definition of the concept of entry mode, I will present the existing theories and the various classifications. I will then introduce in the last paragraph the core part of the report with the factors that can influence the change or maintenance of the entry mode during a reshoring event starting from the existing theories reviewed in the previous chapters. Finally, in the last chapter I will discuss the conclusions of this report, also providing possibilities for future research.

Given the nature of a report and not foreseeing an empirical phase with formulation and testing of the hypotheses, I cannot give statistically tested results but only a starting point for future research. Among the factors described, I made a division between internal and external factors of the company. Among the internal factors: Asset Specificity; Size of the company; Performance in the country of the first offshoring; The path addiction theory.
Among the external factors: The macroeconomic conditions of the host country; External uncertainty; The cultural distance.

Keywords: Reshoring; Relocation; Mode of entry; Performance; Asset Specificity Path Dependency Theory; External uncertainty; Cultural distance.

Abstract (Italian version)

Dagli anni 90 in poi, la crescente competizione nei mercati internazionali che caratterizza l'ambiente di business ha spinto le aziende a sviluppare nuove strategie per mantenere il proprio vantaggio competitivo. L'internazionalizzazione è stata una delle strategie prese maggiormente in considerazione, in particolare l'offshoring, che ha permesso alle aziende di guadagnare un vantaggio competitivo sulle concorrenti locali. Tuttavia, l'offshoring non porta solo vantaggi ma nasconde anche dei rischi. Inoltre, il loro impatto non riguarda la sola impresa ma si estende anche ai paesi coinvolti nel processo, producendo effetti sulla manodopera a livello nazionale.
Per queste ragioni, negli ultimi anni le aziende hanno iniziato a porre maggiore attenzione alla configurazione della propria catena del valore e l'attenzione sul tema è cresciuta anche a livello accademico. In particolare, le aziende hanno cominciato a modificare le proprie strategie in campo internazionale, intraprendendo iniziative di *reshoring* che consistono nel cambio di destinazione rispetto al paese in cui è stato svolto il primo offshoring.
Il reshoring viene in gergo definito Rilocazione di Secondo Livello (RSL) e può assumere differenti forme come Rilocazione verso un Terzo Paese (RTP) o Rilocazione verso il Paese d'Origine (RPO).

Lo scopo di questa ricerca è fornire una panoramica su come avviene il reshoring e definire la strategia di ingresso durante le iniziative. La cosiddetta "modalità di ingresso" in un paese ospitante è un argomento ampiamente trattato dalle teorie classiche di IB ma non ampiamente applicato durante le iniziative di reshoring. Il mio obiettivo è cercare di capire i fattori che possono determinare un cambiamento o un mantenimento di questa scelta durante un'iniziativa di reshoring.

Nel primo capitolo fornirò una rassegna della letteratura esistente in merito alla definizione, al processo e ai driver che caratterizzano il reshoring. Nel secondo capitolo mi concentrerò invece sulla definizione del concetto di modalità di ingresso, presenterò le teorie esistenti e le varie classificazioni. Introdurrò quindi nell'ultimo paragrafo la parte centrale del report con i fattori che possono influenzare il cambiamento o il mantenimento della modalità di ingresso durante un evento di reshoring partendo dalle teorie esistenti riviste nei capitoli precedenti. Infine,

nell'ultimo capitolo discuterò le conclusioni di questo rapporto, fornendo anche i limiti e le possibilità per la ricerca futura.

Data la natura di un report e non prevedendo una fase empirica con formulazione e verifica delle ipotesi, non posso fornire risultati statisticamente testati ma solo uno spunto per ricerche future. Tra i fattori descritti, ho fatto una divisione tra fattori interni ed esterni all'azienda.
Tra i fattori interni: Asset Specificity; Performance nel paese del primo offshoring; La teoria della dipendenza del percorso. Tra i fattori esterni: Le condizioni macroeconomiche del Paese ospitante; L'incertezza esterna; La distanza culturale.

Parole chiave: Reshoring; Rilocazione; Modalità di ingresso; Prestazione; Teoria della dipendenza del percorso; Specificità dell'asset; Incertezza esterna; Distanza culturale.

Executive Summary

The reshoring phenomenon has been recognized by transnational institutions (UNCTAD, 2013), by consulting firms (Sirkin et al., 2012; Albertoni et al., 2015) and by the business press (The Economist, 2013). It can be defined as reshoring, a generic relocation of a previous activity within the value chain, be it a relocation made in the country of origin rather than a further offshoring. Many companies, especially after the economic crisis, have begun to reassess their activities within an increasingly global value chain both to better manage risk but also to be more attentive to sustainability. Politics has also been interested in the phenomenon, paying more and more attention to favoring policies for the repatriation of multinationals to the home country and thus favoring the local economy (Delis et al., 2019; Albertoni et al., 2015). IB scholars have focused on the phenomenon by defining it fully and then proposing a taxonomy and a nomenclature. However, given the novelty of the phenomenon, there are still many different definitions, even if all tend to converge towards a common concept.

The "what" of the reshoring was studied, defining which activities / sectors are more interested, the "where" by analyzing the home vs foreign locations advantages and the "Why" analyzing the so-called reshoring drivers. However, there is a topic that has received less attention, namely the "how", meaning the set of exit / entry modes strategies during a relocation initiative. The how qualifies the way to enter and exit a market during a relocation initiative and defines the methods adopted in a foreign facility (Canabal and White, 2008).

The so-called “entry mode”, defines how a company enters a foreign market. It has been extensively studied in the existing literature and is part of the more classic theories of internationalization such as the Transaction Cost Economic, Institutional Theory and Resource Based View. Other theories such as the Uppsala model and other empirical studies have even studied how it changes and evolves over the years in a given country.

My contribution therefore wants to focus on the concept of entry mode applied during a reshoring initiative: in particular I want to try to understand which factors may affect and how the choice to change or not the level of commitment and control in the mode of entry in the reshoring country, considering the choices made during the first offshoring.

A deeper understanding of the methods of return relocations will help providing useful suggestions to managers and policy makers (Fratocchi et al., 2014).

CHAPTER 1

Review on the extant literature about reshoring

In the first chapter, I present a review of extant literature about the reshoring phenomenon. The study aims at conceptualizing the terms used in literature and identifying the reasons and drivers that push firms to undertake reshoring initiatives.

1.1 Background

In the past decades, globalization has changed the rules of competition in business (Gottfredson et al., 2005; Hilletofth and J ger, 2011), leading to a major outsourcing trend, as the pressure on firms to improve efficiency and competitiveness has grown constantly (Baden-Fuller et al., 2000; Hilletofth and Hilmola, 2010). As all types of companies have started offshoring, it is not only the number of success stories that has increased but also the number of offshoring failures (Wiesmann et al.,2016). Firms have been increasingly reconsidering previous offshoring decisions, and begun to bring activities back from offshore locations to domestic locations (Ellram, 2013; McIvor, 2013)

For instance, General Electric was one of the earliest companies to offshore some business processes with the aim of reducing costs, starting from the 1970s. In 2012, GE decided to reshore some of its appliance manufacturing to Louisville, Kentucky at a price tag of $1 billion dollars for the newly renovated Appliance Park facility (Ines Z., 2012).
GE is not an isolated case as we have numerous examples also with Boeing, Bosch, and Philips (Wan et al., 2019) and Apple who announced its plans to manufacture one of its Mac lines exclusively in the USA, starting in 2013 (Polidoro, 2012).

Given the novelty of the topic, the current literature presents various terms to describe the phenomenon and different streams of researches used diverse definitions in their projects (Albertoni et al., 2015). However, some of them are only partially related to it therefore it is important, during the literature review, to categorize the various phenomena to identify their peculiarities and specificities.

1.2 Definition of the concept

The most used terms by the international business scholars in chronological order are “international divestment” (Boddewyn & Torneden, 1973), “de-internationalization” (Benito and Welch, 1997), “back-shoring” (Kinkel & Maloca, 2009) and “re-shoring” (Ellram et al., 2013). According to Holz (2009), the first two terms “international divestment” and “de-internationalization” are not equivalent to the concept of reshoring, but they only share some characteristics.

International divestment is defined as “a reduction of ownership percentage in an active direct foreign investment on either a voluntary or involuntary basis” (Boddewyn & Torneden,

1973, p. 26). This concept considers the subsidiary as a whole and not a specific value chain activity, it doesn't take into consideration the relocation to home country, the voluntariness of the decision and it doesn't make any distinction between in- or out-sourcing (Fratocchi et al., 2014).

Benito & Welch provide the following definition for de-internationalization: "any voluntary or forced actions that reduce a company's engagement in or exposure to current cross border activities" (1997, p. 9). This definition, compared to the previous one, encompasses either the entire subsidiary or specific value chain activities but it doesn't express explicitly the relocation to home country and the difference between in- or out-sourcing (Calof and Beamish, 1995).

The third term "back-shoring" has been studied by Kinkel and Maloca (2009) who gave this definition: "re-concentration of parts of production from own foreign locations as well as from foreign suppliers to the domestic productions site of the company" (p. 155). This interpretation deals with the in- and out-sourced manufacturing activity abroad but it disregards the spontaneity of the decision.

The last concept has been introduced by Ellram (2013) who used the term "Re-shoring" described as the movement of manufacturing back to the country of its parent company (p. 3). As emerged, the literature embraced different definitions to characterize the movement or the relocation of the previously offshored activities. However, the two most common concepts are back-reshoring and reshoring and, therefore I decided to focus the dissertation on them.

A popular assumption is that reshoring means bringing production back home from a current location which, in fact, is not home (Hagerty, 2012). It is therefore deduced that there must have been a previous offshoring event, whether this occurred through a wholly owned subsidiary or through an offshore supplier. It is also evident that the concept concerns with where the productive activities are carried out rather than by whom (Gray et al., 2013). Four possible configurations can be identified in the matrix depicted in Figure 1:

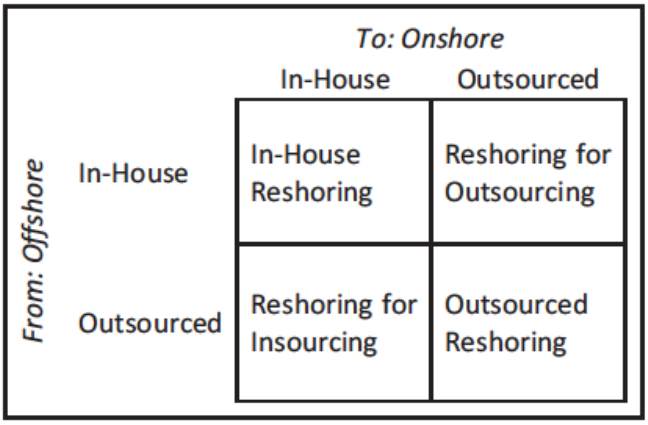

Figure 1 - Reshoring options (Source: Gray et al., 2013)

a) *in-house reshoring*, where a company meets demand in its local market by shifting manufacturing activities performed in wholly owned offshore facilities to wholly owned home-based facilities;
b) *reshoring for outsourcing*, where a company meets demand in its local market by shifting manufacturing activities performed in wholly owned offshore facilities to home-based suppliers;
c) *reshoring for insourcing*, where a company meets demand in its local market by shifting manufacturing activities performed by offshore suppliers to wholly owned home-based facilities;
d) *outsourced reshoring*, where a company meets demand in its local market by shifting manufacturing activities performed by offshore suppliers to home-based suppliers.

The international location decision can be developed also as multi-step process (Fratocchi et al., 2014):

Step	**Location**	**Definition**	**Example**
Step 1: First relocation of production activities	A foreign location close to the firm's country of origin	Near-shoring	An Italian company moves production activity to France
	A foreign location far away from the firm's country of origin	Off-shoring	An Italian company moves production activity to China
Step 2: Second relocation of	The firm's country of origin	Back-reshoring	An Italian company initially locates production activity in France and then moves it back in Italy

previously off-shored production activities	A foreign location close to the firm's country of origin	Near-reshoring	An Italian company offshores production activity to China and then relocates it in France
	A foreign location far away from the country of the first relocation	Further off-shoring	An Italian company offshores production activity to China and then relocates it in South Africa

Figure 2 - A multi-step representation of the internationalization of production (Source: Fratocchi et al., 2014)

The process depicted in Table 2 shows as a first step the decision whether to internationalize a certain activity within the supply chain. If the company decides to internationalize, the choice will also involve the relative governance structure (in-sourcing or out-sourcing) and the geographical distance from the country of origin. As a result, the geographical distance between the home country where the parent company is located, and the host country in which the activity will be carried out, will determine a different configuration:

- near-shoring, if the countries are in the same region;
- off-shoring, if, on the contrary, they are far away between each others.

Taking into consideration the choice made on the first step, then there can be three possible scenarios:

- Back-reshoring, where the company moves production back in the home country;
- Near-reshoring, where the company relocates production close to the home country;
- Further off-shoring, where the firm transfers production far away from the first host country.

The first scenario "back-reshoring" has been described by Fratocchi et al. (2014, p. 56), as "a voluntary corporate strategy regarding the home-country's partial or total relocation of (insourced or outsourced) production to serve the local, regional or global demands". This means the decision is intentional and not enforced by the government of the host country (Ancarani et al., 2015). Fratocchi and colleagues (2014) found also 3 main characteristics about back-reshoring in the literature: (a) it reverses a previous offshoring process (b) it doesn't involve necessarily the repatriation or closure of the whole company's activities (c) the ownership mode doesn't count as it is essentially a decision to relocate.

The second point has been deeply studied by Baraldi et al. (2018) who denies the binary nature of the phenomenon, namely if the relocation involves an entire production line or nothing. The study highlights the so called "selective reshoring" meaning that only some

product-specific and very particular activities may be reshored depending on both the host and home-country network context (p. 164). This concept reflects the complexity of the dynamics and interactions on both supply and customers' side as each activity can be plugged in or out within the firm's international network (Furlan et al., 2009; Hertz, 1998).

Finally, a last conceptualization has been provided by Joubioux and Vanpoucke (2016) referring to Bellego (2014) who identifies three categories based on the purpose of the reshoring event:

1. Tactical reshoring, made by firms looking for the best locations in terms of high added-value activities;
2. Development reshoring, for the purpose of shifting to a premium market developing the product and/or service;
3. Home reshoring, due to a disappointment in the previous off-shoring decision.

1.3 Nomenclature

To make consistent and coherent the essay and to facilitate the understanding of the next points, I will use the terminology developed by Barbieri et al. (2019) who consider "reshoring" a relocation towards a generic country different with respect to the previous offshore location. According to this definition, a reshoring initiative must be intended as a relocation of second degree (RSD).

The RSD can be therefore divided in two subcategories determined by the geographical position of the second relocation:

a) Relocation to home country, as shown in the figure 3, it happens when after a first delocalization from country A (i.e. *the home country*) to country B (i.e. *the host country),* the company choose to come back to country A;
b) Relocation to third country, as shown in the figure 4, it arises when after a first delocalization from country A to B, the firm decides to relocate to a country C (i.e. *the second host country*)

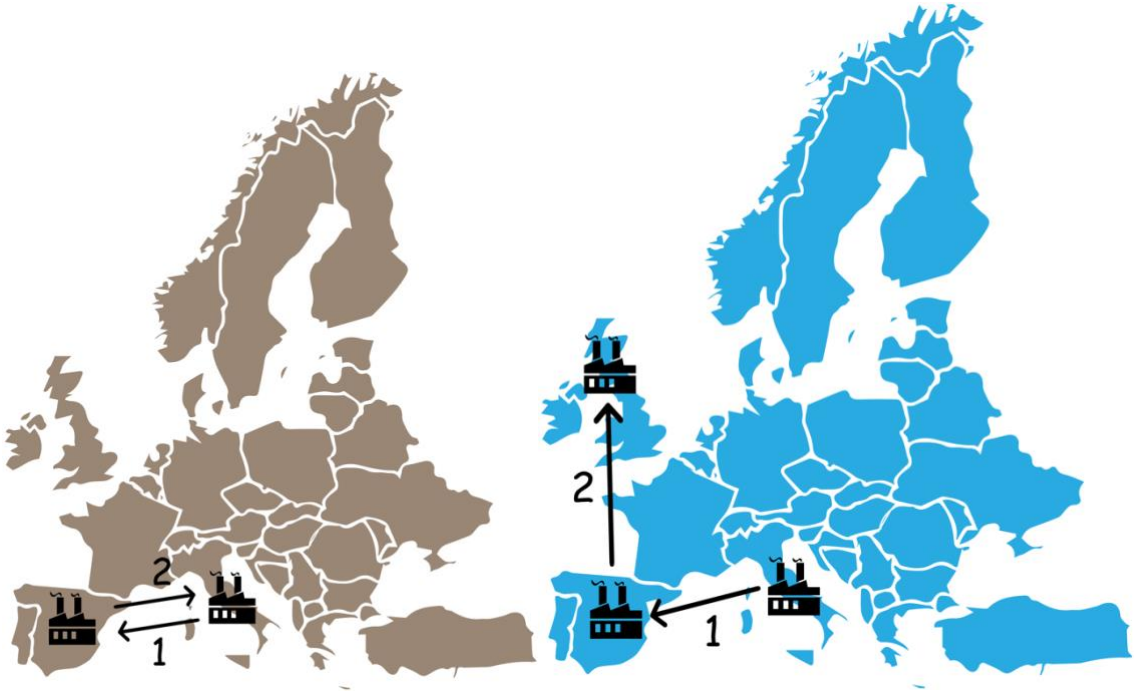

Figure 3 - Relocation to Home Country (RHC)

Figure 4 - Relocation to Third Country (RTC)

1.4 The process

As reshoring is a recent phenomenon, it is important now to focus the review of the literature on the identification of the drivers that push firms to undertake an RSD. McIvor and Bals (2021) integrated the eclectic theory, the resource-based view and the transaction cost theory to develop a three-stage framework for the reshoring decision as shown in figure 5:

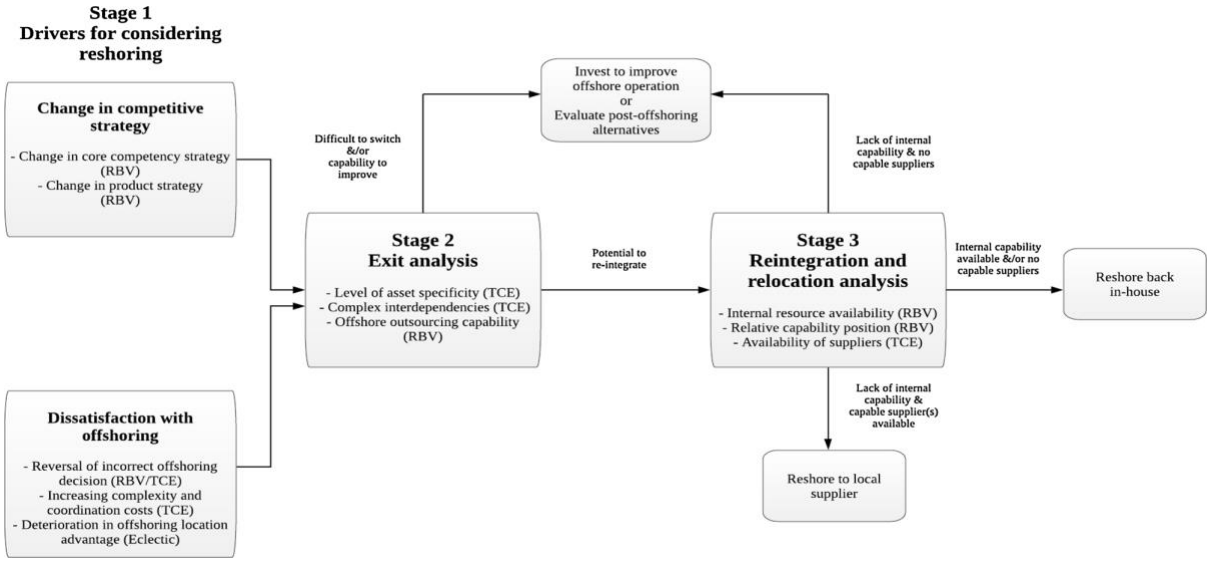

Figure 5 - A framework of the reshoring decision (Source: McIvor and Bals 2021)

The framework has been built considering firms who previously offshored certain processes through and it focuses the attention on whether there should be an RSD and the governance model. The unit of analysis is at the process level (Bals et al., 2016; Fratocchi, Di Mauro, Barbieri, Nassimbeni, & Zanoni, 2014), meaning that multiple decision paths for various activities could be chosen in one firm at the same time. I will focus the review of the literature on the first two stages as they focus on whether undertake a reshoring or not therefore I will disregard the part related to the governance model.

1.5 Drivers for considering reshoring

The drivers considered in the first stage are grouped into the following categories: change in core competency strategy, change in product strategy, reversal of incorrect offshoring decision, increasing complexity and coordination costs, deterioration in offshoring location advantage.

1.5.1 Change in core competency strategy

The first category contemplates the phenomenon of reshoring as a consequence of a change in the core compentency strategy. Companies typically build their competitive advantage on processes that have high customer value (Barney, 1991) and have tended in the past to make offshoring decisions for low strategic value processes (Gerbl et al., 2015).

The strategy of a company over time can nonetheless vary the strategic value of an industrial activity and in this sense, an RSD can be a response to reflect the change. For instance, an RSD can be driven by a strategy aimed at enhancing customer perceived value rather than efficiency-oriented performance (Di Mauro et al., 2018; Srai & Ané, 2016). This is the case of Tikkurilla who introduced an efficiency program aimed at optimizing the production network to improve profitability. Following the new strategy, the company decided to relocate the production of energy-efficient roof coating from a manufacturing unit from Denmark to Finland (European Reshoring Monitor, 2019).

1.5.2 Change in product strategy

This driver mainly concerns the impact on a reputational and image level. It is well known in the literature that reshoring is often motivated by the so-called "made-in" effect, which improves the image of a brand by associating a product with a country known for its

high production quality. (Bals et al., 2016; Delis et al., 2019; Srai & Ané, 2016). This phenomenon was also analyzed by Fratocchi et al. (2016) who underlined how industries such as fashion are more subject as the perceived quality massively depends on the location.

1.5.3 Reversal of incorrect offshoring decision

According to McIvor and Bals (2021) this factor is similar to the "managerial mistake recognition" described in Kinkel & Maloca, 2009. Decisions to relocate are not always made taking into account and correctly evaluating all factors. An evaluation error during an offshoring can lead to high expected costs, poor quality, supplier dependence, and excess coordination and monitoring of suppliers. This behavior is also reflected in the classical theory:

- for the transaction cost theory, it is due to bounded rationality which limits the cognitive capacity of decision makers and increases the difficulty of understanding all the complexities related to possible decisions (McIvor, 2009). In this case the difficulty is in anticipating the possible contingencies involved in a buyer-supplier relationship and rationalize all the potential outcomes (Foerstl et al., 2016).
- for the resource-based view theory, the topic is linked to the internal inability of a company to predict costs during an offshoring process (Foerstl et al., 2016).

We have the example of Biomedical1 where an incorrect evaluation of the offshoring decision and the overestimation of the Chinese market potential, led to an RHC to Italy (Bettiol et al., 2019).

1.5.4 Increasing complexity and coordination costs

Increased uncertainty in a business environment can influence reshoring choices. Uncertainty is identified in the relations between buyers and suppliers when one party unexpectedly changes requirements and the latter is forced to adapt, leading to quality problems (Bals, Daum, & Tate, 2015). In addition to the supply chain, uncertainty can also be linked to the political, environmental and financial spheres (McIvor and Bals, 2021).

The complexity intended as the difficulty of controlling the production and managing the interdependencies is also crucial together with the coordination costs as it directly affects the feasibility of a previous offshoring operation and can determine a choice of reshoring. For example, changes in technology may mean that the buyer's requirements are more customized than when the process was initially offshored. For instance, the McLaren Technology Group

relocated the production of carbon-fibre “tubs” in 2017, which was previously offshored to Austria. One of the main reasons for the relocation decision was the higher control over the manufacturing processes (European Reshoring Monitor, 2019).

1.5.5 Deterioration in offshore location advantage

This category refers to any change on the advantages the company had in the initial off-shoring country. It certainly depends on the home and host country attractiveness and therefore it can be also perceived as an improvement of the location advantages in the home country (Baraldi et al., 2018).

It is part of this group: rises in transportation costs and/or increasing lead time difficulties (Arlbjorn & Mikkelsen, 2014) but also the human capital dimensions, in particular increases in labor cost and declines in labor quality as potential drivers to reshore.

Low labor cost and high labor quality have pushed companies over the years to pursue offshoring strategies (Graf & Mudambi, 2005; Kedia & Mukherjee, 2009), but the evolution of the global market led to a reduction of the differentials of these factors between emerging and advanced economies. This happens, for example, thanks to competition in offshoring countries which leads to higher labor costs (Grappi et al., 2018) and investments by the government in human capital to develop technical expertise, hard skills and to increase the educational level.

Government policy is also a crucial factor in determining location advantages and it can be implemented through government investment, labor law and tax policy. Governments can either give companies incentives to invest in the country or they can impose barriers (Graf & Mudambi, 2005). The government has also to assure the protection of intellectual property which can eventually lead to dissatisfaction on the previous offshoring decision and influence an RSD (Tate, 2014).

1.5.6 Exit Analysis

According to McIvor and Bals, when a company begins to consider an RSD it is necessary to analyze the implications determined by the exit from the offshoring country therefore the switching cost from the offshoring to the reshoring country but also the technical aspects related to the reintegration of the offshored operation.

A relevant concept in the literature is the level of asset specificity, i.e. how much an asset is customized and therefore requires particular investments and ad-hoc contracts between

buyer and supplier. The specific investments required in an outsourcing contract very often create the ideal context for potential opportunistic behavior (Williamson, 1985).
It is therefore important for a company to consider asset specificity as it can have two effects on the switching costs in an RSD:
- when it is low, an RSD can be implemented through suppliers as the switching cost is low and the supplier can develop economies of scale;
- when it is medium-high, it is possible to evaluate an in-house process or the cancellation of the reshoring process itself, perhaps trying to improve the performance in the offshoring country.

The second relevant aspect concerns the interconnections between processes meaning that one process is dependent on the performance of another process, which can have a negative or positive effect on performance (Di Mauro et al., 2018). A high level of interdependence requires a high level of coordination, joint problem solving and mutual adaptation, which raises transaction costs (Bahli & Rivard, 2005). In general, there can be two distinct effects on reshoring:
- when there is low interdependence there are several options such as relying on a supplier or carrying out an in-house RSD;
- when interdependence is high it would be preferable to try to improve performance in the offshoring country, before actually considering a relocation; otherwise in-house reshoring is the best option to build a deep understanding of internal interdependencies.

The third and final concept is linked to a company's experience in doing offshoring and outsourcing contracts. Firms with greater offshore outsourcing experience are likely to have a greater ability to specify contracts more precisely, and develop organizational routines that allow collaboration to address problems with suppliers (Bahli & Rivard, 2005; Boyson, Corsi, Dresner, & Rabinovich, 1999; Gopal, Sivaramakrishnan, Krishnan, & Mukhopadhyay, 2003).

CHAPTER 2

Review on the extant literature about entry mode and Proposed factors influencing the choice during an RSD

In this chapter I will discuss the entry mode intended as the way companies, especially MNEs, enter in a new international market. In the first chapter, the phenomenon of reshoring defined as relocation of second degree, its background, and its drivers have been extensively treated.

Now the focus of the literature review will shift to how companies move internationally, especially during an offshoring, introducing all the most famous entry modes from the wholly owned investments to the contractual modes.

Then I will present the potential factors that influence the willingness to change the entry mode during a reshoring event and the possible direction.

2.1 Entry modes classification

When a company wants to expand into the international market, it must make a choice between acquisition or collaboration (Mata and Portugal, 2000). The entry modes can be classified according to two dimensions: the resource commitment and control level as illustrated in the figure 6.

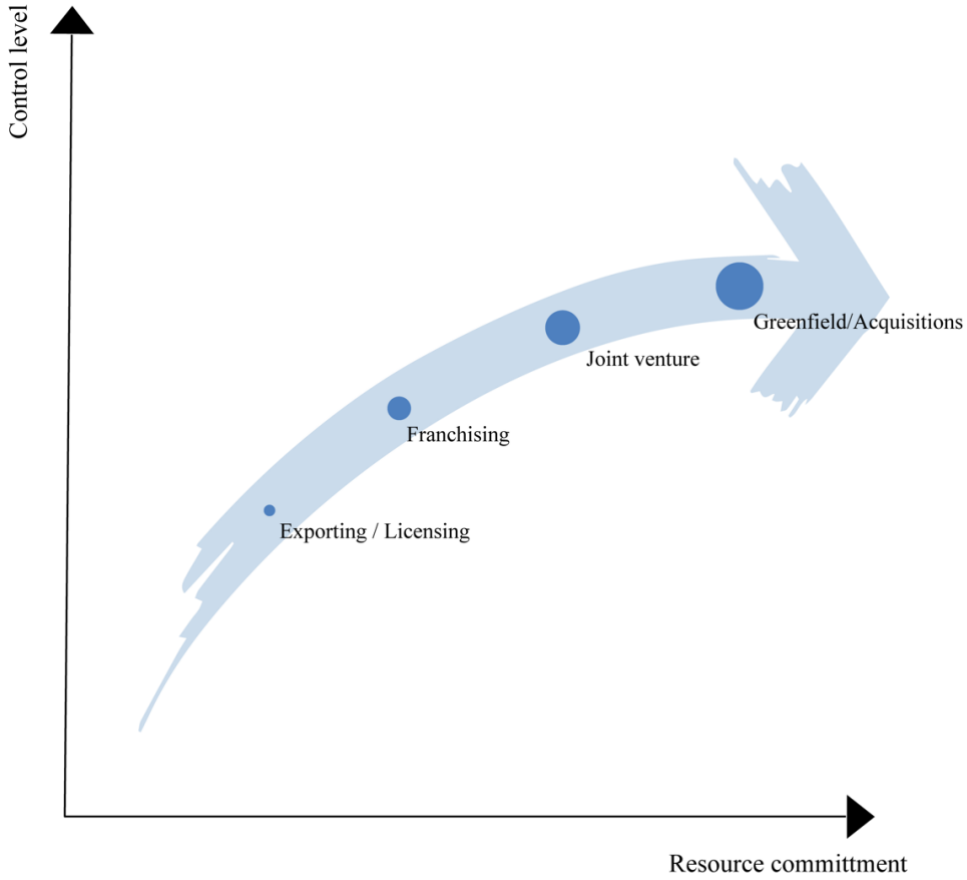

Figure 6 - Classification of entry modes (Source: adapted from Sternquist 2007)

On the top right of the corner, we can identify the so called wholly owned investment (WOI) characterized by high control level and resource commitment. WOI imply wholly owned subsidiaries (WOS) therefore the company must own production and distribution plants abroad. Two types of wholly owned investments can be distinguished: Acquisitions and Greenfield (Pan and Tse, 2000).

A Greenfield investment arises when the establishment of new production facilities is realized from scratch. In these cases, the investor creates the new production plant on a site previously not used for economic activities, thus increasing the production capacity of the host territory. The investor purchases the real estate necessary for carrying out the activity in the

geographical area in which he intends to settle and makes use of the local workforce, training it through the know-how, technologies and skills possessed by the investor himself (Harzing, 1998).

Acquisitions, on the other hand, refer to the purchase of the property, or a controlling share, of companies that already exist in the foreign territory. The foreign investor takes control of the activities and plants already present in the area in which he will invest, with the risk that they do not comply with his production needs. In fact, the integration of the acquired company could be challenging as the investor, through the acquisition, inherits a system of skills, corporate culture and values that is well established and reluctant to change.

The difference between Greenfields and Acquisitions lies in the fact that the first is substantially based on the investor's resources, which will then be combined with those acquired locally; the acquisition, on the other hand, makes use first of the resources that already belonged to the acquired company, and then later adapt them with the investor's resources. Mata and Portugal (2000) state that firms entering by acquisition are more likely to divest from their investment than firms entering through Greenfield.

Then there is the Joint venture (JV) as intermediate solution with less resource commitment and a level of control. They developed rapidly in various industries starting from the end of the 1970s (Mutinelli and Piscitello, 1998). Joint venture, or partial ownership, is the association of assets of two or more companies into a common and separate organization (Chang and Rosenzweig, 2001). According to Buckley and Casson (1998) there are three conditions for joint ventures:

- the possession of complementary goods;
- the presence of opportunities for collusion;
- the organization must have barriers to full integration;

Chang and Rosenzweig (2001, pp. 748) explain the advantages of the JV: "joint ventures may at times be the only entry mode allowed by the host government, but in many instances are also the preferred mode as they allow a firm to limit initial risk, and later expand or terminate the investment depending on the joint venture's performance or some other strategic consideration ".

A joint venture mode is appropriate when the host industry is facing a favorable demand condition with great growth potential and where local skills and know-how need to be

integrated in order to penetrate the market. This mode is more time-efficient for the investment firm to seize the growth opportunity ahead of competitors (Kogut and Singh, 1988).

There is then, the Franchising intended as a contract between two independent parties where one grants to the other a set of rights (such as trademarks, patents, know-how, assistance, and consultancy, etc.) by inserting the affiliate in a network system articulated on the territory, with the purpose of selling goods or services.
The party that grants the rights is called the franchisor and the affiliate that uses them is called the franchisee. This system has historically been dominant as it made possible very rapid expansion for companies. According to Quinn (1998), it is a low-cost entry mode which, however, shows little control between franchisors and franchisees unless contracts are reinforced.

To complete the range of contractual entry modes we finally have exporting and licensing. The first concerns the direct sale of goods and services to customers in other countries: production takes place in one country and shipping to another without any physical presence in the host country. Exporting is a way for businesses to quickly expand their potential market while subject to shipping costs, tariffs and barriers.

Licensing is instead defined as a commercial agreement, in which a company authorizes another company by issuing a license to temporarily access its intellectual property rights, i.e. production process, copyright, patent, technology, trade secret, etc. under specific conditions. In the absence of transaction costs, firms export their goods and services or give the use of their resources to local firms in foreign markets (Grant, 1991).

2.2 Entry mode theories

The most recognized theories in the literature are: Transactions Cost Economics (TCE), the Institutional Theory, the Resource-Based View (RBV) and the Uppsala model.

2.2.1 The transactions cost theory

The Transaction cost theory for Schellenberg et Al. 2018 is the most used and applied model in International Business (Canabal & White, 2008) and is based on two fundamental concepts:

- The so-called bounded rationality that characterizes and limits the choices of the actors. It implies that companies often have incomplete and unreliable information about market opportunities and often also limited ability to predict and plan future responses to future events (Simon, 1957).
- Opportunistic behavior that includes lying, stealing or violating agreement in the context of relationships built during a market entry (Schellenberg et al. 2018). This concept adds the element of "self-interest" where the actors tend not to respect agreements with third parties by acting for their personal purpose. It is typical between partners of different cultural backgrounds (Luo, 2007) and in complex environments (Shapiro, 1987).

These two factors determine the increase in transaction costs and consequently the form of governance. The cost of the transaction is defined as the cost of participating in a market as well as the cost of research, negotiation, and control with the various trading partners. The higher the cost, the more companies prefer captive solutions as a form of governance.

There are also three dimensions to consider: asset specificity, environmental uncertainty, behavioral uncertainty, and frequency of transactions (Williamson, 1975).

Asset specificity is defined as "the degree to which an asset can be redistributed for alternative uses by alternative users without sacrificing productive value" (Williamson, 1989, p.142). During an internationalization process, it occurs when there are strategic activities for the offshoring company (e.g. high value activities, R&D). Such activities have a higher transaction cost and are subject to risks such as misappropriation of resources, dissemination of technology and loss of knowledge. The specificity of the asset also requires ad-hoc investments on behalf of the supplier and can give rise to opportunistic behaviors from the counterparty (De Vita et al., 2010) especially when these lose value outside the relationship. The more one party is involved in the transaction, the more the other is able to exploit the irreversible situation by reformulating the contract to its own advantage.

The effect produced on entry mode is mixed: some studies show that companies prefer highly controlled forms of governance (Gatignon & Anderson, 1988; Hennart J.F., 1991;

Makino & Neupert, 2000); others reveal a use of lighter forms or even transactions on the market (Delios & Beamish, 1999; Palenzuela & Bobillo, 1999) or even an absence of cause and effect between specificity and entry mode (Kim & Hwang, 1992; Brouthers & Brouthers, 2003).

The behavioral and environmental uncertainty increase the ex-ante contractual costs and the ex-post monitoring and enforcing costs (G. De Vita et al., 2010). Behavioral uncertainty is closely linked to the concept of bounded rationality and is reflected in the complexity of the contracts that govern transactions. Uncertainty becomes even more problematic when also linked to asset specificity since in the presence of the two, one party could be more likely to appropriate a specific investment. The effect it generates is pushing transactions away from the market and towards a hierarchy.

Finally, the transaction frequency contemplates the recurrence of transactions. If the first two factors have a massive impact on the single transaction cost, the frequency acts as a multiplier: if a transaction involving a high value activity, characterized by high uncertainty, occurs on a recurring timeframe, companies will prefer to internalize the activities preferring a more captive solution.

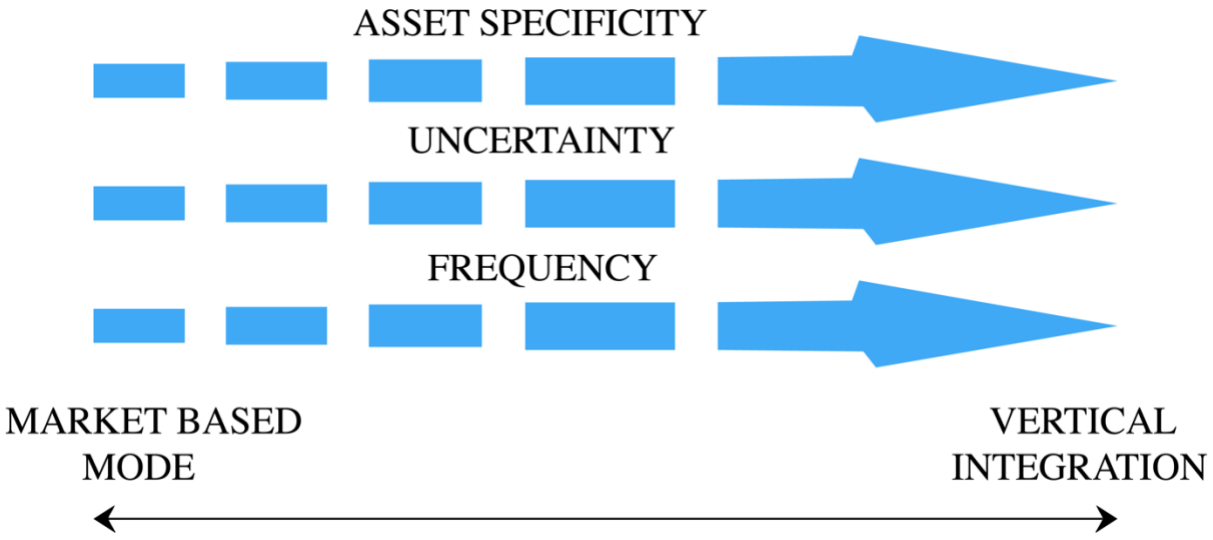

Figure 7- Entry mode choice according to TCE (source:adapted from Spina 2008)

2.2.2 The Institutional Theory extension

The TCE has played a fundamental role in the international business environment by analyzing the internal aspects of a company such as its behavior and the type of activity it carries out. However, it does not explain why some companies have opted for forms of outsourcing in the face of high transaction costs and vice versa. Consequently, some scholars

have begun to extend the TCE by analyzing the cultural and institutional factor (e.g., Brouthers & Brouthers, 2000; Brouthers, 2002; Elia et al., 2014). Since the first attempts (North, 1990), researchers have focused on the host country (e.g. Davis et al., 2000), analyzing the impact of country risk (e.g. Delios & Beamish, 1999; Brouthers & Brouthers, 2000; Brouthers, 2002) and the structure of the industry (Chen & Hennart, 2002) on the decision on the mode of entry; however, there are also other studies in the literature that have considered the country of origin and its influence on corporate governance (Erramilli M. K., 1996; Pan, 2002).

The institutional context defines "the rules of the game by which firms participate in a given market" (Brouthers & Hennart, 2007, p. 405) and the institutional theory studies how companies enter and operate by adapting to this game (Davis et al., 2000; Meyer & Nguyen, 2005). A pillar of this theory is based on isomorphism (Di Maggio & Powell, 1983), a process that requires one part of the population to assume the same behavior when the same environmental conditions occur (Hawley, 1986). According to this principle, a company that operates in the same market and in the same industry will behave in a similar way and therefore it becomes important to define which factors influence this behavior.

As mentioned above, many studies have focused on the host country by identifying three macro factors: uncertainty, market attractiveness and cultural distance.

Uncertainty is intended as the risk associated with countries with high political instability, corruption, poor license protection, legal restrictions, slow bureaucracy. These factors can strongly influence the investments by a company and in particular the form of entry mode. Firms prefer stronger forms of governance, which require an intensive use of capital in the presence of a high quality of institutions and low risk (Kim & Hwang, 1992; Erramilli & Rao, 1993) rather than softer governance modes to limit risks and to be facilitated in a quick disinvestment in the opposite case.

Market attractiveness in the host country is one of the most important driver, for example the market potential can influence the choice of the entry mode as it impacts the market capacity and the opportunity cost (Brouthers and Brouthers, 2000; Agarwal and Ramaswami, 1992 ; Kim and Hwang, 1992). Countries characterized by high market potential can easily absorb additional productive capacity, giving companies the opportunity to improve efficiency (Brouthers, 2002). The existing literature suggests that companies operating in the high growth market prefer captive entry modes in order to achieve strong economies of scale and to establish a lasting presence in the market (Agarwal and Ramaswami, 1992). On the contrary, in a stagnant or shrinking market companies would be more oriented towards less integrated solutions in order to “improve the returns on investments by minimizing resource

commitment (if returns are low); reduce the impact on the competitors, thus avoiding a further reduction of prices; and minimize market exit costs if firms decide to withdraw their investments when sales do not grow " (Elia et al., 2014, p. 188).

Cultural distance, as reported by many researches, influences the choice of the entry mode of multinational enterprises (Morschett et al., 2010; Tihanyi, et al., 2005; Zhao et al., 2004). The fundamental differences in norms and values between the home and host country create difficulties in operational terms and require further effort to enter the market (Chang et al., 2011). This distance is estimated by scholars in various ways, such as perceived similarity in cultures (Kim & Hwang, 1992; Brouthers, 2002) and familiarity with the host country (Gomes-Casseres, 1990). Existing research typically synthesizes distance using the measure developed by Kogut and Singh (1988), which is based on cultural dimensions first identified by Hofstede (1980). In particular Hofstede proposes 5 different cultural dimensions:

- Power distance: It is known as the extent to which the less powerful individuals of an organization accept that power is unequally distributed. This definition implies that the level of inequality exists as a function of the level of acceptance of the followers rather than the imposition of the leaders.
- Individualism vs collectivism: In some societies there is a sense of collectivity and stronger interpersonal bonds, in others an individual is expected to be able to take care of himself and his organization or family on his own.
- Masculinity vs Femininity: the distribution of roles such as modesty, assertiveness and emphasis on human relationships (female pole) or competitiveness, social status (male pole) within society.
- Uncertainty avoidance: the extent to which the members of an organization feel threatened by new, unknown, surprising, different situations. Cultures that have a high rejection of uncertainty try to minimize the risk through laws and rules.
- Long-term orientation vs. short-term orientation: The contrast between the values associated with long-term orientation such as perseverance and thrift, and those in the short term such as respect for traditions and the fulfillment of social obligations.

The research provides different empirical results on the influence of cultural distance on the choice of entry mode (Brouthers & Brouthers, 2001; Shenkar, 2001; Tihanyi et al., 2005). Some studies indicate that when the cultural distance is high, companies prefer to adopt joint ventures (JVs) or a collaborative entry mode (Chang & Rosenzweig, 2001; Erramilli & Rao,

1993), while others find a greater correlation with the use of wholly owned subsidiaries (WOS) as they grant access to total control (Agarwal, 1994; Anand & Delios, 1997).

2.2.3 The resource-based view

The RBV theory considers a company as a unique set of tangible and intangible assets such as human resources, processes, knowledge and skills (Sharma & Erramilli, 2004; Roth, 1995). Due to the heterogeneity of small businesses and their operating environments, is it is considered very difficult to identify the critical resources necessary for internationalization (Ruzzier et al., 2006). Considering the attributes such resources should exhibit to support a long-term competitive advantage, the researchers listed several characteristics.

Barney (1991) suggests that companies gain a sustainable competitive advantage only when assets are equipped with all VRIO attributes (i.e., valuable, rare, hard to imitate, supported by the organization).
According to Grant (1991), the resources must capture transparency, durability, transferability as well as replicability.

According to RBV, the foreign market represents the environment for exporting these resources in order to extend the benefits of a competitive advantage even beyond national borders (Tsang, 2000; Luo, 2002) and to acquire and develop new capabilities. Thus, this perspective differs substantially from the TCE, moving from cost to value in the analysis of the entry decision (Madhok, 1997). The typical resources associated with the governance choice are assets, specific capabilities, proprietary technology, skilled workers, company size, and tacit know-how. Madhok (1997) postulates that companies opt for internalization when foreign investments involve VRIO resources and that in such investments the replication of know-how becomes difficult through contractual modes while a wholly owned investment allows for the complete conservation of know-how. Furthermore, other studies have shown preference for direct investments over market modes when firms possess greater resource-based advantages (Erramilli et al., 2002).

2.2.4 Uppsala model

In the second half of 1977, the so-called U-Model was developed at the University of Uppsala, Sweden.

The theoretical basis of this model consists mainly of two articles, one written by Johanson and Wiedersheim-Paul (1975) and the other by Johanson and Vahlne (1977).

Four Swedish companies are studied in the article by Johanson and Wiedersheim-Paul, concluding that they often develop their international activities in small steps, following an incremental model of internationalization. Johanson and Vahlne (1990) affirm that the commitment of companies in a specific country develops according to a consolidated chain: "at the start no regular export activities are performed in the market, then export takes place via independent representatives, later through a sales subsidiary, and eventually manufacturing may follow" (Johanson and Vahlne, 1990 - page 13).

Johanson and Vahlne (1977) have developed a dynamic model, where internationalization is seen as "a process of increasing a company's international involvement as a result of different types of learning." (Ruzzier et al., 2006). The same authors, in the following years, revised the model, modifying and improving the arguments proposed in 1977.

The central point of this theory highlights that, in order to reduce the effects due to the uncertainty of foreign market conditions, managers engaged in internationalization processes need to know the conditions of the market on which they will operate.

The trend of a company's international development, according to the U-Model, is incremental and directly depends on market uncertainty; this approach can identify a learning process underlying which is called "learning by doing" (Lindblom, 1959; Quinn, 1980).

According to what has been said, the greater the knowledge of a foreign market, the lower the perception of the risk associated with new investments in that market. This influences a company's will to increase the level of internationalization only when the perception of risk is reduced below a certain tolerability threshold (Johanson & Vahlne, 1977).

2.3 Theories on entry mode change

I will now focus on the extant theories about changes in foreign operation modes as they constitute the theoretical basis for understanding the change of entry mode during a reshoring event. Then, starting from these theories I will build a theoretical framework to illustrate the factors that determine such choice.

Current research has tended to disregard studies on mode changes compared to mode of entry (Putzhammer et al., 2020, Gao & Pan, 2010; Santangelo & Meyer, 2011; Swoboda et

al., 2011) as this research is decidedly more complex than what existing theories tend to assume (Clark et al., 1997).

A company has the opportunity to change mode of entry at any time during foreign operations by resorting to mode increases, mode reductions, mode combinations and within-mode adjustments (Benito, Petersen, & Welch, 2009: 1455). In current theories the nomenclature is rather inconsistent and given the complexity of the phenomenon and the fragmentary nature of the research it is necessary to make order among the various classifications.

First, the concept of entry mode is defined as "the organizational arrangement that a company uses to conduct international business activities related to the activities performed in particular locations at a given time" (Benito et al., 2009, p. 1458). The organizational arrangement is highlighted at the level of ownership structure, value chain or a combination of both. It is on these two dimensions that the change of entry mode takes place with respect to the first mode choice upon initial entry into a country. The first theory concerning mode change was elaborated in the aforementioned Uppsala theory which considered both the ownership and value chain dimensions by proposing a model that would move along the "establishment chain" from exporting to production WOS thus considering the so-called "mode increase "(Putzhammer et al., 2020). Then there are Calof and Beamish (1995) who added the JVs as a further separate step within the establishment chain and Benito and Welch (1997) who first introduced the concept of "mode decrease" within the establishment chain itself.

2.3.1 Definition

Considering the studies mentioned above and the most recent ones carried out in the last 20 years, we can distinguish:

- Between-mode changes defined by Clark et al. (1997) as a replacement of the mode of a foreign operation in a host country with a new mode characterized by a lower or higher level of commitment and control in the same host country. It was initially conceived as a shift forward or backward between the three generic forms of entry mode. This category, according to Clark et al. (1997), is divided into:
    - Initial entry, understood as the first attempt that a company makes to penetrate a foreign market. The choice of entry mode here is based on the theories cited above

    - Move to FDI, with FDI being any form that includes a higher level of commitment and control. This movement can be linked to the "committed involvement stage" cited by Cavusgil (1980) or to the term "global investment stage" (Young et al., 1989, p.33) which recognizes that every company can have a wide diffusion of international agreements on the institutional level. It is important to underline that this movement is not a consequence of a new internationalization stage as in the Uppsala model.
    - Retrenchment, which concerns the reduction of involvement in the host country. The company will continue to be present in the market but with a lower level of commitment and control to have the ability to use resources in other strategic markets. This movement represents a decisive break with Uppsala theory since it has never taken into account the decrease of entry mode.
- Within-mode changes also defined by Clark et al. (1997) as adjustments of the institutional arrangements within the same foreign operation mode in the host country (for example by changing the ownership percentage within a JV)
- Changes in mode combinations defined by Putzhammer et al. (2020) as additions to a new foreign operation with a higher or lower commitment to an existing operation or by eliminating an existing operation in a given host country. Called "mixed mode shifts" in Clark et al. (1997) occur when a company adds additional modalities to their existing mode thus adopting a mixed approach. Benito et al. (2009) instead adds that operations abroad are characterized by the simultaneous use of several governance methods.

Therefore, summing up these three classifications, we can reach the final definition:

"Mode changes are changes to the organizational arrangements a firm uses to conduct international business activities at a particular location, which result in an altered operation mode, a higher or lower operation mode, or a new combination of multiple operation modes. These changes occur either along an ownership or a value chain dimension or a combination of both "(M. Putzhammer et al., 2020).

2.4 Factors influencing the change of entry mode during a reshoring event

As discussed above, a company can decide on its initial entry based on previous conditions and circumstances but when these conditions change, it has the right to increase or decrease its level of commitment. After explaining what reshoring is, introducing the concept of entry mode and the existing theories on it, I will now focus on the core part of the report: starting from the existent theories and the reasons for the between-mode change, I will introduce potential factors that influence the willingness to change the entry mode during a reshoring event and the possible direction.

The following factors will be divided into factors internal and external to a company context and will be discussed with reference to the mode increase or decrease intended at the level of commitment: an "increase of entry mode" indicates the transition from a market-oriented form to a more hierarchical while a “decrease of entry mode” will have the opposite meaning.

2.4.1 Internal factors

The first part is related to the internal firm’s environment which according to Calof and Beamish (1995) includes all the potential factors under the control of a company such as strategy and resources.

Internal factors constitute the so-called company-specific-advantages and according to the industrial organization theory they are exploited when companies invest abroad (Boddewyn, 1985).

2.4.1.1 Asset Specificity

The asset specificity entails all the distinctive resources and capabilities such as technological properties, tacit know-how and specialized assets which are unique within the company. According to the TCE, a company possessing these types of resources tend to select entry modes with a higher level of control / equity. This hypothesis is empirically supported by some studies such as Brown et al. (2003), Ekeledo and Sivakumar (2004), Mutinelli and Piscitello (1998). When a company gains internal advantages and management know-how it could be pushed to increase the level of commitment and control.

For Delios & Beamish (2001), for example, intangible assets have empirically shown a negative probability to divest. Puck et al. (2009) instead showed that the accumulation of local knowledge and the internal isomorphic pressure increases the likelihood that a JV is converted into an own subsidiary. Finally, Gomes-Casseres (1987) observes that companies that have increased their internal capabilities no longer use external agents but rather prefer to build wholly owned subsidiaries.

It can therefore be deduced that companies characterized by high internal know-how and company specific advantages are therefore oriented to increase the level of commitment and control during a reshoring event. Taking up the TCE mentioned above, the more a company has a high asset specificity, the more its internal processes are unique, inimitable and constitute a competitive advantage.

Furthermore, a high asset specificity can cause difficulties in finding suppliers in the country of origin (McIvor, 2009) making internal solutions simpler. Wan et al. (2019) found that companies operating in the textile sector, characterized by low asset specificity, more easily resort to outsourcing solutions.

It could therefore be said that asset specificity should positively influence the change or maintenance of the mode of entry during an RSD. The high asset specificity in particular could guarantee a maintenance of the mode of entry if the one used in the first offshoring country is of the hierarchical type or an increase in the case of a market-based solution.

2.4.1.2 Firm's size

The size of a company is also a typically internal factor and defines the availability of human resources, capital, and access to specific information. These resources are essential when deciding to undertake market entry strategies. For Papadopculos (1987), large firms have an unlimited range of options when it comes to entry mode since they have, among other things, the ability to internally absorb the consequences related to this choice. The size of a company is often an indicator of its competitive advantage in financial, physical, human, technological terms (Sivakumar, 2004). According to Koch (2001), smaller firms usually have fewer service options than the market, as their very limited own resources may simply not allow or discourage some ways of entering the market.

For Sanchez-Peinado et al. (2007), setting up wholly owned subsidiaries abroad involves a significantly higher commitment of resources and involves greater risks than other options. As a result, larger companies have a greater ability to deploy resources and absorb risk than small

and medium-sized companies and are therefore more likely to select highly controlled and resource-intensive modes (Agarwal and Ramaswami 1992). Firms can obtain the resources needed for investments internally through their own cash flows or externally from the financial markets.

Empirical studies have indicated that the impact of firm size on foreign direct investment is positive (Buckley & Casson, 1976; Caves & Mehra, 1986; Cho, 1985; Kimura, 1989; Yu & Ito, 1988); this means that the size of a company is positively correlated to the choice of high-commitment investment methods, such as the WOS and joint venture methods.

During an RSD, a large firm could more easily maintain or even increase the entry mode commitment in the reshoring country by moving towards more hierarchical in-house solutions, having the ability to internally absorb the costs and consequences of this choice.

2.4.1.3 Performance

Another factor to consider internally is the performance in the foreign market. From a theoretical point of view, the internationalization process does not refer directly to performance but to the learning effects that cause an increase in commitment in the foreign market (Swoboda et al., 2011). However, it is reasonable to think that a misalignment between goals and performance can create a disruption and lead to a change of entry mode (Boddewyn, 1983). Ellis (2005) derived a U-shaped relationship that empirically shows intermediaries' propensity to terminate a relationship and performance. Boddewyn (1979) and Benito and Welch (1997) also consider performance as the primary driver for divestment decisions.

While it is easy to understand the decrease of mode of entry or even the divestment in the same country due to a bad economic performance, it becomes difficult to do the same reasoning during a reshoring event. An RSD could already be in itself a response to a suboptimal situation in the country of the first offshoring, but the presence of poor economic performance in that country does not necessarily give clues to an increase or decrease of mode of entry in the country of the RSD.

However, we can see the disruptive nature of the event by saying that the presence of bad economic performance a company could stimulate to change its mode of entry during an RSD but the direction of the change remains to all intents and purposes unknown and it will be interesting to empirically investigate this effect.

2.4.1.4 Path dependence

The last internal factor is the concept of path dependence, introduced by David (1985) and Arthur (1994) to explain the diffusion of technological standards, but it has been also pointed out by IB researchers with the aim of using the same approach to study the internationalization process. It focuses on the tendency to repeat the initial choices in the future in case of positive feedback due to self-reinforcing mechanisms such as economies of scale and scope, network externalities, learning effects, and coordination effects (Arthur, 1994; David, 1985). This theory is in line with the knowledge-based theory as well as the institutional theory (Swoboda et al., 2015).

The application of this theory in the case of the choice of entry mode during an RSD event therefore suggests an experiential approach. Padmanabhan and Cho (1999) underline that an experience with a successful entry mode leads to a growing knowledge and confidence in the continuous use of the same modality. For example according to Hutzschenreuter et al. (2007), offshore learned skills can generate new distinctive skills incorporated into the company's internal processes. It is therefore necessary to look at the successful past experiences of a company to understand which solution it is notoriously more inclined towards and therefore outline a market-based rather than hierachical profile. Once the profile is understood, it will be possible to understand if a firm will be more oriented towards a maintenance, increase or a decrease in the mode of entry during an RSD.

2.4.2 External factors

The external environment has been described by Calof and Beamish (1995) as the set of factors outside firm's boundaries that is not controlled by the company itself such as competition, governance policy and macroeconomics.

Even if outside the control of a company, these factors can greatly influence the choice of entry mode in general and especially during a reshoring event. It will be important to consider not only the external context of the reshoring country but also that of the first offshoring country and sometimes the home country as well to make the necessary comparisons and understand the choices made behind it.

2.4.2.1 Macro-economic conditions in the host country

According to the OLI theory, the location advantages are one of the driver leading FDI. The external context will not remain static but changes over the time leading to an increase or decrease in mode depending on the direction and intensity of the change: if the environment is changing favorably, the company should be able to use its know-how and "shorthen the cycle of increasing involvement" (Swoboda et al., 2011). The external environment therefore describes conditions and at the same time motivators for in- or divest (Boddewyn, 1985). Ford and Rosson (1997) and Pedersen et al. (2002) both found that the shift from exports to sales subsidiaries is motivated by changes within the business environment. Belberdos and Zou (2009) instead observed that subsidiaries located in countries with adverse economic conditions tend to disinvest more easily and finally Mata and Portugal (2002) have shown how the same companies tend to survive when placed in a growing market.
During an RSD event, the reshoring country market is an important factor as it can justify a more or less stable presence by a company. A large and fast-growing market requires a more important presence and consequently a more hierarchical entry mode. It could therefore be thought that external economic conditions positively influence the change or maintenance of the mode of entry during an RSD. A country subject to RSD, characterized by high market potential, could guarantee a maintenance of the mode of entry previously used or an increase by switching to in-house solutions, controlled, and managed internally.

2.4.2.2 External uncertainty

The uncertainty refers to the difficulty or inability to predict environmental and organizational conditions, which can significantly influence a firm and its strategic choices (Miller, 1993). Based on the framework provided by the TCE, the external uncertainty associated with FDI is a major factor influencing the choice of entry mode. In the literature on the modalities of entry, the uncertainty linked to the environment of the host country has traditionally been linked to the country risk; in particular, political risk (Zhao, Luo, & Suh, 2004). Country risk refers to the volatility of the political, economic, and social factors of the target country; while political risk is defined as the probability of an unfavorable change in the country's government regime and / or policies issued (Henisz, 2000).

Although both the TCE and the Institutional theory indicate external uncertainty as a decisive factor affecting the choice of entry method, it is not clear how it affects the investing firm's decision. Both theories can accommodate conflicting predictions regarding this problem

(Brouthers & Brouthers, 2001; Harzing, 2003; Shenkar, 2001). On the one hand, according to the TCE, high external uncertainty leads to higher transaction costs when relying on external partners: a high degree of volatility in the host country can hinder the foreign investor's ability to enforce cooperation agreements. (Brouthers & Brouthers, 2001) thus making more hierarchical solutions preferable.

On the other side, considering the Institutional Theory, external uncertainty makes it difficult to know the foreign market and therefore a company may be interested in accessing local knowledge and contacts through market oriented solutions: this type of solution avoids ownership and control, as it engages companies in an operation that may not be appropriate when conditions change (Anderson & Gatignon, 1986).

Therefore, following both logics during an RSD, a high uncertainty in terms of risk of the reshoring country could produce two contrasting effects: an increase in the mode of entry during an RSD due to the search for more hierarchical solutions to internalize the risk or a decrease in the mode of entry due to a more conservative approach towards market oriented solutions that avoid risk. In this case, it will also be interesting to evaluate empirically the country risk differences between the reshoring country and the first offshoring country to better understand the decisions made.

2.4.2.3 Cultural distance

Following Hofstede (1980, 2001), culture is defined as 'collective mental programs' shared by a group of people and such programs are different from one group to another. Culture thus distinguishes one group from another and in a national context identifies collective programs shared by one country rather than another. The cultural distance between two countries reflects the differences that exist in certain values, norms and rules of behavior between them (Shenkar, 2001) and these differences increase the difficulties that the investment firm would have to overcome when trying to develop its activities in a new country.

The question can be seen once again from two perspectives: the TCE considers the increase in cultural distance as an increase in transaction costs and therefore poses hierarchical solutions as the only way to internalize these costs and make collaboration with a partner unnecessary.

On the other hand, according to the Institutional theory, cultural distance is seen as a barrier to in-house solutions and considers for example a local partner in a JV or an external

agent as a bridge that allows the foreign investor to reduce the cultural gap between the two countries (Gatignon and Anderson, 1988).

During an RSD it will be important to look at the cultural distance and the effect produced in terms of maintenance, increase or reduction of mode of entry, taking into account the fact that cultural distance is a relative quantity and is evaluated by looking at two countries. It is therefore reasonable to look not only at the distance between the country where the RSD takes place and the home country but also comparing it with the distance between the first offshoring country and the home country.

Following the TCE and the Institutional Theory, a high difference between the two can produce two contrasting effects: an increase in the mode of entry to fully cover cultural differences and internalize the process or a decrease in the mode of entry due to a targeted approach to search for a partner / external agent as a solution to cultural differences.

Chapter 3

Conclusions

The third and last chapter concludes the report by discussing the factors introduced in the previous part and I will conclude giving possible avenues for future research.

3.1 Discussion and avenues for future research

The goal of this report was to introduce the factors that could explain the choice to change, decrease or increase the resource commitment during a second-degree relocation. Before jumping into conclusions, it is necessary to make a premise: since no empirical analysis and statistics have been performed it was not possible for me to formulate and test any hypothesis, rather I wanted to give a direction for possible future research that include a statistical model and a proper econometric analysis.
The theoretical basis from which I started is constituted by the classical theories of choice of EM such as Transactions Cost Economics (TCE), the Institutional Theory, the Resource-Based View (RBV) and the Uppsala model. From these theories I have highlighted two types of different factors internal and external to the company context.

The first internal factor introduced was the asset specificity, introduced starting from the TCE. According to this theory, asset specificity constitutes a transaction cost that makes hierarchical solutions preferable to external ones undertaken through the market. It will therefore be interesting to be able to observe at an empirical level the behavior of companies characterized by high asset specificity: in particular, companies that have carried out a first offshoring initiative using methods with a high level of control and resource commitment could be pushed to maintain the same method during a RSD. For Delios & Beamish (2001), a valid measure to characterize asset specificity is certainly constituted by intangible assets, that is, all non-physical assets such as patents, trademarks and licenses that constitute a type of unique asset for the company.

The second internal factor is the size of a company, introduced in other empirical studies such as Wan et al. (2019). The main meaning behind the introduction of this factor is the assessment of the company's internal ability to invest and internalize risk during foreign operations. It will be important to carry out a subsequent empirical analysis aimed at observing whether or not there is a maintenance of the entry mode during an RSD and any direction taken based on the size of a company. The size can be measured through the total assets or the number of employees of a firm.

The third internal factor is represented by the performances in the host country of the first offshoring which could be seen as both market-oriented or efficiency-oriented performance. As already mentioned above, performances have not been mentioned in classical

theories but in several empirical studies concerning the change of entry modes such as Swoboda et al. (2011), Boddewyn (1979, 1983) and Benito and Welch (1997). The inclusion of this factor is mainly based on the misalignment between goal and performance within the investing firms. The consequent empirical analysis will have to use the performances in the first offshoring countries as a variable to understand if bad performances are really associated with a change in the entry strategy during an RSD in terms of control and use of resources.

The fourth and final internal factor is path dependence, cited by David (1985) and Arthur (1994) and in line with the Institutional Theory (Swoboda et al., 2015). Here the focus will have to shift to the initial decision during the first offshoring: the theory woud need to be tested in the event that a company has undertaken the first offshoring by choosing a low or high level of resource commitment and therefore in which cases it is more willing to maintain the same mode or to change it and in which direction.

Turning instead to the external environment, I introduced the macro-economic conditions of the host country where the RSD will take place as a first factor, following the OLI theory as a theoretical framework. In particular, the empirical analysis will have to focus on the behavior of companies that relocate to countries with high or low market potential. The opportunities that these countries offer will certainly be a determining factor in deciding the direction of EM during an RSD, presaging a more important deployment of resources and therefore a high level of control EM when the initiative takes place in countries with a large market of reference.

Then there are external uncertainty and cultural distance, which are dealt extensively both in the TCE and in the Institutional Theory.

Regarding the external uncertainty, the theoretical basis is certainly the TCE but also the Institutional Theory suggesting two conflicting behaviors. On the one hand, uncertainty is seen as an amplifier of transaction costs, thus making hierarchical solutions preferable. On the other hand, it is seen as an institutional barrier that therefore needs market-oriented external support to be overcome. It will be interesting to analyze which of the two theories prevails over the other and therefore understand on which direction the entry mode is more oriented during an RSD, taking the uncertainty of the country in which the relocation takes place as a variable and perhaps also looking at the one of the country of the first offshoring.

Regarding the cultural distance, the same approach can be used. Cultural distance can be seen both as a transaction cost to be internalized and as an institutional barrier to be overcome. In the last phase, it will be important to take into account the distance between two countries

thanks to the indicator developed by Kogut-Singh which evaluates the dimensions mentioned by Hofstede. In particular, the cultural distance can certainly be assessed between the country where the RSD takes place and the home country but also by looking at the country of first offshoring and the home country itself.

I can conclude saying that this report could point out of course avenues for possible future research. It will be necessary first to have a database with relocation events available by collecting data from external sources (i.e. European Restructuring Monito and Orbis database) or from direct sources doing interviews and surveys, even if this would constitute a long process and would pose the problem to the response rate within the firms. Once the collection phase has been completed, it will then be necessary to formulate hypotheses with a stronger theoretical basis and to provide empirical results by testing the information contained in the database. This report aims to provide a basis that can help and favor this process in some way.

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