

## **Backshoring of Danish manufacturing companies: A learning process perspective**

Gustafson, Lasse ; Pesoutova, Katerina ; Turcan, Romeo V.; Christensen, Keld Arenholt

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# Backshoring of Danish manufacturing companies: A learning process perspective

*Rethinking previous Offshoring strategies and bringing production back home is a trend that more and more businesses followed during the last twenty years. Not only cost perspective, but several other reasons forced companies to do so in order to keep their position on the market and remain competitive. This phenomenon called Backshoring is the subject of this article. The article will give some answers to "why" and "how" companies go through this process and look more closely at the learning perspective of Backshoring which could be used as a suggestion for companies that will undergo this process in the future. The research was carried out as a Master thesis at Aalborg University with the focus on Danish manufacturing companies in Northern Jutland. The findings are based on interviews conducted with companies in the region.*

## A change of trends: from Offshoring to Backshoring

In the last 25 years' companies were forced to deal with a highly competitive and unstable market that forced them to change strategy and implement solutions that reduced their cost and helped them to remain competitive. To stay competitive some companies, changed some of their activities geographically from the country of origin to be performed in another location either by the company itself or by a supplier on the foreign location. The Offshoring trend counts for an important business strategy since the 1990s. It helped companies lower their material and labor cost which gave them better access to labor, resources, technology and knowledge plus it enabled the company to focus on their core competencies while the other processes were performed by someone else.

From the interviews, lowering the cost and ensuring the cost effectiveness was prevailing reasons to offshore among the asked companies. Although the authors could see other motives that have been repeated in several cases. These motives included using the Offshoring strategy to enter a foreign market, following the customer or as a tool to meet the requirement of a local production that lately - cantly companies performing their activities in Japan or China.

Although implementing this strategy seemed like a good way to ensure competitiveness, companies have realized that moving their production away from the original location might also bring other results such as the loss of full control over the processed and chain complexity. Greater distance caused quality, control issues and discovering hidden cost made often the previous move even more expensive. All these mentioned turned out to have a

negative on customer satisfaction and future company. Therefore, companies started to rethink their previous steps which in many cases resulted in Backshoring of their activities.

## Backshoring: two models

All the interviewed companies could agree on, that the lack of quality of the product that appeared after the production was shifted, had a impact on rethinking their strategy. Poor quality and loss of their customer satisfaction also contributed to Backshoring. Moreover, companies were able to see the hidden cost of previous action which in the end made the Backshoring cost ineffective. All these inputs have to be taken into a consideration; therefore, the decision process can be considered quite complex and need to be paid more attention.

One of the issues with both Offshoring and Backshoring is that companies are not involving all the relevant departments of the company. In most cases the decision making was made on a board or management level. Therefore, the decision was seen mainly from a cost perspective and did not include relevant inputs from other teams. From one of the cases it was seen that decisions were made only by management which caused a lot of confusion for others in the company. Furthermore, the workers felt upset because they were not included in the decision. This later resulted in them being afraid of losing their position in the company.

Therefore, the decision of the management created a whole new issue. Further the management missed out on a lot of valuable information by not including other parts of the company.

In another case a task force was made including employees from all divisions of the company to get



a more in-depth and complete view on the case. This resulted in the company having success in both Offshoring their production but later also Backshoring their production using the same model. This model insured that the decision was made based on facts from all around the company and included it all in their decision-making process.

There are of course advantages and disadvantages of both models. The model is very and a decision can be made quickly because the amount of people involved is limited both by numbers but also by their position in the company. The actions can therefore be done quicker because the task force only includes decision makers in the company.

The disadvantages of this model are that the information gathered does not cover information from all relevant parts. The decision is therefore only made based on what one part of the company sees as a positive decision and not what the general perception in the company is.

The other model has the advantage that every aspect is analyzed and considered before the decision is made. The decision is therefore based on facts from all the company and not just what management think is relevant. The downside of this model is that it is very time consuming and expensive since it requires a lot of manpower and time to debate all the relevant topics.

### **Lessons from Backshoring**

The initial researches showed that learning process was a rather unexplored topic within both Back- and Offshoring. This research therefore included how companies could improve in this area and what companies should be aware off when going through this process. The issue with learning process is that companies often have to go through the same process more than once, and therefore face the same challenges.

Because of the negative perceptions surrounding Backshoring and the idea of having failed to succeed in foreign markets, the process is often done without focus on learning because managers want this chapter to be closed.

Therefore, there is less focus on documenting the process and how issues were solved. This mindset does that the same errors can occur later because the learning process is forgotten or not documented.

### **Example of managing a learning process**

An example of ensuring that learning process from Backshoring is successful comes from one of the case studies done by the authors. The company shared knowledge and learning through the departments via a task force group. The task force included all levels of the company with the argument "What might seem as a good decision and process on a management level might not be the same for the people in the production". All investments and big decisions were evaluated after one or two years. This was done to include the time perspective and get the hindsight of a project. This method was used with great success and could be applied directly to other companies going through this process.

### **Recommendations for Backshoring**

The process of Backshoring should be seen as a strategic move. Either to correct previous mistakes or to strengthen the current business strategy. Further the market conditions might have changed so the of having production close to the end customer might add more value than cheap production. Finally, the company will be in better control of their production and will be able to make small adjustments faster if this is closer to the main

Another recommendation for how companies should backshore focuses on what analysis should be made prior to the decision. To insure that everything is done correctly and as smooth as possible companies should include information from all departments in the company. By doing this the decision will be made based on all relevant information and not only what is relevant for managers. The analyses made prior to the decision will therefore include both economical and human aspects.

Finally, companies should focus on the learning process and ensuring this. The best way of ensuring this is by writing down the process since this information will never be lost even if the involved people leave the company. Further writing down the process helps with the and makes people ask why things were done the way they were.

Further, post evaluation is very important. Even if the process is seen as a success post evaluation can help companies with new information that was not clear or available at the time they went through the process.





These recommendations should work as guidelines for what companies need to be aware of when going through this process. Every case of Backshoring will be different depending on size, branch and the relevant countries. Therefore, there is not one single solution to how this should be done. However, the recommendations include information which all companies can use and learn from.

For further information about the research project beyond this article or about the article, the authors can be reached using the following details:

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**Lasse Gustafson**

MSc International Business (Graduate 2017)  
Lasse\_gustafson@hotmail.com  
<https://www.linkedin.com/in/lasse-gustafson-04a21050/>



**Katerina Pesoutova**

MSc International Business (Graduate 2017)  
katerina.pesoutova@gmail.com  
<https://www.linkedin.com/in/katerinapesoutova/>



Supervisor:

**Professor**

Romeo V. Turcan  
rvt@business.aau.dk  
tel.:(+45) 9940 8051



Editor:

**Senior Advisor**

Keld Arenholt Christensen  
arenholt@business.aau.dk  
tel.:(+45) 9940 2696