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The Economic Effects of Offshoring and Reshoring in Finnish Companies

A Mixed-Methods Multiple Case Study

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ABSTRACT:
Changing global environment and recent geopolitical shocks have changed how offshoring is viewed. The dynamic nature of international business along with said disruptions are forcing firms to rethink their long-term strategic plans as well as how they manage and protect their global operations. In addition, growing protectionism, need to stay flexible yet efficient with key resources and markets are issues that firms need to take into consideration when choosing an offshoring plan. Furthermore, the key drivers behind offshoring initiatives are changing from solely seeking cost reducing investments to more strategic approach. More firms are also choosing to reshore operations back to their home countries instead of trying to find suitable locations abroad due to these reasons. A vast amount of research has been conducted on offshoring, and the phenomenon of reshoring is growing in studies too. However, as these phenomena are highly complex and context dependent, the evidence from existing literature cannot be generalised between regions and countries. Therefore, there is a need to research firms from specific countries and fields to truly understand the key drivers and outcomes of offshoring and reshoring for those areas. More specifically, there is a lack of research of offshoring and reshoring done with Finnish firms.

This thesis offers more insight to that area of research on offshoring and reshoring by examining the key drivers behind offshoring decisions of Finnish multinational enterprises that have operations and production networks in different regions globally and how those offshoring decisions affect their economic and operational efficiency. This thesis adopts a mixed-methods multiple case study research design by combining longitudinal quantitative analysis of different financial and operational data with qualitative interpretation of the case firm strategies. The case firms are publicly listed Finnish firms, Wärtsilä, Nokian Tyres, and UPM.

By using third party audited secondary data from firms' annual reports, the thesis observes how offshoring and reshoring decisions affects different performance indicators such as operating margin, operating result, return on investment, and net sales. The evidence collected shows that offshoring and reshoring generally lead to short-term decline in performance due to cost related to restructuring of operations but may improve long-term efficiency and competitiveness.

The findings are interpreted further by using Transaction Cost Economics and Resource Based View to explain that offshoring and reshoring outcomes depend on cost conditions and how efficiently firm specific resources are utilised. All in all, this thesis contributes to the offshoring and reshoring literature by highlighting that offshoring is a continuous strategic process that is dynamic and context dependent rather than one time decision. Moreover, the thesis provides theoretical insight to the interaction between transaction cost and capabilities as well as managerial implications for choosing appropriate offshoring strategy.

KEYWORDS: Offshoring, reshoring, firm performance, Finnish multinational enterprise

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ABSTRACT:

Muuttuva globaali ympäristö ja viime aikojen geopoliittiset tapahtumat ovat muuttaneet suhtautumista offshoringiin, joka tarkoittaa toimintojen ulkomaille siirtämistä. Kansainvälisen kaupan dynaaminen luonne ja mainitut häiriöt ovat pakottaneet yritykset uudelleenajattelemaan niiden pitkän tähtäimen strategisia suunnitelmiaan ja kuinka globaaleja toimintoja hallitaan ja suojellaan. Tämän lisäksi kasvava protektionismi, tarve pysyä joustavana sekä tehokkaana tärkeimpien resurssien ja markkinoiden suhteen ovat asioita, joita yritysten pitää ottaa huomioon suunnitellessaan toimintojaan ulkomailla. Merkittävämmät tekijät offshoring päätösten takana ovat muuttuneet pelkän kustannusäästöjen jahtaamisesta enemmän strategiseen suuntaan. Näiden asioiden takia, yhä useampi yritys päättää myös tuoda toimintojaan ulkomailta takaisin kotimaahansa (reshoring) uusien potentiaalisten maiden etsimisen sijaan. Offshoring-ilmiöstä on tehty paljon tutkimusta ja toimintojen tuomista takaisin yrityksen kotimaahan tutkitaan myös yhä enemmän. Kuitenkin, koska kyseiset ilmiöt ovat hyvin monimutkaisia ja riippuvaisia kontekstista, kaikkia tutkimuksia ei voi yleistää eri alueiden ja maiden välillä. Sen vuoksi on syytä tutkia yrityksiä tietyistä maista ja aloilta, jotta voitaisiin ymmärtää paremmin merkittävimpiä tekijöitä ja lopputulemia offshoringin ja reshoringin takana. Tarkemmin sanottuna, kirjallisuudessa on puutetta näistä tutkimuksista Suomen ja suomalaisten yritysten osalta.

Tämä tutkielma antaa lisää ymmärrystä tutkimukseen offshoringin ja reshoringin osalta tutkimalla merkittävimpiä tekijöitä offshoring päätösten takana suomalaisissa kansainvälisissä yrityksissä, joilla on toimintoja ja tuotantoa ympäri maailmaa. Tämän lisäksi tämä tutkielma paneutuu siihen, miten kyseiset päätökset vaikuttavat yritysten taloudelliseen ja operatiiviseen tehokkuuteen. Tutkielma käyttää monimenetelmällistä tapaustutkimusta yhdistämällä pitkittäisen määrällisen tutkimuksen yrityksien taloudellisista ja operatiivisesta datasta laadulliseen tulkintaan yrityksien strategioista. Tapausyritykset ovat suomalaisia julkisia osakeyhtiöitä Wärtsilä, Nokian Renkaat ja UPM.

Käyttämällä kolmannen osapuolen auditoimaa toissijaista dataa yritysten vuosikatsauksista, tutkielma havainnoi kuinka offshoring ja reshoring päätökset vaikuttaa eri tehokkuuden indikaattoreihin kuten käyttökatteeseen, toimintatulokseen, sijoitetun pääoman tuottoon ja liikevaihtoon. Kerätyt tulokset näyttävät, että offshoring ja reshoring johtaa yleensä lyhyellä aikavälillä tehokkuuden heikkenemiseen rakennemuutosten takia, mutta saattaa johtaa pitkällä aikavälillä tehokkuuden ja kilpailukyvyn parantumiseen.

Käyttämällä transaktiokustannusten taloustiedettä ja resurssipohjaista näkökulmaa, offshoringin ja reshoringin tuloksia voidaan selittää kustannusehdoilla ja sillä, kuinka yritykselle ominaisia resursseja käytetään hyväksi. Kaiken kaikkiaan, tämä tutkielma lisää olemassa olevaan tutkimukseen korostamalla, kuinka offshoring on jatkuva strateginen prosessi, joka on myös dynaaminen ja konteksti riippuvainen eikä yksiselitteinen kertaluontoinen päätös. Sen lisäksi,

tutkielma tarjoaa teoreettisen näkökulman kustannuksien ja yrityksien kyvykkyyden vuorovaikutukseen sekä ohjeita yrityksien johdoille offshoring-päätöksiin liittyen.

KEYWORDS: Offshoring, reshoring, firm performance, Finnish multinational enterprise

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Abbreviations

TCE = Transaction Cost Economics

RBV = Resource Based View

ROI = Return On Investment

IBM = International Business and Management

1 Introduction

In recent years, large global events have changed the way we think about conducting business. Globalization is still strong even though COVID-19 reshaped the way we think about conducting business and where business processes should be located. Furthermore, other big global events such as Brexit, conflicts between countries as well as trade wars have shaken global value chains and the general opinions on offshoring and whether it is as beneficial as before (Basu et al., 2024; Elia et al., 2024; Gereffi, 2020).

Globalization and the possibilities to offshore business activities have been driving economic growth. Offshoring business processes from home country to foreign countries has been a big part of globalization and it has seen an increase in the beginning of 21st century (Bruccoleri et al., 2019; De Felice et al., 2021; Elia et al., 2024; Haleem et al., 2018; Kaus & Zimmermann, 2024; Mihalache & Mihalache, 2016) Lower costs and other functional benefits have been drivers for offshoring to gain comparative advantage and optimize value chains as well as efficiency (Elia et al., 2024; Haleem et al., 2018; Mihalache & Mihalache, 2016).

Due to the changing global environment, firms are struggling to find the same benefits as before thus starting to consider bringing their operations closer to home or even back home entirely (Chen & Hu, 2017; De Felice et al., 2021; Elia et al., 2024; Manning, 2014; Tate & Bals, 2017). Furthermore, in recent years, reshoring has become popular with growing protectionism and reduced corporate tax rates and new regulations in different countries (Broecke, 2024). Changing global scene and following difficulties to offshore are among the reasons why the future of offshoring is uncertain (Broecke, 2024).

Moreover, despite the growing amount of research related to offshoring, the literature shows to have a lack of understanding of decision-making in offshoring as well as the outcome of offshoring initiatives and there is a need for research to find understanding

to the process of decision-making in offshoring as well as the interdependencies between decisions (De Felice et al., 2021; Elia et al., 2024; Mihalache & Mihalache, 2016).

Despite the large amount of research on offshoring, some studies (Haleem et al., 2018; Manning, 2014; Stentoft et al., 2018) have come up with differing results whether offshoring is as straight forward and beneficial as one might think. Furthermore, there seems to be very limited research on offshoring from Finland and by Finnish companies and most of that research is from early 21st century.

Taking these aspects into consideration with the fact how much the world has changed within the past two decades as well as how complex offshoring seems to be as a phenomenon, there is a need to research this topic further from Finland's perspective. Furthermore, the research from previous years and other countries and regions might not be suitable to be generalized for the situation of Finland and Finnish companies.

Moreover, recent studies studying offshoring, and aspects related to it, report varying results with offshoring and firm performance and urge to conduct similar research in different geographical locations to analyse if the effects are similar or different in different regions and countries (Cardoso et al., 2021; Di Mauro et al., 2018; Merino, 2017). In addition, Elia et al. (2024) state that: "future research could investigate how all these disruptions may directly or indirectly shape the offline search behaviour of companies and the consequent implementation of an organizational change" and urge to explore how recent global events shape the future of offshoring.

Finland has a small domestic market, limited resources and high production costs which makes offshoring for Finnish firms an attractive option to expand operations and stay competitive. Thus, the reason to study offshoring from Finnish firms' perspective is justifiable. Furthermore, by focusing on the years leading up to COVID-19, during the pandemic and years after it, will offer the most relevant insight to how big global disruptions have affected Finnish firms.

The purpose of this study is to tap into the research on offshoring especially for Finland's and Finnish companies' perspective as well as to bring the research up to date. To do this, this study answers the following research question:

How offshoring business activities affect operations and performance of Finnish companies and what are the key drives behind the decisions?

To answer this questions, the thesis will analyse previous studies with similar goals done in Finland and with Finnish companies as well as in the Nordic countries to get more data in similar geographical and economical settings. Furthermore, recent studies in offshoring need to be studied to get an idea of how offshoring has been developing in previous years and to get a point of comparison for Finland and Finnish companies.

This study uses is a mixed-methods research strategy, and it is conducted by using a multiple-case analysis of large Finnish multinational enterprises, according to Finnish and EU classifications, from different fields using publicly available audited data primarily reported by the companies themselves. Moreover, other publicly available data is used as well. By using multiple case firms, the study can get a broader picture of the state of offshoring in Finland and how different offshoring actions can affect firms. Moreover, the study can compare results between companies of different fields and offshoring locations to see to what extent certain issues related to offshoring can be generalized across Finnish companies.

The secondary data used in this thesis allows for analysis of changes in firm level performance over time due to the longitudinal data used and subsequent cross comparison of case firms. More specifically before, during and after offshoring, or reshoring, events. This is done by observing the economic outcomes of offshoring investments. Moreover, the findings can be interpreted through theory. However, the data does not allow for analysis of direct causality due to the influence of many factors

on the data simultaneously. Nor does the secondary data allow for analysis of internal decision-making processes. Thus, the findings of this study are analytical explanations interpreted with theory rather than definitive causal results.

The contributions of this study are that it updates and enriches the literature on offshoring in Finland and Finnish companies. Moreover, it provides insights on changes that have happened in recent years and their effects on offshoring and potential consequential reshoring especially in Finnish companies. Finally, this study provides managerial implications on how Finnish companies might want to conduct their offshoring activities in the future as well as what are the aspects that managers need to take into consideration when contemplating whether and where to offshore their operations.

Prior studies have found that the primary reason for Finnish companies to offshore is cost benefits that include lower labour cost, logistics and other costs (Gylling et al., 2015; Heikkilä et al., 2018; Rönkkö et al., 2021). Moreover, small domestic market, proximity to customer in international markets, growth opportunities abroad as well as low domestic supplier capacity are some other reasons that prior research has found on why companies offshore from Finland (Rönkkö et al., 2021).

However, prior research has also found contradicting findings against offshoring. These include rising costs, lack of flexibility, and quality issues (Gylling et al., 2015; Heikkilä et al., 2018). Furthermore, recent study by Maczulskij & Kässi (2024) found that Finnish companies offshoring services does not improve their productivity. Hence, it is important to research the positive and negative issues of offshoring to find potential pitfalls as well as suitable ways to go about offshoring.

2 Theoretical background

The theoretical background of the study critically examines the academic literature and explains the fundamental concept, offshoring, that is used in the study. The chapter progresses from a global context to examine offshoring and the related matters from Finnish perspective. To conclude, a theoretical framework is presented.

2.1 Offshoring

In this chapter, the concept and evolution of offshoring is explained as well as other related concepts and how they differ from each other.

For many decades now, offshoring has been a closely related part of globalisation where parts of a business that have before been conducted domestically are transferred to foreign countries (De Felice et al., 2021; Elia et al., 2024; Haleem et al., 2018; Kaus & Zimmermann, 2024). Moreover, this phenomenon has seen an increase in practice over the last two decades (Bruccoleri et al., 2019; Mihalache & Mihalache, 2016) leading to increasing distribution of global value chains and production processes into different countries that has become a standard in business and international trade (Ambos et al., 2021; Egger et al., 2015; Kaus & Zimmermann, 2024). There are a variety of reason why firms decide to engage in offshoring activities to support their strategies and competitive advantage. Some of these reasons are cost and functional benefits, such as low labour or material cost, market access, or access to knowledge and technology (Elia et al., 2024; Haleem et al., 2018). Furthermore, the fundamental idea of offshoring is to perform business activities in locations that have a comparative advantage to optimize the value chain and improve overall system efficiency (Mihalache & Mihalache, 2016).

However, the dynamic status of the world has changed the optimal environment for offshoring in different countries that many firms are trying to find thus making the already ambiguous benefits of offshoring even more elusive (De Felice et al., 2021; Elia et al., 2024; Manning, 2014). The primarily beneficial aspects of offshoring such as low labour costs have changed and the gap in cost-difference between offshoring and producing locally have shrunk and the calls for more sustainable and flexible value chains have forced countries and firms to consider and even act on bringing the value chains closer to home i.e. reshore the production (Chen & Hu, 2017; Elia et al., 2024; Tate, 2014). Furthermore, hidden costs and risks are often found to outweigh the desired positive impacts of offshoring (Elia et al., 2024). Recent global events, that have destabilized global value chains, have also raised questions among countries and firms regarding the re-evaluation of offshoring activities (Elia et al., 2024). These global events include the COVID-19 pandemic that started in early 2020, Brexit, the war between Ukraine and Russia (Elia et al., 2024; Gereffi, 2020) as well as rising tariffs and trade wars between countries such as the US and China, have raised suggestions to invest in domestic supply chains to be less reliant on foreign inputs (Basu et al., 2024). Moreover, offshoring has raised a public concern over domestic jobs potentially being lost due to offshoring (Basu et al., 2024).

The literature seems to use offshoring as a term that relates to business processes being conducted in foreign countries. However, there are closely related concepts and sub concepts for offshoring that differ from each other in nature. Hence, it is important to explain the differences between such concepts to understand the fundamental differences as well as to clarify the purpose of this research paper.

Encyclopedia Britannica defines the concept of offshoring as follows: “the practice of outsourcing operations overseas, usually by companies from industrialized countries to less-developed countries, with the intention of reducing the cost of doing business.” However, this is a very limited definition of offshoring as offshoring is not only related to outsourcing. Mihalache and Mihalache (2016) propose a better definition for offshoring

as “the assignment of business activities to locations outside a firm’s national borders in order to support existing business operations.” This definition is more suitable general definition for offshoring that defines the fundamental idea of offshoring and sets a clear line between other related concepts of offshoring such as outsourcing or internationalization. Even though offshoring can be seen as a part of internationalization, they differ from each other fundamentally in a way that internationalization is a mechanism where firms enter foreign markets to seek new sales whereas in offshoring the primary motive for firms is to seek and find recourses from foreign locations to support current operations (Mihalache & Mihalache, 2016).

While it is important to distinguish offshoring from other related concepts, there is still a need to clarify the difference between different ways of how offshoring can be conducted. Firms can engage in offshoring activities through captive offshoring that differs from so called offshore outsourcing in several important aspects (De Felice et al., 2021). The difference between captive offshoring and offshore outsourcing is that in the aforementioned concept firms perform the business activities in-house despite the foreign location whereas in the latter firms outsource the business activities from an independent offshore vendor (Haleem et al., 2018; Mihalache & Mihalache, 2016). Chen and Hu (2017) define the difference between offshore outsourcing and captive offshoring by stating that in both cases the loss of proximity is created by distance while with offshore outsourcing the distance is organizational and the boundaries between organizations can have a negative effect on transparency and communication that can ultimately lead to incentives that are not aligned between the participating organizations. Whereas, with captive offshoring the distance is geographical which in part makes the flow of resources more difficult, both tangibles and intangibles.

Furthermore, ongoing discussion on offshoring and reshoring and the dynamic nature of the phenomenon has led to the development of the concept of “rightshoring” (Tate & Bals, 2017) which ultimately supports the fact that “shoring” decisions should be made towards locations that help firms with mitigating risks.

In figure 1. different “shoring” options for firms are presented. Options include both offshoring and reshoring as well as outsourcing and inshoring. Even though figure 1. does not present which option is optimal, as that can change depending on the firm and time of decision, it is still beneficial to visualize and map different options to help in the decision-making process. Figure 1. is adapted from Tate & Bals (2017) article that focuses on finding the right “shoring” options instead of contemplating whether offshoring or reshoring is the better “shoring” option. Thus, it is beneficial to map out all the different options. Furthermore, figure 1. can also be beneficial when firms have already done different “shoring” decision to see what options there is if the original decision turns out to be less beneficial or completely poor than planned.

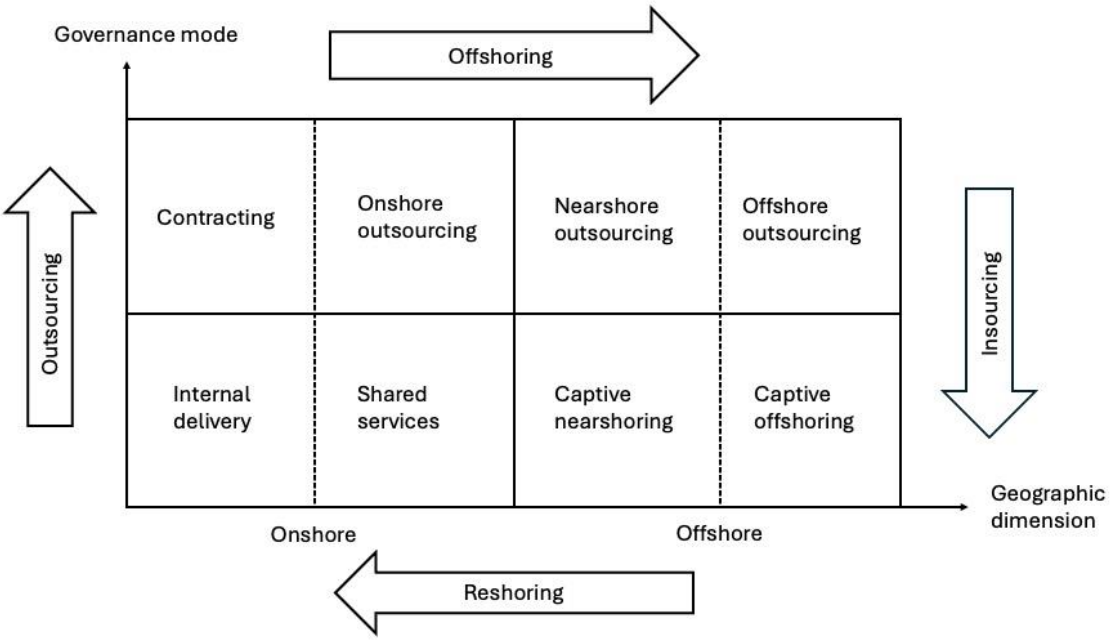

Figure 1 The rightshoring options

Source: Adapted from Tate & Bals (2017)

Closely related theoretical concepts with offshoring are Transaction Cost Analysis (TCA) and Resource Based View (RBA). Both concepts have been widely used in International

Business and Management (IBM) to analyze and explain international operations of firms and offshoring. Hence, it is relevant for this study to explain the concepts to understand offshoring more thoroughly.

TCA is a framework that explains and evaluates whether firms should perform activities internally or externally i.e., outsource them (Teece, 1986). It focuses mainly on minimizing transaction and production costs (Williamson, 1975). There are two main costs presented by TCA; one cost is associated with buying inputs (market transaction cost) while the other cost is associated with making inputs (control cost) (Williamson, 1985). TCA explains that transactions contain transaction costs. When buying an input, there are cost related to searching, bargaining, and monitoring. However, there are also costs in making inputs such as employee costs and coordination costs. TCA tries to find the most optimal balance between the two for a firm's governance structure to be as efficient as possible (Williamson, 1985).

Generally, TCA favors external options i.e., low control options such as outsourcing as the assumption is that in competitive markets there are many potential suppliers for firms to buy inputs (Anderson & Gatignon, 1986; Hennart, 1989). However, in some situations internal organizational costs might be lower that market transaction costs and then firms should focus on producing the inputs in-house (Hennart, 1989). There are different variables that might lead to this type of a situation.

These variables are bounded rationality, opportunism, asset specificity, uncertainty, both domestically and internationally, information impactedness, small numbers bargaining, and transaction frequency (Jones & Hill, 1988). Explained by Pore (2018) bounded reality means that firms cannot explore all the possibilities, and they might satisfy with an option that is enough for certain situation whether it is not the most optimal one available. Information impactedness refers to situations, where parties involved with transactions might face information asymmetry and one of the involved parties might

take advantage of that. In small numbers bargaining, lack of competition in suppliers might lead to firms internalize production to minimize transaction costs.

Limitations of TCA presented by Pore (2018) say that, on its own, TCA is not a sufficient theory for organizations as it is only effective to answer whether internal or external mode is the best in certain situation. However, there are also situations, as firms involve numerous transactions and contracts, where both modes can be used or something in the middle (shared control modes) for optimal results. Moreover, firms' decision of used modes should go beyond costs and take into consideration strategic notions.

Resource based view sees firm's resources as the enabler of competitive advantage according to Barney (1991). Firm's resources include all assets, capabilities, processes, attributes, information and knowledge. Resources enable firms to implement their strategies efficiently. To achieve competitive advantage, resources must be valuable, rare, inimitable and non-substitutable.

Suggested by Barney (1991), valuable resources help firms to benefit from opportunities and manage threats in the external environment. Rare resources are only possessed by a single firm or few firms in the same industry and inimitable resources are difficult or very costly to imitate. Finally, non-substitutable resources are resources that competitors do not have strategically similar ones of their own.

Contrary to TCA, RBV favors high control modes meaning full control over foreign operations to protect firm's competitive advantage (Gatignon & Anderson, 1988). Pore (2018) explains that RBV considers both existing advantages as well as the creation of new ones when deciding on potential entry modes which arguably creates a better framework of entry modes compared to TCA. Firm's resources and potential opportunities create the terms which affect the choice of entry mode. Moreover, political, legal and business environment of the host country with other factors such as

infrastructure, availability of potential partners and materials as well as skilled labor can affect the decision of entry mode.

However, RBV is still not seen as sufficient framework on its own by some authors as it does not look at the social context that affect decisions nor the properties of resources and resource markets when considering the heterogeneity of firms (Ginsberg, 1994; Olivier, 1997). Thus, RBV can be seen as complementary theory to TCA and not a standalone theory (Acedo et al., 2006; Kogut & Zander, 1993).

2.2 Offshoring and firm performance

By engaging in offshoring activities, whether it be through captive offshoring or offshore outsourcing, firms are trying to find the several potential benefits that can improve their overall performance. However, while the relationship of offshoring and firm performance is widely studied, there is no clear consensus regarding the relationship as most studies find a positive relationship, others find both, a positive and a negative relationship, and some suggest that the relationship is U-shaped while some find no relationship at all between the two variables (Haleem et al., 2018). However, the hypothesis in this paper is: Offshoring will improve efficiency when the host country offers cost, scale, or process advantages.

Figure 2 shows how Haleem et al. (2018) portray their hypothesis of the relationship between offshoring and firm performance. The authors argue that prior offshoring experience should aid firms with finding the optimal location to realize their drivers for offshoring as experience should help with more accurate estimation of costs and benefits. Moreover, prior experience should also help with managing offshoring projects and post offshoring problems. Furthermore, the realized drivers of offshoring as well as firm's risk management should also have a positive effect on firm performance.

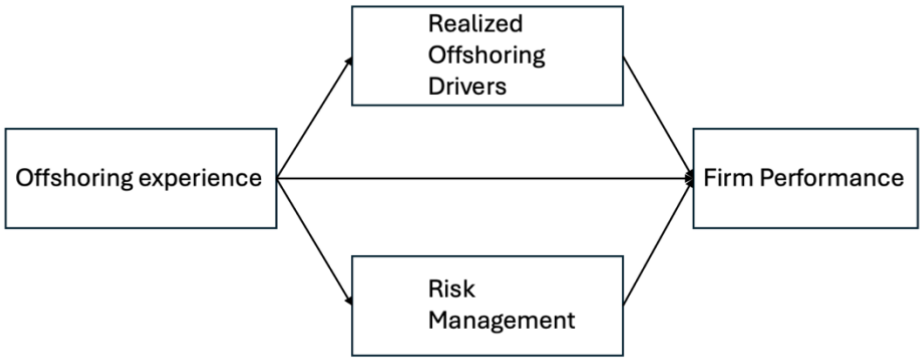

Figure 2 The relationship between offshoring and firm performance

Source: Haleem et al. (2018)

In the light of recent global events and consequent thinking that protectionist behavior and investing in domestic supply chains to improve countries' and firms' financial status, Basu et al. (2024) conduct an analysis that confirms that foreign sourcing of inputs has a positive effect on output and total factor productivity growth. In addition, reduced import tariffs on inputs have a similar effect whereas reduced import tariffs on final goods do not see the same effects. These findings implicate that higher tariffs and other trade barriers to protect domestic markets might have negative effects on countries economic growth contrary to recent beliefs.

Regardless of prior research not being able to find an unequivocal relationship between offshoring and firm performance, Haleem et al. (2018) advise managers and firms to reflect on past offshoring experiences to learn and translate those experiences into better mechanisms for future offshoring projects. This can be done with proper documentation, manuals and blueprints to ensure the transfer of knowledge and improve performance.

2.2.1 Challenges in offshoring

Despite the growing amount of offshoring experience, literature has come up with difficulties and inconsistencies related to successful offshoring (Haleem et al., 2018; Manning, 2014; Stentoft et al., 2018). Different reasons for firms to start relocating their business processes after disappointing offshoring attempts include but is not limited to increased costs regarding e.g. labor, logistics or coordination, issues regarding quality, time, data security and flexibility as well as employee turnover and talent acquisition (Manning, 2014; Stentoft et al., 2018).

Moreover, Haleem and others (2018) point out that the risks and uncertainties that come with offshoring may lead to invisible or hidden costs, if not properly addressed and managed. On a general level, geographical distance, cultural differences, or geo-political issues might pose potential risks. Furthermore, knowledge transfer, coordination, and control can also be potential risk factors. These factors are interrelated, and they might be challenging to manage due to time-zone, language, culture, and legal regulation issues and differences. This leads to the hypothesis: Offshoring complicates operational processes that may reduce flexibility and responsiveness.

In addition, interdependence between home and offshored task may pose even more costs relative to savings depending on the level of interdependence. Unexpected extra costs of offshoring projects might offset or exceed the planned cost savings which can ultimately lead to failure of the offshoring project as the potential benefits become unachievable.

In addition, Manning and others (2018) point out that most studies have focused on how firms can reduce these risks before engaging in offshoring activities by e.g. choosing less risky locations or having full control over other governance structures. However, it has been established that several of the challenges arise only after offshoring decision has been made and that they are unanticipated. This phenomenon of not addressing risks

and consequent extra costs properly is arguably the reason why over half of offshoring projects fail (Haleem et al., 2018). Moreover, Elia and others (2024) notice that most firms have a reactive 'online' search processes to find fixes to poor performance outcomes and suggests the use of 'offline' search process which refers to seeking for different solutions and evaluating them before the actual implementation.

As mentioned above, firms can have different responses to challenges relating to offshoring. Manning (2014) finds that firms usually have three different ways to respond to rising challenges: mitigating, tolerating, or relocating depending on the situation. If a firm seemingly has control over the cause of the challenge i.e. if the challenge is internal, mitigating and tolerating are the usual responses. However, if the challenge is external and caused by factors that are out of firm's control, tolerating or relocating are more likely responses. Furthermore, if cost advantages are the dominant driver of offshoring or if resources are limited, firms tend to tolerate the challenges or relocate, whereas if the drivers for offshoring are more complex strategic objectives and resources are abundant, firms are most likely to mitigate. Furthermore, Elia on others (2024) add to the discussion that the perceived strategic importance of offshoring location by decision makers has an effect on the decision-making process.

Overall, mitigating the risks and ensuring proper control, coordination, and knowledge transfer seems to be challenging. Thus, it can be argued that risk management should have a positive performance effect (Haleem et al., 2018). Moreover, firms gain experience from continuous offshoring and "learn-by-doing" thus developing capabilities (Haleem et al., 2018; Manning, 2014). This experience should help firms to select locations, develop relational capabilities, improve coordination and collaboration, protect themselves from the opportunistic behavior by vendors, and improve performance through better training and process integration (Haleem et al., 2018; Manning, 2014). However, Manning (2014) finds that firms that are only focused on cost benefits or have limited resources do not necessarily benefit from offshoring experience and rather are forced or choose to tolerate offshoring challenges although there is a risk

that by tolerating certain challenges, hidden costs might eventually increase. Whereas more strategic approach to challenge management might be more costly initially, but it might lead to cost savings in the long run. This leads to the hypothesis: Offshoring leads to financial performance due to the cost savings.

In the light of these findings, I argue that it might be misleading to assume that firms similar to each other e.g. in size will react to arising challenges in the same ways. Furthermore, geographical and cultural differences might have a different effect on firms when looking at where the host firm is located. In addition, it seems to be clear that decision makers might have cognitive bias to certain locations, and they might perceive locations in different ways hence affecting and complicating how firms react to challenges and choose to act i.e. whether to tolerate challenges or relocate. These nuances are certainly an important factor when making any conclusions regarding offshoring decisions. Furthermore, as offshoring holds multiple interrelated aspects within the decision-making process, it should be taken into consideration when conducting research as the current literature tends to focus more on singular aspects such as costs and their effects on firm performance (Elia et al., 2024). In addition, there is little research that compares the offshoring experience with risk management and realized offshoring driver to firm performance (Haleem et al., 2018). Hence, it is important to conduct research that looks at multiple aspects together with the outcomes of offshoring decisions.

2.2.2 Nearshoring, reshoring and rightshoring

Unaccepted challenges and the unability to react to them can ultimately lead firms to start relocating business activities to another country closer to home or even bringing them back home altogether i.e. backshoring or reshoring (Haleem et al., 2018; Manning, 2014; Stentoft et al., 2018). Furthermore, greater negative performance outcomes are most likely to lead to a process of finding another offshoring location or relocation back

to the home country (Elia et al., 2024). Some reasons for firms to relocate or bring back home production are decreased production costs, impaired wage difference, better quality-management, flexibility and responsiveness as well as improved coordination and control (Stentoft et al., 2018). However, contradicting views to reshoring and especially backshoring include limited onshore supply availability and increase in material and component shipping times even if backshoring reduces product shipping times (Chen & Hu, 2017).

Multiple studies have been made that find at least some performance improvements when relocating production back to home country (Denning, 2011; Gylling et al., 2015; Srai & Ané, 2016; Stentoft et al., 2018). Moreover, some firms have also found that benefits regarding cost performance in offshoring is offset with decreases in operational performance that has led firms to backshore decision (Canham & T. Hamilton, 2013; Stentoft et al., 2018).

Even though reshoring and backshoring has seen a growing trend Stentoft et al. (2018) did not find any support that backshoring would have significant difference in product quality or flexibility. However, they reported a better unit-cost results from offshoring compared to backshoring or staying at home manufacturing which supports prior findings of cost advantages being the main driver of offshoring.

2.2.2.1 Contingency factors

To understand offshoring and reshoring decision process better, it is necessary to include the context of contingency factors and contingency theory. According to Donaldson (2001), contingency theory is a theoretical way to view organizations and that there is not a specific way to manage an organization that would be better than others. Rather, the environment and contextual factors determine how organizations must adapt and operate to achieve great performance.

Moreover, a contingency is a variable that moderates how an organizational trait affects organizational performance. It is important to understand said concepts because it allows one to understand that decisions that lead to good results with one organization might not bring the same results within a different organization. Furthermore, decision made in a certain time might not yield the same results if they were done at a different time.

Henkel et al. (2022) list some contingency factor levels that have been identified in previous studies. The factors are country-level factors, firm-level factors, and group- and individual-level factors. Country-level factors can be related to labor markets, regulations, and cultural distance. Firm-level factors can be size and countries of operation. Finally, group- and individual-level factors can be managers' perceptions, and task characteristics. Furthermore, the authors argue that offshoring decision can be seen as a contingency factor to reshoring as it precedes the reshoring decision. This way the dynamic elements that were in place at the time of the original offshoring decision can also be taken into consideration that would not be noted if one would only consider the contingency factors during the time of reshoring. Moreover, reshoring often occurs due to problems arising after the original offshoring decision and consequent changes, thus indicating that there clearly is a relationship between reshoring and offshoring.

There are numerous reasons for offshoring and reshoring decisions, but in general, offshoring drivers are mostly related to cost such as labor cost, more competitive labor, and imitation of competitors while reshoring drivers are usually related to quality, long lead times and other cost (Henkel et al., 2022). Selecting the right locations and doing the right decisions that lead to realized offshoring drivers positively affect firm performance (Haleem et al., 2018). However, alongside the "shoring" drivers, contingency factors play a role in explaining the underlying motivations for offshoring and reshoring (Henkel et al., 2022). In figure 2 contingency factors are displayed in visual

manner to showcase how they affect offshoring and reshoring decisions together with the offshoring and reshoring drivers.

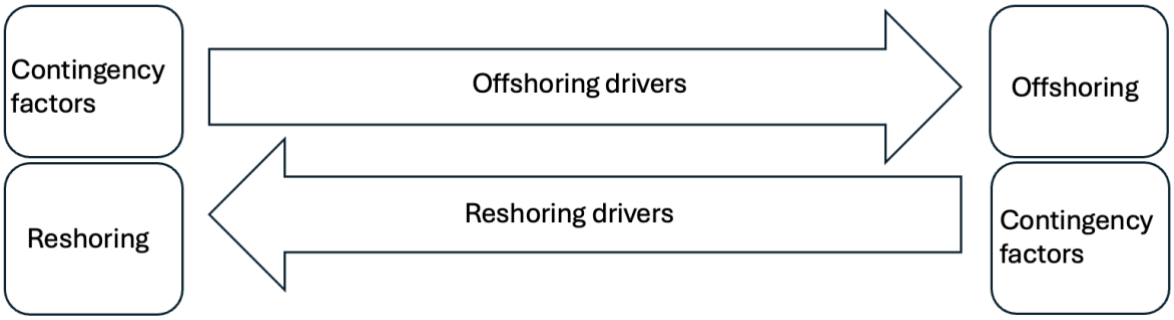

Figure 3 Contingency factors in offshoring and reshoring decisions

Source: adapted from Henkel et al. (2022)

In practice, Henkel et al. (2022) find many different scenarios of how contingency factors affect offshoring and reshoring decisions. These contingency factors include firm size, industry type, main market, home region, host region, and governance mode.

To start with, Henkel et al. (2022) find that bigger firms seem to offshore less because of labor competitiveness than small and medium-sized firms that tend to follow competitors. This evidence is also supported by Canello (2022) who finds that micro and medium size firms located in the same home region are likely to choose the same offshoring strategies if their competitors and peers are engaging in offshoring. Moreover, larger firms tend to reshore due to longer lead times whereas small and medium-size firms are more prone to relocate due to reasons related to suppliers (Henkel et al., 2022).

In regards of the industry type, Henkel et al. (2022) show results that firms in low-technology industries seem to follow other competitors and offshore for that reason thus following price competitiveness. However, offshoring by following others seems to lead to poorly planned offshoring decisions thus leading to more reshoring due to various complications that were not planned for in the offshoring phase. Medium- and high-technology firms seem to reshore due to technological and product quality reasons.

Moreover, Henkel et al. (2022) find that firms with a global market seem to be forced to offshore because of cost reasons more than firms with a domestic market. This might be due to higher competition in a global market. Furthermore, firms with a global market seem to reshore more due to strategic changes. Domestic firms tend to offshore more for resources and labor competitiveness and reshore for flexibility and supply chain issues but not for strategic change.

Even though firms are different, and the specific contexts matter in offshoring and decision making, it is critical to address the existing evidence to potentially gain useful insight on how firms have acted before in similar situation and what has been the outcome of certain decisions. This way firms and managers can have valuable insight that might change their decisions and hopefully aid the decision-making progress. For example, the results from the case survey of Henkel et al. (2022) can potentially give helpful insight to firms and managers in a low-technology market that are pressured to offshore due to competitors offshoring decisions on how they can prepare for the potential issues that might rise after the offshoring decision and prepare for them.

2.3 Offshoring in Finnish context

In this section, I will analyze the literature on offshoring in Finnish context and point out any supporting or contradicting results that have been analyzed in prior sections to see if there is a clear distinction of how offshoring is or is not beneficial and applicable in the context of Finland.

As offshoring has aspects related to geographical location and culture, it is obvious that all evidence can not be generalized and assumed that results from one country would have the same effects in other countries. Especially when plenty of research has focused on bigger countries with different polticial, cultural and economic

environments such as the US, Germany, or France. Hence, it is critical to analyze what the literature says about Finnish context. However, as there is not abundant amount of studies from or of Finland, I argue that it is wise to critically analyze evidence from similar neighboring countries such as Sweden, Norway or even Denmark that have similaritys such as relatively small domestic markets and traditionally find exporting as an important for their economies (Heikkilä et al., 2018) as well as somewhat close geographical location with Finland.

Furthermore, ETLA Economic Research (Ali-Yrkkö et al., 2023; Ali-Yrkkö & Kuosmanen, 2023) reports show similarities between Finland and Sweden in service exporting and importing. Both countries' primary exporting service is IT service and software, though in Finland it is significantly more important exporting service in total service exports. Moreover, countries such as the USA, Great Britain, and China are important for Finland and Sweden in service exporting. However, there are still some significant differences between the two countries and their exporting. For instance, financially strong swedish exporting manufacturing firms have been better at coping with negative shocks in the market compared to similar finnish companies and Sweden has been able to return it's exporting to a growing trend after the financial crisis but Finland has not been able to do that (Maczulskij & Hakkala Nilsson, 2023). One explanation for this is faster growing labour cost in Finland compared to Sweden (Maczulskij & Hakkala Nilsson, 2023). Thus, it is still important not to overly generalize findings even between these closely related countries.

Even with limited studies made on offshoring regarding finnish firms, existing studies (Gylling et al., 2015; Heikkilä et al., 2018; Rönkkö et al., 2021) still show similarities with other research on why companies decide to offshore their business activites, i.e. primarilary for cost benefits. Furthermore, similar findings have been made in research regarding swedish firms as Johansson & Olhager (2018) find labor cost being the single most important factor in their research when firms decide to offshore. They describe Sweden having high labour cost, thus firms have a potential for reduced manufacturing

cost per item when offshoring to low labor regions. This finding is also applicable to Finland as Rönkkö et al. (2021) report that cost savings is a common reason, for the firms in their research, to engage in global operations. In addition, ETLA (Ali-Yrkkö et al., 2023) reports labor cost being the second most important reason for offshoring in finnish service firms after decision made by organization leaders. Moreover, Heikkilä et al. (2018) found offshoring decision being primarily based on labor costs as well as logistic and other costs in finnish manufacturing companies. In another study, Heikkilä et al. (2018) found labour cost to be the biggest reason for offshoring within their research companies from Finland, Sweden, and Denmark. Finally, in their single firm case study, Gylling et al. (2015) found the reason for offshoring for finnish SME was potential cost advantage from manufacturing in a low cost country compared to manufacturing in Finland. This approach was also used by the firm's biggest competitor, thus making the move was seen as obvious for long-term survival of the company. It is clear that cost advantages are the main driver for offshoring decisions in finnish companies. This is clearly in line with findings from other countries.

However, cost benefits is not the sole reason for firms to offshore from Nordic countries. Rönkkö et al. (2021) report firms having multiple other reasons as well. Some of these reasons are too small domestic market for speicialised industries and products, international customers and proximity to the customer, growth opportunities, low domestic supplier capacity, and the time and risk related in importing components to home i.e. Finland. Even if these firms could operate and manufacture locally, the costs would be significantly larger thus leading to higher prices of end products. Entering new markets, shorter delivery times, access to knowledge, and other costs than labour were also reported as reasons to offshore for finnish service firms in ETLA's report (Ali-Yrkkö & Kuosmanen, 2023).

In addition, findings from the Nordic countries regarding risks and challenges of offshoring have also found same aligning results than in prior literature from other countries. Rönkkö et al. (2021) reported issues related to quality assurance, delivery

times, and demand prediction. In addition, consequences from globally disruptive events such as the COVID-19 pandemic, Brexit, and global trade wars pose challenges to firms. Thus, the hypothesis is: External shocks might offset firms' original offshoring strategies and lead to negative performance. In other cases quality issues have been a problem as well especially with contract manufacturing i.e. offshore outsourcing (Gylling et al., 2015). Moreover, overall rising costs, inculiding production and logistics, and flexibility issues are also some reported challenges that firms are facing in Finland and other Nordic countries as well (Gylling et al., 2015; Heikkilä et al., 2018).

All in all, decisions to offshore are usually related to potential cost benefits whereas decision to reshore are more complex and related to numerous aspects including operative factors such as flexibility and quality as well as knowledge and capabilities. Therefore, the hypothesis is: Finnish firms are most likely to offshore because of potential cost reductions that outweigh coordination and relocation costs.

2.4 Theoretical framework

Figure 4. illustrates the theoretical framework on how offshoring process starts, what affects it has, what are the actions needed after completing the offshoring move and how the offshoring process can be an endless cycle that changes depending on the current environment. Thus, showing that offshoring does not stop after the move has been made, rather, the activities related to it must be managed and reviewed constantly. Firstly, the initial drivers for offshoring must be identified according to the firm's environment and strategic goals. Furthermore, a suitable location needs to be identified. Before the initial decision, offline search processes should be used to find a beneficial location. After the offshoring decision is made, online search processes must be implemented in the case that the original location turns out to be inconvenient. Moreover, offline search processes can be implemented in this phase as well to identify potential location for future offshoring operations. Once the decision has been made

with given location effects on performance and operations are to be evaluated and offshoring activities managed properly. Finally, if the outcome is not a desired one, new search starts, and the cycle of offshoring starts again. However, if the outcomes and are sufficient, firms can decide to stay and continue managing the offshoring activities and processes.

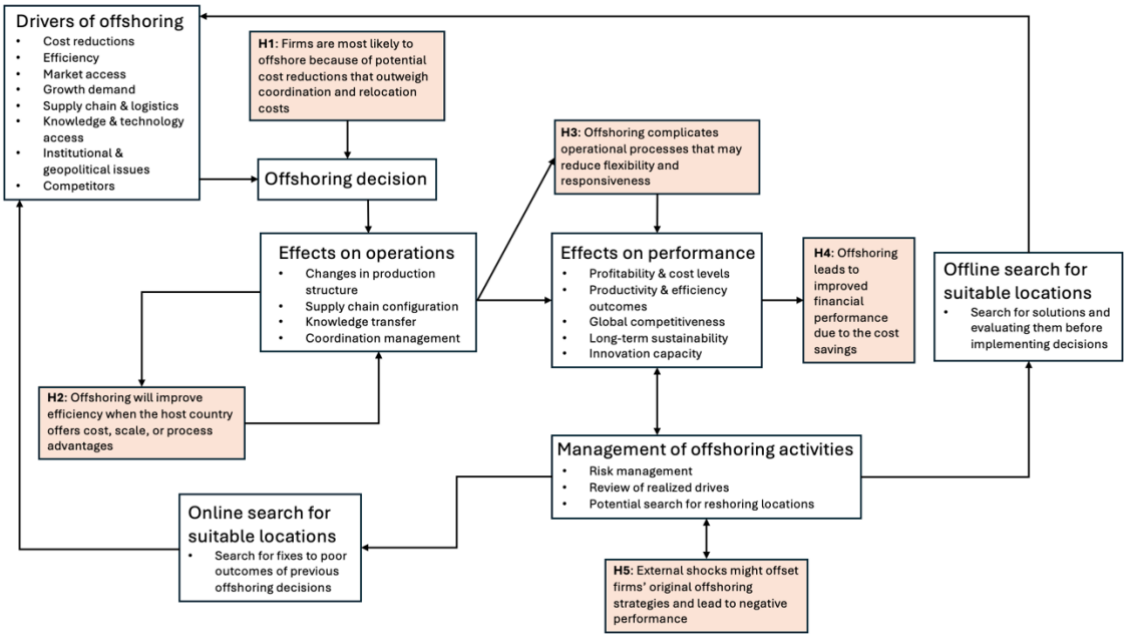

Figure 4 Theoretical framework

The hypotheses for this framework are listed below altogether:

H1. Finnish firms are most likely to offshore because of potential cost reductions that outweigh coordination and relocation costs.

H2. Offshoring will improve efficiency when the host country offers cost, scale, or process advantages.

H3. Offshoring complicates operational processes that may reduce flexibility and responsiveness.

H4. Offshoring leads to improved financial performance due to the cost savings.

H5. External shocks might offset firms' original offshoring strategies and lead to negative performance.

3 Methodology

In this chapter, research approach is discussed in subchapter 3.1. In subchapter 3.2, the case companies are presented. The goal is to present the used research methodology as well as the case companies individually to give the reader a clear understanding of the connection between the research methodology and the case companies to validate the research question of this study. Furthermore, in subchapters 3.3 and 3.4 data collection as well as data analysis are described. Finally, in subchapter 3.5, the quality of the presented data is assessed.

3.1 Research approach

This thesis uses a multiple case study approach with quantitative analysis of financial and operational indicators to examine the effects of offshoring initiatives in Finnish MNEs. The chosen approach is a suitable one for answering the research question of this thesis as offshoring is a highly complex phenomena that has firm and context specific issues. The multiple case study approach allows for a more specific analysis and observations of different nuances and outcomes as well as forms of offshoring rather than considering offshoring as a homogeneous strategic choice.

Furthermore, case study is a research strategy used to analyse a complex phenomenon in depth in its real-life context (Yin, 2009). Furthermore, a case study can be descriptive and explanatory to describe and explain phenomena (Priya, 2021). Thus, making a case study a good research strategy for this thesis to understand the complexity of offshoring. Moreover, a case study allows for different methods of data collection that generally provide an unbiased and detailed study of the phenomena (Priya, 2021).

Moreover, following the guidelines of research by Saunders et al. (2007), this thesis follows a deductive research approach as there are hypotheses derived from existing theory to find an answer on offshoring effects on the economic and operational efficiency of Finnish firms i.e., to evaluate a relationship between different variables. Furthermore, deductive research also includes the expression of the hypotheses in operational terms which means expressing how the variables are measured, which proposes a relationship between them. Also, testing and analysing the outcomes either to confirm or deny the hypotheses are a part of deductive research. Finally, deductive approach can include both quantitative and qualitative data collection methods as this thesis does.

3.2 Case companies

The companies of this multiple-case study are large public multinational Finnish manufacturing companies that are operating globally. The companies have been chosen because they are public companies and thus, they are legally obligated by the Finnish law to publish financial and operational data that other, smaller companies do not necessarily have to publish. These things include central financial data such as income statements and financial balance sheets as well as information regarding the governance of the firm. The transparency and obligations of these firms' aide the collection and reliability of data that is used in the analysis.

Furthermore, the size and history of the case companies give a staple foundation for analysis of offshoring actions and the decisions behind offshoring investments. In addition, the case companies have engaged in offshoring with different strategic goals and plans. This gives more knowledge and data on different ways to offshore and how those ways can affect a company as well as why different companies might engage in offshoring activities. Furthermore, difference in the case companies also gives some examples on how companies might act when they face problems when offshoring. This

too can give a more thorough understanding on offshoring, the reasons as well as the outcomes.

3.2.1 Wärtsilä

Wärtsilä (2025) is a global leader in Energy and Marine business with its innovative technologies and services that are improving decarbonization of the industries. In 2023, Wärtsilä had a 46 % market share in medium speed main engines and 17 % in auxiliary engines in the marine engines market (Wärtsilä, 2023). Furthermore, in 2025 Wärtsilä had the market leader position of Marine Propulsion Engine markets in medium-speed engines with a market share of approximately 10.5 % (Gupta & Chaudhary, 2026) . Other market leaders are AB Volvo Penta, Caterpillar, Cummins, and Rolls-Royce (Gupta & Chaudhary, 2026). Together they held a market share of 40 % in 2025 (Gupta & Chaudhary, 2026). However, when the spectrum is broadened to low-speed engines used by larger ships, MAN Energy Solutions takes the market leader position (Kaitwade, 2025). Wärtsilä (2026) itself lists MAN Energy Solutions and Rolls-Royce as some of its competitors from many different firms in their markets. Wärtsilä has employees across 77 countries in 2025 with its headquarters are based in Helsinki, Finland (Wärtsilä, 2025a). It is listed in Nasdaq Helsinki Ltd (Wärtsilä, 2025a).

Wärtsilä is a suitable company for this multiple-case analysis as it is a Finnish multinational company that has engaged in multiple offshoring and reshoring activities globally in the 21st century. Thus, Wärtsilä makes a good candidate to analyse the drivers and outcomes of offshoring and reshoring activites. This chapter will analyze Wärtsilä's offshoring and reshoring activities in Europe and Asia as well as global events that might have affected said activities and their outcomes.

Most recent reshoring move from Wärtsilä was in 2022 when Wärtsilä announced that it will terminate its 4-stroke engine production in Trieste, Italy to move it to Vaasa,

Finland (Wärtsilä, 2022a). The decision to centralise production to Vaasa and move the 4-stroke engine's production there was primarily to support future growth, competitiveness and operational efficiency (Wärtsilä, 2022a). The company was expecting to cut annual operating costs by about €35 million with transformation expenses of €130 million by 2025 (Wärtsilä, 2022a). The cash-flow impact was expected to be around €75 million (Wärtsilä, 2022a). The site in Trieste was to remain as a high-value site focusing on R&D, sales, project management, sourcing as well as service and training to develop the company's sustainable solutions in the marine and energy industries (Wärtsilä, 2022a, 2024).

The strategic reshoring moves can be seen both as reactive and proactive strategies (Pedroletti & Ciabuschi, 2023). On the one hand, reshoring can be done to address any shortcomings or unwanted results in offshoring operations and on the other hand, reshoring can be done to prevent possible problems in the future (Gereffi, 2020). In the case of Wärtsilä, the move can be considered as both reactive and proactive decisions. On one hand to manage the effects of global events such as weakened demand and supply-chain disruptions and on the other hand to prepare for the future as well, even though there might have not been any major vulnerabilities in Wärtsilä's global supply chain at that time.

Table 1 Wärtsilä's reshoring initiative

Variable	**Description**
Year of decision	2022
Destination country	Finland
Activities transferred	4-stroke engine production
Stated motives	Centralized production, support future growth, competitiveness, and operational efficiency

Furthermore, in 2022, Wärtsilä (2022b) announced its complete exit from the Russian market due to Russia's invasion of Ukraine. The decision was obvious and like many other companies, Wärtsilä condemned the actions of Russia. Moreover, Wärtsilä complied with any sanctions for operating in Russia since the war started.

Wärtsilä's exit was due to a geopolitical shock that forced the company to restructure its processes. Geopolitical uncertainties always pose a potential risk with offshoring and might be difficult to deal with (Haleem et al., 2018). However, this specific shock of Russia's invasion of Ukraine could have been foreseen and preparing for it might have been a smart decision. Thus, operating in Russia can be seen as a calculated risk. Nevertheless, once the war escalated, the situation was out of Wärtsilä's control and relocation seemed to be the best option rather than mitigating the problem and continue in Russia with more potential sanctions. As Manning (2014) suggests, relocation is usually what companies do in this kind of a situation where the issue is external and beyond the company's influence. Furthermore, according to transaction cost economics, firms should thrive to minimize costs and risks, and geopolitical shocks can increase these aspects (Williamson, 1975).

In 2021, the net sale amount of Russian related operations was approximately €40 million which was about 5% of Wärtsilä's net sales (Wärtsilä, 2022c). The financial impact of this move was estimated to be €200 million in write-down and provisions (Wärtsilä, 2022c).

Variable	**Description**
Year of decision	2022
Destination country	Finland
Activities transferred	All business operations in Russia
Stated motives	Russia invading Ukraine

In the table 2 below, some key quantitative indicators are listed from time perioid before and after stated offshoring decisions. The numbers have been extracted from Wärtsilä's annual report for the year 2024 (Wärtsilä, 2025b). Some key indicators are presented in a visual, illustrative charts to give a more realistic and comprehensive picture of the outcomes of the reshoring activities.

Table 2 Wärtsilä's financial numbers (Wärtsilä, 2025b)

MEUR	**2024**	**2023**	**2022**	**2021**	**2020**
Operating result	716	402	-26	314	234
Operating margin (%)	11,1	6,7	-0,4	6,6	5,1
Net sales	6,449	6,015	5,842	4,778	4,604
Return on investment (%)	23,7	13,9	0,1	9,7	7,1
Order intake	8,072	7,070	6,074	5,735	4,359
Number of employees	18,110	17,666	17,482	17,461	18,307
of which in Finland	4,187	3,957	3,808	3,687	3,706

The numbers from Wärtsilä's annual report reveal a clear pattern related to the reshoring and restructuring activities of 2022. One of most notable observations is the steep decline in operating result from 2020 to 2022 and the subsequent strong recovery in 2023 and 2024. Operating result fell from EUR 314 million in 2021, down to EUR -26 million in 2022. However, the operating result quickly grew to EUR 402 million in 2023

and up to EUR 716 million in 2024 which was over twice as much than it was in 2021 before the decline.

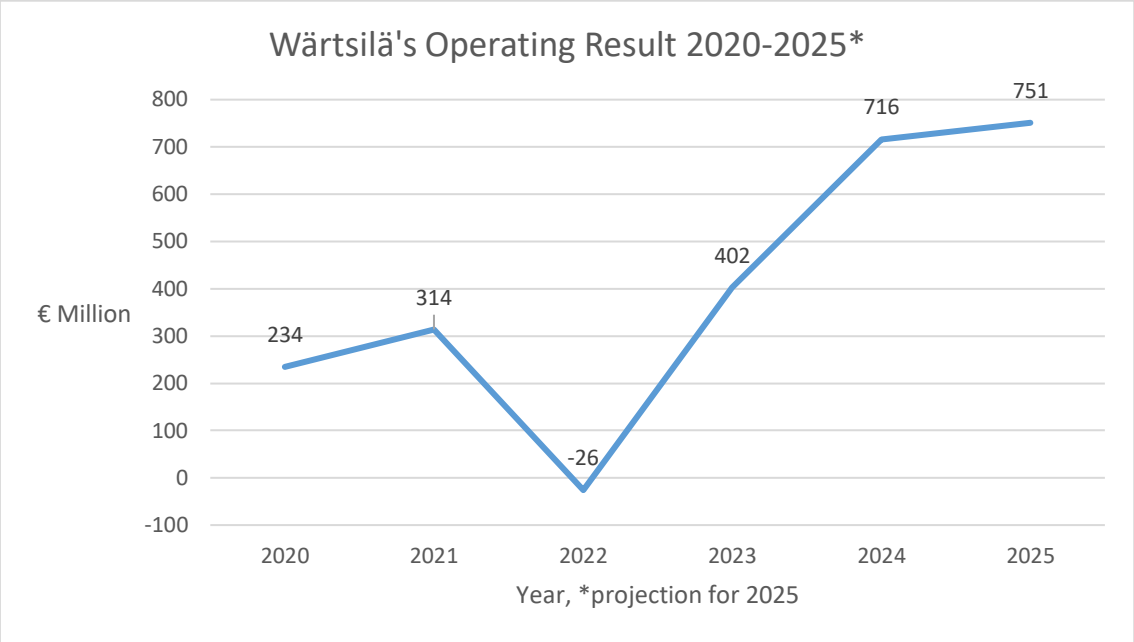

Figure 5 Wärtsilä's Operating result

Moreover, operating margin fell from 6.6% to -0.4% during the same period. However, both metrics recovered significantly in the following years with operating result climbing up to EUR 402 million in 2023 and EUR 716 million in 2024. During these years, operating marging also recovered to 6.7% in 2023 and grew to 11.1% in 2024.

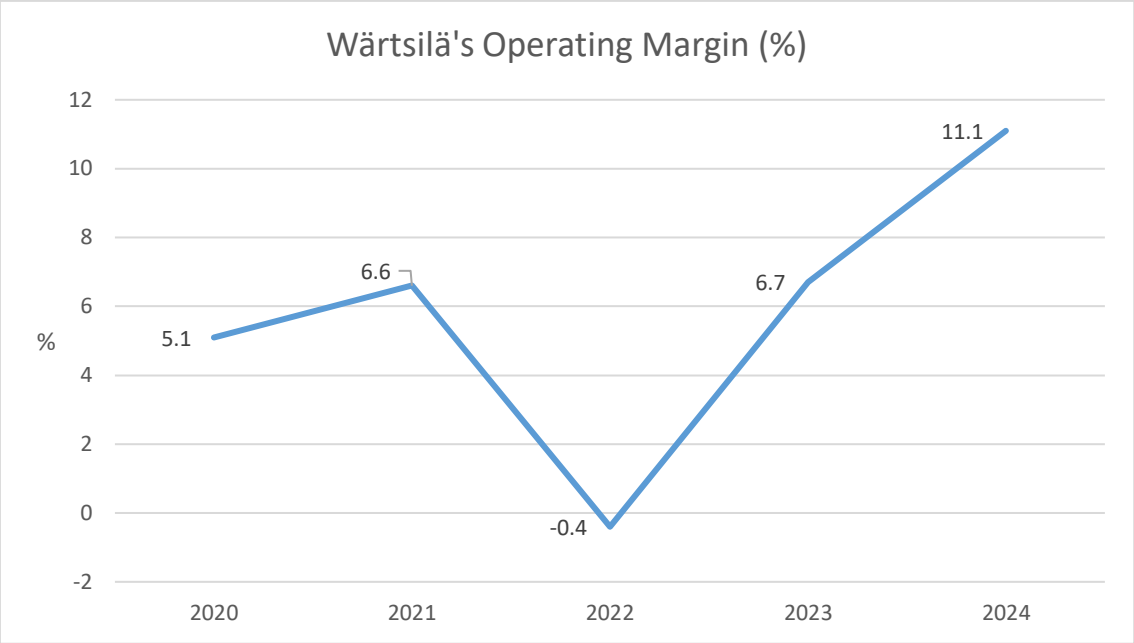

Figure 6 Wärtsilä's Operating margin

Furthermore, it is important to notice that the decline is not related to lowering demand as bot net sales and order intake increased every year from 2020 to 2024. This indicates that the decline of 2022 is related to transitional costs of the reshoring activities i.e. ramping down the manufacturing in Triste, Italy and exit from Russia, rather than poor market performance.

The number of Wärtsilä's employees globally remained consistently stable over the period from 2020 to 2024. However, in Finland the number grew from 3,808 people in 2022 to 4,187 people in 2024. This too indicates that the decision of restructuring in 2022 was more of a strategic move and a downsizing one. Moreover, it suggests that moving the manufacturing of the four-stroke engine from Italy to Vaasa, Finland, increased Finland's share in Wärtsilä's global operations. These numbers support the idea of Wärtsilä's partial reshoring where less efficient foreign sites are redefined to strengthen operations domestically.

The rapid recovery and growth after 2022 during 2023 and 2024 indicate that the benefits of the restructuring materialized successfully. Return on investment (ROI) fell to

0.1% in 2022 but grew noticeably to 13.9% in 2023 and as high as 23.7% in 2024. This growth implies that the new centralized production hub in Vaasa, Finland offers more efficient operations and productivity. Furthermore, simultaneously growing net sales and order intake support this conclusion. During the reshoring process, Wärtsilä was able to maintain competitiveness. In addition, it appears that it was also able to improve its profitable performance by enhancing the ability to respond to demand. Similar strategic decisions are supported in offshoring literature stating that consolidation of business processes and proximity between key resources may enhance efficiency and improve asset utilization (Pore, 2018).

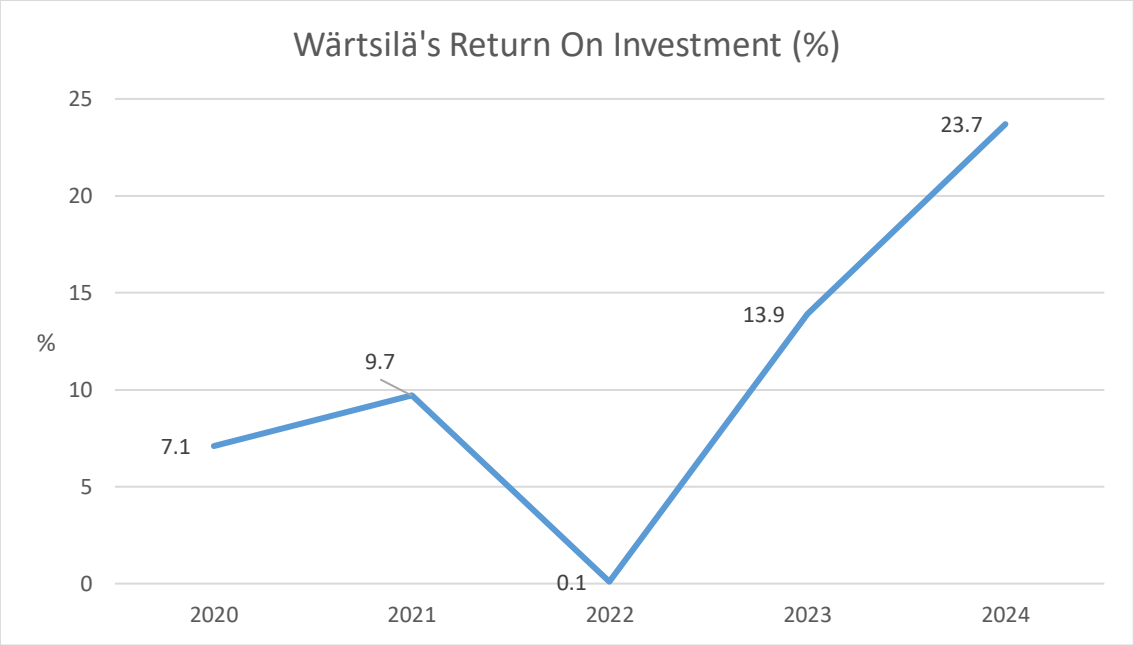

Figure 7 Wärtsilä's Return on investment

From a theoretical viewpoint, Wärtsilä's decision to reshore production demonstrates how offshoring and reshoring are a part of strategic decisions and there is an interaction between the variables as the theoretical framework of the thesis demonstrates. Furthermore, in the case of Wärtsilä, the decisions made in 2022 reflected the past offshoring choises. The global environment had changed to more geopolitically unstable and transaction cost had increased. Thus, manufacturing in Triste, Italy and operations in Russia were no longer efficient.

Moreover, the decision to consolidate production in Finland is in line with Transaction Cost Economics as it states that firms should strive to have governance structures that allow for minimal risk and maximal efficiency (Pore, 2018). In addition to capturing scale economies and cutting costs, it is likely that moving production to Vaasa, Finland, allowed Wärtsilä to leverage its technological and operational capabilities which is supported by the Resource-Based View (Pore, 2018). Finally, sudden external shocks can force firms to rapidly move business processes across borders and restructure their systems.

Overall, these quantitative results suggest that Wärtsilä's reshoring decision in 2022 resulted in greater short-term costs and decline in business but significant long-term improvements in economic performance and operations. However, it should be noted that marine and energy industries were negatively affected by COVID-19 pandemic, and the industries saw a recovery following the pandemic (UN trade & development, 2021; World Economic Forum, 2022). Thus, the reshoring and restructuring of production made by Wärtsilä can be seen as a response to that downturn as well. Furthermore, the decline and consequent recovery can be also explained partly by that industry cycle and not only as an internal decision to improve performance.

Previously in 2010, Wärtsilä decided to move parts of its propeller production from the Netherlands to China. This decision was a part of a plan to reduce its manufacturing capacity and move a big part of the propeller manufacturing closer to its main marine markets. Furthermore, Wärtsilä decided to move some its manufacturing from Finland to China as well. The decision was made to stay competitive in the given market that had been lower in activity than in the previous years as well as for cost reasons.

The move to transfer manufacturing to China can be seen as a strategic decision, as China was seen as the center of global marine markets. With potential to grow even further. This made China a valid strategic location for the offshoring decision. Like Elia et al. (2024)

argue, the perceived strategic importance of certain location has a big role on the final offshoring decision. The challenge Wärtsilä was facing prior to the decision can also be seen as external, as global market activity was low and China was a growing center of it, thus relocation seemed to be a better option than tolerating the situation, and staying in the Netherlands, which is argued to be the other option in similar situations (Manning, 2014).

The restructuring cost were approximated to be around €140 million. Furthermore, the cost savings of the move were estimated to be €80-90 million.

3.2.2 Nokian Tyres

Nokian Tyres (2017) is one of the leading tire manufacturers operating globally. Its core business is manufacturing tires for cars, trucks, and heavy vehicles. Nokian Tyres has 4000 employees globally in 2025 and they sell their products in 47 countries (Nokian Tyres, 2025b). Its headquarters are based in the city of Nokia, Finland.

Nokian Tyres is a suitable company for this case analysis as it has had multiple offshoring initiatives in the 21st century both in Europe and in the United States. This chapter will be focusing on the company's offshoring activities and outcomes mainly in the United States. This will give the analysis a strategic offshoring situation which will provide more depth to the analysis.

In 2017, Nokian Tyres (2017) announced that they will be investing USD 360 million for a new manufacturing location in Tennessee, United States, as seen in table 6. The location was to operate as a distribution center and warehouse as well to support the firm's growth objectives in North America. The original goal was to start producing tires in 2020 and to double the sales in North America by 2022. This offshoring initiative is a part of Nokian Tyres's two-phase strategy to EUR 2 billion revenue (Nokian Tyres, 2025a).

In addition to building the new factory in the United States, the first phase of the strategy also includes increasing the capacity in Finland, establishing a new factory in Romania, and to utilize partners in manufacturing (Nokian Tyres, 2025a).

Table 3 Nokian Tyre's offshoring initiative

Variable	**Description**
Year of decision	2017
Destination country	USA
Activities offshored	New factory
Stated motives	Market access, proximity to customers, improved production capacity

Prior to the decision to invest in a manufacturing facility in the United States, Nokian Tyres was highly dependent on its Russian and Finland based factories. While being highly cost-efficient, logistic cost and tariff expenses would be relatively high when exporting from Finland and Russia to the United States.

In the table 7 below, some of the key figures from the preceding years before the captive offshoring decision was made and how it has affected Nokian Tyres thus far. The scope of analysis for Nokian Tyres is 8 years, from 2015 to 2022. This is to get a clear and thorough picture of the firm’s situation before the initial decision to offshore to the United States. Moreover, it is important to analyze the years after the offshoring decision. In this case, the analysis covers 5 years, from 2017 to 2022, to analyze the outcomes of the investment as well as how external shocks might have affected the offshoring plans. Furthermore, the analysis ends with the year 2022, that was the year when US based sales should have been doubled.

Table 4 Nokian Tyres's financial numbers (Nokian Tyres, 2022)

MEUR	2022	2021	2020	2019	2018	2017	2016	2015
Operating result	-116,2	268,2	120,0	316,5	372,4	365,4	310,5	296,0
Operating margin (%)	-6,6	15,6	9,1	19,8	23,3	23,2	22,3	21,8
Net sales	1776,1	1714,1	1313,8	1585,4	1595,6	1572,5	1391,2	1360,1
Net sales, North America	314,6	228,9	166,7	209,3	194,5	172,0	149,8	159,7
Of total sales (%)	17,7	13,3	12,7	13,2	12,2	10,9	10,8	11,7
Return on investment (%)	10,3	15,8	9,3	18,6	23,3	22,4	19,9	20,3
Number of employees	4542	4915	4603	4847	4790	4630	4433	4421

The analysis of Nokian Tyres's statistics between, years 2015 and 2022 align with the firm's strategy to offshore manufacturing into the United States with increasing share of sales of North America. The share of sales in North America increased from around 11% in 2015 to 13% by 2019. This aligns with the strategic objectives to gain market access, reduce logistic costs in growing market in the United States by offshoring and creating a localized production facility to support long-term growth. However, it should be noted that the tire market has seen a slight growing trend, in the United States steady tire market growth has been driven by increasing vehicle production and sales (Mathews, 2025). In 2019 tire shipments reached a high of 332.7 million units and it was surpassed

in 2024 when tire shipments reached 337.3 million units (Mathews, 2025). Despite the growing trend, the growth was only modest. This could imply that Nokian Tyres's increase in net sales could be in fact explained by market-share gains and not only from overall growth of the market.

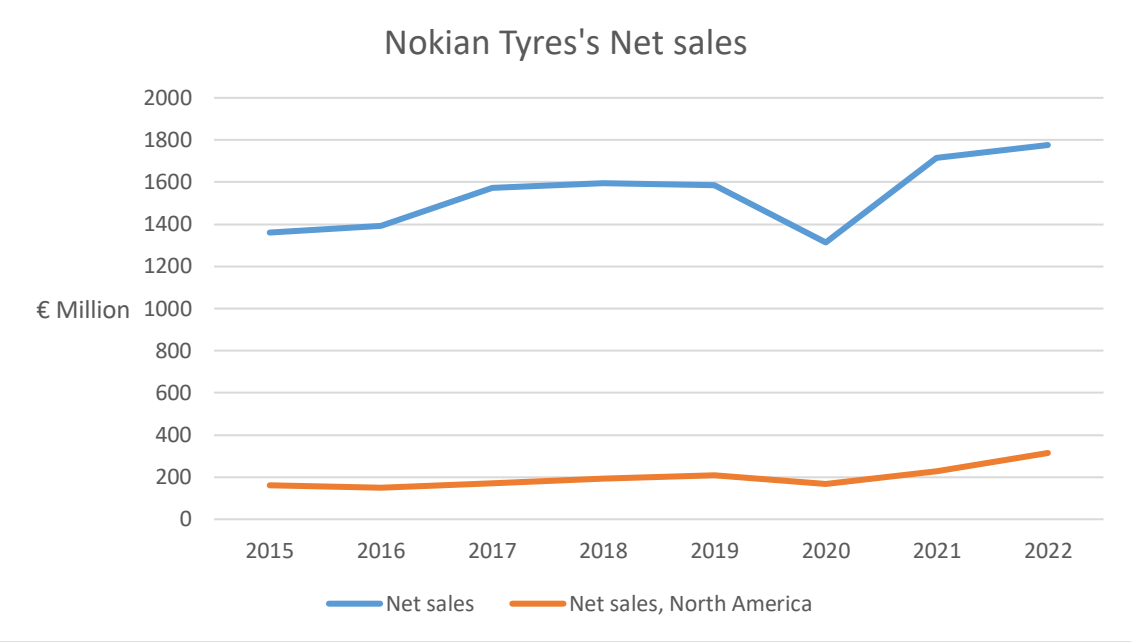

Figure 8 Nokian Tyres's Net sales

In the years 2015-2019, before starting operations in the factory in the United States, Nokian Tyres displayed consistent strong profitability. Operating margins were consistently above and around 20% during the years 2015-2019. However, following the opening of the U.S. factory, operating margin fell temporarily under 10% in 2020. This can be typical from ramp-up costs and operations not being fully in effect in the new factory. However, external shocks such as the COVID-19 had an effect to the drop as well by slowing down car production and sales as well as reducing tire demand due to rise of material prices (Smithers, 2026; Statista Research Department, 2025). Nokian Tyres reported the pandemic affecting negatively to the global demand of tires (vuosikatsaus, 2020). Nonetheless, the drop reflects the period of integration of the new factory in the United States in addition to external factors.

While operating margin fell in 2020, from 19.8% in 2019 to 9.1%, the share of sales in North America did not drop significantly and kept rising in consequent years reaching over 17% in 2022. This inclining trend, over doubling the sales in North America from EUR 159,8 million in 2016 to EUR 314,6 million in 2022, shows that the investment successfully strengthened the firm's expansion in a strategically important market as planned. Concurrently, reducing the firm's dependence in its factories in Finland and Russia. Furthermore, the year 2020 marked the end of the investment phase in Nokian Tyres's strategy.

Furthermore, the major drop in operating result from EUR 268,2 million in 2021 to EUR -116,2 million in 2022 and operating margin from 15,6% to -6,6% reflects the external shocks of COVID-19 and Russia's invasion in Ukraine rather than negative structural performance of the U.S. factory. Moreover, due to the war in Ukraine, Nokian Tyres was obliged to restructure its operations and close its Russian factory. Losing one of its profitable factories. Thus, making the U.S. plant even more strategically important than solely acting as a way for the firm to access an important market space. The factory had a critical importance in Nokian Tyres's restructuring of operations after the Russian exit.

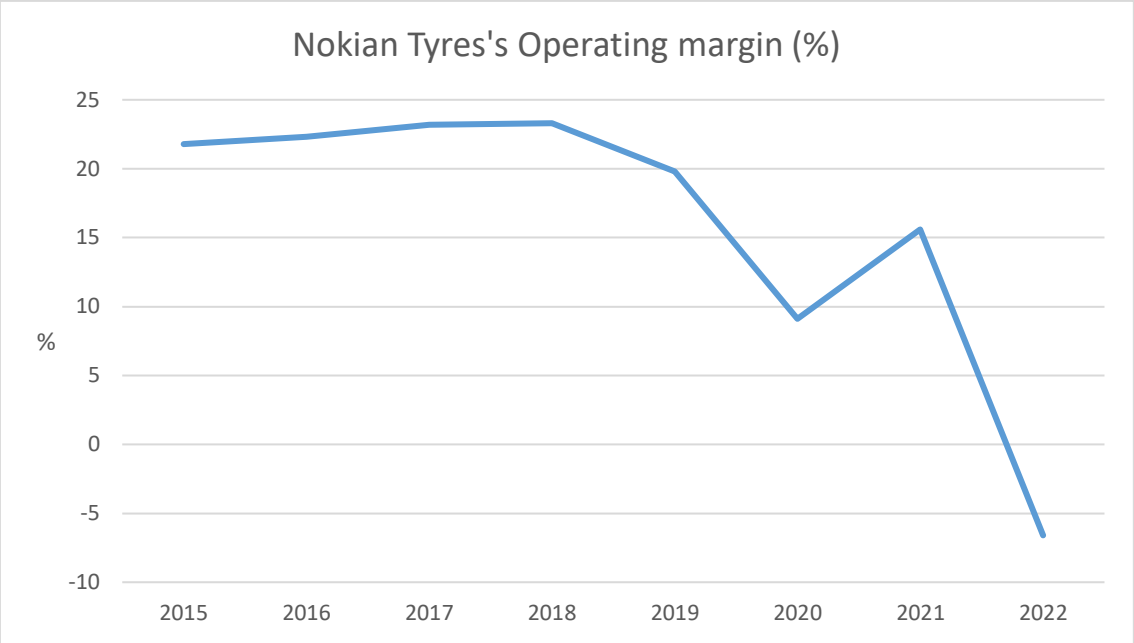

Figure 9 Nokian Tyres's operating margin

Altogether, the combined information and evidence show that offshoring investment in the United States led to expected short-term financial degradation. However, it enabled critical access for the firm in an important market to sustain growth and ultimately helped Nokian Tyres to overcome major geopolitical shocks.

From a theoretical TCE perspective, the captive offshoring investment in the United States was a response to rising costs with operating in the U.S. market from locations far away. Having the production in Europe and Russia exposed Nokian Tyres to high transportation costs as well as tariffs. Furthermore, currency fluctuations and difficulties in coordination can pose a potential risk in operating from overseas. Having increasing share of sales in North America, establishing production facility closer to the North American end market, Nokian Tyres was able to reduce costs related to transactions, tariffs, logistics, distribution and benefit from the investment eventually after the ramp-up costs and external shocks. Moreover, by improving production processes, Nokian Tyres can reduce fixed costs as well.

Furthermore, from an RBV perspective, the offshoring investment allowed Nokian Tyres to benefit more from its firm-specific resources such as its winter tire technology, brand, and knowledge in an important market. Producing tires locally aided the market knowledge as well as coordination between manufacturing and customer requirements. The strategic initiative helped the firm competitively more than a solely cost-driven offshoring alone could have. Moreover, the exit from Russia in 2022 highlights the importance of RBV: losing a low-cost production facility weakened the firm's short-term performance, but having the factory in the U.S. helped the firm to cope with external obstacles while preserving key capabilities and market access to keep the firm's strategy uncompromised. Local production facility is valuable for Nokian Tyres due to the said cost savings as well as faster supply of products. Furthermore, the production facility asset can be seen as rare and inimitable by being modern and automated which would be very costly for competitors to copy.

In 2022, Nokian Tyres announced another offshoring investment of a new factory in Romania. This investment was of importance in building up the production capacity that was lost with the closure of the Russian manufacturing facility (vuosikertomus, 2022). The investment was said to be EUR 650 million, and the factory was set to be the first carbon dioxide emission free production facility in the field.

3.2.3 UPM

UPM (2025a) is a pulp producer and a forest company, operating in multiple countries and industries. UPM's origin is in the paper and forest industries but it also offers renewable fibers, advanced materials, and decarbonization solutions. The firm's strategy is to attain growth via performance and capitalizing on major investments (UPM, 2025b). UPM employs over 15 000 people in 43 countries with production in 11 different countries. The firm's headquarters are in Helsinki, Finland.

UPM is a suitable firm for the multiple case analysis as it has operations globally. Furthermore, UPM has made offshoring initiatives in the near history that are optimal for analysis and comparison. This chapter will mostly focus on UPM's recent offshoring activities in South America.

In 2019, UPM (2019) announced that it will invest USD 2,7 billion to build a new pulp factory in Uruguay, South America that is presented in table 10. The new factory was said to improve pulp capacity by over 50% by 2023 and the firm's competitiveness. However, the full production capacity of 2.1 million tons was reached in 2024 despite the goal being for 2023 (UPM, 2024b). The factory was planned to open in 2022. Uruguay was chosen as the location for the captive offshoring project as the firm saw it optimal for long-term investment as well as sustainable activities for the country's stable government and social situation as well as transparent legislation and decision making (UPM, 2019).

Table 5 UPM's offshoring initiative

Variable	**Description**
Year of decision	2019
Destination country	Uruguay
Activities offshored	New production facility
Stated motives	Access to raw materials, beneficial legislation and institutional environment

Moreover, UPM (2019) announced that Uruguay's legislation has improved sustainable forestry, which is beneficial for UPM. The investment plan was made with cooperation with the country's government and local authorities due to the size of the investment which will affect the local area as well as the whole country. Furthermore, the factory is in a free trade area which arguably had an effect in the offshoring decision and return

on investment. In table 11, the key indicators of UPM's business during the years 2018 to 2024 are presented.

Table 6 UPM's financial numbers (UPM, 2020, 2021, 2022, 2023, 2024a, 2025c)

MEUR	2024	2023	2022	2021	2020	2019	2018
Net sales	10 339	10 460	11 720	9 814	8 580	10 238	10 483
Operating result	604	608	1 974	1 562	761	1 344	1 895
Operating margin (%)	11,8	9,7	17,9	15,0	11,1	13,7	14,4
Return on investment (%)	4,1	3,5	12,8	12,4	6,7	10,7	16,2
Number of employees	15 827	16 573	17 236	16 966	18 014	18 742	18 978

UPM's financial numbers from the years 2018 to 2024 are in line with the firm's long-term strategic goals to improve competitiveness and future growth with improved offshore production capacity. Moreover, major shocks in the global market conditions can also be seen in the numbers. UPM was able to maintain operating profitability in the years 2018 to 2022 ranging from 11,1% to 17,9% high in 2022 prior to launching the new factory in Uruguay. During the year 2020, COVID-19 lowered the demand and price of paper and pulp which can also be seen in the financial numbers with the lowest year in operating result of EUR 761 million during 2018 to 2022. Following the low year of 2020, performance spiked to a high in 2022 with operating margin reaching up to 17,9% reflecting higher pulp prices.

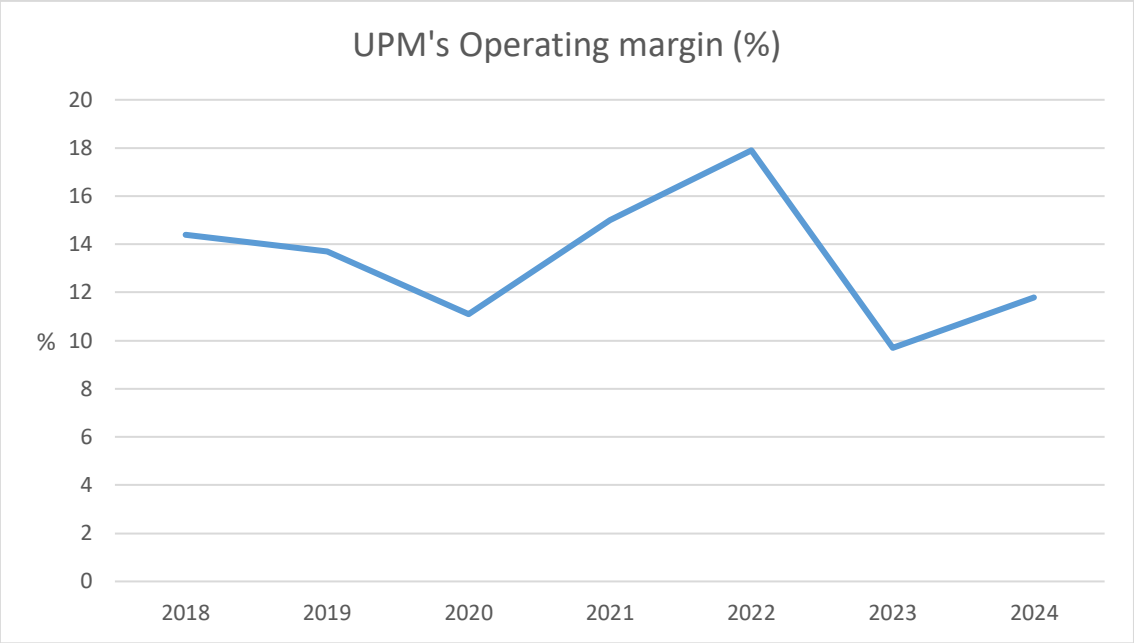

Figure 10 UPM's Operating margin

However, in 2023 when the Uruguay factory started operations fully, operating result and operating margin saw a major decline. Operating margin dropped to 9,7% and remained low at 11,8% in 2024. During the downturn, the whole industry was affected by falling pulp and energy prices as well as unforeseen destocking (UPM, 2024b). Moreover, pulp and paper industries are described as strongly cyclical businesses (Mencke, 2020). Furthermore, operating result reached a low that had not been seen in many years with EUR 608 million in 2023 and EUR 604 million in 2024. The years 2023 and 2024 reflected poor market conditions and reduced prices after a market peak in 2022 (Bidoia, 2024; UPM, 2024a, 2025c). However, the improved production capacity of the Uruguay factory helped with the UPM's result during the latter half of 2023 and during 2024 (UPM, 2024a, 2025c). In addition, the firm was able to cut down cost by over EUR 100 million in 2024 (UPM, 2025b). On the other hand, the decline can also be associated with costs related to the ramp-up period and other aspects before reaching the full potential of the new factory.

During 2023 and 2024, despite the poor market conditions, net sales remained stable even after the high year of 2022. This indicates that the downturn in performance was

not only due to weak overall market performance, but also due to the transitional time and integration of the new factory into UPM's operational network.

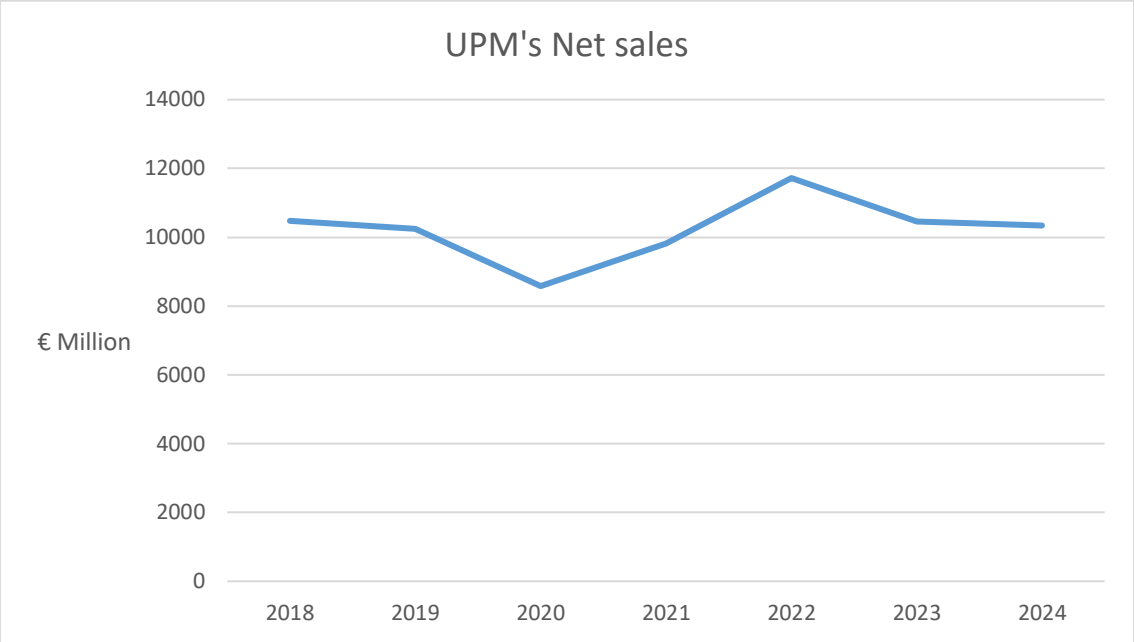

Figure 11 UPM's net sales

More insight on the effects of the offshoring strategy and the investment in Uruguay can be seen from looking at the return on investment. The drop from 12,8% in 2022 to 4,1% in 2024 suggest that while the new factory in Uruguay contributes to the increase in UPM's production capacity, the initial years after the launch are limited regarding profit generation of the investment.

This is common in large scale operational investments that are capital-intensive. Large offshoring assets that improve production capacity and future income potential can initially weaken firm's profitability before reaching full potential. Despite the drop in ROI during the first years after operational launch of the new factory, UPM's Uruguay factory will improve the firm's competitiveness in global markets. Thus, the trend can be interpreted as an adaptation phase in a long-term strategic plan.

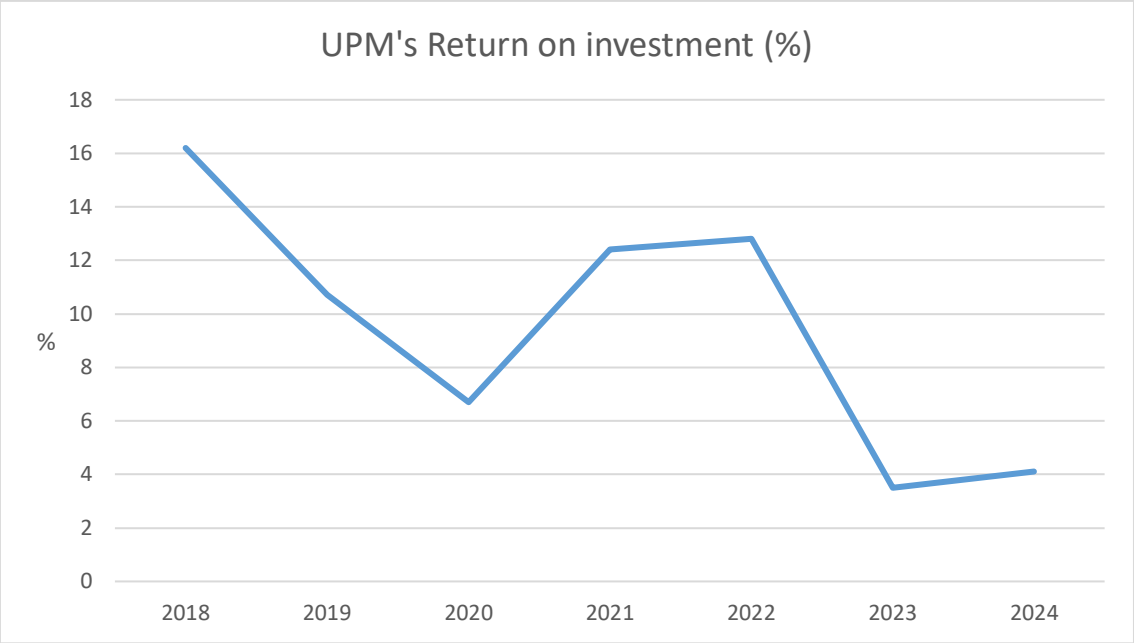

Figure 12 UPM's Return on investment

From a theoretical perspective of transaction cost economics, the decision to invest in a large factory in such location can be seen as a plan to minimize production costs in the long run. The offshoring investment in Uruguay is economically more affordable compared to Finland and Europe as it is an environment with higher capital, regulatory, and energy costs.

Uruguay offers advantages such as labor costs, stable government and institutional environment as well as attractive investment policies. These aspects lead to lower transaction and production costs. Moreover, the decline in short-term profitability after the major investment is also in line with TCE theory as major offshoring investments can generate costs, underutilization, and learning curve inefficiencies before full operational integration and efficient utilization of the investment.

From resource-based view, the offshoring investment in Uruguay helps UPM to access valuable and hard-to-imitate resources with easy access to raw material and water that are critical for production. These matters enhance the firm's long-term competitive advantage. Furthermore, the advanced technologies and automation capabilities that

the new factory offers will strengthen UPM's competitive advantage and expertise even further. Large and highly cost-efficient production facility, outside of Finland, that deepens the firm's resource portfolio also aids in capturing global market opportunities and resilience that might not be in reach operating solely from a similar facility in Finland.

Thus, having a temporary decline in performance during 2023 and 2024 is also consistent with RBV theory: investments into capacity improvements may reduce short-term returns but should improve the firm's long-term competitiveness and performance by expanding firm-specific resources.

3.3 Data collection

The data collection in this thesis was conducted by collecting publicly available data from the case companies, three publicly listed Finnish MNE'S. The data was gathered from sources such as firms' annual reports, financial statements, and news that are shown in Appenidx 1. The chosen data was of certain time period, from 2010s and 2020s, to keep the data relevant and comparable between the case companies.

The case companies were chosen by their size, being publicly listed, and global offshoring operations within the last 10 years. These criteria further made the comparison between the case companies more feasible and reasonable. Moreover, the decision of case companies followed the guidance of Eisenhardt & Graebner (2007) who elaborate that the cases in case research are chosen for being suitable to offer insights on relationships and logic between concepts i.e., offshoring activities of finnish NME's and the outcomes of those activities.

Furthermore, the cases in a multiple-case study should be in frame with the literature review besides the empirical study (Martinsuo & Huemann, 2021). The chosen cases should also be firmly connected with the phenomenon that is being studied (Martinsuo

& Huemann, 2021). Finally, Yin (2009) highlights that the cases should be directly linked with the research question.

Furthermore, Eisenhardt & Graebner (2007) state that while single-cases studies can be used to describe a phenomenon profoundly, multiple-case studies usually offer a more accurate, more generaizable, and more thorough base for theory building. Multiple-case studies enable comparison that can either confirm or deny wheter findings are related to only single case or consistent with several cases. Moreover, using visual aids such as tables and appendixes is helpful to convey the research objective and the empirical evidence that supports the objective and theory without losing the theory in the case narratives.

Futhermore, as said by Shah & Corley (2006), qualitative methods in data collection and analysis are used to "provide description, build theory, and to test theory". They are techniques, such as case study research, used to develop an understanding of a complex phenomena.

3.4 Data analysis

The structure of the data analysis is built around the case companies by first analysing the companies separately and presenting their offshoring activities and outcomes by analysing quantitative data taken from annual reports and financial statements. The individual case-analysis allows for greater detail and understanding of firm specific progress.

Secondly, comparing the findings to the theory to see if the underlying theories of offshoring support the offshoring activities of each case firm. Comparing the theory to secondary data allows for interpretation of the findings and to see how the evidence compares to the literature on offshoring and firm performance. Furthermore, the

comparison between the theories and the secondary data is essential to confirm the relevance of this thesis as it explains why similar offshoring decisions may have different outcomes between firms.

Finally, a cross-firm comparison is done to analyse the firms' results together to confirm whether the findings are aligned or not and whether there are similar repetitive patterns or differences between the results. This comparison allows for analytical rigour due to theoretical replication. Furthermore, the results are viewed from a transaction cost economics and resource-based view perspective. This offers further elaboration on offshoring behaviour and outcomes. TCE theory is used to explain international activities of firms in response to changing cost structures, challenges in coordination and external risks. RBV theory is used to understand how offshoring decisions and activities interact with firm-specific capabilities and resources. By linking the observed results from the case companies to the aforementioned theoretical frameworks, the multiple case analysis offers a deeper, theory backed understanding of Finnish firms and their offshoring dynamics rather than a descriptive report of those firms.

3.5 The assessment of the quality of the data

According to Grønmo (2024), for a valid and applicable analysis the quality of the data needs to be valid and reliable. As with producing good quality products, conducting good research is based on the data that is used. Moreover, the quality of the data is connected to how it is used and how it can answer the research questions.

The reliability of data refers to its accuracy and trustworthiness (Grønmo, 2024). For this thesis, using secondary data analysis, that means that the data is credible and valid. Moreover, the publicly available data from the case firms can be considered as accurate and trustworthy as the firms are obligated by law to publish the used information with

precision. In addition, the financial statements are audited by a third party according to IFRS standards which ensures the trustworthiness. However, other publicly available data on industries and markets are not audited, thus hindering the trustworthiness on those parts. However, the non-audited data on market trends and industries is used for broader macro-trends that cannot be necessarily identified from firm-level data.

The validity of the data refers to the relevance of the data for the research questions and the phenomena that is analysed (Grønmo, 2024; Saunders et al., 2007). Even if the data is reliable, it does not automatically mean that the validity is high too (Grønmo, 2024). The validity of the data used in this thesis is high as it offers for a strong base for analysing the effects of offshoring according to the research question.

Furthermore, Saunders et al. (2007) point out that the use of secondary data needs to be viewed in the same manner as one would view primary data. It needs to help answer the research questions and one needs to be allowed to access it. Moreover, the authors argue that one can have an advantage by using secondary data if it is relevant and suitable for the research as the data already exist. Such as in the case of this thesis. Thus, time can be spent on investigating and evaluating the data prior to the use of it. In addition, the use of secondary data may allow the use of larger pieces of data than if the data would be collected by oneself. The use of secondary data in this thesis is preferable as it avoids response bias, helps with the analysis between the case firms and allows the use of more data from the case firms.

4 Findings

4.1 Cross-case comparison

To tie the findings together after analysing the case companies separately, a cross-case analysis offers a thorough way to highlight the similarities and differences in interpreting the offshoring decisions. Moreover, the findings from this cross-case analysis are presented from Transaction Cost Economics and Resource Based View point of view to compare the cross-case analysis to the existing theories.

From a TCE point of view, it is clear to see that all the case firms started to adjust their global production processes due to changing cost structures, growing risks, and opportunity seeking in their processes at the time by trying to be more efficient, gain market-access, and seek for resources. However, what is different between the case firms is the way how and when the changes started to take place.

With Wärtsilä, bringing back the engine production back to Finland can be interpreted through TCE as coordination costs, geopolitical risks and operational complexity started to be a bigger burden than the original cost advantages that came with offshore production.

In contrast, Nokian Tyres and UPM went to pursue a different path by making large greenfield investments abroad rather than bringing production closer to home. This was done to obtain lower production costs and proximity to their key markets. Nokian Tyres' offshoring initiatives in Russia were driven by cost efficiency. However, the following offshoring investments in the United States were driven by risk diversification and having better access to the growing market in North America. UPM's offshoring investments in

Uruguay was driven by the possibility to access low-cost materials and economies of scale to obtain cost reductions in the long-term.

With TCE it is logical to explain why firms engage in offshoring activities. However, RBV is used to explain how the offshoring is conducted and what are the outcomes. In Wärtsilä's case, the partial reshoring back to Finland strengthened critical manufacturing and engineering processes and capabilities. This helped to improve operational efficiency and to integrate technological knowledge. The positive outcome of the move can be seen in improved margins and returns after 2022 thus indicating that concentrating and reshoring critical capabilities in the host location can enhance resource deployment.

The case of Nokian Tyres follows a different RBV logic. Original offshoring investments in Russia were driven by low-cost production resources that supported the firm's premium product strategy. However, the forced exit from Russia highlighted the problematic strategy of relying too heavily on a specific location and the advantages it had to offer without full control. After the exit, the strategy changed into more balanced resource division by investing into production facilities closer to the main markets while maintaining critical capabilities.

Furthermore, UPM's offshoring investment into the large production facility in Uruguay highlights capacity building that is also supported by RBV. Despite the short-term decline in profitability during the early phases of the new production facility, the new facility helped UPM to access valuable and rare resources as well as scale the production to help strengthen the firm's long-term competitive positioning in global markets.

Considering the hypotheses 1 and 2 proposing that offshoring is most likely initiated by potential cost reductions as well as improved efficiency when the chosen offshoring location offers cost, scale or process advantages, the offshoring and reshoring decisions of the case firms have shown clear supporting evidence. The case of Nokian Tyres and

UPM show that relocating and expanding production in the contextually appropriate locations abroad can improve efficiency by allowing better access to markets and structurally lower production costs. However, the benefits do not necessarily actualise in the beginning but after temporal decline in financial performance due to the transitional phase.

Furthermore, the findings also support hypothesis 3 that emphasises the complexity of offshoring initiatives and transitional phases that can affect flexibility and responsiveness at least temporarily. This can be seen in Nokian Tyres' post-investment ramp-up costs and UPM's declining return on investment during the first years of operation with the new manufacturing facility. However, this can also be the case in other large investment initiatives and not solely on offshoring initiatives.

In addition, Nokian Tyres' and UPM's offshoring investments are showing signs of potential improvements regarding financial performance due to lower logistic costs in Nokian Tyre's production facility closer to their critical market in North America as well as structurally lowered production costs in UPM's production facility in Uruguay near critical resources. These evidence shows support in hypothesis 4 regarding improved financial performance due to cost savings. However, the hypothesis cannot be fully supported by this evidence, due to the short time horizon, as the investments have not reached their full potential and are still in the early phases of production. Thus, the complete results are not yet seen in the indicators during the time of analysis.

Finally, Wärstilä's reshoring decision offers evidence that rising costs, coordination complexity and external shocks can change the original direction of earlier offshoring decisions. Moreover, Nokian Tyres' reliance on Russia also highlights that firms might need to reconsider their offshoring plans when external geopolitical shocks occur. These issues can lead to firms reshore activities to another location or back home to restore control and operational efficiency. Thus, the findings support hypothesis 5 by highlighting that offshoring increases vulnerability of firms when external shocks occur.

Altogether, the cases demonstrate the complexity of offshoring. It is not automatically universally beneficial nor detrimental. The effects of offshoring are dependent on how costs and firm-specific resources interact over time. Wärtsilä's case demonstrates how reshoring might be a valuable and rational decision when coordination costs and external risks grow. However, Nokian Tyres' case is a fine example of how being overly dependent on a certain offshoring location can expose firms to big risks. Finally, UPM's case demonstrates that highly capital-intensive offshoring investments can temporarily deteriorate performance but still be strategically beneficial when the investments help lower costs and expand resources in the long run. This cross-case analysis supports the idea that offshoring decisions need a dynamic interpretation where firms need to constantly be aware of their global value chains and be ready to reconfigure them when transaction costs and resource advantages change rather than blindly following one-directional offshoring logic. However, it should be noted that the industries and their nature will have an impact on the outcomes of business and thus it should be considered when analysing the results of offshoring.

5 Discussion

5.1 Theoretical contribution

This thesis contributes to the offshoring literature on multiple aspects. First, the results show that the effects of offshoring are not necessarily consistent or automatically efficient. Rather, there are aspects that influence these outcomes that dynamic, path-dependent and contingent. From a Transaction Cost Economics point of view, this thesis support and extend the theory by demonstrating that offshoring decisions are not single choices to minimize costs. Rather, offshoring decisions are constant reassessment of costs, risks and evolving environment.

The cases of Wärtsilä and Nokian Tyres demonstrate that increases in transaction costs, whether they are due to external issues such as a geopolitical shock or operational complexity, can still make offshoring an economically rational decision. Thus, TCE should be applied with a dynamic touch, as cost conditions are not always stable but rather uncertain, thus there might be a need to allow bigger risk temporarily in some cases.

When analysing this thesis from a Resource Based View, it highlights that interaction between location decision of offshoring and firm-specific resources and capabilities is a determinant of offshoring success. The analysis of the case firms and their offshoring outcomes show that offshoring can improve performance when it helps the firm to access valuable, rare, and inimitable resources such as in UPM's offshoring initiative in Uruguay. However, if firms get too dependent on certain offshore locations, there's a risk that potential advantages turn to negative performance outcomes that is out of the firm's control due to external shocks or other unexpected events. This can be seen with the case firms that were operating in Russia. The findings point that competitive

advantage does not come solely from low costs, but from aligning capabilities, knowledge and control in different offshoring locations as well as the host location.

Finally, this thesis contributes to the literature on reshoring by empirically proving that reshoring and offshoring are not competing strategies but rather they can and should be used as complementary strategies to manage the dynamic global environment. The findings from the case firms point out that firms pursue flexibility with mixed models of offshoring and reshoring. This point of view that offshoring is a continuous strategic process with interaction between elements such as resource allocation, transaction costs and external shocks, rather than a linear and static one, improves on the theoretical understanding of offshoring.

5.2 Managerial implications

Managers should consider the long-term impact of offshoring and reshoring decisions by evaluating the effects on operational control, strategic resilience, and capability development rather than focusing only on cost savings. The analysis of the case firms demonstrate that managers need to acknowledge and accept potential short-term decline in performance due to offshoring investments such as setting up a new facility, and challenges with coordination and learning. By focusing on long-term strategic impacts and planning the transition phases accordingly rather than seeing short-term decline as a failed initiative, firms can see substantial improvements in operational and financial performance.

Furthermore, managers should also focus on managing and diversifying risk and location dependency. The case of Nokian Tyres' demonstrates that by focusing on geopolitically risky locations, firms can expose themselves to risks even though cost efficiency would be ideal. Therefore, managers and firms should avoid excessive dependency to single locations for offshoring. Instead, building comprehensive production networks that offer

stability, predictability, and resilience should be something to strive for i.e., to prioritize the assessment of geopolitical risks in the location decisions for offshoring initiatives.

In addition, managers should be aware of potential risks that offshoring poses to the critical capabilities of firms. In Wärtsilä's case, bringing some of the high value activities closer to home location aided the firm's recovery by improving coordination, knowledge integration, and decision-making pace. Therefore, managers should be aware that offshoring might affect organisational learning and flexibility negatively if offshoring is not assessed and planned properly.

Finally, the thesis suggests that managers should see offshoring as an adjustable and continuous strategy, where commitment to certain locations can be changed if the results are not as expected. Successful restructuring by adjusting global operations according to changing conditions might be a part of critical organisational capabilities in the process of successful offshoring even though that is not the primary goal when committing to offshoring in certain locations. This can include having processes and systems that can be transferred elsewhere to enhance long-term competitiveness and strategic agility.

5.3 Limitations

There are some limitations to this study. The reliance on secondary data limits the possibility to observe the firms internally and dive deeper into the decision-making processes and other internal issues related to offshoring within each firm. Moreover, performance indicators might be influenced by external factors such as external shocks or market cycles. These aspects cannot be totally dismissed. Furthermore, the short time horizon of the analysis of the case firms gives only limited observations. A longer period of analysis would offer more reliable results. In addition, the heterogeneity of the industries does not necessarily offer the most beneficial results for cross analysis of the

firms. Finally, the research case companies are some of the largest Finnish firms, thus the findings may not apply or cannot be generalized with smaller Finnish firms.

However, these limitations are mitigated by acknowledging the context and external influences when interpreting the findings as external shocks and geopolitical events cannot be removed totally from the context. Rather, they act as one of the aspects that researcher must be cautious of when analysing the findings and indicators.

5.4 Suggestions for future research

There are many different aspects that affect offshoring decisions. External issues might affect offshoring firms and their financial and operational results during offshoring activities which might be interpreted as poor offshoring initiative especially if the offshoring decision is made to improve short-term results. However, strategic offshoring decisions that have a long-term scope in improving firm's results should reduce the effects of external forces on the offshoring initiative itself.

Similar case research should be conducted in the future with firms of different sizes and fields as well as firms offshoring to different locations, to see if similar offshoring initiatives will have similar effects on broad scope of Finnish firms. Consequently, depending on the findings, some results could be generalized for different firms to give managers clearer guidelines on offshoring and what they can expect from engaging in offshoring. Moreover, potential pitfalls could be identified when conducting more research on the area.

Furthermore, future research should focus on conducting larger quantitative studies to test the found relationships more systemically. This would provide more reliable data whether the findings are appropriate to generalize across different industries and time-periods.

External issues could also be researched in the future. How uncertainty, external shocks and geopolitical risks affect offshoring outcomes. This thesis solely presents external shocks as an aspect that can affect offshoring decision and outcomes. However, future research could analyse these external factors across countries and quantify how they affect offshoring operations. This too would add to managerial guidelines on offshoring.

Finally, reshoring and hybrid models of offshoring could be investigated in the future as reshoring trend has been increasing over the years due to global uncertainty. Moreover, research on hybrid models of offshoring, nearshoring and reshoring could shed a light on whether these types of flexible combinations could offer a strong alternative on full offshoring initiatives and how they would work long-term regarding firm performance.

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Appendices

Appendix 1 List of data sources

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