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Are Reshoring Decisions Influenced by External Stakeholders and Country-Level Environmental Regulation?

Abstract

The rationale behind reshoring activities remains unclear. Multinationals reshore their subsidiaries when regulations in the host country become too costly or difficult to manage. However, it is unclear whether the positive association between the propensity for reshoring subsidiaries and the host country's regulations applies to all types of subsidiaries (i.e. majority- or minority-owned) and whether it is moderated by other factors. We suggest that external stakeholders play a crucial role in strengthening the relationship between the decision to reshore and the host country's regulations. Within the context of international business, we examine the reshoring decision of a panel of subsidiaries controlled by UK multinationals located in 39 countries and focus on a specific set of environmental and corporate governance regulations. Our findings suggest that reshoring among minority-owned subsidiaries is more likely to happen in countries with weak protection of shareholders and mandatory environmental disclosure. Such a relationship is also strengthened by the presence of external stakeholders, namely foreign directors sitting on subsidiaries' boards. We contribute to the reshoring literature by showing the role of external stakeholders and the impact of institutions and regulatory requirements on reshoring decisions.

Keywords: Reshoring, Stakeholders, Foreign directors, Environmental disclosure.

Are Reshoring Decisions Influenced by External Stakeholders and Country-Level Environmental Regulation?

Introduction

The unprecedented shift in socio-economic-technological conditions in the last decade has spurred a number of debates surrounding a firm's proximal/distal location from the home country within the offshoring and reshoring literature (Delis, Driffield and Temouri, 2019; Rasel *et al.*, 2020). Lately, many multinational enterprises (MNEs) from developed economies have decided to reshore their investments to their home countries with the purpose of reducing costs and exposure to risk. The extant literature has explored reshoring from the perspective of international business (IB), in which reshoring results from firms' responses to performance shortcomings in the offshoring initiative (Albertoni *et al.*, 2017), global financial crisis (Delis *et al*., 2019), firms' subnational location choices (Rasel *et al.*, 2020), and institutional, strategic and operational considerations (Srai and Ané, 2016). Such motives have been backed by the growing populist and anti-globalization rhetoric used by Western politicians, which has become stronger since the Covid-19 pandemic (Delis *et al.*, 2019; Merino, Di Stefano and Fratocchi, 2021). However, despite anecdotal evidence of increased reshoring activities by firms[1], there has been limited research into how reshoring decisions are taken by diverse stakeholders, who may be driven by different motives (Ashby, 2016).

The reshoring decision is explained as a rational decision of MNEs when they find the host country's regulation too costly to manage. For instance, stringent environmental regulation or poor protection of shareholders may make subsidiaries' operations financially unviable (Chan and Makino, 2007; Guillén and Capron, 2016; Spencer and Gomez, 2011; Surroca, Tribó and Zahra, 2013). As a result, reshoring subsidiaries' operations may be a simple way for MNEs to reduce their costs and avoid financial losses (Zhai, Sun and Zhang, 2016). Reshoring may be an expensive process as well: for example, the Bank of America reports that reshoring from China could cost $1 tn over the next five years[2]. We can argue that MNEs may consider reshoring in two specific cases: (a) when the stake invested in subsidiaries is not too large, i.e. minority shareholding; and (b) when the subsidiary does

not have strong links with key business stakeholders in the host country. Minority shareholding in subsidiaries remains a concern for MNEs due to the associated cost of holding the minority stake in the subsidiaries (McIvor and Bals, 2021; Młody and Stępień, 2020; Pal, Harper and Vellesalu, 2018). In addition, subsidiaries connect to stakeholders of the local business ecosystem in several ways, and one important vehicle for this is the composition of the board of directors. We focus on both cases, exploring the significance of minority shareholding and the role of the board of directors. Indeed, by appointing local directors, subsidiaries may connect to local businesses and forge links that allow them to thrive in the host country. In contrast, subsidiaries with directors from outside the host country (i.e. foreign directors[3]) may lack these strong links to the host country and may therefore be vulnerable to reshoring. This vulnerability may be even more relevant in the case of minority-owned subsidiaries with a low degree of proximity, and thus familiarity, with the host country markets. Based on these views, this paper aims to address the following research questions:

RQ1: Is the presence of foreign directors on the board of a subsidiary positively associated with the likelihood of being reshored? Is the association positive for both majority- and minority-owned subsidiaries?

RQ2: Does the presence of foreign directors strengthen or weaken the relationship between the host country's regulations and the propensity to reshore subsidiaries?

To address these research questions, this study explores the relationships among regulations in relation to host country market environments, foreign directors and reshoring decisions. Our central tenet is that foreign directors can be considered external stakeholders and therefore, like any other stakeholders, they can actively influence the decisions made by the firm they are affiliated with and can be influenced by the external environment. In particular, we view foreign directors as a special type of external stakeholder i.e. a stakeholder who is not close to the host country's environment but can still exert a major influence on how the firm (with which the stakeholder is affiliated) interacts with the host country. In our view, stakeholder theory offers the best theoretical lens to support our analysis, and thus we propose this theory as our theoretical lens. Importantly, we revisit stakeholder theory by considering an 'inside-out' perspective, focusing on 'who really counts?' (Crilly and Sloan, 2012). Integrating this

perspective into the reshoring literature is particularly important as the 'who' issue in reshoring decisions is one of the least explored and who decides (or influences the decision) within a firm may or may not make one firm more likely to reshore than another (Albertoni *et al.*, 2017; Rasel *et al.*, 2020; Srai and Ané, 2016). This is an important theoretical contribution, as the reshoring literature has focused mostly on how the external environment influences the decision to reshore, without considering who makes the decision.

Our study provides evidence that the presence of foreign directors on the board of subsidiaries is positively associated with the likelihood of being reshored from countries with mandatory environmental disclosure and with poor protection of minority shareholders. We also show that such association applies only to minority-owned subsidiaries. Our results offer an integrated view of how country-level regulations and the propensity to reshore subsidiaries are strengthened by the presence of foreign directors. Our study also makes an original contribution to our understanding of how MNEs may internalize the impact that local institutions have on their expected outcomes by using reshoring as a mechanism that can offset the potentially negative impact of local institutions. For example, while weak institutional protection in a host country environment may enhance the costs of business operations, market transactions and hierarchical governance of MNEs (Dorobantu, Kaul and Zelneri, 2017; Gray *et al.*, 2017), regulation may negatively impact foreign subsidiaries and their performance, for example, their level of profitability and return on investment (Chan, Isobe and Makino, 2008; Chari and David, 2012; Kafouros and Aliyev, 2016). One of the real examples is the case of Inter Parfums, the New York-based global manufacturer of perfumes and cosmetics. Inter Parfums lost significant sales and suffered substantial losses due to their attempt to reshore from China to the USA.[4] Thus, understanding how firms' decisions (such as reshoring) can be used to minimize or prevent the impact of different environmental or institutional influences in a host country is essential for MNEs operating in diverse environmental or institutional contexts.

The structure of the paper is organized as follows. We begin by reviewing the theoretical background and follow it with a hypothesis development section. Next, we present our data and methodology. We then present the results obtained from our empirical analysis. Finally, we conclude our paper with a discussion section followed by the limitations and directions for future research section.

Theoretical background and hypothesis development

Theoretical background: Stakeholder theory and reshoring decisions

Reshoring is a firm-level decision which is influenced by a range of internal and external stakeholders, such as shareholders and top-level managers, directors, financiers, governments and suppliers (Brandon-Jones *et al.*, 2017; Gray *et al.*, 2017; Parmar *et al.*, 2010; Pegoraro, De Propris and Chidlow, 2021). Reshoring of MNEs in terms of their reverse investments from a host country back into the home country (Grappi, Romani and Bagozzi, 2015) can be seen as the opposite of offshoring investments (Zhai, Sun and Zhang, 2016). Reshoring decisions can be based on uncertainties and/or stakeholder pressures in the host market, such as changing offshore legislation and government trade policies (e.g. tariffs and ease of doing business), increasing environmental and social issues in offshore countries (e.g. increasing carbon footprint and human rights violations), growing costs in offshoring contexts (e.g. rising labour, transportation, production, energy, exchange rate, and coordination and monitoring costs), country-level business risks, and problems with operational issues and skilled labour in offshore settings (Benstead, Stevenson and Hendry, 2017; Ellram, Tate and Petersen, 2013; Gray *et al.*, 2013; McIvor and Bals, 2021; Młody and Stępień, 2020; Pal *et al.*, 2018).

Stakeholder theory emerged as a behavioural theory explaining the influences and responses of various stakeholders, including firms, managers and shareholders (Bouguerra *et al.*, 2022). Although stakeholder theory suggests that a firm's stakeholders can be affected by its actions and can affect the way the firm does business – such as in the case of reshoring (Freeman, 1984; Starik, 1995) – it also considers the influence of the environmental context in which the firm and its stakeholders operate (Starik, 1995). According to the theory, a firm is obliged to understand its environment (Driscoll and Starik, 2004). This implies that environmental uncertainties or pressures (and stakeholder claims, demands or pressure) in a country of operation often force a firm to take action (Bouguerra *et al.*, 2022). Indeed, previous studies have provided evidence that within certain environments (e.g. resource-constrained environments), the risk of ignoring stakeholder claims can directly influence a firm's survival (Adomako *et al.*, 2022; Bouguerra *et al.*, 2022).

Traditionally, it has been suggested that stakeholder demands (Adomako *et al.*, 2022) – conditional on their salience in terms of power, urgency, and legitimacy – influence how a firm responds

to these demands (Mitchell, Agle and Wood, 1997). Specifically, a stakeholder's influence has been suggested to be a function of its legitimate and urgent claims as well as its power over the other stakeholders (Frooman, 1999; Kochan and Rubinstein, 2000; Mitchell *et al.*, 1997). However, the legitimacy of stakeholders is affected by their proximity to other stakeholders. Stakeholders may vary in their commitment to respond to other stakeholder claims: they may not always care about the claims of other salient stakeholders or may be uninterested in attending to their environment (Phillips and Reichart, 2000; Ramoglou *et al.*, 2021). This may be explained partially by the fact that while stakeholders tend to be aware of their market environment, their decisions are based mostly on the evaluation of their ideas against market realities in their own minds (Freeman, Harrison and Zyglidopoulos, 2018). It may also be explained by the instrumental stakeholder theory approach, in which responses to stakeholder claims and environmental demands depend on achieving certain stakeholders' financial goals (Donaldson and Preston, 1995; Egels-Zandén and Sandberg, 2010)[5].

Crucially, proximity, as an additional stakeholder attribute, may have an influence on how stakeholder claims may be perceived and approached (Lähdesmäki *et al.*, 2019). Proximity represents the closeness of ideas, approaches and actions among stakeholders (Driscoll and Starik, 2004; Lähdesmäki *et al.*, 2019). For example, a focal actor is likely to have more proximity with its internal stakeholders and the environment inside its firm as compared to external stakeholders and the outside environment (Miles, 2017). Hence, considering proximity in the study of stakeholder behaviour can account for heterogeneity in responses to the same stakeholder or environmental influence. For example, in IB decisions, such as reshoring, stakeholders may be more (less) likely to prioritize their key stakeholder relationships and environmental demands over personal gains if they have greater (lower) proximity to their local stakeholders within the host market environment. Although the role of stakeholder proximity in the stakeholder salience process has been conceptually acknowledged (Lähdesmäki *et al.*, 2019), there are limited insights into how the proximity of a stakeholder with its environment (or with other stakeholders) may influence its decisions.

In the context of foreign-owned subsidiaries, directors are important external stakeholders, as they may voice the claims of the owners. However, their capabilities to do so vary considerably. For

instance, foreign directors may enhance the power of minority-owner shareholders only to a certain extent (Lau *et al.*, 2016; Miletkov, Poulsen and Wintoki, 2016). Foreign directors, due to their international experience, can become instrumental in diversifying a firm's knowledge base (Lau *et al.*, 2016) and bringing distinctive ideas and views into the firm (Harjoto, Laksmana and Lee, 2015; Westphal and Milton, 2000). However, their low level of proximity with host country markets may diminish the salience of their claims about these markets and reduce their support for committing resources to these markets (Erramilli and Rao, 1990; Hooghiemstra *et al.*, 2019). This would lower their likelihood of taking the pressures or demands of stakeholders based in the host country into consideration (Batae, Dragomir and Feleaga, 2021; Masulis, Wang and Xie, 2012). At the same time, their low level of proximity, and thus limited knowledge and familiarity, with host country markets may increase their risk perceptions towards those markets (Harrison *et al.*, 2010; Parmar *et al.*, 2010). More specifically, the level of a stakeholder's knowledge may influence the quality of its interpretation of a situation associated with the market environment and capacity to respond to salient stakeholder claims or demands from that environment (Arenas *et al.*, 2020). This implies that foreign directors with limited knowledge of the host country are likely to adopt an instrumental stakeholder approach so that they can mitigate perceived uncertainty associated with environmental issues despite local stakeholders' concerns. This issue is very relevant to the reshoring decision. There is also a consensus on the role of perceived environmental uncertainty in influencing MNEs' decision to reshore (Rivoli and Salorio, 1996). However, there is a limited understanding of how stakeholders other than managers (e.g. foreign directors) (Gray *et al.*, 2013, 2017; Pal *et al.*, 2018) may affect such decisions. A summary of key gaps in the field is presented in Table 1.

Table 1. Key studies on reshoring and stakeholder theory

Concepts	Authors	Research enquiry	Data and methods	Variables used	Key findings	Research gaps and limitations	Linkage with this study
Reshoring decision	Grappi *et al.* (2015)	This research examines the impact of reshoring decisions on consumer willingness to buy and to pay for firms' implementing reshoring decisions.	Survey-based quantitative method.	Variables such as consumer perception, consumer willingness to buy, gratitude, righteous anger, company motives as perceived by consumers, and consumer ethnocentrism are used.	The important role of consumer attribution inferences of company motives for reshoring.	There is support for a three-way interaction between consumer perception of reshoring, attributions of company motives, and ethnocentrism in their effects on righteous anger, but the research only accounts for a two-way interaction between perception of reshoring and motives for gratitude. The influence of legal factors such as poor protection of minority stakeholders on consumers' perceptions of reshoring and willingness to buy was missing.	Being broadly similar to our study, this study extends current understanding regarding the advantages of reshoring and provides a comprehensive perspective on how reshoring influences corporate strategy and governance structure. In particular, it examines the psychological processes through which consumers react to company reshoring strategies and which lead to different levels of support for the company at the strategy, institutional and governance levels.
	Delis *et al.* (2019)	This study examines the factors that influence a firm's decision to reshore.	Secondary data analysis using a dataset of 3,683 MNEs from 14 developed countries investing in 66 host countries during 2006–2013.	Measures covering the global financial crisis, reshoring, distance, and relative costs are used.	The effect of the global financial crisis on reshoring is smaller when the distance between parents and subsidiaries becomes larger. In turn, as distance increases, the importance of relative	The understanding of the reshoring phenomenon remains underdeveloped. The literature recognizes that offshoring is not unidirectional. This study examines various determinants of reshoring within the theoretical	The study applies internalization theory to the reshoring phenomenon and explores the importance of learning through the experience of reshoring. Furthermore, the study explains how firms are using reshoring as part of

				costs declines in explaining the reshoring activity.	traditions of offshoring. While the role of proximity or similarity of home–host country contexts in reshoring has been explored, the impact of country-level regulations has not been directly considered.	their branding and corporate social responsibility (CSR) activities within their home country. To some extent consistent with this study, we use stakeholder theory to explain how proximity or familiarity with the host country markets may influence reshoring decisions.
Rasel *et al.* (2020)	This study examines the reshoring process in terms of firms' subnational location choices in the United States.	Publicly available archival data on US firms.	Variables such as firm size, firm location and space, incentives offered by the government, and innovation intensity are used.	Larger firms are less likely to reshore to their home state. This tendency is strengthened when the cost of production in a home state is higher but offsets when states provide higher incentives and have higher levels of agglomeration.	Exploring domestic location advantages is a crucial strategic choice for firms. Therefore, this study builds on the place, space and organization framework of Beugelsdijk *et al.* (2010) to examine firm reshoring. Investment competition is highly decentralized in the US, where regions need to be defined more broadly. Also, the sample needs to be expanded as the reshoring phenomenon is still emerging. How the level of proximity with host country markets may influence reshoring	'Where to locate' has occupied the minds of executives and policymakers. 'Where to relocate' has emerged as an interesting corollary for companies seeking to bring back their offshore manufacturing activities. The study, therefore, contributes to research on the subnational location and associated costs of reshoring. We, similarly, argue that the cost of host country regulation affects the process of reshoring.

					decisions was also missing.	
Gray *et al.* (2017)	This study examines why small and medium-sized enterprises (SMEs) are moving their manufacturing operations from low-cost countries back to high-cost countries, reversing earlier offshoring decisions.	The study develops and analyses a System Dynamics Model of SMEs' offshoring and reshoring decisions.	Variables such as offshore risks, less quantifiable factors, indifference to environmental concerns, and changes to the governance structure are used.	By developing propositions regarding SMEs' reshoring decisions, this study evaluates these decisions through the lens of the heuristic decision-making literature, providing managerial and policy implications.	Research on reshoring decisions within the context of SMEs is limited. More could be explored on how different types of stakeholders or levels of proximity with the host country environments may influence SMEs' decisions to reshore.	Offshoring decisions were examined without comparing similar decisions and the findings were unclear: in particular, lacking the amount of detail in the analysis. Unlike our study, this research has failed to provide policy implications that aid managers in incorporating the challenges of operating offshore and considering reshoring.
Srai and Ané (2016)	This research examines manufacturing reshoring from institutional, strategic and operations management perspectives.	Synthesis of literature. Qualitative analysis using datasets from UK and France.	94 cross-sectorial manufacturing firms, mainly SMEs and MSEs from the UK and France. Variables such as firm size, quality and brand, cost of reshoring, level of innovation, and country-specific risk are used.	End users are demanding more responsive near-to-market supply chains, but firms require a continuous reappraisal of the location decisions, which is increasingly a dynamic two-way process.	There is limited research available examining how location decision drivers have impacted reshoring firms. The study is limited to only two Western European nations and has a relatively small sample size. The role of country-level regulations which may affect different stakeholders could be explored further.	The restructuring dynamic has not been previously identified as a dominant reshoring driver in the reshoring literature. Although our study does not examine restructuring as a driver of reshoring decisions, we implicitly evaluate the changes in regulatory and governance structure.

Albertoni *et al.* (2017)	This research investigates whether the reshoring of business services is the result of a company's response to performance shortcomings.	Quantitative analysis using secondary data collected from an offshoring research network.	Factors affecting offshoring decisions, i.e. disintegration, localization, and externalization are used as key constructs. Age of offshoring project, governance effectiveness, regulatory quality, rule of law and market attractiveness are used as key variables.	Reshoring of business services is the result of a company's response to performance shortcomings. Specifically, when offshoring is motivated by accessing new markets that result in unsatisfactory performance, companies are likely to relocate.	This study only focuses on performance measures of the manufacturing firms. Data were collected from secondary sources. So far, studies have investigated the reshoring of production activities, and little is known about the reshoring of business services. The effect of proximity with the host market on reshoring decisions has not been empirically explored.	Although several companies are increasingly following offshoring business processes and activities in order to respond to competitive effects and pressures, some have started to consider relocating their activities, either back home or to other offshore locations. We examine, to some extent, the institutional- and country-specific environmental and regulatory effects.
Brandon-Jones *et al.* (2017)	This research examines the shareholder wealth effects of 37 reshoring decisions announced by US firms during 2006–2015 using a dataset mainly extracted from Factiva. Supplementary sources such as Google News and www.reshorenow.org are also used.	Event-study analysis to capture announcement returns of reshoring firms. Two nonparametric test statistics (i.e. the rank test and the generalized sign test) are used.	Variables used include reshoring announcements, focal firms, and stock prices.	Reshoring announcements result in positive abnormal stock returns. The benefits associated with the reshoring tend to outweigh the costs.	The sample size is relatively small. The study also focuses only on short-term stock price reactions. No cross-sectional variation of the reshoring announcement effects is checked. The impact of stakeholder proximity with host country environments has not been explored.	The results of the study show government- and industry-led incentives stimulating the reshoring phenomenon in regions where manufacturing has been lost over recent years (e.g., the US and UK). Our study is not very similar to this study but also explores the role of stakeholder proximity with host country environments on reshoring decisions.

Stakeholders' perspective	Arenas *et al.* (2020)	Examines multi-stakeholder initiatives (MSIs) as spaces for both deliberation and contestation between constituencies with competing discourses, and disputed values, beliefs, and preferences.	Review of literature on MSIs.	Uses case studies based on various stakeholders and examines constructs such as resources, regulatory regime, internal governance structure, etc.	The study identifies four types of internal contestation which can be present in MSIs: procedural, inclusiveness, epistemic, and ultimate goal.	The study is based mainly on a review of the literature, and future research needs to be empirical and consider methods such as longitudinal case studies of MSIs. Yet, how different types of external stakeholders operating in different environments or with varying levels of proximity with host country markets may influence different types of firms could be explored further.	The study extends previous research on the role of business as a political actor in a post-Westphalian political order. Our study, although different, evaluates the importance of regulatory regime and governance structure related to firms undertaking reshoring.
	Damanpour *et al.* (2018)	This study contributes by examining how the involvement of stakeholders in the selection of a new programme, and organizational actions for the implementation of that programme, affect its adoption.	Data were collected on the privatization of public services from the ICMA (International City/County Management Associations) and ASD (Alternative Service Delivery) surveys. A generalized linear model with a binomial logit analysis was used to examine the	Variables used are panel-year of firms, internal and external involvement, and implementation actions.	The results show that while the relative influence of internal and external stakeholders' involvement on innovation adoption does not differ, internal implementation actions have a stronger effect than external implementation actions.	Managerial innovation has multiple types, and this study focused only on a single type of managerial innovation: outsourcing. Furthermore, the sample was composed only of outsourcing via privatization. Finally, the study controlled for seven variables and three fixed effects to isolate the influence of explanatory variables. How the level of proximity of stakeholders with a	Stakeholders' participation in managerial decision-making is significant for innovation. We have similarly used stakeholder theory in the context of reshoring decision-making.

		privatization of 64 services in 1,512 public organizations.			market or business environment may influence decisions of different types of firms could also be explored.	
Adomako *et al.* (2022)	This study examines stakeholder green pressures as antecedents of eco-product innovation and new product performance in firms operating in resource-constrained countries.	Quantitative method using data gathered from surveys in Vietnam (*N* = 183) and Ghana (*N* = 217).	Environmental sustainability orientation, eco-product innovation, and new product performance are used as the main constructs. Regulators, media, competitors, employees, innovation and environmental sustainability are used as variables.	The results show that the positive effects of stakeholder green pressures on new product performance are serially mediated by environmental sustainability orientation and eco-product innovation.	The limitations of this study are related to its survey-based nature. Specifically, the dependent variable is a self-reported measure. The differing effect of various stakeholders' pressure is not fully explored. In addition, when stakeholders' pressures are not effective on some stakeholders with different goals, values and interests could be explored further.	The results show stronger green stakeholder pressures indirectly influence new product performance through a serial mediation, where stakeholder pressures increase ESO and this, in turn, increases eco-product innovation. In particular, this study shows the influence of stakeholders on product performance. We, using stakeholder theory, show that reshoring decisions, which are often taken due to product and cost demands, can be influenced by the majority and minority stakeholders.
Surroca *et al.* (2013)	This study investigates how MNEs respond to pressure to conform to their stakeholders' expectations for greater attention to CSR.	The study draws from panel data on 269 subsidiaries in 27 countries belonging to 110 MNEs from 22 countries. Secondary data	Variables used include stakeholder pressure, interlocked and minority-owned subsidiaries, institutional	Stakeholder pressure is more pronounced when a subsidiary is unconnected to an MNE yet is controlled by an MNE through the appointment of the	The database includes CSR ratings mainly for larger MNEs' subsidiaries. Further, this study examined only those ties that connect MNEs to their subsidiaries through	The study helps to reconcile some contradictory findings in the IB literature on the effect of stakeholder pressure on CSR as a result of the growing internationalization of

		from GlobalPlatform (SGP); COMPUSTAT Global Vantage; and Osiris. Uses a fixed-effect Hausman Test.	control (regulatory system and civil society), and transfer of CSIR practices.	subsidiary's board members.	direct equity holdings and director interlocks. How the level of proximity with a market or business environment may affect the decisions of different types of firms could also be explored.	firms. Similarly, our study examines the regulatory and civil law implications of MNEs relating to their subsidiaries through the lenses of stakeholder theory within a reshoring context.

Hypothesis development

Minority-owned subsidiaries and foreign directors

Conventionally, MNEs are averse to conducting their business in an environment that is affected by uncertainty and legitimacy concerns (Demirbag, Glaister and Tatoglu, 2007). Majority-owned MNEs can avoid uncertainty since they have a higher degree of access to the internal resources of firms compared with minority-owned MNEs, and they are less likely to be dependent on the host country's environment and localness (Nachum, 2010). In contrast, in the case of minority-owned subsidiaries, MNEs incur higher costs of interaction with local stakeholders in foreign environments due to their lack of local knowledge and their dependency on local stakeholders (Kim, Prescott and Kim, 2005; Nachum, 2010). Majority-owned subsidiaries are better poised to protect the market advantages due to their closer ties with the parent company, but this may be at the expense of higher costs and greater scrutiny of parent stakeholders.

From the point of view of MNEs, owning a majority stake in a subsidiary in a foreign country implies a financial commitment to the host country. In contrast, a minority stake in a subsidiary simply signals that the MNE may find it risky to invest in the host country and may prefer not to commit financially to the investment in the foreign country. Typically, minority stakes allow MNEs to have a presence in a foreign market to build a reputation in the host country or to understand better how the foreign market operates. In these cases, parent companies may have no interest in appointing local directors to the board for a number of reasons: first, they are not interested in getting involved with local stakeholders, as their investment in the host country may be transient. Second, local directors may be too connected to the local environment, and this creates additional coordination costs that MNEs do not want to bear (Nachum, 2010). If so, foreign directors may offer some distinct advantages to MNEs which own only minority stakes in a subsidiary. Foreign directors (i.e. directors who do not work in the host country and therefore have their business relationships in a country other than the host country) on the board of a subsidiary allow subsidiaries to expand their range of activities beyond the local environment and to gain knowledge and understanding of business practices beyond the host country (Kim, Prescott and Kim, 2005). This, in turn, suggests that minority-owned subsidiaries prefer foreign directors so that they can rationalize their expansion choices and will be in a better position to negotiate

with local stakeholders. In addition, foreign directors may bring knowledge of superior governance practices, which can help to reduce some of the risks associated with minority stakes (Demirbag, Glaister and Tatoglu, 2007). We, therefore, formalize that:

H1. Minority-owned subsidiaries are more likely to have foreign directors on their board than majority-owned subsidiaries.

The presence of foreign directors on the board of a minority-owned subsidiary and reshoring

External directors (e.g. foreign directors) generate a superior governance structure since they are exposed to less pressure than firms' shareholders or their internal stakeholders (Hussain, Rigoni and Orij, 2018; Jo and Harjoto, 2011). Due to their relative independence, they are shown to play an essential role in monitoring and controlling management decisions (Naciti, 2019). Indeed, they are often appointed to improve decision-making and provide greater access to valued resources (Husted and de Sousa-Filho, 2019). They are also found to experience challenges in questioning firms' decisions because of their limited familiarity with local culture, regulations or accounting rules (Batae, Dragomir and Feleaga, 2021; Masulis, Wang and Xie, 2012). These competing views imply how foreign directors are likely to affect firm-level decisions, such as reshoring, given that individual firms' decisions are associated with different levels of complexity, risk, urgency, and significance of the host country. As such, foreign directors are less sensitive to the corporate governance practices of the host country, since geographical distance affects their role in management oversight (Masulis, Wang and Xie, 2012). Therefore, foreign directors are more likely to support reshoring decisions, given that relocation of firms would increase their oversight capacity (Albertoni *et al.*, 2017; Baraldi *et al.*, 2018; Fratocchi and Di Stefano, 2019).

The internationalization of firms in terms of their geographical diversification increases the number and diversity of stakeholder pressures in their external environments because of social, cultural, legal, regulatory, and economic complexity between countries and the increasing variety of diverse stakeholder needs, expectations and interests across different regions (Kang, 2013; Khojastehpour and Shams, 2020). MNEs undertaking reshoring initiatives as their internationalization strategy often

recognize stakeholders' roles in the decision-making process. In particular, the influences of external stakeholders (such as foreign directors) on the board and governance structure are significant for MNEs for several reasons. First, MNEs operating in global environments are experiencing greater pressure from external stakeholders (including organizational stakeholders) than are local firms and, as a result, their decisions are more exposed to external stakeholder influences (Aguilera-Caracuel, Guerrero-Villegas and García-Sánchez, 2017; Kang, 2013). Thus, we argue that a decision such as reshoring is likely to be affected by external stakeholders such as foreign directors. Second, external stakeholders of MNEs (such as foreign directors) would experience greater stakeholder pressures from IB environments, and this may either enable them to respond more strongly to other external stakeholder influences or lead them to become dysfunctional in their efforts to affect firms' decisions (e.g. reshoring decisions) in the presence of increasingly complex and unfamiliar environments. Thus, we hypothesize:

H2. The presence of foreign directors on the board of a minority-owned subsidiary is positively associated with the subsidiary's likelihood of being reshored.

Mandatory environmental disclosure, reshoring, and foreign directors

MNEs tend to withdraw from countries with strong regulations, which may be costly for the subsidiary (Chan and Makino, 2007; Spencer and Gomez, 2011; Surroca, Tribó and Zahra, 2013). Environmental regulation is an example of such regulation. Among the different types of environmental regulation, environmental disclosure is an example which ideally tries to balance the social and economic interests of several stakeholders (Gerged, 2021). For instance, environmental disclosure may aim to safeguard supply chains (Doorey, 2011; Gold and Heikkurinen, 2016) and improve the way resources are allocated (Giannarakis, Andronikidis and Sariannidis, 2019; Jizi, 2017). At the same time, mandatory environmental disclosure can increase the internal costs of a subsidiary, and this may affect its strategic outlook (Chen, Olhager and Tang, 2014). In countries with mandatory environmental regulation, MNEs may face high compliance costs and limited financial benefits if their financial stake in a subsidiary is less than 50% (i.e. a minority stake) (Belderbos, 2003).

In these cases, local directors with a good knowledge of the legal landscape in the host country can help the subsidiary to navigate the additional costs generated by environmental regulation. However, this is no longer possible for foreign directors, who may not have the necessary proximity with the host country and thus hold limited familiarity and knowledge of the host country's market. In these cases, MNEs may find that reshoring decisions are the best mechanism for reducing costs and feel assured that their collective interests are not compromised (Mallin, Michelon and Raggi, 2013). This is particularly true for minority-owned subsidiaries, which are more likely to be reshored in the case of stringent environmental regulation. We, therefore, propose the following hypothesis:

H3. Mandatory environmental disclosure moderates positively the relationship between the presence of foreign directors on the board of minority-owned subsidiaries and the likelihood of being reshored.

Poor protection of minority shareholders, reshoring, and foreign directors

Poor protection of minority shareholders may be problematic for MNEs owning minority shares in subsidiaries (Dyck and Zingales, 2004; Nenova, 2003). Indeed, poor protection of minority shareholders could undermine the authority of MNEs (Schneper and Guillén, 2004) and affect the subsidiary's internal strategic decisions in such a way that the interests of the foreign investor are not protected (Carruthers and Ariovich, 2004). Further, minority shareholders' protection facilitates the bargaining power of MNEs and leverages resource allocation (Casson, 2013; Grappi *et al.*, 2015; Prezas, Simonyan and Vasudevan, 2010). In addition, majority shareholders require minority shareholders' consent for contentious issues, such as labour-cost arbitrage, in compliance with the country's industrial policy framework, where labour-cost arbitrage is often seen as a strategic intent of firms to reshore (Butzbach, Fuller and Schnyder, 2020). As such, minority shareholders are related to firm-level strategic decisions and corporate control, particularly where the institutional governance system depends largely on the capital market and financialization[6] (Butzbach *et al.*, 2020).

In these cases, MNEs may rely on the board of directors to protect their rights as minority shareholders (Ayuso *et al.*, 2014). In a number of countries, corporate governance codes emphasize the role of directors in protecting minority shareholders (Kim, Kitsabunnarat-Chatjuthamard and

Nofsinger, 2007). Indeed, both corporate governance regulation and the stakeholder theory approach suggest that directors as stakeholders may play an important role in monitoring majority shareholders and CEOs so that no expropriation of minority shareholders may take place. When firms undertake strategic decisions in line with their corporate governance mandate, the presence of strong directors leads to complementary interactions (Grappi *et al.*, 2015) and aligns firm-level options to the interest of the minority shareholders (Harrison *et al.*, 2010).

Foreign directors whose business relationships are in a country other than the host country are likely to expand their activities beyond the local environment (Kim, Prescott and Kim, 2005). Although foreign directors can provide advice, they cannot help with the traditional monitoring role performed by the board (Masulis, Wang and Xie, 2012). In particular, foreign directors are affected by oversight costs due to geographical distance and lack of control in monitoring the board (Masulis, Wang and Xie, 2012). Finally, the presence of foreign directors on a board may signal that the subsidiary has limited connections with the local business environment and poor knowledge of the host country's legal environment (Kim, Prescott and Kim, 2005). For these reasons, foreign directors on the board may not be in a position to protect the rights of minority shareholders and therefore MNEs may be more likely to withdraw from these subsidiaries. We, therefore, propose the following hypothesis:

H4. Poor protection of minority shareholders moderates positively the relationship between the presence of foreign directors on the board of minority-owned subsidiaries and the likelihood of being reshored.

In line with our hypotheses, we develop and present our conceptual framework in Figure 1.

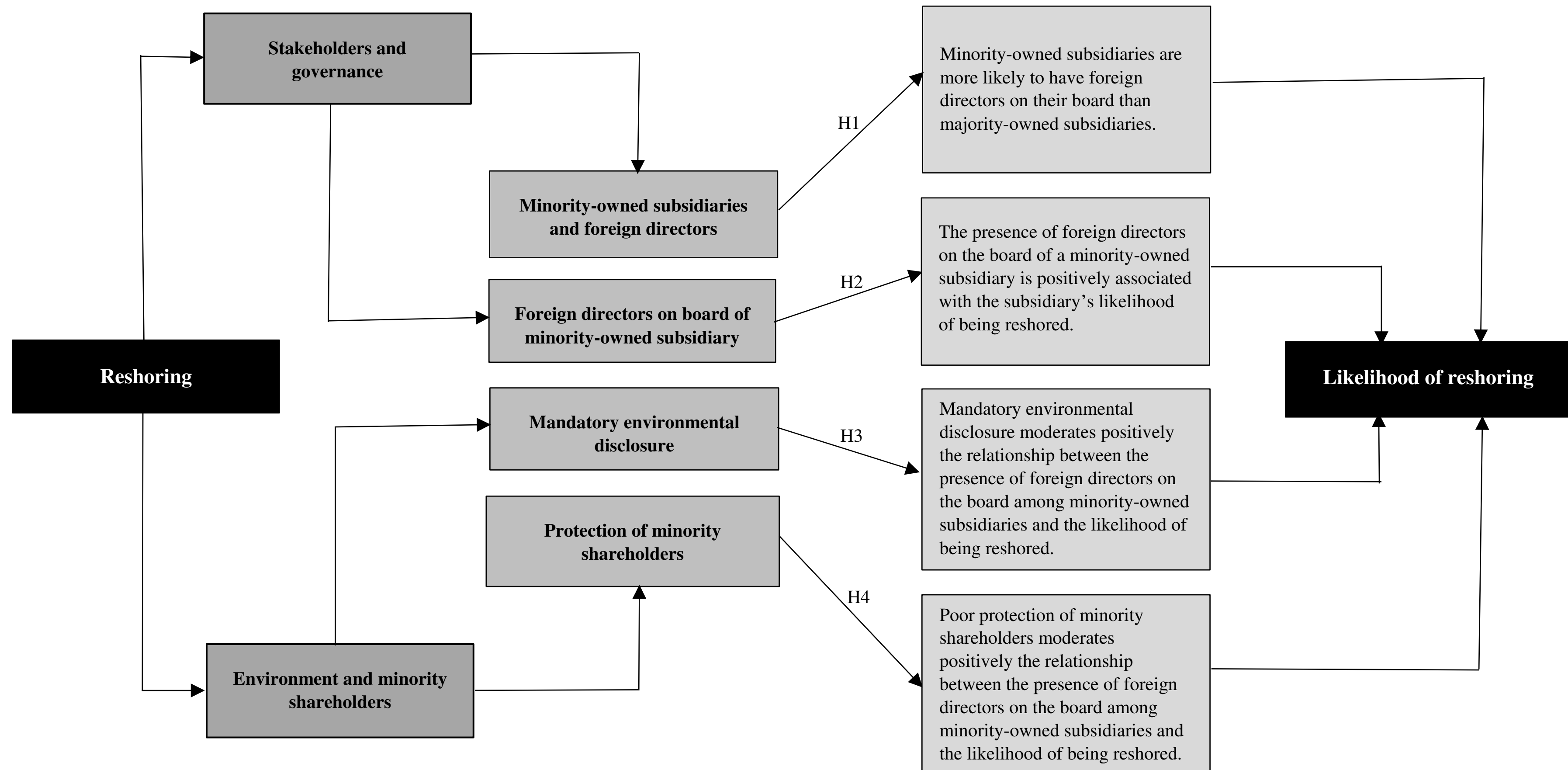

Figure 1: Conceptual framework

Data and methods

Data and variable definition

To test our hypotheses, we used a dataset of subsidiaries that are owned by UK firms and located across a number of countries. Our dataset was assembled using the accounts data collected by Bureau van Dijk (BvD). The database lists the companies (or subsidiaries) that are owned by each firm and are located abroad. As there is a unique identifier for each subsidiary, it was possible to find information on each subsidiary and, in this way, we managed to match each parent company to a number of affiliates. We identified 1,845 subsidiaries located in 39 countries. Finally, we used the information on foreign ownership, date of establishment of the company and size of the foreign stake to distinguish between different types of brownfields. Following Belderbos (2003), an established company bought by a foreign company is defined as a brownfield.

Since our focus is on minority-owned subsidiaries, we distinguish minority-owned from majority-owned subsidiaries by their level of foreign stake. Minority (majority) acquisitions are brownfields with the size of the foreign stake being less (more) than 50%. For each subsidiary, we collected information on the board and its directors. For each director, we obtained information on whether they are executive directors and on their gender, education and additional appointments. We used this last piece of information to identify foreign directors i.e. those who do not have business connections in the country where the affiliate is located. This definition focuses on directors' connection with the host country. Finally, we identified the countries with mandatory environmental disclosure by merging the information from Krueger *et al.* (2021) with information from national websites on environmental and social disclosure. The final sample is an unbalanced panel covering the period 2005–2017. Our variable definitions are presented in Table 2.

Table 2. Variable definition	
Brownfields	Dummy variable equal to zero for minority brownfields and equal to one for majority brownfields. Calculated using data from Amadeus, 2005–2017.
Majority brownfields	An established company bought by a foreign company is a brownfield (Belderbos, 2003). Minority (majority) acquisitions are brownfields with the size of the foreign stake being less (more) than 50%.
Anti-director rights index	The index ranges from 0 (minimum protection of minority shareholders) to 6 (max protection of minority shareholders). Sourced from Djankov *et al.* (2008).
Civil law	Dummy variable taking the value one if the host country's legal system belongs to the civil law / East European legal tradition and zero otherwise. Sourced from La Porta, Lopez-de-Silanes, and Shleifer, 2008.
FD	Dummy variable that equals zero for affiliates with no foreign directors and one otherwise. Foreign directors are directors of a subsidiary who do not have business connections in the country where the affiliate is located. Sourced from Amadeus, 2005–2017.
Size of the board	The total number of directors on each subsidiary's board. Sourced from Amadeus, 2005–2017.
Number of employees	Log of employee counts in each subsidiary. Sourced from Amadeus, 2005–2017.
Age	Natural log of years the subsidiary has been active. Sourced from Amadeus, 2005–2017.
Number of subsidiaries	The number of other affiliates in the same country controlled by the same parent company. Sourced from Amadeus, 2005–2017.
Reshoring	Dummy variable taking the value of one if the subsidiary has experienced a decline in employment of 10% and an equivalent increase of employment of the parent company. Sourced from Delis *et al.* (2019).
Environmental disclosure	Dummy variable taking the value of one if the host country mandates environmental disclosure and zero otherwise. Sourced from Krueger *et al.* (2021).
Total assets	Total fixed assets pertaining to each subsidiary. Sourced from Amadeus, 2005–2017.
GDP per capita	GDP per capita of the host country in real terms. Sourced from the World Bank Indicators.

The empirical model

We estimate the likelihood of appointing a foreign director conditional on the subsidiary being a minority-owned subsidiary and calculate the predicted probability of appointing a foreign director, which we use as an independent variable in Eq. (1). Thus, our estimation procedure follows two stages. In Stage 1, we model the choice between majority- and minority-owned brownfields as well as the choice of appointing a foreign director. In Stage 2, we model the choice of reshoring conditional on a range of variables, including the predicted probability of appointing a foreign director, an indicator of corporate governance institutions and the presence of mandatory environmental disclosure. The empirical design of our study is presented in Table 3.

Table 3. Empirical design

Sample choice	We used a dataset of subsidiaries owned by UK firms and located across a number of countries. We identified 1,845 subsidiaries located in 39 countries. Given the focus on environmental disclosure, we decided to focus on subsidiaries and parent companies belonging to manufacturing since the sector is more sensitive than services to changes in environmental regulations. Our dataset has been assembled using the accounts data collected by Bureau van Dijk (BvD). The final sample is an unbalanced panel covering the period 2005–2017. Of our subsidiaries, 37% are minority acquisitions; 66% are located in a civil law country, while 18% are located in a country belonging to the East European tradition.
Empirical purpose	Our hypotheses suggest that minority-owned subsidiaries are more likely to be reshored than majority-owned subsidiaries if they have foreign directors on the board after controlling for the presence of mandatory environmental disclosure and the level of protection of the minority shareholders' interests offered by the country-level institutions. Empirically, this is equivalent to testing whether the likelihood of a minority-owned subsidiary to be reshored is positively associated with the presence of a foreign director on its board of directors with indicators of mandatory environmental disclosure and of corporate governance institutions being the moderating variables. At the same time, our hypotheses suggest that this positive association between the likelihood of being reshored and the presence of a foreign director on the board is more frequent among minority-owned subsidiaries than among majority-owned subsidiaries. The implication is that for our analysis, we need to focus on the minority-owned subsidiaries. At the same time, IB theory suggests that there may exist a correlation between the size of the foreign stake in a subsidiary and the presence of foreign directors on the board; such correlation is driven by the fact that minority-owned subsidiaries are more likely to have foreign directors in their boards. If not controlled, this correlation may affect the estimates of the reshoring equation.
Estimation approach	We estimate the likelihood of appointing a foreign director conditional on the subsidiary being a minority-owned subsidiary. Once this is estimated, we calculate the predicted probability of appointing a foreign director and use it as an independent variable. As a result, our estimation procedure is split into two stages. In Stage 1, we model the choice between the majority and minority of brownfields as well as the choice of appointing a foreign director. In Stage 2, we model the choice of reshoring conditional on the predicted probability of appointing a foreign director, an indicator of corporate governance institutions and the presence of mandatory environmental disclosure (among the many variables).

The two stages of our estimation procedure are as follows:

Stage 1: The first two equations in this stage simultaneously model MNEs' choice of the majority- or minority-owned brownfields and the choice of appointing foreign directors on the board by using a sample selection model. The choice of entry mode is governed by the following equations:

$$brown_{it} = 1 \; if \; brown^{*} = w_{it}\alpha + e_{it} \quad i = 1, \dots, N \; t = 1, \dots, T$$

$$brown_{it} = 0 \quad otherwise \tag{1}$$

where *brown** is an unobservable latent variable, whose value determines whether the company decides to invest in a brownfield with a minority stake, and *brown* is an observed indicator that equals zero for minority brownfields and one otherwise. The error term e_{it} is assumed to be normally distributed.

Conditional on being a brownfield with a foreign majority stake, we estimate the propensity of the affiliate to appoint a foreign director as:

$$FD_{it} = z_{it}\beta + e_{it} \;\; if \; brown_{it} \neq 0 \tag{2}$$

$$FD_{it} = 0 \qquad if \; brown_{it} = 0$$

where *FD* is an observed indicator that equals zero for affiliates with no foreign directors and one otherwise, and e_{it} is an error term. Assuming that the two error terms are distributed as a bivariate normal, the system of Eq. (1) and Eq. (2) can be estimated as a Heckman model.

Stage 2. We sequentially estimate the probability of reshoring conditional on the appointment of a foreign director. The variable *Pred(FD)* is the predicted likelihood of appointing a foreign director and is derived from Stage 1 as:

$$Reshoring_{it} = Pred(FD)_{it}\, \alpha + z_{it}\beta + e_{it} \; if \; brown_{it} \neq 0 \tag{3}$$

where the dependent variable is a dummy variable taking the value of one if the subsidiary is reshored and zero otherwise. The variable *FD* is a dummy variable taking the value of one if the subsidiary has a foreign director on the board and zero otherwise, while the variable *z* captures the moderating

variables (mandatory environmental disclosure and corporate governance institutions) as well as a number of firm-level control variables (e.g. size).

Variable description

Dependent variables. The key equation in Stage 1 is the one governing the choice of appointing a foreign director, Eq. (2). The dependent variable is a dummy variable taking the value of one if the subsidiary has a foreign director and zero otherwise.

The key dependent variable in Stage 2 is a dummy variable taking the value of one if a fraction of the employees of a subsidiary is moved back to the parent company (i.e. reshoring) and zero otherwise. To construct this variable, we use the definition of reshoring suggested by Delis *et al.* (2019). They suggest that MNEs whose subsidiaries are experiencing a decline in employment of up to 10% of their workforce followed by an increase in the parent company's employment are reshoring their activities. We create a dummy variable taking the value of one if these two conditions are satisfied for each subsidiary and parent company pair and zero otherwise.

Independent variables. To test our hypotheses, we include as independent variables the following variables: (a) the presence of a foreign director; (b) an indicator of protection of minority shareholders; and (c) a dummy variable taking the value of one if the host country has mandatory environmental disclosure legislation over our time period and zero otherwise.

The first independent variable is a dummy variable taking the value of one if the subsidiary has a foreign director and zero otherwise. The second independent variable is a variable that proxies for the level of protection of minority shareholders using the Anti-director rights index, first proposed by Djankov *et al.* (2008). The index ranges from zero to six and has been used to capture the legal protection of minority shareholders. Another variable which has been used to capture the degree of protection of minority shareholders is the legal tradition to which the host country belongs. This is controlled by introducing two dummy variables taking the value of one if the host country's legal system belongs to the civil law / East European legal tradition and zero otherwise (La Porta *et al.*, 2008). We used this to describe the legal origin of countries (La Porta, Lopez-de-Silanes, and Shleifer, 2008). The

rationale for this measure relies on the assumption that the legal origin of countries imposes a certain unity on rules and practices adopted locally (Breuer *et al.*, 2018; Patnaik, 2019).

Conditional on the subsidiary being a brownfield with a foreign minority stake, we estimate its propensity to appoint a foreign director as:

$$FD_i = z_i\beta + e_i \;\; if\ brown_i \neq 0 \qquad (4)$$

$$FD_i = 0 \qquad if\ brown_i = 0$$

where *FD* is an observed indicator that equals zero for affiliates with no foreign directors and one otherwise, and e_i is an error term. Finally, we created a dummy variable taking the value of one if the country has mandatory environmental disclosure and zero otherwise.

Control variables. We use a number of control variables. We include the log of employee counts (to proxy for the size of the subsidiary), the age (log) of the subsidiary, and the number of subsidiaries in the host country that are controlled by the parent company. This last variable allows us to control for potential economies of scale within the network of subsidiaries and provides a crude indicator of the resources the subsidiary can access through its network of subsidiaries (Belderbos, 2003). We also control for the size of the board. According to Miletkov *et al.* (2016), large boards are more likely to appoint foreign directors, as they can bear the fixed costs (i.e. communication and coordination costs) of such appointments and are sufficiently established to be able to attract this type of director. Older firms might also have experience in working with international directors.

In both equations, we include country fixed effects as well as the year and industry dummies. The latter capture the characteristics of the sector (since the preferred specific entry mode may be driven by the main features of the industry), while country dummies control for the time-invariant characteristics of the host country.

Results

Summary statistics

Table 4 presents the summary statistics for our sample. Of our subsidiaries, 37% are minority acquisitions. In terms of the legal system, 66% of subsidiaries are located in a civil law country, while 18% are located in a country belonging to the East European tradition. The mean value of the Anti-director rights index for our countries is 3.35, and the average percentage of foreign directors in our sample is 33%.

Table 4. Summary statistics

	N	Mean	St. Dev.
Brownfields (minority-owned) (1/0)	24,444	0.37	0.48
GDP per capita UN current prices	40,186	41344.65	9381.469
total number of workers	15,626	182	671
Age	24,212	21	19
No of local subsidiaries	24,444	29	41
Civil law (1/0)	24,444	0.66	0.48
Revised Anti-director rights index	24,413	3.35	0.90
Total number of directors	7,318	2.9	2.6
Percentage of foreign directors	23,800	33	35
Reshored subsidiaries (1/0)	12,864	0.13	0.33
Located in Eastern Europe	24,435	0.18	0.38

This table provides summary statistics for our sample dataset. The database lists the companies (or subsidiaries) owned by each firm and which are located abroad. The sample period covers the years 2005 to 2017.

Main estimation results

Table 5 shows the estimates of the equations from Stage 1, while Tables 6 and 7 report the main estimates from Stage 2. Table 5 presents results from the two equations that model the choice of entry mode and the presence of foreign directors on the board. The results across the different specifications show that the data support the choice of a sample selection model with correlated disturbances. Indeed, the correlation coefficient is significant across all the models. As for the sign of the coefficient, it is positive; this means that brownfields with a foreign minority owner are more likely to have foreign directors on their boards. Particularly, the estimates of the equation that models the propensity to appoint a foreign director are presented in Table 5. The size of the board is positively associated with the likelihood of appointing a foreign director. This association indicates that the coordination costs (in

terms of poor attendance, for instance) associated with the appointment of foreign directors might be offset by the size of the board. Young and small brownfields are more likely to appoint foreign directors.

Table 5. The choice between majority and minority stake and foreign director – Heckman model

	(1)
Probability of having a foreign director on the board	
Size of the board	0.14**
	(6.93)
Age of the firm (log)	0.74**
	(2.19)
Workers (log)	-0.13***
	(-5.48)
Number of local affiliates	-0.014***
	(-6.44)
Anti-director rights index	0.12**
	(2.36)
Constant	-1.42
	(-7.37)
Minority brownfields	
Age (log)	0.0073
	(0.35)
Workers (log)	0.0073
	(0.57)
Located in Eastern Europe	-0.57***
	(-3.96)
Civil Law legal system	0.29***
	(3.95)
GDP (log)	-0.10
	(-1.42)
Constant	0.29
	(0.38)
Rho	0.87***
	(2.59)
No. of observations	24,192
Year dummies	Yes
Industry dummies	Yes
Country dummies	Yes

This table provides results obtained from the Heckman model estimation to examine the choice of entry mode between majority versus minority, and the probability of having a foreign director on the board. The majority, minority and foreign directors are as defined in Table 1.
*, **, *** Statistical significance at the 10%, 5% and 1% level, respectively.

The age of the brownfield is significantly associated with the probability of hiring a foreign director, while the network of local affiliates is negatively associated with the probability of hiring a foreign director. Countries with high values of the Anti-director rights index are more likely to have foreign directors. These results show that parent companies prefer not to appoint foreign directors to

the boards of affiliates located in countries whose institutions offer poor protection to the rights of minority shareholders, because the way in which they will protect the interests of the owners is unclear. As for the equation that models the likelihood of being a minority-owned brownfield, the estimates show that the age and size of the affiliate are not significantly associated with the probability of being a minority-owned brownfield. Equally, the probability of being a brownfield is not significantly associated with the size of the host country's GDP, which indicates that access to a growing market is not the main motive driving the investment in brownfields. As for the institutional variables, brownfields that are not fully controlled by their parent company are more likely to be located in countries that belong to the civil law legal tradition but not in Eastern Europe.

Our main results are presented in Table 6 and refer to Stage 2. In this model the dependent variable is the affiliate's likelihood of being reshored. As expected, the probability of appointing a foreign director, taken as its predicted value from the last specification of the Heckman model, is positively correlated with the probability of reshoring.

Table 6. Propensity to reshore among minority-owned subsidiaries – Probit model

	(1)	(2)
Age (log)	0.083***	0.07***
	(4.34)	(4.08)
Workers (log)	-0.12***	-0.123***
	(-11.80)	(-11.68)
Predicted probability of hiring a foreign director	0.08***	0.10***
	(2.10)	(2.68)
Mandatory environmental disclosure	0.16***	0.12***
	(2.68)	(2.18)
Anti-director index	0.092***	0.088***
	(4.00)	(4.08)
Located in Eastern Europe	0.11***	
	(1.72)	
No. of observations	24,192	24,192
Pseudo R^2	0.039	0.039
Year dummies	Yes	Yes
Industry dummies	Yes	Yes
Country dummies	Yes	Yes

This table provides results for the firm's propensity to reshore under the maximum likelihood estimation using Eq. (2). In this model the dependent variable is the affiliate's propensity to losing employment to the headquarter. The probability of appointing a foreign director is taken as its predicted value from the last specification of the Heckman model.

*, **, *** Statistical significance at the 10%, 5% and 1% level, respectively.

In addition, this table provides results for the firm's propensity to reshore under the maximum likelihood estimation shown in Eq. (3). In this model the dependent variable is the affiliate's propensity to lose employment to the headquarters. The probability of appointing a foreign director is taken as its predicted value from the last specification.

Tables 7 and 8 focus on foreign directors who have previous experience as directors in a civil law country.

Table 7. Choice of entry mode (majority vs minority) and foreign director with experience in a civil law country – Heckman model

	(1)
Probability of having a foreign director with experience in a civil law country on the board	
Size of the board	0.180***
	(8.36)
Age of the firm (log)	0.013
	(0.36)
Workers (log)	-0.159***
	(-6.20)
Anti-director rights index	0.16***
	(2.88)
Constant	-1.360***
	(-5.87)
Minority brownfields	
Age (log)	0.0090
	(0.42)
Workers (log)	0.0012
	(0.10)
Civil Law legal system	0.44***
	(7.20)
GDP (log)	0.150***
	(3.48)
Constant	2.48***
	(-5.76)
Rho	0.570***
	(1.92)
No. of observations	24,192
Year dummies	Yes
industry dummies	Yes
country dummies	Yes

This table provides results obtained from the Heckman model estimation to examine the choice of entry mode between majority versus minority, and the probability of having a foreign director on the board. The majority, minority and foreign directors are as defined in Table 1.
*, **, *** Statistical significance at the 10%, 5% and 1% level, respectively.

Interestingly, while the results of the selection model (Table 7) are in line with the previous results, the results from Table 8 show that the link between the probability of reshoring and the presence of a foreign director is still significant. In other words, the presence of foreign directors with experience from a civil law country does not make reshoring less likely.

Table 8. Propensity to reshore

Age (log)	0.082***
	(4.34)
Workers (log)	-0.125***
	(-11.80)
Predicted probability of hiring a foreign director with experience from a civil law country	0.08***
	(2.02)
Mandatory Environmental Disclosure	0.16***
	(2.68)
Anti-director rights index	0.092***
	(3.99)
East Europe dummy	0.111***
	(1.72)
No. of observations	24,192
Pseudo R^2	0.0393
Year dummies	Yes
Industry dummies	Yes
Country dummies	Yes

This table provides results obtained from the Heckman model estimation to examine the choice of entry mode between majority versus minority, and the probability of having a foreign director on the board. The majority, minority and foreign directors are as defined in Table 1.

*, **, *** Statistical significance at the 10%, 5% and 1% level, respectively.

Discussion

This paper has analysed a specific type of reshoring decision that MNEs make, namely the decision to withdraw their investment or subsidiaries from a host country. This is a pivotal research area, as increasing uncertainty about the economic outlook, as well as changing environmental and institutional regulations, is forcing MNEs to reassess the costs and benefits of continuing to invest in a foreign country. Clearly, the decision-making behind reshoring is rather complex, and both internal and external factors need to be taken into account; in this study, we have focused on the interplay between country-level institutions associated with host country markets and external stakeholders affiliated with subsidiaries (i.e. foreign directors).

We argue that a large presence of external stakeholders may accelerate the decision to reshore, and this effect can be compounded by the presence of mandatory environmental reporting and by corporate governance institutions. Specifically, our findings demonstrate that when stakeholders (such as foreign directors) have a low degree of proximity with the host country markets or the stakeholders within the local environment, they are likely to give stronger support to reshoring decisions. In addition, when corporate governance institutions in a host country market environment offer poor protection for minority shareholders' rights, MNEs may prefer to reshore to mitigate some of the risks associated with the need to manage diverse groups of stakeholders. Since effective corporate governance practices are related to stakeholders' wider interests (Ayuso *et al.*, 2014), it is highly likely that risk reduction to manage diverse stakeholders can influence reshoring activities. The presence of foreign directors on the board of subsidiaries is particularly effective in reshoring decisions for minority-owned subsidiaries operating in foreign countries with mandatory environmental disclosure and with poor protection of minority shareholders. This finding is consistent with the view that stakeholders such as minority-owned or majority-owned subsidiaries may not always respond to the claims of other stakeholders or their environment when such responses are against their goals, values and interests (Freeman, Harrison and Zyglidopoulos, 2018; Phillips and Reichart, 2000; Ramoglou et al., 2021). However, our study has furthered this view by demonstrating that external stakeholders, which are affiliated with firms such as foreign directors, may have a stronger influence on firm decisions such as reshoring when their ideas

are more aligned with internal stakeholders. Importantly, the influence of external stakeholders may still be strong when the salience of their claims is reduced due to their low level of proximity with market environments (Erramilli and Rao, 1990; Hooghiemstra et al., 2019). Based on our findings, we present the results of hypothesis testing in Table 9.

Table 9. Hypothesis testing results

		Results
H1	*Minority-owned subsidiaries are more likely to have foreign directors on their board than majority-owned subsidiaries.*	Supported
H2	*The presence of foreign directors on the board of a minority-owned subsidiary is positively associated with the subsidiary's likelihood of being reshored.*	Supported
H3	*Mandatory environmental disclosure moderates positively the relationship between the presence of foreign directors on the board of minority-owned subsidiaries and the likelihood of being reshored.*	Supported
H4	*Poor protection of minority shareholders moderates positively the relationship between the presence of foreign directors on the board of minority-owned subsidiaries and the likelihood of being reshored.*	Supported

Our paper advances understanding of the adjustments needed in response to a continuously changing global business environment. First, we framed our study within the stakeholder theory framework and, in this respect, our results support the main argument that organizations' decision to reshore is dependent on a diverse set of stakeholders including foreign directors, who may have different goals, interests and claims. Second, we showed that having stakeholders with less proximity to the host country may accelerate the reshoring decision. This is particularly true in countries characterized by institutional uncertainty and where MNEs with minority-owned subsidiaries may internalize the impact that local institutions have on their expected outcomes by using reshoring as a mechanism that can offset the weak institutional protection, the cost and market transactions, and hierarchical governance of MNEs of the local institutions.

The contributions of this study are twofold. First, and predominantly, this research has revisited stakeholder theory by considering an 'inside-out' perspective to understand the 'who' and how they affect reshoring decisions, as this has been one of the least explored aspects of reshoring decisions (Albertoni *et al.*, 2017; Rasel *et al.*, 2020; Srai and Ané, 2016). On the contrary, the 'outside-in' perspective of stakeholder theory focuses on external influences within a market environment in which

a firm operates and is limited in explaining variance in attention to certain stakeholder claims, demands or influences, which have low proximity with the market environment (Crilly and Sloan, 2012; Winkler *et al.*, 2019). Emphasising the focal firm's behaviour (Crilly and Sloan, 2012; Winkler *et al.*, 2019) where the 'inside-out' perspective remains dominant, we showed that reshoring decisions may depend on how a specific type of external stakeholder (i.e. foreign director) affiliated with the firm conceives or conceptualizes its relationship (in terms of proximity) with the external host country (or the stakeholders within it) and influences the reshoring decision of the internal stakeholder (i.e. minority-owned subsidiary).

In relation to this, we showed that depending on the proximity of a firm's stakeholders (i.e. foreign directors) to the host country context, the institutional environment can shape the preference for specific choices that are made in such a way that the negative impact of institutions on firm-level outcomes is minimized. This is in line with existing studies showing how the way in which subsidiaries are organized can minimize the costs MNEs face when dealing with uncertain institutional environments (Prezas *et al*., 2010; Srai and Ané, 2016; Surroca *et al.*, 2013; Uhlenbruck, 2004). We made a further step in considering the implications of corporate governance institutions (i.e. level of shareholder protection; host country's legal system) for the reshoring decision. Our study can be read in the light of this growing literature, which we extend by analysing how specific corporate governance institutions influence the decision to reshore. Our findings are novel in many ways as they highlight the fact that the impact of external stakeholders on reshoring decisions of diverse types of subsidiaries' stakeholders is mediated by country-level institutions and regulatory requirements.

Second, our study has extended the reshoring literature, which has examined predominantly how reshoring decisions affect stakeholders such as customers (Grappi, Romani and Bagozzi, 2015, 2018, 2020a), employees (Grappi *et al.* 2020b) and shareholders (Brandon-Jones *et al.*, 2017) and has provided insufficient focus on the role played by stakeholders other than managers in reshoring decisions (Rasel *et al.*, 2020). Although some studies have provided insights into how diverse types of stakeholder organizations, such as MNEs and SMEs, engage in reshoring decisions (Merino *et al.* 2021; Pegoraro *et al.*, 2021), the extant research studying the influence of individual stakeholders on reshoring

decisions is limited to the valuations and decisions given by individual managers as internal stakeholders (Gray *et al.*, 2013, Gray *et al.*, 2017; Pal, Harper and Vellesalu, 2018). However, external stakeholders, such as foreign directors affiliated with firms, are more independent than internal stakeholders, given that they are not exposed to direct intra-firm supervisory control and could not be managed in the traditional sense as part of the management hierarchy (Harrison and St. John, 1996).

Foreign directors, in particular, carry a heavier burden due to their locational distance and time constraints than their domestic counterparts, which erodes their monitoring incentives (Masulis *et al.*, 2012). Hence, these types of stakeholders are likely to have dissimilar responses to reshoring decisions compared with internal stakeholders such as managers. While some studies have investigated the effect of stakeholder diversity in other types of decisions made by firms (e.g. corporate pension policies, CSR decisions and innovation decisions), they are inconclusive about how increasing diversity through the involvement of different types of stakeholders (e.g. internal and external stakeholders) affects these decisions (Harjoto, Laksmana and Lee, 2015; Li and Al-Najjar, 2021; Rao and Tilt, 2016). Some of these studies suggest that external stakeholders affiliated with firms may contribute significantly to decision-making by bringing new and diverse insights into the conventional perspectives of majority directors (Choi, Park and Yoo, 2007; Harjoto *et al.*, 2015; Westphal and Milton, 2000). However, some studies assert that increasing stakeholder diversity through the involvement of external stakeholders may complicate and challenge board consensus in decision-making (Harjoto *et al.*, 2015). In response to these inconsistent views, this study recognizes that the effect of external stakeholders affiliated with firms (e.g. foreign directors) needs to be evaluated by considering firms' specific decisions with different levels of complexity, risk, urgency and significance. We also observe that the influence of external stakeholders such as foreign directors may not be the same for stakeholders such as minority-owned and majority-owned subsidiaries. Finally, we outline several managerial and policy implications in Table 10.

Table 10. Managerial and policy implications

Managerial implications
• We show that coordination costs (e.g., poor attendance) associated with the appointment of foreign directors are offset by the size of the board; therefore, young and small minority-owned subsidiaries are more likely to appoint foreign directors, Hence, our study is of interest to MNEs, and MNEs should consider the cost of investing in minority-owned subsidiaries based on the size of their board.
• Some countries may be attractive destinations for MNEs in relation to their availability of labour markets and opportunities to develop collaborations and patentable inventions. However, their institutional environment might still jeopardize their investments in the long run and may persuade companies to reshore their operations, which can be an expensive process. Therefore, MNEs must scrutinize the institutional environment of host countries prior to undertaking a reshoring decision.
• We demonstrate that the probability of being a minority-owned subsidiary is not significantly associated with the size of the host country's GDP, which indicates that access to a growing market is not the main motive driving the investment in minority-owned subsidiaries. Therefore, MNEs should ensure that their investment strategy aligns with firm-level measures rather than country-level measures.
• We highlight that minority-owned subsidiaries that are not fully controlled by their parent company are more likely to be located in countries that belong to the civil law legal tradition, but not in Eastern Europe. Therefore, taking into consideration the country-level risks and combining them with the regulatory framework of the region of the firm's interest can create a useful tool for reshoring decisions.
• Similarly, we show that the presence of foreign directors with experience from a civil law country makes reshoring less likely. Thus, MNEs should consider reviewing the regulatory framework of the host country prior to undertaking a reshoring decision.
• The presence of corporate governance institutions that can protect the financial interests of foreign investors is the best alternative for MNEs; however, our study shows that these institutions may create tensions and, therefore, MNEs will have to balance the benefits that ownership offers with its costs. Thus, MNEs should evaluate ownership benefits prior to a reshoring decision.
Policy implications
• Our study highlights how the institutional environment can shape the preference for specific organizational set-ups, but internal choices are made in such a way that the negative impact of institutions on firm-level outcomes is minimized. This is in line with existing studies that show how the way in which subsidiaries are organized can minimize the costs MNEs face when dealing with uncertain institutional environments.
• Our findings are novel, as they highlight the fact that the impact of external stakeholders on reshoring is moderated by country-level institutions and regulatory requirements.
• Our findings show the implications of corporate governance institutions (i.e. level of shareholder protection; host country legal system) for the reshoring decision. Our study can be read in the light of this growing literature, which we extend by analysing how specific corporate governance institutions influence the decision to reshore.

Limitations and directions for future research

Despite several novel contributions, our study needs to be understood within the limitations of our chosen methodology. It is useful to note here that we investigated mandatory environmental reporting without distinguishing the various areas this includes. Future research could examine such areas of reporting and reshoring specifically through different theoretical lenses that could facilitate taking into account contexts of crises or conflicts along with cultural differences and nuances in the countries discussed. Examining diverse geographical and cultural contexts – including considerations of gender and race representation in various shareholders' roles, as well as the role of technologies, such as AI, and their effect on the internationalization of production – will extend our understanding of the reshoring phenomenon. Longitudinal studies could then be applied to examine the longer-term implications of such decisions.

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Endnotes

[1] An increasing number of reshoring activities has been noticed across the globe since reshoring promotes inward investment, new job creation, skill development, access to innovation, and technological capabilities, and local growth, thereby boosting the productivity of the economy (Moradlou, Backhouse and Ranganathan, 2017; Pegoraro, De Propris and Chidlow, 2021; UK Government, 2018). For example, the UK government has introduced many initiatives to support reshoring: specifically, the High-Value Manufacturing Catapult (HVMC), which was launched in 2011 as part of the Innovate UK Research, Development and Innovation Scheme; Reshoring UK's UK Engineering Marketplace online project, which was initiated in 2016; and other government-backed funding schemes such as the so-called Sector Deals, launched by the Department for Business, Energy & Industrial Strategy (Pegoraro *et al.*, 2021; UK Government, 2018).

[2] https://www.cips.org/supply-management/news/2020/august/report-highlights-1tn-cost-of-supply-chain-reshoring/ Accessed on 29/06/2022.

[3] Our definition of foreign directors excludes directors that are originally from the home country (and therefore foreigners for the subsidiaries in the host country) (Nachum, 2010; Presley, Meade and Sarkis, 2016; Uhlenbruck, 2004).

[4] https://maritime-executive.com/article/reshoring-can-reduce-freight-costs-but-it-may-prove-difficult. Accessed on 02/08/2022

[5] This is opposite to the normative approach, which holds the moral responsibility of responding to multiple stakeholders' claims and environmental demands, regardless of the consequences for shareholders (Jones and Felps, 2013).

[6] Financialization is broadly characterized by converting firms' future cashflow into marketable securities, where firm performance is not equated to financial performance, but rather its level of productivity (Zhang and Andrew, 2014).