

## GLOBAL SOURCING AND REPATRIATING OF THE RELOCATED COMPANIES IN ITALY

Irina Virginia Drăgulescu<sup>1</sup>, Armenia Androniceanu<sup>2</sup> and Narcisa Valter<sup>3</sup>

<sup>1)</sup> “Dimitrie Cantemir” Christian University, Romania

<sup>2)</sup> Bucharest University of Economic Studies, Romania

<sup>3)</sup> University Polytechnics of Bucharest, Romania

E-mail: [dirvimail@yahoo.com](mailto:dirvimail@yahoo.com); E-mail: [armenia.androniceanu@man.ase.ro](mailto:armenia.androniceanu@man.ase.ro);

E-mail: [narcisa.valter@yahoo.com](mailto:narcisa.valter@yahoo.com)

---

### Abstract

While some companies choose to move their production overseas to lower costs, others decide to return to the places where it all began. Repatriating the delocalised companies implies a process of relocation of manufacturing production lines to the country of origin, which is sharply increasing in Italy. To carry out a study of the homecoming of the relocated companies, the applied strategy needs to create a focus group with the companies, which have already been implementing this strategy, as well as a quick survey of questionnaires. The results will show that the past five years marked a deep crisis on the reference markets, as compared to almost 30% within the surveyed companies, which have succeeded to relocate their production activities abroad, while more than 10% either have been brought back to Italy, or are going to do so in the near future. This confirms that the two phenomena need to coexist, marking, however, a change, as compared to the periods in which only outputs could be recorded.

### Keywords

Global sourcing, repatriating of the relocated companies, Italian companies, Made in Italy

### JEL Classification

F23, F63, F21, M21

---

### Introduction

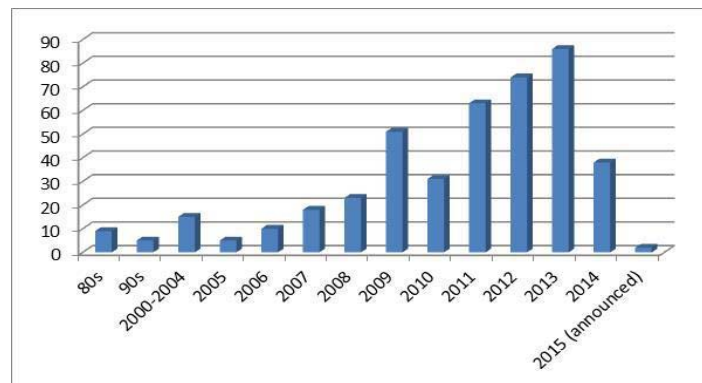
With the repatriating of the relocated companies (return relocation, in-shoring, back-shoring, reshoring, etc.), a decision must be taken to either partially, or completely return the production activity which was previously outsourced to foreign countries (Baldassarre, 2012 to the country of origin). According to the surveyed data of 2016, 121 cases of Italian companies have decided to return home their production by early 2000, compared to the decisions of repatriation of the 730 relocated companies recorded in the major industrialized countries. The phenomenon affects mainly North Italy (79%), followed by the

---

central (16%) and South (5%). Even the United Nations, by establishing the UNCTAD organization, are trying to encourage homecoming of the relocated companies - a real engine for improving the national economies. After the relocation in China took place in the nineties, the sports giant Adidas returns home to inaugurate a highly technological advanced factory which will employ 160 people and produce 100 thousand pairs of shoes a year, a number that is sufficient to cover the European demand for the high-end products. Adidas is not an isolated case of the previous years; many companies have decided to return home. In 2013, Beghelli, a leader in emergency lighting, has decided to disinvest in China and Czech Republic and return to Emilia Romagna, the origin place of the company. Even Furla was said to produce 300 thousand more bags in Italy and Artsana, a company owning prestigious brands like Chicco, Prenatal and Pic; it is stepping up production in Italy, by leaving out Korea and India. The first element to give a decisive impetus to repatriating of the relocated companies to Italy could be a governmental plan of incentives for the return of the companies, as in the United States. In the US, the numbers look extremely positive. In fact, in 2015, the number of jobs created by repatriating the relocated companies exceeded those lost during relocation. Even in Italy, the number of the returning companies is rising. Since 1997 to the present, about eighty productions have been backtracked. The main reasons are the rising costs, the made-in impact and the need to a rapid respond to the market. However, there is not only the problem of relocation (Grossman and Helpman, 2005; Brockwell, 2008). As part of the rapprochement of businesses to the country of origin, there is a tendency of relocation to closer or even tweak neighboring countries.

### 1. Repatriation of outsourced companies: a global phenomenon

According to the Figure no. 1, this phenomenon has been available since the 80ies & 90ies, but looks significantly spreading, especially during the subsequent global economic crisis.



**Figure no. 1: Distribution of repatriating the relocated companies per year**  
Source: Italian National Institute of Statistics, 2015

In geographical terms, the phenomenon affects in a substantially similar way both North America (United States) and the European Union (figure no. 2). Italy, in particular, is the second country in the world (after the US), preceding Germany and Great Britain. Concerning the 'abandoned' countries, most of the worldwide implemented choices are related to China and other Asian countries (table no. 1).

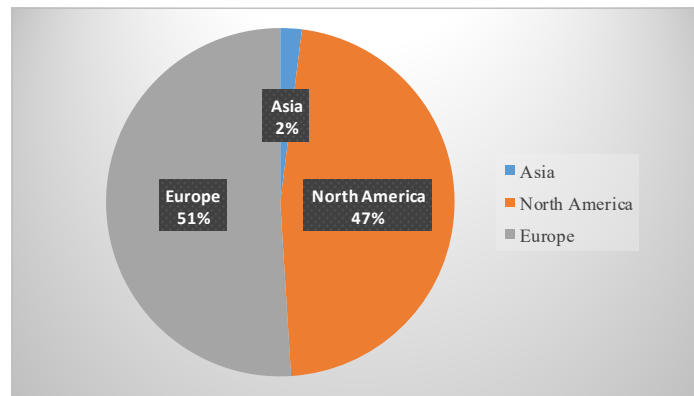


Figure no. 2: Distribution by country of origin of the company

Table no. 1: Distribution of Italian companies by country "abandoned" and by country of return

| Country "abandoned"          | Percentage | Country of return            | Percentage |
|------------------------------|------------|------------------------------|------------|
| China                        | 60.30%     | China                        | 36.0%      |
| Asia (other than China)      | 13%        | Asia (other than China)      | 15.1%      |
| Western Europe               | 12.50%     | Western Europe               | 17.5%      |
| Eastern Europe & former USSR | 11%        | Eastern Europe & former USSR | 26.7%      |
| Central & South America      | 5.10%      | Central & South America      | 1.2%       |
| North Africa & Middle East   | 1.60%      | North Africa & Middle East   | 1.2%       |
| North America                | 1%         | North America                | 2.3%       |
| Oceania                      | 0.20%      | -                            | -          |

The Italian level phenomenon mostly concerns the Italian companies, China and other Asian representing the most common origins: however, as compared to the global figure, the percentage weight of Eastern European countries looks significantly higher.

From the production point of view, the most common commodity aggregates are those of clothing and footwear, mechanical, electronic equipments and supplies, exceeded only by the fashion industry, which represents a classical Italian local feature.

## 2. The experience of the Italian companies

The process of repatriating the outsourced companies is affordable for any size class, while, in fact, 60% of cases involve large-scale enterprises; more than a third are small companies. In geographical terms, the repatriation of outsourced companies mainly comes from Eastern European countries, although China and other Asian countries totally weigh more than 37%. When analysing the main causes of repatriation of the relocated companies, we will decisively conclude that a third part of those deciding to return home have proved a lesser

degree of control over the product quality, due to the facilities located abroad. Is also significant the need to keep close enough to the R & D activities and production of the Italian laboratories (table no. 2).

**Table no. 2: Motivations for repatriating of relocated Italian companies**

| Motivation                                | Answers share<br>% |
|---|--------------------|
| Tax wedge reduction                       | 28.8               |
| Bureaucracy simplification                | 26.3               |
| Detaxation of reinvested profits in R & D | 17.9               |
| Energy cost reduction                     | 15.4               |
| Greater protection for Italian product    | 9.6                |
| Other                                     | 1.9                |

The research shows that a company out of five listed logistics costs, production and employment as critical points. During the focus groups, it is also noticed that some customers, especially foreigners, are asking the Italian suppliers to bring back to Italy the production, in order to increase the percentage share value of the products made in the EU and benefit from customs facilities. By comparing the characteristics of the companies which have decided to implement strategies by repatriating the relocated companies, to those relocating no return to Italy, and those who have never shifted production abroad, some interesting differences are revealed:

- a) the initial choice of the relocation of manufacturing production to a foreign countries (offshoring) was based on the search for lower costs, rather than that on market opportunities;
- b) the implemented innovation projects pay special attention to reducing the environmental impact of products and processes, also including the improvement of working conditions;
- c) lack of funding comes to represent the main obstacle to innovation, while the human resources capacity is considered adequate;
- d) generally speaking, they look more similar to organizational innovation and deployment of ICT technologies.

Finally, with reference to industrial policies, which could encourage further repatriating of the relocated companies, we may particularly highlight the problem of reducing the tax burden and simplification of bureaucracy.

### **3. Repatriating the relocated companies: phenomenon definition and trend**

Repatriating the relocated companies is a global phenomenon, involving businesses, showing Italy as the first region in Europe since 20110. Unlike the delocalization, a phenomenon that has marked many industrial choices in the past, mainly to Asian countries, repatriating the relocated companies conversely represents the relocation of the company production to the territory of origin. While ten years ago, we could talk about isolated cases and unconventional, nowadays proves that the repatriating of the relocated companies is a global trend, in which Italy stands as the protagonist. In fact, since 2007 to 2012, Europe has been facing exponential growth returns, with peaks of 44 in 2009, up to 68 in 2015. In this research, we have identified and analyzed 304 cases of the repatriating

relocated companies operations, which can give an idea of the respective phenomenon and its peculiarities. To highlight the features, the data were divided into different categories, depending on the country of origin, the type of production, the years, which implemented the repatriating of the relocated companies and the countries that were abandoned to come back to the territory of origin. Paying a special attention to the Italian cases, we also introduced other criteria, such as time range between the delocalised and repatriating of the relocated companies, company size, and reasons for the company to have returned to producing in its country of origin. Of the analysed 304 cases (Table no. 3), 134 are related to US companies, most of which abandoned either China (81 operations back-shoring), or other Asian countries (37), while few companies abandoned Central & South America (8), the Western Europe (5), the Eastern Europe (2) and North America (1).

**Table no. 3: Breakdown- by countries and regions**

| Country     | Abandoned country/region |                         |                |                |                         |               | Total |
|-------------|--------------------------|-------------------------|----------------|----------------|-------------------------|---------------|-------|
|             | China                    | Asia (other than China) | Eastern Europe | Western Europe | Central & South America | North America |       |
| USA         | 81                       | 37                      | 2              | 5              | 8                       | 1             | 134   |
| Italy       | 26                       | 11                      | 18             | 11             |                         | 2             | 68    |
| Germany     | 11                       | 6                       | 10             | 9              | 5                       | 1             | 42    |
| France      | 20                       | 2                       | 6              | 1              |                         |               | 29    |
| UK          | 13                       |                         | 1              | 1              |                         |               | 15    |
| Canada      | 2                        |                         |                |                |                         |               | 2     |
| Japan       | 2                        |                         |                |                |                         |               | 2     |
| Norway      | 2                        |                         |                |                |                         |               | 2     |
| South Korea | 1                        | 1                       |                |                |                         |               | 2     |
| Sweden      | 2                        |                         |                |                |                         |               | 2     |
| Taiwan      | 2                        |                         |                |                |                         |               | 2     |
| Finland     |                          |                         |                | 1              |                         |               | 1     |
| Slovenia    |                          |                         |                | 1              |                         |               | 1     |
| Spain       | 1                        |                         |                |                |                         |               | 1     |
| Switzerland | 1                        |                         |                |                |                         |               | 1     |
| Total       | 163                      | 57                      | 37             | 29             | 13                      | 4             | 304   |

Italy comes first in ranking, with its 68 repatriation of the outsourced companies operations, 26 from China, 18 from Eastern Europe, 11 from other Asian countries and Western Europe, and, finally, two from North America. Germany, with 42 repatriation operations of out sourced companies, abandoned China and Western Europe (11:10 operations), Western Europe (9), other Asian countries (6) Central & South America (5) and North America (1). As many as 20 out of 29 cases of French repatriation of outsourced companies come from China and other 13 from Great Britain. Then, the Chinese territory comes first among the countries abandoned by the companies, with its 163 analyzed cases, followed by other Asian countries (57) and Eastern Europe (37). As shown in the Table 4, most of the companies which abandoned China ,they did it did between 2007 and 2010 (78), while having concomitantly been abandoned, to prefer areas of origin, even Eastern Europe and Western Europe, while the peak of 'the

leaks' from other countries Asian occurred in 2012. Out of the 304 repatriation operations of outsourced companies analyzed, most of them are involving companies belonging to the clothing and footwear sector, followed by the mechanical, electronic and supplies.

As for Italy, research has related the data of 68 repatriation operations of outsourced companies with those of the 'abandoned' countries and the type of interested companies.

**Table no. 4 Breakdown by year and geographic areas**

| Year      | China | Asia (other than China) | Eastern Europe | Western Europe | Central & South America | North America | Total |
|-----------|-------|-------------------------|----------------|----------------|-------------------------|---------------|-------|
| 80        | -     | 5                       | -              | -              | 4                       | -             | 9     |
| 90        | 1     | -                       | -              | -              | -                       | -             | 1     |
| 2000-2005 | 5     | 10                      | 2              | 4              | 1                       | 2             | 24    |
| 2007-2010 | 78    | 13                      | 28             | 19             | 1                       | 2             | 141   |
| 2011      | 29    | 10                      | -              | 2              | 2                       | -             | 43    |
| 2012      | 45    | 17                      | 4              | 2              | 1                       | -             | 69    |
| 2013      | 5     | 3                       | 3              | 2              | 4                       | -             | 18    |
| Total     | 163   | 58                      | 37             | 29             | 13                      | 4             | 304   |

It turned out that, most of the operations involved companies in the clothing and footwear sector returned from China and other Asian countries and Eastern Europe, followed by the mechanical sector companies operations, mainly back from Western Europe and from that of the East, as well as from China. It turned out that most of the operations involved companies in the clothing and footwear sector, returned from China and other Asian countries and Eastern Europe, followed by the engineering sector companies operations, mainly repatriating the outsourced companies from Western and East Europe, as well as those from China (table no. 5).

**Table no. 5: Repatriation of the relocated companies - breakdown of Italian industries in the geographical areas**

| Sector                      | China | Eastern Europe | Asia (other than China) | Western Europe | North America | Total |
|-----------------------------|-------|----------------|-------------------------|----------------|---------------|-------|
| Clothing & footwear         | 14    | 8              | 9                       | -              | -             | 31    |
| Food & beverage             | -     | -              | -                       | 1              | -             | 1     |
| Furniture & home furnishing | 3     | 2              | -                       | 1              | -             | 6     |
| Automotive                  | 1     | 1              | 1                       | -              | -             | 3     |
| Biomedical                  | 1     | -              | -                       | 2              | 2             | 5     |
| Electric                    | -     | 2              | -                       | -              | -             | 2     |
| Home appliances             | 4     | -              | -                       | 1              | -             | 5     |
| Electronic                  | 1     | 2              | -                       | 2              | -             | 5     |
| Mechanical                  | 2     | 3              | 1                       | 4              | -             | 10    |
| Total                       | 26    | 18             | 11                      | 11             | 2             | 68    |

The research carried out also analyzed the reasons, which led Italian entrepreneurs to decide on their repatriating of outsourced companies to Italy. Consequently, for 42% of the survey, the main reason of the repatriation of outsourced companies is the positive impact over Italy and the consumer, associated with good manufacturing products. The second reason indicated as motivation for repatriating operations of outsourced companies for the 24% of them is the poor level of delocalised production quality, while the third reason (21%) is the need for greater attention to the consumer's needs. For 18% - the social pressure in the country of origin, -for 16% the fact that there is a higher level of skills in the country of origin. In addition, 13% of the respondents consider the availability of manufacturing capacity as a result of the economic crisis and of the reducing of the labour cost gap in the country of origin; finally, for 11%, - lower logistics costs in the country of origin.

#### **4. The companies are back to Italy**

After years of manufacturing emigrated to abroad by engaging in a massive relocation, which has resulted in not only the loss of numerous jobs, but also a deterioration of the quality standards of the products made in Italy, the trend finally seems having started to reverse that of the return of many companies. Between the late 1990ies and the early 2000ies, it was widely believed that, to compete globally, there were only two paths to follow: reducing the cost of labour and considerably lowering the energy cost. In addition, between 2008 and 2012 it seemed that these two factors did no longer represent an industrial strategy, but a real necessity. It only appeared one solution, which was moving the headquarters of their company, from the national borders to countries where they could spend less, both for the workers' salaries and for production, in the broadest sense of the term. During the four years of strong recession, 80% of the Italian companies chose to relocate, especially moving to the Eastern European countries such as Bulgaria, Poland, Romania and Hungary. However, 2016 seems to be the year of change. Despite the problems with the tax wedge and the cost of energy, which were not removed in a structural way, many companies have decided to change their plans, focusing precisely on the concept of quality that only the location on the national territory can guarantee. Consequently, competitiveness could also be ensured by focusing on a brand, which has always been similar to the excellence made in Italy. On this point, even the Centre for European Research, has published a report, carried out in collaboration with Unindustria, on repatriation of the outsourced Italian manufacturing companies; the Italian manufacturing industry turns around (Brambilla, 2016). According to the updated information of June 2015, 101 companies had already relocated their products to Italy, returning from China (34.6%) and Eastern Europe (26.7%). Going back to Italy, there are mainly companies activating in the textile, fashion apparel industry, flagship sector of the Made in Italy (43%), followed by those that deal with electrical and electronic equipment (21%), and by the mechanical companies (8.9%). With the globalization having prevailed and hundreds of companies needing to move abroad, an opposite phenomenon has increasingly appeared during the recent years, the one of repatriating the outsourced companies. Dozens of companies are back and reopen the factories in Italy because of the economic advantage of producing abroad has decreased and the markets much more frequently require products 100% made in Italy. According to various studies, since 1997 to 2013, the production lines brought back to Italy were 79, most of them achieved within the last five years, in the middle of the deep crisis. In 2009, for example, there were 16 cases. In 2015, there were eleven outsourced repatriated companies, as well as in 2011. These figures place Italy ranked first among the European countries, which have experienced similar situations of

repatriating many outsourced companies. Among the most involved sectors into the repatriating phenomenon, we may notice clothing and furniture, two spearheads of the 'Made in Italy' brand.

### Conclusion

Due to the repatriation of the outsourced companies, the relocated production returns to the country of origin and may present two aspects: first, a company making the turnabout of an establishment opened abroad; secondly, by choosing suppliers in a country closer to that of origin, called proximity repatriation of outsourced companies. Ikea comes as an example, which, for some furniture components has shifted from the Southeast Asian suppliers to the Italian suppliers. Moreover, among the reasons for the repatriation of the outsourced companies one may consider the impact of the "made in", the productive capacity of the establishments and, above all, the constant increasing interest in foreign countries, as well as in developing countries concerning labour costs and those relating to logistics, transport, storage and the order-to-delivery process, etc. The example of Zara, which renews its catalogue every three months according to customer needs, is emblematic. A supply from China that takes 30 days to arrive in Europe, does not allow rapid production modifications. It is evident, therefore, that, to be competitive, it is necessary to use a shorter time (Hong, Holweg, 2009) and react quickly to markets (Kotabe, Mol, 2006), which from Southeast Asia is conversely much more complicated. Zara is not the only company that considers the responsiveness to customers as a competitive advantage. In Italy, despite of early positive signs, there are still many companies having difficulties due to labour costs, energy and the existing obstacles in enabling the repatriating of production processes. However, it seems that 2016 was the year of change because many companies have decided to modify their ongoing plans by focusing on quality and competitiveness, localization in national territory, and using a brand such as 'Made in Italy' which has always stood for excellence.

### References

- ANIE Confindustria, 2014. *Uomini impresa*. [pdf] Available at: <[http://meccanica-plus.it/wp-content/uploads/sites/4/2014/10/UI\\_28-31\\_web.pdf](http://meccanica-plus.it/wp-content/uploads/sites/4/2014/10/UI_28-31_web.pdf)> [Accessed 5 February 2017].
- Baldassarre, F., 2012. *Global sourcing. Opportunità e sfide gestionali*. Milano: Egea.
- Brambilla, M., 2016. *Italian manufacturing industry turns around*. [online] Available at: <<http://powerandmotionworld.com/2016/05/23/italian-manufacturing-industry-turns-around/>> [Accessed 10 March 2017].
- Ellram, L.M, Tate, W.L. and Petersen, K.J., 2013. Offshoring and reshoring: an update on the manufacturing location decision. *Journal of Supply Chain Management*, 49 (2), pp. 14-22
- Grossman, G.M. and Helpman, E., 2005. Outsourcing in a global economy. *Review of Economic Studies*, 72 (250), pp. 135–157.
- Hong, E. and Holweg, M., 2009. *Evaluating the Effectiveness and Efficiency of Global sourcing Strategies: A Conceptual Note*. Cambridge: Cambridge University. [online] Available at: <[https://www.researchgate.net/publication/255581970\\_Evaluating\\_the\\_Effectiveness\\_and\\_Efficiency\\_of\\_Global\\_Sourcing\\_Strategies\\_A\\_Conceptual\\_Note](https://www.researchgate.net/publication/255581970_Evaluating_the_Effectiveness_and_Efficiency_of_Global_Sourcing_Strategies_A_Conceptual_Note)> [Accessed 25 February 2017].
- Italian National Institute of Statistics, 2015. *ISTAT*. [online] Available at: <<https://www.istat.it/it/archivio/impresa>> [Accessed 9 January 2017].



Kotabe, M. and Mol M. J. eds., 2006. *Global supply chain management*. Cheltenham: Edward Elgar Publishing.

Ministero Affari Esteri Italiano, 2015. *Parola d'ordine: rilocalizzare è un must*. [pdf] Roma: Ministero Affari Esteri Italiano. Available at:

<[http://www.esteri.it/mae/resource/pubblicazioni/2015/09/newsletter\\_n.8\\_settembre\\_2015.pdf](http://www.esteri.it/mae/resource/pubblicazioni/2015/09/newsletter_n.8_settembre_2015.pdf)>  
[Accessed 1March 2017].