Journal of Purchasing & Supply Management 20 (2014) 225–237

Contents lists available at ScienceDirect

Journal of Purchasing & Supply Management

journal homepage: www.elsevier.com/locate/pursup

Offshoring in the Spanish footwear industry: A return journey? ☆

Carmen Martínez-Mora [a,1], Fernando Merino [b,*]

[a] Department of Applied Economic Analysis, University of Alicante, Aptdo. 99, 03080 Alicante, Spain
[b] Faculty of Economics and Business Studies, Campus del Espinardo, 30100 Murcia, Spain

ARTICLE INFO

Article history:
Received 21 October 2013
Received in revised form
30 June 2014
Accepted 7 July 2014
Available online 5 August 2014

JEL classification:
F23
L67
F13

Keywords:
Inshoring
Reshoring
Internationalisation
Footwear

ABSTRACT

During the 1990s and the first decade of the twenty-first century, outsourcing and offshoring constituted one of the most significant changes made by companies throughout the world. However, in more recent years, the process of offshoring manufacturing activities has been subject to reconsideration by some industry leaders, which has led to cases of bringing back operations to the country of origin. This process has been called insourcing, inshoring, reshoring or backshoring. This manuscript analyses this phenomenon in the footwear industry cluster in the province of Alicante where the main part of the Spanish footwear sector is concentrated. The study is based on interviews with the directors of the industry's leading companies. The results reveal that this phenomenon is a response to changes in both the economic climate (wage differentials have fallen) and changes in the market which is demanding smaller batches in shorter time frames. Companies are only able to satisfy this new demand if they manufacture in Spain.

1. Introduction

During the 1990s and the first decade of the twenty-first century, outsourcing and offshoring became one of the most important changes made by companies throughout the world (Feenstra, 1998; Feenstra and Hanson, 1996; Campa and Golberg, 1997; Hummels et al., 2001; Blinder, 2006). Many companies outsourced tasks which were formerly internalised in order to gain competitiveness through reduced costs or increased flexibility or efficiency. Meanwhile, many activities located in developed countries were transferred to other places; production processes were no longer geographically concentrated in one location but were split up into phases which were each located where the advantages to be gained were greatest. The wave of offshoring represented a significant change in the global production chain; so much so, that all of the activities developed by each country are not captured by conventional trade statistics (De Groot, 2001; Feenstra, 2010), and the proper concept of "made in…" was challenged (Ferdows, 1997a).

One of the most significant change within this process has taken place in labour-intensive tasks, as emerging economies usually offer comparative advantages for developing these activities. The offshoring process has been so intense that some stages of the manufacturing process have almost disappeared in developed countries. This is the case, for example, of the production of clothes, footwear or toys; China has absorbed such a large part of the manufacturing process that it is considered by some authors as the "world's factory" (Zhang, 2003).

However, in more recent years, it has come to light that this relocation of production activities is being reconsidered by some industry leaders which has given rise to cases of "repatriating manufacturing to the country of origin" (see *The Economist,* 21 April 2012, The New York Times, 19 September 2013, El País, 25 August 2013). These cases have been called 'reverse offshoring', 'reshoring', 'backshoring', 'insourcing' or 'inshoring' as opposed to outsourcing/offshoring. It must be stressed that these terms cannot be considered as synonyms. They have, in fact, been used by different authors with different meanings. Most of the terms are used to refer to a process whereby a company repatriates its supplying operations back to the country of origin. Fratocchi et al. (2014) summarises the different names used for this process in the existing literature. As the phenomenon analysed in this paper refers to the transfer of manufacturing activities back to the country of the parent company, we will use the term "reshoring".

☆The authors are grateful to Rafael Myro for his comments to this study and to the directors of the companies studied for providing precise information, especially José Pertusa, director of Gesem Consultoría for his enormous help as well as two anonymous referees of this Journal. Any error derived from the analysis or study of these data is the sole responsibility of the authors.

* Corresponding author. Tel.: +34 868 888 776; fax: +34 868 883 745.
E-mail addresses: cmmora@ua.es (C. Martínez-Mora), fmerino@um.es (F. Merino).
[1] Tel.: +34 965 903 609; fax: +34 965 909 322.

http://dx.doi.org/10.1016/j.pursup.2014.07.001
1478-4092/

Interest in this process can be seen on a political level, as governments are keen to create jobs in advanced economies (such as president Obama's Insourcing American Jobs initiative), and also on a corporate level where directors seek to develop the most appropriate strategy (for example the US initiative http://www.reshorenow.org). Moreover, some authors (Tate, 2014) have pointed out the need to better understand this phenomenon in order to determine whether it constitutes a manufacturing renaissance in advanced economies or simply an occurrence involving only a few companies.

However, academic research on this topic is scarce and based on industries where the advantages of reshoring to Asian countries were more limited (see the recent summary by Kinkel (2014), focused on German manufacturing). One of the important issues when researching this topic is the need to focus on the differences between labour intensive and capital intensive activities (Fratocchi et al., 2014). This is because the effects on the host country's labour market (a hot topic in the reshoring debate) will be significantly different. This study analyses this phenomenon in a labour-intensive sector (the footwear industry) in which Spain has traditionally had a comparative advantage, with many of its companies exporting the majority of their output to the international market. The Spanish footwear sector therefore is particularly relevant as it has undergone important changes in the principal traditional sources of its competitiveness, primarily the emergence of new participants in the market with clear advantages in terms of costs. It seeks to maintain its position in the international markets, which are characterised by high competition and a low level of trade protection. In recent years the repatriation of production detected in the footwear industry has also been observed in other sectors of the Spanish economy. Examples include the repatriation of the call centres of the main telecom firms to Spain from Latin America or the reshoring of manufacturing tasks of toy and textile companies that had been offshored to Asia. Therefore, we consider that carrying out a study of the factors that could explain the cases of reshoring in this industry may pave the way for future research in this emerging field of literature. The paper focuses on the determinants and scope of the strategy to establish whether the phenomenon responds to a failure in the development of strategies implemented before the reshoring process began or whether it is due to other factors. We will also determine whether the phenomenon affects only isolated cases or if it is widespread practice in the sector. We are also interested in ascertaining whether reshoring is a short-term response or a long-term competitive strategy.

The study was conducted on the cluster in the province of Alicante where most part of the Spanish footwear industry is concentrated. The starting point was semi-structured personalised interviews with the managers of the leading companies of the province. The information obtained was complemented with data provided by the industry association (AVECAL-FICE), articles in newspapers, specialized industry journals and internet websites. This methodology enabled us to collect information regarding the casuistry of the strategy for all the companies that implemented it and the other matters outlined in the objectives of the study.

The manuscript is structured as follows: Section 2 describes the theoretical framework for explaining the determinants of the optimum location of production activities and presents the (scarce) empirical evidence prior to the reshoring phenomenon. In Section 3, the details of the methodology used are outlined. The results of the study are reported in Section 4, with a description of the reshoring pattern in the sector and how it is related to and affects the previous offshoring pattern. The scope and the nature of the strategy are also explained. Finally, the conclusions are drawn in Section 5.

2. Theoretical framework and literature review

As discussed in the introduction, reshoring refers to the change in the location of some of the tasks that are part of the firm’s value chain that had previously been moved from the home country to another foreign location. Although, in principle, a new location in a distant country could fit in this broad definition, our study is limited to those cases where the last change constituted a return to the home country (or to another one close to it, nearshoring). This second change in location may have a profound impact on the different agents and represents a valuable strategy for the company. However, a new theoretical framework to interpret this second change does not appear to be necessary since the existing framework to explain changes in the location of parts of the value chain (including the first location change) seems adequate. Any change in location implies a transfer of an activity that was located in a certain point where it interacted with other economic agents in its environment to another point. The framework for analysing offshoring decisions is shaped by the difference in the characteristics of the resources between the two locations (availability, price, etc.), the costs incurred in maintaining relations with a distant location and the costs involved in the relocation. The study of reshoring strategies also uses this theoretical framework.

As different authors have remarked, (see Ellram, 2013, in this topic), research on Supply Chain Management can draw from the conclusions of other disciplines. In the case of offshoring/reshoring, International Economics/International Business and Transaction Costs Economics (TCE hereafter) may provide valuable pillars. According to the proper definition, and in line with the contribution of Gray et al. (2013), reshoring is fundamentally a location decision. So, in International Economics/International Business literature we may find the reasons that explain why certain activities find a better location in some places than in others. Economic models explain the choice of the location of manufacturing activities from different perspectives. The classical theory of international trade bases this on the existence of differences in production costs between countries (David Ricardo's model), or factor endowment (Heckscher–Ohlin model), justifying the international production specialisation with the existence of these advantages. The literature also refers to transport costs as a relevant factor whereby the choice of the optimum location for production can be explained by the geographical proximity to sales markets.

Other approaches incorporate new elements, such as the presence of positive externalities of locating production activities, or “economies of agglomeration”. These are obtained when companies of a specific sector which cluster together in one place enjoy the advantages of finding auxiliary companies, skilled labour, a favourable climate for exchanging ideas relevant to their business, easier access to information, etc. These elements, initially studied by Marshall, Arrow and Romer (see Glaeser et al., 1992 for a summary), have given rise to a vast theoretical and empirical literature that introduces this additional factor to previous publications focused strictly on costs in order to determine the geographical location of a business (Delgado et al., 2010). Additionally, some authors (see for example Ferdows 1997a, 1997b) remark that the location of factories should not only be driven by these traditional incentives, but should also be determined by its strategic value for the whole company. Aiming to contribute most to the overall strategy, firms will spread specialised units around the globe taking into consideration the strategic role of each activity and location.

Within this framework, the possibilities to further divide the value chain mean that the most recent cases of offshoring do not follow the traditional patterns of international production specialisation where the whole firm determined its optimal location for