

Reshoring Trend and CEE: An Assessment of Possible Scenarios on the Example of Poland

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The offshoring phenomenon, which dominated a large part of the discourse on international production from the eighties of the last century, is losing on the dynamics in recent years, primarily due to narrowing wage gap between developed and developing countries. The simultaneous emergence of other factors resulted in the emergence of new trends of international business location, which concern in particular companies that have earlier relocated their business processes abroad. Reshoring phenomenon that should be understood as a partial or total relocation of previously offshored company's activities to the home country or a new destination is one of the major topics of current public debates among scientist and policymakers in several developed countries. However, the results of conducted analysis indicate that reshoring may also have some effects – positive and negative, in the case of Central and Eastern European countries. The research has been based on conclusions drawn from the critical study of literature and data of selected international institutions.

Key words: internationalisation global supply chain, offshoring, nearshoring, reshoring, backshoring

Introduction

In the past few decades, many countries and regions have emerged and profiled themselves as popular offshoring destinations for companies from developed countries. Central and South America has become manufacturing base for North America, Central and Eastern Europe (CEE) for Western Europe, and Asia – including primarily China and India, has become the offshoring location for almost entire developed world. This phenomenon has concerned both large corporations and small and medium-sized enterprises which decided to reduce production costs and thereby increase their revenues and the level of competitiveness. Apart from lower labour costs, Asian countries offered lower land prices, lower taxes and low transport costs. At the same time, companies did not have to worry

about general issues of labour rights or environmental protection. The natural competitor for low-cost Asian countries, in particular in the context of FDI flows from Western Europe, was the region of Central and Eastern Europe that was trying to catch up after the fall of communist regimes. However, current investment conditions in many developing countries are not as good as it once used to be. Therefore, many companies began to reconsider their strategies and transfer their activities back to the home country or to completely different locations.

Reshoring phenomenon gains in importance primarily in the us but also in Europe, especially in Germany, France and the United Kingdom (Leibl, Morefield, and Pfeiffer 2011). The current debate among policy makers and scientists on the re-industrialization of the United States and Europe is to some extent based on expectations that the return of manufacturing companies can help restore the competitiveness of industry in high-income countries (Pisano and Shih 2012). This hope is based on the assumption that labour costs in developing countries, in particular China, will continue to grow vigorously. However, empirical studies on reshoring are relatively few in number, and that is why further research is needed on the motives, effects and the likely evolution of this phenomenon in the context of the presence of Western European companies in CEE region. Therefore, our analysis is aimed at a better understanding of the importance of this phenomenon for the CEE countries, on the example of Poland – the most important offshoring location in the region. The available literature on the subject and the data of World Bank and other international organisations has been used for the needs of this study.

The next section outlines the theoretical background and develops the research questions. Then, we identify main groups of factors, which may affect company's relocation decision. After indicating major foreign investors in Poland, will then be made comparison of the attractiveness of Poland on the background of selected economies, using several different indicators. Finally, the article ends with a discussion on the implications for Poland and entire CEE region, regarding the possible scenarios of reshoring trend.

Theoretical Background

The size and dynamics of internationalisation have resulted in intensification of research on the nature and causes of this phenomenon, and thereby many theories attempting to explain it have been developed. The authors of these concepts focused attention on seek-

ing answers in particular to three basic questions: (1) Which factors cause the transformation of domestic company into international company? (2) Which factors affect gaining a competitive advantage by the company? (3) Which factors determine the choice of the host country? Our intention is not a detailed overview of the IB literature (see Hätönen and Eriksson 2009), however, some basic economic concepts and theories should be mentioned, e.g. transaction costs theory, the concept of value chain, the resource-based view, the eclectic paradigm or institutional theory. In these theories, researchers referred to the issue of relocation of companies, both from the perspective of the enterprise itself, the whole industry and the national economy.

The concept of the value chain, developed by M. E. Porter (1985), indicates that the value of the product depends on a number of related activities that are controlled and coordinated by the company. Each activity contributes to the creation of the added value. Companies, by relocating business functions, try to find optimal locations abroad. Company has to decide whether to focus its activity in one or two countries, or select a distraction strategy (and thus take action in several countries), and then choose host countries. In turn, the resource-based view (Barney 1991) is a multi-dimensional approach and considers what certain resources or capabilities contribute to a company's competitive advantage (Tate et al. 2014). Companies offshore their activities to join networks and gain access to the resources of foreign partners or to develop their own resource base. The drivers of company's relocation can be also analysed by transaction cost theory. This approach explains that offshoring activity is associated with the company's expectation of a significant reduction in unit costs. It usually involves lower direct labour costs compared to the country of origin, but also access to cheaper equipment or facilities (Canham and Hamilton 2013). However, long physical and mental distance between host and home country make it very costly to monitor supply chain coordination activities (Kinkel 2012). Dunning (1980; 1995) considers that the company decides to FDI only if its activities abroad will be more profitable than in the home country. This objective can be achieved if three conditions are met: (1) a company has rare and modern assets, which are not available for other companies operating in the host market; (2) the assets are used directly and are not shared to other companies; (3) company identifies a proper manufacturing location abroad. The fulfilment of all conditions ensures achievement of competitive advantage over local rivals, which consists of ownership specific advantages, internalisa-

tion specific advantages, location specific advantages. Besides, according to institutional theory, cultural, political, social and legal aspects may influence the decision of business location because of different rules and institutional conditions in the various destinations (North 1990).

There are several different ways to do offshoring, depending on whether the company wants to operate within its own structures, or to conclude a contract with another company. The first way is captive offshoring/offshore insourcing, which means that the company's production is located in a foreign country, but it is under full control of parent company. The second way is offshore outsourcing, which means that the production is also located in a foreign country, but contracted to an external supplier (Gray et al. 2013). It is also necessary to characterize nearshoring that is in fact a derivative of offshoring and occurs when an organisation transfers its activities to a company located in close geographical proximity to the parent company's home country. Many companies considered, and often rightly so, that offshoring can be beneficial for both the home country and the host country, as it provides generally profits for the investor and creates jobs in the host country at the same time. Numerous empirical studies identified various pull and push factors affecting international production relocations. Reducing labour costs to improve efficiency, access to new markets, proximity to customers and access to know-how or natural resources are most frequently cited motives of offshoring (Kinkel, Kleine, and Diekmann 2014).

Reshoring is an inverse process in relation to offshoring and the IB literature offers some concepts that seem to explain partly reshoring phenomenon. The concept of de-internationalisation derives from work by Welch and Luostarinen (1988). According to these authors, adopted by many researchers definitions of internationalisation assume permanent increase of involvement of companies in foreign markets. The authors express doubts as to whether the continuation of already started process of internationalisation is indeed inevitable. Calof and Beamish (1995, 116) argue that de-internationalisation may take form of divestments which is usually a reduction of some kind of company's asset for financial, ethical, or political objectives. Benito and Welch (1997) define in turn de-internationalisation as a voluntary or forced actions affecting decline of company's involvement in the ongoing international activities or decline of their exposure. Base on above, de-internationalisation should not be understood only in the context of the company's failure on the foreign markets (as a forced action). On the contrary,

it may be attributable to changes in corporate strategy. Therefore, de-internationalisation considered in the context of a causal relationship is the consequence of prior internationalisation (Turcan 2003, 211). Taking into account the spatial dimension of involvement of a foreign company, it seems that de-internationalisation should be also considered as activities aimed at changing host country. In this regard, de-internationalisation can apply to a situation when will not change neither the form nor the intensity of the company's presence on the foreign market. However, Fratocchi et al. (2014b) argue that foreign divestment and de-internationalisation concepts do not capture some of the key features of reshoring, such as outsourced production. Besides, foreign divestment is often referred to a subsidiary as a whole more than to specific value chain activities, as it sometimes takes place in the case of reshoring. According to Fratocchi et al. (2014b), reshoring strategy can be usefully organized around four key questions: why (motivations – reshoring arises on the result of gradual change in the offshore location that erodes the comparative advantages of the host country because of e.g. lower labour availability or narrowing wage gap); what (which of the value chain activities will be involved in the relocation process); where (the home/host countries specificities, which can determine company's reshoring decision) and how (entry mode, i.e. outsourcing, greenfield investment or acquisition).

Proofs of intensification of reshoring phenomenon are increasing, as evidenced by the widespread interest in the economic press (see *The Economist* 2013) and among academics (see Ellram 2013; Ellram, Tate, and Petersen 2013; Gray et al. 2013; Kinkel and Maloca 2009; Kinkel 2012). However, credible quantitative data regarding reshoring is still unavailable in case of most countries. There are also still some problems with the explicit definition of reshoring. The first scientific definition is assigned to Holz, who defined backshoring as the relocation of the functional operations back to the company's country of origin (Fratocchi et al. 2014a). Kinkel and Maloca (2009) define backshoring as re-focus on part of the production from its own foreign locations as well as from foreign suppliers into the domestic production plants. Ellram (2013) in turn defines reshoring as moving production back to the country of the parent company. It is worth noting that the terms reshoring and backshoring are used in the literature interchangeably and regardless of where the activity of the company was transferred to and who is responsible for the production (Gray et al. 2013). However, Fratocchi et al. (2014a) distinguished these terms – they defined reshoring as relocation of pre-

viously offshored production, independently of the new destination, while back-reshoring was defined as 'a voluntary corporate strategy regarding to the home-country's partial or total relocation of (insourced or outsourced) production to serve the local, regional or global demand.' Therefore, for purposes of this paper will be adopted that reshoring indicate a general location decision associated with the partial or total transfer of company's activities from the current location back to the country of origin or to a different location – to the home country's region or to a country far away the prior destination.

According to adopted definition, reshoring does not depend on the company's ownership mode in the host country. Based on above, a company that wants to relocate its previously offshored activities can choose among one of three reshoring options: (a) transfer of activities (either partial or total) to another country geographically far from the original host country (further offshoring); (b) transfer of activities to another country that is geographically closer than previous offshoring location (basically this process is similar to nearshoring, however, due to the fact that nearshoring denotes initial transfer of company's activities to a close country, Fratocchi et al. (2014a) suggest using the term near-reshoring); (c) transfer of activities back to the company's country of origin (back-reshoring).

On the basis of the discussion above, it can be stated that reshoring is largely related to similar factors as offshoring. Thus, the successful reshoring decision consists of motivations, selection of destinations, identification of activities that should be reshored and selection of possible entry modes. Adoption any of the above-mentioned three reshoring options is based essentially on the assessment and comparative analysis of the countries' attractiveness. Destinations, which offer the optimum combination of location factors, allow for a reduction of investment outlays and ongoing costs of the enterprise, making it easier to maximize profits and reduce the risk of investment failure. That is why we will focus in particular on location factors affecting reshoring decisions. Obviously, there are some differences between the offshoring destinations in terms of their specialization, specific economic conditions or development priorities. Central and Eastern Europe, despite the natural advantage which is its geographical location, had to compete over the years with Asian countries for FDI of Western European companies. Based on above, the study will be framed around three research questions formulated from the point of view of Poland – as the example of offshoring/reshoring destination from CEE region:

1. What is the level of attractiveness of Poland on the background of selected Western European and low-cost countries?
2. Based on the comparison of selected countries' attractiveness, what is the most possible scenario of relocation activities of Western European companies – back-reshoring, near-reshoring or further offshoring?
3. What are the possible consequences for Poland in case of reshoring of Western European companies?

Among countries which I will take into account in comparison are Poland (as current/potential offshoring destination); main foreign investor-countries in Poland (from where companies are also present in the low-cost Asian countries), as well as China, as the world's leading offshoring location. To assess the level of attractiveness will be employed publicly available indicators, which illustrate four groups of factors having significance for enterprises' relocation strategies (discussed in the next section).

What Determines Reshoring?

As reshoring is expected to become increasingly important, it is necessary to examine what are the main drivers that lead the companies to reconsider their offshoring decisions. Although the biggest importance for the business location decision is likely to be labour costs, there are also other important factors to consider. Unfortunately reshoring cases are still rarely publicised and usually do not emerge in official statistics. Until 2013, the only reliable observations in Europe were limited to reshoring strategies pursued by German companies (Kinkel and Maloca 2009; Kinkel 2012). At present, interest on reshoring phenomenon is gaining on strength – just to mention the numerous reports of European Union institutions (e.g. European Economic and Social Committee 2014), banks (e.g. Heymann and Vetter 2013) as well as studies on individual countries, i.e. United Kingdom (e.g. Bailey and De Propris 2014; Gibson 2014), Denmark (e.g. Arlbjorn and Mikkelsen 2014), Italy (e.g. Fratocchi et al. 2014a; 2014b) or Spain (e.g. Martinez-Mora and Merino 2014). Of even greater interest is noticeable in the US, where lobbies opting for reshoring are much stronger. Therefore, quite a lot of studies performed on the basis of American companies' experiences are available (see Tate 2014; Sirkin, Zinser, and Hohner 2011; *The Economist* 2013). Based on some of the previous studies on reshoring phenomenon, four basic groups of factors affecting reshoring can be identified: (1) labour costs and productivity, (2)

labour skills and quality; (3) logistics; (4) the general investment climate.

LABOUR COSTS AND PRODUCTIVITY

Low costs of production are an obvious factor affecting relocation of companies' activities, and that is why Asia has become the world's largest exporter of products in recent decades. A large number of foreign companies used (in particular) China as their production base, where labour costs were much lower than in other countries. However, it seems that low-cost phase of economic growth in China will be finished in the near future and the so-called 'cheap China' will disappear (Ceglowski and Golub 2012; Kinkel 2014). Tate (2014) indicates that the stability of labour costs is also important factor affecting the reshoring decision. According to her study, for almost half of companies the importance of labour costs stability increased over the past 3 years. Another important factor is productivity that measures 'how efficiently production inputs, such as labour and capital, are being used in an economy to produce a given level of output' (OECD 2008). Increase of production costs without a simultaneous increase in productivity may in fact result in diverting investors.

LABOUR SKILLS AND QUALITY

Developed countries have always been associated with high levels of education offered by the best universities, which guaranteed an access to a skilled workforce, innovation and the high quality of production (Tate 2014). However, the number of skilled and semi-skilled workers in many developed countries is no longer sufficient (*The Economist* 2013). Therefore, companies need to hire less skilled workers, and therefore, maintaining a proper level of quality becomes sometimes a trouble (Tate 2014). High level of quality is necessary to survive in the market, especially if the customers are demanding. Companies should bear in mind that quality is associated with not only the level of materials and production technology, but also with appropriate control mechanisms and the qualifications and skills of employees. Two German studies – Kinkel (2012) and Kinkel and Maloca (2009) showed that, while the reduction in labour costs was the main motive for moving production abroad, the main stimulus for the reshoring decision was the inappropriate quality of production. Besides, the results of the study among 1,663 German companies indicate that companies which offshored their production had to standardize their processes due to insufficient number of qualified employees (Kinkel and Maloca 2009). Therefore, com-

panies need carry out a thorough analysis and evaluation of the host countries because low salaries might mean also low labour skills. While the effect of the reduction of labour costs on the company's performance can be directly calculated, the impact of labour skills on company performance is difficult to estimate.

The phenomenon of offshoring was primarily related to cross-border transfer of production activities. However, the widespread use of broadband Internet and other solutions that allowed fast and cheap transfer of voice and data, enabled the transfer of services abroad. To these processes also contribute higher competencies and skills of workers in host countries, and the digitalisation of many business processes. The combination of above-mentioned factors contributed to the creation of the important sector of global economy – Business Process Outsourcing (BPO). Since the 90s of the last century, many companies from developed countries increasingly began to buy abroad services that are more complex, requiring even more specialized skills and technical competencies. In this way, there appeared new phenomena, such as knowledge process outsourcing (KPO), or legal process outsourcing (LPO) (Grycuk 2014).

LOGISTICS

It is obvious that smaller distance from the production location to the target market enables the company to streamline the supply chain, which is a strategic element, giving the company a competitive advantage (Ellram, Tate, and Petersen 2013). Companies that have decided to reshore their business activities to the US indicated various reasons related to the presence closer to the end customer (Van den Bossche et al. 2014). Shorter distance from the country, which has properly prepared road infrastructure, can certainly contribute to e.g. reducing the time of delivery.

However, companies should also pay attention on the risk of the supply chain disruption, which is higher in such the offshoring destinations as East and South Asia, Africa or South America (Tate 2014). Therefore, companies should carefully investigate how flexible, dynamic and sustainable are the supply chains in the host countries. Firms should also thoroughly measure the potential benefits of nearshoring, such as reduced inventories, shorten time to market and reduction of geopolitical risk (Tate et al. 2014). Supply chains with many suppliers located in different countries are exposed to more potential problems that could damage the entire chain. Thus, the ability of organisations to coordinate their global logistics system is what determines its success (Ellram, Tate, and Petersen 2013). In

the study by Kinkel and Maloca (2009), the manufacturing sector enterprises have recognized the flexibility and ability to fast delivery as the key reasons for bringing manufacturing back to the home country.

THE OVERALL INVESTMENT CLIMATE

The favourable investment climate means that the country takes actions to minimize the costs and risks associated with doing business, as well to limit barriers of entrepreneurship development. Improvement of the investment climate may cause creation of new businesses, higher level of investments (including foreign ones); what in result contribute to faster economic growth. Investment climate in the host country consists of indeed countless number of political, macroeconomic and related to the regulatory environment factors, e.g. fiscal burdens, the procedures related to establishing the company, cooperation with the administration, acquisition of real estate or the functioning of the legal authorities. Unfavourable investment climate is one of the main obstacles faced by underdeveloped countries, and regulatory reforms are essential to remove barriers to invest. On the other hand, some investors are willing to take on a high level of risk and volatility associated with investing in an unfavourable investment climate because it may be rewarded with higher returns.

Poland As the Offshoring Destination

As stated at the beginning of this paper, offshoring can occur in two different forms: captive offshoring, which means a transfer of company's activity to a foreign branch (FDI), and offshore outsourcing that is a transfer of company's operations to an external foreign partner. We will focus primarily on the captive offshoring, for two reasons.¹ Firstly, foreign direct investment are easier to estimate whereas the data for offshore outsourcing are not officially published. Second, assuming some simplification, in the case of offshore outsourcing, companies are mainly interested in the final costs of relocated value chain modules, maintaining an appropriate level of quality, possibility of the contract performance by the supplier and the legal possibilities of investigation of realization of the contract. Issues directly related to the execution of delegated value chain modules (e.g. the level of employee turnover, involved resources, etc.) will not be the focus of investor and, in many cases, the investor will not have even the possibility of access to such data. In the case of choosing the captive offshoring location, complexity and number of

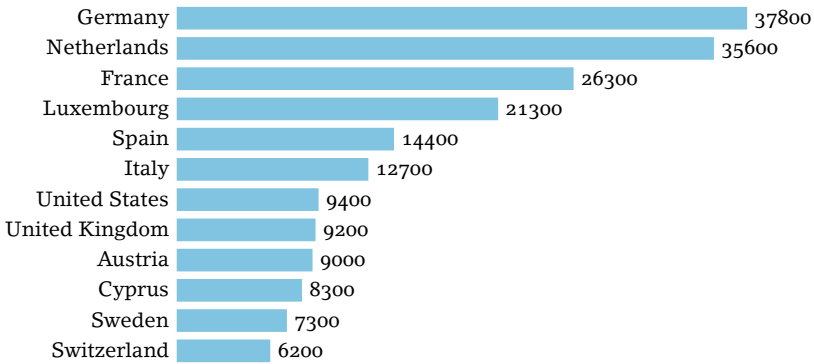


FIGURE 1 Top 12 Foreign Investors in Poland (As of the End of 2013 in bln USD;
Based on Data from <http://www.nbp.pl>)

factors taken into consideration increases and the factors concerning the entire macro-environment and the competitive environment become particularly important. Due to higher capital expenditures, the level of taken risk is higher. Captive offshoring is also associated with the adoption of the perspective of a longer presence on the market, and thus, stability of the attractiveness of the market gains importance.

In the first years after the fall of the communist regimes, FDI flows to the countries of Central and Eastern Europe (CEE) grew rapidly, stimulated by the policies of privatization and other structural reforms aimed at achieving a transition to a capitalist economic system, as well as accession to the European Union (EU). Poland is one of the main beneficiaries of FDI among the countries of Central and Eastern Europe. The total foreign direct investment stock in Poland amounted to 221 billion USD at the end of 2013, of which 199 billion USD was invested by European Union (EU27) countries. The main investors include Germany, the Netherlands and France, which together are responsible for 45% of investments located in Poland (figure 1). In 2013, the major investors originated from the United Kingdom, Germany and Switzerland. In the period from January 2003 to August 2014, 3 379 greenfield projects were carried out in Poland, and 822 thousand workplaces were created (see <http://www.nbp.pl>).

Sectoral composition of the FDI stock at the end of 2013 (based on the Polish/European Classification of Business Activity) is as following: manufacturing – USD 66,8 bn; financial and insurance activities – USD 55,9 bn; wholesale and retail trade; repair of motor vehicles and motorcycles – USD 32,6 bn; real estate activities – USD 14,1 bn;

professional, scientific and technical activities – USD 11,8 bn; information and communication – USD 11,3 bn; construction – USD 9,8 bn (see <http://www.nbp.pl>).

It is also worth noting that Poland is a leader in the Business Process Outsourcing (BPO) in Central and Eastern Europe. According to estimates by the Association of Business Service Leaders in Poland (ABSL), a professional organisation representing companies providing modern services for business, in 2013 in six CEE countries functioned approx. 1,000 service centres owned by companies with foreign capital, of which 400 were located in Poland. These companies employed 270–300 thousand employees, of which in Poland more than 110 thousand. The most important markets for shared service centres in Poland were the countries of the European Union – 89% of companies provided services to clients from Western Europe (Grycuk 2014)

Poland for years has been indicated as a country with high investment potential, particularly attractive for foreign investors from Western Europe, because of the cultural and geographical proximity, similar models for businesses, friendly climate for foreign investments and lower labour costs compared to Western European countries.

The Attractiveness of Poland Compared to Selected Countries

Referring to defined in the beginning of this paper three research questions, main objective of this section is to compare the attractiveness of selected countries: Poland, 5 largest countries-investors in Poland: Germany, Netherlands, France, Spain, Italy and the United Kingdom (as the largest investor in 2013), and China.² For this purpose we will use variety of publicly available indicators from selected international organisations.

LABOUR COSTS AND PRODUCTIVITY

Table 1 indicates average growth of real unit labour productivity (defined as output per unit of labour input) and real unit labour costs (understood as the cost of wages paid to workers during an accounting period, plus payroll and related taxes and benefits costs), between 2005–2013. For most of the analysed countries, the average productivity grew faster than labour costs – this applies to Germany, Spain, France, the Netherlands, the UK, and in particular Poland. The decline in productivity is noticeable in the case of Italy.

TABLE 1 Average Growth of Real Labour Productivity and Real Labour Costs in the Period 2005–2013

Country	Productivity	Labour costs
Germany	0.4	-0.1
Spain	1.2	-0.5
France	0.5	0.3
Italy	-0.5	0.4
Netherlands	0.3	0.3
Poland	2.6	-0.8
United Kingdom	0.5	0.2
China*	7.9	9.7

NOTES Based on data from Eurostat (<http://ec.europa.eu/eurostat>) and The Economist Intelligence Unit (<http://www.eiu.com>). * Calculation for China is based on data available for the period 2005–2012.

In China, wages increased faster than productivity, even during the global financial crisis, while wages in developed economies remained at the same level or even declined. Productivity of Chinese workers is not keeping pace with the growth of wages, which causes a narrowing cost advantage in relation to other analysed countries. Thus, it seems that if wages growth in China will continue to exceed rate of productivity growth, as a result, it may weaken attractiveness of that host country.

LABOUR SKILLS AND QUALITY

In order to compare the level of labour skills between countries we used Hays Global Skills Index, developed by Hays and Oxford Economics. This indicator is based on the analysis of labour markets in 31 economies. It presents the dynamics of changes on the specialists' global market and indicates main challenges that face companies hiring skilled workers. Each component of the overall country's index has the same importance, and 'measures how much pressure different factors are exerting on the local labour market' (see <http://www.hays-index.com>). Higher scores mean that a country is experiencing more pressure than has historically been the case, and lower scores mean that a labour market is experiencing less pressure than has historically been the case.

According to Hays Global Skills Index, Poland is now recognized as a country having a fairly stable economy with large number of skilled workers, and therefore is able to attract global investments in manufacturing and IT. As it was previously mentioned, Poland is also perceived as an excellent location for shared services cen-

TABLE 2 Hays Global Skills Index 2012–2014

Country	2012	2013	2014
Germany	6.4	6.3	6.2
Spain	5.5	5.9	6.3
United Kingdom	5.0	5.2	5.1
France	4.5	5.2	5.2
China	5.5	5.0	5.0
Poland	5.2	5.2	5.0
Netherlands	4.2	4.3	4.8
Italy	3.3	3.6	3.9

NOTES Based on data from Hays plc (<http://www.hays-index.com>).

tres. However, there is still a significant mismatch between the skills and labour market expectations, and that is why many young people cannot find their first job for a long time after graduation. However, universities, local authorities and companies began to cooperate to fill this gap. The overall picture of Poland is similar to France, UK and China, but these countries face quite different problems. France is characterized by shortages of IT and sales professionals, especially at the management and executive level, whereas in the case of UK talent mismatch is visible, particularly prevalent in engineering and IT sectors. High demand for qualified professionals in many industries and occupations in Germany is in part filled by immigrants, however, 'industrial wage pressures continue to be an issue for the German labour market.' The need for employees in some Chinese industries, such as e-commerce, financial services and FMCG, has contributed to substantial staff shortages in some regions of the country. China, contrary to European countries, is unlikely to count on fill this gap by immigrants – mainly due to cultural differences. Hays also states that China loses its competitive advantage because of wage pressure. In turn, Italy is still struggling to manage high level of unemployment rate, and companies continue to face with the rigidity of the labour law and excessive bureaucracy. To sum up, it seems that the situation of Poland is relatively favourable. Although there is some mismatch in the labour market, Poland still offers large number of well-qualified staff compared to e.g. UK or France (see <http://www.hays-index.com>).

LOGISTICS

Another indicator taken into consideration is the Logistics Performance Index (LPI) that is prepared by World Bank, and it compares countries' logistic performance. The LPI is the weighted average of

TABLE 3 The Logistics Performance Index

Country	2007	2010	2012	2014
Germany	4.10	4.11	4.03	4.12
Netherlands	4.18	4.07	4.02	4.05
United Kingdom	3.99	3.95	3.90	4.01
France	3.76	3.84	3.85	3.85
Spain	3.52	3.63	3.70	3.72
Italy	3.58	3.64	3.67	3.69
China	3.32	3.49	3.52	3.53
Poland	3.04	3.44	3.43	3.49

NOTES Based on data from the World Bank (<http://lpi.worldbank.org>).

the country scores on the six key dimensions: overall customs, infrastructure, international shipments, logistics competence, tracking and tracing, and timeliness (see <http://lpi.worldbank.org>).

Table 3 indicates that Poland still presents the worst rating among analysed countries, although this location is continually catching up with its performance on trade logistics. In-depth analysis of the detailed data indicates that the biggest challenge for Poland is the quality of trade and transport related infrastructure, and both Poland as well as China are struggling for higher efficiency of the clearance process.

THE OVERALL INVESTMENT CLIMATE

The global competitiveness landscape will continue to undergo transformational changes that redefine the drivers of economic growth, wealth creation, national prosperity and security. As previously mentioned, favourable investment climate means that the country's actions are taken to minimize the costs and risks associated with doing business and the barriers that limit the development of entrepreneurship are removed. In order to compare the investment climate of Poland with the other countries, we used two indicators: the 2013 Global Manufacturing Competitiveness Index (GMCI) and Ease of Doing Business rank. GMCI was prepared by Deloitte Group and includes more than 550 survey responses from manufacturing sector management teams, while Ease of Doing Business measures regulations directly affecting businesses, connected with e.g. starting a business, getting electricity or paying taxes (see <http://www.doingbusiness.org/rankings>).

Table 4 presents both Ease of Doing Business rank, as well as GMCI. Starting from the World Bank's index, it should be noted that in 2014 Poland was on the 30th place among 189 evaluated countries,

TABLE 4 Ease of Doing Business Index/Rank and Global Manufacturing Competitiveness Index

Country	Ease of Doing Business rank		Global Manufacturing Competitiveness Index	
	2014*	2015**	2013	5 years forecast
China	93	90	10.00	10.00
France	33	31	4.64	4.02
Germany	13	14	7.98	7.82
Italy	52	56	3.75	3.45
Netherlands	26	27	5.27	4.83
Poland	30	32	5.87	5.69
Spain	32	33	3.66	3.58
United Kingdom	9	8	5.81	5.59

NOTES * 189 countries. ** 185 countries. Based on data from the World Bank (<http://www.doingbusiness.org/rankings>) and Deloitte (2013).

while in Doing Business 2015, Poland recorded a 32nd position, directly ahead of Spain and behind France. Poland is still one of the worst evaluated countries in Europe in case of the time needed to enforce contracts receivables. Rating of Poland is also weak when it comes to starting a business (85th place – relatively high cost of start-up, high level of required capital and long period needed to start a business). Besides, Poland was classified on 137th place in terms of the procedures associated with obtaining building permits. Worth noting is high position of Poland among EU countries in case of the protection of investors and elements of corporate governance (see <http://www.doingbusiness.org/rankings>).

On the highest position among analysed countries was the United Kingdom (growth in 2015, from 9th at 8th place), with some problems with getting electricity and registering property. Companies operating in Germany (14th place) will not face difficulties with resolving insolvency and getting electricity, in contrary to starting a business (barely 114th place). The worst rated country is Italy, where investors have huge problems with paying taxes, enforcing contracts and dealing with construction permits. China, despite only 90th place in the ranking, belongs to the countries where in recent years was made significant progress in each of the analysed areas. However, companies in China have still enormous difficulties with e.g. construction permits, starting a business and protecting minority investors (see <http://www.doingbusiness.org/rankings>).

In the case of the second indicator – Manufacturing Competitiveness Index, rating of Poland is also fairly decent. However, China was

ranked as the most competitive manufacturing nation in the world in 2013 and in forecast for five years since the survey (among 38 countries ranked by executives), due to attractive market, government investments in manufacturing and innovation, great supplier network and still low cost of labour and materials. According to the Deloitte, decline of rating of all analysed countries is expected in the next years – except for China that will still occupy the first position. The only European country expected in the top 15 is Germany, which owes its high position to: healthcare system, legal and regulatory system, physical infrastructure and talent-driven innovations (Deloitte 2013).

Discussion and Conclusions

The diversity and specific nature of economic activity cause that it seems impossible to define ‘absolute’ investment attractiveness. However, there are some universal features/resources particularly sought by companies in the offshoring locations. Based on analysis of selected indicators and own reflections I have attempted to find the answers for three research questions outlined in the beginning of this paper. The first question concerned the level of attractiveness of Poland on the background of the selected countries. In the case of real labour costs and real labour productivity, Poland remains an attractive location in relation to Western European countries.

Of particular importance is the fact that productivity increased in recent years faster than labour costs, however, China still maintains a significant cost advantage. In the case of labour skills and quality, Poland has significant advantage over other analysed countries. It does not mean that there are no areas for improvement. Poland needs the necessary amendments at various institutional levels. Firstly, at the national level, policymakers must invest in infrastructure, which is much worse assessed than in China. This may translate into a significant reduction in logistics costs, improving business flexibility and the ability to respond faster to the rapidly changing customer demand. The huge progress in recent years in the area of infrastructure seems to be insufficient and there is still a lot of catching up ahead. Secondly, it is necessary to create such a system of education that will meet the investors’ expectations. The cost of labour is no longer the sole aspect to be taken into account – companies will continue to internationalize their activities but with greater sensitivity to other factors.

Based on conducted in this paper analysis, at least three possible

scenarios/effects of Western European companies' reshoring can be identified from the point of view of Poland:

- the wage gap between China and Poland becomes narrower, and Poland is catching up in other problematic areas (e.g. logistics); thus the transfer of previously offshored activities from Asia to the CEE region (including Poland) is possible, but the simultaneous preservation of cost advantage of CEE over Western European countries is necessary (near-reshoring);
- the attractiveness of Poland deteriorated in relation to China, what leads to withdrawal of Western European investments from Poland; some activities can be ultimately transferred to low-cost countries (further offshoring);
- production costs, both in Poland as well as China, are growing rapidly in relation to Western Europe, and in other areas are noticed still significant weaknesses. Therefore, Western European companies decide to relocate their business processes from China and Poland into their home markets (back-reshoring).

It is difficult to conclude which of characterized scenarios will certainly happen, and to precisely identify the effects of reshoring trend for Poland. However, it seems that wage pressure in China will continue to be maintained, what can in turn hinder the dynamics of European investments on the Chinese market. On the other hand, Chinese market is constantly increasing, and thus, many companies – despite higher unit costs, will stay in China to satisfy demand on this huge market. Another important issue is the facts that Chinese supply chains are perfectly coordinated, and if one supplier does not meet expectations of the contracting company, it is immediately replaced by another. Building of supply chains from scratch in the home countries would be often very burdensome. It seems also doubtful that in the next few years investors from Western Europe will reshore their production back to the home markets, where unit costs are significantly higher than in CEE or China. On the other hand, it seems that the importance of production costs will fall in the future due huge progress in automation. Poland, as we have mentioned, has many advantages over analysed countries, including e.g. growing productivity and still favourable labour costs, well-educated workforce and central location in Europe. Therefore, there are some symptoms that may indicate near-reshoring of Western European companies as the realistic scenario. Of course, it will depend largely on improvement in some areas of widely understood investment climate in Poland.

Reshoring has a dynamic character. The fact that a company relocates (partly or entirely) its activities to the home country or to home country's region, does not mean that the same company will not reconsider its strategy in a few years due to different international conditions. Although unit costs seem to remain the main factor affecting companies' relocations in the next few years key, in-depth analysis at the macro and individual sectors level would be necessary. On the other hand, each company may have different motivations (market, resource, efficiency or strategic asset seeking), and therefore, decision to what extent and how to operate in the foreign markets will be linked partially with other – more or less rational factors. It is still too early to accurately predict possible consequences of reshoring for CEE region because this phenomenon is still at an early stage. However, Poland and the entire region of Central and Eastern Europe, seem to be still very attractive for both capital as well as labour-intensive investments.

LIMITATIONS AND FURTHER RESEARCH

We are aware that our study has some limitations. Conducted analysis concerned only selected countries – Poland was the only country from the CEE region, while China the only low-cost destination taken into account in the analysis. No distinction was also used for investments in the service and manufacturing sector and the entry modes. A separated analysis could provide inspiring conclusions. In addition, a factor taken into consideration does not constitute a complete list of drivers affecting companies' relocations. One of disregarded factors were cultural aspects that may have substantial impact on the international relocation processes. Besides, some countries faced with economic problems, which resulted in higher unemployment rates and dissatisfaction among societies. The effect of this was the emergence of a strong lobbying affecting the governments that have decided to introduce some incentives to companies considering back-reshoring (see e.g. <http://www.reshorennow.org>). This aspect is extremely difficult to measure, thus, it was not taken into account. Some companies involved in reshoring trend may be guided by other, still unknown motives, associated with e.g. mistaken managerial decisions. Internationalisation pattern of companies may evolve over time and it is necessary to consider it.

Further research is needed in order to investigate the motives, effects and the evolution of reshoring phenomenon – also in case of CEE region. Therefore, although the number of companies from CEE that decided to relocate their activities abroad is not as pro-

nounced as in the case of Western Europe, the cases of companies that have already reshored some of their operations from low-cost countries are becoming more frequent. Therefore, it would be interesting to thoroughly investigate the main firm-, industry- and country-specific factors which affected reshoring decision of this group of enterprises.

Notes

- 1 FDI flows are not the optimal measure of offshoring. As previously mentioned, they involve not only the acquisition of shares of foreign companies but also reinvested earnings and inter-corporate loans and credits. In addition, large part of the investments, in e.g. the service sector (telecommunications, financial services), may be associated with their providing on the local markets.
- 2 Luxembourg, as one of the world's largest offshore financial center, was deliberately excluded from the analysis.

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