

ANALYSIS OF INDUSTRIAL RELOCATION IN ROMANIAN COMPANIES

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Abstract: *The phenomenon of industrial relocations has gained momentum in the last 30 years and is more difficult to be. Through this work, we wanted to analyze the phenomenon of industrial relocation in Romania. This paper analyzes the phenomenon in detail, identifying the main reasons that determine the relocation decision. The benefits and disadvantages in the case of relocating the activity from Romania to another country were discovered and analyzed. The decision to relocate production abroad is a multifaceted process driven by various key factors, each influencing the choice of Romanian companies. The primary factors that businesses take into account while relocating are closely tied to the total cost. Transport expenses, chances to expand the clientele, and availability of skilled workers were all brought up multiple times in this paper. The research method was qualitative, through interviews with decision-makers from the companies participating in the study. The main analyzed industries have industrial production activity in Romania. Through interviews with industry experts, this study reveals the critical determinants and their corresponding outcomes in the field of industrial relocation.*

Keywords: *sustainability, industrial relocation, cost optimization, manufacturing, offshoring*

INTRODUCTION

In the dynamic economic context, there have been major changes in the global localization of economic activity. International trade and foreign direct investment have grown substantially, and the role of manufacturing plants has changed from focusing on delivering products to domestic markets by exporting goods to international markets to supplying international markets through local production in offshore regions [2]. This evolution has been driven by a number of parallel trends, including market liberalization, financial deregulation, technological advances and lower cost transport. In particular, increased digitization through advances in information and communication technologies has enabled the fine fragmentation of value chains so that activities can be carried out in different locations, while in

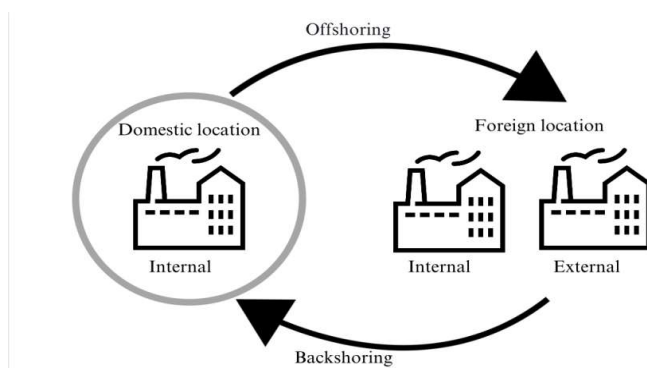


Figure 1. The phenomenon of industrial relocation

formation can still be shared between off- and onshore locations [1]. Location decisions are part of a firm's manufacturing strategy and are ultimately made to meet the firm's long-term goals by supporting its competitive priorities[3]. Choices regarding localization are limited, offshoring and backshoring are two options for a firm seeking to change its global production distribution by relocating production activities, both within the firm and in cooperation with external partners.

Figure 1 plots the phenomenon of industrial relocation, offshoring refers to “the allocation of commercial activities to locations outside a firm's national borders to support existing commercial operations” [4]. This definition emphasizes the geographic aspect of offshoring and its strategic focus on optimizing the value chain as opposed to just gaining access to foreign markets. The phenomenon of backshoring has received much attention from researchers and policymakers, with the hope that industries in high-cost countries will be revitalized by the return of previously lost jobs [5].

Companies base their relocation decisions, for example, on home and host location characteristics. These aiming to capitalize on the competitive advantages of the production location [6] [7], and the performance is conditioned by the match between the characteristics of the activities and the conditions offered by the local [8], with the aim is to capitalize on the advantages of the production location [9], and the performance is conditioned by the match between, for example, the characteristics of the activities and the conditions offered by the local environment [8].

RESEARCH METHODOLOGY

The qualitative research methodology, mainly exploratory and descriptive, was chosen to carry out this study. This research methodology seeks to understand and interpret social phenomena by exploring the perspectives, experiences and behavior of individuals, seeking to penetrate the depth and complexity of human experiences and generate rich, descriptive data.

The research method chosen for this study was the interview. The type of interview chosen was the structured one. A set of predetermined questions was constructed, with limited room for modification, with the aim of eliciting specific information.

Participants were selected based on their relevance to the research topic and their ability to provide meaningful information. Diversity in participant characteristics such as age, gender, profession or experience was considered to capture a range of perspectives.

For the present study, the interview period began on October 1, 2022 and continued until February 1, 2023. Some of the interviews were conducted face-to-face at the companies' headquarters. The other interviews were conducted online through online communication platforms, Microsoft Teams, Google Meet and Zoom. The average duration was 45 minutes with a minimum of 25 minutes and a maximum of 120 minutes.

RESULTS

3.1 The most important factors in the decision to relocate production abroad

During the research, several factors determined for industrial relocation were identified. The main determinants for the process of industrial relocation are strongly related to three dimensions:

1. **The efficiency of transport costs:** Transport costs for both finished products and raw materials played a vital role, with a significant majority of respondents underlining the importance of optimising transportation expenses. A percentage of 83% of respondents presented cost optimisation factors. Among them are the transport costs of finished products and raw materials.
2. **Expanding the customer network:** A substantial percentage of surveyed companies acknowledged the significance of market diversification as a driving force behind their decision to relocate. The prospect of tapping into new markets and expanding customer bases emerged as a compelling incentive. The respondents believe that a determining factor for the relocation of the activity is the identification of new areas with considerable resources, such as crude oil, natural gas, stone quarry. A percentage of 66% of the analysed companies mentioned among the determining factors, the opportunity to expand the portfolio of clients served.
3. **Access to qualified human resources:** Access to a skilled and adaptable workforce is a pivotal determinant, particularly in industries that demand specialised labor. Interviews with industry experts revealed the importance of this factor, primarily among those engaged in the automotive component manufacturing sector. Access to qualified

human resources was taken into consideration by 16.6% of the respondents, who are mainly active in the automotive component manufacturing industry.

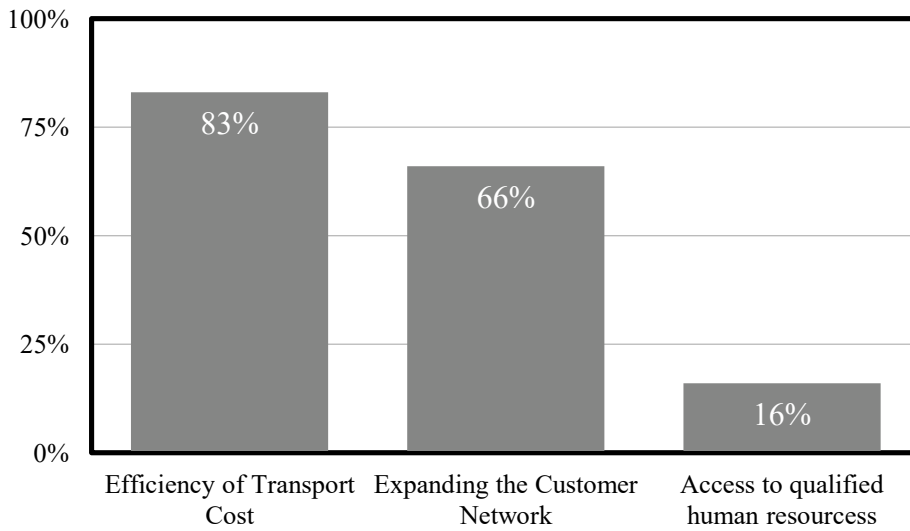


Figure 2. The most important factors in the decision to relocate production abroad

Figure 2 shows the organisation's preferences regarding the benefits they aim for when considering relocating their business. Of the three categories of benefits mentioned, companies chose them according to the results in figure 2.

3.2 The benefits obtained by companies by relocating the activity abroad

There are many benefits that companies can obtain by relocating their activity abroad. These factors were classified into three categories. In the interviews, the most frequently mentioned were:

1. **Lower costs production:** Moving industrial activities to another country often allows a company to take advantage of lower production costs. This can include reduced labor expenses, cost-effective access to raw materials, and potential tax benefits. Lower costs can significantly enhance a company's competitiveness and profitability. A percentage of 92% of companies mentioned that the main benefit that companies would get from relocating production would be lower production costs. These may include, raw materials at lower prices, lower cost of transportation, lower level of wages, tax benefits offered by the new host state.
2. **Opening up to new markets:** Relocating abroad enables a company to access new markets and expand its customer base. This can lead to increased sales and revenue, diversification of the customer portfolio, and reduced dependence on a single market. Entering new markets can be particularly beneficial when targeting emerging markets with high growth potential. 66% of the organizations consider the chance to expand the product sales network as a benefit, they believe that the presence of production units in another country can also represent a chance to sell products in that country. Approaching new cultures can contribute to the adaptation of products to local needs through a deeper understanding of the needs of the potential consumer.
3. **Access to know-how (knowledge base) available in other Countries:** International relocation provides access to a wealth of knowledge, expertise, and industry-specific know-how that may not be readily available in the company's home country. Collaborating with local professionals and leveraging their skills and experience can lead to innovation and process improvement, ultimately strengthening the company's competitive edge. 41% identified as a benefit the possibility of expanding the knowledge base, qualified employees in certain fields.

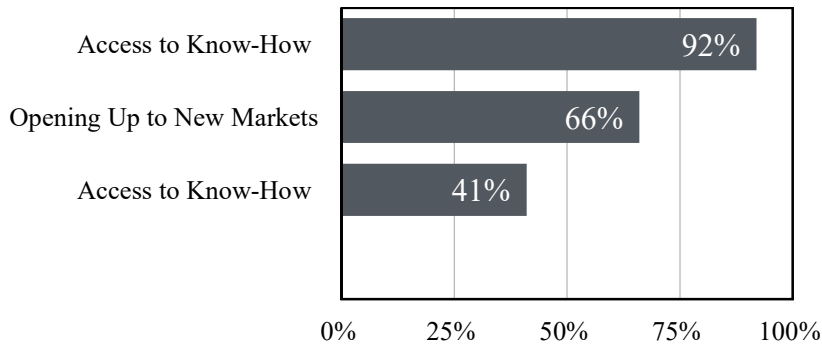


Figure 3. The benefits obtained by companies by relocating the activity abroad

The results, also seen in Figure 3, suggest the most important advantages that companies look for when considering a strategic decision involving business relocation.

3.3 The disadvantages/problems the company would encounter by moving abroad

Along with the benefits, a number of disadvantages/challenges were identified. The disadvantages of relocating activities can be multiple, the main ones identified by the companies that took part in the research are:

1. **Reputational risks:** Relocating activities abroad can sometimes lead to reputational risks, especially if the move is perceived negatively by stakeholders. This can include concerns about job losses in the home country, ethical issues related to labor practices in the new location, or criticism from environmental or social advocacy groups. Maintaining a positive corporate image and addressing these concerns is crucial. 83% of organizations identified reputational risk as the biggest risk they would take by relocating their business;
2. **Challenges in identifying new employees:** Finding and hiring the right talent in a new location can be challenging. Companies may face difficulties in understanding local labor markets, cultural differences in work practices, and recruiting employees with the required skills. Language barriers and varying qualification standards can also complicate the hiring process. 58.3% consider a big disadvantage of relocation, the need to identify new employees who can quickly adapt to the organizational culture.
3. **Challenges in expanding the network of collaborators, suppliers, and others:** Building a network of local collaborators, suppliers, and business partners in a new country can be time-consuming and challenging. Companies need to establish trust and relationships with local entities, navigate cultural and language differences, and adapt to different business practices and regulations. This process can slow down operations and increase initial costs. 50% consider it a big challenge, a disadvantage that they would have to rapidly develop their network of collaborators, suppliers and others. Partnership is a determining factor of success in which companies invest for a long time.

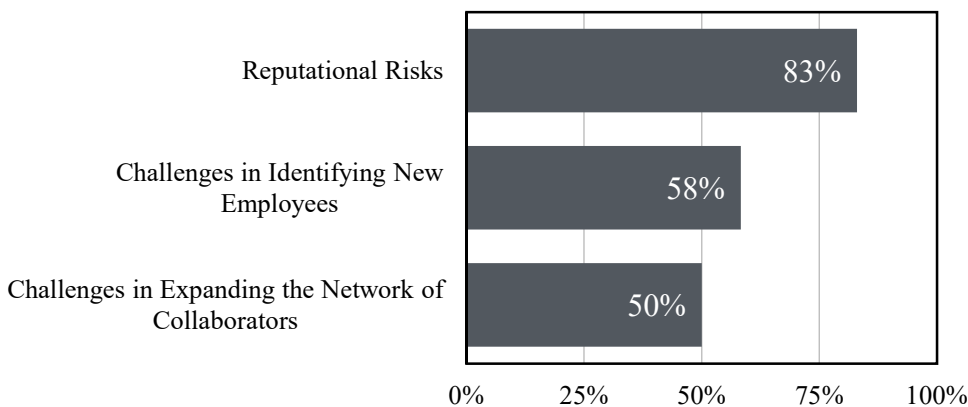


Figure 4. The disadvantages/problems the company would encounter by moving abroad

The results observed in Figure 4, obtained from the research, show the three main disadvantages associated with the industrial relocation process. It is remarkable that the strongest and most frequently identified disadvantage is reputational risk, which was mentioned by 83% of the surveyed companies.

3.4 Companies' expectations regarding the relocation of activity abroad

In the context of this study, was important to discover expectations regarding the relocation of activity.

It has been revealed that a minority, specifically 8.3%, of companies operating in Romania are contemplating the relocation of their production activities to foreign destinations. This suggests that a relatively small fraction of businesses is actively considering international expansion. Conversely, a significant majority, totaling 83.3% of the companies analyzed, have expressed a clear intent to continue their operations within Romania, indicating a preference for the domestic market. This may be influenced by factors such as the favorable business environment, access to a skilled workforce, and established customer bases within the country.

In contrast, another 8.3% of companies responded with uncertainty, selecting the "I don't know" option. This category underscores the complexities and uncertainties that can surround decisions related to business relocations, possibly driven by factors like market volatility and the need for comprehensive evaluation.

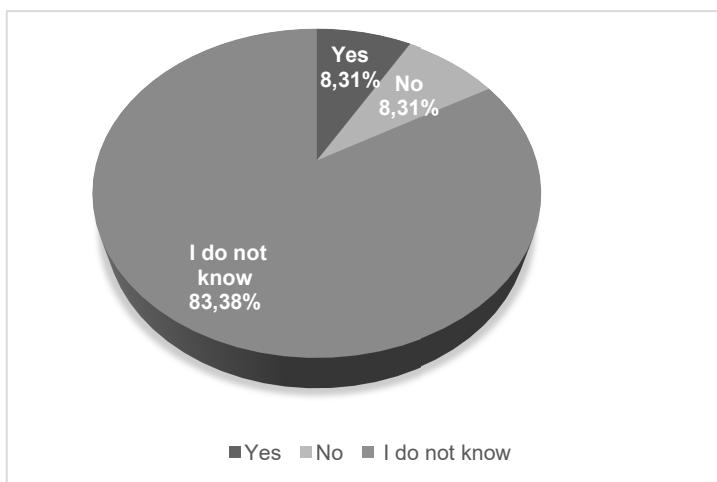


Figure 5. Companies' expectations regarding the relocation of activity abroad in the next 5 years

The results, also seen in Figure 5, suggest that Romania's business operations landscape is multifaceted, shaped by considerations such as cost, industry-specific dynamics and government policies. Further analysis is necessary to understand the motivations and implications of these relocation trends, and to anticipate potential changes in the future.

CONCLUSIONS

The research provided a thorough analysis of the phenomenon of industrial relocation in Romania. The phenomenon of industrial relocation is important in the strategic decisions of organisations and was analysed in this paper. The main ideas extracted from this study refer to the fact that the representatives of Romanian companies do not identify important relocations of the activity, nor does the information from the past, from the last five years, indicate an increased interest in this decision. The main determinants of the relocation process that companies consider are directly related to the level of costs. In this paper, transport costs, opportunities to develop the client network and access to qualified labor were repeatedly mentioned. These factors are considered both in terms of the relocation decision and the risk of relocation. The analyzed companies belong to some of the most regulated, which is also the reason why they mentioned reputational risk as one of the most important, along with the level of regulation, most of the respondents are the main employers in the areas where they operate. This role gives the organisation a high degree of responsibility for the community.

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