Chapter 7

Global Labor Market, “Re–Shoring” Dynamics, and Skill Mismatch: An Exploratory Study at a Job–Specific Level

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ABSTRACT

Workers’ capabilities and knowledge are factors that a company can use to boost its productivity. The relocation of operational activity away from industrialized nations has led to the erosion of manufacturing skills, and this fact often results in a severe skill shortage in specific local labor markets, becoming much more prominent in the case of re-shoring. Consistent with the transaction cost economics approach (TCE), the purpose of this research was to verify if students possess at least basic skills at the end of their educational path to face the labor market without economic frictions in school-to-work transition. Finally, this chapter presents a model that could be useful in order to design programs aimed to overcome the erosion of manufacturing skills and provide students with skills that companies need to deal with local labor markets successfully.

INTRODUCTION

In many western countries, re-shoring and back-shoring of manufacturing, assembly work, and warehousing is increasing at an unprecedented rate (Adelmann, 2013; Alderman, 2014). Behind this trend is the ability of firms to dramatically increase production without hiring new workers (Kroft, 2013), and this fact has a strong impact on global human capital value chain. In fact, the relocation of operational activity away from industrialised nations has led to the erosion of manufacturing skills (Bailey et al., 2010), and this fact often results in a severe skill shortage in specific local labour markets, becoming much more prominent in the case of back-shoring.

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Furthermore, the loss of manufacturing capabilities might also imply the reduction of innovation competencies (Pisano & Shih, 2012). Hence, it appears very important for scholars to present a model of intervention in order to carry out training needs analysis by checking skills and knowledge and identifying gaps between skills provided by school and skills requested by firms for the same jobs. Given this scenario, current literature (Fratocchi et al., 2014) suggests that research should try to answer several traditional questions about back-shoring processes: causes of back-shoring (Why), the value chain activities involved (What), the home countries characteristics determining the back-shoring decision (Where), and the modes of entry into (and subsequently exit from) the host country (How).

However, empirical evidence on back-shoring is relatively scarce and advocates for more knowledge about its effects and about its likely evolution (Kinkel, 2014). Hence, this chapter aims to proceed focusing on the impact of back-shoring processes, especially on human resources practices. In fact, given the organizational and managerial dynamics highlighted by the empirical research on back-shoring (e.g., Campagnolo & Gianecchini, 2015; Ferrari, 2015), it seems sensible to expect that the current back-shore trend will have a strong impact on human resources management practices, especially on training and skills development.

Thus, the first purpose of this chapter is to investigate the impact of back-shoring process on skill shortage/mismatch in a local labour market in the Italian fashion sector. The aim of this chapter is also to present a model of intervention to conduct training needs analysis by checking skills and knowledge and identifying gaps between skills provided by school and skills requested by firms for the same jobs. Finally, beyond the implications on training practices, this chapter aims to predict the short-term impact which the back-shoring process is likely to have on the other human resources practices, in particular on recruitment, knowledge management, team building and team management, performance appraisal, and compensation.

This chapter contributes to current literature in a threefold manner. First, by investigating the impact of back-shoring process on skill mismatch, this chapter react to the recent call (Fratocchi et al., 2014) for a deeper comprehension of the impact of such process on the value chain.

Second, by applying the Economic Transaction Cost to the Italian context, this chapter provides an original contribution to a literature until now mainly grounded on Anglo-Saxon context.

Third, testing the Job Requirement Approach to skill mismatch, this chapter provides a suitable approach in order to investigate the skill mismatch at a firm-job-specific level, thus providing a better suited training needs analysis.

GLOBAL VALUE CHAIN AND INTANGIBLE ASSETS

This chapter is grounded on three different (and here combined) approaches to intangible assets economics: Transaction Cost Economics (TCE), School-to-Work Transition and Educational Mismatch theories (e.g. theories which provide explanations for educational and skill mismatch, such as Assignment Theory, Human Capital Theory, Institutional Theory, and Heterogeneous Skills Theory). These approaches were chosen because of their strong focus on elements like human capital and dynamics of the labour market.