Localization factors in decision making of location of selected enterprises

Michal Cifraníč
Slovak University of Agriculture in Nitra
Faculty of European Studies and Regional Development, Department of Public Administration
Tr. A. Hlinku 2
Nitra, Slovakia
e-mail: michal.cifranic@uniag.sk

Abstract
Localization is important for every enterprise to ensure its future successful development. Enterprise must take into account many localization factors to make the right decision. The main goal of the paper was to identify, describe, evaluate and analyze selected localization factors for the location of manufacturing enterprises. It deals with factors according to their importance for the selected manufacturing companies: K&J&G, Fimabo, TRW Automotive, Strechy 92 and Inalfa Roof Systems, important localization decisions and evaluation of selected localization factors for the business location. It describes six main categories, labour, market, land, infrastructure, environment and legal social and economic conditions, where are described and evaluated most and least important localization factors. This has been performed on the basis of the results which we have obtained through the filling of the questionnaire.

Key words: business, enterprise, localization factors, location of business, manufacturing companies

JEL Classification: D22, D92, J22, L10, L20

1. Introduction
Entrepreneurship is generally independent decision-making about what to produce and what services provide, about the legal form of the company, the location of the business, about the level of use of equity and loan capital and about the distribution of a profit. In addition, to meet the needs of customers and its own business development the entrepreneurship provides more society-wide goals such as creates jobs, innovation and technology progress, stimulates initiative and education, contributes to the formation of resources for education, social security, culture and so on. At the beginning every enterprise must make some localization decisions and must take into account several localization factors which help the company in deciding on the allocation of the firm. An important step for each newly-established company is the right selection of localization factors for the best business location.

After considering of all localization determinants and market research the company may finally decide whether a business allocates in given area or not. It is very important to make the right choices from the very beginning of doing a business, therefore, proper placement of any company on the market ensure its long-term and satisfied development in the future. Localization factors represent a set of actors that affect the location of a specific unit of production into a specific space. But it also depends on the businesses which sectors of the economy they choose. „Business is legally and economically independent, organized economic unit producing goods and services for the market. The activities which taking place in the enterprise are characterized as a business.“ (Vlachynský, 2009) According to Singla, (2007) “business may be defined as human activities directed towards providing or acquiring wealth through buying and selling goods.“ Other definition sound: “Business drives the economic pulse of a nation. It provides the means through which its citizens' standard of living improves. At the heart of every business endeavour is an exchange between a buyer and a seller.“ (Boone, Kurtz, 2011) The word business is very closely related to the combination of words known as business activities. Pandey, (2009) explains it as: “Business activities refer to the activities
which are connected with the production or purchase and sale of goods or services with the object of earning profit."

Localization in the corporate setting is the extent to which expatriate managers are replaced by local employees originally held by expatriate managers. Also company support and top management’s commitment as two sets of factors that predicted localization success. (Law, KS., Song, LJ., Wong, CS., & Chen, DH. 2009). As Cantwell (2009) states that „in the early development of the international business field, the focus of attention moved from the country level to the firm level, and interest in location issues declined. More recently, firm-based research has itself become increasingly concerned with the study of firm-location interactions.“

Localization factors are a set of actors that operating in the placement of a particular production unit in a concrete area. By this term we understand the geographical location at which should be placed all the production factors of business for the purpose of providing goods or services. The localization affects both internal as well as external factors. „It always depends on the particular decision-making situation which of those production factors manufacturing company will prefer. All decisions are doing before establish the business.“ (Džupka, (2009)

The basic objective of location of the businesses is determining the placement of the entities in the concrete area. Then the company has to decide what will be its field of entrepreneurship and after that may be classified to a specific business sector production. Parmer, (2002) claims: “location of economic activity means the activities related to production, exchange and consumption of goods, services and information on the rotating earth and in universe. The location where these activities take place is called the location of economic activity.“ Cambers, Currie, (2002) states that “The factors that influence the location of economic activities vary. The enterprises or business companies often weigh up the advantages and disadvantages of a number of locations before deciding where to build.” „Localization factors are important for the enterprise if it has an influence on costs, respectively on revenues of the enterprise and that availability, quality or price of the factor must be spatially differentiated. Only when both conditions are met, arise different conditions in various localities for the enterprise, and it must take them into account in decision making.” Belajová, Fáziková, (2002)

Location decision is one of the key decisions of the enterprise in strategic planning. It is one of the first challenges faced by the enterprise during its life-cycle. Localization decisions have major impact on the functioning of the company. Buček, (2010) states that: “Although it might seem that firms due to cost savings are searching for the optimal location in the area of inputs, large part of the business sector focuses its operations on the areas of the realization of outputs - markets.“

2. Data and methodology

For every new enterprise which starts operate on the market is very essential the proper placement of localization factors that contribute to the correct flow of whole business. By the word localization we understand the geographic location in which should be placed all business factors of production for the purpose of providing goods and services. Proper location of the company speaks about the future status of certain business, its inputs, transformation process and outputs that needs to be achieved in the future. The main aim of the paper was to analyze and evaluate the localization factors and their location in selected manufacturing companies. The objects of examining of the paper were specific manufacturing companies: K&J&G, Fimabo, Strechy 92, TRW Automotive and Inalfa Roof Systems.

In achieving the results we have used the following methods as method of analysis, method of comparison, method of synthesis and method of controlled dialogue. But the main used method
was the method of questionnaire survey. This method is one of the most common tools for data collection for different types of surveys which consists of a series of questions designed to obtain facts and opinions from respondents. The questionnaire and localization factors in it are based on the available literature on this topic and adapted to the nature of selected enterprises. The questionnaire of localization decisions consisted of the general characteristics of a business, where concrete company provided its name, place of action, legal form of business, number of employees, number of years in business and its location. Questions in the questionnaire were constructed in the form of opened questions. In specific characteristics of the company are divided 24 localization factors into 6 categories, namely, labour, market, land, infrastructure, environment and legal social and economic conditions. To assess the importance of localization factors there is provided point scale from grade 0 to grade 4. Where 0 represents the degree of no importance, grade 1 low importance, grade 2 average importance, grade 3 major importance and grade 4 refers to ultimate importance.

3. Results and discussion
In today’s world of business where there is too big number of enterprises and competition is very strong it is important for the enterprise to be innovative and creative and to think predictably to be successful in longest period of time. Nowadays it is not very easy to be successful on the market and that is why the localization decision is fundamental part of starting the business. For each enterprise which wants to start a business or which wants to expand its scope it is very important to take into account localization factors. Right, actual and reliable information are the key for proper localization of the enterprise.

3.1 The importance of location decisions
The basis of the market economy is the freedom of entrepreneurship. Enterprise as an institution in this area is subject of examination of several economic disciplines. Under the subject of every manufacturing company we understand a business activity where the inputs are transformed into outputs production in the form of goods, services and information. These outputs by its quality and quantity also affect the socio-economic processes which take place in the concrete area. An important milestone during the establishment of the businesses is creating of the spatial structure which has the greatest influence on them. On the formation of the spatial structure have the strongest impact businesses and their localization decisions. In connection with the structuring of the space, companies decide where and at which point in a particular area will develop its manufacturing, trading, development or administrative activities. Each enterprise can focus all their activities in one location (one enterprise operation) or may be distributed in multiple locations (company with more operations or so-called subsidiaries). In achieving the corporate goals, all business operations together must coordinate its activities through supplier, information and control relationship between them. Location decisions also affect the running of the businesses. They decide on the sales network, who are their purchasers and how the deliveries will be carried out, or about warehouse management system such as materials storage or just-in-time-system. Effective tool for the spatial structuring is the wage policy of the enterprises. Rates of corporate wages affect the amount of regional income and thus define the labour market for a given company. For any business, of course, is very important where will be located.

The importance of location factors is given by the type of product, type of technology, degree of localization and mobility. All factors that are important for a particular enterprise must meet specific requirements for quality, quantity and price. Types of technology or innovations which are used to produce a certain product are those which are not exhausted yet and matured technology such as biotechnology, development of new materials, engineering, electronics,
production of working tools and others. Degree of localization means the density of location factors in space. From this company knows whether the locality is the right one. Mobility of localization factor means the possibility of its transfer, respectively opportunity of product transfer, as well as the costs associated with its transfer. Another factor in the localization of businesses is land. The most important is the quality and price of land. Environmental factors nowadays do not have a fundamental importance in locating of manufacturing companies. Category labour force acts as an important factor that can affect the localization of production entities. Ability to attract and retain workers is one of the major factors which are necessary to bear in mind when selecting suitable localities for businesses location. While the importance played two kinds of labour. On the on hand, in every company there are required highly skilled workers, scientists, engineers, managers and on the other hand, cheap labour for the sphere of services and for simple production. When planning a location it is necessary to plan not only the areas that are immediately available for sale, as well as the total area of retail which includes secondary areas such as parking areas, storage areas, administrative areas and others. Location decisions are complex and long-term.

The main part of the paper is focused on localization of businesses and importance of location factors for individual companies at the cradle of their business. On the localization of the enterprise impact both, external as well as, internal factors. For internal factors, we consider lack of financial resources, personnel problems, lack of information and others. And for external factors, we consider, in particular, an area of legislation, rules and regulations but also political or environmental measures. Every company in the beginning of its business activity must examine and evaluate which of the localization factors are the most appropriate for it and vice versa. In important determinants are the costs of inputs and outputs, market opportunities and emergence of new competitors. The companies in their allocation must obviously take into account the type of customers for whom they want to provide their goods and services, purchasing power and price level of services in the given region. In addition, for better running of the business entity they have to determine new production methods, transport and communication techniques, technologies and innovations that will have the best effect for the successful starting of a business.

3.2 Survey results of location factors

Through the questionnaire we found out the significance of the placement of localization factors for given manufacturing enterprises. We identified which of them had ultimate importance for companies when starting a business, and on the contrary, which have the least importance. The degree of importance is indicated by the scale 0 – 4. This survey was drawn up by directors, managing directors or shareholders of the concrete company through the face to face conversation.

From the results of the questionnaire we found that the ultimate important factors of location in category labour were qualified as well as non-qualified labour supply. It is because when all manufacturing enterprises started doing their business they did not need only educated people in the field of management, accounting and other business areas but they needed also unskilled people who know working manually or with the help of machines. In 1993, the K&J&G had only two permanent employees and changing number of temporary workers employed according to the volume of production. Over the years, the number of employees increased and nowadays the company employs around 300 personnel. The company Fimabo began with its business activities and production only with number of three employees. Other companies such as Strechy 92, TRW Automotive and Inalfa Roof Systems started their business at abroad and lately spread their subsidiaries on Slovak market. Labour costs were also major important factor. During the construction of business it was significant to find the workers who are willing to work for minimum wage. The mentioned foreign companies were located in Slovakia mainly
due to cheap labour force. Therefore, the firms employed unskilled labour force that needs to have mainly good physical and manual skills instead of intellectual knowledge. Another main attribute required by businesses was flexibility of workforce. Managers and directors of the firms also mentioned the fact that the Slovak labour market is not only inexpensive but also has a good performance level. So they required the personnel who were be able to adapt to any work, what means, that every single worker was able to deal with multiple devices or other production machinery. On the other hand, the least importance for all companies in this category has supply of workforce with disabilities. The reason is clear. Whereas all firms are dealing with production activities where workers handling with heavy apparatus, materials and metals, then people with disabilities could not perform such hard work.

In the category market the most important factors for all enterprises was the organization of distribution network. This stems mainly due to the fact that all studied companies had to know and evaluate alternative distribution channels at their beginning. Each firm had set the type and number of intermediaries. However, the main cause is that the companies cooperate not only within Slovak market but also at abroad. Within a few years of enterprises existence they enlarged its distribution channels to several developed countries in the world. The Inalfa Roof Systems distributes its products to Brazil, Sweden, Deutschland, South Korea, Mexico and others. The K&J&G has the distribution network spread to Croatia and Serbia. Distribution network of the TRW Automotive is divided to Chine, Brazil and Poland. Only the firm Strenchy 92 has the distribution network spread between Czech Republic and Slovakia and vice versa. Finally, the Fimabo distributes its final goods to Slovenia, Austria and Czech Republic. The major or average importance for the companies had factor called proximity of suppliers. Every firm needed before the primary production some raw material, metals, wood, other materials or parts and components which are distributed through direct suppliers. But the main aim of studied firms was to have their suppliers closest to its organizations. Intensity of competition in the sector had a major importance for every entrepreneur. As well as our companies when starting a business, they were looking for the most appropriate location of business activity. They preferred mainly peripheries and places in the regions where the development of similar business activities have not been advanced yet. The average importance for the companies had size of local market. The fact was they had set a priority beforehand that their produced goods and services will be expanding to our whole country and later to abroad. So the size of market where they started to perform their activities had not a great impact on localization.

The next category which was examined in this paper is called land. The most important for all enterprises were size and rental prices of land. The companies started their function in small leased buildings, garages and other premises. But it did not take a long time and all companies, after a few successful years of their formation, managed to purchase the leased premises to the own property and even expanded their plants. From this we could say that the property rights to land become irrelevant these days. Although this process of converting did not change from year to year but it depended particularly on the turnover and total profit of the all businesses.

The key category for all manufacturing companies is infrastructure. The major importance for studied firms had complexity and costs of roads. When the companies started to distribute its first products mostly they had not purchased their own means of transport. So the expenditures connected with infrastructure were high because they had to pay for the external services as well as for the toll roads and other fees connected with it. That is why all enterprises carefully selected from the range of external firms which ensured transport of goods over the country. In later period, all examined companies have purchased its own transport facilities except the Inalfa Roof Systems which still uses the service of an external importer and exporter. Availability of storage space had an average importance for the manufacturers because they were trying to sell as many products as possible on the market and only a small amount retained
at warehouses. The reason is that selected companies use the just-in-time method, what means, that the purchased material is immediately used in production process and the finished product is promptly placed in the market or to the final customer. Another major importance had factor named possibilities of advertising or exhibition. Not only for selected companies but for any other types of business in the economy sector is essential to have a well established advertising. Even though, the advertising and activities associated with it have been important factor for the researched firms, their expansion was greater after 5 years of doing business. Level of the institutions and services supporting regional development had no or low importance. This is the case that the companies at the beginning of their business activities were devoted mainly to issues related to the price and level of the financial services, whether the services in regions are expensive or cheap. Also leading role played the level of legal and economic services in concrete region. That is why the companies did not take any weight for supporting regional development. Because the priority of every start-up enterprises is to have financial security for the smooth running of the business and later they may think about supporting of their region.

Environment category which includes possibilities of storage, disposal, recycling and local standards for discharged dangerous substances were ultimate important factors for each company. These factors were very significant because the companies’ role was to store all of the manufacturing materials and produced goods in dry and well placed storage conditions. In the firm K&J&G recycling of used materials for the company provided in past and still does outside firm which also imported the oils and materials for further production process. Likewise, other studied companies respect the local standards when discharge some risky substances. All enterprises carry out these issues because they try to keep not only inside environment but also its outside area, population in good environmental conditions. The least importance in this category had a climate conditions. It was because of the fact that the companies manufacture their goods and services in buildings, halls, garages or other roofed buildings so they do not depend on any weather changes.

The last category which has been studied is named as legal social and economic conditions. The biggest importance had proximity of industrial parks and business indicators. This factor was essential for each company mainly because the enterprises were dependent on other businesses which buy products, materials and final goods which were previously produced by studied companies. Other factors which played a major importance were economic and political stability of the region and production and consumption habits of population. This is due the fact that the companies depend on economic, social and political changes in given region. Based on the growth of the regions also studied plants were able to further development. Another argument is also that firms had to monitor the employment level in regions where they wanted to settle down. They were looking for the unemployment rate which causes that people in concrete area would not be able to buy their final goods and use offered services. Although this criteria had only average importance for the firms, because as we mentioned in connection with the distribution network, all researched companies could not depend only on the consumption of Slovak citizens but also on foreign consumers.

For better imagination of surveyed firms and their most important and least important factors which had to be considered in locating of the companies we may see in the Figure 1.

Figure 1: Evaluation of localization factors of surveyed businesses
After researching all the factors of localization based on the questionnaire in given companies we may say that the most important determinants for manufacturing companies when opening their business were chiefly flexibility of workforce as well as the costs connected with labour force, organization of distribution network, size of land, complexity and costs or roads and possibilities of storage, disposal and recycling. Other additional major or average important factors were qualified as well as non-qualified labour force, proximity of suppliers, intensity of competition in sector, size of local market, rental price of land, availability of storage space, possibilities of advertising or exhibition, economic and political stability of region and production and consumption habits of population. The least significant determinants were...
supply workforce with disabilities, level of the institutions and services supporting regional development, climate conditions and local tools to support regional development.

4. Conclusion

Currently, in the developed market economy can be successful such enterprise which is able to meet increasingly demanding customers needs through offering new and high quality goods or services. It is not enough just to produce a quality product and offer good services but it is also necessary to take care about the fact that these produced goods and services are available in the right quantity, at the right place, in the right time and this through expending of reasonable costs. An enterprise should by its offer flexibly react to competition, cope with it, or possibly overcome it. Every company must act economically, in order the prices of goods and services were comparable to those offered by the competition. Success of enterprises on the market depends on several factors such as increasing quality, reducing costs and increasing flexibility. However, the most fundamental determinants in setting up of the company include the localization factors which are closely related to analysis of market, labour, infrastructure, environment, economic and social stability of the region in which the company wants to start doing a business.

The aim of the paper was to evaluate the importance of localization factors of selected manufacturing companies. We have also examined and compared the location decision of the selected enterprises to analyze, describe and compare the most important localization factors. When examining the localization factors we have found that the major determinants for the allocation of these firms were flexibility of workforce and related costs, organization of distribution network, size of land, local standards for discharged dangerous substances and economic and social stability of the given region. On the other hand, the least important factors were supply of disabled workforce, climate conditions and level of the institutions and services supporting regional development.

Among the main plans for strengthening the business sector in the Slovak economy should be primarily the forms of support such as an aid from EU structural funds when doing business, some support programs for small and medium size enterprises, state aid and other investment aid. In order to our business environment will become more stable is also required cooperation with a several economic sector, because in spite of their different nature all sectors are involved in developing of a stable business environment. If Slovakia manages to improve the economic, political and entrepreneurial stability it may bring benefits not only for the Slovak entrepreneurs but is also increase the chance to attract many other new or foreign investors.

References


* Online full-text paper availability: doi:http://dx.doi.org/10.15414/isd2016.s4.09