

Contemporary Issues in Business, Management and Education 2013

Importance of personal factor in decisions on locating enterprises

Monika Płaziak^{a*}, Anna Irena Szymańska^a

^a *Pedagogical University of Cracow, Institute of Geography, Department of Entrepreneurship and Spatial Management, Podchorążych Street 2, Cracow, 30-084, Poland*

Abstract

This paper focuses on the personal factor and its importance in entrepreneur's decision-making process when choosing location of a business. The theoretical part of the paper has been supplemented with a case study, which is a result of an in-depth questionnaire from interviewing co-owners of a small architectural studio. The paper confirms the thesis that, apart from a number of factors resulting from investment requirements and investment climate attractions, the final choice of a business location is affected by personal motives. Personal features of decision makers (their abilities and limitations) as well as motives and intentions do play role in the decision-making process. In line with behavioral approach to the problem, the personal factor in the decision-making process often governs selection of a business location. From a decision-maker's point of view, satisfactory and not an optimal location is typically selected.

© 2014 The Authors. Published by Elsevier Ltd. Open access under [CC BY-NC-ND license](https://creativecommons.org/licenses/by-nc-nd/4.0/).

Selection and peer-review under responsibility of the Contemporary Issues in Business, Management and Education conference.

Key words: Enterprise; location factors; behavioral approach; personal factor.

1. Introduction

The purpose of the article is an attempt to position the personal factor in the decision-making process concerning the location of the business and determine the relevance of this factor, on the selected example. The proposed set of factors used to assess their degree of validity may be a point of reference for further research.

Location of a business means locating the business in business environment or rather identifying the investment project location (or a location of an enterprise which does not require an investment) (Kupiec, 1979; Kupiec et al., 1999). Actions aimed at setting the most optimal location of a business represent one of very important aspects

* Corresponding author. Tel.: +48-12- 662-6000; fax: +48-12-637-2243.

E-mail address: mpłaziak@up.krakow.pl

which may be considered at each stage of a business development cycle. It is essential to analyze possible locations both at the stage of starting up one's business when a convenient location of an enterprise will be beneficial for its effective launching as well as in the process of its business operations, in particular, when continuation of the business in the area is no longer profitable (Fierla & Kuciński, 2001).

According to the principle of coherent location: “the right business should be run in the right location” (Budner 2004). It means that a specific location is assigned to each business and the location is appropriate for the business. Not all locations ensure sufficiently convenient development conditions to a business. On the other hand, not all types of businesses can be run in a given location. Attractiveness of a location is dependent on consistency of features of an area with the type of planned business. Therefore, any place considered in terms of future business operations has some specific attributes. Similarly, each business is connected with some specific requirements that must be fulfilled (Zawadzki, 1973, Leśniak, 1985).

2. Location factors and their importance in the process of deciding on locating a business

The concept of a location factor first emerged in the scientific literature in 1909 owing to Weber. As Tarski defined, location factors are “all circumstances which have a direct or indirect impact on the best possible location of a plant” (Tarski, 1963). The literature in the field specifies a number of factors which must be met to ensure a convenient location of an enterprise in the economic space which determines their effective operation. Typically, they are arranged by the criterion of time, identifying traditional and contemporary factors (Strykiewicz, 2009; Tobolska, 2011), the criterion of the extent of their measurability – hard criteria (related to the measurable features) and soft criteria (non-measurable) (Grabow, Henckel & Hollbach-Gremig, 1995; after: Dziemianowicz, 1998; Wieloński, 2004), as well as the economic criterion – economic (objective) and other than economic (subjective) criterion (Stafford, 1972).

The analysis of the location factors and their presentation along with the requirements that must be met in case of a specific business, contributes to selecting a specific location option. On the other hand, the right selection of the location variant contributes to a larger or smaller advantage in terms of the location (Fig. 1).

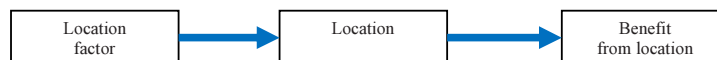


Fig. 1. The mechanism of the location factor. Source: Wieloński, 2004: 27

Benefits from choosing a right location may be both economic in nature (such as reduction of investment, reduction of costs and maximized profits, more rapid economic growth, etc.) as well as non-economic in nature (e.g. social, demographic and political aspects, etc.) (Wieloński, 2004).

As early as in 1940, Hoover addressed the fact that two groups of entities coexisted in the economy. One group consisted of manufacturers creating the supply part of the market, the other – consumers reporting them and for specific products and services. In this aspect, he singles out manufacturers’ preferences regarding locations, referring to them as to „manufacturer’s location” i.e. “the best place to generate income”. According to Hoover, manufacturer’s preferences as to locations include the amount of income (salaries, profits or a percentage) possible to generate in a location. Regularity is important as well as certainty of income generation coupled with a foreseeable future trend. In the light of the above, manufacturers’ preferences as to locating their business are determined by continuity, safety and outlooks. On the other hand, consumers’ preferences as to locations („consumer’s location”) apply to the location where a consumer would like to live and spend their income. This factor is insignificant for location-related decisions. Consumers’ preferences have only an indirect impact on such decisions and they may be considered in the context of location-related preferences of employees hired by the business and of investors (Hoover, 1948; Kupiec, et al., 1999).

In their search for a location, entrepreneurs look for places which offer the maximum satisfaction of their needs. Their search for the most functional locations for their businesses. Functionality of locations and their fitness for a business purpose may be determined with two groups of conditions. These are internal conditions defining features of an area and external conditions which describe the situation in the surroundings of an area. Typically, the internal

conditions are: natural conditions (such as landform features, natural resources, climate, etc.), legal status (ownership status, mortgages, if any), the existing development and purpose of use of the land. External conditions include natural conditions and environmental protection (landform features, availability of water, municipal waste water and sewage management), social and demographic conditions (population, age structure, employment structure, migration balance, unemployment rate and education), spatial structure of the environment, spatial relation to sales markets, economic conditions, infrastructure, legal conditions, etc. (Budner, 2004).

The process of searching for a convenient location of a business is a process of several stages and starts with a definition of requirements for the location. Next, possible locations are selected on the basis pre-defined criteria. Finally selected (short-listed) areas are analyzed in detail and the most optimum location for the business is chosen.

The decision-making process to choose optimal business location is shaped by two groups of factors: exogenous factors, independent of the company, as well as endogenous factors. The exogenous factors include chiefly land development, available resources, the labor market, cost factors of running a business, the sales market of an enterprise, the business climate and the agglomeration factors. On the other hand, the endogenous factors include mainly the scope of information gathered, the organizational structure of the enterprise, the nature of the planned or run business, financial resources available as well as preferences and opinions of the key decision-makers (investors, medium- and high-level managers) which could be defined as a personal factor. The decision-making process ends with making a final decision about the location of the business and the feedback evaluating the decision (Fig. 2).

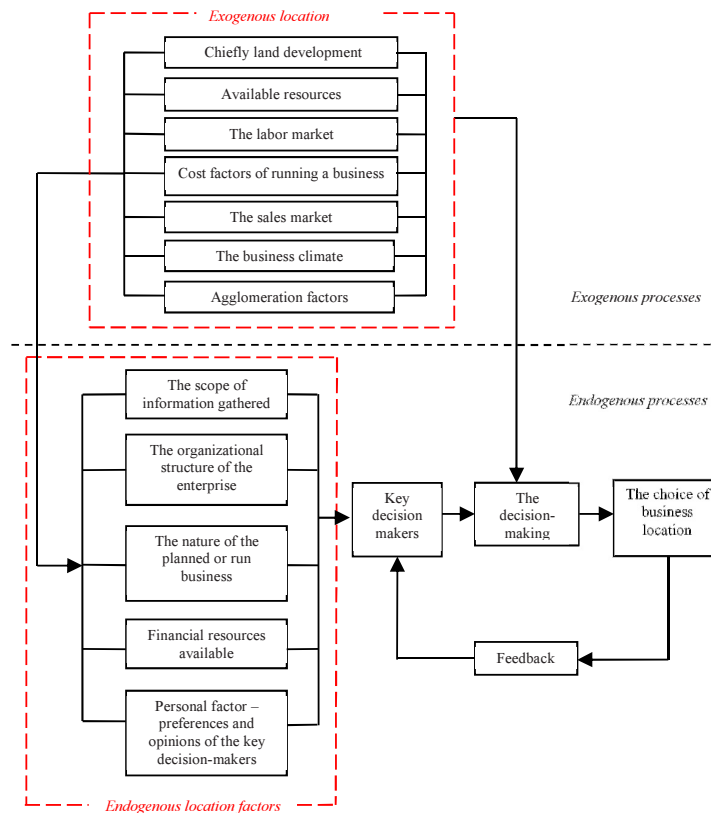


Fig. 2. Hierarchy of business location factors in the decision-making process of choosing a business location (prepared by authors)

The literature classifies the location factors to soft and hard factors. Typically, hard factors reflect measurable (cost) factors, which are traditional (classical) to some extent. They include such components as: Supply of office and production space, proximity of sales markets in the region, distance from suppliers and business partners, adequate

communications and transport connection as well as supply of qualified labor force, fiscal climate, incentives and subventions, operation of scientific and research institutes creating the opportunity for cooperation, vocational training centers, efficient and flexible administration. Soft factors include non-measurable, often subjective decision-making aspects such as: the right approach of local government authorities to investors, the economic image of the location, local mentality, social climate, leisure activities, multi-aspect activity of a city/town, housing conditions, quality of schools, entertainment and culture or – in a broader context – the quality and level of life (Grabow, Henckel & Hollbach-Grömig, 1995, after: Dziemianowicz, 1998). Factors supporting location of agro tourist businesses may serve here as an interesting example – see: Dorocki, Rachwał, Szymańska & Zdon-Korzeniowska (2012a), Dorocki, Szymańska & Zdon-Korzeniowska (2013a), Dorocki, Szymańska & Zdon-Korzeniowska (2013b), Dorocki, Szymańska & Zdon-Korzeniowska (2012b).

Both groups of the above-described factors play an important role in the procedure of deciding on a business location. However, their weight varies and typically depends on the type of activity and the stage of the decision-making process. In the first stage of the process, when the importance of the location region is determined, an important role can be played by the soft factors such as investors' knowledge about the region or experience of other companies in the region. But it does not indicate that a choice of a region is purely intuitive. At the same time, regional supply is analyzed and these analyses are coupled with comparative analyses of investment and performance per region. In the second phase of the decision-making process, which results in selecting a definite number of potential locations having the lowest manufacturing or service costs, the importance of soft factors falls second to the importance of hard factors which define measurable economic benefits of a location. In the final, third phase of the decision-making process, when several potentially convenient locations with similar cost level have been selected, the importance of the soft factors may grow again. For example, more friendly social climate or higher competences and efficiency of public service, recreational attractions may prevail over a slightly lower price of land or better access to transport and roads in the final choice of a location (selection of one option from a range of options) (Budner, 2004).

3. Importance of personal factor in the process of deciding a business location

Factors affecting location of enterprises cannot be analyzed apart from the personal factors, which is one of their particularly important components. Since 1950, the literature on location decisions of enterprises, has been mentioning a behavioral approach. The approach accounts both for the explicit spatial behaviors e.g. setting up a new industrial plant as well as implicit spatial behaviors such as change in the scale of the existing plant (Hamilton, 1978, after: Walmsley, Lewis, 1984).

He questioned existence of homo oeconomicus, a man guided by reason, who follows the rules of the economy and is fully aware of the problems he may encounter and of consequences of his actions and choices. Behavioral attitude takes into account when explaining location-related procedure the decision maker, whose behavior is characterized by bounded rationality. He is not capable of collecting and applying a complete package of information on market condition, available equity, access to technologies and other aspects. This approach assumes the satisfying behavior of decision makers, emphasizing non-economic factors in the decision-making process for selecting location of an enterprise. In practice, homo satisfaciendus looks for satisfactory locations (E), in consequence not achieving any optimum locations (D) (Fig. 3).

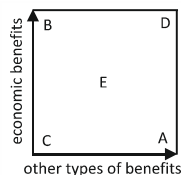


Fig. 3. Decision-making matrix. *Source:* Hurst, 1974; Wieloński, 2004

Satisfactory decisions are made for many reasons. First of all, as it has been already mentioned, they result from lack of access to complete information and impossibility to analyze them in full. Secondly, multi-dimensional personal factors play an important role there. Consequently, many decisions can be made in relation with particularly good knowledge of a place or a region in case of the decision-makers who have been born or resided in the area. Also important is the human perception of space, depending on age, experience, education, aspirations, prejudice the decision maker-the same people usually perceive space in a different way. Also note that there is a phenomenon like the imitation effect (Pred, 1967) which applies to decision-makers' inclination to repeat their own or competitors' decisions. Another important behavior which accompanies the process of making satisfactory decisions is inclination to avoid difficulties i.e. giving preference to the simplest solutions, even if they generate higher costs.

4. Personal factor in deciding about a location of an enterprise - a case study

Below, a case study is presented on the importance of the personal factor in location and relocation decisions of an architectural studio based in Kraków, Małopolska Region, Poland.

The analyzed company – a design studio, is a small enterprise, currently employing 10 persons. The company prepares architectural designs for private individuals, companies and state institutions. It is headquartered in Kraków but it operates on the territory of the entire region. It often expands outside the region and, on rare occasions, outside Poland. The company, in less than 15 years of activity has changed its location three times. In the process of the in-depth interview, two co-owners of a business evaluated motives behind the current location of the business. For this purpose an interview questionnaire was used. It contained a set of exo- and endogenous location factors. Authors proposed the set of exogenous factors that may potentially have implications for the location of the architectural studio. While among the endogenous factors, it was chosen those that significance entrepreneurs can independently estimate. Therefore, in the set of those factors was not considered: the scope of information gathered, which respondents could not precisely estimate. There were not taken into account the behavioral factor components, which the entrepreneurs did not realize, for example: personal attitude to the place, a tendency to avoid difficulties or preferences resulting from being in a certain stage of the human life cycle (Table 1).

When choosing the first location of the business, its owners, young entrepreneurs, were largely driven by the cost factor. They operated from a co-owner's apartment to avoid costs of rent and invest into increasing the funds of the business (at that time it was a micro company employing 3 persons), mainly into buying expensive software. For this reason, there was no significant decision-making process in the selection of the location, as it was stimulated by purely pragmatic reasons. Eventually, according to estimates by the owners of architectural studio, cost factors accounted for 80% of the share in the decision, while the personal factor was only 5%.

Then the business relocated for the first time to accommodate its growing need for working space, directly as a consequence of an increasing number of staff. According to the owners, the cost factor played an important role in the selection process. They looked for inexpensive office space, still conveniently located within the boundaries of the city of Kraków, with good access and site recognition by its clients. According to respondents, approximately 50% of the decision were based on the cost factor while the remaining 50% covered the access and recognition combined with the owners' familiarity with the location. A location in Kraków – Nowa Huta District was chosen. The district does not enjoy a very good reputation in Kraków and business groups in the context of entrepreneurship development incentives but, as mentioned above, the owners were very well familiar with the location. Still, they chose the very central area in the district, with excellent access and recognized both by inhabitants and businesses from Kraków and outside Kraków. Personal factor in the first relocation was the 20% in the overall set of relevant factors of this item.

The second relocation of the business was prompted by similar reasons as the first relocation. The company needed more working space with further increase in the number of its staff. The cost factor also played an important role in this relocation (approx. 40%). The remaining 60% were reasons similar to reasons supporting the choice of the previous location: accessibility and recognition of the location by clients and trade partners. Here note that the location was very near the first one, i.e. familiarity with the place but, as emphasized by respondents, their

emotional approach to Nowa Huta District, which is a very specific district of Krakow, were the important reasons behind their choice of location. The location factor accounted for 30% of significance.

Table 1. Significance of the location factors of analyzed enterprise in the opinion of entrepreneurs (prepared by authors)

Location factors	Estimate of significance (%)			
	L*	RL1	RL2	RL3
I. Exogenous location factors				
Chiefly land development	0	5	5	10
Real property - availability and quality of appropriate office space which give the opportunity to expand the business, time and costs of procedures for converting/adopting a buildings for business purposes; Transport infrastructure - convenient location in the national, regional and local road system, convenient location in the rail transport system, convenient public transport system, availability of parking units; ITC infrastructure - access to land (fixed) telephone lines, access to mobile telephone lines, access to broadband Internet, access to hot spots;				
Labor market	5	5	5	0
Availability of labor force with appropriate skills and experience required in a business; Availability of managers; Access to cheap labor force, cheap specialists;				
Cost factors of running a business	80	50	40	15
Cost of renting business office; Local taxes and levies; Prices of municipal services (energy, water, gas); Prices of outsourcing services (e.g. accounting); Prices of consulting and advisory services;				
Sales markets	5	5	5	5
Proximity of sales markets; Proximity of business partners; Presence of companies having foreign shareholders; Presence of companies – leaders in a sector;				
The business climate	0	0	0	5
Capital market; Business supporting institutions; Academic basis of vocational educational institutions and R&D centers; Economic climate; Historical and cultural traditions;				
Agglomeration factors	0	0	5	5
The existence of companies with complementary nature of the activities in the certain area;				
2. Endogenous location factors				
Factors arising from the characteristics of the company	5	15	10	20
The organizational structure; The nature of the planned or run business; Financial resources available;				
Personal factor –preferences and opinions of the key decision-makers	5	20	30	40
Knowledge of place; Opinion about a particular place; The assessment concerning the place prestige; The level and quality of life in a particular location;				

*L – location, RL1 – first relocation, RL2 – second relocation, RL3 – third relocation.

The third relocation of the Company was necessitated by slightly different circumstances. First of all, the growth in terms of the size of the business was not an important reason for relocating the company. The growth in the company's prestige was essential. The owners were looking for office premises offering a higher standard than their current office and better located in the physical and economic space of the city. A location in another district of Kraków – Łagiewniki was chosen, in a modern office building. According to the respondents, the cost factor represented only 30% of the total location-related factors, while the remaining 70% included the above-mentioned intention to improve the company's reputation and increase its prestige as well as proximity of sales markets (the

agglomeration factor) and a personal factor – the owners decided to rent the office from the entrepreneur for whom they had designed the office. As indicated above, they were willing to bear high rental costs in exchange for the prestige and proximity to trade partners and smooth office rental process (here the inclination to avoid difficulties by by-passing the need to waste energy on searching for the right premises is demonstrated). In the decision of choosing the third relocation personal factor accounted for 40% of significance.

As stressed by the respondents, the current location of the company is not the final location. The next relocation is being considered. Again, the cost factor has regained its importance. With the business expanding abroad, the company has shifted largely to on-line operations. For this reason, agglomeration factors are now not important for the business. The costs of retting the prestigious office have been declared as not commensuration the benefits of the location. The owners again appreciate comfort and convenience of their business location and proximity of their place of residence, which is a suburb town of Wieliczka. It is likely that, when deciding about the next relocation of the business, these motives will play the key role in their choice of new office premises.

The above-presented example of location-related business motives proves that the personal factor may be of major or, sometimes, decisive importance. Its weight in the decision-making process of the business discussed above fluctuated, promoted by pragmatic reasons and, later on by the growing importance of the human factor, combined with a similar weight of the cost factor. Next, the importance of costs deteriorated with the highest growth of the business to regain their weight combined with a relatively high share of the personal factor; however, the latter of variable character.

5. Conclusion

Summarizing the above-presented theoretical deliberations and the case study, the authors of the paper conclude that, in the decision-making process related to locating a business, there are many complex factors which affect the final decision. Furthermore, the weight of each factor is different and depends on the type of business, the size of the enterprises and the stage of the decision-making process. Human (personal) factor cannot be omitted when listing many different factors. The decision is made by the entrepreneur – the decision-maker or a group of decision-makers, with their own set of human characteristics and with their personal plans. More and more often, decision-makers are driver by such motives as expansion of their virtual business activity. Enterprises increasingly operate in a system of Internet exchange of information and a spot in the global network (Castells, 2010). In case of many businesses, location in physical space and proximity of traditional agglomeration factors are no longer important. With that, personal aspects may take priority, which may allow for as little as keeping a life-work balance without excessive effort, which may be insufficiently noticed or used by entrepreneurs.

In the article it was suggested the location of personal factor in the decision-making process concerning the location of the enterprise. It was also an attempt to assess the relevance of personal factors and its variation in time, on the selected example of architectural studio, in the opinion of its owners. The proposed a set of factors, taking into account the personal factor may serve as a basis for further research.

References

- Budner, W. (2004). Location of companies. Economic aspects of spatial and environmental (*Lokalizacja przedsiębiorstw. Aspekty ekonomiczno-przestrzenne i środowiskowe*). Poznań: Wydawnictwo Akademii Ekonomicznej w Poznaniu.
- Castells, M. (2010). *The Information Age: Economy, Society and Culture Volume 1: The Rise of the Network Society* (2nd ed.). Oxford: Wiley Blackwell.
- Dorocki, S., Rachwał, T., Szymańska, A. I., & Zdon-Korzeniowska, M. (2012a). Spatial Conditions for Agritourism Development on the Example of Poland and France. *Current Issues of Tourism Research*, 2 (2), 20–29.
- Dorocki S., Szymańska A. I., & Zdon-Korzeniowska M. (2013a). Polskie gospodarstwa agroturystyczne w dobie kryzysu gospodarczego, *Przedsiębiorczość – Edukacja*, 9, (in print).
- Dorocki, S., Szymańska A. I., & Zdon-Korzeniowska M. (2013b). Agricultural tourism farms in Poland – how the farmers improve their businesses – the case study. *Understanding Innovation in Emerging Economic Spaces* (in print).
- Dorocki, S., Szymańska A. I., & Zdon-Korzeniowska M. (2012b). Polskie gospodarstwa agroturystyczne jako przedsiębiorstwa rodzinne. *Przedsiębiorczość i Zarządzanie*, 8(8), 45–60.
- Dziemianowicz, W. (1998). *Rola władz samorządowych w stymulowaniu napływu bezpośrednich inwestycji zagranicznych*. Warszawa: PWE.
- Fierla, I. & Kuciński, K. (2001). *Lokalizacja przedsiębiorstw a konkurencyjność*. Warszawa: Szkoły Głównej Handlowej w Warszawie.

- Hoover, E. M. (1948). *The Location of Economic Activity*. New York: McGraw-Hill.
- Kupiec, L. (Ed). (1979). *Wstęp do planowania i polityki regionalnej*. Białystok: Uniwersytet Warszawski Filia w Białymstoku.
- Kupiec, L. (Ed.). (1999). *Gospodarka przestrzenna. Lokalizacja w gospodarce przestrzennej*. Białystok: Wydawnictwo Uniwersytetu w Białymstoku.
- Leśniak, J. (1985). *Planowanie przestrzenne*. Warszawa: PWN.
- Pred, A. R. (1967). Behaviour and Location: Foundations for a Geographic Dynamic Location Theory. Part 1. *Lund Studies in Geography, Series B. 27*.
- Stafford, H. A. (1972). The geography of manufactures. *Progress in Geography, 4*.
- Stryjakiewicz, T. (2009). Nowe spojrzenie na czynniki lokalizacji działalności gospodarczej, Współczesne problemy przemian strukturalnych przestrzeni geograficznej. Krakow, Poland.
- Tarski, I. (1963). *Transport jako czynnik lokalizacji produkcji*. Warszawa: PWE.
- Tobolska, A. (2011). Czynniki lokalizacji fabryk wybranych korporacji międzynarodowych w Polsce, Problemy rozwoju lokalnego i regionalnego na początku XXI wieku. Poznan, Poland.
- Walmsley, D.J., & Lewis G. (1984). *Human Geography: Behavioural Approaches*. London: Longman Group.
- Wieloński, A. (2004). *Lokalizacja działalności gospodarczej. Teoretyczne podstawy*. Warszawa: Wydawnictwo Uniwersytetu Warszawskiego.
- Zawadzki, S.M. (1973). *Polska, przestrzeń, społeczeństwo*. Warszawa: PWE.