

# THE COMPETITIVENESS FACTORS OF INDUSTRIAL PARKS

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## **Abstract:**

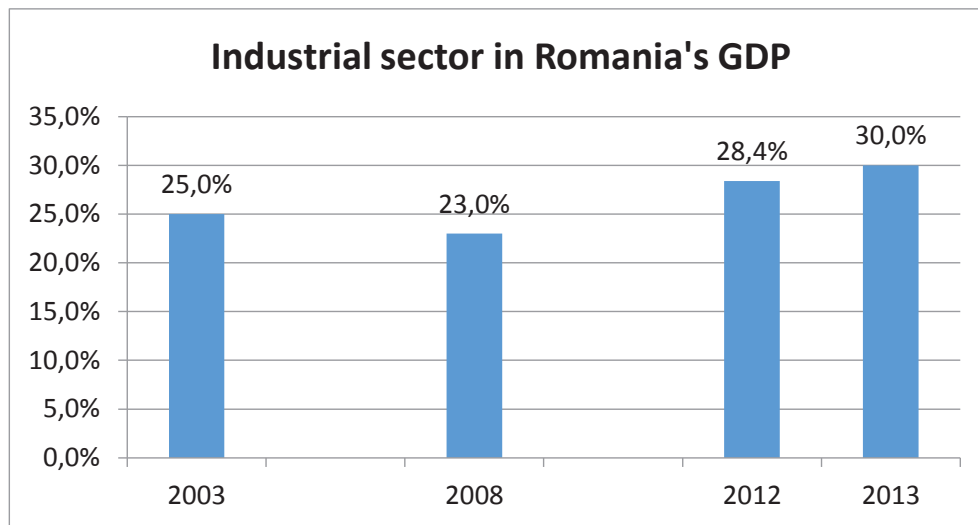
2013 Romania shows the bigger economic development than in the last years and increases the GDP by 3,5%, that was the most significant growth in the EU. The biggest contributing sector to this expansion is the industry. This sector contributed the most with 2,3% to this growth. The importance of the industry in a country's development not only the Romania's case, but for other economies too. More and more authors emphasise the importance of Industrial parks, they act as pull factors. The effects of the industrial placements like the industrial parks are multiple regarding a region's development and competitiveness. The most of these benefits are well known already, but the competitiveness of the industrial parks is not a frequent theme, though this will contribute to the competitiveness of the region. What are the basic and decisive factors that influence the final decision of the companies to choose a particular industrial park? While analysing the competitiveness factors of industrial parks I intend to emphasize the reasons and factors that influences companies in their decision to appear in the industrial parks that they are resident in. The purpose of this paper is to present all the important factors in the same place that make an industrial park competitive. First I want to present the factors that were identified by now based on theoretical, and practical experiences starting from some second hand information. The characteristics of the successful parks will be presented with the well-known examples, and also with cases not known to everybody. Some of the reasons why industrial companies choose a park are well known, for example the placement, the good accessibility, for which is essential a good infrastructure. Another decisive factor is the support of the state and the local authorities, the most important factors are tax and other costs relief. There are more things that influence companies in choosing their sites.

**Keywords:** industrial park; competitiveness; competitiveness factor; industrial parks competitiveness

## **JEL classification:**

### **1. Introduction**

In 2013 Romania shows the biggest economic development in the last years and increases the GDP by 3,5%, achieving the most significant growth in the EU. The biggest contributing sector to this expansion is the industry. This sector contributed the most with 2,3% to this growth. The industrial sectors share in the GDP increases constantly in the last 5 years until it reaches 30% in 2013. The growth in this sector was 8,1% in the last year, after the 3,1% expansion in 2012.



**Figure 1:** The share of the Industrial sector in the Romanian total GDP

Source: INS, National Statistic institute

Because the significant contribution of the industry in the Romanian and other countries economy, we can't neglect this sector and the role of the industrial parks.

More and more authors emphasise the importance of Industrial parks, they act as pull factor. The effects of the industrial placements like industrial parks are multiple regarding a region's development and competitiveness. The most of these benefits are well known already starting from creating new jobs, trough increasing incomes with the development of the local economy and the attractiveness of the region due to a better business environment. Regions with an increased industrial activity will "feed" the national development too. The relationship between the industrial parks and the competitiveness of regions with such placements is evident today proven by many authors in several works. But the competitiveness of the industrial parks is not a frequent theme, although this will contribute to the competitiveness of the region. What are the factors and conditions that are influencing the number of the settled companies in these industrial estates? What are the basic and decisive characteristics that contributes to the final decision to choose a particular industrial park?

## 2. Industrial parks concept

In this paper I use the industrial park in a wide interpretation, as a concept that defines generally a zone that is marked out for the purpose of industrial activities. In some cases such areas can be scientific or technological parks with a more specific industrial activity and specific tenants. The objective of the paper is to identify the factors that make attractive a region or industrial park for an industrial investor.

At this point I consider that is important to make a note regarding the investors and their objectives for the establishment on industrial areas, because depending on their expectations can differ this objectives. An enterprise with R+D activities in the region has different needs and seeks other conditions than a company without this division in the industrial park. In many cases the R+D function remains at the parent company or headquarter. Exemplary for this can be the case of the Nokia in Cluj Napoca, where the Finnish company just explored the accorded tax reliefs and benefits and then they seek another region for other benefits. Nokia's plans were just for short term, therefore they came to Cluj Napoca with basic production activities. Companies with long term plans in a region will plant R+D divisions too on the new location and their decision factors are more complex.

### **3. Industrial parks competitiveness – the theory**

To present the factors that make competitive a region or an industrial park I will present some theoretical aspects and then I complete these with other incentive factors presented trough examples and cases.

The settlement decisions according to Lengyel-Rechnitzer are the followings:

1. Transportation facilities
2. Raw materials
3. Markets
4. Workforce
5. Extern effects (a: urbanization advantages; b: local advantages)
6. Energy
7. Social infrastructure (a: social capital (in people, in social groups); b: fizical capital (roads, buildings)
8. capital (a: technical; b financial)
9. Land/buildings
10. Environment
11. Governance politics (*Lengyel-Rechnitzer, 2004*)

Another point of view regarding the most important characteristics of the industrial parks is the Cabral Dahab science park management paradigm.

A science park must:

1. Have access to qualified research and development personnel in the areas of knowledge in which the park has its identity.
2. Be able to a market its high valued products and services.
3. Have the capability to provide marketing expertise and managerial skills to firms, particularly SMEs, lacking such a resource.
4. Be inserted in a society that allows for the protection of product or process secrets, via patents, security or any other means.
5. Be able to select or reject which firms enter the park. The firm's business plan is expected to be coherent with the science park identity.
6. Have a clear identity, quite often expressed symbolically, as the park's name choice, its logo or the management discourse.
7. Have a management with established or recognised expertise in financial matters, and which has presented long term economic development plans.
8. Have the backing of powerful, dynamic and stable economic actors, such as a funding agency, political institution or local university.
9. Include in its management an active person of vision, with power of decision and with high and visible profile, who is perceived by relevant actors in society as embodying the interface between academia and industry, long-term plans and good management.

10. Include a prominent percentage of consultancy firms, as well as technical service firms, including laboratories and quality control firms. (Cabral, 1998)

#### **4. Industrial parks competitiveness – through cases**

We can see that there are some common points in these two approaches, for example the market that is an important factor for a firm that seeks not just good location, tax relief and cheap labor force, but also new markets for their products. This is another competitiveness factor for China and their industrial parks.

Vápár in his 2011 paper uses a more structured approach regarding the factors that determine the companies site choosing decision. The factors are distributed in two categories: hard and soft factors. Hard factors are those characteristics, that are measurable usually the local economy, labour force, infrastructure – including traffic, telecommunication, and power-supply. The soft factors do not refer directly to economy, they are rather social, cultural factors, but they influence altogether the site choosing decision (and there are the corporate and the human factors). I will use this categorization. The importance of this method of distribution of the factors is used in the Western-European countries, because beside the hard factors (which are well known) the soft ones are getting more and more used, and in my opinion too these factors are important and largely define the industrial parks competitiveness.

##### **4.1 Hard factors**

Infrastructure is one of the key elements for the companies when they choose location for their new divisions. One of the most controversial example for the importance of this factor is the case of the Mercedes with Romania and Hungary. Mercedes was searching a site in 2008 and in the final phase remains two options Romania and Poland, but Romania was the probable winner. In the last moment the company decides to move with the investment to Hungary because of Romania's bad infrastructural conditions. The Daimler planed another investment in Cugir, Romania in 2013 and the most important request to the Romanian authorities was again regarding the infrastructure (water and drain network and public road).

Good placement and access to transportation network. One of the Tetarom Cluj industrial park advantages is the access to European destinations trough the international airport. But for Mercedes the access to the Hungarian expressway and railway network was an important factor too.

Services in the phase of establishment and during the companies activity in the industrial park are essential.

Presence of multinational firms is important for those tenants that can be suppliers for these corporations.

The presence of potential suppliers is important for the big companies like Mercedes, who planed to work with local 130-150 suppliers. The half of the 400 ha of the Mercedes Benz Hungary's location is dedicated for their suppliers.

Costs like the energy or gas is an important hard factor. The Tetarom industrial park in Cluj owns license to energy and gas-supply, therefore they can offer a lower price, that means lower cost for the tenants.

Tax reliefs and other financial and investment discounts. This is one of the most important factors, in every case these incentives are a decisive factor. Probably that was the most important in the case of Nokia to choose Romania. The Richter- Gedeon pharmaceutical company's plant manager in Debrecen (Hungary) said in an interview for a case study, that beside other reasons this was an important motivation in choosing Debrecen as second Hungarian plant. (Szabó-Kóródi, 2013)

Free estate or reduced rent prices can help to make more competitive an industrial area, because this can be a significant part of the investment or cost during the activity.

Labor force market and the “price” of the labor force is another factor that weight much in the company’s decisions. In the motivation of the Mercedes in 2008 to come to Romania, had a significant role the low salaries, but this is not the single characteristic that counts.

#### **4.2 Soft Factors**

The labor and its qualification level is very important when companies have high-tech based activity or want to build an R&D division. Regarding this approach for Richter-Gedeon was important to choose an industrial area, that is near a university that can provide specialists in their field and in the same time these institutions are knowledge centers. This is one of the condition for the tenants of scientific and tehnological parks. Another example to the need for qualified labor is the Oradea Industrial Park, who established new professional classes in cooperation with a high school to the requests of the Emerson. But Mercedes and Audi too chose Hungary because the good qualification of the labor.

Culture regarding the work and generally was important for the Audi, when it chose the industrial park in Győr, Hungary. The car company chose from 180 locations in 1993, and in their decision had a big influence the engineering work culture from the area. Audi’s managers are satisfied with the cooperative and creative, problem solving orientation of the Hungarian people.

The support of the authorities can be more important then we think in many cases. Mercedes appreciated and was one of the decisive factors the support regarding the authority licences and permissions, the Kecskemét local authority established a separate team to help them procure all the papers. The confidential treatment and promptitude was important too.

Good communication was decisive too in the case of Mercedes, because thanks to the rapid and detailed answers and data retrieval, the company switches from Romania to Hungary in the last moment. (Vápár, 2011)

The flexibility of the board of industrial park and authorities is another appreciated and expected factor for the companies in the decision of placement.

The availability and the “quality” of authorities in many cases is more a barrier then an advantage for the tenants. Unfortunately corruption and bureaucracy in Romania is decisive in many cases for the companies who seek for industrial parks and they will choose those countries and business environments that are more transparent.

In this section we can mention another factor like the receptiveness of the town, social infrastructure or the prestige of the town or region, where the industrial park is, for example this was a reason to establish the Liberty Technology Park (a 25 million dollar private investment of the Fribourg Development) in Cluj industrial area.

#### **5. In conclusion**

Factors that are decisive in the decisions of companies to plant a new division are various. There are hard and soft characteristics, that make industrial parks competitive. Beside the hard factors, the soft ones are more and more important and can decide the battle between the different industrial areas. The paper give an overview on these factors, presents both with theoretical and empirical examples, that proves the importance of these competitiveness factors.

But we must not forget one thing, it is important to attract companies to industrial parks, but at least important is to keep them and satisfy them, because their satisfaction leads to the growths of these parks, and to the growths of the industry itself.

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