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# Impact of Regional Development on Enterprise Environment

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## Abstract

Scholars from the USA, Western Europe, Russia and other countries (H.W. Richardson, Y. Butenko, Ph. Kotler, K. Asplund, I. Rain, I. Haider and others) have worked out theories of regional development that serve as grounds for planning, researching and forecasting changes in the country region.

Theories of regional development reflect methods of spatial economics. „Space as limited resource” should be planned since necessary for people space utilization in the particular way precludes another, alternative mode of space usage. The economical aspect of space utilization – development of the spatial segments, their interrelation and their impact on the development of the common space, for instance, the influence of Latvian county economics on the whole region or country.

While choosing the location enterprises have to take into account the optimal structure of space for all economic activities. Where is the best location for the stable development of enterprise? Where are the best conditions for the enterprise existence? The sequence of spatial location can begin from the particular region, from the specific place in this region. The result of the search for the spatial location is the result of the more or less successful decision of the single entrepreneur.

Purpose of the present research was to study the impact of regional development on the development of enterprise environment. In order to implement the aim the authors had to investigate theories of regional development and study the indicators of environment development in two cities of national level in Latvia – Valmiera and Jekabpils. The research was implemented with the following methods: analysis of theoretical literature, statistical data analysis, document analysis.

The primary conclusions were as following:

- \_ when researching territory, economical aspects of the space utilization shall be taken into consideration;
- \_ national orientation criteria should be considered when choosing the enterprise location.

**KEYWORDS:** regional development, enterprise environment, orientation of location.

## Introduction

An enterprise usually chooses such location where it could reach its main goal – to earn a long-term profit. Not all enterprises are free in their choice of location. The location of certain branches of economy is determined by nature, for example, mining, shipbuilding, hydropower station, etc. Other enterprises choose their location according to private, not economical, reasons, for example, family tradition. The existing enterprises can experience economical restrictions, if there is a change in circumstances and other location becomes more convenient.

Enterprises location choice of which does not depend on the geographical, legal, economical, private restrictions, in general have to answer four questions. For instance, what difference is in taxation, what is the salary rate, is the enterprise located on the domestic territory or



abroad, what region is the best for setting up business from the viewpoint of national economy. Then there is a question of choosing the advantageous place in the city or countryside. There are several criteria when choosing location places. It has been concluded that there is the national choice of locations as well as the international one. The national choice of location can be described according to these orientations:

- 1) Orientation to raw materials;
- 2) Orientation to labour;
- 3) Orientation to taxes;
- 4) Traffic and energy orientation;
- 5) Orientation to nature;
- 6) Orientation to market.

Within the process of company's location place the optimal space structure for all economic activities should be taken into consideration. Where to locate the company for its stable existence? Where are the best preconditions for company existence? The sequence of space choice can start from a particular region or a place in the particular region. The choice of a location place and premises very often is a story of a success or vice versa for the entrepreneur.

Researchers of the Western Europe worked out theories of regional development because of which changes in state region are being planned, studied and forecasted. Theories of regional development represent methods of spatial economics. "The space as limited resource" should be planned since usage of every space excludes the other usage type of the space (alternative). The economic aspect of space usage – development of space parts, their mutual relations and impact on the development of total space, such as economical impact of rural area of Latvia on its municipality or state in total.

**Economic space theory** is a part of economic theory that is used together with time dimension. Theory studies:

- 1) Decisions of entrepreneurs and householders on location places;
- 2) Flow of products, factors and information;
- 3) Structure of production and other places in a space, as well as mutual relation of different space parts. (Butenko, 2008)

Decision on choice of location place has a long-term influence because often it is very hard to change the decision, especially for big companies. A company usually chooses such location place with the help of which it will be able to reach the main aim – a long-term profit. Companies, working in a particular territory, can experience economic struggle due to changes in different economic conditions, therefore other location place can become a better solution for its activities.

Companies that are not subjected to a location place due to lack of geographical, legal, economic or personal restrictions, should answer to four questions. Firstly, it should make a decision on tax differences, i.e., differences in salary. It should consider of establishing the company in their own country or in foreign countries (international choice of location place). Afterwards it needs to answer on a question in which region of a country should the company locate (choice of inter-local location place). When this issue has been defined, for example, the specific city has been chosen, the question on a most appropriate place in a city for entrepreneurship arises (local

choice of a location place). Eventually, the departments of a company should be distributed in an optimal manner (company's inner choice of a location). Problems with inner location place in a production company are connected to production process and therefore also with inner transportation costs. The distribution of departments should be performed in a way the transportation costs are minimal. Distribution of departments in trade and service companies partly depends on infrastructure (driveways, residential areas, transport and human flow).

Usually the national choice of location can be described according to these orientations:

- 1) Orientation to raw materials;
- 2) Orientation to labour;
- 3) Orientation to taxes;
- 4) Traffic and energy orientation;
- 5) Orientation to nature;
- 6) Orientation to market (Kotler P, 2015).

There are territories, appearing around places (cities) the impact areal of which depend on size of a city, connection with other cities, approachability, specialization, and other indicators. Fluctuation in working places and services, migration, rural settlement that is closely connected with a city, such as suburban areas and seasonal villages, influence economic activity of a territory (The Ministry of Environmental Protection and Regional Development, 2012).

Globalization in a second part of 20<sup>th</sup> century, especially during last two decades, has developed communication networks and computer sciences, and information has become as dominant mainspring of state economics. Primary, largest and the most developed cities of the developed countries that initially was named as world cities currently are the main centres of finances and other international corporations in the whole world. While daily social and work migration takes significant role in a city space of local, regional and national level and still depends on distance indicators, finance and service sectors that are independent from space in a global level ignore existence of traditional city agglomeration regions.

**Figure 1**

Map of the Republic of Latvia



Cities of a global level create their own subordinate territory in the whole world not after geographic criteria, but taking into consideration economic connections and regional principles of business management, therefore, cities of national level are increasingly joined in the global city network, acting as satellite centres of a global level.

Central question in development theory connected to space is clarification of processes in differential economic and public development (Medway, 2008).

**Theories of a location place** are connected with industry and location problems. Theories of a location place study optimal places for separate agricultural, production enterprises and service providers, i.e., primary, secondary industries. The question of entrepreneurship place can be formulated in such way: what place in an area should entrepreneur take for one's company? Theory underlines that "issue of choosing optimal place are directed towards different levels: international, interregional, intraregional, local and company level". In the process of choosing the optimal place for a company, the optimal space structure for all economic activities should be taken into consideration. Choice for company's location place can be made if theory of a location place is taken into account, since it concentrates on explanation of space or place structure (Bugina, Pucere, 2000).

### **Theory of location place for production**

After first researches of W.Roscher, A.Schaffle and W.Launhardt, A.Weber provided first systematized representation of location place for production. In his theory the researcher speaks about optimal location place for production company, taking into consideration economic aspect of a company (Hague, 2011). In his theory, such aspects are essential:

- \_ location places of raw materials;
- \_ distribution of consumption in a space;
- \_ transportation system is united, transportation costs are function that depends on distance;
- \_ distribution of labour force in space – labour force is mobile, salary is constant, but differentiated in a space, and labour force is employed in unlimited quantity at the current salary (Hague, 2011).

Basing on these assumptions, the choice of location place for production are determined by three location place factors: transportation costs, labour costs and agglomeration development.

In theory of A.Weber, transportation costs take central place in determination of location place for producers.

### **Area mobility theory**

Its theoretical conclusions are limited with basic knowledge about trends and activities of particular production factors and product area mobility. Area mobility theory provides such definition of a region: "Segregation of areals allows defining 3 definition types:

- \_ homogenous regions;
- \_ functional regions;
- \_ planned regions" (Hague, 2011).

Homogenous regions characterize similar structure that is measured with one or several traits (equivalent income level, similar geographic location).

Functional concept underlines mutual influence on intra-regional economic relation, consisting of one or more functional relations. Frequently researchers speak about polarized region the main trait of which is deterioration of relations from centre to periphery.

Planning regions are political and administrative units that are segregated performed according to planning tasks (Hague, 2011) Mobility theory underlines causes and influence of inner activities.

Table 1

Regional development theories, applicable to territory development

Theory type	The application of a theory
Area economic theory	<ul style="list-style-type: none"> <li>_ decisions of entrepreneurs and householders on a location place;</li> <li>_ flow of products, factors and information;</li> <li>_ structure of production and other premises in space, as well as mutual relation of space parts.</li> </ul>
Theory of a location place	<ul style="list-style-type: none"> <li>_ problems of industry and localisation;</li> <li>_ optimal places for separate agricultural, production enterprises and service providers, i.e., primary, secondary industries.</li> </ul>
Area mobility theory	<ul style="list-style-type: none"> <li>_ trends and activities of particular production factors and product area mobility;</li> <li>_ causes and consequences of inner activities.</li> </ul>

Source: Authors' provided table

## Centres of national significance and their development trends

Within the particular research, the authors will analyse two cities of national significance Valmiera and Jekabpils, the surrounding cities and impact areal. The impact areals of the cities are indicated with an aim to get an overview about development coherences of a cities end their surrounding territories. Impact areals of cities are not administrative territories, but provides statistical information about territory usage in order to characterize impact of a city that, in its turn, determines shape of functional space. Rural territories in impact areals of cities differ from size and number of municipalities; also, existence of other towns next to the city of national significance affect the impact areal. Different location place of cities of national significance and their role in Latvian economics determines also the impact of other territories. The comparison of Latvian cities of national significance and their development trends are summarizes in Table 2.

If city impact areals are compared with average demographic and socio-economic indicators, it can be witnessed they characterize conformities to average indicators of Latvia, furthermore, Valmiera and Jekabpils show similar trends both taking into consideration number of residents, number of economically active enterprises etc.

Table 2

Evaluation of development indicators for the cities of national significance

Cities of national significance	Number of residents, (thousands)	Density of residents, (thousand residents/sq. m.)	Unemployment rate. %	Residents income tax per capita, EUR	Economically active individual merchants and companies per 1000 residents
Riga	700	2.3	6.6	537	57
Jelgava	63	1.4	8.0	453	28
<b>Jekabpils</b>	<b>26</b>	<b>1.0</b>	<b>10.6</b>	<b>347</b>	<b>27</b>
Jurmala	56	1.1	8.0	524	23
Liepaja	82	0.56	9.3	357	26
<b>Rezekne</b>	<b>34</b>	<b>1.4</b>	<b>15.1</b>	<b>351</b>	<b>27</b>
<b>Daugavpils</b>	<b>101</b>	<b>1.9</b>	<b>8.2</b>	<b>313</b>	<b>22</b>
<b>Valmiera</b>	<b>27</b>	<b>1.5</b>	<b>6.8</b>	<b>484</b>	<b>34</b>
Ventspils	42	0.72	7.1	560	25

Source: Authors' provided table, using data of the year 2012

Comparing city impact areal after their average demographic and socio-economic indicators, it can be seen they are characterized by conformity to average indicators of Latvia; Rezekne, Valmiera and Jekabpils are similar after number of residents, but Daugavpils, Jekabpils and Valmiera, in their turn, are similar after unemployment rate and density rate. Valmiera shows higher results on residents' income tax and economic activity, which is lower in Rezekne, Daugavpils and Jekabpils. Further, the authors will revise the abovementioned cities together with their surrounding territories (see Table 3).

Indicators	Daugavpils impact areal	Jekabpils impact areal	Rezekne impact areal	Valmiera impact areal
Territory area, sq.m.	2595	2995	3457	2946
Number of residents (thousands)	137.4	50.0	78.8	61.7
Demographic load	513	520	515	532
Unemployment rate, %	9.4	11.4	20.4	8.4
Residents income tax per capita, EUR	283	297	263	375
Economically active individual merchants and companies per 1000 residents	17.8	19.8	17.2	23.4

Source: Authors' provided table, using data of the year 2012

**Table 3**

Average indicators of cities' influence areal

### Valmiera and its impact areal

Valmiera areal embrace territory consisting of seven counties (Beverina, Burtnieki, Koceni, Mazsala, Naukseni, Rujiena, and Strenci) and Valmiera city. Possible functional area of Valmiera city is wider since proximity of other centres of regional significance determines that many residents choose Valmiera as their working place and use its offered services. Valmiera city is an explicit concentration centre of working places. There are more companies, higher income of residents' income tax and higher salaries as in other counties. Valmiera can be characterized also by better indicators of unemployment rate and changes in number of residents, but territory, in its turn, shows slightly lower demographic load.

Valmiera has preserved production functions and, unlike Jekabpils, has supplemented its service with possibilities of receiving higher education that establishes potential of city impact areal development. Valmiera establishes explicit suburban territory with a direct impact on neighbourhood – it can be witnessed by infrastructure near the city. The further impact of the city currently is unclear, which tends to evaluate Valmiera as slightly weak centre of national significance.

### Jekabpils and its impact areal

Jekabpils consists of five counties (Akniste, Jekabpils, Krustpils, Sala, and Viesite). Jekabpils is the smallest city of national significance in Latvia. The impact of Jekabpils is weak and shows similar trends to Rezekne, which is the weakest city of national significance, if development indicators are taken into consideration. Companies are concentrated in Jekabpils, but not in the county. There is a significant difference of residents' income tax and salary level between city and county. The impact areal of Jekabpils among other territories of the particular group stands out with high decrease in number of residents due to less favourable socio-economic conditions and advantages connected to mobility, as the city is located near to Lithuanian border. After current data, the direct impact of Jekabpils on surrounding territories is unclear.

### **Daugavpils and its impact areal**

Daugavpils surrounds territory, which consists of territories of Daugavpils and Ilukste counties; Daugavpils is the second greatest city in Latvia after number of residents. Differences between income level and specific weight of economically active entrepreneurs in cities and county territories represent heterogeneous socio-economic situation in a space of city impact areal.

In conditions, when commercial activity is very low in the counties, Daugavpils city provides a positive impact on surrounding territories, since their unemployment level there is comparatively low as compared with average level in Latgale. Lower activities of entrepreneurship in counties of Daugavpils impact areal represent relatively greater dominant role of the city in terms of provision of working places.

During last year's Daugavpils experienced the shutdown of many large businesses that created negative consequences – decrease in resident number and their departure from city and county. There was no compensating working places that created different situation from other large cities in Latvia. Daugavpils as the second largest city in Latvia provides both city and suburban territory areal, but it is difficult to draw a line of a direct city impact areal on all territory.

### **Rezekne and its impact areal**

Rezekne covers territory, consisting of Rezekne city and three counties – Rezekne, Vilani and Karsava. Indicators of socio-economic development of Rezekne County are comparatively low; therefore, the role of Rezekne as the centre for promoting surrounding territory or direct positive impact is not determined. Unemployment rate as indicator of economic activity is very low in both Rezekne city and county. Rezekne, similarly to Daugavpils, shows very great differences in residents' income among city and suburban territories. However, Rezekne impact areal in Latgale region can be characterized as positive due to comparatively large number of economically active businesses and individual merchants per 1000 inhabitants that could witness on a beginning of higher social and economic activity or on a potential of economic welfare in near future.

In total, situation in Rezekne is similar to Daugavpils – also Rezekne experiences a shutdown of several large businesses in a result of which Rezekne is characterized by greatest unemployment rate in Latvia and significant decrease in number of residents. The activity of Rezekne Special economic zone can be evaluated as positive, since it develops also in suburban area, creating new working places.

In the end, the authors of a particular research state that after evaluation of a particular region or territory the one of abovementioned theories (see Table 1) can be used for territory development. After the opinion of the authors of the present research, it is necessary for Latvian specialists to study offered theories and use them in territory development. Despite of the abovementioned, the usage of these approaches in practice is currently incomplete. The authors suggest combining them, taking into consideration foreign experience and other scientific directions, i.e., marketing, planning, audit, and strategic management.

In order to plan activities for entrepreneurship environment development in future it is necessary to implement new territory management methods (city marketing, smart marketing) un provide study on preconditions, necessary for entrepreneurship development.

## **Conclusions**

- Current trend shows territories are competing with each other in terms of services they will be able to keep their residents and attract residents, tourists, entrepreneurs and investors.
- Marketing approach demands territory to pay special attention to the development of their own production according to society demands by using all its resources and potential.
- Both Valmiera and Jekabpils impact indicators are low or unclear that shows the possibilities for development of entrepreneurship environment are insufficient.

Both Rezekne and Daugavpils experienced a shutdown of large enterprises during last years that created negative consequences and currently shows that development possibilities for entrepreneurship development are insufficient.

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