

# THE FACTORS AFFECTING THE COMPETITIVENESS OF REGIONS

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**Abstract:** *The study attempts to present the factors affecting creation of a region's competitiveness and their mutual linkages. It constitutes a theoretical deliberation based on the subject literature, therefore, the methods of data processing and logical reasoning have been used during its preparation. The subject literature gives numerous definitions of the region's competitiveness resulting from the contexts of the authors' discussion, which affects exposing of the determinants in measuring and evaluating the region's competitiveness.*

**Keywords:** *The competitiveness of regions, the determinants of competitiveness*

**JEL Classification:** *M10, D41*

## 1. INTRODUCTION

Competition is a phenomenon functioning in many aspects of social and economic life to which much attention is paid in scientific papers. A term "competition" originates from a Latin expression concurrere, which means to run together [10]. However, this notion is understood as a competition between rivals. It appears in such a form in many domains of social, economic, political, cultural, artistic or sports life [7].

According to Walczak [22], competition between individuals is an immanent feature of the market economy. Depending on the industry or sector it can proceed on many planes and demonstrate in various methods and forms of activities, as well as have diversified intensity. This heterogeneity may manifest itself in different configurations of the elements forming this phenomenon, therefore, it requires to select proper reference objects, as well as to adopt relevant criteria (measures) of evaluation of its level [5].

In the conditions of free competition the participants of market game compete, and thus it can be assumed that the competitiveness is their feature. Currently this feature refers both to the entities in the macro-, meso- and microeconomic perspective. However, until recently, the subject literature defined the competitiveness rather with regard to macroeconomic entities, i.e. countries or industries [18]. Additionally, some persons believe that a country's competitiveness creates the competitiveness of enterprises operating therein. In view of the above, Czaplicka - Kolarz and others [2] after Faulkner and Bosman [3] accepted that the competitiveness on the microeconomic level determines position of a given entity - its resources, possibilities, opportunities and potential as compared to the market's structure. Additionally, we can distinguish two major approaches in deliberations on the competitiveness, i.e. the ones particularising the basic competitiveness, however it involves indication of the factors enabling the company to achieve the leading position in a given industry. On the other hand, a key competitiveness is formed by the factors creating sustainable competitive advantage on a particular market.

It is worth mentioning that the studies do not always indicate the competition entity, i.e. country, region or company, and thus competitiveness is defined in a relative manner [4]. Such a case has been described by Stankiewicz [18] who after OECD (Organisation for Economic Cooperation and Development) indicates that competitiveness may result in both the ability for entities, industries, regions, nations or groups to meet international competition and to provide a relatively high rate of return on the applied factors of production and a relatively high employment on solid foundations. In view of the above, the international competitiveness of a national economy is a complex socio-economic category constituting the main goal of every country seeking improvement in their position in the international arena [19].

Furthermore, the competitiveness definitions are presented, depending on the needs, at more or less general level, e.g. on the World Economic Forum in Lausanne, it has been recognised as the ability for a country or a company to create greater wealth than its competitors on the world market. However, this is a result of transformation country resources (already existing ones, e.g. natural or manufactured, e.g. infrastructure) as a result of the processes, e.g. production, in economic results which are verified in the international arena [20]. On the contrary, according to Czaplicka-Kolarz and others [2] the region's competitiveness, in short, defines its ability, measured against other regions, to provide the social and economic background supporting business operations and process of increasing general level of productivity and innovation using internal and external human, financial and material resources. It is worth mentioning another definition of the region's competitiveness, presented by the experts of the European Commission, which constitutes that it is an ability to produce goods and services which find their buyers on international markets, providing high and permanent level of income. Therefore, competitiveness is a possibility for a company or a state to generate greater assets as compared to its rivals on the global market [21].

## **2. DETERMINANTS OF THE REGION'S COMPETITIVENESS**

Competitiveness is an ability to effectively compete over time, when the competition results are of much importance. In such a case measurement can be made based on GDP, which determines the results of business activities on a given territory. This allows to separate the winners of competition as well as its losers [12]. According to some of the persons studying the issue of competitiveness is not a simple and single-dimensional economic category, but a result of mutual relations of many measurable factors. Then, it may be understood as a set of features determining the attractiveness of a region as a place where an investment is to be located or as a place of residence, as well as an expression of technological advantage or lower prices of products and services produced in this region as compared to other regions. In view of the above, the competitiveness of a particular area depends on a complex of elements i.e. standard of living of inhabitants, conditions for business activities, possibility of attracting investors, location of institutions and events of national or international range [2].

Some researchers indicate the fact that [17] the competitiveness of regions is strictly linked to development and policy of a region. This refers to the level on which population of a given region lives, how business entities operating in given conditions are doing and whether they are able to acquire foreign capital and investors. According to Wierzbicka [25] the process of the competition at the regional level involves also public authorities, given that it may proceed in two ways, i.e. directly and indirectly. The latter way is based on creating by the authorities favourable conditions for operation of companies, which enable to gain advantage over other entities. On the other hand, direct competition applies to a kind of competition for the conditions that will contribute to growth in quality of living for inhabitants and economically-social development of a region.

In the literature on the subject [23] the competitiveness of regions is defined as an ability of region to present the offered conditions or possessed resources in the possibly best manner in order to obtain profits both on economic and social level. As a consequence, it will allow to make a better impression on a competing enemy. An effective process of creating competitiveness will enable to achieve success only after the analysis confirming that a given region has such ability. Then the advantages possessed should be strengthened by implementing a plan of obtaining competences and their shaping, by executing the projects designed to implement all the necessary knowledge. Furthermore, care must be taken to ensure a proper defence regarding the position of a leader of key skills [8].

A region's competitiveness is conditioned by many various kinds of characteristics, of negative or positive nature. They affect the perception of a region as competitive or not. Interpretation is obvious in the case of possessing more advantages, while the weaknesses prove that a given region is competitive, however, only to a small extent or not at all. Each of the regions may have different qualities which will indicate its exceptionality, which will allow to distinguish it from other regions [9].

The literature distinguishes three types of competitiveness: resulting, factorial and factorial-resulting competitiveness [26]. According to Czaplicka-Kolarz and others [2] a competitive ability may be factorial, when it reflects a long-term ability of the economy to meet international competitiveness. It results from the size and structure production factors, effectiveness of their use, socio-economic system, economic policy and international conditions. A measure of the growth in competitive capacity is not only an improvement in the competitive position, but also the economy's maintenance of a region's ability to achieve long-term profitable development resulting in the flexibility of economic structure. The resulting competitiveness of a region is determined by its competitive position. It applies to share of a given region's economy in international trade. Change in competitive position takes place when level and conditions of participation of a given country or region in international trade are changed. Then, improvement in competitive position is a necessary condition for, e.g.: growth in participation in trade and/or improvement in structure of a region's export or increase in the presence of the companies with foreign capital participation in the region. The last type of competitiveness is connection of a factorial and a resulting one. Bieńkowski [1] believes that the competitiveness of regions may be understood also as a constant advantage of a given region over the others. This feature is important, as this phenomenon should be examined from a dynamic point of view. However, the analysis is difficult for this reason, yet this does not mean that it is impossible. Then we can assess the competitiveness of regions on the basis of better results in comparison to adequate ones obtained by competing entities, and this may apply to:

- the most important attributes of a territory which may be created by each field of economy, environment, education or labour market,
- productivity, i.e. relations between the potential a given region has, and industries which make use of it,
- export potential, which affects the fact that a given territory is involved in the process of exchange and holds a specified place therein (they include mainly those goods and services which are associated with a given region, creating its reputation and favourably affecting its development),
- attractiveness of a territory and an offer from which the persons located in the territory of a given province may benefit; in this case the developed infrastructure is very important, also an intellectual one [13].

## **3. DETERMINANTS OF THE REGION'S COMPETITIVENESS**

The literature on the subject [24] has often analysed the determinants of the competitiveness of economies, given that its quantitative and qualitative dimension are both equally important. They were presented then in three groups, i.e.:

1. Possessed and generated tangible resources, their structure and quality (e.g. natural resources, technical and social infrastructure, capital and workforce, resources and level of technology).
2. Intangible resources and their quality (e.g. creativity and innovativeness, tendency to entrepreneurship and to

taking risk, development level of institutions and efficiency of their operation, economic policy and its effectiveness, social capital).

3. Effectiveness of using tangible and intangible resources, understood as generated value per unit of work and capital.

It is worth adding that the aforementioned determinants can be measured using various measures, however, they will reflect competitiveness in a static, namely competitive position. On the other hand, their changes should be reflected in a dynamic perspective which will prove their improving or stable competitive position.

Assessment of the level of competitiveness of a particular territory is possible after identifying the factors which have an impact on functioning of a region. Then, the position can be identified which a given territory holds as compared to its competitors. Thus, it is worth reminding that a region constitutes a territory which in terms of characteristics it possess (e.g. socio - economic) is separated. Its functioning and operation are separate, however, it is a part of greater territory, where, e.g. a province is located constituting a part of greater territory known as the state [6]. According to Oleksiuk [17], the most important factors affecting the competitiveness of regions include, among others:

1. Research-development activity, which is reflected in the presence of institutions involved in research and development as well as universities ensuring inflow of qualified employees. It is worth mentioning that this may contribute to development of innovative activities in a region, which will allow to strengthen its competitive advantage as compared to the others.
2. Social infrastructure. This factor is in a way connected with the previous one, as it applies to the presence of high level education in a region or high level of health protection. It is reflected in the structure of work resources, more precisely, in the growth in the resources' quality, which may contribute to development of a region.
3. Technical infrastructure, given that it includes technical aspects of functioning of business activities on a given territory, i.e. transport, access to water or telecommunication system (enabling rapid information flow).
4. Business environment institutions. These are the institutions supporting and ensuring atmosphere of entrepreneurship in region, including offices and institutions stimulating cooperation between the aforementioned entities in a given area. Shaping good relations between the abovementioned entities favours development of a region's competitiveness.
5. Investments which according to the above author are strictly related to the competitiveness of the regions. Growth in their number positively affects economic development of a region, and hence its image and attractiveness. Implementation of many investment projects in a given area attracts new investors. It is worth adding that an element which may contribute to the increase in investments is a region's good location.
6. The structure of the economy. It turns out that the best situation happens when the structure of the economy is

diverse. Thanks to that a given region may compete on various levels and in different domains. It applies to, e.g. export which stimulates economic activities. Present tendency, i.e. the greater it is, the more attractive a territory is, undoubtedly affects the increase of a region's competitiveness.

7. A region's nature, which should permit creation of positive image of a particular area. It is obvious that it should highlight natural attributes so as to encourage to locate business, as well as to provide attractive conditions for living.

This point of view is shared by Wągrodzka [23], who believes that the competitiveness of regions is conditioned by:

1. Finances and investments. A rich region attracts investments, because it is more attractive. The investors are interested in the developing regions providing good prospects for the future, since the competitive advantage can be obtained faster under such conditions.
2. Public investments, their purpose is to improve the existing technical infrastructure. This may contribute to the increase in profits of entrepreneurs, but also in a local population's comfort and quality of life. It should be added that public investments are one of the basic factors that affect the competitiveness of regions.
3. Qualifications of inhabitants. However, this can contribute to migrations in search for better working conditions or earnings in the better developed regions. Drainage of specialists from the weaker developed regions positively affects the development of the attractive regions where numerous investments are carried out. It is expressed by the growth in effectiveness and earnings of the aforementioned regions.
4. The areas of exceptional characteristics which should not be destroyed by bad selection of investments. It applies to the regions having unique environment which should not be destroyed by building, e.g. wastewater treatment plant within its boundaries. The advantages of these areas should be highlighted so as to attract tourism.
5. A region's image, which is an important determinant of acquisition of the new investment projects. It also affects the selection of the place of employment or the place where people are spending their holidays. Therefore, its attractiveness affects its development and greater competitiveness.

Determinants of the region's competitiveness also take account of division of factors into endogenous and exogenous [13]. The latter apply to the dependencies existing beyond the region. On the other hand, the endogenous ones are typical of those areas where they have been established. It is thanks to them that a given region creates its competitiveness and attractiveness.

Markowska-Przybyła [15] believes that systematisation of the factors determining the competitiveness of regions should consider their division into: macroeconomic and microeconomic ones. According to her, the macroeconomic ones include those having impact at the national and international level. Taking account of the investment attractiveness she grouped them into the national (e.g. legal

protection, market) and regional factors (e.g. location, competition within a region, leisure or identification with a region). On the other hand, the group of microeconomic factors distinguishes: the possibility of an attractive presentation of a region and creation of a climate favouring entrepreneurship in its environment.

The literature on the subject classifies the factors according to their type, meaning their division into: ecological (which mainly relate to environmental protection and any related ecological education and activities), economic (including situation on the labour market and income of the inhabitants, incoming investments), social (i.e. education, standard of living of the population or culture) and technological and technical (i.e. modern technologies or innovativeness) [11]. Some researchers [16] also make use of a different division of the factors affecting the competitiveness of regions in their deliberations, namely: efficiency, instrumental, systematic and resource. The efficiency factors, also referred to as qualitative, include: physical infrastructure (customs, education, behaviour), economic structure (effectiveness, diversity, business environment institutions), development of region (spatial structure, level of environmental damage), material resources (production technology, its modernity, efficiency). All these elements are associated with one another, and thus the development of one leads to improvement of another one. The group of the instrumental factors is represented by: science and tests, investments in human capital, (which should be reflected in the quality of human resources, for instance in education), investment in tangible resources, cooperation with foreign countries (which,

among others, influence the quality of human resources). According to the aforementioned author the system factors have a slightly different character than the former ones, their role consists in identification of an individual who will notice their importance and take efforts to implement them, which in consequence should contribute to improving the region's competitiveness. The last group was called the resources (quantitative) factors; these are the basic elements determining the economic growth. It applies to the resources necessary for functioning and creating competitiveness, i.e. assets (mainly the capital), work (among others, employees) and natural resources (e.g. soil, water).

#### 4. CONCLUSION

Competitiveness is described in the literature on the subject from many perspectives or contexts, as this is a phenomenon stimulating development, creativity as well as innovativeness of business entities. Improvement of processes and the organisations themselves takes place as a result of dynamic changes in the environment as well as competitors which change as the market game progresses. Deliberations of the persons exploring that issue provide for various definitions of the region's competitiveness resulting from contexts the authors' discussion, which influences also exposing of the determinants in measuring and evaluating the region's competitiveness. However, identification of the factors and attempt to evaluate their impact is the primary issue in measuring and evaluating the competitiveness of the particular regions.

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