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## **Target Groups, Competitors and Organization of FDI Promotion in Central-Eastern European Regions**

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## TARGET GROUPS, COMPETITORS AND ORGANISATION OF FDI PROMOTION IN CENTRAL-EASTERN EUROPEAN REGIONS<sup>1</sup>.

Paweł Capik

### Abstract

Since the beginning of systemic change growing flows of foreign direct investments (FDI) have been perceived as an important source of capital, technology and employment for restructuring regional economies of Central-Eastern Europe (CEE). FDI inflows stimulate competition between nations and, what remains unpopular to recognize, regions within individual country. Increasing contest for lucrative FDI projects requires regional authorities to actively compete and promote their areas. Yet still there is a deficiency of systematic cross-national studies identifying good practice and assisting policy-making. Regional promotion practices established by the post-industrial cities of the western economies require adjustments to Central-Eastern European Countries (CEEC) reality, however the level of importance assigned by the regional authorities to this still somewhat new policy tool vary across the countries. Using the data collected in census of Czech, Polish and Slovak regional authorities this contribution explores the nature of CEE regional promotion and identifies some emergent approaches.

**Keywords:** Central-Eastern Europe, Regions, FDI promotion

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<sup>1</sup> Earlier version of this paper has been presented at AESOP-YA Conference, February 2007 in Bratislava, Slovakia. The paper presents preliminary findings of an ongoing research. Comments on general ideas and particular issues welcomed.

## Introduction

Regions<sup>2</sup> in Central Eastern European Countries have increasingly more power in determining their development trajectories (Gorzalak, 2003). Perceiving multinational enterprises (MNEs) as a potential source of capital and employment they are interested in attracting mobile investment. Simultaneously MNEs recognise opportunities offered by Central-Eastern European markets and become interested in efficiency gains opportunities (Artisen-Maksimenko, 2000, Turnock, 2005). In response regional authorities adopt marketing-based approaches and become increasingly active in attracting foreign direct investment. Yet academic interest in CEEC place promotion, specifically on regional level is only emerging. This contribution aims to advance the debate on FDI promotion and its selected procedures and mechanisms within the place marketing framework. Particularly it focuses on organisation of promotional activities and selected strategic aspects of FDI attraction schemes such as identification of competition and definition of target markets, in regions of Czech Republic, Poland and Slovakia. The paper investigates the importance of FDI promotion in CEE<sup>3</sup> regions' development agenda and seeks to answer the questions about level of coherence in the adopted approaches, considered also in a spatial perspective.

The initial part of the paper discusses the theoretical issues of place promotion highlighting inconsistencies and deficiencies in current literature debate. Next the peculiar context of CEE place promotion is explored. The findings of the empirical research (including organisation of promotion, target markets and regional competition) are presented in the latter part of the paper, followed by conclusions and recommendations for further study.

Presented discussion is a result of initial desk-based research complemented with the quantitative study of CEE regional authorities' FDI promotional activities. Secondary data has been sourced from national statistical offices, national banks and national investment promotion agencies (NIPAs). The postal survey method<sup>4</sup> was used as a primary data collection technique. The questionnaires have been distributed to earlier identified heads of adequate departments dealing with promotion within regional authorities. The questions asked by the survey referred to matters of research, promotion organisation, links between wider development goals and FDI attraction, targeting approaches, perception of competition, promotional budgets, evaluation of performed practices and future plans. A full discussion of results is far beyond the scope of this paper. Instead it focuses on selected strategic issues of organisation, competition and targeting – arguably the cornerstones of regional promotion, in the attempt to inform future policy making and practical approaches.

## Promotion in the Regional Development Context

In corporate environment promotion is a direct way in which organisation tries to communicate with its various target audiences with the aim of moving forward in a distribution channel a product, service or an idea. It attempts to influence the knowledge, attitudes and behaviour of its recipients (Stanley 1977, Bressington & Pettitt 2003). Promotion mix comprises of the following five elements, its main tools: 1) advertising is any paid<sup>5</sup> form of nonpersonal, mass communication. Personal selling (2) on the other hand, involves interpersonal communication in form of field, retail or door-to-door selling. Sales promotion (3) engages short-term schemes stimulating the purchase of the promoted object, while publicity and public relations (4) involve coordinated activities building good relations with many interest groups, not just the customers (Burnett 1993, Kotler & Armstrong 2001). Direct marketing (5) borrows from the discussed elements and involves creating one-to-one relationships with individual customers in the mass markets. Additionally Belch and Belch (2004) distinguish the sixth element of promotion – interactive/internet marketing, which relies on the interactive media and allows “*back-and-forth flow of information whereby users can participate and modify the form and content of the information they receive in real time*” (Belch & Belch 2004, p.20). Essentially then, promotion aims to communicate the qualities of the product and

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<sup>2</sup> A region can be defined in multiple ways (for a comprehensive discussion see for example Terlouw, 2001), however in the context of the research presented in this paper regions are treated as administrative units.

<sup>3</sup> For the purpose of this study, unless otherwise stated, the understanding of Central Eastern Europe has been limited to Czech Republic, Poland and Slovakia. For a comprehensive discussion of CEE borders see for example Dingsdale (1999).

<sup>4</sup> Some of the respondents chose to fill in the electronic version of the survey, which was supplied upon their request. This contributed to the response rate of 100%, i.e. all of 38 CEE regional authorities participated in the study. 14 regional authorities in Czech Republic, 16 in Poland and 8 in Slovakia.

<sup>5</sup> The *paid* aspect indicates that space and time for an advertising message normally must be purchased. An sporadic exception to this are the public service announcements, whose advertising space and/or time is donated by the media (Belch & Belch 2004).

persuade the target customer to purchase it (Kotler & Armstrong, 2001). So how could it be understood within regional policy context when a product is a socially and economically diversified multidimensional space, i.e. a region?

Place promotion, has a long and eventful history ranging back from the ancient pilgrimages (Beinart 2001), through the settlements encouragements during the Vikings times (Ashworth & Voogd, 1990) and increasingly systematic practices evolving over the last one and a half centuries (Ward, 1998), to gradually more specialised activities aimed at attracting specific target groups. In more recent times as recognized by Ashworth and Voogd (1994) planners turned to set of marketing techniques important among which is promotion. Indeed it plays a critical part in place marketing (Paddison, 1993) as localities attempt to manage the impact of globalisation and political change (Young & Kaczmarek, 1999). Understanding place marketing as customer oriented regional policy, it can be concluded that promotion is a vital instrument of such policy. The marketing approach offers the nearest thing to a practical expertise for those undertaking place promotion. It offers some apparatus for the activity that provides promotional bodies with a methodology enabling them to distinguish themselves from their competitors by unique and targeted advertising, successful public relations activities (Gold & Ward, 1994, Fitzsimons, 1995), negotiations with investors and designed set of investment incentives and post-investment services in a coherent way.

### Different places – same promotional aims

Young and Lever (1997) considering promotion as an “*an important element of entrepreneurialism of the city*”, assert that promotion campaign is designed to increase the knowledge and understanding of a place. Additionally Paddison (1993, p.340) gives promotion broader role “*rather than advertising per se*”, and argues that promotion seeks to rebuild and reconstruct the image of the place. Supporting this argument Wu (2000) indicates that in the case of places, promotion presents and represents a new image to raise the competitiveness of the area. The aim of image recreation is to overcome the negative perceptions of the industrial past and to attract investment. That is, however unnecessary limitation to just one type of places – namely the post-industrial, what largely implies the urban scale, or city-region at most. Despite many examples in literature supporting this argument (e.g. Madsen, 1992, Goodwin, 1993, Holcomb, 1993, Young & Kaczmarek, 1999, Wu 2000) some promotional activities, with various degrees of success, have been performed in other types and scales of places – as documented by Ward’s (1998) historical analysis of promotional materials of states (e.g. Georgia, Michigan), cities (e.g. Atlanta, Baltimore, Bruges) and towns (Blackpool, Spa,) in The United States, The UK and selected countries of continental Europe.

Van den Berg *et al.* (2002, p.107) argue that “*image and identity are important promotion factors, but cannot by themselves change the general perception of a city or a region*”. Therefore place promotion cannot stand on its own, and should be considered as an addition, albeit vital, to broader development strategy and everyday life of a region (Borchert, 1994). “*Every aspect of public policy from street cleaning to the provision of housing, from equal opportunities to public transport, from the award of public contracts to sewage outfalls can be made to bear the imprint of place selling ethos*” (Ward, 1998, p.3). Indeed, the publicising of places’ features and advantages acts alongside other elements such as financial packages, infrastructural improvements and land and facility provisions in the attempt to influence earlier recognised economic decision makers (Young & Lever, 1997, Kotler *et al.*, 1999, Lever, 2001). Place promotion thus, includes all or purpose-defined selection of the presented promotion mix tools used in conjunction with place development policies fostering (i.e. promoting) the activities of selected target groups – be it tourists, settlers or investors.

### FDI perspective

Loewendahl (2001) distinguishes four consecutive stages of investment promotion: 1) strategy and organisation (development policy context, structure of investment promotion, competitive positioning, sector targeting strategy), 2) lead generation (targeted promotion), 3) facilitation (project handling) and 4) investment services (after-care, product improvement, monitoring, evaluation). While the initial stage is concerned with planning and strategy setting, the remaining three involve concrete actions and activities, thus could be called promotion *per se*. Consequently then regional promotion aimed at investment attraction in aims to achieve three interrelated objectives – improvement of place’s image held by the investment community (image-building activities), generate investment directly, and provide investment and post-investment services. In their study Wells and Wint (2000) identify the different stages of FDI promotion – initially places are more concerned with image building activities, and gradually move towards investment generation and service provision. Such gradual approach, however, unnecessarily expands the time-span of places’ investment promotion attempts, increasing the risk of losing out on some of the projects captured “in the mean time” by competing areas. All three objectives are interlinked, and should not be considered as substitutes but rather complementary. Image building exercise is a very complex and time-consuming one. Some techniques and tools that it requires are also used in achieving the other two remaining objectives. Investment generating activities (for example investment missions, road-shows, seminars, “sales”

presentation [Wint & Wells, 2000]) can and should be used to create an image of a region as a place welcoming for the investors. – The picture that can be further strengthened by swift provision of adequate services for both potential and present investors.

From a regional development perspective, apart from image improvements (or indeed creation) activities, a set of investment incentives<sup>6</sup> needs to be included in effective FDI attraction schemes. For over three decades now national governments have increasingly adopted measures to facilitate the entry of foreign companies. Next to the liberalised legal frameworks for foreign entities' operations and guarantees for repatriation of investment and profits (regulatory incentives), tax (fiscal) incentives and investment subsidies (financial incentives) are amongst the most important ones (UNCTAD, 2000, OECD, 2003). Already in the mid 1990s over 100 countries provided various FDI incentives and many more have introduced such incentives since then (Blomström & Kokko, 2003). To foster regional development, national governments delegate some of the incentive granting powers to regional jurisdictions. The main benefit of giving the lower administrative level a freer hand lies in the more intimate knowledge of socio-economic situation (industries and individual investment projects) that is available locally (OECD, 2003). For regional authorities then, the major question appears – how to effectively announce the region's advantages?

### The question of effectiveness

There is much less disagreement on the role and suitability of application of regional promotion than on its actual importance in regional development. As Bradley *et al.* (2002, p.62) put that: "*we know little of the actual importance of place promotion to the actual decision making process of its intended audiences*". In fact there is no consensus on the effectiveness of any of the regional promotion tools. A number of reasons foster such situation. The absence of credible and systematic research into evaluation of effectiveness of promotional practices seems to be a crucial one. Underlying it, however, there is lack of clear, unquestionable methods of such evaluation (especially in case of image campaigns), what at least partly is caused by relatively little interest paid by academics (and practitioners) to this long performed, yet still far from universal practice. Also the debate on effectiveness of various incentives schemes is ongoing. Specialised literature on FDI promotion suggest that public incentives are not the most important factor in determining a country's attractiveness for investors (Zanatta *et al.*, 2006), however as Navaretti and Venables (2004) stress, they can influence the MNEs final decision when all other factors are comparable for competing locations. Other studies also provide enough evidence to suggest that place promotion can have an impact in location decision making. Burgess and Woods (1988) study of London Docklands promotional effort, has found that majority of small and medium sized companies that relocated into the area in some way have been influenced by London Docklands Development Corporation campaign. It was clear, the authors argue, "*that advertising had played a significant role in attracting small companies to the Enterprise Zone [...], and the rate relief offered in the Enterprise Zone was a significant factor*" (Burgess & Woods 1988, p.101).

Place promotion, by far, is not a simple activity and the process encounters multiple obstacles. Costs of promotional activities, their questionable effectiveness, and time consumption are among the main problems that place promotion agencies need to tackle (Young & Kaczmarek, 1999). Additionally as Burgess (1982) and Burgess and Wood (1988) studies indicate, the major operational problem that places are facing is the lack of coherence of their promotional actions resulting in production of fragmented image and unstable, therefore unreliable investment climate.

A well designed regional promotion campaign should meet numerous conditions<sup>7</sup>, among which coherence with regional development goals, adequate targeting and recognition of competitors' play crucial role (Kotler *et al.*, 1999). The FDI attraction efforts need to be a part of a wider development strategy seeking to achieve particular development goals of the regional community<sup>8</sup>. Targeting region's activity increases chances for internal coherence of the promotional activity, raises the efficiency of often limited disposable funds by directing investment flows into priority sectors (Wint & Wells, 2000) and avoiding the situation when everything is promoted to everybody (Kotler *et al.*, 1999). Recognising competitors and their activities allows the regional authorities to prepare distinctive and unique offer for the targeted investors. It also helps to position region's offer, and appraise reasons behind region's popularity with investors in relation to its competitors.

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<sup>6</sup> Measures designed to influence the size, location or industry of a FDI investment project by affecting its relative cost or by altering the risks attached to it through inducements that are not available to comparable domestic investors (OECD, 2003, p.11).

<sup>7</sup> For a full discussion of "campaign success factors" see for example: Lodge (2002), Rainisto (2003), Quelch and Jocz (2005), MIGA (2006).

<sup>8</sup> For example China and Ireland while granting the investment incentives require investors to recruit high skilled workers locally and to cooperate with local research institutes and universities (Zanatta *et al.*, 2006).

## Deficiencies in current debate

Growing literature on place promotion, marketing and more recently branding<sup>9</sup>, remain insufficient to create a sound foundation for academic discussion and practical applicability (Anholt, 2002). In fact, the lack of systematic approach and far from substantial primary research evidence supporting the theoretical base with real-life arguments makes the whole concept sound unreliable and still little-understood panacea (Papadopoulos & Heslop, 2002).

Despite the development for already numerous years, FDI promotion remains largely under-explored subject since majority of studies commonly focus on general image campaigns and more recently place branding efforts. Also there is a limited variation of research considering the spatial coverage of such activity. Existing works are mainly concerned with the post-industrial cities in developed economies, with majority of examples coming from Western Europe (e.g. Sjøholt, 1994, van den Berg *et al.*, 2002), particularly the UK (e.g. Madsen, 1992, Young & Lever, 1997, Daskou, 2005) and The United States (e.g. Holcomb, 1993, Kotler *et al.*, 1993, Rainisto, 2003).

The Central Eastern European examples are only emerging in current place marketing, promotion and branding discourse. This is caused by two interlinked factors. Firstly it is the effect of short history or indeed lack of such practices and secondly the embryonic academic interest in this subject. Young and Kaczmarek's (1999) evaluation of Łódź (yet another post-industrial city) promotion is one of the very few examples of more comprehensive research in CEE countries. The studies concerned with FDI promotion are comparably scarce. Young (2004) offers an insight into the FDI attraction activities of CzechInvest, the Czech national investment promotion agency. In his later work the author scrutinises the different general practices of place marketing on a range of administrative levels in selected countries of Central-Eastern Europe (Young, 2005).

In these circumstances, this papers aims to further the current academic debate by offering analysis of some empirical findings concerned with FDI promotional activities performed by the regional authorities in Czech Republic, Poland and Slovakia. – The three countries in stark competition for FDI projects.

## Regional Promotion and FDI Attraction in the Central Eastern European Context

Throughout the 1990s Central-Eastern European Countries became a popular FDI destination. A few years of slowdown after the turn of the centuries were succeeded by considerable growth of FDI flows to the region following the enlargement of the European Union (Table 1). MNEs when deciding where to establish their activities often consider locations in one of the three countries: Czech Republic, Poland and Slovakia (Helinska-Hughes & Hughes, 2003). Once the country has been selected, trends up to now indicate high chance of capital city (and its region) location (Domański, 2001, Young, 2004). Such circumstances have important implications for other regions within the country. Competition for FDI takes place not only on an international level but also intra-nationally. This requires actions from those responsible for FDI attraction on both country and regional level in order to avoid the situation where some localities are losers in development terms (Young, 2005).

Table.1 FDI flows and percentage of stock in Central-Eastern European capital-city regions.

	FDI flows (mil \$)			% of FDI stock in capital city region		
	2000	2003	2005	2000	2003	2005
Czech Republic	4.9	2.1	10.9	47.6*	46.2	46.7**
Poland	9.3	4.1	7.8	nd	30.0	nd
Slovakia	2.0	0.7	1.3	60.4	69.2	67.1

\*)flows, \*\*)2004 data, nd – no data.

Source: [www.czechinvest.org](http://www.czechinvest.org), [www.sario.sk](http://www.sario.sk), [www.paiz.gov.pl](http://www.paiz.gov.pl), UNCTAD 2002, UNCTAD 2005.

While preparing and performing their FDI promotional activities the countries in Central Eastern Europe face numerous specific challenges, which are further reinforced when the promotional activities are performed by the regional authorities.

Every place has an image, however its impact and range are geographically uneven. While some places boast worldwide recognition, others are known locally or nationally at best (Anholt, 2006). CEE countries are increasingly recognized globally as popular tourist destinations (as are some of their main cities, e.g. Praha or Kraków). Growing business traffic and FDI inflows offers opportunities to build a positive

<sup>9</sup> For a comprehensive introduction to place branding debate see for example Anholt (2002).

image of the country in potential investors' minds. All too often, however it is constructed based on the experience of the capital city (and its vicinity, at best). This is likely to be an obstruction for regions aiming to raise awareness and create their image amongst global investors. The majority of the regions in the Czech Republic, Poland and Slovakia face a difficult task of overcoming country and/or capital city image. This often involves refuting national stereotypes and prejudices dominated by post-war history of the area.

Economic dominance of the capital city regions is another obstacle in promoting other CEE regions as highly rewarding FDI destinations. Furthermore there is a competition from other regions within, but also outwith the country. Additionally the level of precision in defining the actual target group(s) comprises another difficulty. The administrative division of powers and responsibilities vested with regional and local authorities, as well as their limited experience and competence in promotional activities together with only appearing cooperation with other promotional agencies seems to be closing the list (Capik, 2006). We now turn to examine selected FDI promotion issues and activities performed by the Czech, Polish and Slovak regions in these peculiar circumstances.

## Organising for Promotion

Regional promotion – predominantly managerial – is also a political process (Paddison, 1993) involving a variety of actors and agencies, posing questions about their responsibilities, interdependence and coordination of actions. It is a multi-scalar procedure and as evidence suggest, its diagonal and horizontal organisation differs greatly (Burgess & Wood, 1988; Young & Kaczmarek, 1999; Lever, 2001, Capik, 2007). In accordance with the subsidiarity rule, the bottom-up approach in regional development, it is imperative that regional authorities have a leading role in initiating and coordinating FDI promotional activities. They should act as a link between national and local FDI promotion efforts, which requires budget and staff commitment, but also a vision and integration of the promotional activities with wider developmental goals.

As the results of the conducted research indicate majority (60%) of the CEE regions have a designated office within Regional Authorities responsible solely for regional promotion. There are, however considerable differences between the countries. Only 3 Slovak and 7 Czech regions admit having promotional offices, while in Poland only 3 regions do not have one. The quality of those offices remains average, what indicates the regional authorities' awareness of scope for improvement.

Table 2. Evaluation of staff training and experience\*.

	Marketing and Promotion				Regional and Economic Development			
	Czech Republic	Poland	Slovakia	Average	Czech Republic	Poland	Slovakia	Average
Training	3.16	4.33	3.5	3.66	3.66	4.83	3.5	3.99
Experience	3.66	4.09	3.0	3.58	3.66	4.08	3.0	3.58

\*Scale 1 (low) – 5 (high).

Source: Own research.

Half of the offices are inadequately staffed and their staff qualifications vary across the three countries. On average (Table 2.) the majority of the staff have good regional economic development academic training (average mark of 4 out of 5) and slightly worse marketing and promotion education. The experience in both areas is assessed less favourably. This could reflect that the majority of the promotional offices employees are fairly young and inexperienced and come from economic rather than marketing background. Polish promotional offices quality scored highest while Slovak ones achieved lowest marks.

In such circumstances the regional authorities often (85%) turn for help and consult their activities. The Czech regions use mainly consulting firms, whereas Polish and Slovak regions tend to rely on academics, regional companies and local authorities.

The findings presented above, especially the number of regions actually having promotional offices within their administrative structures stress the relative novelty of regional promotion in CEE. The fact additionally highlighted by the lack of assessment of the undertaken actions by any external organisation<sup>10</sup>.

## Targeting Regions' Promotion

Targeting and proper recognition of customers needs, according to Fitzsimons (1995), stand among most crucial conditions for successful regional promotion. The activities, as the literature points out, are

<sup>10</sup> Half of the regions indicate the activities performed by the promotional office are subject to internal evaluation.

mainly targeted at three broad groups – tourists, investors and new inhabitants. Each group is highly diversified internally and possesses unique characteristics that need to be addressed by places' promotional actions (Kotler *et al.*, 1993, Rainisto, 2003).

All of the indicated groups are recognised in CEE regions' promotional activities, however they are assigned different level of importance. Predominantly the regions aim to attract tourists, which comes at no surprise considering the popularity and long tradition of tourist destination promotion and mass nature of the world tourists market. Over 90% of Czech, 81% of Polish and 63% of Slovak regions target their promotion predominantly to this group. Foreign investors comprise the second most important target group and are recognised as such by almost 45% of Polish, 38% of Slovak and just over a fifth of the Czech regions.

Over 90% of regions consider the new settlers as the least important group<sup>11</sup>, yet the regions indicate the best knowledge of it (average mark of 3.5 out of 5). The investors comprise the worst researched group with Polish regions marking their knowledge on the level of 3.1, Czech and Slovak on 2.4. Such results reflect regional authorities' belief that "new settlers" group is similar to the existing inhabitants, knowledge of which understandably reaches highest levels. Yet the authorities, in accordance with what has been indicated earlier, recognise the need for improvement in their understanding of foreign investors.

Table 3. Evaluation of target groups knowledge<sup>\*</sup>.

	Average score	Czech Republic	Poland	Slovakia
New inhabitants	3.5	3.1	3.9	3.4
Tourists	3.3	3.2	3.6	3.1
FDI	2.7	2.4	3.1	2.4

\*Scale 1 (low) – 5 (high).

Source: Own research.

Foreign direct investors, the multinational corporations, comprise a target group itself, however it would be naive to consider it homogenous. In context of FDI attraction two generic market segmentation criteria could be identified: geographical (country of origin) and industrial sector (and branch). Additionally direct marketing techniques allow targeting individual companies (MIGA, 2006). Apart from directly attracting investors there are numerous agencies, "*the influencers of company moves, investments and developments*"<sup>12</sup> (Fretter, 1993, p.169) that hold varied levels of region awareness and diverse needs but which also need to be considered in regional promotion efforts. Earlier studies indicate that in the Czech case the target groups are sector defined, while in Slovakia some regional bodies select their targets geographically. In Poland, on the other hand, a mixed approach is favoured by various organisation involved in FDI attraction on national level, while regional bodies tend to treat investors as a homogenous group (distinctive from tourists) and do not target their activities any more specifically (Capik, 2006).

The results of the study confirm such situation. Despite often limited resources, targeted promotion is largely an emerging issue dominated by wasteful "whoever wants to listen" approach. Majority of the Czech regions do not target their activities, but those that do (15%) adapt equally country (mainly Austria), sector (predominantly automotive industry, R&D and IT) and particular investor approach. Slovak regions' activities are mainly sector driven (25%), while in Poland regions primarily (31%) aim their activities based on investors' nationality (Western Europe, especially Germany and France). Sector targeting (automotive, electronics, IT industries and R&D) is second most popular strategy.

The countries which CEE regions claim to target, are often already among the nation's main investors or share a border with particular region. The targeted sectors have often contradictory characteristics, e.g. assembling and knowledge based, what rather reflects their "trendiness" than strategic approach on regional authorities' part.

## Recognising Competition

Having competitive edge over others remains one of the main factors determining places' involvement in promotion (Ward, 1998). Yet both – "the others" and "competitive edge" is often poorly recognised by places. The place authorities are aware of certain qualities desired by the investors, but they show limited familiarity with their national and international competitors' characteristics (Burgess, 1982, Lever & Young, 1997). In fact as Fretter (1993) notes the authorities make little effort to understand their competitors, and as

<sup>11</sup> Although 54% of the regions claim to include promotion to all target groups in their development strategies, "new inhabitants" constitute the group most often excluded from it.

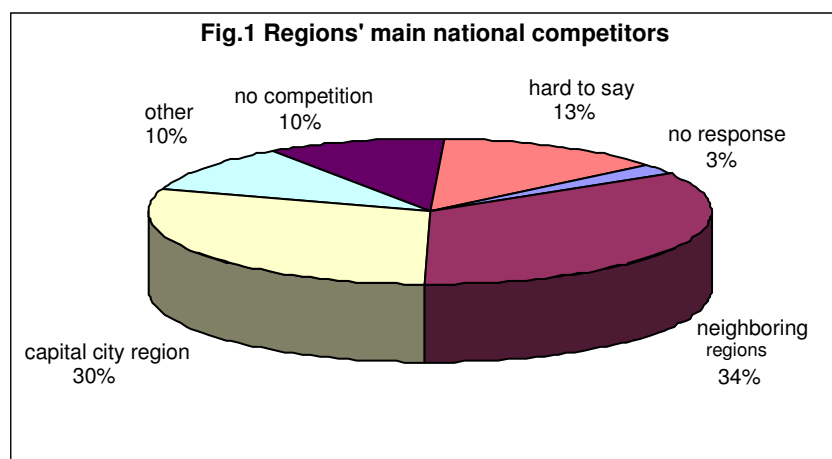
<sup>12</sup> The estate and relocation agents, the banks, financial institutions, accountancy and consultancy firms, etc.



the result use similar if not identical approaches to promote divergent types of regions, differently endowed with advantages sought by the potential investors.

The current findings seem to put earlier research results in question – at least on the surface of things. The regional authorities in CEE show high awareness of national competition and often are capable of identifying the reasons behind it. Only 5 regions have difficulty with naming their rivals (Graph 1.), while over a third recognize neighbouring regions as their main competitor for FDI projects. Just a few percent less perceive the capital city region as their main competitor within respective nations. Again, however that differs across the countries. Half of Polish regions point out to their neighbours as their main rivals, while in Czech Republic this is the case with only 2 of the regions. Instead 36% of Czech regions identify Praha (region) as their main contestant in FDI attraction. Despite the highest concentration of FDI stock in Bratislava (Table 1.) only a quarter of Slovak regions have identified the capital as their main competitor. Comparably 25% of Polish regions see themselves in rivalry over mobile companies mainly with Warszawa. The reasons for such situation are chiefly dissimilar. Slovak regional authorities understand that Bratislava is beyond their reach and constitute, what Kotler *et al.* (1999) call superior competitor. A view strengthened by the capital itself, which (like Praha and the surrounding region) believes is has no competitors for FDI projects in the country. Warszawa's position, on the other hand is contrary to other nations capitals. The regional authorities acknowledge existence of the competition in Poland but Warszawa's dominance in levels of FDI stock is less evident allowing the regions to see their immediate neighbours as main source of competition. This also reflects somewhat incorrect conviction about the relative homogeneity of the country.

Infrastructural deficiencies are the main reason (63%) for the Czech, Polish and Slovak regional authorities to feel competition from other regions in their respective countries. Additionally 2/3 of Polish and 40% of Slovak regions feel they suffer from inferior images in comparison to their competition – an opinion shared by merely a fifth of their Czech counterparts. Comparably almost half of Polish regions and a quarter of Slovak ones admit their competitors are promoted better than themselves. Such view is expressed by just one regional authority in the Czech Republic.



Source: Own research.

### International competition

The level of international competition awareness varies across the CEE regional authorities and between other organisations involved with FDI promotion. Perhaps the only common view is that the regions and localities of all three countries compete with other nations in Central-Eastern Europe (Capik, 2006). Over half of the CEE regional authorities, mainly Slovak (76%) and Polish (56%) see themselves competing with neighbouring nations, while a third of them (mainly Czech – 42%) point out to the remaining countries in Central-Eastern Europe<sup>13</sup>.

The regions under study feel they are less competitive than their CEE counterparts on different grounds than it was in the case of national competitors. The regions feel the competition results from primarily (35%) labour market disadvantages, such as inflexibility and cost inefficiency. Almost a third of the regions (mainly Polish and Slovak ones) also point out to the lacking infrastructure and better connectivity and accessibility of their rivals. Czech regions additionally feel the unstable reforms and inadequate FDI incentives put them in a disadvantaged position. This again indicates how much Czech regional authorities rely on and are dominated by CzechInvest (Young, 2004, 2005, Capik, 2007).

<sup>13</sup> In this case understood more broadly, i.e. not limited to the three countries under study.

The research results suggest that promotion activities performed by international competitors and their images are less important for CEE regions. This additionally highlights the need for regional authorities to perform effective promotion activities to out-compete national rivals and influence the flows of international capital in order to correct the uneven FDI stock distribution often fostered by the NIPAs.

Overall, the research results of competition awareness put in question, albeit not entirely, the findings of earlier studies. Regional authorities are often very aware of competition existence and can identify competitors' features that put them in a disadvantaged position. However – the closer the competitors are located the better knowledge of their advantageous characteristics, what suggest that regions tend to really on general knowledge rather than systematic research into competition.

## Conclusions

The paper aimed to contribute to the debate on place promotion by analysing selected aspects of regional FDI promotion in Central-Eastern Europe. Presented discussion attempted to show the emergent nature of the activities performed by the regional authorities in three countries competing for FDI projects – Czech Republic, Poland and Slovakia. Particular attention was paid to the selected strategic concerns of organisation of promotion, identification of target markets and competition awareness – issues often neglected in existing literature.

Regional promotion aimed at FDI attraction is by no means a straightforward process of implementing marketing tools and principles into regional development policies. Instead promotion serves as link between the two. Using selected marketing-based practices it can improve the efficiency of FDI attraction policies by strengthening the integrity of undertaken activities and implemented policies.

Growing FDI flows to CEEC remain concentrated in and around capital cities and NIPA persistently fail to alter this situation. Progressing decentralisation in regional policy setting, albeit characterised by different pace and scope in Czech Republic, Poland and Slovakia, has presented regional authorities with new opportunities also in the area of FDI promotion. These opportunities, as for now, remain underutilised, this however vary across the countries. Generally the Polish regions seem to undertake more coherent and complete actions than they Czech counterparts, which remain dominated by the overwhelming power of CzechInvest. Slovak regions' activities are somewhat closer to their Polish, rather than Czech partners.

Regions performing some of the FDI promotion activities need to address particular circumstances of economic, administrative and cultural nature that have the potential of making regional promotional effort more difficult.

Central Eastern Europe is a new player in the game of place selling, and as such offers immense research opportunities. Future studies should concentrate on mechanisms guiding the development of regional FDI promotion strategies and their effectiveness. Such studies will provide the long awaited empirical evidence to, what now still remains an assumption about the vital role that promotion plays in the regional development.

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