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City attractiveness for investment: characteristics and underlying factors

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Abstract

The main purpose of the paper is to distinguish theoretical characteristics of city attractive for investments and to prove these attributes by investigating the judgements of enterprisers. This paper is based on systemic, comparative and logical analysis of scientific economic literature, the survey method for drawing practical results.

The description of investment attractive city and the factors forming the investment attractiveness are provided in this research. Summing up the theoretical and identified by the entrepreneurs characteristics of the city's attractiveness for investment, it can be said that in many cases the choice of the city for investment is influenced by the accessibility of skilled workforce and its costs, the resource price and competition in the market.

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Introduction

The role of cities is increasing within the regional, national and global economic environment, making the problem of gaining and maintaining urban attractiveness and competitiveness still relevant, especially when facing the situation of economic instability. Shaping the attractiveness for investment by creating economic value in urban areas has not been comprehensively analyzed in modern literature, and the investment attractiveness evaluation methodology has not been developed. The evaluation of the city's attractiveness for investment would

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allow determining close links between specific factors and provide recommendations and suggestions for enhancing and maintaining the attractiveness for investment, as well as for positioning the city attractive for investment. This article presents theoretical characteristics of a city attractive for investment; they are compared with practical arguments, identified by executives of Alytus city business enterprises, and recommendations for strategic positioning of the investment attractive city. The article is based on systemic, comparative and logical analysis of scientific economic literature and the survey method for drawing practical results. Alytus city has been chosen because it is one of the seven centers of regional growth, which, during the period of 2008-2013, received the biggest amount of the EU financial assistance funds (103.639.508 LTL), i.e. most of the effort was directed to promote the development; and which, based on municipal indexes of 2014 provided by the Lithuanian Free Market Institute, rated in the 5th position (the first of smaller cities, following Klaipeda, Vilnius, Kaunas and Panevezys). In addition, compared with centers of regional growth, during the period of 2011-2014, Alytus city had the largest number of enterprises, and this number had a tendency to grow.

1. The concept of investment attractiveness of the city

The transfer of competition from the price level to the level of quality due to globalization, the urban struggle for investment has intensified since the investors' expectations have basically changed – complex goals are pursued: seeking for inexpensive but also productive workforce, focusing on technological competence, the local demand is supposed to increase the local or regional market share, a reliable physical infrastructure, effective public governance and a stable political and institutional environment is required. Requirements for the target locations are increasing – focusing not only on economic indicators, but also on the attractiveness of the socio-political environment: encouraging an active development of the local and regional markets, ensuring a stable macroeconomic and political environment, pursuing the institutional and legal stability, creating conditions for the transfer of knowledge by raising the employees' qualifications. Analysis of the problem on the city's attractiveness for investment requires an extended perception of urban functions: the recent prevailing trend of the cities' transfer from the centers of production and consumption to become urban centers of creativity and consumption, thus broaden the understanding of the city's attraction that it is designed only to work and live (Hallward-Driemeier, Wallsten & Xu, 2003).

Investment attractiveness is one type of attractiveness targeted to attract business to a specific location. Attractiveness in the scientific literature (Zykiene & Snieska, 2011) is perceived as the city's available resources, the city's ability to maintain them and attract the new ones, thus gaining an advantage with respect to other cities and ensuring the city's development. This definition of attractiveness implies that it is a cyclical process (Servillo, Atkinson & Russo, 2011, Zykiene & Snieska 2011), as an attractive city attracts and maintains specific target groups in the city (new residents, tourists and investors), i.e. the outcome of attractiveness becomes a contribution, which further determines the result. In addition, the scientists approach the investment attractiveness as a dynamic process, since it involves a continuous ability of a location to generate and manage the attractiveness and large multinational companies' intentions to invest in other locations (Michalet, 1999). Investment flows become the consequence of confrontation: the target location succeeds to convince a potential investor on the benefits of taking advantage of its attractiveness.

Investment attractiveness is an exceptionally important characteristic for each city, as a business friendly environment creates conditions for job creation, increases the population's employment and income levels and encourages them to invest in their well-being, thus determining the economic growth. Accessibility of a skilled workforce enables to build and develop innovative businesses and generate the city's value added, thus determining a competitive advantage over other cities (Bruneckiene, Cincikaitė & Kilijoniene, 2012). The attractiveness for investment is focused not only on the start-up of new businesses in the city; the development of a business friendly environment encourages the entrepreneurs, already operating in the city, stay in a particular city, develop their established business and pursue the results acceptable to them. This aspect is related to social factors of the city's attractiveness, because entrepreneurs are interested in keeping their qualified professionals and, when developing business, attract new employees who might stay to live in the city where the company operates. Scientists agree that generating profit is no longer the only goal for companies – in such a case, while evaluating the investment friendly location, entrepreneurs exclusively focus on the reduction of risk and costs. The environment favorable to

start and develop business generates benefits for the whole society: competition promotes the implementation of innovation and improvements in productivity, thus generating the value added for both the employees and customers (Stern, 2002).

Summarizing the evaluation of urban investment attractiveness provided in scientific sources, it is possible to formulate the **definition of the investment attractive city**: a city where the environment is favorable for investment, there are available region's natural resources and the concentration of workforce potential. A favorable investment environment is characterized by an effective institutional activity, the optimal tax system and a developed physical infrastructure.

1.1. Investment attractiveness of the city forming factors

In the scientific literature, the city attractiveness-forming factors are distinguished into two categories: static and variable. *Static* factors include the factors that cannot be replaced and characterize a specific identity of the city, that is: the geographical location (a seaside town, a city of a cross-border region, etc.), size, importance at the national level (the capital city, the region's largest city, a resort), available natural resources (production resources, tourist resources). The rest of the factors are *variable*, i.e. they are formed or created for gaining or maintaining the attractiveness: the quality of the living environment, physical infrastructure, demography, employment, viability of the business sector, availability of educational infrastructure, the public sense of community, the sufficiency of social and health care services.

By distinguishing the investment attractiveness factors, scientists broaden the understanding that entrepreneurs are focused exclusively on the cost-benefit ratio. However, the primary factors which determine the attitude towards a specific location are related to the production cost estimates (Glebova, Khamidullina & Anisimova, 2015, Kinda, 2013, Damborsky & Rihova, 2009, Sinkiene & Kromalcas, 2010, Investment in the Baltic States, 2011): transportation, labour, land and natural resource costs. In the scientific literature, the factors that strongly influence the attractiveness of the area also include the accessibility and proximity of the target markets, the level of competition in the market, the distance to the suppliers, the distance to the institutions providing complementary services (financial institutions, schools, cultural centres, etc.), the rate of regional economic growth, personal preferences of the companies' managing authorities, successfully operating competitors in the region.

1.2. Factors diminishing the investment attractiveness of the city

In the scientific literature, although less frequently, one can come across the studies that distinguish the factors which, in one way or another, more or less diminish the investment attractiveness of the city. Back in 2005, the World Bank conducted a survey of companies designed for determining the constraints that affect the investment environment, and some findings revealed that the main indicators of low investment attractiveness of the location involve the following: the political and macroeconomic instability, high tax rates and high levels of corruption.

Hallward-Driemeier, Wallsten & Xu (2006), having conducted the survey of companies in five Chinese cities, also identified the administrative and regulatory barriers, including a big tax burden, corruption and transparency of support for business, the lack of investment in physical infrastructure and its maintenance. Marona, Głuszak & Nalepka (2012), having conducted the survey of Polish entrepreneurs, pointed out that when choosing a location for investment, the investors identified the following barriers not dependant on the local government as the biggest obstacles: barriers related to the establishment of investment friendly conditions, such as the establishment of special economic zones, legal barriers, infrastructural barriers, funding difficulties and environmental barriers. To the obstacles restricting investment and depending on local authorities, the author assign the following: long terms of issuing the building permits, spatial planning barriers and difficulties associated with the development of communal infrastructure, local marketing problems.

2. The survey of Alytus city's attractiveness for investment

2.1. Research methods

This part introduces the results of the conducted survey of the owners of business companies. The survey was conducted by interviewing enterprises of Alytus city. The study was aimed at interviewing enterprises operating in Alytus city. The participants were asked to evaluate the factors which determined their decision to invest in Alytus. In total 130 questionnaires were distributed, of which 87 completed questionnaires were received back. 87 questionnaires represent reliable sample for the survey as they correspond 8 percent of enterprise number operating in Alytus city. The questionnaire survey was carried out in an indirect way by sending the questionnaires by email. The survey of Alytus city enterprises included 10 questions, of which: question 1 – about the company's operational site; question 2 – about the motives behind their choice to choose Alytus city for investment; questions 3-6 – about the measures for the start-up and development of business applied by Alytus city municipality and their efficiency; questions 7- 10 – about corporate activities.

The survey involved four companies operating in Alytus Industrial Park, 15 companies, operating throughout Lithuania and 68 companies operating in Alytus city. 45 per cent of respondents were operating in the trade sector, 29 percent – in industry, 15 percent – in the service sector and 11 percent – in the construction sector. 91 percent of the respondents were private companies, 11 percent – individual enterprises.

2.2. The survey results

The accessibility of skilled workforce, effective process of starting a business, the real estate purchase or lease price, labour costs, the level of competition in the market and the provided assistance and guidance on business creation, development and investment issues – these factors can be considered as the positioning instruments of Alytus city's investment attractiveness and business environment, i.e. strategic factors. According to I. Lengyel (2003), these factors are directly involved in building the city's well-being, investment attractiveness and business environment, and together, through the measures facilitating an efficient use of basic factors, form the city's competitiveness.

The questionnaire survey respondents assigned the following factors that had a low impact on their decision to start a business or invest in Alytus city: lower than the average land and real estate taxes, a well-developed road infrastructure, the proximity of the Polish, Russian and Belarusian markets, awareness of the city internationally, convenient access to major cities in Lithuania, the ongoing activities of major business leaders in the city. Although the respondents rated these factors as poorly affecting their decision, however, it should be noted that they are treated as essential for starting to consider the choice of the decision. Hence it is recommended to treat these factors as the basic factors, without which the decision to invest in Alytus city would not have even been considered. Although the analysis of scientific literature shows that the operational activities conducted by major business leaders in the city have a positive impact on attracting investors, in the case of Alytus city, this factor is attributed to those having little impact on the decision. However, this may be related to the lack of information on enterprises operating in the city and the nature of investment (referring not to additional activities of specific enterprises but to independent activities). It should be noted that in order to attract new investors, it is important to use the companies operating in the city as ambassadors and guarantors that the city has a favourable environment for business and investment.

The questionnaire survey respondents assigned the following factors that had no impact on their choice of Alytus city: options of transportation by multimodal transport, simplified documentation processing requirements, municipal flexibility addressing the requirements of investors, a clear and unchanging business development strategy of Alytus city, extensive supply of real estate purchase / lease, the adequacy of natural resources required for carrying out the activities, awareness of the city nationally. Although these factors were referred by the respondents as those having no impact on their decision to invest, but they should be treated as the 'grey' factors that are common to all areas of investment, so they do not imply any exclusivity in terms of attracting investment to Alytus city, but they have an impact on the decision to invest in principle.

In order to evaluate the business environment in Alytus city, it can be said that although the city has set measures that contribute to business development and facilitate the start-up, but the main problem is poor awareness of these measures: 33 percent of respondents maintained that they were aware of Alytus city municipality's measures to facilitate business development and the start-up, and 67 percent responded that they were not.

Evaluating the measures that would most efficiently encourage the establishment and development of business, the respondents unanimously said that the establishment and development of business would be mostly encouraged by a partial financing of the business development loan interest, increasing the effectiveness of clearance in the municipality and fast approval of Alytus City Council's decisions, creating the image Alytus city as an attractive city for investment and improving municipal flexibility when addressing the investor's needs. Based on these survey results, it is possible to conclude that in the entrepreneurs' opinion, the financial instruments provide the greatest benefit for starting new or expanding the existing activities.

3. Recommendations for positioning investment attractiveness of the city

Hallward-Driemeier et al. (2003) argue that cities focus on the development of economic strategies to attract skilled workforce, because it is their existence that is treated as a mandatory condition for attracting mobile investment. For this purpose, according to scientists, various urban marketing tools are developed, such as marketing plans. They are focused on two target groups: investors and their attraction to the city and the activities of entrepreneurs operating in the city, by encouraging them to develop their activities. B. Jacobsen (2009), while analysing the location's branding for investors, identifies three key factors that determine the investor's decision: trust – awareness of the location and positive reputation; symbolism – the emotions conveyed and associations evoked are important for the investor, because they become part of the investor's identity; orientation and information – clearly presented information helps the investor in processing large amounts of data. Given the fact that Alytus city is not characterized by a high level of investment attraction, it is not recommended to precisely define the areas of activity and emphasize the specialization of Alytus city, otherwise part of the potential investment would not come to the city, and this would cause a big economic damage to the city's development. In the message to investors it is sensible to provide information about the industries that previously have been traditionally strong in Alytus and about the ones that are strong now, emphasizing the experience gained by the city and the culture of development and working in the industry, as well as the potential partnerships with the companies operating in Alytus.

Studies also showed that the main factors attracting investors in the Baltic countries include the following: 1. Geographic location; 2. Stability, security; 3. Taxes and benefits gained; 4. Availability of responsible people in the state institutions; 5. Low labour costs. Hence, these aspects are also important, so in order to attract investors to Alytus city, in the message it is advisable to emphasize lower than the national average real estate purchase / lease and human resources costs, an adequate accessibility of employees of various qualifications, which occurs due to a well-developed higher and vocational education system in Alytus (it is the existence of the latter that creates favourable conditions for the business and scientific cooperation), effective clearance in Alytus city municipality, close and easily accessible Polish, Belarusian and Russian markets and convenient and fast access to major cities in Lithuania. All this leads to a rapid start-up of activities which is especially important for attracting investors to the city. Personal contacts and availability of the government representatives – this is the areas which can be influenced by changing attitudes and organization of work, as well as by applying simple marketing communications activities. Summing up, in the message to investors Alytus should be positioned as: a place where you can quickly start the production and business; the 'friendliest' city for investors (availability of the government representatives, personal communication); a location where you can take advantage of attractive prices and abundance of resources (the industrial park, industrial and commercial zones, a developed engineering infrastructure, buildings), opportunities for the scientific and business cooperation in respective areas of competence; a stable place to develop business using the existing investors' satisfaction of working in Alytus.

The nature and style of the message to local entrepreneurs should not differ from the message intended for investors (except for the content of the message), so that the local entrepreneurs could not feel less significant

than foreign investors. For the local entrepreneurs it is important to highlight the municipality's determination and friendly attitude towards mutual cooperation and readiness to create conditions (or not interfering with) for business development. Messages intended for local entrepreneurs should imply the sense of respect for the entrepreneur and promotion of entrepreneurship in the city. In the message to local entrepreneurs it is important to emphasize the local entrepreneurs' satisfaction in business conditions in the city. The message should also emphasize the importance of entrepreneurs' opinion or their activities for the city authorities. Given the fact that one of the main functions of the municipality involves provision of information related to the establishment and development of business, it is advisable to provide formal information in an attractive, understandable and clear style and visualization. It is important that the original message is structured and not overloaded. In addition, the information must be constantly updated, i.e. 'live'. It is important to provide additional information in the Russian, Polish and English languages.

Conclusions

Summing up the theoretical and identified by the entrepreneurs characteristics of the city's attractiveness for investment, it can be said that in many cases the choice of the city for investment is influenced by the accessibility of skilled workforce and its costs, the resource price and competition in the market. For representatives of businesses companies the provision of business support services was an important factor as well - in the scientific literature this aspect is neither identified nor distinguished. In the entrepreneurs' eyes, the development of infrastructure, convenient access to the major national metropolitan areas and foreign markets is a mandatory condition for the start-up of business, but this could also be related to the specifics of Lithuania since Lithuania has a developed transport infrastructure and compactness. Summing up the results of the questionnaire survey, the respondents believe that the most effective measures are financial. Although the latest scientific literature identifies them as cooperation, experience and networking skills a partial assumption of business risks is an important factor in deciding to start and build a business. Therefore, the introduction of new and innovative ideas in Alytus city would contribute to the development of business in the city.

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