INTENSITY OF FOREIGN INVESTMENT PROMOTION AND DEVELOPMENT LEVELS IN CENTRAL-EASTERN EUROPEAN REGIONS

Introduction

Foreign direct investment (FDI) has been considered instrumental in the restructuring of the Czech, Polish and Slovak regional economies, and courted by the governments and regional authorities since the beginning of the systemic transformation in the early 1990s (Domański, 2001; Bradshaw 2005; Bandelj *et al.,* 2015). Accession to the European Union (EU) offered further potential for FDI attraction, and resulted in the transfer of greater powers to the regional authorities which, next to National Investment Promotion Agencies (NIPAs), became key players in the inward investment promotion process (Young, 2005, Sellar and Pástor, 2015).

Yet, despite wide-ranging locational advantages suited to diverse industry branches and the increasing flows of FDI, in the first half of the 2000s Central-Eastern European Countries[1] (CEEC) were attracting a mere fraction of cross-border investments conducted by multinational enterprises (MNEs) (UNCTAD, 2007; Ascani *et al.,* 2017). Arguably, beyond the wider exogenous and geopolitical factors, this could be attributed to regional authorities' limited engagement in, and poor execution of promotion aimed at investment attraction. Exploration of this perspective comprises the core argument presented in the paper.

Previous studies (e.g. Young and Kaczmarek, 2000; Florek, 2003; Capik 2019) indicate CEE regional and local authorities are interested and active in investment promotion to a varying degree, which presents an opportunity to study why this might be the case. This paper explores the answer from one possible perspective, namely the socio-economic conditions prevailing in regions. Resultantly, it attempts to start the debate and offer an early contribution to developing the missing link between investment promotion and regional development.

1 For the purpose of the paper Central-Eastern Europe is limited to the Czech Republic, Poland and Slovakia. For a discussion of delimitations of 'Eastern Europe' see for example Dingsdale (1999). The paper covers the period of time before formal change of country's name from Czech Republic to Czechia, and the former name is used throughout for consistency.

The Czech Republic, Poland and Slovakia began emerging on the global map of FDI destinations only since the beginning of 1990s. As relative newcomers, they had to compete with established Western European destinations, with themselves and other locations in the neighbouring countries, Asia and Latin America (Helinska-Hughes and Hughes, 2003, Dogaru *et al.*, 2015). Additionally, accession to the European Union in May 2004 and the implementation of *acquis communautaire* levelled the playing field and strengthened the competition between them. It also fostered wide-ranging reforms, including reorganisation of sub-national administrative structures leading to more autonomy and responsibility in regional and local governance (Blokker and Dallago, 2009, Ascani *et al.*, 2017). An increasing number of newly created regional authorities across CEEC soon began playing a part in place promotion by engaging in some form of foreign investment attraction (Young, 2005, Sellar and Pástor, 2015, Capik, 2019).

Despite recognised shortcomings in MNEs' developmental impacts – limited local embeddedness and multiplier effects, crowding out of local businesses (Bradshaw 2005, Capik and Drahokoupil 2011, Dogaru *et al.* 2015) – the continued interest from regional authorities in attracting operations of foreign companies is underpinned by two sets of factors. Firstly, the prospects of benefiting from their expertise, technology, capital and created employment (Bonetti and Masiello, 2014, Ascani *et al.*, 2017). Secondly, the increasing mobility of multinational enterprises (MNEs) and its integral part – the imperfect knowledge of available locations (Aharoni, 2010, Harding and Javorcik, 2012, Schotter and Beamish, 2013). At their disposal regional authorities have a range of channels and instruments to rectify this. Directly, for example by participating in investment negotiations and employing different forms of promotion, and indirectly by influencing aspects of regional location advantages through infrastructural investments (Metaxas, 2010, Wilson *et al.*, 2014).

General place promotion, marketing and branding[2] approaches are often criticised for a lack of tangible outcomes and measures allowing for assessment of their effectiveness (e.g. Pasquinelli and Teräs, 2013; Cleave *et al.,* 2016; Boisen *et al.*, 2018). Similarly, the value of investment promotion, borrowing elements from all three, is difficult to capture. However, there is enough evidence to suggest its positive impact on FDI flows at country and regional levels. International business and regional development literature also reaffirms the positive role of quality investment promotion in influencing FDI location decision (e.g. Aharoni, 2010; Wilson *et al.*, 2014; World Bank 2017; Wilson and Baack, 2020), and consequently investment inflows (e.g. Almond *et al.,* 2015; OECD 2018). Harding and Javorcik (2012) indicate that investment promotion is a cost-effective way of attracting FDI particularly to less developed countries, as it helps to rectify the negative effects of information asymmetries present in foreign investors location decision process (Aharoni *et al.,* 2010). This is corroborated by the results of Kulchina's (2014) study of the intensity of media presence and investment inflows to locations in Russia. Similarly, Morisett and Andrews-Johnson (2003) and Lim (2008) found a positive relationship between promotional spending and FDI inflows.

To date, the regional scale in investment promotion, particularly in the context of levels of development remains an unexplored phenomenon in CEEC and beyond. Existing studies tend to be limited and focus on image, brand building and their perceptions by general audiences, and tourist target groups. Equally, the scalar dimension of research is biased towards nations and cities, predominantly in the post-industrial context of Western, developed economies. Additionally, the studies of investment attraction practices tend to be limited to the analysis of strategies pursued by National Investment Promotion Agencies (e.g. Young 2005, World Bank 2017, UNCTAD 2018), and case studies of MNE–

[2] The three distinct but interrelated concepts, all of which contribute to investment promotion. For a discussion of definitions, scope, overlaps and distinctive features of place promotion, marketing and branding see Boisen *et al.*, (2018).

government bargaining. Yet, little has been said about how investment promotion is pursued at times of fast evolving business environments, at the sub-national level, in the circumstances of increased institutional thickness, intra-national competition between locales within a country or a trading bloc, and in the context of purposeful regional policies aimed at levelling out disparities between areas. This paper is motivated by such a persisting lack of discussion of investment promotion within the context of development of regions. It addresses some of the knowledge gaps by investigating the levels of intensity and coherence of Central-Eastern European regional investment promotion, and examining their relationship to developmental levels of regions. Thus, it offers new perspectives as to whether investment promotion is a universal developmental tool or a privilege of regions bearing certain characteristics.

The conceptual debate draws on place marketing and regional development literature. It provides an innovative approach by demonstrating how place promotion, marketing and branding concepts and principles can be translated into policies and activities of regional promotion aimed at investment attraction. The empirical analysis utilises survey data collected from regional authorities in the Czech Republic, Poland and Slovakia, and relevant secondary statistical data. Resulting analysis leads to the identification of different levels of intensity and coherence of regional authorities' involvement in investment promotion and relates them to regional socio-economic conditions.

The discussion focuses on years soon after CEEC joined the EU allowing to control for the ‘EU effect’ in FDI flows which appeared in the subsequent period (Bandelj, 2010). In spite of the passage of time the analysis remains relevant for a number of reasons. There have been no major reforms of regional governance systems in any of the studied countries since the completion of the research. The scope of regional authorities’ responsibilities related to FDI promotion established in the reforms pre-EU accession of May 2004, remained the same and by 2005 when the study took place, the relevant systems have been in place and continue largely unchanged since. Moreover, from the perspective of the paper's theoretical contribution, the problem it addresses (relationship between regional authorities' investment promotion and levels of regional development) remains unexplored as evidenced by several recent publications (e.g. Monaghan *et al.,* 2014, Almond *et al.,* 2015, Cleave *et al.,* 2016, Wilson and Baack 2020). In this context, the lessons from the past remain relevant and exhibit potential to influence the future, if discussed in the public domain.

The argument proceeds as follows. The next section explores the role of CEEC in global FDI inflows and demonstrates national and regional potential for investment attraction. Subsequent parts examine regional governance in the Czech Republic, Poland and Slovakia and identify regional authorities' prerogatives associated with FDI attraction. Next, the scope and aims of investment promotion, and factors associated with success of the practice are discussed. Methods employed to complete the study are elaborated in the next section. Results and the discussion of the proposed Investment Promotion Index (IPI) and regional development in CEE follow and is complemented by conclusions indicating paper's main contributions and charting directions for further studies.

Global Investment Flows and Central-Eastern Europe

The dynamics of FDI inflows to Central-Eastern Europe typically mirrored global trends, with the area gaining an increasing share only in the latter part of the 2000s[3]. Earlier, despite extensive reforms and improvements in the general business environment since the beginning of the systemic transformation in 1989, CEEC share of foreign investment inflows

[3] Data discussed in this part of the paper plays a twofold role. It provides rationale for country selection and sets the scene for the forthcoming analysis. For these reasons the data is predominantly limited to the first half of the 2000s.

remained limited. In 1990 FDI inflows to Czechoslovakia and Poland equalled a mere 0.15% of inflows received by developed economies. Ten years later the share received by the Czech Republic, Slovakia and Poland increased to 1.45% and in 2005, the first full year of their EU membership, it reached 4%. Despite the positive trend and the fact that the three countries attracted almost 65% of all inward investments into the ten new EU Member States, this result still placed the CEEC considerably behind other European nations (e.g. Netherlands and Belgium attracted 4.4% and 3.6% of global FDI inflows). Furthermore, other countries in the region became increasingly appealing to investors and began capturing considerable amount of FDI – Romania, Bulgaria and Ukraine received almost 2% of global investment flows, a significant increase from 0.4% in 2002 (UNCTAD, 2007). Although in the first half of the 2000s the Czech Republic, Poland and Slovakia recorded a significant increase of FDI inflows, they continued to lag behind other developed economies and had to face new competition from upcoming rivals in the Balkans and South East Asia (Ascani *et al.*, 2017).

Table 1 about here

The number of greenfield projects further illustrates this (Table 1). Similarly, to the rest of the world, CEEC experienced a major increase (157%) in project numbers between 2002 and 2003. It exceeded growth within the EU (147%), but was less significant than the change globally (166%). While there were differences between the three countries, collectively in 2005, they attracted 536 out of 3527 new projects completed in Europe (15%), or 5% of project globally (10442).

Overall, despite considerable advances and increasingly wider application of active investment promotion measures (Young, 2005), the Czech Republic, Poland and Slovakia even after becoming full EU members attracted a mere fraction of FDI compared to other

European and global economies. Additionally, the majority of regions in CEEC received less inward investment than their national capital-city regions and areas in other European countries.

FDI and Regional Governance in Central-Eastern Europe

Uneven distribution of FDI within the CEE countries further limited the potential developmental benefits they bring. Investments tended to concentrate in more developed and industrialised areas, capital city regions, and around large cities, generally in western parts of the countries, closer to the European markets, which escalated regional disparities (Domański, 2001; Ascani *et al.*, 2015; Dogaru *et al.*, 2015). For example, by 2005 almost 67% of FDI stock in Slovakia was concentrated in Bratislavský kraj, the capital city region. Košický kraj, country's 2nd largest regional economy accumulated 8.6%. Similarly, over 64% of FDI stock in the Czech Republic was concentrated in Praha and the neighbouring Středočeský kraj. Moravskoslezský (6%) and Jihomoravský (4%) krajs, respectively the 3rd and 2nd largest regional economies, occupied subsequent places. Mazowieckie voivodship, the capital city region in Poland, accumulated over 50% of country's FDI stock, while further 25% concentrated in Śląskie and Wielkopolskie voivodships, respectively the 2nd and 3rd largest regional economies in the west of the country (CNB, CzechInvest, GUS, SARIO data in Capik, 2019).

Partially, this can be explained by the investment climate and infrastructural deficiencies prevailing in more peripheral regions (Meyer and Jensesn 2005), but as will be argued later, it is also the result of only evolving approaches to investment attraction amongst regional authorities in CEEC.

The EU focus on a 'regional' rather than a 'sectoral' approach to policy-making led to changes in policy design and implementation, making ‘region’ the focal unit of problem identification and design of strategies (Ferry and McMaster, 2013). New regional and local governance structures established as a result of EU-stipulated administrative reforms were expected to provide a framework for tackling regional problems with fresh, bottom-up policies (Blazyca *et al.*, 2002). In reality, in the initial years the administrative reform proved to be a common challenge among the CEE countries. At the point of departure, the structures of regional (and local) government were largely underdeveloped and participatory decision-making non-existent, with policies imposed by the central government pursuing its own political agenda (O’Dwyer, 2006; Swianewicz, 2014). Partial reforms introduced throughout the 1990s brought about only marginal change in this respect but resulted in a better understanding of the nature and extent of regional problems and identification of geographical assisted areas (Illner, 2002). The more substantial reforms implemented in Poland in 1999, and 2001 in the Czech Republic and Slovakia, resulted in redesigning regional boundaries, varying but overall increased decentralisation, and the creation of regional governance structures where the new self-governing authorities were equipped with policy design and implementation powers (Ferry and McMaster, 2013). Despite their shortcomings, in consequence of the reforms by 2005 regional and local governance structures were firmly in place in all three countries.

Much like in other countries, CEE regional authorities have a wide spectrum of duties (Wæraas *et al.*, 2015), but in the context of inward investment promotion, a set of key prerogatives and responsibilities can be distinguished. As units of self-governance, they are legal entities acting on their own behalf, and managing their properties and finances. Self-government is executed through directly elected regional assemblies with several law-making powers.

The detailed set of their core responsibilities related to regional development, and investment attraction in particular, varies between the three countries. For example, while the Czech regional authorities are responsible for transport infrastructure management, the Slovak ones deal with transport and communication infrastructure planning (Brusis, 2003). Regional authorities are generally tasked with regional strategy design and execution, physical planning, public transportation, regional road infrastructure, selected functions in education development and management, and social and health care services (Illner, 2002; Swianewicz, 2014). Such portfolio of duties offers a clear scope for active involvement in investment promotion and impact on regional locational advantages.

Scope and Aims of Investment Promotion

Contrary to common misconceptions, often fuelled by politicians looking for quick fixes, investment promotion is not an event, but encompasses a set of complex, intertwined processes, which usually take time to develop, implement and bear fruit. Investment promotion, as defined originally by Wells and Wint (2000, p.4) comprises '*activities that disseminate information about, or attempt to create an image of the investment site and provide investment services for prospective investors*.' It extends beyond the most visible aspects of the process – image and advertising campaigns – to include a comprehensive set of activities and policies oriented towards investment generation, and methods of their application, similar to place marketing and branding practices (Boisen *et al.*, 2018). Loewendahl (2001) distinguishes four consecutive stages of investment promotion: (1) strategy and organisation (including setting the development policy context, structure of investment promotion, competitive positioning, and sector targeting strategy), (2) lead generation (targeted promotion), (3) facilitation (project handling) and (4) investment services (aftercare, product improvement, monitoring, evaluation). While the initial stage is concerned with planning and strategy setting, the remaining three involve concrete actions and activities, and thus could be termed promotion *per se*.

Consequently, regional promotion aimed at investment attraction strives to achieve the following interconnected objectives:

- enhance the image of the location held by the investment community;
- generate investment;
- provide investment and post-investment services (Wells and Wint, 2000, OECD, 2018).

Meeting these objectives is enabled by a number of promotional tools, which emphasises the link between investment attraction and promotion. For example, creation or enhancement of image can be aided by advertising campaigns, publicity and PR activities (e.g. Kulchina, 2014, Oh, 2014, Wilson and Baack, 2019), as well as personal selling (e.g. negotiations between regional officials and potential investors). Investment generation benefits mostly from the use of direct marketing actions, sales promotion (i.e. investment incentives) and personal selling. Similarly, the latter are the basis for the provision of investment services, which additionally can be supported by publicity and PR activities (Capik, 2019).

In their study of activities of several national investment promotion agencies, Wells and Wint (2000) demonstrate a typically evolutionary approach – initially NIPAs are more concerned with image building activities, and gradually move towards investment generation and service provision. All three objectives are interlinked, and should be considered as complementary. Image-building is a complex, long-term process. Some techniques and tools it requires, are also used in achieving the two remaining objectives. Investment-generating activities (e.g. investment and trade missions, participation in investment exhibitions, preparation and implementation of investment incentives schemes) can be used to create an image of a region as a place welcoming for the investors – a perception that can be further strengthened by swift provision of adequate services for both potential and current investors. Promotion, thus, does not stop with successful attraction of an investor. Aftercare services aim to encourage the company to expand, but also by word-of-mouth communicate the positive impressions of the place and attitudes of its authorities. However, often this part is unjustly considered as less important, with promoters focusing their efforts on either image building or investment generation (World Bank, 2017).

Criteria for Effective Investment Promotion

Reviewing practices of cities and regions in Western Europe, Canada and America, Ward (1998, p.208) observed that '*The most popular approach in city marketing simply reflects what appear to have worked somewhere else.'* Other authors (e.g. Quelch and Jocz, 2005, OECD 2018) discuss a range of success factors, i.e. criteria expected to lead to a successful outcome of the promotional (marketing, branding) effort. These principles are also relevant in investment promotion, a fact usually omitted in the literature. However, current studies fall short of providing a recipe for success in general place promotion, marketing and branding, and promotional activities aimed at investment attraction alike. One reason for this is the persistent lack of universally defined measures of effectiveness of promotion, and resulting from it, a subjective approach to success evaluation based on promotional goals set earlier. Nevertheless, based on wider approaches within place marketing, branding and regional development governance, several 'good practice' criteria can be identified, which contribute to more coherent and comprehensive investment promotion, and thus should be included in promotional efforts of regions striving to attract FDI inflows. Two categories of such elements can be distinguished – those linked with 1) organisation and 2) implementation of promotion (Table 2). The former type is anchored in regional science and governance literature, while the latter associated with marketing and branding principles.

On an organisational level, the cooperation of a wide group of regional stakeholders, organising capacity, and quality and dedication of leadership are considered pivotal in regional promotion (Tewdwr-Jones and Phelps, 2000; Fuller *et al.*, 2003; Sellar and Pástor, 2015). Effective place promotion depends on stakeholders sharing vision and rallying around the chosen strategy (Wæraas, 2015). Equally, regional development and public management literature stresses the interactive nature of regional governance and demonstrates public administration dependence on other stakeholders of the developmental processes (e.g. businesses, civic organisations) and how these tend to be more successful when a broad set of actors are involved (Klijn *et al.,* 2012; Almond *et al.*, 2015; Baccarani *et al.*, 2019). The scale of the place impacts the complexity and constellation of the set (Quelch and Jocz, 2005).

Table 2 about here

Some authors argue that a regional promotional programme needs to be more than the sum of its parts. In ensuring that, a strong cooperation between participating agents becomes compulsory (Florek, 2005, Monaghan *et al.*, 2014) and adds to the democratic legitimacy of actions (Wæraas *et al*., 2015). Investment agencies need to work with export promoting organisations and the chamber of commerce, tourist boards with the national airline, and regional promotional efforts should be coordinated between national and local levels (Quelch and Jocz, 2005; Young, 2005; Sellar and Pástor; 2015, Capik 2019). Such cooperation (or partnership) is expected to lead to a greater consistency in strategy design and implementation (Tewdwr-Jones and Phelps, 2000; Lodge, 2002; Almond *et al.*, 2015), as well as enhance the coherence of approaches adopted and the overall promotional message (Klijn *et al.*, 2012; Boisen *et al.* 2018).

Dedicated and committed leadership is another element of good practice in regional promotion (Almond *et al.*, 2015). Strong leadership has the potential to mobilise partnership members and boost the activities towards a common goal (Parkerson and Saunders, 2005). Lodge (2002: 384), by comparing the successful branding campaign of New Zealand with the failed efforts in Ontario, emphasises the quality aspects of leadership and stresses the importance of decision-making powers and '*a corporate mind'* attitude of leaders chairing the campaign.

Regional promotion is a lengthy and expensive process (Quelch and Jocz, 2005), therefore another important organisational element is the dedication of the authorities reflected in their budgetary commitments (Lodge, 2002; Morisett and Andrews-Johnson, 2003; Cleave *et al.*, 2016). Adopting a country-level perspective, Quelch and Jocz (2005) additionally highlight the significance of involving a leader in the promotional programme. The authors point to three benefits of head of state participation. Firstly, it emphasises the importance of a campaign and shows the commitment of the government. Secondly, their personal involvement in promoting the location potentially can impress the MNE executives contemplating investment. Thirdly, such high level of commitment is necessary to motivate the different stakeholder groups within the region (Baccarani *et al.*, 2019). Additionally, continuous leadership guarantees sustained commitment and long-term coherence (Quelch and Jocz 2005). All three points are relevant when considering the involvement of regional leadership.

The main elements of good practice at the operational level (Table 2) include targeting, recognition of competitors, positioning, image-related matters, research at various stages of the promotional programme and embeddedness of the promotional campaign within the wider development strategy. Targeting of promotion increases chances for its internal coherence, and particularly in the FDI context, raises the efficiency of often limited funds by directing investment flows into priority sectors (Harding and Javorcik, 2012; Bonetti and

Masiello, 2014) and avoiding the situation when everything is promoted to everybody (Kotler *et al.,* 1999). Recognising competitors (potential and actual) and their activities allows regional authorities to prepare a distinctive offer for the targeted investors. It also helps to position place's offer, and appraise reasons behind its popularity with the target groups in relation to its competitors (World Bank 2017, Boisen *et al.* 2018). Considering the vast location possibilities at the MNEs' disposal, a clear positioning must be included in place's promotional practice. By setting out to the targeted group a superiority claim and reasons why those claims should be believed, positioning helps locations to avoid competing merely on cost reducing investment incentives (Loewendahl, 2001, Bonetti and Masiello, 2014, Cleave *et al.,* 2016).

In order to be convincing, a regional image should match the observable reality of regional characteristics and communicate coherent and consistent messages to the target groups (Boisen *et al.,* 2018). Furthermore, communication to a variety of targets should not be divergent, as those while distinct are not separate, and today's tourist may turn into a potential future investor (Kotler *et al.,* 1999; Schotter and Beamish, 2013). As people tend to merge their various exposures and experiences of a place into one general impression – good, bad or indifferent – paying attention to many aspects of the customer experience can be an important source of the differential advantage (Kotler and Gertner, 2002, Quelch and Jocz, 2005).

All of the above-mentioned criteria should come together in a good investment promotion approach but also need to be underpinned by appropriate research conducted before, during and after the implementation of the promotional programme (Pasquinelli and Teräs, 2013). Research activity needs to encompass a broad scope of issues including awareness levels and perceptions (favourable or not, gaps between image and reality) held by the target audiences, the competitors' position, actions and successes, the unique advantages (and disadvantages) of the place with regard to targeted investors and potential benefits and risks associated with the promotional campaign (Kotler *et al.*, 1999; Quelch and Jocz, 2005).

Finally, regional promotion, particularly aimed at FDI attraction, should contribute to the development of the place (Lim 2008; Harding and Javorcik, 2012; OECD, 2015). To secure this, it needs to be linked to local circumstances and development goals of the area (Leowendahl, 2001; Pasquinelli and Teräs, 2013; Cleave *et al.*, 2016; UNCTAD 2018). For example, China and Ireland, while granting some of their investment incentives, require investors to recruit high skilled workers locally and to cooperate with local research institutes and universities (Zanatta *et al.*, 2006; Bonetti and Masiello, 2014). Furthermore, the awareness and image-building activities must go hand in hand with improvements to regional location advantages, i.e. infrastructural investments, labour force training, property provision, etc. (Kotler *et al.*, 1999; Cleave *et al.*, 2016). Focusing solely on the attraction of inward investment Loewendahl (2001) provides the following determinants of successful promotion, encapsulating the elements discussed above:

- An effective promotion approach should include coherent objectives set by the major stakeholders, underpinned by thorough analysis of location’s competitive position; coordination between industrial policy and FDI promotion on various administrative levels.
- Investment generation is most effective when long-term relationship building with targeted investors (in priority sectors) is supported by focused communication activities.
- Effective facilitation is essential if leads are to be transformed into actual projects; this requires professional approach to project handling and coordinated provision of quality services on various levels of administrative hierarchy.
- To exploit the long-term benefits from FDI and to maintain and further develop the

competitive position of a location, aftercare and product improvement activities should form an integral part of investment promotion actions.

It is such a set of elements of good practice that have been used in this research to establish the coherence and intensity investment promotion performed by Central-Eastern European regional authorities.

Methods

The approach adopted in this study builds on works of Burgess (1982), Wells and Wint (2000), Florek (2003, 2005), Young (2005) and Sáez *et al.* (2017) to develop a methodology that allows for addressing research questions about the levels of intensity and coherence of Central-Eastern European regional investment promotion, and the relationship with the developmental factors determining it.

Country selection has been guided by several factors. The Czech Republic, Poland and Slovakia are often directly competing for FDI projects in this part of Europe (Helinska-Hughes and Hughes, 2003; Ascani *et al.*, 2017). They regularly occupy proximate positions on the UNCTAD Inward FDI Potential Index. In 2003, the Czech Republic was ranked 39, Poland 43 and Slovakia 46. The following years brought only minor changes and in 2005, when this research was conducted, the countries were ranked 38, 44 and 52 respectively. Additionally, all three countries have been receiving significant inflows of the foreign capital, large parts of which were greenfield in nature (UNCTAD 2005, 2007). Furthermore, they share a number of institutional similarities, which permitted controlling for divergent approach to regional governance. As an effect of negotiations prior to their entry to the EU, and one of the conditions for accession, the previously heavily centralised administrations devolved powers to the newly formed regional structures. Within the broad framework of decentralisation the particular reforms took different directions and pace, however, by 2001 all three countries implemented the changes and created self-managing regions (Ferry and McMaster, 2013, Swianiewicz, 2014). By the day of accession to the EU on the 1st of May 2004, regional authorities in CEE had at least a few years to stabilise, establish effective self-governance mechanisms and design development strategies, including those related to investment promotion.

Another factor favouring the study of three countries has been the steady increase in FDI inflows associated with the EU membership (Badelj, 2010). The years immediately before the accession to the EU marked renewed interests of MNEs in Central-Eastern Europe. After the accession, this interest was further strengthened as in 2005 $11.7 million marked the highest inflow of foreign capital to the Czech Republic to this day, while in 2006 and 2007 both Slovakia and Poland received their record levels of FDI, $5.8 and $22.6 million respectively (UNCTAD 2007, 2009). It is the set of such rationale which favoured the selection of the Czech Republic, Poland and Slovakia for this study exploring regional promotion aimed at investment attraction[4].

Empirical research comprised a census of all regional authorities in the Czech Republic (14), Poland (16) and Slovakia (8). The regional authorities surveyed reflect administrative arrangements of regional governance in the three countries. The primary purpose of the census was to gather data on promotional practices to allow examination of links between regional authorities' involvement in investment promotion and the socio-economic conditions prevailing in the regions. Ensuring data validity, the questionnaires in native languages, were sent to heads of regional development departments and, where such

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[4] Hungary was considered to be included in the research, however it did not match the selection criteria. At the time of the study, Hungarian regional governance structures were characterised by higher levels of centralisation and regional authorities prerogatives related to investment promotion were more limited than those of Czech, Polish and Slovak ones (e.g. O'Dwyer, 2006, Swianiewicz, 2014). Additionally, Hungary has been an FDI hotspot during the early years of post-communist transformation, and at the time when the research took place its popularity with foreign investors has been significantly diminished.

were identifiable, the directors of promotion offices. Initially, in September 2005, the questionnaires were distributed by post, and subsequently upon request an electronic copy was provided. The final response rate reached 100%, i.e. all 38 regional authorities responded to the survey by January 2006. The questionnaires comprised four sections exploring different aspects of investment promotion related to the 'criteria for effective investment promotion' discussed above: scope and type of promotional activities, importance of foreign investors amongst other target groups, extent of promotional activities aimed specifically at foreign investors, and organisation of promotion. Table 3 presents the proxies matching each of the criterion. The proxies were developed based directly on the questionnaire data and are discussed next.

Investment Promotion Index

Scoring on each of the criterion allowed the creation of the Investment Promotion Index (IPI), which measures the coherence of investment attraction activities performed by regional authorities in the Czech Republic, Poland and Slovakia. For example, 'Wide Participation' was measured by a number of types of partner institutions (e.g. chamber of commerce, industrial association, regional development agencies) that regional authorities cooperated with on investment promotion.

Table 3 about here

If the number was above the average, regional authorities received the score of 1, and 0 in cases when it was below. Equally, for 'Partnership' regional authorities were awarded 1 if the total number of partner institutions was greater than the average. In case of ‘Leadership’ a score of 1 reflects the presence of a dedicated investment promotion office within the structures of the regional authority. 'Commitment' was measured by positive (1) or negative (0) change in the promotional budget between 2004 and 2005. If investment promotion was integrated within the formal Regional Development Strategy document, it was deemed coherent with developmental objectives of the region. Regional authorities' promotion was considered to be targeted if in the survey they explicitly identified either sectoral or geographical targets of their activities. Ability to name direct international competitors was used as a proxy reflecting regional authorities' ability to recognise competition. Similarly, identification of advantages the region provides to investors was considered as good practice in positioning of the promotional message. Investment Promotion Index, similarly to UNCTAD Inward FDI Potential Index, has been calculated as non-weighted average of individual sums acquired by each of the 38 regional authorities surveyed, as each indicator is taken as being equal. Consequently, the IPI is expressed by the following formula:

$$IPI = \sum_{n}^{\infty} (X/n)$$

Where 'x' is a vector of factors of successful place promotion (Table 2), 'n' is the total number of factors. Therefore, expanding above equation yields the following:

$$IPI = [x_1 + \; x_2 + x_3 + x_4 + x_5 + x_6 + x_7 + x_8 + x_9/n]$$

IPI was used as a comprehensive measure of coherence and robustness of investment promotion conducted by CEE regional authorities. The correlation of IPI with socio-economic variables determining the levels of regional development such as unemployment rate, dynamics of the regional economy (regional GDP growth rate), wealth (regional GDP per capita) and regional share of national FDI stock, provided insights into the relationship between the process of investment promotion and the development of regions. Secondary data was sourced from national statistical offices, national banks and investment promotion agencies in the three countries.

Non- parametric, two-tailed Spearman’s correlation test allowed investigating the relationship between IPI and regional development variables without implying the direction of causality. Kruskall-Wallis, a non-parametric test of difference was to investigate statistical significance of differences in mean values between the three countries.

Intensity of Investment Promotion in Central-Eastern European Regions

The analysis of the results allows several main observations. Overall, the intensity of regional investment promotion is medium to high, but this varied across the Czech Republic, Poland and Slovakia. There are considerable differences between the countries, as well as within each one of them. The average value of the Investment Promotion Index for the three countries equals 0.646, with the majority of regions (22 out of 38) scoring in the top third (between 0.67 and 1). However, with an average of 0.766, the IPI of Polish regions is considerably higher than in Slovakia (0.614) and the Czech Republic (0.566). Similarly, the difference between the highest and lowest IPI values is smaller amongst Polish regions (0.44), but considerably higher in Slovakia (0.78) and the Czech Republic (0.67). Consequently, in line with earlier studies (e.g. Young, 2005; Capik 2019) Polish regional authorities are on average more engaged with investment promotion than their Slovak and Czech counterparts. The involvement of Slovak regions is more uneven with some regional authorities scoring lowest on the IPI, and others achieving almost the top score. This may reflect the developmental stage of investment promotion in the country, where the boundaries of responsibilities between regional authorities and the NIPA are still being shaped. In the Czech Republic, whilst the difference between maximum and minimum values of IPI is lower than in the Slovak case, overall regional authorities' investment promotion is the least intense and coherent. Such results corroborate other studies (e.g. Young 2005; World Bank 2017) indicating varied levels of engagement across CEEC, which some authors (e.g. Capik 2019) attribute to the strength and level of dominance of the NIPA. The next stage of analysis provided insights into the relationship between IPI and the factors reflecting the state of regional economy including regional GDP growth, GDP per capita, unemployment rate and regional share in country's inward FDI stock.

Investment Promotion and Regional Development Levels

Investigation of the relationship between IPI values and selected factors determining levels of regional development revealed correlation with only limited number of them (Table 4). IPI is negatively related to the GDP per capita levels. The wealthier regions, with overall healthier economies characterised by higher personal incomes, are less interested in developing coherent, intensive inward investment promotion practices. Instead, more consistent and comprehensive promotion activities are found in regions with lower GDP per capita.

Table 4 about here

Correspondingly, the IPI displays a positive relationship to the levels of unemployment - the higher the regional unemployment rate pushing incomes down, the higher the IPI value. It is apparent that CEE regional authorities see foreign investors primarily as creators of employment and develop comprehensive approaches aimed at attracting them particularly when the regional labour market is in poor condition. Other factors, such as GDP growth rates, seem to bear no relation to the IPI levels. This is significant, as it demonstrates that neither good nor poor performance of regional economy is an incentive for the authorities to develop comprehensive investment promotion. This is in stark contradiction with earlier studies stressing the contribution of FDI to the restructuring of regional economies (e.g. Domański 2001; Dogaru *et al.* 2015). Additional fact that regional share of national FDI stock is not related to IPI, corroborates this observation. In other words, previous success (or lack of it) in securing FDI inflows, does not push regional authorities to greater promotional effort in order to secure future investments and continue the restructuring and growth of the economy.

Conclusions

The rationale underlying this paper was threefold. Firstly, it was motivated by existing gaps in knowledge resulting from the thematical, geographical and scalar focus of previous studies that explore general or tourism-oriented promotional practices of predominantly developed countries and their (post-industrial) cities. Secondly, in line with the increase of global capital flows, Central-Eastern European countries in the initial years of the new millennium have witnessed growing volumes of FDI inflows, yet the distribution of foreign capital and location of FDI projects varied considerably within and between the countries and remained biased towards the capital city regions. Thirdly, the popularity of investment promotion practices across the globe – as evidenced by the growing number of investment promotion agencies and consulting firms – calls for systematic international research and a switch of its focus from image-making activities to comprehensive investment promotion processes. This, in turn, calls for exploration of the link between investment promotion practice and regional development.

In this respect, the paper's theoretical and practical contributions are as follows; firstly, it provided a novel conceptual approach by explicitly linking relevant aspects of place promotion, marketing and branding with investment promotion domain. Secondly, it proposed a systematic way of measuring regional authorities' engagement with investment promotion. Thirdly, by investigating its relationship to features determining the levels of regional development, it provided early insights into the links between investment promotion and wider development of regions, thus filling the persistent gap in current literature.

Investment promotion of Central-Eastern European regional authorities is at developmental stage, and often lacks consistency and robustness. However, overall it seems to comprise a set of deliberate actions, believed to bear fruit. The intensity of promotion, as measured by the IPI, is related to the condition of the regional labour market. Regions characterised by higher unemployment rate and lower income levels developed more holistic investment promotion approaches. In other words, active, more coherent investment promotion is utilised by regional authorities looking to attract jobs.

The approaches of some regional authorities are more developed than others, and there are clear differences within and between the countries. Presence of regions with high unemployment, displaying both 'advanced' and 'emerging' approaches in each of the countries studied, reflects similarity of regional authorities prerogatives related to investment attraction, but also suggests existence of institutional factors determining their engagement with promotion.

The approach developed in this paper permits the IPI in its current form to be readily used in practice or research without invalidating other indices such as UNCTAD’s FDI Attraction Index and FDI Potential Index, or the FDI Potential Index proposed by Maza and Villaverde (2015). IPI serves as an important instrument that combines different elements of investment promotion to evaluate the coherence and intensity of promotional activities of places. Thus, it adds to the better understanding of the process by reviewing and embedding it firmly within place promotion, marketing and branding, as well as regional development concepts.

However, this research is not without limitations. The IPI is to an extent a temporal phenomenon that is prone to change over time. As regional governance systems and practices in Central-Eastern Europe develop and regional authorities' promotional approaches advance, in time they should lead to higher IPI scores. Conversely, politically-motivated changes in attitudes towards regional governance and investment promotion may lead to further fragmentation of FDI attraction practices and lower IPI scores. Additionally, global economic trends and FDI flows, as well as the condition of public finances, may lead regional authorities to a deeper or lesser engagement with investment promotion. This opens avenues for future studies exploring such changes by examining investment promotion activities in a longitudinal manner and developing robust datasets that can lead to a set of informed policy implications. Additionally, the IPI could be complemented by outcome-focused indices, which could lead onto the other element of future regional investment promotion research focusing on development of investment effectiveness measurements. Another direction for future research is extending the scale of the survey to include other European regions. A more robust dataset may help the development of IPI, and potentially include an introduction of weightings of its components, and allow econometric modelling further exploring the relationship between promotion intensity and regional development. Beyond this focus, future studies should look to firm up the relationship between investment promotion and the inflow of FDI.

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