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**CITY ATTRACTIVENESS FOR BUSINESS: CASE OF RUSSIA**

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***Abstract***

Trend towards urbanization, increase in the number of urban population and the consolidation of existing cities are clearly visible in the modern world. Cities are the main driving force for the sustainable development of the country, since they have a huge potential in terms of increasing the GDP and living standards of the population. Successful enterprises and best labour resources are located in the cities. The main financial sources and the most efficient technologies are accumulated there. Due to globalization, competition between cities is no longer within the borders of countries, but on a global scale. Within a multi-level strategy of territorial development of Russia, combining the principles of top management and internal self-regulation, the cities became independent in economic decision-making and local socio-economic policy. The purpose of research is to study the factors improving the attractiveness of city and calculate the integral indicator of city attractiveness for business. The highest integral index of business attractiveness among cities belongs to Yekaterinburg. It is obvious that the city has more opportunities to attract business due to such factor as the safety of the city. The city of Kazan ranks second in its attractiveness for business. The cities of Nizhny Novgorod and Perm are third and fourth respectively. The city of Chelyabinsk is at the bottom of the ranking due to the insufficient level of the development of construction, security conditions and low wages. All cities with a low level of attractiveness for business need to develop measures to improve the situation.

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## 1. Introduction

Trend towards urbanization, increase in the number of urban population and the consolidation of existing cities are clearly visible in the modern world. Cities are the main driving force for the sustainable development of the country, since they have a huge potential in terms of increasing the GDP and living standards of the population. Strategically important enterprises and best labour resources are located in the cities. The main financial sources and the most efficient technologies are accumulated there.

Due to globalization, competition between cities is no longer within the borders of countries, but on a global scale. Within a multi-level strategy of territorial development of Russia, combining the principles of top management and internal self-regulation, the cities became independent in economic decision-making and local socio-economic policy.

## 2. Problem Statement

Implementation of the city development plans and programs requires huge financial resources. Because of limited own finance, it is necessary to attract additional funds through creating favourable conditions for investment and business-friendly environment in the city. In addition, attracting investment is one of the most effective ways to overcome the post-crisis state of the Russian economy, as well as to provide further socio-economic development of the city. Attracting business with the greatest efficiency can be carried out in those cities where the most favourable conditions have been created for this; therefore, an adequate assessment and prediction of the city attractiveness for business play an important role in making the investment decision.

Camagni (Camagni, 2017) argues that the sources of urban economic success are not linked only to functional or efficiency elements but also to cultural-psychological and to power elements. The former ones require subtler policy strategies and the latter – more appropriate policy tools oriented towards the widely ignored challenge of income distribution in space.

According to Budnikevych and Gavrysh (Budnikevych & Gavrysh, 2017), one of the elements of the development strategy is marketing policy of the city attractiveness, which is a number of measures aimed at attracting investment. Marketing instruments ensure long-term relations, helping to increase and transform the city image, provide loyalty of all the stakeholders. They are one of the most complex and effective mechanisms of formation and increase of the city attractiveness, its promotion in internal and external social-economic environment.

City marketing as a concept for local policy needs to be adjusted to the municipal level. For example, Rodell (1993) in his paper examines the way urban fiscal institutions are involved in city marketing and the role of local government in the same. The paper answers two key questions: how can local governments influence an economy's location pattern; and is local government's influence generally positive for an economy as a whole, or will some areas merely succeed at the expense of others and reduce efficiency in the entire process.

Anttiroiko (2015) suggests that attraction-oriented development strategies aim at effective absorption of external resources from the global space of flows. At the core of the attraction strategy, there are business promotion activities with appealing incentives, but it is assumed that such competition is risky and may lead to a race to the bottom. Therefore the emphasis is put increasingly on less costly and more

synergistic city marketing, which utilises city branding and city profiling that aim at attract high value-adding services or high-tech firms.

The main recipients of international flows are global cities. Pilka and Sluka (2017) define some key factors that determine city's attractiveness for foreign multinationals: its geo-economic power, functional specialization, location, historical and cultural ties, position in different sectoral markets. The study of US global cities as hubs for foreign transnational corporations seems to be especially useful for Russian cities, which aim to increase the attractiveness for foreign investment.

### **3. Research Questions**

In this paper the authors assess business attractiveness of five Russian cities: Kazan, Nizhniy Novgorod, Perm, Yekaterinburg and Chelyabinsk. And the first hypothesis to check is that an increase in the number of population, characterizing market size, has a positive effect on city attractiveness for business. Second hypothesis is that an increase in the city budget revenues per capita, characterizing urban finance, has a positive effect on city attractiveness for business. Third hypothesis – an increase in the amount of retail trade turnover per capita, characterizing trade development, has a positive effect on city attractiveness for business.

### **4. Purpose of the Study**

The purpose of the research is to study the factors improving the attractiveness of a city for business. There is a set of papers devoted to these issues. Gundersen, Langeland, and Aarhaug, (2017) discuss some main factors, which may explain the complex relations between urban competitiveness, firm localisation and transport systems. Accessibility and the transport system are undoubtedly important for city attractiveness and industrial development, and this may vary between industries. Several other location factors related to labour, land, capital, and managerial and technical skills etc. will also shape firm's locations and city attractiveness and competitiveness.

(Ozmen-Ertekin, Ozbay, and Holguin-Veras, (2017) analyze the factors affecting companies' relocation decisions, and its practicality is tested through an application on a study region that includes 21 counties in New Jersey representing the "destinations" for the new businesses, and New York City and Philadelphia representing the "origins". Input data include the number of companies that were relocated to New Jersey from New York City and Philadelphia from 1990 to 1999, and a set of factors that are considered to affect companies' relocation decisions including land prices, safety, land availability, market size, economic stability, and transportation accessibility.

In another paper, Peyroux, Putz and Glasze, (2012) study Business Improvement Districts (BIDs) as a new model of sub-municipal governance to secure private capital for improving the attractiveness of city's central spaces. Originating from North America (Canada and the United States), this model of self-taxing districts, often based on public-private partnerships, has spread to other continents, including Europe, Australia and Africa. Also Nappi-Choulet & Decamps (2013) analyse the rising importance of sustainable principles in property decisions and its impact on attractiveness for business districts in France. A behavioural survey of a large sample of corporate property managers and a multiple correspondence

analysis highlight key factors indicating the influence of sustainable principles alongside more traditional determinants of territorial attractiveness.

Metaxas (2009) examines the case of the city of Larissa, Thessaly region, Greece, as an investment destination for businesses development. Using both original and derivative empirical data from 114 firms in the area of Larissa City, the author evaluates the city's advantages, the frequency of implementation of development policies and also the potential for cooperation with local public factors for a joint promotion and support of the city's image as an attractive and competitive investment destination.

In these circumstances, it seems appropriate to make research on main factors improving attractiveness for business in five cities of the Russian Federation: Kazan, Nizhniy Novgorod, Perm, Yekaterinburg and Chelyabinsk. The study is done in order to identify opportunities of their further economic development.

## 5. Research Methods

In the research of city attractiveness for business following, six parameters are used:

- “market volume”, which is calculated on the basis of data on the urban population, adjusted for the dynamics of its change. It characterizes the potential capacity of the market;
- “urban finance” is based on the city budget revenues per capita. Assessment of budget revenues allows one to identify how the municipality can meet the needs of residents and the state order;
- “construction market” measures the amount of housing stock, which is an indicator of the purchasing power of citizens, and also indicates the existing opportunities and risks for development;
- “trade” estimates the volume of paid services and the turnover of retail trade per capita, which means it characterizes the demand of citizens for all types of goods and services;
- “residents wealth” is an estimate of citizens' average salary. It is a necessary indicator characterizing the citizens' demand for all types of goods and services;
- “security” is an assessment of crimes detection: the higher the indicator, the safer the city.

The integral indicator of city attractiveness for business is calculated as an arithmetic average of 6 indices. These 6 indices are estimated using formula  $X_i / X_{max}$  for the period of 2012–2017. The data for the calculation are taken from official statistical yearbooks, published by the Federal Service of State Statistics of the Russian Federation.

## 6. Findings

The first indicator for the research is “market volume”, which is characterized by the number of population. As it can be seen in Table 1, in 2017 the largest population is in the city of Yekaterinburg (1477.7 thousand); the smallest - in the city of Perm (1041.9 thousand).

**Table 01.** The population of cities, thousand people

City	2012	2013	2014	2015	2016	2017
Kazan	1161.3	1176.2	1190.8	1205.6	1217	1231
Nizhniy Novgorod	1254.59	1259.91	1263.87	1267.76	1266.78	1275.5
Perm	1000.7	1013.9	1026.5	1036.5	1041.8	1041.9
Yekaterinburg	1377.7	1396.1	1412.3	1428	1444.4	1477.7
Chelyabinsk	1143.5	1143.5	1169.4	1183.4	1191.9	1192

Most of the city budget revenues accounted for one resident of Nizhny Novgorod - 21.6 thousand roubles. Ekaterinburg is an outsider in terms of budget provision: an average of 12.3 thousand roubles per year per person.

**Table 02.** Revenues of the city budget per resident, thousand rubles

City	2012	2013	2014	2015	2016	2017
Kazan	9.8	11.4	13.2	14.8	15.9	16.1
Nizhniy Novgorod	12.1	14.8	17.2	18	19.3	21.6
Perm	16.8	16.3	14.8	14.3	13.9	13.6
Yekaterinburg	13.6	12.4	12.8	11.8	12.5	12.3
Chelyabinsk	10.6	11.7	14.9	17.1	18.3	19.9

In 2017 local authorities of Kazan city spent 16.1 thousand roubles per inhabitant. A considerable part of the infrastructure of Kazan in recent years has been built partly using subsidies from regional and federal budgets due to the preparation for global events. The most striking examples are the World Championship in water sports, the World Student Games, the anniversary of Kazan. The second way to get financial resources is to attract sponsorship and investment. The third way to attract money - intergovernmental transfers. They provided more than a third of the Kazan budget.

**Table 03.** Volume of work done in construction sector, roubles per capita

City	2012	2013	2014	2015	2016	2017
Kazan	96571.1	99058.8	17308.9	24025.8	25177.5	27532.1
Nizhniy Novgorod	6450	7091.8	8358.5	11225.9	12629.1	13204.39
Perm	14522.3	14213.7	15857.6	17711.6	21410.7	24224.78
Yekaterinburg	12987.66	15278.7	17383.13	18893.98	18873.65	19059
Chelyabinsk	8395.1	9020.29	9249.87	10070.39	10074	10241.19

Kazan ranks first in terms of the work done using activity "Construction". A significant amount of construction work in Kazan was performed in 2012 - 2013 due to the construction of sports facilities. The city of Chelyabinsk is the outsider in construction activities.

**Table 04.** Retail trade turnover per capita, roubles

City	2012	2013	2014	2015	2016	2017
Kazan	32154.36	34824.88	37781.76	37002.47	36648.24	36240.65
Nizhniy Novgorod	21561.9	22995.1	24187.4	26493.3	27311.6	27864.2
Perm	15705.3	20151.4	24461.5	27937	28940.9	31113.9
Yekaterinburg	49132.8	49398	49752.1	49835	49456.6	49122.2
Chelyabinsk	24210.6	19192.9	16602.8	10623.2	9738.6	10213.8

The leader in retail turnover per capita is the city of Yekaterinburg. The second and third places are occupied by Kazan and Perm. The smallest retail turnover per capita is in Chelyabinsk.

Table 5 demonstrates that the highest average monthly wage is in the city of Yekaterinburg - more than 41 thousand roubles; the lowest is in Chelyabinsk (32.7 thousand roubles).

**Table 05.** Average monthly wage, roubles

City	2012	2013	2014	2015	2016	2017
Kazan	25910	29500	31182	31276	33100	34789.8
Nizhniy Novgorod	27935	28420	29525.1	31223	34331	36408.8
Perm	29254	32020	34180	34150	36120	36728.4
Yekaterinburg	37190	38140	40250	40810	41200	41492
Chelyabinsk	20015	22500	25650	27200	29352	32725.3

Data from Table 6 show the dynamics of registered crimes per 1000 residents in all the studied cities.

**Table 06.** Reported crimes per 1000 inhabitants, units

City	2012	2013	2014	2015	2016	2017
Kazan	14.6	14.8	16.2	17.4	17.8	17
Nizhniy Novgorod	11.9	12.4	11.7	12.5	11.9	12.9
Perm	29.3	21.1	20.8	21.2	19.8	19.4
Yekaterinburg	16.8	18.2	17.6	17.4	17.2	13.1
Chelyabinsk	31.9	30.7	31.6	29.4	28.7	23.22

In terms of security, the city of Nizhny Novgorod is the most attractive for business - 12.9 reported crimes per 1000 inhabitants, and the outsider is Chelyabinsk (23.22 crimes per 1000 inhabitants). In conclusion, the integral index of city attractiveness for business was calculated (Table 7).

**Table 07.** Integral index of the city attractiveness for business

City	2012	2013	2014	2015	2016	2017
Kazan	0.77	0.81	0.81	0.82	0.81	0.82
Nizhniy Novgorod	0.65	0.68	0.77	0.78	0.79	0.8
Perm	0.56	0.62	0.73	0.71	0.73	0.73
Yekaterinburg	0.78	0.77	0.9	0.86	0.85	0.87
Chelyabinsk	0.49	0.5	0.59	0.58	0.58	0.61

Based on the data obtained, it can be determined that the highest integral index of business attractiveness among cities belongs to Yekaterinburg. It is obvious that the city has more opportunities to attract business due to such factor as safety of the city. The city of Kazan is on the second place by its attractiveness for business. The cities of Nizhny Novgorod and Perm are in third and fourth place respectively. The city of Chelyabinsk is at the bottom of the ranking. Such low integral index of Chelyabinsk in comparison with other studied cities is due to the insufficient level of the development of construction, retail trade, security conditions and low wages. All cities with a low level of attractiveness for business need to develop measures to improve the situation.

## 7. Conclusion

Business attractiveness of five Russian cities: Kazan, Nizhniy Novgorod, Perm, Yekaterinburg and Chelyabinsk, has been calculated for the period of 2012-2017. Yekaterinburg is on the first place. The city of Kazan is on the second place by its attractiveness for business. The cities of Nizhny Novgorod and Perm are third and fourth, respectively. The city of Chelyabinsk is at the bottom of the ranking. The first hypothesis has been approved – an increase in the number of population, characterizing market size, has a positive effect on city attractiveness for business. The second hypothesis has been rejected - increase in the city budget revenues per capita, characterizing urban finance, does not have a positive effect on city attractiveness for business. The third hypothesis has been approved – an increase in the amount of retail trade turnover per capita, characterizing trade development, has a positive effect on city attractiveness for business.

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