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Benchmarking urban competitiveness in Europe to attract investment

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ABSTRACT

The current context of the global economy and a shortage of capital is putting cities all over the world under great pressure and increasing competition between them. The competitive position of a city does not remain stable over time: it changes due to both internal and external factors such as the appearance of new technologies, new competitors and changes in the preferences and desires of its target groups. Cities therefore need to understand the strengths and weaknesses that influence not just their own ability to compete but also that of their competitors. This paper seeks to benchmark the competitiveness of European cities as locations for businesses and in terms of their ability to attract investment. Urban competitiveness is a complex, multidimensional issue, so a scale of measurement has been created based on a synthetic index called the Urban Competitiveness Index (UCI), which comprises various sub-indices representing its various dimensions. In the present study we focus on the basic dimension, the efficiency dimension and the innovation dimension. The study covers 159 cities located in 26 European Union countries.

1. Introduction

The globalisation of the world's economy at the end of the 20th century gave rise to far-reaching changes in cities all over the world. Those changes were not just economic but also social, cultural, political and structural. This process was accompanied by a concurrent process of localisation, giving rise to a "global/local duality"; global opportunities arise that must be developed using local capabilities and initiatives, thus increasing the economic and political power of both cities and the regions to which they belong. Combined with technological advances and the advent of new information and communication technologies (ICTs), this has turned the world's economy into a global, information economy (Castells, 1997). It is global because production, consumption and the circulation of capital are all organised on a global scale either directly or via a network of links between the main economic actors. It is information-based because productivity does not depend solely on conventional production factors but also on the ability to generate and process information and knowledge strategically (Dosi, Freeman, Nelson, Silverberg, & Soetel, 1988; Foray & Freeman, 1992).

But globalisation has also produced changes in territorial structures: its direct effects can be seen in the appearance of a number of global systems that operate in a context of worldwide flows and communication. Indirectly, this has resulted in a restructuring of territories and the formation of *global cities* (Sassen, 1991, 1994, 2007), in a new trend towards the formation of mega-regions/mega-cities (Florida, 2009; Florida, Gulden, & Mellander, 2007) and an increase in cross-border flows that connect cities at different levels of the urban hierarchy (Camagni, 2004), in which hierarchical forms and forms of cooperation are mixed in links between cities. Thus, cities face the challenge of redesigning themselves as systems that can handle difficulties and adapt quickly and effectively to the new challenges and opportunities entailed by a highly dynamic global environment. That redesign must enable them to shift from industrial societies to information, knowledge and/or learning societies.

These are societies in which individual and collective abilities to obtain knowledge and learn enable processes of regeneration and economic revitalisation to be undertaken with some assurance of success. Thus, globalisation must be factored into city management, and cities find themselves competing with one another to attract anything that can create wealth (Darchen & Tremblay, 2010; Zenker, 2009) and employment.

This increase in competition between cities means that their target groups pick whichever city best suits their wishes and needs, that is, whichever offers the greatest added value. Cities therefore need to identify their competitors and determine where their competitive advantage lies if they are to achieve growth and economic/social profitability. This means analysing, interpreting and assessing their positions relative to their competitors in regard to a number of characteristics or attributes which cities may or may not possess. In short, cities need to engage in benchmarking to help their managers

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identify competitors, establish competition profiles and determine where their competitive advantage may lie on the one hand, and to develop distinctive positioning strategies on the other. Various authors (Bronisz, Heijman, & Miszczuk, 2008; Cabrero, 2012; Cabrero, Orihuela, & Ziccardi, 2005; Chesire, Carbonaro, & Hay, 1986; Freudenberg, 2003; Huggins, 2003; Jiang & Shen, 2010; Lukovics & Lengyel, 2006; Sufian, 1993; Villaverde, 2007) and institutions (Beacon Hill, 2007; European Union Regional Policy, 2011; IMD, 2008; Ni, 2012; WEF, 2012) have drawn up studies for benchmarking cities from a number of perspectives (outcomes, inputs and a combination of the two) and using different indicators and methods. However, none of these studies refers exclusively to cities in Europe, where the expansions of the EU in 2004 and 2007 have resulted in a union of territories, countries, regions and cities with widely varying levels of economic development.

The main contribution of this study is a benchmarking of European cities in terms of how competitive they are when it comes to getting businesses to locate in them and attracting investment. Urban competitiveness is a complex, multidimensional issue, so a scale of measurement has been drawn up based on a synthetic index, referred to here as the Urban Competitiveness Index (UCI). This index is made up of sub-indices representing its various dimensions, namely, the basic dimension, the efficiency dimension and the innovation dimension. To that end, 31 indicators are used, most of which are drawn from Eurostat (Appendix A), in relation to these three dimensions. Our sample comprises 159 cities from 26 European Union countries, classed as LUZs (Large Urban Zones), which means that they have a population of at least 100,000.

2. The concept of competitiveness applied to cities

In recent years academic studies have paid more and more attention to the concept of territorial (regional and urban) competitiveness (Ache & Andersen, 2008; Begg, 1999; Buck, 2005; Cabrero, 2012; Cabrero et al., 2005; Camagni, 2002; Gardiner, Martin, & Tyler, 2004; Gordon, 1999; Jensen-Butler, 1999; Jiang & Shen, 2010; Lengyel, 2004; Lever, 1999; Lukovics & Lengyel, 2006; Martin, 2003; Turok, 2004). Their interest has also extended to regional and urban political discourses. Several international organisations (European Commission, 2011; IMD, 2008; OECD, 2005) have defined the term "competitiveness" in regard to territories. They coincide at least in positing that competitiveness refers on the one hand to the actual, physical setting and on the other hand to the concept of productivity. Accordingly, getting a higher yield from natural resources, labour and capital is essential, but not necessarily sufficient in itself, to make a territory more competitive. In political discourse, the idea that territories, regions and cities compete with one another and that there is room for manoeuvre through strategic actions to improve their capabilities and competitive edge is deeply rooted. Kitson, Martin, and Tyler (2004: 991), state that "*...policy has raced ahead of conceptual understanding and empirical analysis*", and Turok (2004: 1076), uses the term "*institutionalised competition*", based on the idea that it is governments and public institutions which are chiefly responsible for improving competitiveness in their regions and cities. Thus, in Europe, competitiveness has been identified as a prime objective in regional policy, and is considered the most important means of promoting balanced development and territorial cohesion (Enyedi, 2000; Hall, Smith, & Tsoukalis, 2001). But there are also dissenting voices such as that of Krugman (1996, 1998), who holds that it is not nations (or, by extension, regions or cities) that compete with one another but rather businesses, understanding that actions which only makes sense at microeconomic (business) scale have been transferred to the macroeconomic (territory) scale.

The concept of urban competitiveness was defined by Lever and Turok (1999: 792) as "*... the degree to which cities can produce goods and services which meet the test of wider regional, national and international markets, while simultaneously increasing real incomes, improving the quality of life for citizens and promoting development in a manner which is sustainable*". In this definition the authors take into account not just the financial profitability which a city needs to be competitive, but also social profitability. This mean that cities – like the regions in which they are located – can either help firms to be competitive or become the main obstacle to their being so.

Other authors, such as Porter (1991, 1995, 1996), Moori-Koening and Yoguel (1998), Begg (2002) and Sobrino (2002), hold that competitiveness is a process of generating and disseminating competencies which depends not only on microeconomic factors (businesses) but also on the ability of areas to offer features that facilitate economic activities. In other words, the idea is to create a physical, technological, social, environmental and institutional setting conducive to attracting and developing economic activities that can create wealth and jobs. Cities can promote or create such conditions and thus turn competitiveness into a determinant factor for their economic development. This may even lead to cities competing directly with one another through actions and policies implemented by their authorities. In a globalised setting the most economically successful cities are those that act with some degree of autonomy from their national economies and are able to compete internationally. The performance of the economy of a country thus depends on the actions of its cities on the international stage, but those cities are less dependent on the performance of their domestic markets as a whole (Camagni, 2002; Lever, 1999).

The concepts of competition and competitiveness are linked but are not synonymous: the latter is a consequence of the former. It is the degree of competition that currently exists between cities at domestic and international levels that forces them to be competitive. Thus, competitiveness becomes a determining factor for the economic development of cities; when a city is capable of creating a setting that is conducive to and suitable for competitiveness it can be referred to as a *competitive city*. Accordingly, a city (and by extension a country or region) can be seen as competitive insofar as its production activities and its public, social and private organisations as a whole are effective, efficient, enterprising and innovative. This means that they need to have the support of infrastructure, amenities, human capital and the institutions required to put their competitive advantage to good use and make them truly competitive. Not all cities compete in the same conditions, and not all have the same resources or capabilities to deal with competitors.

There are cities which have unique attractions which are hard to imitate, and which distinguish themselves and furnish them with a competitive edge. The rest must be able to develop their resources and generate their own hard-to-imitate competitive edge if they are to implement processes of urban regeneration and revitalisation successfully. Thus, the resources of a city and its ability to manage, develop and maintain those resources give rise to a sustainable competitive edge that can be defended against competitors. The fact that cities compete with one another at national and/or international level does not mean that they cannot cooperate or even form partnerships to tackle particular challenges. However, such cooperative arrangements are ultimately intended to make them more competitive (Borja & Castells, 1997), so they cooperate in order to compete better. This is known as *coopetition* (Brandenburger & Nalebuff, 1996).

Following this explanation of why the concept of competitiveness is applicable to cities, the next step is to explain the Urban Competitiveness Index (UCI), the synthetic index drawn up for benchmarking cities. It uses a weighted aggregate of the sub-indicators that represent its various dimensions.