Interviews

Mats Segerström on How Talent and Sustainability Will Attract Business and Make Your City Investor-Friendly

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Creating an investor-friendly proposition today involves more than just providing the right infrastructure, tax breaks, and access to the free market. The promotion of a positive investment climate from a city requires understanding the needs of the investor and ensuring that the local residents and the business community can benefit from it.

*Business and Innovation Adviser, **Mats Segerström** from the Nordic place management consultancy **Future Place Leadership**, in this interview shares his experience on what it takes for a city to create a business-friendly environment for the inflow of foreign capital and to set a solid foundation for sustained economic growth. He also discusses how the availability of talent triumphs over other criteria, and how sustainability performance will be the norm while doing business.*

Mats, as a business and innovation consultant at Future Place Leadership, advising cities and regions on how to attract investment is your daily business. Do you remember the first time you came across this topic? What got you interested?

Working with geographical places – municipalities, cities, and regions – over a decade ago, it was already apparent that the attractiveness of a place depends on the perspective. Inhabitants take one view, visitors another, and businesses take a third view.

With my industry and business background, it was clear that much of the impetus to invest comes from businesses, but that public and private collaboration is a fundamental ingredient of success. It was that interface – between the public and private spheres, that fascinated me, and the intrinsic challenges of having different cultures meet.

How can regions or cities attract FDI? And how have investment attraction "rules of the game" changed during the last years?

As always in a seller-buyer relationship, it is important that a region or city (the seller) understands the perspective of the investor. Generally, investors are either:

- resource-seeking (looking for raw materials, components, talents, etc.)
- market-seeking (looking for more customers, new segments, partnerships, etc.) or
- efficiency-seeking (looking for a location that will save time, slash costs, improve margins, etc.) or

- a combination of the above

Whereas this generally holds true, the complexity of FDI has increased over time due to globalization, with a host of new actors and new technologies, which in turn have given rise to unexpected new industries.

This new complexity can be illustrated by the many new data centers that are being built on every continent. The investors behind data center initiatives are typically looking for stable, low-risk locations, access to a skilled workforce, advanced digital infrastructure, and low energy prices – in other words, a combination of resource-seeking and efficiency-seeking.

Further demands regarding sustainability and energy efficiency add to the complexity, requiring that data centers be connected to local district heating systems, in order to regulate the cooling of excess heat. In terms of "rules of the game", this is a far cry from a municipality simply selling a plot of land.

> FDI is not an end in itself. A region or city must constantly ask itself what benefits an investment will provide to the inhabitants and the business community.

Perhaps this is not an entirely new "rule of the game" since even in the past it has been possible to avert unwanted investments. Depending on the nature of the industry, the way business operations are conducted, the long-term objectives and strategies of the investor, not all investments are desirable.

> The risk of unwanted investments/takeovers has increased during the current coronavirus pandemic, which is leaving businesses and industries vulnerable and undervalued, with their cash flow reduced to a trickle. Can business and political leaders together manage this risk?

How do you identify and develop a city's place value proposition, tailoring it to target investors in specific industries?

Most regional and city representatives and members of the business community are well aware of the strengths, assets, and resources of their place.

They are the experts, but a place value proposition is communicated and directed to a very specific segment of potential investors, based, perhaps, on the industry, type of technology, type of investment, domestic/international/global market reach, etc.

> Depending on the target group, not all strengths and assets of a city or region are relevant, and the challenge of place marketing is to select the few that can have the greatest impact on the future success of the investment or business one wants to attract.

For an international investor looking to set up a research and development operation, for example, the ready access to manufacturing input, raw materials, and logistics capabilities are of little consequence. Available office space or disused labs, on the other hand, can be strong arguments, if time is of the essence to the investor. An existing building is more attractive, of course, if it is described in terms of the benefits to the investor, for instance pitched as a way to knock 3-6 months off the time plan for the construction time for a new office.

The Helsinki Ring of Industry targets investors interested in manufacturing in the vicinity of the Finnish capital. Can you tell us how this brand positioning initiative has changed or influenced the greater Helsinki region?

The Helsinki Ring of Industry is a long-term initiative to develop and brand ten municipalities located in a geographical ring around **Helsinki**. In a FDI context, a single municipality in the Nordics is typically too small to make lasting national or international impact. From this point of view, bringing together ten comparable municipalities under a common brand identity has already improved their ability to raise awareness and interest.

The municipalities are similar in that they are all located outside the capital city, and they share a willingness to collaborate. Furthermore, they are all attracting investments in manufacturing, logistics, utilities, etc. which requires large plots, thereby differentiating themselves effectively from central Helsinki which targets corporate headquarters, retail, and service industries that require office space.

> The Helsinki Ring of Industry initiative has boosted collaboration and has allowed not only each of the ten involved municipalities to position themselves as complementing the others in terms of assets and resources, but also to complement the capital's retail and service offering with industrial capability.

With Asia offering an investor-friendly environment and lower operating costs in manufacturing, how do you identify the ideal investor to invest in the Helsinki Ring of Industry, for example?

Putting together the profile of an ideal investor is a fun exercise, since it allows you to consider the kind of investor the Helsinki Ring of Industry, in this case, would prefer and benefit from. Ideally, the investor's business should contribute in a positive way to the ecosystem of existing businesses and thrive while collaborating with them. It could be by providing a critical service in the value chains of others (like automation or robotics), providing an opportunity to others as suppliers (components or manufacturing), or offering qualified business support like IT and implementation of new technology.

The dynamic ecosystem of businesses constitutes an environment that attracts investors who are looking for long-term improvements in efficiency through IT and automation, not only lower operating costs in the short term. It is not unusual that the profile of an ideal investor turns out to match, quite accurately, one or more of the investments that have already been made.

> The search for the “ideal” investor will most likely be pursued through contacts and discussions with existing businesses. This underestimated source of leads has the added advantage of generating suggestions regarding industries and companies that are known to have business interests in one's city or region.

Your colleague Morten King-Grubert mentioned in his interview with TPBO that investors are less and less interested in market access or a tax subsidy, now mostly looking for access to talent. How do help cities or regions to attract talent, in order to be able to attract FDI?

Attracting talent and attracting businesses are really two sides of the same coin – both are looking to enable growing successful and sustainable businesses. Unfortunately, FDI often has a slant towards sales and marketing activities, which neglects the long-term building of the foundation for investments – a sound business ecosystem. This is sometimes referred to as "after-care", which is a complete misnomer.

In my work, there is a clear emphasis on the Growing and Innovating phase, in order to develop the conditions in which new investments and existing businesses thrive and which, ideally, *precedes*the sales and marketing (the Attracting phase).

> Access to a talented and skilled workforce is important to investors. A pool of talents can develop over time in a region or country, growing as the students of vocational schools, colleges, and universities graduate.
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> The drawback of this approach is that a rapid increase in demand is impossible to meet, or if new skillsets are required in the market, the educational system takes 3-5 years to adapt by developing a new curriculum.
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> This is where attracting international talent comes in, to increase further the size of the talent pool and to complement it with sought-after skills. For successful investment and business attraction, both approaches are needed.

To illustrate the symbiotic connection between talent and business & investment attraction, take the case of a city or region being able to attract and relocate a talented entrepreneur who builds a growing and successful business. In short, both are needed, but the emphasis on one or the other will depend on the needs of the place and the chosen strategy.

What are the main challenges in attracting foreign direct investment to the Nordics?

An Achilles heel of the Nordic countries is the limited size of their domestic markets. With a small population living in relatively large countries in terms of surface area, the FDI approach needs to be adapted.

> The Nordic countries are not the top priority for market seeking investors, some of which might prefer industrialized and densely populated regions like Munich, Manchester, or Milan.

Furthermore, like many countries rich in natural resources (minerals, lumber, energy, etc.) the Nordic countries run the risk of missing out on the subsequent industrial value-adding steps. Historically, this risk has been mitigated and the Nordics boast world-class steelworks, paper mills, and hydroelectric power plants. But the battle for the next value-adding steps never ends, and we are currently engaged in the quest for investments in R&D, high-tech manufacturing, and digital infrastructure & service.

Fortunately, the population in the Nordics are well educated, trained, and technologically advanced, and constitute an attractive workforce. Furthermore, those same characteristics make the population attractive as a market of early adopters and consumers when launching innovative technologies and services.

How important is a city's or region's sustainability performance nowadays with regard to its ability to attract or retain investors?

> Both in the private and public sectors, sustainability performance credentials are of growing importance. The driving forces behind them may differ (one is market-driven, the other democracy-driven) but they clearly intersect in the case of FDI.

Why would a business with a strategy geared towards sustainability and proud of it, opt to invest in a city or region which does not support its ambitions? Under which circumstances would a city or region with sustainability performance credentials welcome investments which lack them?

> In the quest of attracting investors, sustainability performance has become a matchmaking criterion.

And let me point out the obvious, that a city's or region's sustainability performance credentials are not the result of happenstance.

There is likely a long-term vision, a strategy, and a host of initiatives in place to make this happen. But it will not happen, at least not to its full extent, unless the private sector (the business community and ecosystem) and the public sector engage together. And we are back to the largely untapped potential in the interface of public and private collaboration.

Are there any cities, regions, or countries whose approach to attracting investors you have found especially innovative or particularly well done?

I would like to dodge the question of singling out specific places – there are rankings galore for those interested. Instead, I would like to point to the unsung heroes of the many municipalities and regions which are developing sustainably and land investments, seemingly against all odds.

Typically, I find that they have engaged leaders and dedicated teams who understand the width and breadth of business ecosystem development and investment. They rarely have the spectacular assets and resources of capital cities, but they are able to highlight their assets as benefits to an investor. They are patient, but not idle.

What they possess are "soft factors" – they are reliable, deliver on time, keen to make an extra effort, and are able to leverage the advantages of a small place through quick decision-making and cutting through red tape. Lastly, it is not unlikely that they are able to leverage an investor's personal connection to the place. When regions and countries do this, we refer to it as engaging the diaspora, but the unsung heroes might do it on an individual basis, with an investor who, perhaps, spent formative childhood summers there.

Anything else you would like to mention?

Let's be frank. The businesses do the brunt of the work regarding investments, as they should. Businesses have their customers, employees, shareholders, and other stakeholders driving them, hopefully, to make informed business decisions. Many small and medium-sized investments, however, are made between private entities, in practice under the radar of public, regional, and local actors.

In my opinion, the role of the regions and cities is not to do business. Although a big investment in a place may involve business transactions in terms of acquiring a plot of land, getting permits, or contracting the services of public utilities, these are short term returns on an investment that is expected to yield significant benefits for many decades.

In politico-speak, this is tax revenue and job opportunities. In community and business terms, this is potentially more inhabitants, new skills and knowledge, increased purchasing power, and, importantly, a sense of pride for the place. These are the things which a city or region stands to gain in the long run. Making a killing on the initial price of the plot is not where the battle stands.

> The role of the city or region, in the **investment attraction** game, is that of a partner, perhaps another manifestation of a public-private partnership. In this case, not primarily financially, but also as a facilitator (making the investment happen, using soft factors to their advantage), an advisor (sharing the expertise and capability of city and regional staff), and as representatives of the institutions and inhabitants (ensuring that policies, laws, and regulations are followed).

Especially the latter role is a complex one – some policies and laws become obsolete and others, especially regarding sustainability, new technologies, new societal needs require that new policies are put in place.

Businesses are notoriously frustrated when the rules of the game are undefined or unpredictable – fickle cities and regions, and less than scrupulous businesses make very bad partners.

Thank you, Mats.

Connect with Mats Segerström on **LinkedIn**.

More about Future Place Leadership's Business Attraction Management model **here** and in the **BAM handbook**.