

## SPATIAL PLANNING AS A TOOL FOR IMPROVING ATTRACTIVENESS OF THE PLACES: CASE OF LATGALE REGION

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### Abstract

According to the new concepts of the regional economics and geographical literature, territorial attractiveness is an issue of growing importance for national, regional and local governments during last years. Territorial attractiveness can be defined both as the capacity to attract new residents, visitors, enterprises and investments as well as the ability to retain and develop mobile communities and assets. Medium-sized and small towns play complementary roles and are differently integrated into urban systems depending on the specific features of the country and the historical, institutional and economic development background, but at the same time its attractiveness has been increasingly recorded as a key factor to strengthen the competitiveness of cities in the regional, national and global context.

City attractiveness is determined by different elements like the quality of road networks and public transport, effectiveness of infrastructure, quality of life as well as activity of local economy, city image and institutional capacity, which are substantial factors for attraction of new residents, highly skilled workforce, new enterprises and investments. Policy and city development planners have adopted diverse measures like spatial plans and strategies for city development to enhance it. Territories are competing to offer the most productive business environment and to attract new businesses or industries creating jobs and thus providing increased material welfare.

There has been a growing interest in academic literature in recent years on creating new paradigms of regional development to introduce new ways of tackling longstanding regional problems. One of these directions is spatial planning being closely related to the regional planning theory, which has sought to explain the causes and consequences of regional economic disparities and regional competitiveness. Political and development planning documents, which take into account spatial perspective, can contribute to many important factors of competitiveness in production and development being essential areas for growth.

Winners are those territories which have elaborated their development strategy or other development planning documents with a clear message and vision to potential investors as well as local entrepreneurs regarding the future development of the territory and the mechanisms to achieve it. It reduces doubts and risks of potential investors and territory developers and promotes mutual trust and partnership between policy makers, decision makers and entrepreneurs.

The research deals with the analysis of the development planning documents to enhance the attractiveness and competitiveness of cities considering the example of Latgale region.

**Keywords:** spatial planning, city attractiveness, competitiveness, quality of life, regional development, strategies.

### Introduction

There has been a growing interest in academic literature in recent years in developing new paradigms of regional development to introduce new ways of tackling longstanding regional problems such as spatial planning, territorial attractiveness and competitiveness. The previous researches regarding the evaluation of attractiveness and competitiveness are primarily oriented to metropolitan cities, cities and large scale territories, while medium-sized and small cities' attractiveness has been increasingly recorded as a key factor to strengthen their competitiveness in the regional, national and global context. It is especially important in remote regions.

City attractiveness is determined by different elements like the quality and effectiveness of infrastructure, quality of life as well as activity of local economy and institutional capacity, which are substantial factors for attraction of new residents, highly skilled workforce, new enterprises and investments. Policy makers and city development planners have adopted diverse measures like spatial planning for city development to enhance it.

The aim of the research is to analyse the quality of

development planning documents in accordance with the needs of increasing business attractiveness based on the development planning documents in the cities and towns of Latgale region.

Two tasks have been set within the framework of the research:

- to conduct a research regarding spatial development and increasing the attractiveness of places;
- to analyse the development planning documents of Latgale region in the context of increasing city business attractiveness aspects.

Research object – spatial planning documents of Latgale region in the context of increasing business attractiveness.

Research subject – business attractiveness factors and criteria in the planning documents of Latgale region cities and towns. The novelty of the research – it is the first time in Latvia when the research of spatial planning as a tool for improving business attractiveness of places considering the example of Latgale region is made.

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Cultural and Socio-Economic Aspects of Territorial Identity in the Development of the Region of Latgale”.

Research methods – theoretical analysis of scientific literature, comparative analysis, survey, factor analysis, correlation analysis.

### **Theoretical aspects of cities attractiveness in the context of spatial planning**

The attractiveness of cities has become an important topic for policy makers and city planners in order to enhance their competitiveness through a flexible, adaptable and diverse local economic structure by which the city is better positioned in global competition. Greater attention regarding territorial attractiveness has been paid to in the political documents of the European Union emphasizing that it is an essential factor to increase competitiveness.

At the same time, the attractiveness of cities does not have a clear definition in academic researches. Some researches (Berg, Meer, Otgar) state that factors such as the labor market quality and size as well as the living environment quality are important for entrepreneurs, while residents value clean and safe environment, balanced social structure, access to good quality public services, etc., but for tourists and visitors good accessibility of the city, and diverse cultural activities are of great importance (Sinkiene, ..., 2010).

Interpretation of attractiveness and elements influencing attractiveness for a variety of different economic subjects (local and foreign entrepreneurs, residents, visitors, etc.) is different. One of the frequently used approaches that tries to understand the attractiveness of places are attempts to rank places by diverse aspects of their performance: business climate, quality of life, etc. (Niedomysl, 2010).

Quality of life is a wide range of the human activity rules set, which includes the standards of living, social welfare, political climate, psychological comfort, as well as components for living in ecological environment (Meyers, 1987). In order to make the city to be attractive to residents as a target group, it must meet the needs of every particular resident and his family. Majority of the systems of indicators for quality of life measurement include such attributes of place as housing quality, morbidity and mortality rates, educational achievements, income level, crime rate, as well as subjective indicators regarding residents' satisfaction with services, amenities and opportunities (Meyer, 2009). Residents of different regions are different, so are the factors affecting the perception of the living standards. In order to observe the past experience of population, the analysis of objective welfare indicators should not be done basing on existing values, but, basing on comparative measurements avoiding the problems of different measuring units (Mayers, 1987). In recent years, under the influence of economic and cultural globalization specific and unique attributes of place have been pointed out: distinctiveness, sense of place, cultural heritage (Mayer, 2009). Various conceptual frameworks have been developed for understanding the quality of life approaches: United Nations Human Development Index (1990), The Economist: Quality – of - Life Index (2005), Physical Quality – of - Life Index (1979).

The theoretical basis and empirical researches in assessing the potential for tourism development and attraction from the point of view of visitors or tourists are associated with

a number of disciplines of science. A number of scientists link tourism development with landscape development in the spatial analysis and planning context (Gunn, 1994; Walmsley and Jenkins, 1992; Smith, 1983) as well as with demand and market attractiveness analysis (Hu and Ritchie, 1993), while Nyberg (1995) offers the tourism system (includes visitors, destinations, and their interconnection) to include the concept of “attraction” in addition to the demand and supply approach (Formica 2006). Visitors (tourists, city - visitors, etc.) come to a city to stay there for a short time. Therefore, city - visitors look for a temporary accommodation offer (hotels, apartments, camping, family houses, etc.), as well as good accessibility and availability of these facilities. Such factors as cost and accommodation facilities, access to entertainment and restaurants, public transport and other amenities are attractive for visitors (Braun, 2008).

Cities compete one with another to attract new businesses or industries creating jobs and thus providing increased material welfare. According to the theories of economic development, spatial competitiveness can be explained in different ways: as competition of places, competitiveness of places and territorial competition (Gordon, 2011). In order to make a city to be attractive for business, it must be well reachable, have reasonable land prices, local taxes and normative regulations, as well as it should be appropriate labor force supply and quality (Braun, 2008). A place has a competitive advantage if it has technological, social, infrastructural and institutional assets advantages (Bristow, 2011), while urban performance is linked to the standard of living, employment rate and productivity in various ways (Begg, 1999).

Van der Klassen and Van der Meer (1990) argued that the growing importance of the quality of the living environment in combination with the intensifying spatial interactions among the European cities causes the increase and change of the nature of economic competition between cities and regions (Braun, 2008). Particular attention is devoted to the role of human capital, knowledge and innovation. Studies justify that human capital spillovers can increase productivity (Morreti, 2004), a real source of economic value creation is human creativity (Florida, 2005) and creative industries (Evans, 2009), and knowledge spillovers are an important mechanism underlying endogenous growth (Audretsch, 2004). It has led to putting emphasis on regional “assets” as the source of competitiveness, not only physical factors but also “soft” or less tangible factors, for instance, territorial identity (Kunzmann, 2006), democracy (Crouch, 2011), social innovations (Moulaert, ..., 2011), city image (Metaxas, 2002), strong communities (Lekwa, ..., 2007), etc. Diversity and difference of cultures and traditions in natural and urban landscapes are the capital of territories for their future socio-economic development and regional competitiveness in the globalizing world (Kunzmann, 2006). Enhancing the creative and cultural economy of cities has become one of the preferred ways to strengthen the local communities' sense of spatial and group-based belonging (Ponzini, ..., 2010). Territories are competing to offer the most productive business environment and in this context public and private sectors are in different positions, but at the same time they are interrelated.

There has been a growing interest in academic literature in recent years on creating new paradigms of regional development to introduce new ways of tackling longstanding

regional problems. One of these directions is spatial planning being closely related to the regional planning theory, which has sought to explain the causes and consequences of regional economic disparities and regional competitiveness.

Many political decisions affect decisions of the private sector relating to the initiation of operation in a particular location or its expansion. Regional economic approaches manage space through the development of regional plans and strategies. Regional planning deals with efficient placement of infrastructure and zoning of economic activities, as well as it addresses the region – broad issues such as environment, social and economic concerns (Ache, 2011). It makes it necessary at all levels of government to use a place-based approach to promote business growth and attract new investments, simultaneously creating viable places. The design of local and regional strategies embodies values and principles (Tomanev, ..., 2011). Political and development planning documents, which take into account spatial perspective, can contribute to many important factors of competitiveness in production and development being essential areas for growth. Unique spatial planning components relate to the interdisciplinary nature, which binds social and economic spheres, cultural and environmental dimensions of regional development (Alden, 2006).

Winners are those territories which have elaborated their development strategy or other development planning documents with a clear message and vision to potential investors as well as local entrepreneurs regarding the future development of the territory and the mechanisms to achieve it. It reduces doubts and risks of potential investors and territory developers and promotes mutual trust and partnership between policy makers, decision makers and entrepreneurs.

### Urban development planning in Latgale region for promoting competitiveness

Latgale region was chosen as a pilot region for studying urban attractiveness aspects from the business perspective and reflection of competitiveness factors and criteria through development planning documents. Latgale region is of particular interest not only because it is the poorest region in Latvia, but also because it was the first region in Latvia to work actively on the regional policy after harnessing the EU pre-accession funds (Adams, ..., 2006). The subject of the study is the research of competitiveness factors and criteria in the local municipalities planning documents since the author's previous studies have shown that regional development planning documents don't have real instruments for their implementation (Ezmale, 2010 a) determined by the legal system of regional development in Latvia.

The following tasks have been set for the research on the analysis of competitiveness factors promotion and criteria in Latgale urban development planning documents:

1. To find out the opinions of Latgale region businessmen on the criteria and factors substantial to the decision on setting up business in a particular place and to develop a matrix for evaluation of development planning documents on these grounds.
2. To carry out the analysis of competitiveness factors and criteria in Latgale region urban development planning documents according to the developed matrix.

Basing on the theoretical notions, a list of criteria (in total 15 criteria) being essential to increase place competitiveness

and business attractiveness was prepared; and a survey was elaborated according to these criteria. Within the framework of the study entrepreneurs' survey was carried out (N=130) to find out the point of view of economically active market units in the cities of Latgale region (EAMU) regarding the essential criteria for decision making on setting up business in a particular place, as well as the business environment in the cities of Latgale region. The chosen sampling method – determined quota sampling. Quota sampling is designed to match proportionally the cities economic market units' distribution into micro-, small, medium - sized and large enterprises in Latgale region. Survey questionnaires were sent by mail, published on the website, sent electronically.

Initially, information was obtained about 15 criteria rating them by the importance from the point of view of respondents. After analyzing the results, the author found out that the respondents mentioned provision and quality of technical infrastructure ( $\bar{x} = 3.50$ ), safe business environment ( $\bar{x} = 3.46$ ), good accessibility ( $\bar{x} = 3.43$ ), favorable taxes, fees and normative regulations ( $\bar{x} = 3.38$ ) and human resource quality and availability ( $\bar{x} = 3.37$ ) as the most significant factors to determine making a decision on starting a business in a particular place. The analysis showed the relation of criteria to respondents' satisfaction with business environment in the calculation of Kendall's rank correlation coefficient using the formula (Paura, 2002: 118):

$$\tau_b = P - \frac{Q}{\sqrt{(P+Q+T_x) \times (P+Q+T_y)}} \quad (1)$$

After calculations it can be concluded that at 95% and 99% of credibility there is a trend of correlation:

- between access to the local market and satisfaction with the business environment (Kendall's tau\_b value of 0.225 is significant at 99% probability);
- between the market of competitive real estate prices and satisfaction with business environment (Kendall's tau\_b value is 0.216, statistically significant at 99% probability);
- between provision and quality of technical infrastructure and satisfaction with business environment (Kendall's tau\_b value is 0.218, statistically significant at 99% probability);
- between secure environment for living and satisfaction with business environment (Kendall's tau\_b value is 0.195, statistically significant at 95 % probability);
- between availability of housing and satisfaction with business environment (Kendall's tau\_b value is 0.184, statistically significant at 95 % probability);
- between leisure time activities and satisfaction with business environment (Kendall's tau\_b value is 0.183, statistically significant at 95 % probability);
- between appropriate real estate availability and satisfaction with business environment (Kendall's tau\_b value is 0.169, statistically significant at 95 % probability);

In the process of further analysis the author, using the factor analysis method, has identified three factors to determine the key factors influencing a decision on setting up business in a particular place. The criterion of KMO

(Kaiser - Meyer - Olkin Measure of Sampling Adequacy) is 0.875, which determines that the combined factors adequacy is acceptable. It is confirmed by the statistical reliability of the criterion (Sig. 0.000). Total variance shows that the first factor explains 49.8%, the second - 10.2% and the third - 7.3% of the total variation. The factor rotation matrix reflects the conditional correlation coefficients, to which the research features have the closest correlation. Therefore, the following groups of factors are interpreted:

1. Local business environment: good accessibility ( $r = 0.809$ ), favorable local taxes, fees and normative regulations ( $r = 0.781$ ), safe environment for business ( $r = 0.745$ ).
2. Quality of life: leisure time activities ( $r = 0.824$ ), availability of housing ( $r = 0.799$ ), safe living environment ( $r = 0.658$ ).
3. Technical infrastructure and real estate: competitive real estate prices ( $r = 0.869$ ), appropriate real estate availability ( $r = 0.777$ ), provision and quality of technical infrastructure ( $r = 0.585$ ).

The research established the relation of new derived factors to the assessment of respondents' satisfaction with business environment. As a result, it can be concluded that at 95% and 99% of credibility there is a trend of correlation:

- between the residents' quality of life factors group and the satisfaction with business environment (Kendall's tau\_b value of 0.173, significant at 95 % probability);
- between the availability and quality of technical infrastructure and quality of real estate and the

satisfaction with business environment (Kendall's tau\_b value is 0.179, statistically significant at 95 % probability).

The hypothesis was put forward that all enterprises (micro, small, medium-sized, large) were equally satisfied with the business environment in the city. Kruskal-Wallis test (Kruskal - Wallis H) showed the  $p$  - value  $0.033 < \alpha = 0.05$  wherewithal rejecting the null hypothesis and assuming that satisfaction with the business environment differs significantly in groups depending on the enterprise size. During Kruskal-Wallis test it was verified whether there was significant difference between groups depending on the enterprise size as regards the following criteria: accessibility, human resource quality and availability, local taxes, fees, regulations and laws, appropriate real estate availability, competitive prices of real estate, provision and quality of technical infrastructure, access to the local market, housing availability, leisure activities, safe environment for living and business. It was established that in all cases  $p$  - value  $< \alpha$ , so the difference between the assessments of significance of criteria within groups of enterprises distributed by size is not significant.

Basing on the carried out analysis, in the further course of research there was developed a matrix for evaluating cities development planning documents in Latgale region to determine whether the identified most important competitiveness factors and criteria are reflected in the development planning documents of local municipalities (see Table 1).

**Table 1. Analysis of competitiveness factors and criteria in the documents of development planning in Latgale region cities**

Factors	Criteria	Correlation coefficient		Frequency of characteristics		
		Kendall's rank coefficient	PCA	CSA DP	SP DP	SP
1	Accessibility	0.053	0.809	9	9	13
	Local taxes and fees, normative regulations	0.099	0.781	1	1	1
	Secure environment for business <sup>x</sup>	0.114	0.745	5	3	10
	Access to the local market	0.225**	0.605	0	0	0
1 <sup>st</sup> factor - local business environment ( $\bar{x}$ )				3.75	3.25	6.00
2	Leisure time activities	0.183**	0.824	9	9	11
	Availability of housing	0.184**	0.799	5	7	13
	Safe living environment	0.195*	0.658	5	3	10
2 <sup>nd</sup> factor - quality of life for people ( $\bar{x}$ )				6.33	6.33	11.33
3	Competitive real estate prices	0.216**	0.869	0	0	0
Factors	Criteria	Correlation coefficient		Frequency of characteristics		
		Kendall's rank coefficient	PCA	CSA DP	SP DP	SP
3	Provision and quality of technical infrastructure	0.218**	0.585	9	9	13
3 <sup>rd</sup> factor - technical infrastructure and real estate ( $\bar{x}$ )				3.33	3.33	6.00

\*\* Correlation is significant at the 0.01 level (2-tailed); \* Correlation is significant at the 0.05 level (2-tailed)

PCA - Principal Component Analysis; CSA DP - current situation analysis part of the development program; SP DP - strategic part of the development program; SP - spatial plan; <sup>x</sup> - Rating is identical to the criterion "safe living environment" assessment as it is not separated in the development planning documents

Source: compiled by the author according to the evaluation results of 13 Latgale region cities' development planning documents

According to the elaborated matrix the analysis of development programs and spatial plans of 13 Latgale region cities and towns was carried out. In total 9 development programs (4 towns don't have development programs) and 13 spatial plans were analyzed. During analysis it was determined whether a particular city development program (current situation analysis and strategic part) and spatial planning reflected the defined criteria. Qualitative characteristics were quantified using the binary encoding - the existence of qualitative characteristics were identified by the quantitative indicator 1 (one), the shortage of quality indicator by 0 (zero). Frequency of characteristics is used as a quantitative parameter within the analysis.

The entrepreneurs' satisfaction with business environment in Latgale region is most closely correlated with the access to the local market, competitive real estate prices and provision and quality of technical infrastructure. At the same time, basing on the results of the development programs and spatial programs analysis it appears that the criteria such as the access to the local market and competitive real estate prices in the documents mentioned above are not addressed at all. While provision and quality of technical infrastructure are analyzed in the current situation analysis and strategic part of 9 urban development programs, as well as in 13 urban spatial plans. It can be concluded that the provision and quality of technical infrastructure are analyzed in all existing development planning documents.

According to the results of the factor analysis the highest positive correlation coefficient in the first factor is for accessibility, in the second factor – leisure activities, and in the third factor – competitive real estate prices. As we can see, the accessibility is reflected in the current situation analysis and strategic parts of 9 urban development programs of as well as in 13 urban spatial plans, while leisure activities are analyzed in the current situation analysis and strategic parts of 9 urban development programs, as well as in 11 urban spatial plans. Consequently, these aspects of urban development are an important part of planning documents. Real estate is not analyzed in any of the documents.

Among three factors discussed within the matrix the closest correlation of enterprises satisfaction with business environment in a city or town had the 3<sup>rd</sup> factor “technical infrastructure and real estate” ( $r_b = 0.232$  at 95% of statistical significance), as well as the 2<sup>nd</sup> factor “quality of life” ( $r_b = 0.219$  at 95% of statistical significance). Correlative relationship of the enterprise's satisfaction with business environment for the 1<sup>st</sup> factor “local business environment” was not observed.

Analyzing urban development planning results by factors, there is evidence that the aspects of life quality are better represented in the development planning documents. While the other two factors in development planning documents are represented similarly.

Taking into consideration that respondents' responses on average showed the importance of such criterion as the availability and quality of human resources, we'll look at representation of this criterion in the urban development planning documents. Quality and availability of human resources have been analyzed in the current situation analysis part of 8 urban development programs, in the strategic parts of 9 urban development programs and in 9 urban spatial plans, which is a good result.

It can be concluded that through elaboration of planning documents, Latgale region municipalities should pay greater attention to the aspects of the local market, local taxes, fees and normative regulations, real estate availability and prices. It would convince local entrepreneurs, potential investors that the local authority takes all necessary measures to improve the business climate and increase competitiveness in the city or town. By providing measures to increase the competitiveness factor within the city in spatial planning documents, it would create favorable conditions for business attractiveness improvement in the future.

### Conclusions

There has been a growing interest and academic literature in recent years in developing new paradigms of regional development to find new ways of tackling longstanding regional problems. One of these directions is spatial planning being closely related to the regional planning theory, which has sought to explain the causes and consequences of regional economic disparities and regional competitiveness.

Territorial attractiveness can be defined both as the capacity to attract new residents, visitors, enterprises and investments as well as the ability to retain and develop these mobile communities and assets.

Cities compete one with another to attract new business or industries that create jobs and thus provide increased material welfare. The city has a competitive advantage if it has technological, social, infrastructure and institutional assets' superiority over all other cities.

Latgale region entrepreneurs' satisfaction with business environment is most closely correlated with the access to the local market, competitive real estate prices as well as provision and quality of technical infrastructure. At the same time, basing on the results of the development programs and spatial programs analysis it appears that criteria such as the access to the local market and competitive real estate prices in those documents are not addressed at all. The provision and quality of technical infrastructure are analyzed in all urban development programs and spatial plans.

According to the results of the factor analysis three factors important for businessmen of Latgale region cities to make a decision to start business in a particular place were identified and interpreted as the local business environment, quality of life, technical infrastructure and real estate. According to the results of the analysis, the highest positive correlation coefficient in the first factor is for accessibility, in the second factor – leisure activities, and in the third factor – competitive real estate prices. Among three factors discussed above the closest correlation of enterprises satisfaction with business environment in the city had the 3<sup>rd</sup> factor “technical infrastructure and real estate” ( $r_b = 0.232$  at 95% of statistical significance), as well as the 2<sup>nd</sup> factor “quality of life” ( $r_b = 0.219$  at 95% of statistical significance).

Analyzing urban development planning results' division by factors, there is evidence that the aspects of life quality are better represented in the development planning documents. While the other two factors in development planning documents are represented similarly and are insufficient.

In order to strengthen the role of urban spatial planning to increase business attractiveness in Latgale region it is necessary to pay more attention to such factors as competitive local business environment and technical infrastructure and

real estate by discussing in detail the issues such as local taxes, fees and normative regulations, local market size and access to the local market, safe environment for business activities, real estate offer in the development planning documents.

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