The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Praise It and They'll Come

By Elena Kulchina

November 10, 2013



Have you ever wondered why foreign firms coming to Russia are concentrated in Moscow and St. Petersburg, while domestic companies are spread much more evenly around the country? Are these two cities so much more attractive than the rest of Russia? No doubt they provide an array of opportunities, but they would never be able to draw so many foreign firms without the help of foreign media coverage.

Researchers long refused to believe that media coverage has any effect on the location choices of firms. Indeed, it may be hard to imagine that such an important decision could be made based on a bunch of media mentions, but this popular belief happens to be wrong.

I analyzed the effect of media attention on location decisions of foreign companies in Russia between 1996 and 2005. I studied 8,000 foreign firms in Russia, the majority of them coming from Western Europe, North and South America and Asia. I then compared their location choices to about 15,000 articles that mention Russian cities in The Wall Street Journal, The New York Times, Financial Times and The Times.

The results were surprising. I found that coverage of a city in four articles from high-profile foreign newspapers will convince at least one foreign business to make this city a home. Even short media mentions play a great role. The effect is especially profound for geographically and socially distant firms and foreign entrepreneurs, since they have few sources of private information about Russian cities and therefore are more dependent on media coverage. As might be expected, the firms from Russia's closest neighbors from the Commonwealth of Independent States were the least likely to be swayed by the newspaper coverage since they already have extensive knowledge about Russia.

The findings present a significant opportunity for changes in the way Russian cities approach economic development. Foreign investment by multinational corporations and foreign entrepreneurs can go a long way in growing the economy, but the current economic crisis made competition for foreign investment particularly aggressive. Cities all over the world are using every opportunity to attract outside investment. Russia faces particularly strong competition from other large emerging markets, such as China and India, which use every opportunity to promote their cities to potential foreign investors.

Multinational corporations can become important drivers of the local economic growth, and foreign entrepreneurs who locate in Russia have the potential to start businesses that could turn into large companies and employ thousands of people. We all know the story of Russian-born Sergei Brin who helped start Google in the U.S. and employ 45,000 people at the company. Russia might be lucky enough to land the next big entrepreneurship idea, but startups must first know what Russia can offer.

Unfortunately, the rest of the world still knows very little about Russia, and this knowledge is often highly biased by rumors and speculations. Many great locations go unnoticed by foreign firms because investors never hear about them. Foreign media can help get the message out about Russia.

As I found in my research, in 2005 the effect of one additional article on the number of foreign entrants was equivalent to the effect of more than $175,000 in government spending on business infrastructure. Thus, it may be useful for localities to evaluate the effectiveness of investment in media coverage versus other government spending. This does not suggest that cities should stop spending money on other things, such as information technology, roads, health services and education, but neglecting media opportunities would be a mistake.

This strategy is not an overnight fix. My research found it takes about four years before cities start seeing the results of foreign media coverage. Still, the potential here is tremendous. Russia could do a better job of promoting itself to foreign journalists and welcoming them to the country. Social and cultural events that attract media attention, such as a celebration of a city birthday or a major international conference, could also go a long way.

As more foreign investors and managers become aware of Russian cities, the coverage could ultimately translate into more foreign investment and jobs and a better quality of life for Russians.

Elena Kulchina is a professor of strategy at Duke University's Fuqua School of Business where she studies trends involving multinational firms and foreign entrepreneurs, focusing

on Russia.

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

Original url: https://www.themoscowtimes.com/2013/11/10/praise-it-and-theyll-come-a29403