

INVEST IN BRITAIN BUREAU

Introduction

The subject of this report is an evaluation of the DTI funded elements of the Invest in Britain Bureau (IBB).

The overall aim of the IBB is “to attract, retain and add value to inward investment into the UK” (IBB Corporate Plan 1997-2000). In order to realise this aim the IBB undertakes its own promotional activities and also provides grant funding to Regional Development Organisations (RDOs), which have now mostly been absorbed into the Regional Development Agencies (RDAs). The IBB also works closely with Foreign & Commonwealth Office (FCO) staff in embassies, consulates and other posts abroad, but this element is not funded by the DTI.

For the purposes of the Terms of Reference for this evaluation, the IBB is viewed as an organisation involved in three distinct areas of activity:

- Generation of inward investment leads
- Management of the inward investment process
- Realisation of positive investment outcomes

Each of these areas of activity is addressed in this report.

The evaluation also focuses on the relationship between the IBB and various agencies, whether or not funded by the DTI, particularly with a view to seeing if there is duplication of agency activity that might be wasteful or create confusion among investors.

Evaluation Aims

The overall aim of the evaluation is to identify the contribution made by the DTI funded elements of the IBB to the areas of activity identified above, and the results achieved. The evaluation was specifically not intended to address the rationale for the IBB, nor to look at IBB expenditure on staff and facilities.

The Research Methodology

The research methodology consisted of two elements: desk research and field surveys. Desk research made use of unpublished as well as published IBB and other documents. Field surveys were conducted with RDOs, RDO partners (public and private), management consultancies, FCO and IBB

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personnel, and investors (both those who did and those who did not contact the IBB in the course of their decision making process).

The Sample of Investors

The sample of investors who contacted the IBB was taken from the IBB's database (IBB3) of recorded inward investment successes over the years 1996/ 97 to 1998/ 99 and supplemented with names from the Government Offices for the Regions and the Regional Policy Directorate in the DTI. Some 262 companies were contacted and interviews obtained from 70 of them. 10 interviews were obtained from investors who did not contact the IBB, from a sample of 26.

The Framework of the Evaluation

The framework for this evaluation distinguishes between:

- Inputs to investment promotion activities, in the form of funding
- Immediate outcomes, in the form of leads generated
- Intermediate outcomes, related to the process management activity of the IBB
- Business results, related to the positive outcomes of investment decisions

The evaluation as a whole is set in the context of the growth and change in the UK economy and evolution of the IBB since its creation in 1977 (chapter 4).

Evaluation of Inputs

DTI funding of the IBB has grown from £3.2m in 1985/86 to £14.4m for 1998/ 99, or at an average of 12.4% per annum in current terms. In real terms (1998/ 99 prices) the growth rate has been at 9.5% per annum. During the period under review an increasing proportion of IBB funding has gone towards grants to the RDOs (from about one half in 1985/86 to about three quarters towards the end of the period). This has helped to fund the expanding network of RDOs (see sections 4.5 and 5.1 below).

Within the IBB's own promotional expenditure, international marketing accounts for the largest share. Geographically, the Americas and the Asia/Pacific/Africa (APA) region account for approximately equal proportions of expenditure. However, over the evaluation period as a whole, the Americas account for some 50% of inward investment (by value, as measured by IBB3 records) compared with about 15% from APA. In total, the IBB spent £3.4m on its own promotional activity in 1998/99.

The RDOs in total spent some £760,000 on inward investment marketing in 1998/99 (down from £1.1m in each of 1996/97 and 1997/98). The RDOs' leverage of other funds for inward investment activity has increased over the

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last ten years, largely as a result of contributions from other public sector sources, although some of these public sector contributions are now under threat. Private sector contributions have remained stable in percentage terms (see exhibit 14).

Evaluation of Immediate Outcomes

The IBB records “enquiries” and “active cases” rather than “leads generated”. “Leads generated” is not used for recording purposes. Use of the term implies “additionality”. It does not appear that there is as yet a sound way of capturing such information within the IBB, particularly in view of the findings of the field survey of inward investors (see below). However, it would be useful if such a category could be defined and tracked.

Until recently the sources of enquiries were not fully recorded. This is now possible with the new enquiry tracking system.

The RDOs do not have a standardised method of defining or recording enquiries or leads and there is considerable variation in the level and consistency of the marketing information recorded.

The IBB records visits to firms overseas by IBB or FCO staff, and IBB aftercare visits. In aftercare, the International Investor Development Programme (IIDP) still accounts for a relatively small share of the IBB’s budget, despite the fact that the majority of inward investment is now in the form of expansions or reinvestment.

EAG’s survey of investors indicates that the great majority (89%) approached the IBB themselves, rather than being the recipient of an IBB approach. Almost all of them (99%) said they would have considered the UK as an investment location even if the IBB had not existed, and half of them said there was no competition between the UK and other countries.

The RDOs see the IBB as a useful initiator of activities, a “door – opener” and source of leads. IBB promotional material (UK-wide) is seen generally as useful, but increasingly the RDOs are seeking to create their own publicity material and generate their own leads. Regional and local aftercare programmes are not seen by RDOs as sufficiently well structured or resourced, although there has been a clear increase in RDO aftercare activity in recent years (see exhibits 23 and 24).

RDOs claim that their own leads are of higher quality than those provided by the IBB, but the proportion of all active cases generated by the RDOs has not increased significantly over the period 1995/96-97/98 (see exhibit 25). However, the older and more established RDOs seem to be achieving some success in this direction (see exhibit 26). There also appears to be a need for improved sectoral targeting by RDOs.

The views of the inward investment promotion agencies of the Devolved Administrations of Wales, Scotland and Northern Ireland (DAs) on lead

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generation correspond, broadly, to those of the RDOs. The DAs are much more dependent on generating their own leads than the RDOs. In addition, DAs also question some aspects of recent developments in the branding of the UK by the IBB.

Evaluation of Intermediate Outcomes

At present there is no method of recording the time spent on process management of active cases by the IBB. However, the numbers of regional tours in which either the IBB or an RDO was involved is recorded. Tours organised by the RDO network have increased substantially in recent years (from 568 tours in 1993/94 to 1054 in 1998/99), as the number of RDOs has doubled.

In terms of overseas representation to manage the investment process (see 7.2.1), in the larger US cities there is some duplication between the IBB and RDOs. However, this does not necessarily imply that there is “over fishing” as the market is so large. There does not appear to be significant duplication between the IBB and the DAs (see exhibits 30 and 31). Few RDOs have their own representation in Continental Europe. In the APA region, there is some duplication (e.g. in Tokyo, Taipei and Seoul). This could be due to the high level of local contact required by some investors and the nature of the APA market as a source of inward investment.

However, the key issue is the opportunity cost of investing in overseas offices as compared to investing in local and regional aftercare.

On the whole, the investors contacted in the EAG survey were not confused by the existence of different agencies abroad. However, there are distinctions to be made between SMEs new to the challenges of foreign direct investment and more experienced investors. For the former group, the IBB can provide a road map to the inward investment landscape in the UK. Confusion is least likely amongst the latter group (which accounts for the largest share of inward investment).

The spread of RDO and IBB activities abroad implies that a wider net is being cast for potential inward investors. The 50% funding provided by the IBB to RDOs for some of their overseas programmes enables the IBB to exert some influence on the direction of these programmes and to minimise waste of resources. The current arrangements have been successful in minimising wasteful competition between different regional and local investment agencies. However, this influence may become more tenuous within the new RDA structure.

It is also apparent from the survey of investors that the RDOs are primarily responding to enquiries and attempting to turn these into strong leads. They appear to be less involved in creating new opportunities or pursuing aftercare activities in a proactive way. The IBB does appear to be obtaining value from the RDOs' case handling activities in response to IBIS (Invest in Britain

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Information System), and there are clear economies of scale resulting from the effective co-ordination of regional inward investment efforts. RDOs and the DAs do however question the effectiveness of some of the constraints placed upon them by the IBIS system.

As far as the distribution of funding to the RDOs is concerned, most RDOs would prefer a fixed-sum grant to finance their core activity and infrastructure, rather than to bid for a purely programme-based budget. Some confusion exists amongst RDOs over the current funding process and there is a general desire for greater transparency. There is also a problem inherent in contracting for (and monitoring) activities rather than outputs, and there are consequently opportunities for improving the contractual approach. This matter is receiving attention in a separate assessment of funding mechanisms.

Pipeline management of the status of each inward investment lead is not as sophisticated as it should be. There are also substantial problems with information flow related to aftercare, for example as regards communication between the regional providers of aftercare and the FCO/IBB officials in the investors' home countries, and even between the IBB's aftercare database in London and its enquiry tracking system. The IBB corporate memory of investors is also vulnerable to staff departures.

Some RDOs have expressed concerns that, whilst greater integration with regional development strategies and the realisation of economies of scale may be possible within the new RDA structure, their activities to develop the market for their services may be compromised by that structure. RDAs are membership organisations and as such may distract the RDO's attention from inward investment outcomes.

There is consequently a need for the funding of inward investment activity to continue being ring-fenced in the medium term. The RDOs have also found their public sector partners' funding support to be under threat due to the pressure being put on Local Authorities and TECs to retain their surpluses, pending integration with Learning and Skills Councils, and the requirement of being able to clearly demonstrate value for money. In addition, funding is threatened by the perception that RDOs are now part of RDAs which should be funded centrally. Ring-fencing will also protect DTI/IBB funding from non-inward investment related expenditure pressures and ensure that the best use is made of existing funding.

This ring-fencing should be related to a new definition of outputs and outcomes, which should include results generated by aftercare activities. A classification of existing investor sites in terms of their role in the value chain and local supply chains or clusters may be helpful in this (see 7.3.2(c)).

The EAG survey of RDOs found that in general the Committee on Overseas Promotion (COP) is seen as providing a useful forum for exchange of information and ideas, but that the more detailed COP guidelines are largely ineffective. It is possible that information exchange between RDAs and DAs

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through the COP will be superseded by other arrangements, and if so it will be essential that the IBB is included in this process.

Overall, the survey of investors found that three quarters thought the IBB or the RDO added value to their investment process. Mostly this was through the supply of information, setting up contacts and general facilitation. Our survey shows that in some cases this may speed up the inward investment process (“acceleration additionality”). Some investors felt it was not possible to distinguish between the different contributions of each organisation, but among those who did, the majority felt that the RDO brought most value to the process. This “invisibility” of the IBB may not be surprising as it often sees itself in a supporting or background role, managing the process as a whole.

Some RDOs also feel that the IBB has no place in downstream process management, and that the upstream IBB-controlled stages of the process are not sufficiently transparent. However, the consultancies interviewed feel that the process management role of the IBB was critical.

Evaluation of Business Results

There has been a strong increase in the number of “successes” (as defined in section 8.2) reported by the IBB in the second half of the 1990s. We were, however, unable to establish a strong or direct causal link between this increase in successes and the activities of the IBB. The increase in reported successes may be more related to the existence of more RDOs and their active tracking and reporting of successes. On their own these data are not comprehensive. Further information can be drawn from the IBB3 record of inward investment successes, which provides data on type of investment, type of job and activity (see 8. 3).

On the IBB3 database there is a problem in identifying clearly and reliably the nature of the IBB’s involvement in the achievement of these successes, as they all also involve an RDO, and the IBB3 form does not require the nature of the involvement or indeed the investment value to be recorded.

In terms of evaluating projects, “new jobs” is a far more reliable indicator of outcome than “safeguarded” jobs, although acquisitions (to which most safeguarded jobs are related) now account for over 20% of the value of all investment projects (see exhibit A3 in Appendix A). In the IBB3, the term “safeguarded jobs” is not used in the same way as in the evaluation of RSA, and its use in the IBB/ RDO context is therefore misleading and should be avoided.

Employment itself is becoming less relevant as a measure of the outcome of inward investment activity, as the IBB is increasingly targeting (in terms of its 1997 – 2000 Corporate Plan) more high value-added, less employment-intensive projects. IBB3 data on the distribution of employment between different types of activity is also unreliable, as there is considerable overlap between categories and “Services” is not disaggregated.

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Nevertheless, the data suggest that, from 1985/86 to 1997/ 98, the IBB has been involved in approximately 49,000 (announced) new jobs. It is also clear that, including the 190,000 new jobs that the RDOs claim to have contributed to (without IBB involvement), an increasing proportion of these jobs resulted from expansion rather than from new inward investment projects. No *ex post* validation of these figures has been carried out. (In its 1998-99 Annual Report, Locate in Scotland reported that some 27% of all jobs announced in Scotland by Locate in Scotland since 1991 did not actually go ahead).

Based on the findings of the “investors” survey and desk research, the IBB’s own contribution is likely to have been oriented towards new investment rather than expansion. This does support the IBB’s upstream involvement and its long-term image building activity. (This activity is not quantifiable in the present evaluation although regular image tracking research offers one means of achieving such quantification). The IBB has also recognised the increasing importance of expansion projects through the attention now being given to its aftercare activities.

There needs to be a more effective means of establishing links between systematic aftercare activities and the realisation of expansion projects. The IBB has a critical role to play in this through the further development of the International Investor Development Programme and the “Client Director” system, which the RDOs feel is not working optimally. The effective co-ordination of all the organisations involved in delivering aftercare is a considerable challenge. The complexity of this challenge must not be underestimated.

Aftercare is seen by RDOs as less exciting than trying to attract new investors to a region. EAG believes there is consequently an argument to link RDA grants for inward investment promotion more closely to the performance of aftercare activities (to encourage embeddedness) and, crucially, to the generation of outcomes from those activities.

In terms of measures of the IBB’s effectiveness, it appears that the ratio of successes to enquiries has been improving since 1993/94, as have the ratios of successes to visits overseas and successes to regional tours. However, there is obviously a significant lag between an enquiry, visit or tour and the recording of a “success” – although the overall trends may be indicative of increasing efficiency. The ratio of successes to new and active cases has remained relatively constant (see exhibit 35).

The DTI funded element of IBB expenditure on inward investment per new job has, in general, been rising since 1985/86 and reached £294 per job in 1997/98 (at current prices). In 1988/ 99 prices, the rise has been from £140 to £315 (exhibits 36 and 37). The growth in expenditure per job when taking other “leveraged” funds into account is even more marked: at current prices a rise from £146 to £644 per job, and at 1998/ 99 prices from £204 to £654 per job. There also appears to be a cyclical relationship, in addition to the rising trend in expenditure per job, between IBB expenditure per new job and the average

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number of new jobs per project (exhibits 38-40). This underlines the close relationship between inward investment and economic growth.

However, as stated earlier, employment is becoming less appropriate as a measure of inward investment success or value overall. The methods used by the DAs to record and report their outcomes provide valuable pointers on how the IBB and RDOs could improve the transparency and value of their reported results.

Conclusions

In sum, this evaluation of the DTI funded elements of the IBB suggests the following conclusions:

A great deal has been achieved since 1977. However, as the global foreign direct investment scenario changes, and the UK's position in that scenario evolves, the IBB will have to continue making changes. There are no grounds for complacency.

Conclusions from the point of view of the framework of the evaluation are:

- *Funding* of the IBB has seen many changes in the period under review, in terms of the value of funds at stake, the geographical areas covered and the processes involved. The funding has resulted in substantial levels of activity, both within the UK and abroad.
- *Immediate outcomes* (leads generated) have proved difficult to assess. Anecdotal evidence suggests some, even spectacular, achievements. Case studies would be valuable to examine some of these in more depth. On the other hand, the survey of investors found that, in the majority of cases, most firms actually initiated contact with the IBB themselves. They had already decided to establish/ expand in the UK, or to put the UK on the shortlist for their projects. Aftercare warrants significantly increased attention, both at national and regional levels. Improved tracking of inward investment enquiries with the new IT system at the IBB should enable continuous monitoring of these trends.
- *Intermediate outcomes* (process management). This has many aspects, but it appears that the most valuable contributions of the IBB lie in this area. Through its planning and co-ordination function, backed up by funding prescriptions, the surveys and interviews support the view that IBB has been able to reduce the amount of wasteful duplication of resources in promoting inward investment, both within the UK and abroad. The survey of investors that contacted the IBB found that most considered that the IBB and the RDOs added value to their inward investment activities, in particular through general facilitation of the process. In

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addition to its planning and co-ordination function this points to a potential further source of “additionality”.

- *Business results* are also difficult to assess, largely due to the way that data is recorded. A good deal can be done with information systems to improve this situation.

Overall, it seems that the greatest value added by the IBB to inward investment into the UK lies in process management and the facilitation of inward investment. This is not surprising. In terms of the Wells and Wint model of inward investment promotion (UNCTAD, 1997, p.25), according to which inward investment promotion programmes start at image creation, then move to project generation and finally facilitation, the UK has advanced well down the road to where the image of the UK is not the problem it was in 1977 (although there are no grounds for complacency and the UK brand still needs to be managed). Projects, as was found with the survey, are coming in, many of their own accord. In this environment, the main task of the IBB is to find, channel and facilitate those projects that are either coming, or possibly coming, to the UK and to ensure that they do not get lost and end up in competitor countries.

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