Yorkshire Forward and Economic Development

Learning Legacy Module 8

International Trade and Investment

YORKSHIRE FORWARD
The Region's Development Agency

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Executive Summary

International Trade and Foreign Direct investment (FDI) have grown significantly over the last decade bringing with them many benefits to businesses including potential to enhance their productivity, innovation and skills base, in addition to the traditional gains from trade.

Capturing these benefits is vital to remain competitive. However, evidence suggests that whilst the UK has remained highly competitive at a national level, the Yorkshire and Humber region has historically not been able to take advantage of the phenomenal growth in international trade and investment activity seen globally. All too often it has been left playing catch up to other English regions.

As a result, encouraging companies to engage in international trade and encouraging FDI into the region have long since been priorities for agencies such as UKTI and the RDAs. Whilst the specific nature of projects and programmes has shifted over time, the fundamental basis of support has remained constant with much of the activity falling within three broad categories:

- International Trade (export support and internationalisation);
- Encouraging and supporting FDI; and
- Investor Development and Aftercare

Over the last decade support such as the Targeted Export Support Scheme has successfully increased the awareness and capacity of international trade and exporting opportunities. It has increased business competitiveness by raising skills and knowledge about business planning, overseas markets and export strategies, enabling companies to undertake activity on a larger scale and more professionally than they would otherwise have been able to do. However, these benefits have been limited to direct beneficiaries of support, and despite a steady year on year improvement, Yorkshire and Humber has continued to have a lower volume and value of exports compared to most other regions, and England as a whole.

It would seem clear then that there was and remains a strong case to be made for supporting companies to overcome the barriers to international trade – so long as activity can be proven to work.

Before the RDAs were created, Yorkshire and Humber's FDI successes were regularly amongst the lowest of any English region. Few inward investment leads picked up nationally translated into investments in this region. However after a slow start over the first years of Yorkshire Forward, the region's FDI performance now compares favourably with many other regions. And despite a difficult economic backdrop a revised strategy has seen year on year improvements being made, with 2009 recording the highest ever level of FDI in the region.

Taken together international trade and investment activities have created significant economic benefit. An evaluation of Yorkshire Forward's investment indicates that between 2007 and 2010 Yorkshire Forward invested in the region of £11m in International Trade support, generating an estimated increase in GVA of up to £120m, representing an average return on investment of up to £11 per £1 invested. Its investment in FDI over the same period was £4.5m, generating an estimated increase in GVA of up to £443m, representing an average return on investment of up to £97 per £1 invested. Although the figures do include some complexities and caveats, they would appear impressive.

Over the same period trade activity created 2,083 jobs and supported 2,873 businesses helping to attract £7m of private sector investment. Inward investment activity is thought to have created or safeguarded 20,803 jobs; supported over 1500 businesses; created 151 new businesses; and secured £883m of new investment for the region.

Key lessons and insights that emerge from this review of activity are:

a) **Provide the right support:** A combination of advice and grant funding support is most useful to business in developing their activity. Additional funding for targeting priority sectors and markets that utilises knowledge and assets in the region is likely to result in more optimal outcomes for the region than UKTI core or grant funding support alone[1].

b) **Be target specific:** There is scope to improve the impact of trade development through a focus on threshold and mature exporters and through more rigorous appraisal of applications /cost recovery policies in relation to in-country support.

c) **Establish a clear rationale:** A rationale that properly considers and targets the underlying issues is crucial. Evidence suggests that there is real potential to improve the performance of both trade development and inward investment through a clearer focus on and more rigorous evidencing of market (and other) failures[2].

d) **Play to your strengths and be realistic:** Given the increasing scarcity of resources it is vital that efforts are well targeted. Evidence indicates that across all industries and markets the most essential elements for attracting FDI are the size of the local market and the growth of the market. It is therefore vital to have a clear understanding of your strengths and that these are the basis on which a proposition is being made.

e) **Challenge the orthodoxy and stay flexible:** Global drivers are the major influence on FDI and can change rapidly. It is all too easy to become complacent and find you are no longer targeting the right sectors. Regular reviews and the ability to change direction quickly are vital in an age when being fleet of foot is essential to meeting investor needs.

f) **Get ahead of the market:** It is important to understand an area's comparative advantages and proactively seek to target these. Up front public sector investment in site assembly, infrastructure and local capacity can be crucial to securing investment and by putting institutional and land assets in place well in advance it is possible to gain significant advantages.

g) **Relationships, retention and messages matter:** The attraction and retention of FDI in a highly competitive market requires an excellent product, effective marketing, first class service and the ability differentiate in the market. 'Key account management' work to build relationships with the largest local companies and encourage them to stay and reinvest was one of the most effective approaches. Inward investors are by their nature often footloose, so work to retain them and connect them to local labour and supply chains is as vital as leading edge handling processes for new enquiries.

h) **Be prepared for the long haul:** Inward Investment is not a quick fix. It involves risks, peaks and troughs and often requires a sustained effort to yield results.

i) **Know your route to market:**, Outsourcing lead generation to external providers (who represent multiple locations) may not be the best course of action. It can become difficult to control activity and may confuse potential investors. However, the success of overseas offices has also been mixed, so lead generation needs carefully consideration.

j) **Love thy neighbour?:** Inward Investment processes and arrangements are complex and involve many organisations. Effective partnership working is especially important in attracting and retaining inward investment. Working jointly with 'competitors' in neighbouring areas over a larger terrain often helps to create a profile that investors will notice and to heighten overall success – which will span multiple local labour markets.

[1] DTZ (2010) Interim Evaluation of NWDAs funding of International Trade Programme: Final Report
[2] Fraser Associates (2010) Review of Evaluation Evidence for Yorkshire Forward

1. Task and Purpose

The rationale for Yorkshire Forward's approach

Over the last decade or more there has been a growing recognition that we are living in an increasingly globalised world where firms interact on an international scale. According to the World Trade Organisation international trade has grown to $24.5 trillion in 2009[3] whilst the United Nations Conference on Trade and Development (UNCTAD) indicates that global Foreign Direct Investment (FDI) has grown at around 27 per cent per year since 2001 to stand at around $1.83 trillion in 2007[4].

Whilst the economic crisis had a serious and damaging impact on levels of global trade and investment through 2008 and 2009, the latest figures show that trade is picking up and that Global FDI outflows are now recovering - though at $1.3 trillion in 2010 they are still some way below the peak of 2007[5].

The growth of trade and investment on this scale clearly presents both potential threat and opportunity to UK and regional competitiveness. As more nations emerge on to the global stage the UK's position as a leading economy and the region's place within it comes under growing pressure. Increasing international trade and investment can bring real benefits to businesses including enhanced productivity, innovation, and skill transfer, in addition to the traditional gains from trade. Furthermore, greater integration creates economies of scale, provides access to new technology and increases efficiency in global investment, producing benefits that are felt throughout the economy[6].

In an ideal world market forces would act as a driver to ensure businesses were able to take advantage of such opportunities and realise the benefits. However, when market conditions do not allow for optimal outcomes, there can be a need for the public sector to act. This need has long been recognised across all tiers of government in the UK and a series of policies to support trade and investment have been put in place by successive governments.

In 2006 the Department for Trade and Industry undertook a substantial review of the underpinning economic rationale for supporting international trade and investment activity[7]. The review supported the prevailing perceived wisdom, strongly concluding that there is a real case for intervention and identifying the following key benefits:

Benefits from trade and investment

- **Direct and indirect productivity effects on UK firms:** Exporters and multinationals tend to have higher than average productivity, so as they enter or expand within the UK average UK productivity rises. Increased access to new ideas and technologies, and exposure to superior organisational skills, either through direct exposure to overseas markets or inward investors, or indirectly, through knowledge spillovers, can also have significant effects on the productivity of UK firms.

- **Competition effects:** Competition is stimulated by the opportunity for foreign firms to compete with domestic ones, both for resources, including labour and business assets, and in markets for products and services, where imports alone would not compete as effectively.

[3] World Trade Organisation (2010), International Trade Statistics 2010
[4] UNCTAD (2011) "Global and Regional Trends of FDI Outflows in 2010"
[5] ibid
[6] HMT Productivity in the UK 7 - securing long-term prosperity
[7] DTI (2006) DTI Economics paper no.18: International Trade and Investment – the economic rationale for government support.

- **Innovation effects:** The opportunity to sell overseas promotes incentives for firms to innovate because the rewards from successful innovation will be proportionately greater when they are able to sell into larger markets. R&D intensity is strongly linked to business internationalisation both through selling overseas and through foreign direct investment. Multinationals tend to have the highest R&D intensity, but only in their home country. The level of R&D investment in the host country is likely to be influenced by the ability of inward investors to gain access to key knowledge networks.

Capturing the benefits

Evidence suggests that the UK has remained highly competitive at a national level, attracting far more than its fair share of Global FDI to remain number one location for Foreign Direct Investment (FDI) in Europe for the last 20 years.[8] However despite improvements in many areas, Yorkshire and Humber region was not always able to take advantage of the phenomenal growth in international trade and investment activity seen globally, and has all too often been left playing catch up to other English regions.

In 1996, Yorkshire and Humber's total value of exports was just under £9bn, placing it seventh amongst the nine English regions with only the South West and the North East region accounting for a lower value[9]. Whilst it is fair to say that by definition someone will always be at the bottom of any ranking, this represents only an approximate 6% share of the English export market, despite the region accounting for approximately 8% of England's businesses and economy[10]. It was clear that many of the region's businesses were not reaping the benefits of trading internationally and a strong rationale for support to improve this was evident.

At its inception the RDA inherited responsibility for Inward Investment from the Yorkshire and Humber Development Agency. At the time the region was regularly underperforming on FDI, consistently appearing in the bottom quartile of English regions for FDI successes. Indeed, out of a total of 4,853 projects in the UK between 1997 and 2005 Yorkshire and Humber attracted only 252. This represents just 5.2% of all investments and demonstrates the region's low success rate relative to its size. Whilst, as we will see, FDI performance did not turnaround immediately under Yorkshire Forward, the issues were national too. In particular, UKTI, the national FDI body, directed only a very small proportion of its investment leads to the region. The opportunity to perform better provided a clear imperative to act.

Barriers and Market Failure

Attracting investment is an ongoing process, which is heavily influenced by global economic flows. Continuing support for activity will be critical to overcoming market failures (see table below). Properly addressing these is vital to fully realising the benefits described above.

Trade Development	Inward Investment
Information asymmetries regarding threats and opportunities in international marketplace.	Information asymmetries as regards benefits of location in region
Inadequate understanding of the process of exporting	Prospective positive externalities for economic activity within the region, for enhanced productivity, technology demand and diffusion, increased competition, etc.
Risk aversion on the part of businesses.	Equity - potential to address regional inequalities

[8] UKTI
[9] EKOSGEN, (2008) An Evaluation of TESS.
[10] Yorkshire Futures (2010) Progress in the region 2009

2. Approaches Adopted

At a national level the Government has developed a two-pronged strategy to encourage and facilitate global trade and investment. The first relates to demonstrating the benefits of liberalisation, reducing trade barriers and encouraging other countries to do the same. This is outside the scope of this paper. The second relates to encouraging Foreign Direct Investment and encouraging UK business to trade internationally. The Government's main mechanism for achieving this has been through UK Trade and Investment (UKTI) and the Regional Development Agencies, often working in partnership with one another, and with local authorities.

Whilst the specific nature of projects and programmes has shifted over time, the fundamental basis of support has remained constant with much of the activity falling within three broad categories:

- International Trade (export support and internationalisation);
- Encouraging and supporting FDI; and
- Investor Development and Aftercare.

A recent review by Fraser Associates[11] found that "*reflecting the role of UKTI in shaping trade support and the influence of State Aid regulations in circumscribing inward investment support, the approaches to both categories of internationalisation activity [trade and inward investment] are largely standardised. There is some variation in the resourcing of the activity by different agencies and eligibility for investment support varies by area. However, beyond this it is often found that interventions are largely generic".*

This paper therefore seeks to focus on the performance of some of the key projects and programmes supported by Yorkshire Forward, exploring how these have changed subtly over time and how this has been reflected in regional performance to draw out any key lessons.

International Trade

In the early years of the RDA, UKTI regional offices (based within the RDA) formed a significant part of the offer to business providing a range of support packages to companies, designed to help them make a step change in their international trading ability. The vast majority of activity in this area has been delivered via UKTI through nationally funded programmes and has focused on providing companies with the information they needed to penetrate new markets and on assisting businesses to reduce barriers to external trading, develop and manage supply chains internationally and look at the configuration of their production activity.

UKTI run schemes such as International Trade Advisors, Global Gateway and Passport to Export have provided ready access to a range of useful information and technical support for businesses looking to expand their sales operations internationally. This has formed the backbone of support to date and is likely to continue to do so as we move into a new environment for public sector support.

Whilst these schemes have proved largely successful it was recognised by both Yorkshire Forward and UKTI that, as national programmes (albeit delivered close to business through regional teams) they lacked a specific regional focus. This led Yorkshire Forward and UKTI to develop the Targeted Export Support Scheme (TESS) and following a small pilot the scheme was rolled out across the Yorkshire and Humber region in 2002. TESS sought to supplement the existing support and advice available through UKTI, providing additional

[11] Fraser Associates(2010) Review of Evaluation Evidence, For Yorkshire Forward

grant funding to allow specific targeting of Yorkshire and Humber priority sectors and markets.

This approach coincided with a slow but steady improvement in regional export value. Whilst it is difficult and probably unfair to directly attribute the uplift in performance solely to the addition of grant funding via TESS, evidence from elsewhere also supports the notion that a combination of advice and grant funding support is most useful to business in developing their activity. And that in particular, additional funding for targeting priority sectors and markets will result in more optimal outcomes than UKTI core or grant funding support alone[12].

[12] DTZ (2010) Interim Evaluation of NWDAs funding of International Trade Programme: Final Report

CASE STUDY*: Targeted Export Support Scheme (TESS)*

TESS offers grant support of up to £20,000 (to be matched by the applicant) to help companies with anything from identifying and visiting potential markets to modifying their websites for international customers. It also funds a targeted marketing campaign aimed at helping companies across the region become more aware of the opportunities offered by international trade. Delivered by UK Trade and Investment, it focuses on supporting companies which operate in key industry sectors, helping them to start or expand their export activities.

Performance

There seems little doubt that TESS has been a largely successful programme valued by those benefitting from it[13]. An evaluation of TESS undertaken in 2008[14] found that it had exceeded its targets in relation to jobs created and safeguarded, increased turnover and private sector match funding. To date, TESS schemes have supported over 1,200 companies in Yorkshire & Humber, and helped to increase sales by over £100 million[15].

The evaluation also indicates that TESS has successfully increased awareness and capacity of international trade and exporting opportunities. And has increased competitiveness by raising skills and knowledge about business planning, overseas markets and export strategies, enabling companies to undertake activity on a larger scale and more professionally than they would otherwise have been able to do. This is a significant achievement and is the type of impact that should contribute towards increasing the value of exports.

However, the evaluation did also raise some questions over TESS' overall impact, finding that whilst progress had been made not all companies were able to generate, increase or sustain their overseas sales, implying a far more limited impact in achieving a real step-change than perhaps had been hoped.

Lessons

General Approach: Evidence suggests that both of the key elements of support offered through TESS, financial assistance and consultancy advice, are important and respond to business needs.

- Financial support has been highly valuable and, in some cases, essential. However, the evaluation is inconclusive about the level of financial assistance that should be made available though there have been few projects that have required £20,000, suggesting that the grant threshold could be lowered without generating a negative effect for companies.

- The advice and guidance delivered by the Advisors was highly valued by companies and this combined with support to help companies plan their internationalisation activities in greater detail, was seen as central to the programme's success.

Targeting: TESS has supported a large number of companies who were novice exporters. This has resulted in a lot of repeat grants. The report suggests that a greater step change in increasing exports could be achieved if activities were targeted at established/mature businesses (rather than start-ups) at the medium sized end of the spectrum (rather than small/micro enterprises).

Delivering Focused Support: The value of TESS is being diluted through funding direct activities that are not part of a broader international trade strategy. This tends to occur when beneficiaries are inexperienced. Too many action plans have been concerned with delivering a specific project, rather than implementing an export strategy.

Referral and Recruitment: There is a need to raise awareness of TESS and UKTI amongst business support providers and to reach companies that do not currently engage with business support. Stronger working relationships and improved cross-referral processes can help to generate real benefits.

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[13] Ekos Consulting (2005) An evaluation of the Targeted Export Support Scheme and Ekosgen (2008) An evaluation of the Targeted Export Support Service

[14] Ekosgen (2008) An evaluation of the Targeted Export Support Service

[15] Source: Yorkshire Forward

Inward Investment

Inward Investment activity has centred largely on the development and promotion of inward investment propositions in key overseas markets including Europe, North America and the Far East.

Between 2000 and 2005 Yorkshire Forward concentrated much of its activity across North America, Australia and Japan establishing offices in Chicago, Boston, Atlanta, Los Angeles, New South Wales, Australia, and Tokyo. It also latterly established an office in China. Activity was largely undertaken through the North of England Investment Agency – a collaborative joint venture with NWDA and ONE North East. There were some good early wins for Yorkshire Forward including the largest ever Inward Investment by Insight Enterprises Inc. into Sheffield in 2000/01 and Guardian Glass in Capitol Park Goole in 2001/2. However, following these early successes performance fell in the three year period to 2004 and there were significant issues relating to the share of FDI resulting from the North of England collaboration, in the US in particular – in essence preventing the region from accessing its biggest source market effectively.

This coincided with a period which also saw lower labour cost economies beginning to compete more strongly in what was a depressed market for foreign direct investment. With hindsight it is clear that Yorkshire Forward was not initially flexible enough in its approach to react to the changing market conditions.

The strategic approach to inward investment, set out in the Regional Economic Strategy (RES), evolved over time. The first RES (2000-2010) made 'Attracting More Investment' one of its six main objectives. This reflected the strength and ongoing role of what had previously been the Yorkshire and Humber Development Agency (that led on inward investment prior to the RDAs and which was then subsumed within Yorkshire Forward).

By the third and final RES covering 2006-2015, it was framed within an overall objective to create '*More Businesses that Last'* and focused on deliverable: "*Increase, retain and embed business investment in the region".* This wording is telling and reflects a stronger focus on retention, aftercare and investor development. The specific actions within the deliverable also put emphasis on improving the image of the region to help attract entrepreneurs and investors and training local people to be able to meet the needs of (and get jobs within) companies that had moved to the region.

The strategic shifts in the RES reflected both better evidence about what worked and reflection on some of the criticisms and issues that had arisen with an approach initially focused primarily on attracting new investors to greenfield sites. Most centrally, there was recognition that whilst attracting new investors creates good news stories and is naturally welcomed by politicians, it is just as important to do the less glamorous work of retaining those companies and maximising the benefits they bring. Many inward investors are by their nature footloose and their branch plants could be moved again some years downstream if economic conditions changed (as they did in the recession) and a more attractive locational or financial offer emerged. Preventing that means better targeting so that investors are attracted by the genuine business merits of a location rather than overemphasising financial inducements that may help them to move.

Indigenous businesses who were sometimes also competing with inward investors also made the point that the playing field was not level. Providing large grants and other support to inward investors could give them competitive advantage over firms that had been embedded in a locality for many years. Further issues concerned the importance of connecting investors to local labour and supply chains to maximise their benefits, and to taking into account environmental impacts.

A further key prompt to reflect on the region's approach to and performance in inward investment came from benchmarking undertaken by PWC[16] as part of Yorkshire Forward's involvement in the North of England collaboration in the U.S. This identified a number of factors common to strong performing agencies in terms of FDI. These included: a dedicated presence in key markets; long term financial commitment to FDI; strong operational management; and more fundamentally, careful selection of "products" and markets within the target sectors, to encourage investment. These were all areas in which Yorkshire and Humber had traditionally underperformed and the experience of NOE prompted Yorkshire Forward to undertake a major review of Inward Investment activity covering the eight year period 1997-2005.

The review analysed the source and destination of FDI into Europe; the key sectors the UK attracted; the type of investment; and Yorkshire Forward's performance. It highlighted significant inconsistencies between Yorkshire and Humber's source markets compared to the rest of Europe and the UK, indicating a failure to target the right markets with the right products in the region's priority sectors.

It further highlighted the lack of a conscious targeting strategy, the significant disconnect between the way the region was being marketed through the Yorkshire "Alive with oOportunity" brand and the inward investment proposition, and failures to successfully co-ordinate activities being undertaken across the region.

This resulted in a major review of policy and a much revised Inward Investment Strategy being launched in 2007.

The revised strategy placed far more emphasis on the use of detailed statistical evidence to inform key target markets and set out a revised approach to Yorkshire Forward's overseas presence, advocating a clear focus on those sectors where the region had a comparative advantage, and markets which offered the greatest opportunities.

Evidence drawn from the review of North of England collaboration indicates that the influence of RDA's overseas offices on company investment locations is inconclusive and still subject to debate[17]. Certainly some regions appeared to have gained more than others, so views varied accordingly. From a Yorkshire and Humber perspective, a shared northern overseas office in the USA had not delivered in the way that been hoped and their returns did not justify the cost. However, other Yorkshire and Humber overseas offices had performed better.

Whether a high profile office base is used or not, what is clear is that having a permanent presence within a country can help garner real intelligence and, if done right, help to foster relationships amongst prospective investors. The issue is therefore not building profile and relationships with potential overseas investors per se, rather it is that the nature of that of how that is best done is still open to question.

A full time permanent presence can be an expensive and brings with it a set of complex managerial issues but provides a stable and clear presence on which key relationships can be built. One alternative is to consider outsourcing. This can be cheaper and more flexible, allowing greater freedoms and the ability to react to market changes more swiftly. However this too has its limitations. The North of England review found that such an approach had had limited success outside of London. Whilst offering greater flexibility it takes significant time and resource to ensure that product development, market and regional knowledge is effectively transferred and it is often less productive in supporting aftercare.

[16] PWC (2007) Strategic and operational review of North America
[17] PWC (2007) Strategic and operational review of North America

Choosing the right model can make a real difference to the success or otherwise in a particular market but the conflicting evidence above suggests that there is no one size fits all solution, with the jury very much still out in terms of what works best. Regardless of the model used it is vital that the individuals involved are able to deliver a high quality enquiry and account handling to provide a service that adds genuine added value to any potential investor's decision making process. How the region is perceived within a market is critical and having the right level of support with the right level of expertise may play a critical part in any success. It is vital therefore that those operating within the market are aware of the comparative advantages the region can offer and that they are able to use them to specifically target businesses within key sectors.

Whilst the reasons for the region's underperformance in the early years are numerous and have been discussed elsewhere in this paper, it is also worth noting that for that period Yorkshire Forward had fewer staff working directly on Inward Investment than either of its northern counterparts. Whether or not this had a detrimental effect is difficult to determine with any certainty but there is no doubt that putting the Agencyin a position to offer a full and effective service is essential to securing investment.

The new, more focused strategy (combining targeted investment and the investor development activity discussed in the next section) appears to have had a significant and immediate impact on the region's FDI performance. Year on year improvements have been recorded and despite mirroring the global drop off in 2010, levels of FDI are still the second highest since 1999[18].

Since the introduction of the new strategy Yorkshire Forward has made a concerted effort to regularly update its intelligence. Recent research undertaken by Yorkshire Forward[19] suggests that whilst foreign direct investment is a complex business, decisions are primarily driven by a mixture of variables dependent upon industry and required resources. Across all industries and markets the most essential elements for attracting FDI are the size of the local market and the growth of the market. It recognises that there are anomalies to this rule, for example companies that work in primary industries have a greater need for natural resources like water or coal and utility companies stipulate the need for a stable infrastructure and business environment.

Using the assumption that the size and growth of the market is the most important for attracting FDI, the research has presented an assessment of the region's strongest sectors, and helped to in making rational targeting decisions. It presented the forecasted growth for each industry and suggested that the software, pharmaceutical, monetary intermediation, chemicals and metals were the largest and fastest growing sub sectors, and as such had the greatest potential for attracting new FDI.

Future source countries for FDI are also dependent upon a number of variables. A stable economy with strong growth and good domestic demand are positive indicators for potential sources. Within a country, an industry's size and growth suggest whether FDI is likely to come from a particular market. Using these criteria, it was determined that for Yorkshire and Humber, the USA, Germany, France, Japan and China will be the largest future markets for FDI.

It will be critical that any future activity takes this type of analysis on board and seeks to remain up to date with the latest market information. It is not possible to overstate the importance of better understanding why the deal flows are happening in the way they are and to properly assess whether the region has something to offer in this respect.

[18] Ernst and Young (2011) European Attractiveness Survey

[19] Yorkshire Forward (2009) "Yorkshire Forward: FDI Targeting Strategy 2009"

Another prominent feature of FDI activity over the last decade has been the availability of grant funding to support the capital investment of those companies seeking to establish a presence or expand within the region. In particular Regional Selective Assistance and Grants for Business Investment have been a useful mechanism for supporting investment and have no doubt played a role in helping to secure a number of investments. Whilst on the whole this can be seen as positive thing, it is important to sound a note of caution. There is evidence to suggest that where grant support plays a prominent part in the decision to invest the benefits may be reduced. This is because companies who choose to invest on the basis that it genuinely represents the most sensible business development opportunity for them in terms of proximity to market, location and cost base are more likely to become fully embedded with the community in which they are based, staying longer and as such increasing the spillover benefits into the local economy. This is important as whilst spillovers appear restricted to the local or regional economy and are based on networks, supplies and the workforce, the strength of spillovers seems to increase with age, with manufacturing cases offering the strongest return[20].

With the demise of Yorkshire Forward, UKTI will take on the mantle of lead agency for all Inward Investment activity outside local authorities. There is a view in some quarters that there is an increasing tendency for investments, particularly those linked to the knowledge economy to be directed towards the South East. The perception is that the opportunities available in Yorkshire and Humber are not as well known to an agency that is distant from the region and hence not promoted to potential investors. The region has previously gained only a small proportion of investment leads from UKTI and hence it is argued that more needs to be done to encourage investments to locate outside London and the South East. Understanding the region's core offer and working collaboratively to secure investment will be crucial. Effective partnership working is especially important in attracting and retaining inward investment as the economic impact is not confined to local labour markets.

Major investments can be secured through ensuring that partnership working and the provision of flexible support and information is at the heart of any offer. The recent announcement by Siemens (in 2011) that they have selected ABPs Port of Hull as their preferred site for a new offshore wind turbine manufacturing and export facility, potentially creating up to around 700 jobs and many more indirectly and in the supply chain, follows significant work from Yorkshire Forward and a cross section of partners within the sub-region.

A range of activity was put in place to support the bid. This included activities such as the development of a clear investment proposition prospectus identifying potential sites and employment characteristics, detailed information of potential grant support including Selective Finance Initiative, R&D grants and UK tax credits. Further detailed research and analysis on site suitability (e.g. wind data) and benchmarking with competitor regions on labour cost analysis (by job type), and local skills supply was also completed.

Other factors that may have helped to create awareness of the offshore wind opportunity include long running work to promote the Humber Ports and the region's low carbon credentials, although any link is speculative at this stage. Equally, how far the decision is a result of the work undertaken by Yorkshire Forward and other local agents or how much is down to simple commercial consideration given by Siemens is of course very difficult to determine. This is an issue with almost all inward investment work, where causality is very hard to determine, and naturally all parties want to take credit. In this instance, engagement with Siemens and responsiveness to their needs will have, at the very least, created a very positive impression and an ongoing relationship (factors that are very important in business) as well as helped with the practicalities of making a major investment.

[20] SQW (2009) UKTI Inward Investment Case studies

Investor Development

Existing businesses are increasingly becoming an important source of investment into the region, through expansions, and mergers and acquisitions. One consultee estimates that as much as 60% of FDI is now derived from those foreign owned companies who are already present in the region. It is therefore vital that careful consideration is given to the provision of high quality aftercare and investor development programmes that can help to facilitate these investments and provide a framework of support within the region.

Traditionally, public sector support has been focused on small and medium enterprises (SMEs). Investor development activity recognises that whilst these measures are important, larger businesses are crucial to economic stability and competitiveness, plus their bigger scale obviously magnifies potential benefits. Hence, developing strong relationships is important in helping them to fully utilise public sector support and allowing them to flag up any issues or opportunities they face that public or other bodies could help to resolve or influence. That in turn can help to embed them, link them to local labour and supply chains, and encourage further investment. Whilst the direct commercial impacts of investor development activities are quite difficult to attribute, evaluation evidence suggests that they can play a key role in encouraging capital investment, job creation and turnover growth within the companies it engages[21].

[21] Ekosgen (2011) Evaluation of Yorkshire Forward's investment in programme 'Investment in South Yorkshire' Final Report

CASE STUDY: Key Account Management (KAM)

The KAM programme was established to provide a higher and more consistent level of engagement with the region's largest employers. These are typically defined as those employing 250 people or more, of which there are around 600 in Yorkshire. The programme, which is delivered as a partnership between Yorkshire Forward and the 22 local authorities in Yorkshire and Humber provides a designated key account manager who is responsible for engaging with that company and brokering in appropriate solutions as required.

Performance

An evaluation of KAM was undertaken by Ekosgen in 2008[22]. This found that, on the whole, relationships between the businesses and KAM managers were good with the majority of companies considering their KAM manager to have at least a medium understanding of their business.

The KAM support is highly valued by companies but at this early stage of the programme it is difficult for the majority to quantify its impact on their business.

KAM appears to have limited influence on companies' future decisions to remain in the region but was found to have positive impacts in bringing forward decisions to invest in projects. Companies reported that they were likely to have gone ahead with the projects they had planned at some point in the future, but that KAM facilitated projects or resolved issues such as planning permission which made things happen quicker than would have otherwise have been the case.

Some companies still seek grant funding and there remains some work to be done to change the mindset of some companies from seeing the KAM programme as a gateway to funding to one where much a wider range of support is available.

Lessons

Consultations undertaken as part of the evaluation identified three main sets of reasons why businesses choose to work with a KAM manager:

- The first and main reason was that working with a KAM manager provides a single point of contact for all matters related to the public sector;
- Second, a significant minority of companies were attracted to the programme by the possibility of obtaining grant funding; and
- The third reason was that companies felt it was positive to be actively involved with a representative of their locality.

Businesses value the support but it is vital that the scheme is seen to be credible. Having staff that are of the right calibre is critical to developing and maintaining relationships.

Account managers with the fewest businesses to manage (20-30) were generally the most successful. The evaluation concludes that to maximise success, each account managers should have responsibility for no more than twenty companies.

An improved offer around productivity gains, in particular support to develop/acquire higher level workforce skills and achieve greater levels of innovation in business would help achieve improved impact.

[22] Ekosgen (2008) Evaluation of Yorkshire Forward's investment in Key Account Management

3. Resources, Results and Outcomes

International Trade

The region's export performance has shown a year on year improvement with the value of exports rising steadily from 2003 onwards[23]. However, despite these improvements the volume and value of its exports have remained below those of most other regions, and England as a whole. By 2008, even though the region had increased the value of its exports to nearly £14bn, it remained seventh within England with only the South West and North East behind Yorkshire and Humber[24].

It would seem clear then that there was and remains a strong case to be made for supporting companies to overcome the barriers to international trade and that there is considerable scope to increase trade activity and increase the number of VAT registered companies actively trading internationally. Indeed data from Yorkshire Forward's Chief Economist Unit shows that just 6% of Yorkshire and Humber firms are trading internationally despite the region having a high concentration of businesses within key exporting sectors.

That of course is not to say that the activities undertaken to date have not had an impact. Work undertaken by Regeneris Consulting for Yorkshire Forward in 2010[25] showed that between 2007 and 2010 Yorkshire Forward invested in the region of £10.9m in trade activity, generating an estimated increase in GVA of between £121m and £172m (depending on the methodology used[26]). This represents a return of investment of between £11.1 and £15.8 per £1 invested[27]. That is a significant return. Furthermore, over the same period trade activity created 2,083 jobs and supported 2,873 businesses helping to attract £7m of private sector investment.

Inward Investment and Investor Development

Identifying the benefits of Inward Investment is often complex, and evidence in relation to the impact of inward investment support is difficult to directly attribute. This has led to a paucity of evidence in relation to the impact of inward investment activity, and makes it difficult to draw firm conclusions. Nevertheless, if we compare the region's overall performance against key measures we do start to see a picture emerge.

Early performance is thought not to have been as strong as hoped and despite some notable individual successes the region regularly appeared in the bottom quartile for FDI successes. Nevertheless an econometric analysis of 80 inward investment projects Yorkshire Forward had been involved in between 1999 and 2005 quantified their value to the regional economy at £800m, and pointed to the creation of 12,400 direct jobs and 5,000 indirect jobs in down-stream supply chain industries[28]

FDI performance saw a marked improvement from 2005 onwards, especially after the implementation of Yorkshire Forward's revised International Business Strategy in 2007. Year on year increases in successes have been recorded, moving the region from bottom of the national league table for attracting inward investment, to third in 2009. And despite the backdrop of a difficult economic climate, data from UKTI shows that there were 147 recorded FDI projects in Yorkshire and Humber in 2009, the highest ever number of FDI projects.

[23] Yorkshire Futures (2010), Progress in the region 2009
[24] Yorkshire Futures (2010), Progress in the region 2009
[25] YF Policy Product Range Evaluation – Estimating Potential GVA, Regeneris, 2010
[26] See YF Policy Product Range Evaluation – Estimating Potential GVA, Regeneris, 2010 - Methodology 1 is based on national benchmarks and Methodology 2 is based on YF project Output data.
[27] YF Policy Product Range Evaluation – Estimating Potential GVA, Regeneris, 2010
[28] Seven Year Review

Yorkshire Forward's International Business team benchmarked its impact internationally through participation in the FDI intelligence benchmarking survey – "The European Cities and Regions of the Future 2010/11". It was placed as follows: Top 10 in category for large region FDI strategy; Top 10 in Northern Europe overall; and Top 10 FDI strategy overall - a significant achievement given the starting point.

The work undertaken by Regeneris also considered FDI and Investor Development activity concluding that between 2007 and 2010 Yorkshire Forward invested £4.6m in FDI activity, generating an estimated increase in GVA of between £94m and £443m (depending on the methodology used[29]) representing a return of investment of between £20.5 for every £1 invested and £97 per £1 invested[30]. £4.9m was invested in Investor Development activity, generating an estimated increase in GVA of between £100m and £699m (depending on the methodology used[31]) representing a return of investment of between £20.5 for every £1 invested and £142 per £1 invested[32].

It is very evident from these figures that both FDI and Investor Development can reap significant benefit. However there are data and practical complexities and there is perhaps still some way to go to fully understand the benefits. FDI and Investor Development record very high numbers of Jobs created/safeguarded and as such fare extremely well on GVA per pound invested using the methodology employed by Regeneris. However the net value applied is likely to be an over estimation – deadweight in FDI can be particularly variable dependent on the individual intervention – and therefore the level of confidence in the FDI and Investor Development figures is low.

Work undertaken by Yorkshire Forward to audit their FDI success suggests that as many as a third of jobs claimed at investment stage are never created. Equally the public costs considered were purely those borne by Yorkshire Forward. In some instances there may be other costs to the public purse involved in securing an investment. This has the potential to heavily skew the impact figures in relation to FDI and great care should be taken to confirm any jobs figures claimed, in particular considering any likely deadweight. Finally, methodology for what counts as a job created or safeguarded is not as clear as it might be. For example, mergers and acquisitions activity that results in the take over of a business in the region has in the past been counted as jobs safeguarded under some methodologies. It is not certain that those jobs would definitely have been lost, and some jobs losses may actually result.

Notwithstanding such caution, between 2007-10 Yorkshire Forward recorded that inward investment activity created or safeguarded 20,803jobs; supported over 1,500 businesses; created 151 new business; and secured £883m of new investment.

So, whilst there is evidence to suggest that investors will have often already selected the UK and/or a general region and that the benefits are often difficult to directly attribute this should not be seen as a reason not to support Inward Investment activity. Activities can generate large numbers of jobs, businesses and investment and create significant additionality - albeit partial – by bringing forward in time, reducing risk, or improving the quality of projects. The importance of this should not be underestimated – particularly as it helps to set the tone and pave the way for further assistance through aftercare which may support further expansion.[33]

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[29] See YF Policy Product Range Evaluation – Estimating Potential GVA, Regeneris, 2010 - Methodology 1 is based on national benchmarks and Methodology 2 is based on YF project Output data.
[30] YF Policy Product Range Evaluation – Estimating Potential GVA, Regeneris, 2010
[31] See YF Policy Product Range Evaluation – Estimating Potential GVA, Regeneris, 2010 - Methodology 1 is based on national benchmarks and Methodology 2 is based on YF project Output data.
[32] YF Policy Product Range Evaluation – Estimating Potential GVA, Regeneris, 2010
[33] SQW (2009) UKTI Inward Investment Case studies

4. Insights and Lessons Learned

Taken together the scope to further improve performance, and the benefits of global trade and investment, suggest there is as much need to support the region's firms to engage in international trade and to seek to secure FDI now as there was in 1999[34].

In 2010, Yorkshire Forward commissioned Fraser Associates to undertake a review of the evaluation evidence available across its Policy Product Ranges. The review found that "*the generic approaches to international business work tolerably well".* It did however establish a number of areas in which further improvements could be made. In particular it noted that:

"*The findings on what works in relation to inward investment need to be seen in the light of developments in the wider international investment environment in terms of the type, scale and motivations for investment. In particular, against a background where inward investment is smaller scale and in many cases reflects merger and acquisition activity rather than new investment, it is not clear to what extent inward investment represents a viable driver for area-based regeneration."*

It also noted the *"potential to improve the performance of both trade development and inward investment through a clearer focus on and more rigorous evidencing of market / other failures"*[35].

In other words, it is important not to see inward investment as a 'silver bullet' that can be relied upon to turn an economy, whether local or regional, around on its own. It is an area where results are unpredictable and can vary from massive to slight. Hence it is best complement by other activity to 'develop the economy from within', for instance by enhancing skills, enterprise, innovation and supporting the development of indigenous businesses. In reality these are complementary rather than alternative courses of action. Good skills, enterprising people, attractive environments and supply chain opportunities on the doorstep all help to attract inward investment.

A number of lessons emerge in two fields that have been considered.

International trade

a) **Provide the right support:** A combination of advice and grant funding support is most useful to business in developing their activity. Additional funding for targeting priority sectors and markets that utilises local knowledge and assets is likely to result in more optimal outcomes for the region than UKTI core or grant funding support alone[36].

b) **Be target specific:** There is scope to improve impact of trade development through a focus on threshold and mature exporters and through more rigorous appraisal of applications /cost recovery policies in relation to in-country support.

Inward Investment

c) **Establish a clear rationale:** A clear rationale that properly considers and targets the underlying issues is crucial. Evidence suggests that there is real potential to improve the performance of both trade development and inward investment through a clearer focus on and more rigorous evidencing of market (and other) failures[37].

[34] Ekosgen (2008) An Evaluation of TESS
[35] Fraser Associates (2010) Review of Evaluation Evidence for Yorkshire Forward
[36] DTZ (2010) Interim Evaluation of NWDAs funding of International Trade Programme: Final Report
[37] Fraser Associates (2010) Review of Evaluation Evidence for Yorkshire Forward

d) **Play to your strengths and be realistic:** Given the increasing scarcity of resources it is vital that efforts are well targeted. Evidence indicates that across all industries and markets the most essential elements for attracting FDI are the size of the local market and the growth of the market. It is therefore vital to have a clear understanding of your strengths and that these are the basis on which a proposition is being made. It is impossible to win every investment. Targeting those investors for whom investing in the locality represents a genuinely sensible business strategy based on the comparative advantages it provides will reap significant benefit.

e) **Challenge the orthodoxy and stay flexible:** Global drivers are the major influence on FDI and these can change rapidly. It is all too easy to become complacent and find you are no longer targeting the right sectors. Regular reviews and the ability to change direction quickly are vital in an age when being fleet of foot is an essential part of meeting any prospective investor’s needs.

f) **Get ahead of the market:** It is important to understand an area’s comparative advantages and proactively seek to target these. Up front public sector investment in site assembly, infrastructure and local capacity can be crucial to securing investment and by putting institutional and land assets in place well in advance it is possible to gain significant advantages. For example Yorkshire Forward invested over £24m in establishing strategic site attractive to major investors. In doing so it was able to attract a major inward investment from Guardian Glass. [38]

g) **Relationships, retention and messages matter:** The attraction and retention of FDI in a highly competitive market requires an excellent product, effective marketing, first class service. Most areas use very similar messages (a good platform for the rest of Europe, a skilled workforce, etc), so it is essential to be able to differentiate yourself in the market as well as to ensure leading edge handling processes are in place to secure investment from reactive enquiries. ‘Key account management’ work to build relationships with the largest local companies and encourage them to stay and reinvest was one of the most effective approaches. Inward investors are by their nature often footloose, so work to retain them and connect them to local labour and supply chains is as vital as attracting new investors.

h) **Be prepared for the long haul**: Inward Investment is not a quick fix. It often requires a sustained medium to long term effort to yield results.

i) **Know your route to market:**, Outsourcing lead generation to external providers (who are representing multiple locations) may not be the best course of action. It can become difficult to control activity and may confuse potential investors. However, the success of overseas offices has also been mixed, so lead generation needs carefully consideration

j) **Love thy neighbour?** Inward Investment processes and arrangements are complex and involve many organisations. Effective partnership working is especially important in attracting and retaining inward investment. Working jointly with ‘competitors’ in neighbouring areas over a larger terrain often helps to create a profile that investors will notice and to heighten overall success – which will span multiple local labour markets.

[38] NAO Independent Performance Assessment of Yorkshire Forward – Self Assessment

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This paper is part of a suite of 'Learning Legacy' reports produced by Yorkshire Forward in 2011. The series is intended, as far as we can, to capture knowledge, achievements and lessons learned from regional economic development. It seeks to pass knowledge on to other bodies who may be able to apply it now or in the future.

We are grateful to all the many partner organisations, businesses and individuals who have contributed to this work over Yorkshire Forward's lifetime.

In addition to an Overview, the full range of modules in the series covers:

1: Economic Strategy

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York and North Yorkshire LEP http://www.ynylep.co.uk/

Humber LEP (web address to be confirmed)

BIS Local http://www.bis.gov.uk/policies/economic-development/bis-local-offices

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