



east west locations ltd

An Evaluation of AWM's

Inward Investment Programme 2004/05 to 2008/9

Final Report



Report completed by: Sundeep Aulakh and Paul Nunn

Proof check completed: Sundeep Aulakh

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1 Introduction

1.1 In March 2009, Advantage West Midlands (AWM), the Regional Development Agency (RDA) for the West Midlands, commissioned ekosgen and East West Locations to undertake an evaluation of its inward investment programme covering the period between 2004/05 and 2008/09.

1.2 This introduction provides an overview of AWM's inward investment programme. It also sets out the aims of the evaluation, the methods that have been used and the structure of the report.

An Overview of the Inward Investment programme

1.3 The UK has a long history of using various policy instruments to attract and retain investment from foreign owned firms.¹ Despite shifts in approach,² government intervention has largely been justified on three grounds:

- **Benefits:** international trade and investment contributes to UK economic growth and prosperity;
- **Market failures:** market failures create barriers to international trade and investment and without government intervention to address them, these barriers would prevent the business community from realising benefits;
- **Cost effectiveness:** there are cost effective actions that government can take to address market failures and enable business to generate sufficient benefit to justify the cost of intervention.³

1.4 Each RDA has been responsible for working with UK Trade and Invest (UKTI) to attract Foreign Direct Investment (FDI) into their respective regions and support the internationalisation of indigenous companies. Each RDA operates within nationally defined policy parameters, yet tailors the nature of its support to best meet the needs of its region.

1.5 The nature and scope of AWM's inward investment programme is elaborated upon in chapters three and four. At the outset, however, it is important to highlight that the Agency's operations are structured along two dimensions: it has an inward investment team, which is based in the West Midlands. The team provides support and services to any foreign owned company wishing to invest in the region. The Agency also has a presence in several overseas locations where it provides services either directly or through a third party to companies seeking to do business in the Midlands or elsewhere.

1.6 In several of its overseas bases, AWM had been working with the East Midlands Development Agency (*emda*) where they were operating as British Midlands. As the name suggests, the British Midlands brand sought to attract business to the *Midlands* rather than

¹ The economic analysis underpinning these policies has been set out in several Economic Papers published by the Department for Trade and Industry (DTI), which is now the Department for Business Enterprise and Regulatory Reform (BERR). See for instance:

DTI Economic Paper No. 10, *Liberalisation and Globalisation: Maximising the Benefits of International Trade and Investment*;

HM Treasury (2006) *Productivity in the UK 6: Progress and New Evidence*; and

HM Treasury (2004) *Trade and the Global Economy*.

² Manchester Independent Economic Review: *Appendix A: Literature Review of the impacts of FDI on host locations*.

³ DTI (2006) *International Trade and Investment – the Economic Rationale for Government support*.

East or West specifically.⁴ The brand was terminated on April 1 2009 through mutual consent because each region has unique strengths and different propositions. Both parties felt that the British Midlands brand did not fully capture these and was, in effect, beginning to dilute the respective offer of each (e.g. the West Midlands has strengths in Business and Professional Services not matched by East Midlands). (See also paragraph 3.23 in chapter three).

1.7 Initial project leads are generated from a wide range of partners including UK Trade and Investment (UKTI), sub-regional partners like Locate in Birmingham and intermediaries who provide location advice to firms. The inward investment team offers a portfolio of services that are tailored to individual company needs. The core service offering has remained unchanged since the team was first established,⁵ although it is important to draw attention to two of its product offerings.

1.8 First, the inward investment team's service offering includes the grant *Selective Finance for Investment in England* (SFIE), a modified version of the original Regional Selective Assistance (RSA) scheme. The grant is a separate programme in itself and AWM has commissioned an evaluation of it alongside this study. There are cross-linkages between the two studies, some of which are examined in this report.

1.9 Second, in 2005, the inward investment team introduced the *Bridge to Growth* (BtG) initiative, which comprises an integrated package of services designed to reduce costs and minimise risk to (overseas) Small and Medium Sized Enterprises (SMEs) seeking to invest in the West Midlands (particularly for the first time). The project was initially targeted at the Nordic countries but due to its success, it has been extended to other European countries. The initiative has many unique features and these are detailed in chapters three and four.

Evaluation Aims and Links to the RSA/SFIE Evaluation

1.10 The inward investment programme has been operational since 2002/03, although this study focuses on the last five financial years, that is, the period 2004/05–2008/09. The evaluation has three core aims:

- To estimate the economic impact of AWM's inward investment activities and the contribution these have made to regional outcomes and meeting RES objectives.
- To assess the extent to which the activities have helped the Agency achieve regional objectives quicker and to a greater scale than would otherwise have been possible.
- To identify key lessons for future activities in the area of inward investment.

1.11 Foreign owned firms who benefited from RSA/SFIE grants have been included in a separate, parallel evaluation undertaken alongside this study.

⁴ Specific marketing of the East or West Midlands region took place once a company showed interest in a locality and/or its area of operation was suited to one region more than the other.

⁵ However, there have been many modifications in the way that the team is structured, which is outlined in chapter three.

Research Methods

1.12 Regional Development Agencies (RDAs) are required to ensure that the evaluations they commission are in line with the Impact Evaluation Framework (IEF), which was produced by the Department of Trade and Industry in 2006.⁶ The research methods adopted for this evaluation are consistent with the guidance and they entailed the following:

- **Desk Research** comprising several discrete elements: (a) secondary data analysis to report upon UK and regional trends relating to FDI; (b) a review of existing inward investment studies; (c) a review of AWM's corporate plans and accompanying regional economic strategies; and (d) analysis of the programme's monitoring data focusing on spend and outputs.
- **Stakeholder consultations** with AWM's inward investment team, agencies involved in delivering inward investment at the sub regional level, and UKTI.
- **Structured telephone survey, which was augmented with qualitative interviews** with businesses that have received support from the inward investment team. In total, the study surveyed 50 businesses and interviewed a further 16. Companies that received an RSA/SFIE grant were not surveyed or interviewed in this study, as they have been included in the companion study.
- **Impact Assessment** – The evaluation has calculated the programme's net economic impact, taking account of the key adjustment factors: deadweight, leakage, displacement, substitution and multipliers.

Structure of the Report

1.13 The rest of the report is structured as follows:

- **Chapter 2** identifies the benefits arising from inward investment and then provides an overview of recent FDI trends at the national and regional level.
- **Chapter 3** provides a historical overview of the way in which the inward investment team has been structured. The chapter also provides a detailed breakdown of the programme's spend.
- **Chapter 4** discusses the approaches and processes associated with generating leads and providing support to companies – in effect, the way in which the programme has been delivered.
- **Chapter 5** provides a profile of the companies that have been supported by the inward investment team, as well as those (foreign owned companies) that have received an RSA/SFIE grant. The chapter also reports on the outputs generated by the inward investment programme and those generated by foreign owned firms receiving a RSA/SFIE grant.
- **Chapters 6 and 7** present an analysis of the survey findings and interviews undertaken with companies supported by the inward investment team. The former focuses on their characteristics and the extent to which they are embedded in the region. The latter focuses on their motivations for engaging in

⁶ DTI (2006) *Evaluating the Impact of England's Regional Development Agencies: Developing a Methodology and Evaluation Framework*. DTI Occasional Paper No 2.

overseas trade, working in the West Midlands, the support they obtained from the Agency and the additionality associated with this.

- **Chapter 8** calculates the programme's net economic impact, although the figures should be treated with some caution because of the low number of respondents able to quantify the value of the support they received. The chapter also reports on the wider benefits generated by inward investors.
- **Chapter 9** presents the study's conclusions regarding the effectiveness of the inward investment programme and makes a series of recommendations regarding its future development.

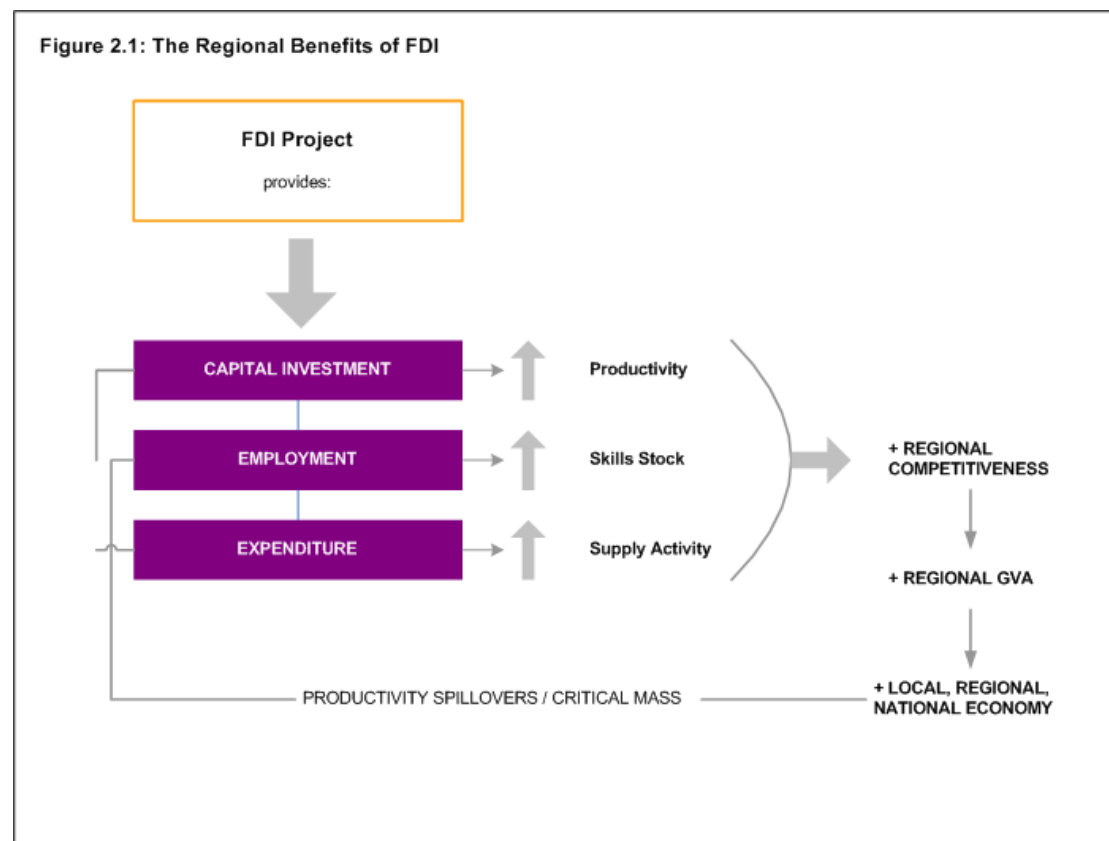
2 Inward Investment Benefits and Trends

2.1 This foundation chapter sets the activities of the inward investment programme between 2004/5 and 2008/9 in its longer term context. It is divided into three main parts. The first identifies the benefits associated with inward investment, whilst the second summarises recent trends regarding the level of such activity in the region and the UK as a whole. The final section identifies future trends relating to FDI and proceeds to outline the importance of AWM's ongoing funding of its inward investment programme.

The Benefits of FDI

2.2 Foreign direct investment is defined as “the international movement of capital for specific investment purposes...occur[ing] when overseas companies set up or purchase operations in another country.” It also includes the expansion of an existing investment in a new location or the establishment of a new subsidiary company.

2.3 FDI can generate a range of benefits for the regional and national economy. Figure 2.1 illustrates the direct benefits that can arise from an FDI project in the form of a new operation or the takeover of an existing business. In either case, there is an inflow of financial investment leading to capital expenditure, the creation of new jobs or the safeguarding of existing ones, and possibly expenditure on inputs sourced from regional suppliers. In turn, this can lead to aggregate productivity gains (i.e. regional productivity growth) and Gross Added Value (GVA). In short, FDI projects can potentially lead to employment, income and productivity gains.



2.4 International investment also generates a series of indirect benefits, sometimes referred to as spill-over effects and the key ones are as follows:

- **Technological:** Indigenous businesses can learn from and emulate the technology and processes introduced by inward investors⁷.
- **Competitive:** Inward investment can stimulate and increase competition, which can directly increase profit margins of indigenous and foreign owned firms.⁸
- **Collaborative:** Collaboration between inward investors and suppliers and other organisations can help solve business problems, or lead to additional research and development. In this way, FDI has been linked to 'positive knowledge spill over effects' and has been shown to increase the rate and sustainability of new start ups.⁹

2.5 Overall, inward investment projects can yield substantial benefits to a regional economy, particularly those with considerable spill-over potential.

UK FDI Trends Since 2000

The Financial Value of FDI in the UK

2.6 This section sets out the landscape of UK inward investment activity from 2000. The evaluation period begins at 2004/5 but it is important to view the status and condition of the inward investment market from this earlier period as it was characterised by a number of significant shifts.

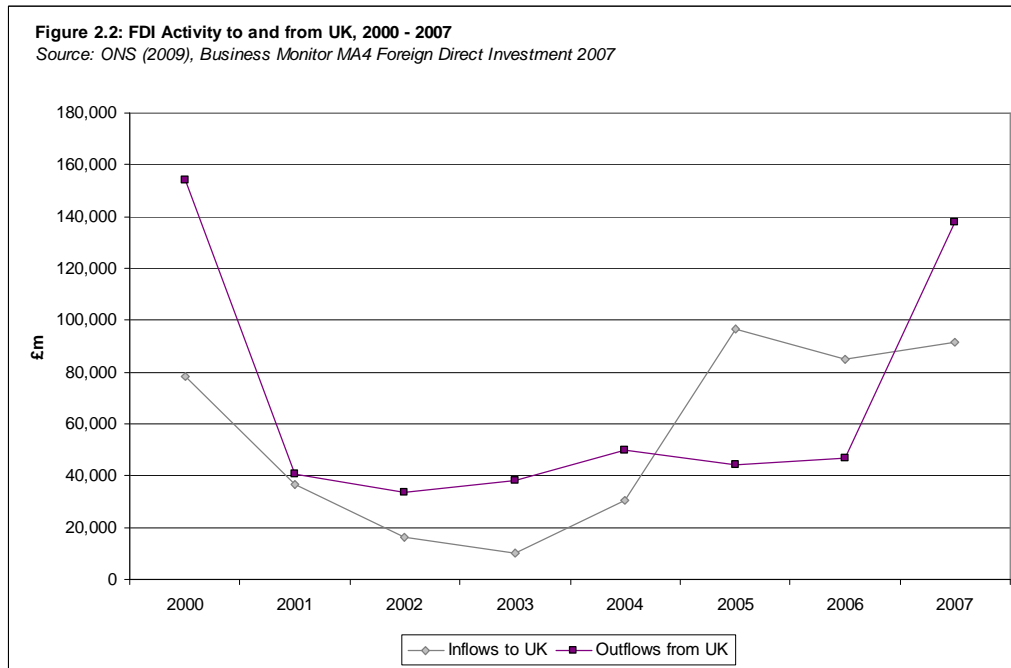
2.7 Figure 2.2 shows the general trend of FDI flows in the UK between 2000 and 2007.¹⁰ Over this timescale inward investment can be categorised into three distinct periods (a) low levels of inward investment during 2000–2003; (b) intensive activity during late 2003 to 2005; and (c) a levelling off of inbound investment up to 2007. The UK's experience is slightly different from the overall global position where investment did not begin to flat-line until 2007.

⁷ Görg & Greenaway (2004) *Much Ado About Nothing? Do Domestic Firms Really Benefit from FDI?* World Bank Research Observer Vol. 19.

⁸ Maioli, Görg & Girma (2005) *Trade, FDI and Plant-Level Price-Cost Margins in the UK.*

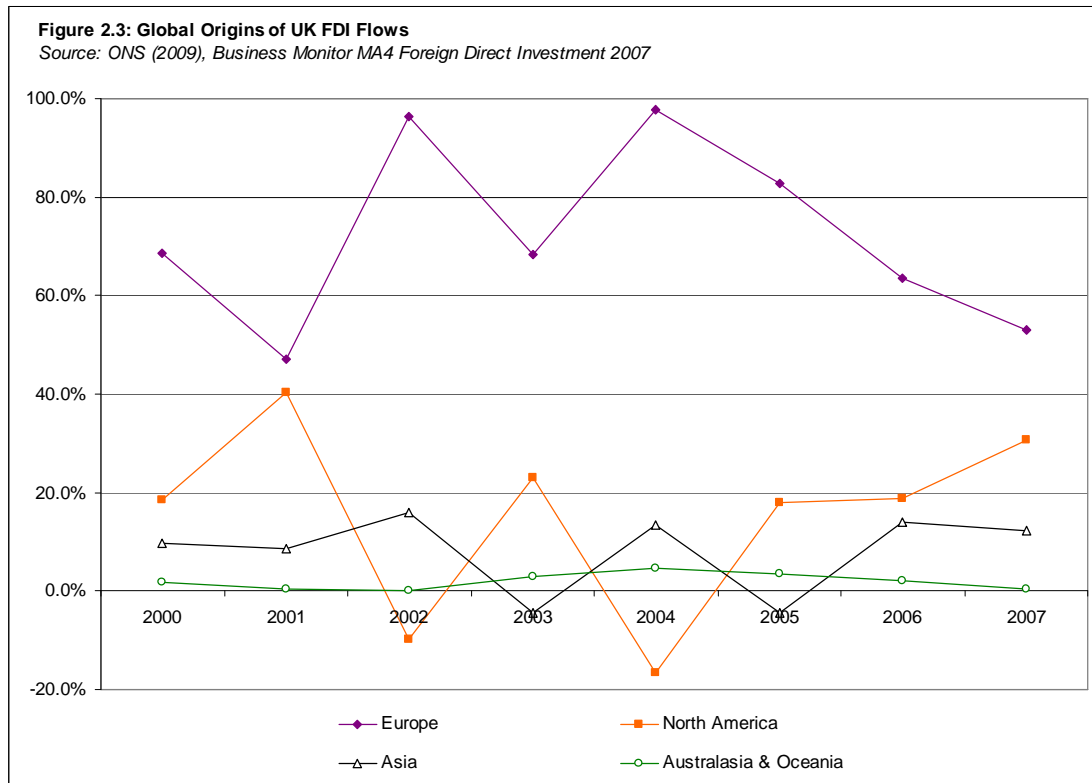
⁹ Burke, Görg & Hanley (2006) *The Impact of FDI on New Firm Survival in the UK: Evidence for Static v Dynamic Industries.* University of Nottingham Working Paper.

¹⁰ The latest date of official data regarding financial flows of FDI is 2007.



2.8 There are two reasons why inward investment levelled off after 2005 much faster in the UK than in the rest of the world. First, the significant absolute decline of investment from North America that occurred between 2001 and 2004 has rebounded but not fast enough or in sufficiently large value terms to counter declining inflows from elsewhere (predominantly Europe). This is because American companies have become more confident of making investments directly in continental Europe without first using the UK as a stepping stone (as they did previously).

2.9 Second, investment from EU countries declined significantly over the 2005–2007 period, recording a 40% decline in the value of inflows as shown in table 2.1. In 2002, the EU accounted for 98% of net inward investment in the UK, but by 2007, this had fallen to 41.3% (Figure 2.3). This has coincided with the widening of EU membership, suggesting that the UK has been weaker in securing cross-border European investment compared with other member states.



Note: * African FDI flows are not shown here as they remain below 0.5% of total in every year. A negative value indicates a net disinvestment abroad (i.e. a decrease in the amount due to the UK, usually through repatriation of profits/dividends).

Table 2.1: Annual FDI Inflows to the UK by Donor Area, 2000 – 2007 (£ million)

	Europe	North America	Asia	Australia & Oceania	Africa	World Total
2000	53,839	14,623	7,725	1,483	416	78,495
2001	17,213	14,764	3,132	92	63	36,555
2002	15,431	-1,595	2,551	31	71	16,033
2003	7,013	2,351	-449	310	7	10,276
2004	29,901	-5,044	4,081	1,420	-43	30,566
2005	80,087	17,221	-4,168	3,396	66	96,803
2006	53,837	15,822	11,806	1,869	131	84,885
2007	48,696	28,046	11,126	412	475	91,651
Total to 2007	306,017	86,188	35,804	9013	1186	445,264
% of World	68.7%	19.4%	8.0%	2.0%	0.3%	100.0%

Source: ONS (2009), Business Monitor MA4 Foreign Direct Investment 2007.

2.10 Even though the UK has experienced a decline in inward investment from North America as a whole since 2000, accounting for a peak of 40.4% of all inflows to the UK during 2001 but only 30.6% during 2007, the value of inflows from the US has increased. Total inflows from the USA and Canada amounted to £28,046 million during 2007, almost twice the volume during the peak year of 2001 and some ten times the level of activity recorded in 2003.

2.11 Inward investment from Europe into the UK has predominately emanated from Germany and Spain over the entire evaluation period and indeed in the period before 2000. In 2007, inward investment from Germany was valued at £18,826 million and that from Spain at £14,875 million. Together, these two countries accounted for 89% of the UK's total inward investment from the EU nations and 69% of all European countries.

2.12 To summarise, the collective investment from the US, along with Germany and Spain, has been substantial. Europe now dominates inbound flows of inward investment in value terms and relative to other donor regions, accounting for two thirds of global inbound flows at 2007.

FDI by Project Successes

2.13 UKTI¹¹ measures inward investment by counting 'project successes', that is, the number of individual FDI projects arising from a given country. Table 2.2 shows the number of investments emanating from the top ten donor countries for the financial years 2006/7 and 2007/08. It excludes merger and acquisition activity.

Country	2006/07		2007/08	
	Total Wins	% Large Companies	Total Wins	% Large Companies
USA	351	40%	335	46%
Japan	69	80%	92	85%
Germany	55	53%	72	57%
Australia	47	17%	66	18%
France	56	57%	62	60%
China	47	43%	53	19%
India	51	31%	53	21%
Canada	50	40%	39	15%
Sweden	18	50%	30	53%
Italy	20	35%	23	35%
All Donor Countries	791	44%	863	45%

Source: UKTI (2008) *Inward Investment Review Report*.

2.14 The highest numbers of FDI projects originate from the USA, which does not correlate with the financial value of projects. As noted above, the EU accounts for the highest value of total inward investment in the UK. The absence of Spain is notable in the above table. In monetary terms, Spain accounts for the second highest level of inward investment, but it is not amongst one of the top ten countries in terms of the number of FDI projects. Overall, this suggests that inward investment from the USA takes the form of many small projects, but from the EU, it generally consists of a smaller number of high value projects.

2.15 Table 2.2 also shows the proportion of each donor nations projects made up from large companies. In six countries, this is lower than the proportion originating from SMEs. Japan is notable because the vast majority of investment from that country is driven by larger companies. Three other countries with a higher share of investment from non-SMEs are France, Germany and Sweden. In general, the proportions of investment from SMEs and large companies has remained constant since 2000.

Regional UK FDI Trends over the Evaluation Period

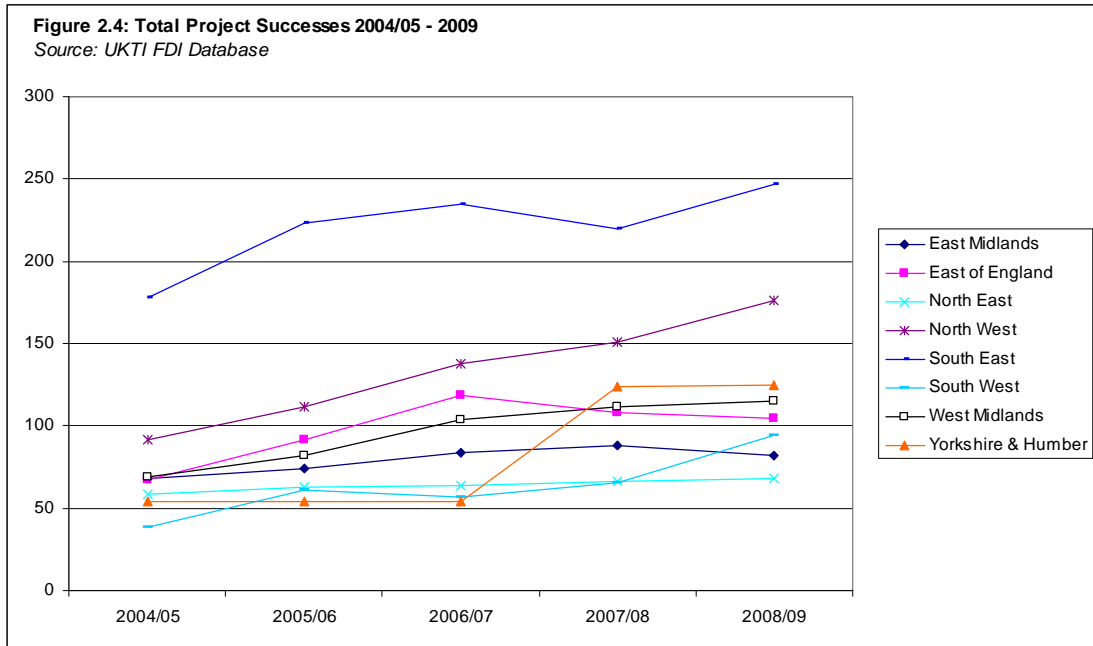
The Number of Projects

2.16 Between 2004/05 and 2008/09 UKTI recorded 482 inbound project successes in the West Midlands, just under 7% of all 7,034 projects landing in the UK. UKTI and AWM provided some form of support to 41% of the region's projects. Specifically, 107 projects

¹¹ The Government agency responsible for encouraging inward investment and supporting UK companies to trade overseas.

benefited from support provided by both organisations and 89 received support from AWM (but not UKTI).¹²

2.17 The geographic pattern of inward investment across the English regions has been relatively constant since 2004 (see figure 2.4). In 2004/05, the West Midlands accounted for the third highest number of projects out of the eight regions (excluding London), although by 2008/09 it had slipped to fourth place. Nonetheless, it had secured 115 projects in that year, the highest number since data collection began in 1991.

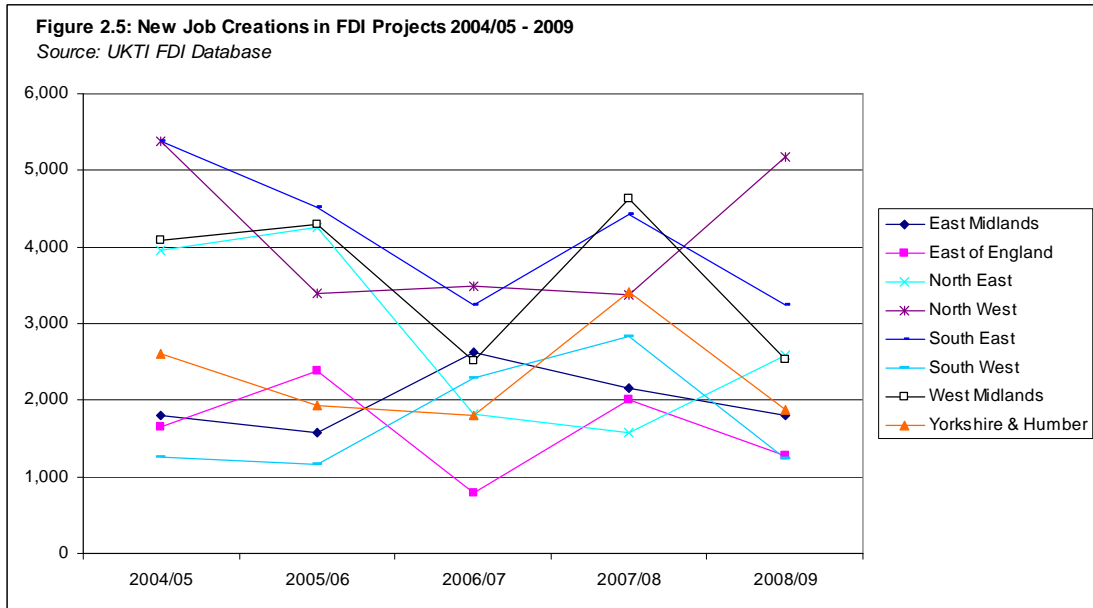


2.18 Over the last five years, the West Midlands has increased its relative number of project wins over the East Midlands and East of England. However, it has lost some ground to the North West, which has recorded a strong overall increase in the number of inward investment projects.

Employment Generated by FDI Projects

2.19 Just over 190,000 new jobs have been generated in the UK as a result of inward investment activity over the period 2004/05 to 2008/09. Of this number, 18,040 have been generated in the West Midlands, accounting for 9.5% of all new jobs and well above the 6.9% regional share of project successes. Figure 2.5 shows job creation in the eight English regions.

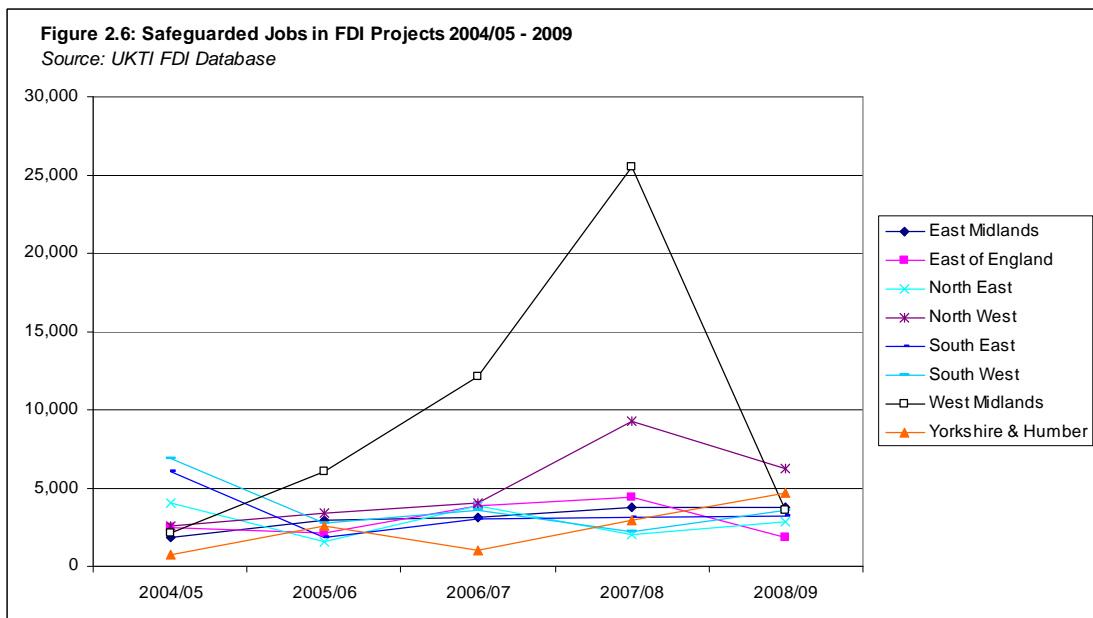
¹² The figures in this section are drawn from UKTI data and there is a slight difference with numbers of FDI projects supported by AWM as analysed in section 3. This is due to the different ways in which each organisation records an FDI project.



2.20 The West Midlands accounted for the fourth highest number of new jobs created in 2008/09, being third in 2004/05. The average number of jobs created per year has been around 3,600, although this masks annual variations.

Jobs Safeguarded by FDI Projects

2.21 The number of jobs safeguarded in the UK as a result of FDI activity is similar to the number of new jobs created. Just under 235,000 jobs were safeguarded between 2004/05 and 2008/09, representing a rate of 1.2 jobs safeguarded for every new job created.



2.22 In the West Midlands, 49,360 jobs were safeguarded in the same period. This translates to 2.7 jobs safeguarded for every new job created.

2.23 During 2007/08 the West Midlands accounted for one in five of all safeguarded jobs in the eight English regions (excluding London). However, it should be acknowledged that this

was an anomalous year in which one of the region's largest employers was subject to a takeover, thereby significantly increasing the number of safeguarded jobs and boosting the overall average. Nevertheless, in three of the five years of the evaluation period, the West Midlands outperforms all other English regions in the number of safeguarded jobs through FDI projects.

FDI Trends in the West Midlands

2.24 The level of inward investment activity in the West Midlands, along with the numbers of jobs created and safeguarded over the last five years is set out in table 2.3 below. This includes all projects and not just those supported by AWM and/or UKTI.

	2004/05	2005/06	2006/07	2007/08	2008/09	Total
FDI projects	69	82	104	112	115	482
Jobs created	4,083	4,285	2,510	4,640	2,524	18,042
Jobs safeguarded	2,144	6,015	12,101	25,480	3,619	49,359

Source: UKTI FDI Database (2009).

2.25 The number of FDI projects in the region has increased steadily since 2004/05, with 2008/09 experiencing the highest number to date (115). Current project wins are now 67% higher than they were at the beginning of the evaluation period.

2.26 Over the last five years, some 18,040 jobs have been created and 49,360 have been safeguarded. Despite a significant downturn in global FDI, the number of jobs created during 2008/09 remained higher than at the start of the period. Safeguarded jobs reached a high of 25,480 during 2007/08. On average, the number of jobs created and jobs safeguarded each year has been around 3,600 and 9,870 jobs respectively.

2.27 Table 2.4 shows the numbers of inward investment projects taking place in the region that have involved AWM and the employment outcomes that have occurred.¹³

	2004/05	2005/06	2006/07	2007/08	2008/09	Total
FDI projects	34	34	37	41	50	196
Jobs created	2,645	2,255	1,684	2,746	1,072	10,402
Jobs safeguarded	461	3,354	361	469	360	5,005

Source: UKTI FDI Database (2009).

2.28 There has been a gradual increase in the number of projects taking place with AWM involvement, the highest being 2008/09 where 50 received support from the Agency.

2.29 Table 2.5 compares the employment outputs generated by projects that have benefited from AWM support and those that have not. At an average of 53 new jobs per project, job creation where the agency has been involved is around twice as high as where

¹³ The data is drawn from the UKTI database which is assembled from Project Completion Forms (BG3) that each RDA completes with the UKTI team. The UKTI data records slightly different numbers of projects to those used by the AWM team and West Midlands Regional Observatory in its reporting on regional FDI, (hence the discrepancy with figure 5.1. The discrepancy highlights the difficulties that are often attached to identifying projects, their employment outcomes and the exact year to which benefits of FDI should be attached. The overall difference is however negligible in any one year.

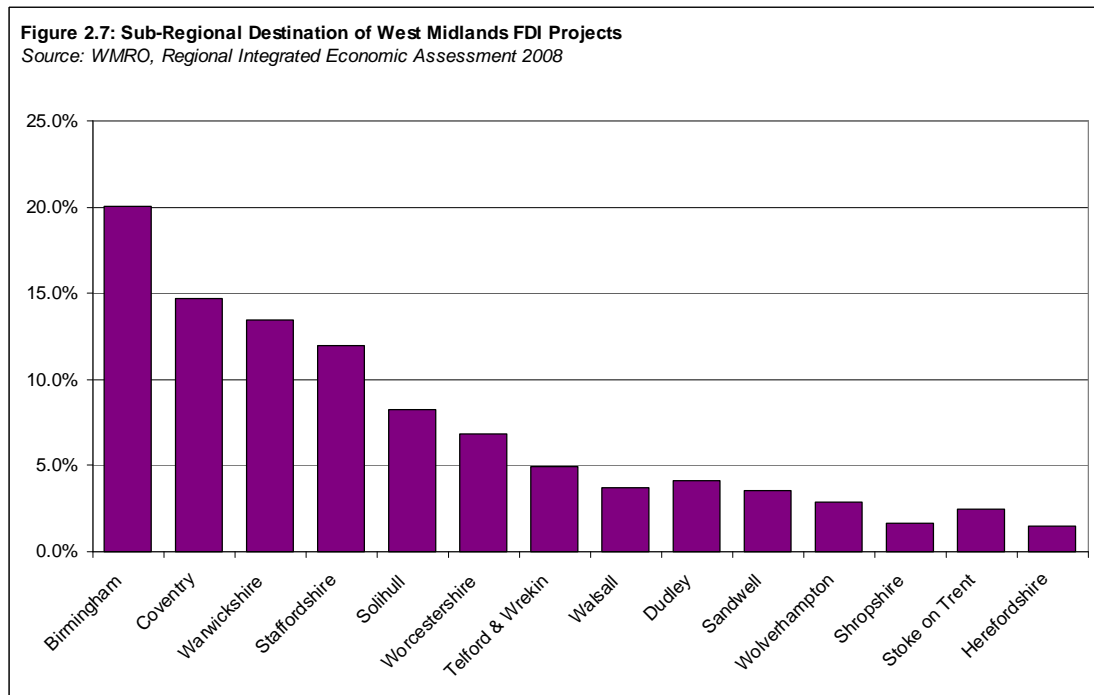
there has been no involvement. Conversely, the average number of jobs safeguarded has been much higher for projects without AWM involvement (155 as opposed to 25).

	Total	Non Supported		AWM Supported	
		No.	Average	No.	Average
FDI projects	482	286		196	
Jobs created	18,042	7,640	27	10,402	53
Jobs safeguarded	49,359	44,354	155	5,005	25

2.30 Overall, AWM has been involved in 41% of inward investment projects since 2004/05, which in turn, have helped to generate well over half (58%) of all new jobs attributable to foreign investment.

Geographic Location of FDI Projects and Employment in the West Midlands

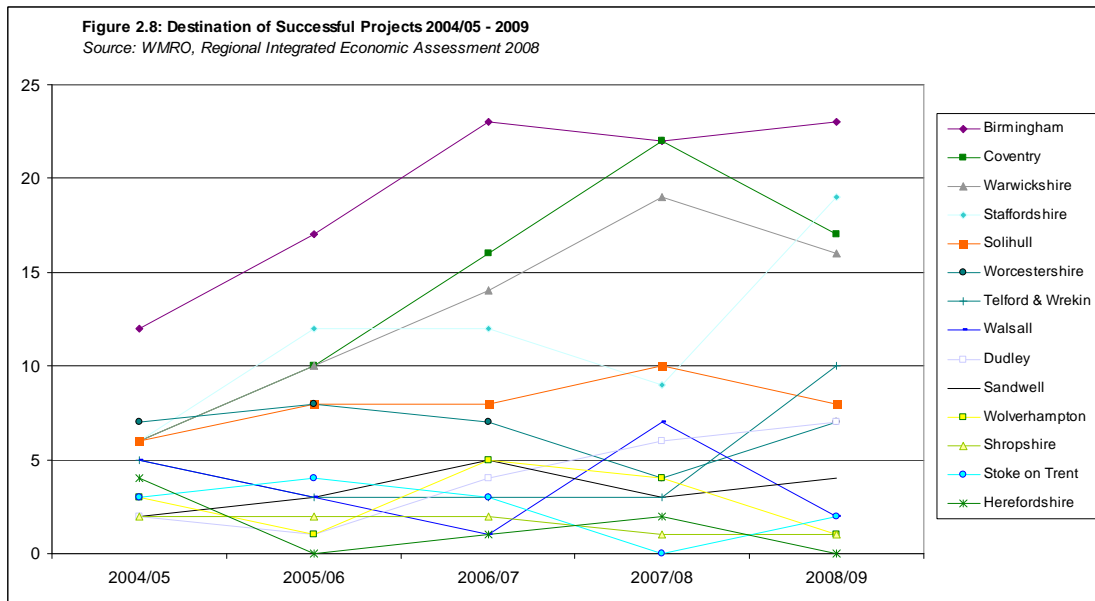
2.31 Figure 2.7 shows the locational distribution of all FDI projects since 2004/05 (based on UKTI/AWM data collated by WMRO).



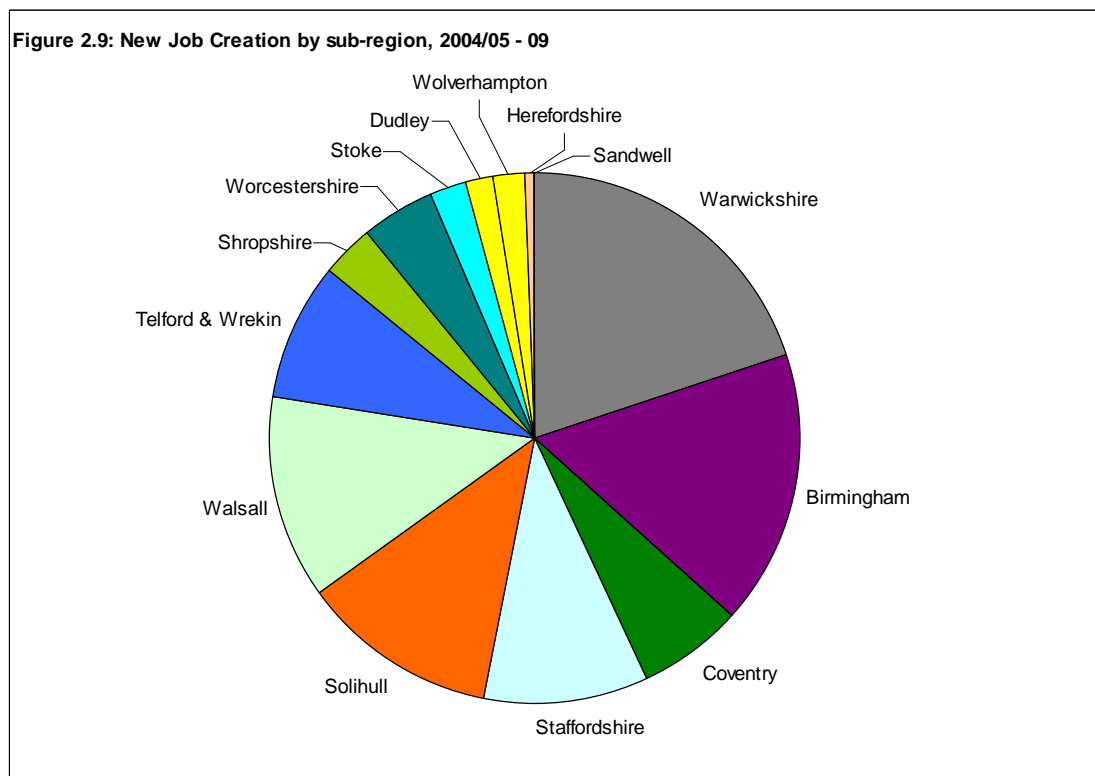
2.32 The top four areas account for 60% of all FDI projects that have taken place between 2004/05 and 2009. Perhaps unsurprisingly, Birmingham has attracted the most projects, accounting for 20% of the region's total inward investment activity. However, this appears in proportion to its levels of economic activity. The city is home to 21% of all businesses operating from the region and 16.4% of the regional workforce work there.

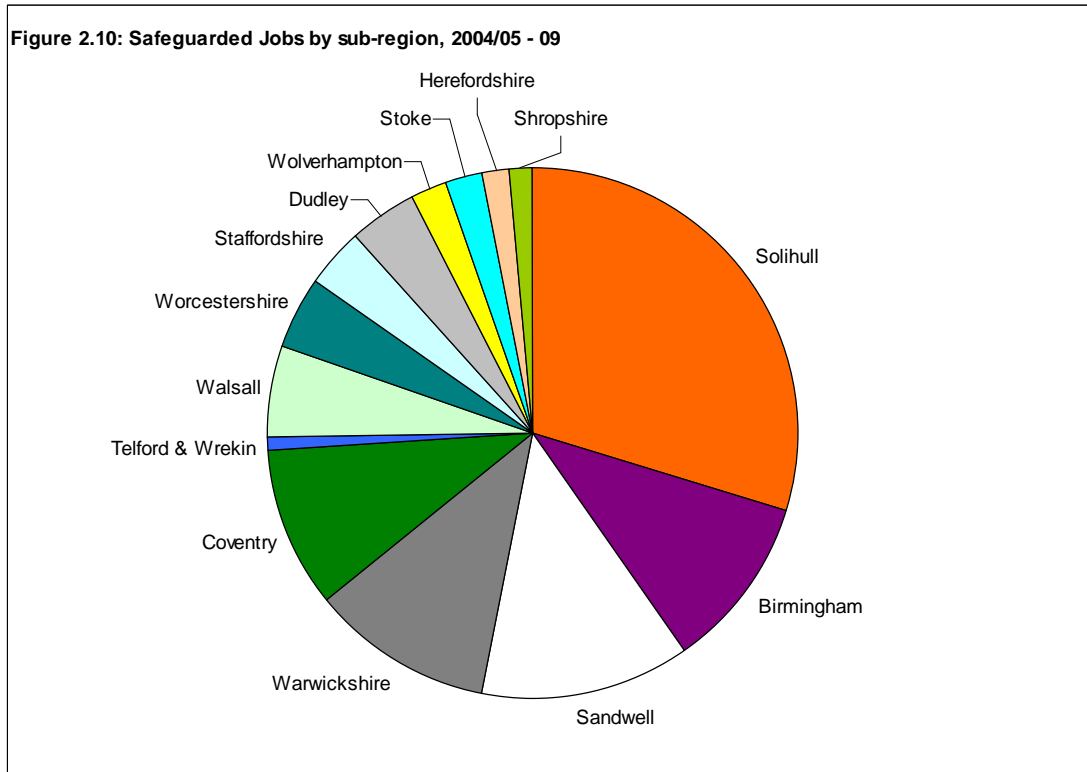
2.33 Three areas account for a higher share of activity compared to their share of the region's business base (measured as employed workforce in each area's businesses at 2008). These are (in descending order) Coventry, Solihull and Telford and Wrekin. Coventry is by far the most significant of these; 4.6% of the region's workforce are employed in Coventry yet it has attracted three times this share (15%) of the region's inward investment activity. Solihull and Telford and Wrekin both report twice the density of inward investment projects as their share of regional employment.

2.34 Figure 2.8 shows that the level of inward investment activity in four areas has grown much faster compared to the others. These areas are Birmingham, Coventry, Warwickshire and, since 2007/08, Staffordshire.



2.35 Figures 2.9 and 2.10 identify the geographical distribution of new and safeguarded jobs.





2.36 Two of the four areas that have attracted the most projects have also experienced the highest number of new jobs. Together, Birmingham and Warwickshire benefited from 6,478 new jobs (36.7% of total). It is notable the highest number of jobs have been created in Warwickshire and not in Birmingham. However, new job creation is more geographically disperse than the number of project wins would suggest. Coventry is eclipsed by four other areas in terms of new job creation; Walsall, Solihull, Staffordshire and Telford and Wrekin all reporting higher job gains than in Coventry. The first three areas each accounting for more than 10% of all new jobs against Coventry's 6.3%.

2.37 With regards to jobs safeguarded, by far the largest numbers have occurred in Solihull, partly because the figures are distorted by a single large takeover project during 2007/08. Here, Sandwell is also notable because it benefited from a significant number of jobs being safeguarded even though its share of job creation has been the lowest. In total, 6,500 jobs have been safeguarded in Sandwell, around 11% of the region's total against less than 1% of all new jobs.

A Sectoral Profile of all FDI Projects in the West Midlands

2.38 Table 2.6 (overleaf) shows the sectoral profile of all FD projects that have taken place in the region since 2002.

2.39 Given the industrial legacy of the region, it is unsurprising that just over half of all inward investment projects have taken place in the manufacturing sector. Around a quarter have occurred within Banking and Financial Services, a relatively new sector that the region has been building a reputation for over the last ten years.

	No	%
Manufacturing	249	51.7%
Banking & Financial Services	125	25.9%
Transport & Communications	38	7.9%
Construction	20	4.1%
Distribution, Hotels, Restaurants	15	3.1%
Public Admin, Education & Health	13	2.7%
Other Services	14	2.9%
Electricity, Gas & Utilities	8	1.7%
Agriculture, Fishing, Hunting	0	-
Mining	0	-
All Sectors	482	
Source:		

Looking Ahead

2.40 The strong growth of FDI inflows into developed economies that occurred between 2004 and 2007 was largely the result of increased Merger and Acquisition activity. In retrospect, the rise of FDI activity was unsustainable and would in all likelihood have declined even without the global financial crisis. However, the advent of this has led to a decline in many sources of developed economy FDI activity. As mentioned, given the relatively long gestation periods of FDI projects, all industry commentators expect total activity to have fallen when data is published for 2008 onwards.

2.41 Recent reports highlight several sectors that have accounted for significant growth in FDI projects in the UK, which can be used as a barometer to anticipate where inward investment activity may take place and whether there is need for targeted support. These sectors include healthcare,¹⁴ creative industries, environmental technologies, and there has also been an increase in R&D activities and knowledge-driven projects.¹⁵

2.42 It is evident that the UK and the West Midlands should seek to maintain a good flow of prospects from the European market and, in this respect, the growth in northern European projects bodes well for the Bridge to Growth (BtG) initiative. Impacts from BtG need to be set against this emerging trend in European FDI behaviour, which may signal the key markets for any additional BtG activity.

2.43 Perhaps the most important conclusion from FDI share analysis at the individual country level is the geographic volatility of inward investment flows, at least measured in monetary terms. This has important consequences for the timescale used in any geographic or regional targeting of inward investment activity, highlighting the near impossibility of any agency to hit such geographic targets on an annualised basis.

The Need for an Inward Investment Programme in the West Midlands

2.44 In the opening section of this chapter we set out the range of benefits that flow from FDI activity. UKTI and AWM both record the level of capital investment that has been generated by individual projects, along with any employment. From the analysis above it is clear that safeguarding jobs is virtually as important new job creation. Safeguarded jobs are

¹⁴ Ernst & Young (2008) European Investment Monitor 2008.

¹⁵ UKTI (2008) UK Inward Investment 2007/08 Report by UK Trade & Investment.

often highly concentrated into sub-regional areas as was the case in Solihull and Walsall during 2007/08 for example. It therefore remains important to continue to promote inward investment in existing sectors of the regional economy.

2.45 It is also important to consider the wider benefits of FDI to the region as these are likely to be substantial and lead to a shift of the region's economy into areas of new opportunity. An inward investment programme operated by the RDA can help to deliver employment growth, investment and sustainability in supply chain activity. It can also help to shape the future of the regional economy through a series of positive spill-overs emanating from inward investment projects, such as increasing the rate of adoption of new technology and business practices and increasing R&D activity that leads directly to market innovation for example. The critical mass of activity that successful FDI promotion generates will, in turn, attract further interest from overseas companies operating in growth sectors.

2.46 To maintain the momentum of FDI promotion, whilst also ensuring resources are efficiently used, it is necessary to target promotional activities sectorally and geographically. The value of FDI lies not only in quantitative measures but also in its nature and quality to the host region. A better understanding of how the various FDI spill-overs are accruing to the region should guide future activity of the inward investment team. The evaluation investigates various deeper impacts of FDI projects in chapter eight.

3 An Overview of AWM's Inward Investment Programme

3.1 This chapter provides an overview of the way in which AWM's inward investment programme has evolved over the years. It is divided into several sections with the first outlining the programme's aims and objectives and the second providing a brief description of its activities. The third and fourth sections focus on the programme's delivery structures, the former capturing the key changes associated with the organisation of the team in the UK and the latter focusing on the overseas offices. The final section provides a financial breakdown of the way in which the Agency's investment has been deployed over different years and continents.

Overarching Aims and Objectives

3.2 All AWM programmes are informed by the region's economic strategies, as are its corporate plans. The period of evaluation covered by this study coincides with the latter two economic strategies.¹⁶ Both highlight the importance of international trade and investment for the diversification and modernisation of the region's economy. Against this framework, the programme's overriding objective has been to "*increase the region's foreign direct inward investment and international trade, leading to increased competitiveness of individual companies*".¹⁷

3.3 In January 2009, in line with the reorganisation of the inward investment team (which is detailed below) AWM and partners produced *The West Midlands International Business Action Plan* (IBAP). This sets out the current priorities of the inward investment programme along with those relating to the internationalisation of indigenous businesses. The priorities relating specifically to inward investment are:

- Exploiting trade and investment potential from knowledge rich institutions and businesses.
- Identifying, targeting and embedding knowledge driven international investors in the region.
- Enhancing the region's reputation internationally and building on its network of global connections.
- Enhancing regional trade and investment capacity and coordination.

3.4 Appendix 1 summarises the strategic framework within which the inward investment programme has been operating over the last five years. It identifies the aims and priority actions relating to the programme as set out in the economic strategies and AWM's corporate plans.

¹⁶ Three regional economic strategies have been produced to date, the first was called *Creating Advantage* and it covered the period 1999–2003.

¹⁷ AWM 2005–2008 Corporate Plan.

An Overview of Activities

3.5 The core activities of the inward investment programme have remained fairly constant over the last five years and have entailed the following:

- **Promotion:** To create a favourable image of the West Midlands abroad, various promotional activities have been undertaken, such as, advertising and participation in overseas investment missions.
- **Generating Investment:** Activities such as targeted missions and sales visits to potential investors have been undertaken with the specific aim of generating leads and securing investment. The resourcing of overseas offices and the recent *Bridge to Growth* project also fall within this sphere.
- **One-to-one support and advice:** A range of services have been provided directly to potential investors to encourage them to operate in the region and/or help them with the implementation of their project. Box 3.1 lists the key support services that have been made available.

Box 3.1: Services provided by the inward investment team to potential investors

- Land and property searches;
- Help with staff recruitment and training;
- Outlining financial assistance and business support that is available;
- Assistance in developing collaborations with research and development in universities and the private sector;
- Market and socio-economic data on the West Midlands;
- Arranging tours and visits to the region.

Bridge to Growth

3.6 The Bridge to Growth (BtG) project can be viewed as a discrete subset of the broader inward investment programme. It is a marketing initiative that was launched in 2006 designed to attract high growth SMEs to the West Midlands. In essence, AWM undertakes a series of seminars aimed at SMEs operating in the region's priority sectors. Companies are informed of the opportunities and benefits of working in the West Midlands and the support they would receive to help them do so. Following the seminar, interested companies visit the region and meet with AWM's network of business and professional organisations that provide various services to make it easier for them to set up in the region.

3.7 The services on offer include assistance with company registration, accommodation, advice on tax, finance and legal issues, market introduction and lead generation. These are provided either free of charge or at significant price discounts, generally for a period of six months. Overall, the support seeks to make the transition to the UK smoother and less risky than would otherwise be the case.

3.8 BtG has mainly focused on the Nordic countries, although recently it has been extended to Ireland and Germany. It has enabled 150 companies to visit the West Midlands and 21 of them (14%) have successfully established a business.

The Evolving Structure and Focus of the UK Inward Investment Team

3.9 This section provides a brief overview of the way in which the structure and focus of the inward investment team has changed since 2004/05. In short, it is possible to discern three discrete periods.

Phase 1: 2003/04–2005/06: A Sub Regional Approach

3.10 Before 2003, the UK inward investment team was structured to operate on a sectoral basis, that is, the team comprised sector specialists and they provided support to companies operating in their area of expertise.

3.11 In 2003, in response to concerns expressed by sub regional partners, the team was restructured on a geographical basis. Team members no longer provided support according to their sectoral knowledge; instead they assumed responsibility for particular sub regions and provided support to companies wishing to locate or expand their operations in those areas. To all intents and purposes, the team was divided into four composite elements: (i) a policy team responsible for policy development and also the implementation of activities relating to overseas lead generation; (ii) a delivery team with responsibility for supporting companies located or seeking to do so in Birmingham and Solihull; (iii) a delivery team covering the Coventry and Warwickshire sub regions; and (iv) a delivery team covering the remaining areas.

3.12 There is a perception amongst some members of the current inward investment team that the new structure caused fragmentation, undermined coordinated activity, communication and knowledge sharing. Sub regional partners have not commented on this change, preferring to discuss their recent experiences or observations about the delivery of AWM's inward investment programme.

3.13 Alongside structural changes, the role of the inward investment team also changed. Those providing direct support to inward investors were referred to as Business Relation Managers and became responsible for a wide range of other business support activities. In short, it has been noted that the "*focus for inward investment was lost amongst multiple responsibilities.*" Conversely, as the role of the UK inward investment team became diluted, that of overseas offices was strengthened.

3.14 The general sentiment expressed by stakeholders from AWM is that the structural reorganisation that took place in 2003/04 was not the most effective way of securing inward investment and maximising its potential benefits.

Phase 2: 2005/06–2008/09: Re-integrated Approach and Loss of Aftercare

3.15 In 2005, AWM restructured the entire organisation, which led to the loss of aftercare, also known as the investor development function. Previously, this had been confined to foreign owned companies featuring in the region's top 500 enterprises. The decision to no longer offer aftercare to any company, whether foreign-owned or indigenous was not universally supported. The inward investment team feared that the region would lose out on potential FDI projects from existing firms, although there is no hard evidence of this one way or the other.

Phase 3: 2008/09–2011/12: Sector Focused and Knowledge-Driven

3.16 The current structure of the inward investment team is shown in figure 3.1. It encapsulates the most significant changes that have occurred recently. It can be seen that the team is sub-divided into three. Teams two and three work directly with businesses (Investment Managers) and they are responsible for attracting FDI projects into the region. The Investment Managers provide support to companies on a sectoral basis, the former focusing on service oriented sectors and the latter on manufacturing. The key difference with the previous sectoral approach is that it is confined to four priority sectors rather than all ten clusters. The four sectors have been selected according to where it is possible to maximise international projects.

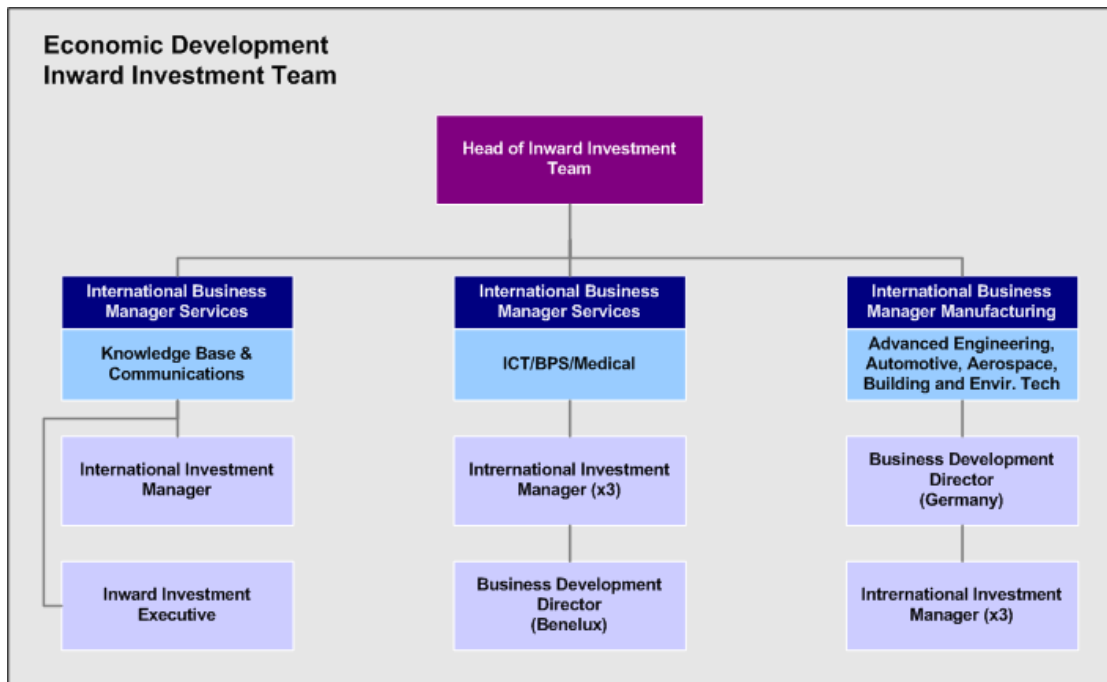
3.17 Team one has become responsible "*all the important functions that used to get sidelined*". One of its core functions is to engage with the region's universities and research centres in order to maximise high-value added knowledge driven projects. Although this was an aspiration as far back as 2005, this is the first time that resources have been devoted to engaging with the region's knowledge bases organisations. Up to this point, whilst business advisers were expected to fulfil this role, the constraints of time often limited their ability to do so.

3.18 The second most important function of team one is to ensure that there is effective communication with all relevant stakeholders. This includes sub regional partners, UKTI, the overseas offices, universities and other knowledge centres. As well as producing the most appropriate material for each type of stakeholder, the team is responsible for organising events and establishing forums. For example, it has re-established the sub regional partner forum to ensure there is two-way flow of communication between AWM and the sub regions.

3.19 It is important to acknowledge a further change and this relates to the integration of trade and investment activity within a single directorate and strategic plan. Previously, the promotion of export trade and the stimulation of inward investment were undertaken separately, but now a coordinated plan has been developed. This aligns with the current structure of UKTI and reflects the inter-dependence of FDI and global trading businesses.

3.20 The priorities of the inward investment programme are set out in the IBAP as detailed above. Again, attempts were made at devising a co-ordinated international trade strategy before, although it is not immediately obvious that a strategy was produced, that it was acted upon or that it was successful and received full stakeholder endorsement.

Figure 3.1: The current structure of the inward investment team



The Overseas Office Infrastructure

3.21 AWM has had a presence in several overseas locations and their main function was, and continues to be, to attract potential investors to relocate or set up a business in the West Midlands. Over the years, overseas offices have been opened and closed depending on local circumstances. At the end of 2008/09, AWM had a presence in 10 overseas locations. A timeline of the Agency's non-European offices is captured in figure 3.2; those above the timeline relate to offices in Asia Pacific and those below the timeline relate to offices in North America.

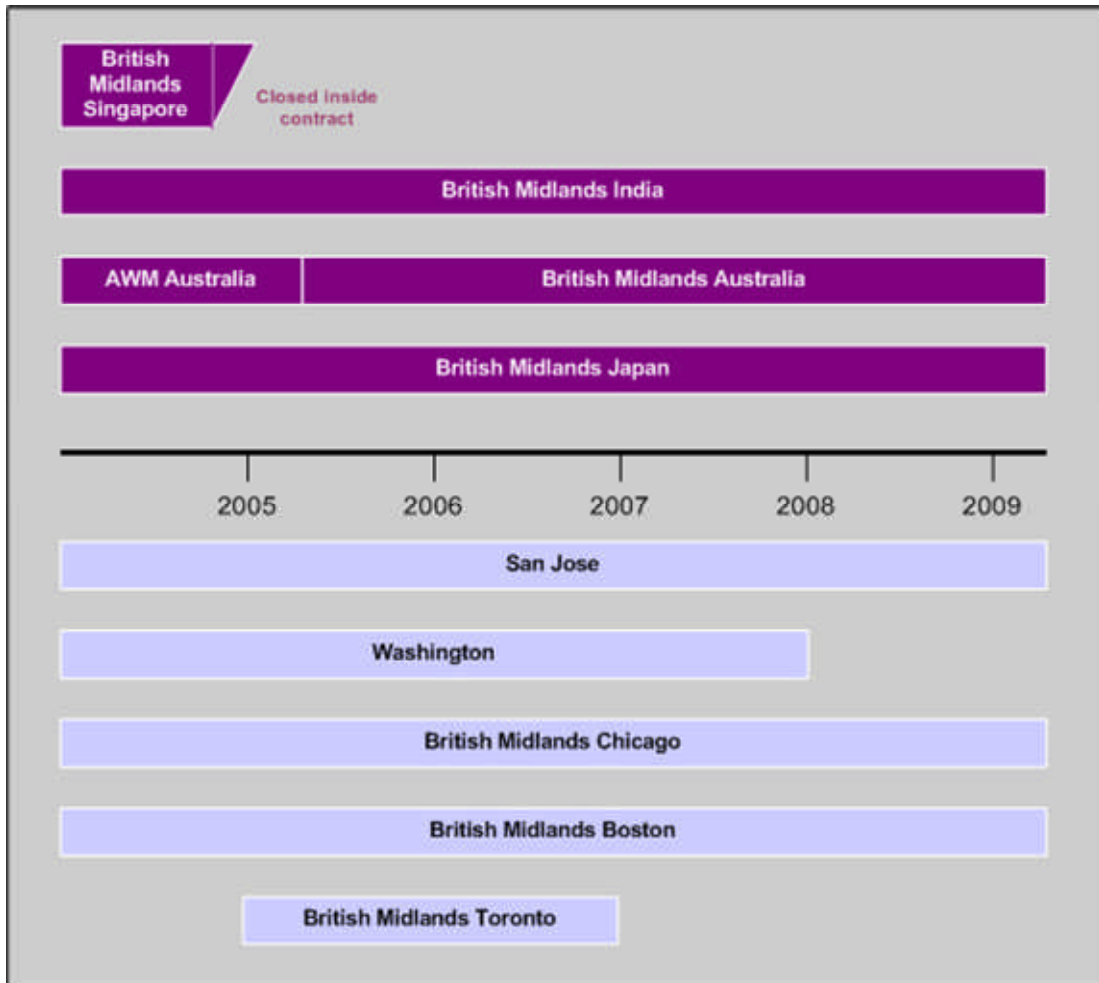
3.22 The way in which the overseas offices are staffed has varied from country to country, although in broad terms, it is possible to discern three approaches:

- **Direct employment:** In some locations, such as Japan, the Agency directly employed staff either on a full time or part time basis.
- **Contracted delivery:** In other locations, such as India or Australia, AWM tendered a contract to location consultants to deliver services, promote the region and attract investors on its behalf. Many of these contracts came to an end in March 2009 and new contracts have been issued to deliver a similar level of service in each market. The Toronto operation was replaced by a service firm operating in the Montreal market as of 1 April 2009.
- **Co-funding with *emda*:** AWM has shared the costs of an overseas office with *emda* in key locations. In some places, *emda* has been the lead contractor and in others it has been AWM. In these areas, the agencies engaged in dual branding – promoting British Midlands rather than the east or west regions. In the US, the two agencies created a joint venture company called the British Midlands Development Corporation, which directly employed staff and also promoted the British Midlands brand. This

company is no longer operational. The practice of employing staff has also ceased and the Agency now prefers to issue three year contracts.

3.23 The British Midlands brand ceased to exist at the end of 2008/09. In the early days, the brand was a cost-effective way of raising awareness and generating leads in new markets. Over time, as the Agencies developed their approach to regional economic development, the brand was no longer considered to be an effective way of attracting inward investment. Specifically, AWM is prioritising clusters and sectors that are not considered as important by *emda* and vice versa. Accordingly, it was felt that the British Midlands brand could not market the propositions of either region effectively and, in practice, was diluting their respective strengths. For example, the West Midlands propositions for the Business and Professional services sector or for IT and the Gaming subsectors are very different from the East Midlands.

Figure 3.2: A timeline of non-European overseas offices



A Profile of the Inward Investment Expenditure

3.24 The total budget for the inward investment programme between 2004/05 and 2008/09 comprised just over £9.7m. In the main, the budget has been dedicated to overseas office infrastructure and lead generation, project delivery in the UK, and marketing. It is difficult to specify the proportion of funding allocated to overseas offices as a whole or by office, and the proportion allocated to service delivery in the UK. Going forward, AWM may wish to record and monitor the programme's spend in a more transparent way.

Total Investment by Year

3.25 Table 3.2 provides breakdown of the total inward investment budget by year. There has been little variation over the last five years, with the average annual allocation equating to approximately £1.95m.

3.26 The highest spend occurred in 2007/08 where nearly £2.1m was invested to attract and retain foreign investors. The lowest occurred in the last financial year, 2008/09, when investment declined by £288,000 from the previous year to £1.8m.

Year	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Total spend £	1,860,183	1,963,589	2,048,031	2,089,054	1,800,616	£9,761,473
% of total	19%	20%	21%	21%	18%	100%

Investment by Continent

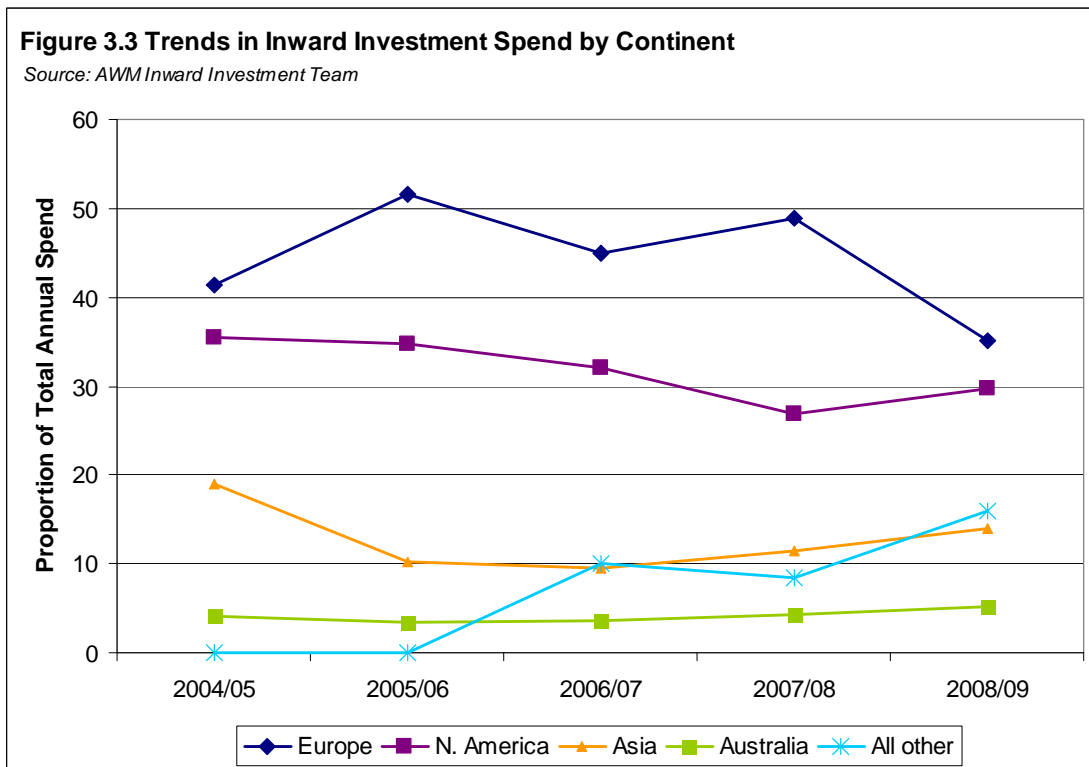
3.27 Table 3.3 shows the share of the total inward investment budget by continent. The highest has been dedicated to Europe, which in numerical terms is just over £3.6m and, proportionately, 38% of the total budget. However, overseas offices in North America and Asia Pacific also received funding from *emda* in order to promote the British Midlands brand. Therefore, the total level of investment made in these markets has been higher than that indicated in table 3.3 and figure 3.2 below.

	2004/05	2005/06	2006/07	2007/08	2008/09	Total	%
Europe	711,076	829,950	820,514	829,955	487,625	£3,679,120	38%
N. America*	660,823	683,765	656,720	561,496	534,080	£3,096,883	32%
Asia	352,540	200,419	194,449	240,911	252,896	£1,241,215	13%
Australia	75,871	66,555	73,639	89,401	93,342	£398,807	4%
All other	0	0	204,083	176,203	287,743	£668,029	7%
UK	59,873	182,900	98,626	191,088	144,930	£677,417	7%
Total	£1,860,183	£1,963,588	£2,048,030	£2,089,053	£1,800,616	£9,761,471	100%

* Includes USA and Canada

3.28 Figure 3.3 shows that the level of investment made in each continent has fluctuated over the years. It also shows that the amount invested in Europe and North America far exceeds the amount invested in Asia Pacific (Asia and Australia combined). However, the proportionate amount invested in Europe and North America declined after 2005/06 whilst that invested in Asia Pacific increased. For example, whereas 42% of the total budget in 2005/06 was spent in Europe, in 2008/09, this had declined to 27%. Conversely, the budget

for Asia Pacific accounted for 14% of the total in 2005/06, increasing to 19% in 2008/09.¹⁸ Chapter five compares AWM's investment profile with the source of the region's FDI projects.



Bridge to Growth (BtG)

3.29 Between October 2006 and March 2009, AWM spent a total of £140,000 delivering 19 events under the BtG initiative. The expenditure covered campaign costs (e.g. email, telemarketing), travel, venue hire and refreshments, and return visits to the UK. See table 3.4 for a breakdown of the costs.

	No. of events	Unit Cost	Total Cost
Nordic campaigns	6	£8,000	£48,000
Netherlands campaigns	3	£8,000	£24,000
Germany	3	£8,000	£24,000
Ireland (limited exposure)	1	£4,000	£4,000
Seminars by qualified companies in UK	5	£4,000	£20,000
Marketing and Branding	1	£20,000	£20,000
Total	19	-	£140,000
Around 30 people per visit			

3.30 As a result of the initiative, 20 new companies became established in the region and, between them, generated 50 jobs.

¹⁸ The exception to this is 2004/05 where the budget for the Asian continent was 23% of the total.

Summary

3.31 Over the period 2004/05–2008/09, the total budget for the inward investment programme comprised just over £9.7m. It is difficult to identify the balance of spend allocated to overseas offices and project delivery in the UK. Going forward, it would be useful if there was greater transparency as to how funding has been deployed across various activities and the outcomes generated. For example, it is important to understand the number of leads generated by each overseas office (and other outputs) in relation to the amount invested. This would also enable AWM to compare its return on investment by office and across activities.

3.32 On paper, it appears that the inward investment team in the UK has supported 205 companies. However, the number is likely to be greater as AWM does not record the companies that it has engaged with that have decided not to operate in the West Midlands. This raises two questions: (a) how much has been spent on project implementation in total; and (b) how many companies has the inward investment team engaged with altogether? This is important because there is a risk that costs per success become inflated and the overall return on investment is under-estimated. On this basis, it is suggested that, in future, AWM should record the total number of companies receiving support – whether they translate into FDI successes or not.

3.33 This chapter also outlined the aims and objectives of the inward investment programme and described the way in which the structure and focus of the inward investment team has changed since 2004/05. Chapter four picks up on this discussion and examines the delivery process in more detail.

4 Delivering Inward Investment Support

4.1 This chapter discusses the mechanisms through which inward investment promotion has been generated and supported over the evaluation period by the AWM team, the relationships that have been created with various national and sub-regional bodies tasked with inward investment promotion and how these have evolved over the period.

Overseas Offices

4.2 Along with all other RDAs AWM has funded a number of overseas offices as part of its overall corporate structure throughout the evaluation period. The inward investment function is served by overseas offices and a series of third party contracts as detailed in chapter three above.

Non-European Offices

4.3 A timeline of non-European foreign representation is provided in chapter three (Figure 3.2). European operations are discussed separate to these.

4.4 The pattern of overseas office representation at 2004/05 was a legacy of the early period of the RDAs from 1999. At the start of 2004/05 AWM had twelve overseas offices, four in EU member states and eight elsewhere. By the end of 2008, six non-European foreign offices were being funded with Singapore, Toronto and Washington DC having been closed. In addition, at end-2008 AWM was operating four European offices either directly or through third party agreements.

4.5 In some cases, overseas offices have been jointly funded with *emda* (the East Midlands RDA) and branding taking the form of the 'British Midlands'. Cost sharing appears to have been the initial driver of this approach to representation.

4.6 The combined brand raised an operational difficulty for the inward investment team when responding to leads generated through the British Midlands brand structure. The West Midlands offers strengths and opportunities in different economic sectors to the East Midlands and vice versa, but the response to any investment enquiry always had to be co-ordinated and set out as a Midlands-wide offer.

4.7 In the Asia Pacific and American markets, the team was constrained in being able to promote the region's key strengths as it was felt that this would reflect poorly on the East Midlands, which could not present a proposition to the same standard or value. In worst case scenarios, joint branding will have led to projects searching elsewhere, nationally and internationally, for their operating base rather than the West Midlands.

4.8 All British Midlands contracts ceased at March 31 2009 with the brand becoming defunct from April 1. New contracts are in place between AWM and third parties to deliver representation in each market. The most important change however is that the crowding out of focused activity by the AWM team in non-European international markets due to the joint brand has now been removed.

4.9 Alongside formally staffed offices, AWM has also used a series of external third parties to represent the region internationally. A joint venture company with *emda*, the British

Midlands Development Corporation, was responsible for operation and staffing of US offices. The Japanese office was a full time office and directly staffed but the Indian and Australian operations were staffed part-time via an external consultant on fixed, three year contracts that were renewed or re-let upon expiry. Singapore was operated on this basis and ceased before the end of the contract period.

4.10 Inward investment representation has demonstrated a flexibility to adapt to international economic circumstances through its pattern of representation over the last five years. This reflects AWM's continual assessment of the value of being active in a particular geographic market or that of the office in generating inward investment leads. However, whilst there is some merit in following FDI trends globally or switching regional focus in country as has occurred in the North American market, it is clear that any new presence will take some time to start generating a significant number of solid leads.

4.11 The increasing use of contractual agreements with third parties has the advantage of yielding more targeted investment enquiries. This model has the potential to generate leads more quickly through the use of organisations and individuals that already operate in each international region than the alternative of building an Agency presence from first principles or the un-targeted alternative of renting a general company contacts list to cover the market. Combining the use of third parties already in situ with a well structured time limited Service Level Agreement can also allow for more flexibility and a reduction in sunk costs should an organisation fail to deliver on target numbers of enquiries or proportion of enquiries from specific business sectors.

4.12 The current West Midlands representation in Japan offers an alternative model. As the British Midlands brand expired, a new contract has been let structured around half of the contract delivered in Japan and half of the contract directed towards engagement with Japanese businesses already operating in the region. This is a particularly pro-active step by the inward investment team that reflects both the changing nature of the inward investment market, with almost all inbound Japanese projects to Europe now focused outside of the UK, and a heightened importance in retaining and supporting those Japanese companies already in the region to expand their operations into knowledge-driven areas of business. This also links to the increased focus of the team on knowledge-driven gains in marketing the region internationally.

4.13 Such a hybrid model of overseas promotion and onshore support may become increasingly effective for the region given the no/slow economic growth forecast into the foreseeable future.

4.14 Current international coverage relates well to UKTI data on the numbers of projects by donor country. Key markets remain North America and Australasia and these are covered by existing representation. Future important markets in generating new projects appear to be India and China and AWM have produced Action Plans to cover both of these areas in terms of inward investment and, importantly, export trade promotion.

European Presence

4.15 In addition to the markets identified above, AWM has maintained a presence in several European markets. At end 2008, AWM operated four published office addresses in Europe, in Belgium, France, Germany and Sweden. None are dedicated inward investment offices but part of the wider structure of the Agency's presence in Europe. As such, they generate leads to potential investment projects in varying proportions depending on staff and

market conditions in each country. Importantly, none of the European offices have ever utilised the 'British Midlands' co-branding model allowing more focus on the Agency's priorities and specific regional strengths than in non-European markets.

4.16 More recently, a more targeted model of inward investment promotion has made use of relatively short contracts with third parties to deliver the BtG initiative. This initially involved activities in selected Nordic markets where AWM had had no previous office representation but has now been expanded to cover Denmark, Sweden, Finland, Norway and in the Netherlands since 2008 via an existing representative there.

Lead Generation

4.17 The generation of inward investment projects potentially destined for the West Midlands region follows logically from the internal structure and scale of the inward investment team, their own promotional activities and AWM's overseas offices and through the UK's central government structure via the activities of UKTI throughout the world.

4.18 Box 4.1 sets out the four major lead generation mechanisms for inward investment projects handled by the AWM internal team.

Box 4.1: Lead Generation Routes

- UKTI projects passed to AWM;
- Overseas office lead generation including the activities of contracted third party representatives;
- Sub-regional inward investment agency or local authority leads;
- AWM team direct lead generation (international exhibitions, trade missions);
- Location consultant-led projects.

4.19 Companies approach the AWM inward investment team directly or after exposure at trade and other international events, but potential investment projects are also passed to the team from other parts of AWM. Of significant note are the activities and relationships of the Agency's Property Team. This may explain why half of all survey respondents reported that they first became aware of the inward investment team through a direct approach from the Agency itself. There is little differentiation among regional businesses surveyed of the various elements of the Agency in any dealings with it.

UKTI projects

4.20 The UKTI network evolved from the activities of the Invest in Britain Bureau (to mid-2000) and Invest UK (2000 to 2003). UKTI offers overseas exposure on behalf of all regions of the UK in almost all countries of the world via the UK Embassy network. Other countries also operate a similar system. As such, leads generated by the UKTI network tend to be more competitive than those generated through other means. In practice, the majority of leads supplied to the AWM team are focused around those Embassies which are more proactive in promoting the country. These inevitably vary with individuals as appointments and re-deployments are made by UKTI.

4.21 Since 2005 UKTI has also maintained a 'strategic companies' list. RDAs are not allowed to directly contact members of this list or make an approach through their foreign representatives. Nevertheless, this does not appear to have led to UKTI lead generation being focused solely on these larger 'strategic companies'. UKTI generated projects being received by the AWM team have been mixed in scale with no significant bias towards larger

firms or projects. The restricted list does hinder the AWM team in specific markets and sectors and there is some concern that opportunities are being missed as a result.

4.22 UKTI also operates a London office to be close to central government policymakers and to deliver its other function as promoter of export trade development. The inward investment team maintain as close a dialogue with UKTI London staff as their location allows. This is a relatively resource intensive requirement for the inward investment team with regular contact being maintained. There is a broad consensus among team members that the UKTI London-AWM relationship is good and has improved, although there is room for further improvement. There is a perception that areas closer to London can more easily schedule formal and informal meetings with UKTI staff and capture more enquiries as a result.

4.23 In the main however, an initial enquiry will come from an overseas UKTI office rather than being routed through UKTI London. Therefore, the importance of the Agency's overseas network in representing the region to Embassy based UKTI staff is paramount in maintaining a healthy flow of enquiries from the network. Accordingly, AWM encourages all of its overseas staff and third party representatives to maintain regular contact with UKTI offices in order to enhance the number of opportunities being presented to the region from the network.

4.24 Overall, there are clear pathways between overseas contact and projects eventually being won by the region. This method of direct promotion of the region overseas has also been used to overcome outdated perceptions that the West Midlands' economic strengths lie in sectors that are now in decline. AWM's IT cluster team for example have formed an international trade group involving the agency's inward investment team and UKTI staff to fully understand the linkages between export trade promotion and inbound investment opportunities. The increasing number of IT related projects presented by the overseas UKTI network reflects this effort.

4.25 A second method of raising the region's profile with UKTI staff is through hosting overseas staff on their trips to the UK. The team spends a substantial (though less regular) amount of time in contact with overseas UKTI officers in this manner and feels it has developed strong relationship with particular individuals over a long period of time.

4.26 Both overseas promotion and hosting of UKTI staff visiting the UK are seen as critical to the development of further projects with the UKTI network. These methods have generated specific enquiries relating to the team's sector focus, as opposed to general enquiries that have been routed through UKTI London and have created an open relationship of information sharing and enhanced knowledge of the region overseas. For example, AWM's office in Melbourne has developed a strong working relationship with UKTI staff in the same city that has led to tangible project successes. Three quarters of all Australian inward investment projects landing in the West Midlands since 2000 have occurred since 2005 when closer working began and in the latest single year 2008/09 10 projects were attracted accounting for 122 jobs created out of a total of 343 (36%) throughout the entire evaluation period.

4.27 Over the evaluation period, the UKTI network has generated a varying level of enquiries, being involved in 22% of all successful projects in 2004/05, falling to 15.4% in 2006/07. The network has begun to generate a higher proportion of overall leads once more, being involved in 26.1% of all projects during 2008/09. The improvements largely relate to new customer relationship systems put in place by the UKTI network during 2006/07.

4.28 By geography, UKTI leads have generated a significant number of all projects originating in the Americas, especially those in the IT sector, but have not yielded anywhere near as many from the Asia-Pacific area. European projects have tended to be split evenly between those generated internally by AWM offices and those presented by UKTI. Again, IT sector enquiries appear to be well represented in the flow of European UKTI requests for information.

4.29 The initial UKTI enquiry is usually confidential to the RDA, often requesting headline information on a region or sub-regional area. As such, this often stops the inward investment team tailoring their initial response to a sector specific level. In practice, many UKTI requests will be passed on to sub-regional partners to assemble the necessary information and then re-packaged to UKTI by the AWM team. There is relatively little feedback being passed down to the sub-regions once the enquiry has been responded to.

Overseas Offices and Contracted Third Parties

4.30 Overseas offices are responsible a significant proportion of all enquiries received by the team, although it appears that the Agency does not monitor the precise numbers by year and/or office.

4.31 Leads from overseas offices are generated by AWM staff direct and, increasingly via the relationship with the UKTI office inside the Embassy of that overseas territory. In addition, overseas staff supply leads through networking activities in key business sectors relevant to the overseas territory and representation of the region at conferences and exhibitions. There is very little cold calling or standardised telemarketing undertaken by overseas offices. In short, as demonstrated by the variability of activities undertaken across overseas offices, AWM tailors its approach to suit the needs of that particular market rather than opting for one-size-fits all approach.

4.32 Alongside the activities of AWM's staffed offices overseas, a number of third party representatives operate on behalf of the agency. The traditional method used by AWM (and almost all other investment promotion agencies worldwide) has been to engage consultants in situ and for them to generate lists of relevant businesses likely to expand or relocate into the UK and, in this case, the West Midlands. These agreements have allowed AWM to develop specialist advisors with detailed knowledge of the region's key selling points. However, the success or otherwise of this model is highly dependent on information provided to overseas advisors by the internal team. Whilst this is a resource intensive task, it offers the Agency a high degree of targeting in overseas markets and ability to complement AWM's strategic objectives more easily.

4.33 The importance of the third party model to lead generation has gradually increased over the last six years, with a significant boost becoming possible through the expiry of the co-operative funding arrangements with *emda*.

4.34 Beyond nurturing specialist companies with a high level of regional knowledge, the third party model also allows for exploitation of the third party's corporate structure. Often third party organisations tendering for representation contracts will also operate in the inward investment market on behalf of potential corporate investors. AWM's use of such companies yields benefits in terms of both early signals of major projects planned by larger companies and access to the resources and essential market intelligence of relatively large management consultancy practices.

4.35 Third party contractual agreements are also beneficial to the Agency in that they are more easily terminated than a formal employment contract would be if any problems arise in delivering against target numbers of firms for lead generation or proportion of leads within any specific sector.

4.36 At its inception, the BtG structure was a development of the third party model used uniquely by AWM. It has had two major lead generation benefits. It has allowed AWM to enter markets with no previous exposure very quickly. More significantly, through careful drafting of the third party agreements AWM has been able to penetrate into new markets and generate interest from a large number of smaller firms than would have been the case using any other lead generation route. The critical variable in any third party representation agreements are targets placed not only on the quantity, but also the quality of leads being generated as specified by sector of activity and fit with AWM's strategic objectives or focus within the International Business Action Plan. BtG delivers such a high quality, focused lead generation process.

4.37 The effectiveness of BtG is demonstrated by several other RDAs quickly following the model set by AWM once the programme was publicly announced. For example, *emda* operate a VIP programme along similar lines focused on Benelux countries and SEEDA operate a Platform to Growth initiative.

4.38 The preceding discussion has highlighted the potential benefits of the third party overseas model. As this study has not examined the role and contribution of overseas model in great depth, it is difficult to draw firm conclusions about their efficacy. Our evaluations of other inward investment programmes show the drawbacks that a third party model can bring (not having direction control, having competing priorities or not fully understanding the regional offer) and the benefits of directly employing staff (the flexibility, transparency and local knowledge they bring). On this basis, it is suggested that the Agency undertakes a brief review of the benefits of the current approach adopted by overseas offices – a hybrid approach using different approaches in different markets depending on budgetary constraints, the local context or maturity of the relationship might be one option.

Sub-Regional Partner Lead Generation

4.39 Box 4.2 shows the inward investment organisations currently operating at sub-regional level in the West Midlands.

Box 4.2: Sub-Regional Inward Investment Partners

- Black Country Investments
- Coventry City Council
- Herefordshire Investment Partnership
- InStaffs
- Invest in Shropshire
- Locate in Birmingham
- Solihull MBC
- Transforming Telford
- Warwickshire County Council
- Worcester City Council / Worcestershire County Council

4.40 Some sub-regional partners are more active in investment promotion than others. This is to be expected and mirrors the situation in other UK regions. Activity by sub-regional partners is generally related to their available resources and relative share in the regional

inward investment market. Sub-regional partners vary significantly in terms of their scale, internal resource and inward investment experience. The largest agencies are private limited companies owned in part by their area's local authority and/or other public sector partners. Others are essentially a proportion of a member of staff's time within a local authority economic development department.

4.41 Overall, sub-regional resources were more significant at the onset of the evaluation period and hence there was more co-operative working between the AWM team and partners in dealing with inward investment projects. As local inward investment budgets have decreased sub-regional activity has tended to fall and, subsequently, regular contact between AWM and many sub-regional agencies has declined significantly.

4.42 Birmingham is notable in demonstrating a clear desire and ability to represent itself independently of AWM or other parts of the region at specific international events. For example, MIPIM is the most important international property exhibition and conference event and Locate in Birmingham, the inward investment team of the City Council, regularly attends this independent of any regional presence.

4.43 The role of Birmingham as the financial services hub has led to several large scale leads being generated by Locate in Birmingham. In each case, information has been shared with AWM and the inward investment team has been invited to provide additional assistance. Generally such assistance relates to RSA/SFIE finance advice available through the Agency.

4.44 There appears to be a slightly different view of the inward investment market by sub-regional partners. Almost all inward investment agencies working at sub-regional level feel that AWM and the UKTI network generate almost none of their successful projects beyond one or two big ones. Several partners feel that they are the originators of many projects that eventually benefit from AWM involvement. AWM's inward investment team estimates that sub-regional partners are responsible for around 5% at most of all project enquiries. Much of this difference in opinion appears to be attributable to sub-regional partners dealing with a large proportion of domestic relocation and expansion projects moving into the West Midlands from elsewhere in the UK and relatively fewer international FDI projects.

4.45 More rural parts of the region have less inward investment resource allocated by their respective local authorities and therefore generate far fewer leads. Also, because they are able to offer fewer potential investment locations or suitable vacant property, they will not be the focus of businesses looking for a new operating location as often as the more densely populated areas.

4.46 The general pattern of working with sub-regional partners is one of a call for information as and when the need arises. Only in the case of building the team's knowledge base on IT activity in the region has a sector specific request been made of all sub-regions and information collated centrally.

4.47 Many sub-regional partners feel that they know little about the strategic direction of the AWM team. This is viewed as much a fault of the sub-regional agency in not asking for it as much as a lack of any formal mechanism through which the Agency's inward investment team can articulate its changing direction. Nevertheless, this lack of strategic information would appear to need addressing in the near term.

4.48 The nature of some sub-regional agencies operating within local authority structures mean that members of staff are not dedicated inward investment professionals, nor have high levels of industry-specific knowledge. Thus, whilst their role as information providers is necessary, the information that is provided often needs further enhancement by the AWM team member dealing with the enquiry to make it fit the potential investor's needs. Where sub-regional partners excel is in developing local links between a successful investment project and other businesses or the local business support infrastructure. In this respect, their knowledge is vital and it reduces the amount of aftercare activity needed by the AWM team.

4.49 Aside from lead generation, property intelligence lies at the core of most sub-regional partner's inward investment activities. All sub-regional partners operate their own in-house development land and vacant property registers. These are generally drawn up through consultation with local property agents augmented by a list of all empty commercial properties operated by the local authority. Lists are generally updated monthly. This information is passed to the AWM inward investment team on request.

4.50 Beyond the region's strategic sites, the investment team does not appear pro-active in developing sub-regional knowledge of key developments and fostering linkages with property agents and the developer community. This is in contrast to other parts of the Agency that have very close links to the property sector in the region. This issue was raised by several sub-regional partners as a potential failing of the team in reacting adequately to inbound enquiries.

4.51 In the worst case scenario, some partners believe that, occasionally, the Agency team may be failing to promote individual sub-regions due to insufficient information on the vacancies that exist there, particularly in relation to office vacancies in non-traditional office locations.

4.52 Other sub-regional agencies find that the property community is a valuable source of potential inbound projects, many agents and developers active in the region have international offices and in London and hence regularly pick up requirements through these routes. Given their regional presence, closer ties between the inward investment team and key property sector contacts is a straightforward method of boosting exposure to potential investment projects and should be further investigated.

4.53 Several sub-regional partners mentioned the Inward Investment Forum that was initiated by the AWM team to increase the flow of information between sub-regions and the Agency on all matters of inward investment. However, it was widely felt that a lack of clear definition on the Forum's objectives and the inherently competitive sub-regional inward investment market led to some organisations feeling they had bared their souls without gaining anything in return and the Forum was "*inherently imbalanced.*" The Forum had a limited life and the last meeting was held in late 2007.

4.54 There was near universal agreement that some form of Forum is a useful and necessary stage that all inward investment practitioners could benefit from. Further, all sub-regional partners mentioned that they would like to become more actively involved in, or at least informed on, the Agency's programme of scheduled events. This was viewed as very important to those agencies that do not undertake any international representation themselves and would allow for better planning of their internal resources around scheduled AWM supported events.

4.55 A universal comment by sub-regional agencies was that once information is provided on a specific project there is little by way of feedback on the validity or relevance of the information that was provided. Many agencies have resigned themselves to a “wait and see” approach in their dealings with AWM. Whilst the process of providing feedback may be made more difficult by the fact that UKTI do not themselves offer feedback to AWM in all cases, this situation does not allow for a process of continual improvement among the various sub-regional partners and the overall inward investment resource of the region. Increased dialogue is critical to close the request-information-feedback cycle that would represent best practice.

4.56 As noted in chapter three, the inward investment team has recently reinstated the sub regional Forum to improve the flow of information between the Agency and its partners.

Leads Presented by Location Consultants

4.57 A number of projects have been presented to the AWM team by international location and management consultants. These projects tend to be large and, by the very nature of their origin, involve a more competitive sell of the region. Such projects tend to involve an international long-list of locations and the decision to locate in the UK is by no means certain compared to those projects generated by overseas offices which generally involve an organisation looking to establish a base in Western Europe or, more often, the UK.

4.58 The inward investment team noted that, as a proportion, these projects are not as common as those coming in from overseas offices or the UKTI network. Although unsubstantiated, there appear to be more in manufacturing sectors than in the service sector. These enquiries tend to involve a significant level of resource input by the AWM team given their competitive nature and often a requirement for very specific information up front with no contact between the team and the ultimate investor project. Many remain anonymous throughout.

4.59 Some overlap may exist between those organisations presenting potential projects and those tendering for overseas contracts to represent the region. In these cases, a better understanding of the region should be expected to lead to a higher number of more relevant leads being generated.

After Care

4.60 Ongoing business development activities that would be viewed by investors as aftercare have oscillated through an ‘on again, off again’ pattern over the period covered by the evaluation due to wider Agency restructuring and realignments of the inward investment team. Since 2005 such realignments have become less frequent allowing the team to generate the International Business Action Plan, which at its heart is a movement towards a more encompassing approach to inward investment and trade promotion, including elements of aftercare that have previously not been undertaken.

4.61 Nevertheless, around 2005/06 the Agency ceased its Investor Development function. Since that time the inward investment team has undertaken aftercare activity only on a reactive basis as and when a company requested further assistance. In practice, this has rarely occurred and an unwritten 12 month statute of limitations appears to apply to new investment projects.

4.62 Aftercare is, however, important to inward investment activities through its ability to embed any employment gains deeply into the region and minimise subsequent outward movements of projects. Moreover, aftercare activities can lead to additional investments by both the company and, more subtly, linked businesses.

4.63 The investment of an Asian company within the West Midlands is a good example of these opportunities. Outside of London, the company established its largest presence in the UK in Birmingham in 2006 with the support it received. This has led to a subsequent round of expansion, generating two additional projects in the region which should be realised by March 2010 in Wolverhampton and Coventry.

4.64 The presence of the Asian company also brings with it significant potential to work closely with its customers. Increased aftercare activities and information provision of the opportunities available in the region to the company's staff in Birmingham would result in direct access to emerging opportunities among the company's customer base overseas. Very little of this type of activity appears to have taken place to date.

4.65 Some companies that were consulted during the evaluation reported that aftercare was not necessary, although as detailed in chapter seven, others expressed demand for this service. Businesses view the role of the inward investment team as being confined to helping them establish entry into the region/UK. Although they may not need the support of the team any further, there is an issue around signposting to them other Agency and partner services. For example, several companies operating in the automotive supply chain had little knowledge of the automotive sector support that might be available or supply chain initiatives in which they might participate. A more formal approach to aftercare might avoid this type of oversight.

4.66 The recent focus on developing inward investment activity along with the knowledge agenda has realised a much stronger link between the Agency and specific inward investing operations. Two inward investor projects have established Technical R&D Centres in the region and both have increased the regional offer of high value services available to other businesses or through joint venture relationships. This places the region on the map of international locations able to offer world class research and innovation directly linked to end markets. Linkages to regional higher education resources are also strong.

Working with the RSA/SFIE Team

4.67 The SFIE team is separate to the inward investment function within AWM. Over the years, projects have been won that have required RSA/SFIE grant assistance due to their scale. The working relationship between the two teams has, at times, been made more difficult by corporate restructuring within the Agency, particularly in the period before 2005. Current working practice is seen as adequate. In consultations with companies receiving a grant, there is little or no perception of any difference between the inward investment team and the SFIE team.

4.68 Since the onset of slower economic growth during 2008, the inward investment team has noticed a trend for more projects requesting grant assistance. Once a company requests such support, it is given two points of contact: one within the inward investment and the other within the SFIE team. Despite the working relationship appearing seamless to outside parties, given the likely increase in projects requiring combined inputs, a tightening of working

relationships and formal practices may be necessary to avoid projects not being picked up and supported, and therefore jobs potentially being lost in the region, in future.

Changing Priorities and Focus

4.69 The focus of inward investment activities undertaken by the team is partly dictated by economic circumstances. A re-focusing of activity to market the West Midlands as a knowledge-driven region is timed well with the reduction in number of leads being generated in areas such as manufacturing and financial services. The importance of the higher value knowledge economy is articulated well in the current IBAP and notable projects linking research activities with market innovation are developing in the region that should make the case easier for the inward investment team.

4.70 Emergence of the knowledge agenda within the IBAP appears central to deepening the region's offer internationally, but it requires closer linkages between the team, specific investment projects and local partners in the region, including the region's higher education network. This requires activities that build on previous methods of working but also the generation of entirely new methods of interacting with investment projects (staying in contact with them longer) and key sub-regional partners who are also working to a knowledge-based agenda. There is a danger of duplicating effort between sub-regional bodies and the AWM team unless further information sharing and collation of local activities is undertaken in respect of key sectors involved in higher value research, development and employment activity. An internal communication plan is understood to be being drafted. This is critical in moving the investment team's activities forward efficiently.

4.71 The overall sales offer of the region is being produced in alternative language formats. This is a key element of the proposition that would appear to be lacking given the ready availability of a range of language packs by competing foreign inward investment agencies. Stiffer international competition means that this task should be viewed as a priority by the team.

5 A Profile of Companies Supported by AWM & Outputs

5.1 The first part of this chapter provides a profile of the 205 companies that have been supported under the inward investment programme over the last five years.

5.2 A total of 45 foreign owned companies have received a grant through Selective Finance for Investment in England (SFIE), which was previously known as Regional Selective Assistance (RSA). Thirteen of them also received support from the inward investment team. The second part of the chapter presents a profile of the foreign owned companies that have received an RSA/SFIE grant, comparing the characteristics of firms that have engaged with the inward investment team with those that have not, as well as with indigenous firms receiving the grant.¹⁹

5.3 The third part of this chapter reports on the outputs that that have been generated by companies receiving support under the inward investment programme, as well as those that received support under the RSA/SFIE programme.

A Profile of Inward Investment Companies

Year of Inward Investment

5.4 Over the five year period 2004/05–2008/09, 482 foreign owned firms invested in the West Midlands.²⁰ Of these, 205 received some form of support from AWM, accounting for approximately 43% of all FDI projects that UKTI/AWM are aware of.

5.5 Figure 5.1 (overleaf) shows that the number of foreign owned companies receiving support from AWM has grown incrementally each year since 2004/05. Fifty-five companies were supported in 2008/09 compared to 34 in 2004/05. Interestingly, the number of companies receiving support has increased over the same time that there has been a small decline in the programme's annual budget. Indeed, the year 2008/09 is conspicuous because on the one hand, the budget for the programme had been the smallest to date, yet on the other, the inward investment team supported the highest number of companies than it ever had.

Type of intervention

5.6 As shown in table 5.1, AWM has predominantly supported inward investment projects that are new to the region (first time investment), followed by expansion projects, that is, supporting firms already operating in the region.

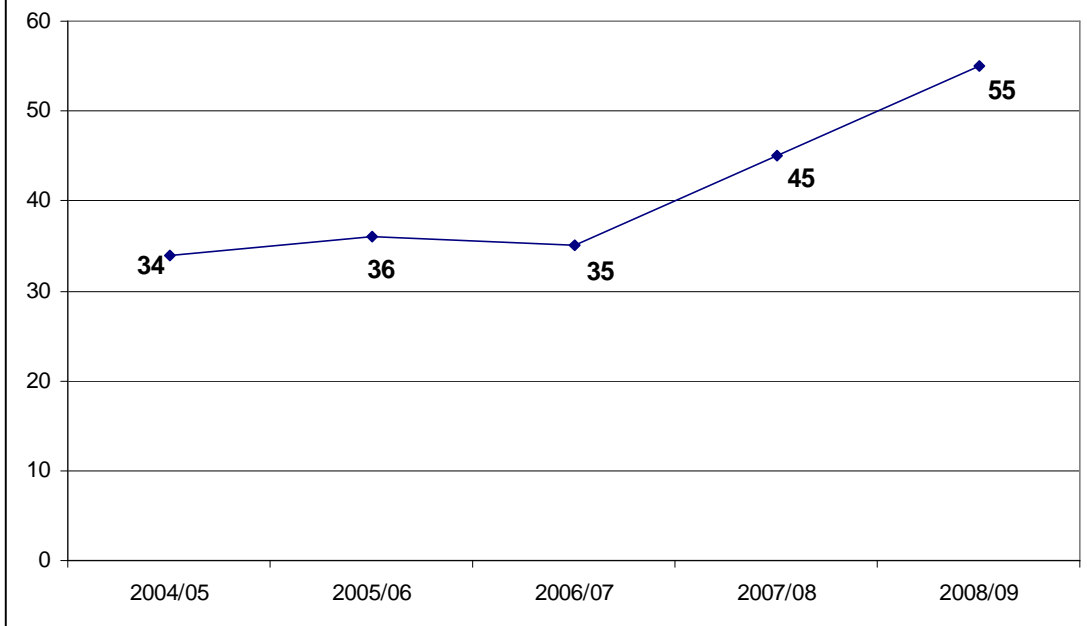
	No	%
First Time Investment	120	59%
Expansion	63	31%
Merger & Acquisition	9	4%
Retention	8	4%
Joint Venture and Global Partnership	5	2%
Total	205	100%

¹⁹ A separate evaluation is currently being undertaken of the RSA/SFIE programme.

²⁰ This figure is drawn from UKTI sources, but the rest of the section is based on figures provided by AWM.

Figure 5.1: Number of Companies Benefiting from II Support 2004/05 - 2007/08

Source: AWM Inward Investment Team



5.7 A 'merger' refers to a situation when two companies become one; whilst an 'acquisition' is the buying of one company by another. In this instance, a foreign owned company would have merged with a company already operating in the region or would have bought it. As the data shows, the number of companies supported by AWM to undertake this type of inward activity has been fairly low.

5.8 Retention projects also involve AWM providing support to companies already based in the region, although unlike expansion plans, the aim is to avoid the company from locating elsewhere or closing down. There have been few such projects and there are two possible reasons for this. First, retention projects are likely to comprise a small proportion of all FDI projects. Second, AWM may not have been aware that companies were considering the cessation of trading and hence could not offer support to retain them.

5.9 Overall, the types of projects supported by AWM reflect the general composition of all FDI projects in the region. In part, this is because AWM does not have a policy to favour one type of project over another.

Company Ownership

5.10 Table 5.2 shows the flow of FDI projects entering the region by continent and the amount invested by AWM. In broad terms, the number of projects emanating from each continent is proportionate to the programme's spend, although it should be acknowledged that up to March 2009, Asia Pacific and North America also received funding from *emda*. This may explain why the number of projects arising from Asia Pacific is significantly higher when compared with AWM's investment.

	FDI projects		Budget	
	No	%	Amount	% of total II budget
Europe	90	44%	3,679,120	38%
North America	59	29%	3,096,884	32%
Asia Pacific	56	27%	1,640,023	17%
Total	205	100%	£8,416,027	86%

* excludes budget allocated to other and the UK

5.11 As shown in table 5.3, out of all the inward investment projects supported by AWM, the highest number has originated from the USA. Further analysis reveals that most of these have originated from California (20%).

5.12 As with UK-wide trends, Germany and Australia have also proven to be dominant sources of FDI projects. It is interesting to observe that India features within the top five donor counties, which reflects its growing economic development.

	No	%
USA	49	24%
Germany	24	12%
Australia	21	10%
India	13	6%
Sweden	13	6%
France	12	6%
Japan	11	5%
Canada	10	5%
Belgium	8	4%
Netherlands	6	3%
China	5	2%
Italy	5	2%
Denmark	4	2%
Ireland	4	2%
Finland	3	1%
New Zealand	3	1%
Spain	3	1%
Turkey	3	1%
Other*	8	4%
Total	205	100%

*Includes: Austria, Hong Kong, Israel, Korea, Norway, Switzerland and South Korea

5.13 As a continent, Europe has accounted for the majority of FDI flows in to the region, with Germany, Sweden and France comprising the top three donor countries. Between them, they accounted for 49 inward investment projects over the last five years, representing 24% of the total number.

5.14 In line with national trends, the number of projects entering the West Midlands from Asia Pacific has increased steadily over the years and table 5.4 provides a breakdown of the countries that they have originated from. Most have originated from Australia, India and Japan. Between them, they account for 45 projects – 80% of the total from this continent.

	No.	%
Australia	21	38%
India	13	23%
Japan	11	20%
China	5	9%
New Zealand	3	5%
South Korea	1	2%
Hong-Kong	1	2%
Korea	1	2%
Asia Pacific Total	56	100%

Type of Investment and Country

5.15 Table 5.5 provides a breakdown of the types of FDI projects by continent.

	Europe	N. America	Asia Pacific	No	%
New investment	57	27	36	120	59%
Expansion	25	26	12	63	31%
Acquisition	4	1	4	9	4%
Retention	2	3	3	8	4%
Global partnership & joint venture	2	2	1	5	2%
Total	90	59	56	205	100%

5.16 In general, most of the projects have comprised new investments (just under two-thirds), whereas a third have involved the expansion of existing operations. There have been very few acquisitions, retention or joint venture projects.

5.17 A pattern can be discerned between the continents as to the type of project undertaken. The majority of projects from Europe and Asia Pacific have comprised new investments, with expansion comprising a much smaller proportion. By comparison, there is virtually an equal split between new and expansion projects from North America. In part, this is probably because there is a longer tradition of inward investment from this continent, which means that the opportunities for expansion have been greater.

Sector Composition

5.18 Table 5.6 shows the sectors within which the FDI projects have occurred. Half have taken place within manufacturing.

Sector	No.	%
Manufacturing	105	51%
Business Activities	45	22%
Transport and Communications	13	6%
Construction	10	5%
Financial Services	9	4%
Health and Social Work	8	4%
Other Community and Social Work	8	4%
Wholesale and Retail	5	2%
Utilities	2	1%
Total	205	100%

5.19 Table 5.6 has been derived from analysing the programme's monitoring data. Given that one of the objectives of the inward investment programme is to secure a high proportion of FDI projects from companies operating in the region's priority clusters, in future, AWM should consider categorising new FDI projects by cluster as well as activity. This would allow the Agency to assess the extent to which it is meeting its objective. On a related note, AWM may wish to specify what is meant by 'high value' projects in order to assess the extent to which such investments are taking place. It would also enable the inward investment team to focus strongly on projects likely to yield more jobs and transfer support to partner agencies where the impact is likely to be less.

The Location of Inward Investment

5.20 Table 5.7 identifies the location of inward investment projects supported by AWM. Most have taken place in Birmingham, although as shown, the Coventry-Solihull-Warwickshire sub region has secured over two fifths of all FDI projects. The sub region often pools resources to attract investment and this may account for its success.

5.21 From table 5.7, it is evident that there is an urban–rural dimension regarding the pattern of FDI investment, with most projects taking place in the urban centres. However, it is also important to acknowledge that urban areas with high levels of social and economic deprivation (such as Dudley and Sandwell) tend to secure less overseas investment compared to the more affluent rural areas.

	No	%
Birmingham	46	22%
Coventry	41	20%
Staffordshire	25	12%
Solihull	24	12%
Warwickshire	24	12%
Black Country*	23	11%
Wrekin	12	6%
Worcestershire	9	4%
Shropshire	1	0%
Total	205	100%
* Includes Dudley, Sandwell, Wolverhampton and Walsall.		

Comparing the Profile of AWM Supported Investors with the Regional & National Population of Inward Investors

5.22 The location of FDI projects supported by AWM tends to match the pattern of all inward investment activity taking place in the West Midlands. Chapter two reported that out of the region's total 482 FDI projects, 60% have located in four areas, which are Birmingham, Coventry, Warwickshire and Staffordshire. With the exception of Solihull, these are same as those shown in table 5.7.

5.23 With regards to the country of origin, projects supported by AWM largely mirror the pattern evident at the UK level (see table 2.2). The key points to note are:

- USA accounts for the highest number of project successes both in the West Midlands and the UK as a whole.
- The region's top five donor countries are virtually the same as the UK's aside from two differences. Whereas Japan accounts for the second highest number of projects at the UK level, in the West Midlands Germany accounts for the second highest number of FDI inflows. Further, whereas France accounts for the fifth

highest number of FDI projects at the UK level, in the West Midlands it is in sixth place, with Sweden in fifth as a result of one more project.

- From the EU, by far the highest numbers of projects originate from Germany and France in the UK and in the West Midlands, although as noted, the latter has also benefited from a high number of projects from Sweden.
- Whereas China now features within the UK's top ten countries of inward investment, the number of projects in the West Midlands from this market is very low and therefore represents a stark contrast between the national and regional level.

5.24 There do not appear to be major differences between the sectoral composition of projects supported by AWM and the total population of all regional FDI projects (see tables 2.6 and 5.5). Like the total population, the inward investment team has predominately supported manufacturing projects, although it appears that it has not supported as many projects within Banking and Financial services. This may be because such projects have been classified as 'Business activities'.

A Profile of Foreign Owned Companies Benefiting from RSA/SFIE

5.25 Forty-five foreign owned companies have received support under the RSA/SFIE programme over the period 2004/05–2008/09, obtaining grants valued at a total of £14.2m. Thirteen of them also received support from the inward investment team. This section compares the characteristics of the two groups of RSA/SFIE beneficiaries: that is, those that engaged with the inward investment team as well as with the Agency's RSA/SFIE team, and those that only received from the latter.

Number of Beneficiaries and Grant Value

5.26 The RSA/SFIE programme's total spend has been £41.9m. As shown in table 5.8, £14.2m has been allocated to foreign owned firms, representing nearly 34% of the programme total.

	Beneficiaries		Grant		
	No	%	Value	% of total	Average grant
Supported	13	29%	£5,979,075	42%	£459,929
Non-supported	32	71%	£8,185,116	58%	£255,785
Total foreign	45	100%	£14,164,191	100%	£314,760
Total indigenous	304	–	£27,691,296	–	£91,090
Total programme	349	–	£41,855,487	–	£119,930

5.27 Table 5.8 also shows that the number of foreign owned firms that have received support from both teams is low. This need not be an issue if both make cross-referrals when appropriate. However, given the high number of companies that have only engaged with the RSA/SFIE team, there is some doubt as to whether it is making as many referrals as possible to the inward investment team.

5.28 In absolute terms, the total amount allocated to foreign owned firms applying directly to the RSA/SFIE team has been higher (£8m) compared to those also receiving support from the inward investment team (£6m). However, a comparison of the average grant size indicates that this group tended to secure larger grants compared to those that applied directly to the RSA/SFIE team – £460,000 compared to £255,000.

5.29 It is also interesting to compare average grant sizes of foreign owned firm with that of indigenous firms. It is evident that foreign owned firms have secured significantly larger grants compared to indigenous companies. In part, this is because indigenous companies receiving an RSA/SFIE grant have been SMEs whereas foreign owned firms have been large enterprises.

5.30 In short, foreign owned firms supported by the inward investment team have tended to secure the largest grants, followed by foreign owned firms applying directly to the RSA/SFIE team, with indigenous firms having received significantly smaller grants.

Grant Value by Year

5.31 As shown in table 5.9, the highest level of grant awarded to foreign owned firms in any one financial year was £3.7m in 2004/05.²¹ After this, total annual allocations declined to approximately £2.6m. In comparison, the annual grant allocated to indigenous firms has steadily increased from £3.3m in 2004/05 to £7.4m in 2008/09.

	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Foreign (supported)	£1,000,000	£1,230,258	£1,615,000	£958,817	£1,175,000	£5,979,075
Foreign (non-supported)	£2,705,000	£1,415,000	£1,100,345	£1,561,994	£1,402,777	£8,185,116
Total foreign	£3,705,000	£2,645,258	£2,715,345	£2,520,811	£2,577,777	£14,164,191
Total indigenous	£3,301,900	£4,148,698	£5,945,795	£6,904,633	£7,390,270	£27,691,296
Total	£7,006,900	£6,793,956	£8,661,140	£9,425,444	£9,968,047	£41,855,487

Size of RSA/SFIE Beneficiaries

5.32 As show in table 5.10, the RSA/SFIE programme has mainly supported large and medium sized companies and relatively few small or micro enterprises.

5.33 Within the foreign owned cohort, there appears to be a slight propensity for large firms to apply directly to the RSA/SFIE team.

	Total		Supported		Non-supported	
	Count	%	Count	%	Count	%
Micro (1–5)	1	2%	0	0%	1	3%
Small (6–10)	7	16%	3	23%	4	13%
Medium (11–199)	13	29%	4	31%	9	28%
Large (200+)	18	40%	5	38%	13	41%
Don't know	6	13%	1	8%	5	16%
Total	45	100%	13	100%	32	100%

5.34 The 2009 evaluation of AWM's RSA/SFIE programme reports on the value of grant being directed at foreign owned and indigenous companies based on business size. There is a variation in sizes between foreign owned and indigenous firms. In numerical terms, foreign owned companies accessing the grant have tended to be large, whereas indigenous firms seeking support have mainly been SMEs. However, in terms of grant value, large companies, both indigenous and foreign owned, received higher amounts compared to SMEs.

²¹ This does not conform to the number of applications approved each year as the total grant allocated to an individual company is often drawn down in smaller amounts over several years.

Sector of Foreign Owned RSA/SFIE Beneficiaries

5.35 As shown in Table 5.11, virtually all the foreign owned firms that received an RSA/SFIE grant operate within the manufacturing sector. Only six grants have been allocated to businesses operating in either the service or sales sectors.

	Total		Supported		Non-supported	
	No.	%	No.	%	No.	%
Manufacturing	39	87%	12	92%	27	84%
Services	3	7%	1	8%	2	6%
Sales	3	7%	0	0%	3	9%
Total	45	100%	13	100%	32	100%

5.36 The 2009 SFIE evaluation presents a sectoral profile of indigenous companies. Like the foreign owned firms, the highest proportion operates in the manufacturing sector (72%). However, there is greater representation from other sectors, including business services, sales, construction and leisure.

Outputs – Inward Investment Support and RSA/SFIE

Global Outputs from the Inward Investment Programme

5.37 Table 5.12 shows that just over 11,000 jobs have been created from the 205 FDI projects supported by AWM and a further 5,000 have been safeguarded. The highest number of jobs were created in 2007/08, the year in which the programme supported the second highest number of foreign investors. The highest numbers of jobs were safeguarded in 2005/06; the year in which 1,800 jobs were safeguarded in the region's telecoms sector.

		2004/05	2005/06	2006/07	2007/08	2008/09	Total
		No.	%	No.	%	No.	%
Jobs created	No	2,645	2,534	1,879	2,856	1,125	11,039
	%	24%	23%	17%	26%	10%	100%
Jobs safeguarded	No	461	3,634	211	523	375	5,204
	%	9%	70%	4%	10%	7%	100%
No supported		34	36	35	45	55	244

5.38 On average, it appears that each foreign owned company supported by AWM has created and safeguarded approximately 54 and 25 jobs respectively.

5.39 It is interesting to compare employment outputs of FDI projects supported by AWM with those that have not engaged with the Agency – see table 5.13.

	Total	Non Supported*		AWM Supported**	
		No.	Average	No.	Average
FDI projects	491***	286		205	
Jobs created	18,679	7,640	27	11,039	54
Jobs safeguarded	49,558	44,354	155	5,204	25

* Figures taken from UKTI (see table 2.5).
 ** Figures taken from AWM monitoring data.
 *** The total number of projects is higher than the 482 reported in chapter two because AWM's data shows it has supported nine more companies than recorded by UKTI.

5.40 FDI projects supported by AWM have created more jobs compared to those that have not received support (54 each as opposed to 27). Conversely, non supported projects have safeguarded a much higher number of jobs compared to those that engaged with the inward investment team (155 as opposed to 25).

Outputs by Continent from the Inward Investment Programme

5.41 As shown in table 5.14, just under half of all new jobs (46%) supported by AWM have originated from North America. This is higher than the continent's share of total FDI projects. By comparison, nearly half of all safeguarded jobs are due to investors originating in Europe. Put another way, projects from North America have yielded more new jobs, whilst those from Europe have been oriented towards safeguarding existing ones. This is slightly surprising given that a high proportion of projects from Europe comprise first time investments whilst those from North America comprise expansion. About a fifth of all new jobs are due to projects emanating from Asia Pacific.

	FDI projects		Jobs Created		Jobs Safeguarded	
	No	%	No	%	No	%
Europe	90	44%	4,000	36%	2,575	49%
North America	59	29%	5,038	46%	1,356	26%
Asia Pacific	56	27%	2,001	18%	1,273	24%
Total	205	100%	11,039	100%	5,204	100%

5.42 On average, 85 jobs have been created by individual projects originating from North America, with the comparable figures for Europe and Asia Pacific are 44 and 36. Similarly, whilst the average number of jobs safeguarded by European projects has been 29, comparable figures for North America and Asia Pacific are 23 and 23 respectively.

Outputs from Foreign Owned Companies Supported by RSA/SFIE

5.43 As shown in table 5.15, foreign owned investors benefitting from RSA/SFIE grants created 1,704 new jobs and safeguarded 1,690. These include jobs created and safeguarded by the thirteen firms that also received support from the inward investment team.

	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Jobs Created	241	225	424	419	395	1,704
Jobs Safeguarded	338	222	444	210	476	1,690
Private Sector Leverage (£000)	5,716	12,403	5,881	21,196	41,280	86,476

5.44 Table 5.16 compares the outputs generated by the two groups of foreign owned companies as well as those generated by indigenous firms.

	Grants		Jobs created		Jobs safeguarded		Leverage
	No	Value	No	Average	No	Average	
Supported	13	£5,979,075	1,246	96	1,129	87	£41,457,060
Non-supported	32	£8,185,116	457	14	561	18	£45,018,730
Total foreign	45	£14,164,191	1,703	38	1,689	38	£86,475,790
Total indigenous	304	£27,691,296	2,439	8	2,473	8	£136,103,340
Total	349	£41,855,487	4,142	46	4,162	46	£222,579,130

5.45 The two key points that emerge are: (i) companies engaging with the inward investment team are significantly more likely to create new jobs and safeguard existing ones than those that do not engage with the inward investment team; and (ii) on average, foreign owned companies have secured greater employment outcomes compared to indigenous firms. In part, this is reflective of the higher grants that foreign-owned companies receive relative to indigenous companies.

Summary

5.46 The key points arising from this chapter are as follows.

- AWM has supported 205 FDI projects over the period 2004/05-08/09, accounting for nearly 40% of all foreign owned investments over the same period.
- Nearly two-thirds of the projects supported by AWM have comprised first time investments – foreign owned firms that are new to the region.
- As a continent, Europe has accounted for the majority of FDI flows into the region, but the largest number of projects from an individual country have emanated from the USA.
- Going forward, AWM should consider categorising FDI projects by cluster as well as firm activity.
- Forty-five foreign owned firms have received an RSA/SFIE grant, valued at £14.2m. Thirteen of them also received support from the inward investment team. AWM should assess whether cross-referral between the two teams is operating as effectively as it can.
- On average, firms supported by the inward investment team have received higher grants than those that applied directly to the RSA/SFIE team. Further, indigenous firms have received much smaller grants compared to all foreign owned firms.
- Outputs from the RSA/SFIE programme show that foreign owned companies that also received support from the inward investment team secured greater employment outcomes than those that did not.

6 The Characteristics of Study Respondents

6.1 This chapter is the first of three that analyses research findings emanating from a telephone survey and qualitative interviews undertaken with companies receiving support from the inward investment team.²² This chapter focuses on the make-up of the companies, detailing their key characteristics, such as size and growth trajectories. Later sections examine the extent to which they make use of local suppliers and the location of their competitors and customers. This analysis provides insights regarding the extent to which foreign-owned companies have become embedded within the region.

A Profile of Respondents

6.2 To date, a total of 205 businesses have benefited from support through the inward investment team and the study aimed to interview 100 of them. In practice, the study achieved 50 structured and 16 semi-structured interviews. One of the main reasons for the lower than anticipated response rate is that the study found it difficult to gain access to the company representatives that had been involved in the firm's location or expansion process and who had dealt with AWM. Such representatives had either found new employment opportunities or are not involved in running the UK operation. To overcome the latter issue, the study attempted to interview overseas representatives who had worked with AWM. However, their contact details were not supplied until the latter stages of the study leaving little time to securing a telephone meeting with them.²³

6.3 The combination of structured and semi structured interviews yielded an overall response rate of 27%. At a confidence level of 90%, the margin or error is +/- 8.4%.²⁴

Country of Ownership and Type of Establishment

6.4 As shown in figure 6.1, more than a third of respondents (36%) are from North America. Nineteen originate from Europe, mainly Germany and Sweden (six and five companies respectively). Respondents' country of origin corresponds fairly well to the total population of inward investors supported by AWM. To recall, North America has comprised 29% of all FDI projects over the last five years, whilst the highest number from Europe originate from Germany and Sweden (see tables 5.2 and 5.3).

6.5 Turning to the type of project implemented by foreign owned companies, half of the respondents were operating in the West Midlands for the first time (first time investment), whilst two fifths (42%) expanded an existing operation. Fourteen respondents were set up as UK headquarters. A further six were established to serve the European market through their UK base. Box 6.1 provides examples of the different types of FDI projects that received support from the inward investment team.

²² The percentages in this and following chapters refer to results from the survey and do not include responses from interviews because these were semi-structured discussions.

²³ This is common problem faced by evaluation studies seeking to assess the impact of inward investment programmes. For example, when evaluating EEDA's inward investment programme, SQW contacted 227 individuals and secured interviews with 19 of them (of which 11 were fully completed).

²⁴ Accuracy to a degree of +/- 5% would require a sample of 129 responses.

Figure 6.1: Country of Ownership

Source: *ekosgen 2009; Sample of 50 respondents*

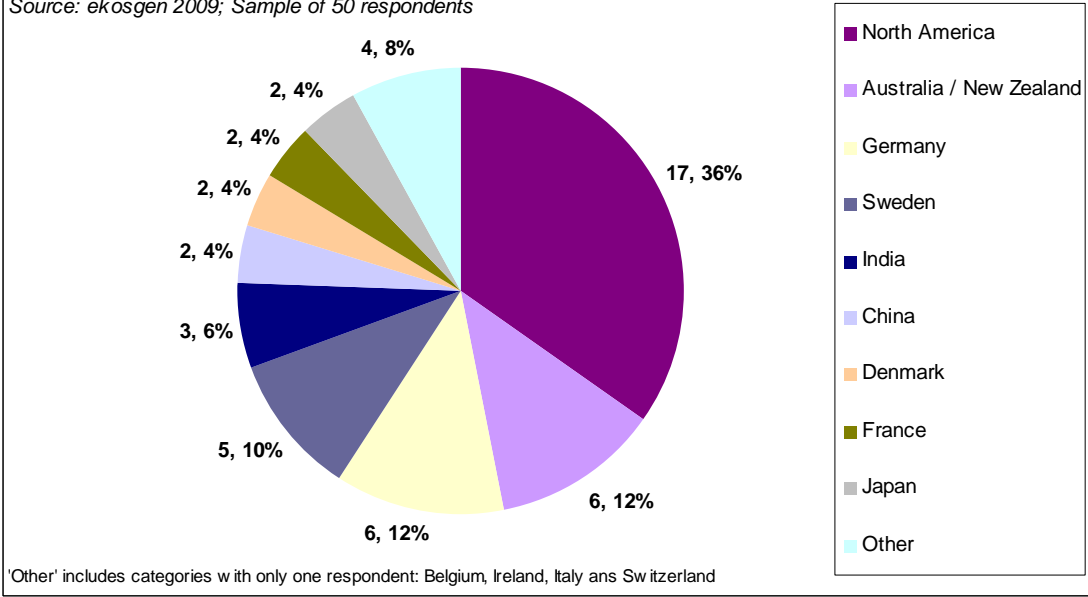
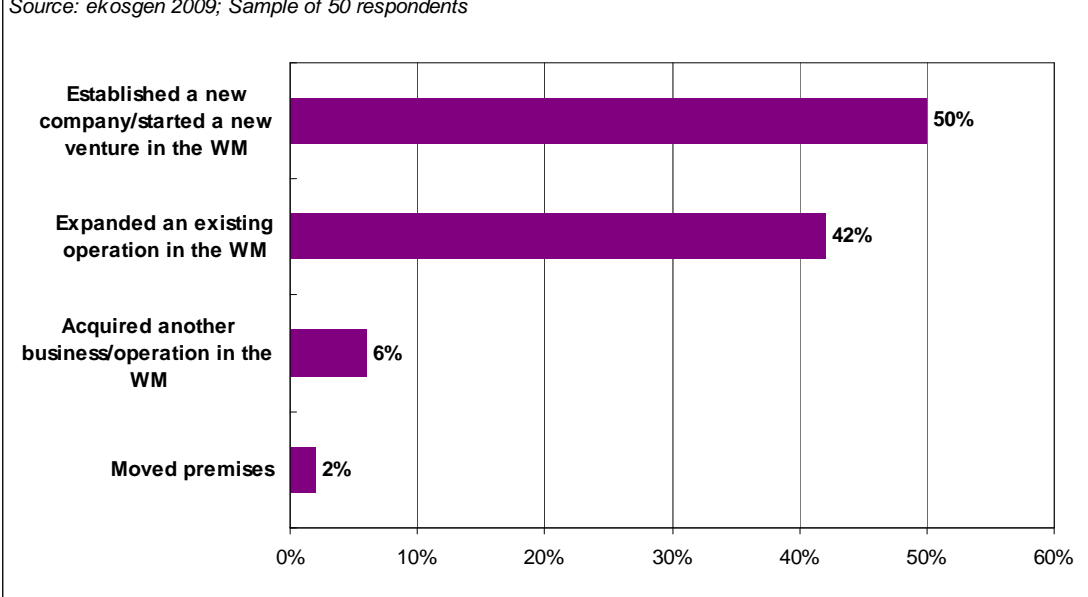


Figure 6.2: Type of Intervention

Source: *ekosgen 2009; Sample of 50 respondents*



Box 6.1: Examples of Different Types of FDI Projects

New Venture

A company from Asia Pacific was established in the West Midlands to provide research and information to companies operating in the construction industry. The company had existing offices in three countries in Asia Pacific and felt that the UK “was the next step”. After considering and then rejecting London, the company settled in the West Midlands because of its geographical location, ease of access to a potential client base, and its competitive cost base.

Relocation

A European company dealing in building first entered the UK in 1987 and started trading in Oxford. However, in 2007, it decided to close the Oxford site and move to Birmingham. Employees were initially reluctant about the re-location but with the help of AWM, the company was able to persuade most of them to live and work in the region.

Expansion

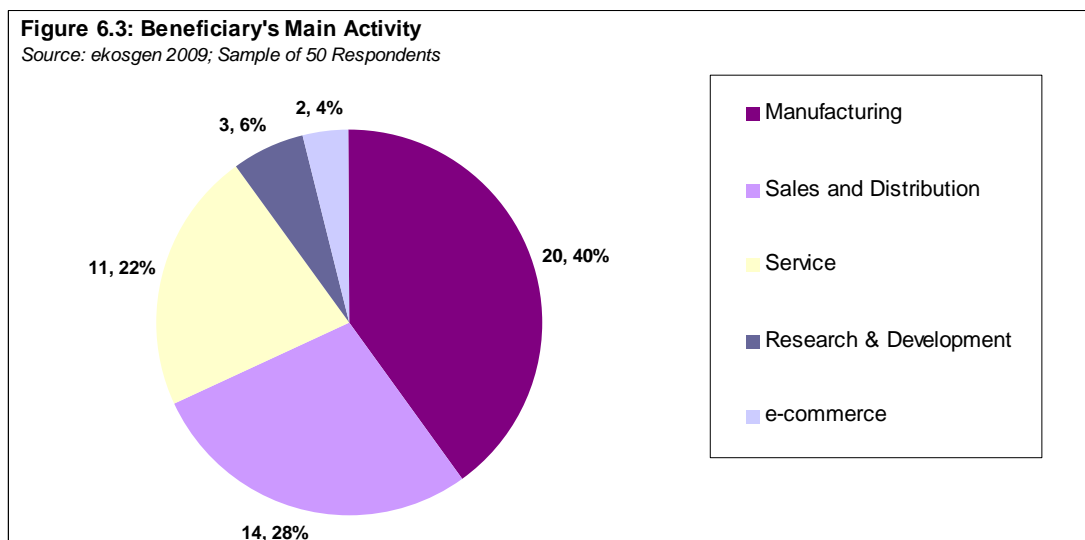
Another company from Asia Pacific moved to Litchfield in 2005 without any support from AWM. In late 2006, it started to search for bigger premises and received information and advice from both AWM and UKTI. The company decided to move to a site identified by AWM in Staffordshire. This required an investment of £25m, which was largely spent on buying land, building a warehouse and fit-out.

Acquisition

A Birmingham-based manufacturing company collapsed in April 2005. A company from the Far East purchased the engineering component of the firm and created a technical centre.

Sector and Activity

6.6 Around 40% of all respondents operate in the manufacturing sector, with activities ranging from automotive manufacture, machine and equipment and medical equipment. More than a quarter of companies (28%) are involved in sales and distribution and a fifth regard themselves as service providers.



Employment

6.7 Table 6.1 compares the employment size of beneficiaries at the time they received support from AWM and their current position. At the time of intervention, most were micro enterprises, employing less than ten people.

	At time of intervention	Now
Micro (less than 10)	65%	57%
Small (11-49)	13%	8%
Medium (50-249)	4%	21%
Large (250+)	9%	13%
Source: ekosgen 2009; Sample of 23 respondents		

6.8 Since receiving support from AWM, the proportion of micro businesses has decreased whilst the proportion of medium sized companies has increased five-fold. See Box 6.2 for examples of changes in employment.

6.9 Overall, the evidence suggests that respondents have increased the number of people they employ. To some extent, this is to be expected for two main reasons. First, companies involved in a first time investment often employ a small number of staff and then increase them as the volume of work they undertake increases. Second, by the very nature, firms engaged in international trading are likely to be dynamic with fairly ambitious growth aspirations. Therefore, one would expect them to increase the number of people they employ. By way of contrast, it appears that the BtG programme has predominately supported micro enterprises, which is not surprising as it is targeted at SMEs.

6.10 More generally, it appears that the BtG initiative has become wedged between the end of a buoyant economy and the onset of a recession. The economic climate was strong enough to encourage such small entrepreneurs to set up a base in the region, but now that they are here, their growth aspirations have been thwarted by the recession. Overall, however, the respondents that took part in the study remained optimistic about their future and did not give an indication that they would cease trading. Going forward, AWM may wish adopt a more targeted approach in the types of companies it supports – perhaps securing investment from medium sized companies.

Box 6.2: Examples of Employment Increases

Small to large (high skilled employment)

One company set up its operation in the West Midlands in two phases, the first being a pilot where 20 high skilled graduates and senior managers were recruited. This proved successful and provided the assurance that the company was seeking to establish a permanent base in the region. It now employs 475 people, all of whom are high-skilled knowledge workers.

Medium to large

A large automobile company has established various subsidiaries and associate companies in the West Midlands. One of these started off employing 50 people and now provides employment for 200.

Small to small

A company, in the business of designing lamps, was set up in Birmingham in June 2008, employing one person. It now employs four individuals in Birmingham and a further 1.5 full-time equivalents in its home country in Asia Pacific.

Graduate employment

A European company liaises with the universities of Birmingham and Aston each year to recruit chemical and engineering graduates. Even in 2009 when some companies put a moratorium on all recruitment, the company recruited three young people over the summer and expected to offer opportunities to a further four by the end of the year. The company's representative explained the decision as *"we realise we need talent and we need to keep having young professionals coming through because in three or four years time, they're going to help run the business and come up with new ideas"*.

No employment growth

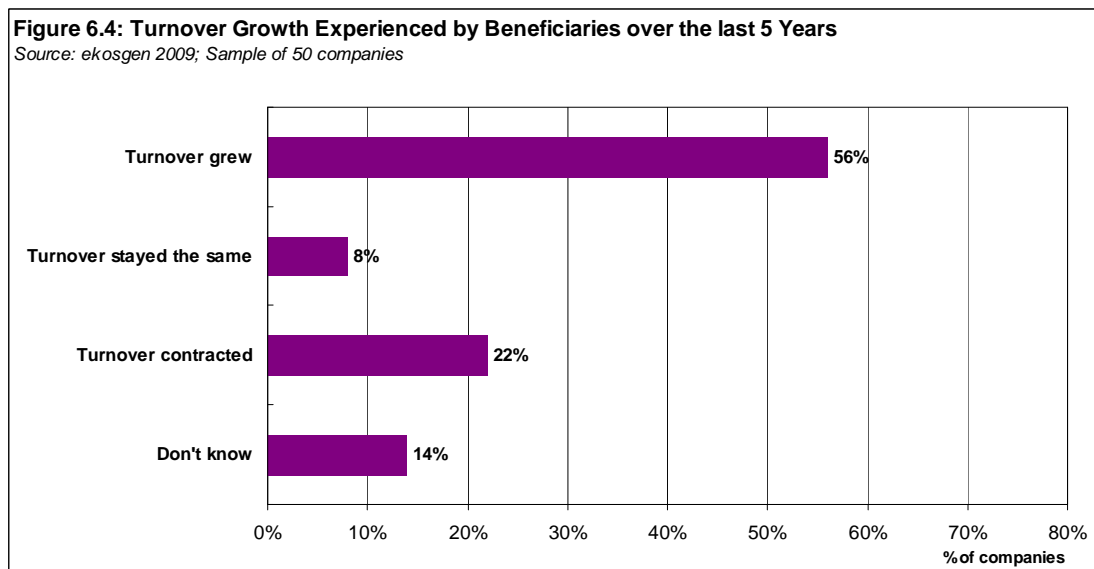
As a direct result of the BtG scheme, a Nordic entrepreneur decided to set up a business in the West Midlands and is currently based in Warwickshire. However, the company is not yet in a position to offer employment opportunities.

Business Growth and Innovation

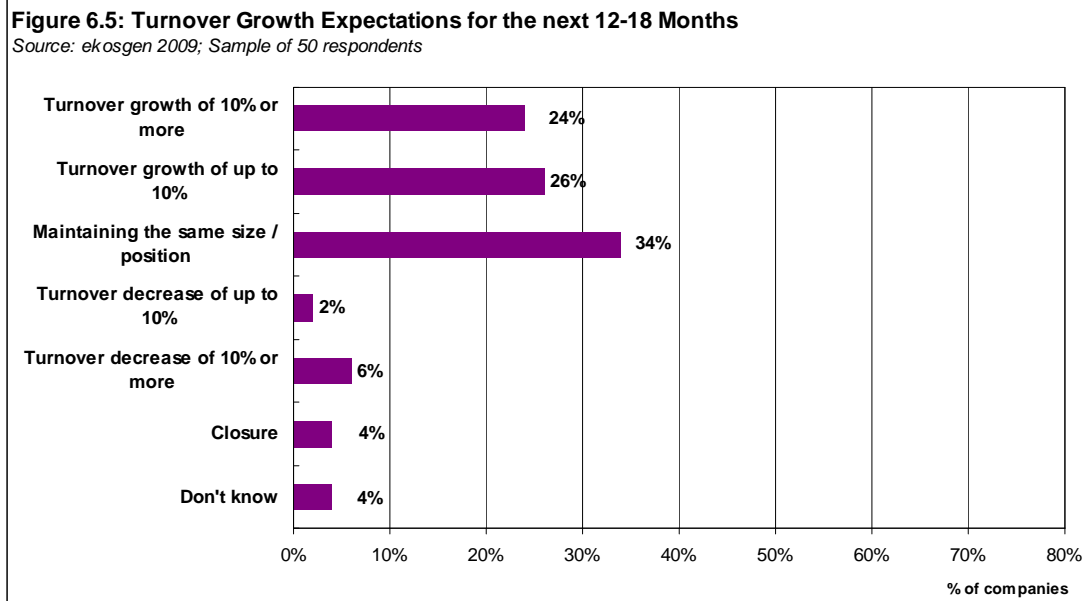
6.11 This sub-section focuses on the growth experience of respondents and their level of innovative activity. It also explores the extent to which the current economic downturn is affecting their bottom line figures.

Growth Trajectories

6.12 Over half of the respondents (56%) reported that they had experienced a growth in turnover over the last 5 years. However, just over a fifth indicated that turnover levels had stayed the same and four companies reported a decline over the same period.



6.13 As shown in figure 6.5, over half of the respondents anticipate experiencing turnover growth in the next 12-18 months. Around 26% expect to achieve growth of up to 10%, and nearly a quarter of the sample anticipates turnover growth of more than 10%. A bigger proportion, however, expects to maintain the same position. Overall, these findings suggest that a significant number of respondents are proving to be resilient to the recession.



6.14 As shown in figure 6.6, just over half the sample (53%) reported that the recession would either have no effect on their sales, or in a small number of cases, they would experience an increase. A similar proportion (48%) expressed the same sentiments regarding profits. However, 40% are less optimistic and expect to experience a decrease in sales, profits or investment. See Box 6.3 which illustrates respondents' experience of the recession.

6.15 Overall, the results indicate that, in many cases, respondents are hopeful that they will continue to operate throughout the recession without closing down. Further, many expect their business to grow, although the vast majority (of the sample interviewed) have revised their forecasts and are planning for lower levels than originally expected.

Box 6.3: Growth Trajectories and Impact of Recession

Revising growth projections

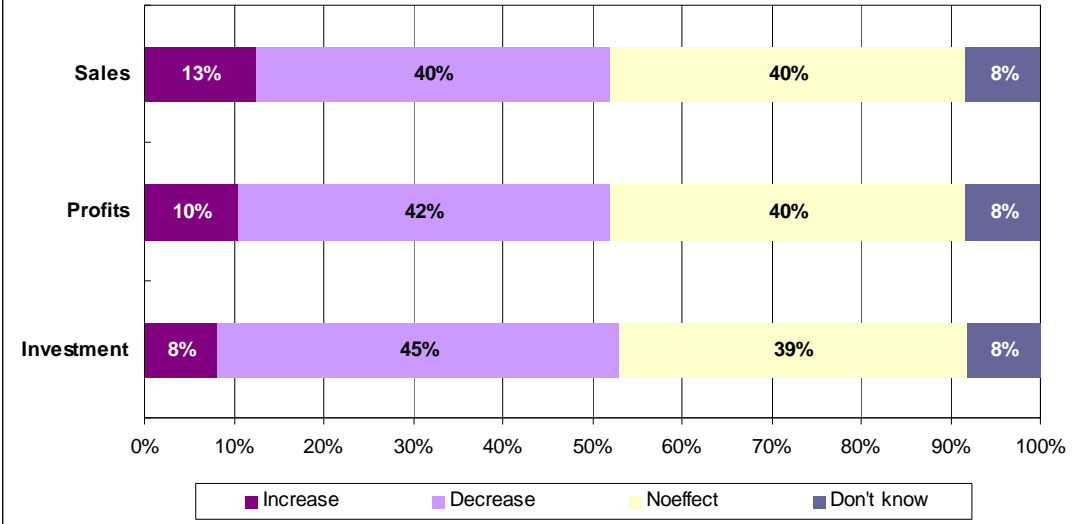
The BtG programme helped to support the establishment of a Canadian company's European headquarters and R&D facility in Warwickshire. However, its growth projections have been thwarted by the recession. The Managing Director reported, *"the economy is not letting us grow at the minute. Business leaders are apprehensive and one of the first things they will cut back on is IT...which is discretionary spend for customers...So our growth projections have had to be revised. Initially we were expecting to increase to 25 people in 12 months but now we're expecting this to occur over 24 months."*

The positive impact of the recession

A small company providing journalistic services to companies in Europe reported that its customer base has grown because of the recession. Specifically, it is acquiring customers who would "normally" use the services of larger firm, but to reduce their costs, these customers have turned to smaller companies offering competitive prices.

Figure 6.6: Effects of the Economic Downturn

Source: *ekosgen 2009; Sample of 50 respondents*

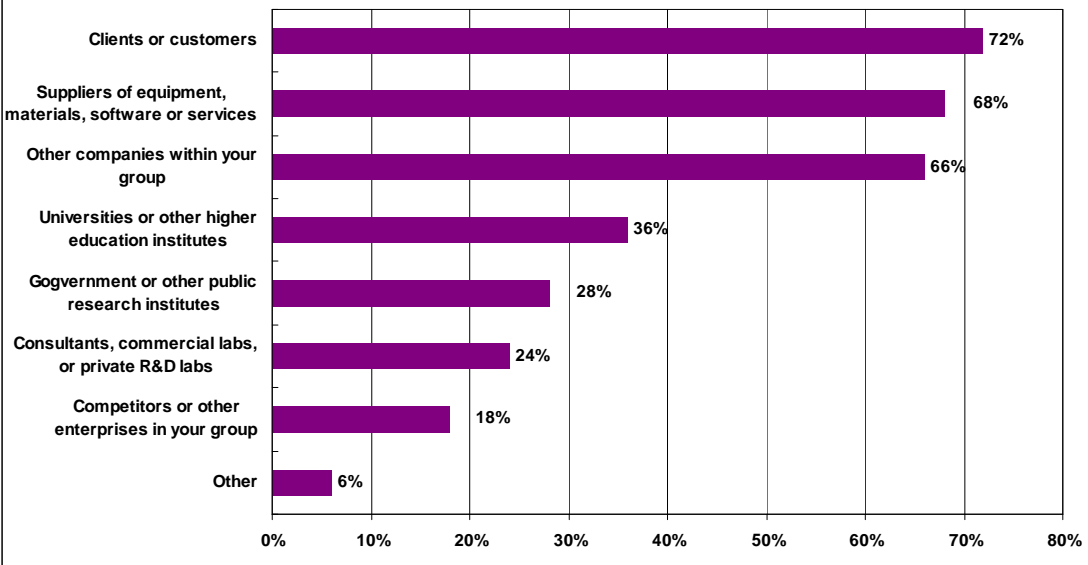


Nature and Level of Innovation

6.16 It is useful to understand the level of knowledge sharing and innovative activity arising from collaborative working between inward investors and others within the region. As shown in figure 6.7, respondents have mainly collaborated with the commercial sector, that is, with clients (72%), suppliers (68%) and other companies within their group (66%). However, only a modest proportion has collaborated with HEIs, research institutes or commercial laboratories. This suggests AWM can help facilitate greater levels of engagement between inward investors and the knowledge base.

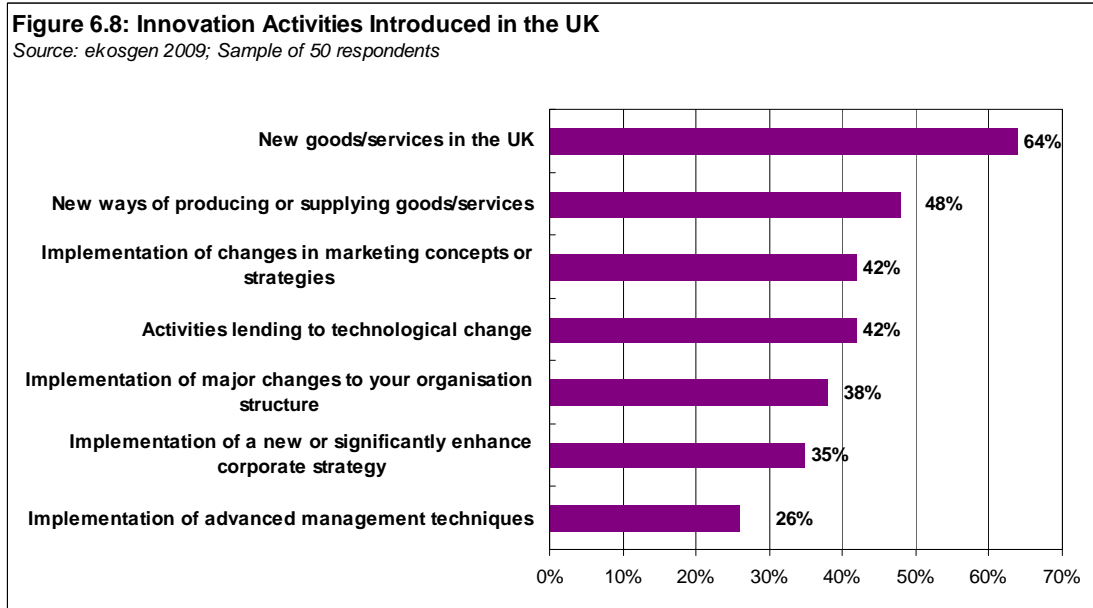
Figure 6.7: Partners for Knowledge Transfer and Innovation

Source: *ekosgen 2009; Sample of 50 respondents*



6.17 The results indicate that inward investors (supported by AWM) exhibit a fairly high level of innovation with almost two in three companies reporting that they have introduced new goods or services in the marketplace. Other fairly common forms of innovative activity

have included the introduction of new products or processes, new ways of producing or supplying goods and services, and activities leading to technical change. See figure 6.8.



6.18 Very few respondents have introduced special measures to protect their innovations. Nonetheless, as illustrated in Box 6.4, significant levels of R&D investment are being made by inward investors. Much of this activity is being undertaken by large companies, many of which have a global presence.

Box 6.4: Examples of R&D Investment

Manufacturing

A foreign owned company acquired a West Midlands business. For the first three years, the regional company provided mainstream engineering services to its new parent company based overseas. Over the last year, the parent company decided that its regional subsidiary should engage in much higher levels of R&D. Accordingly, it is entering discussions with all of the region's universities regarding the provision of advanced technology training and undertaking collaborative research.

Engineering

An Asian company opened a European technical centre in the West Midlands in 2007 and is now seeking to relocate the centre to another site in the region. The centre will be engaged in design engineering and new product development. One of the goals set by the managing director is to ensure that the new centre collaborates with universities to acquire knowledge rather than purchase technology for specific purposes from the likes of engineering consultancies.

6.19 To conclude, whilst there is evidence that companies supported by AWM are benefiting the regional economy by undertaking R&D, there are opportunities to enhance the overall level of innovative activity taking place. There are several actions that AWM may wish to pursue:

- Facilitate greater links between companies and research institutions as already set out in the programme's current strategic plan;
- Encourage large firms to move their R&D functions to the region; and
- Focus on securing early start-up companies with high growth potential;
- Market the region (in relevant sectors) as a place to *source* technology.

6.20 It is acknowledged that the second and third actions in the bullet list will be challenging in the current economic climate.

6.21 There is insufficient data gathered from this study to compare the innovation and knowledge transfer activities of inward investors supported by the AWM team either with other inward investors or the region's indigenous business population. The traditional view amongst economists is that foreign investors tend to carry out innovation and R&D activity in their home rather than host country. However, recent literature on the internationalisation of R&D suggests that there is a growing willingness amongst foreign investors to locate operations close to leading centres of research and innovation specifically with a view to take advantage of them. For example, one study concluded that R&D investment made by foreign owned firms in the United States was taking place on sites close to where they could access complementary technologies. A similar conclusion was reached by a study in the UK from a survey of multinational corporations.²⁵

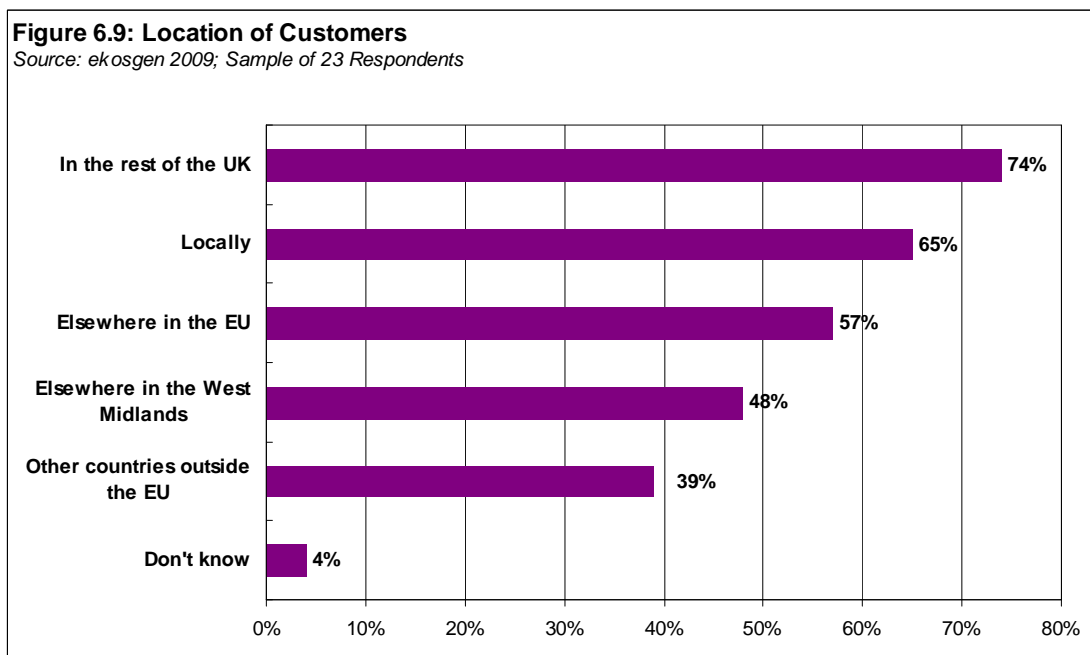
Markets and Local Linkages

6.22 The following subsections seek to identify the location of inward investors' customers, suppliers and competitors as a way of gauging the extent to which they have become embedded within the region and whether their presence has resulted in any displacement.

Markets

6.23 As shown in figure 6.9, most respondents reported that their main markets are UK-wide, European and, in many cases, worldwide. A fairly high proportion of respondents indicated that some of their customers are located within a 20-mile radius.

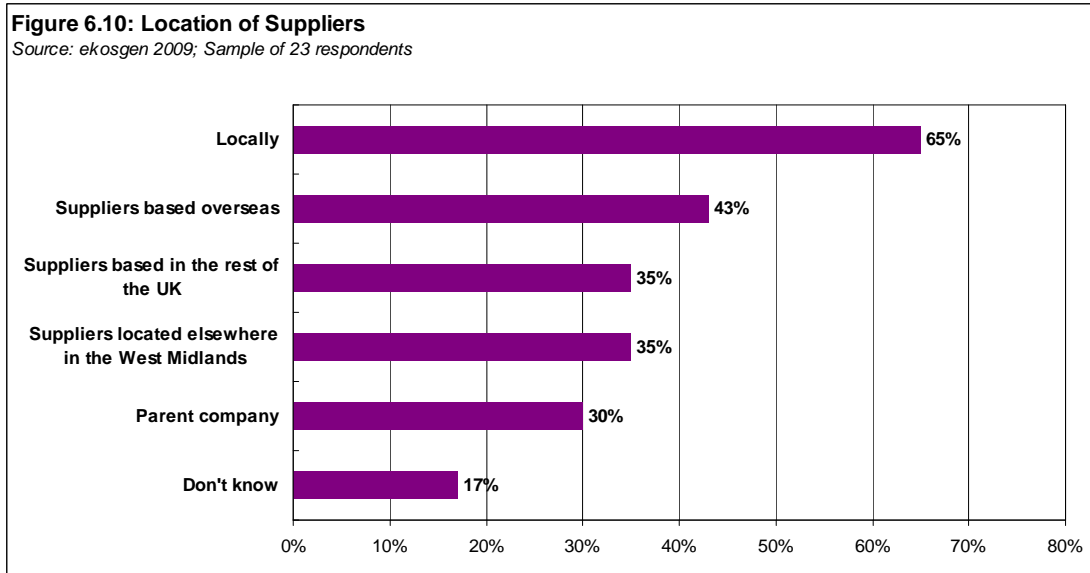
6.24 Sales is another indicator showing that respondents' customer base is predominantly national and international. Almost half the sample reported that less than 30% of their sales are from customers based in the West Midlands. Only a fifth of the sample indicated that 70% or more of their sales are from customers in the region. See figure 6.9 overleaf.



²⁵ C.f. Manchester Independent Economic Review: Growing Inward and Indigenous Investment.

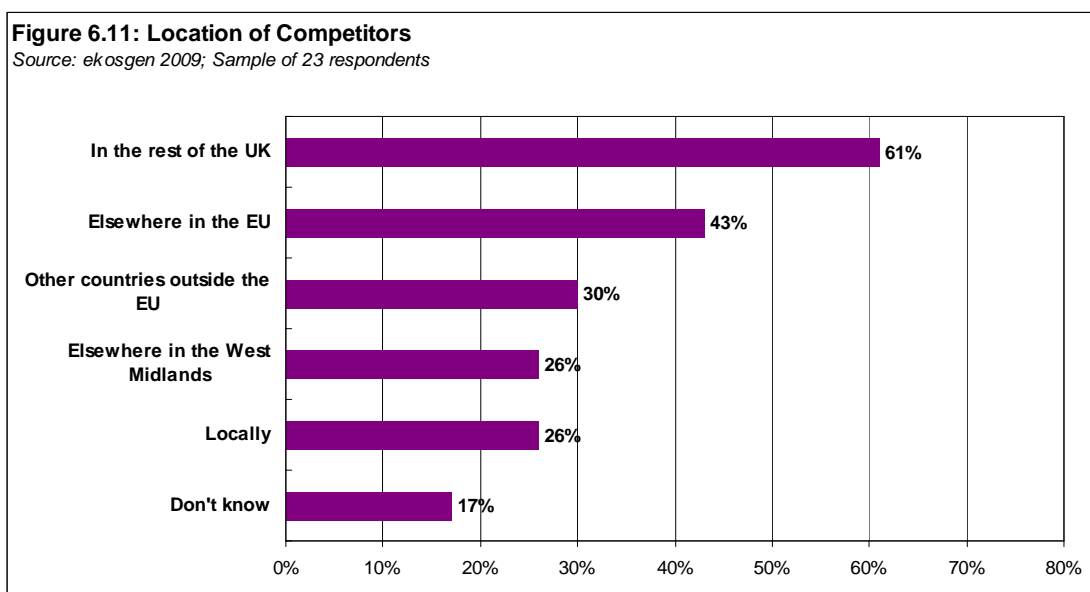
Suppliers

6.25 As shown in figure 6.10, a high proportion of respondents are making use of suppliers located in the region. For example, seven companies reported that they are purchasing between 50–100% of all their inputs from local suppliers. By contrast, semi-structured interviews with newly formed companies suggest that they are mainly sourcing inputs from a parent companies or from their home country. Local suppliers have not been used because trading levels have not been sufficiently high to warrant this. In such instances, respondents were keen to emphasise that they would be making use of local suppliers in future.



Competitors

6.26 The majority of respondents reported that their competitors are based across the UK or the EU. This indicates that inward investors supported by AWM do not present a significant threat to indigenous businesses. Therefore, the level of displacement arising from the inward investment programme is low.



Summary

6.27 The key findings arising from the primary research are as follows:

- The evidence suggests that inward investors have increased the number of people they employ. This is likely to be as a result of the support they reached and partly because of their make-up. In other words, by their very nature, firms engaged in international trading are likely to be dynamic with ambitious growth aspirations.
- By way of contrast, it appears that the BtG programme has predominately supported micro enterprises, which is not surprising as it is targeted at SMEs. Their growth aspirations are being hampered by the recession, although they are still positive about the future. Going forward, AWM may wish to target this initiative at medium sized companies.
- Despite the recession, respondents are hopeful that their business will grow, although the vast majority have revised their forecasts and are planning for lower levels of growth than originally expected.
- There is evidence that companies supported by AWM are benefiting the regional economy through the R&D activity they undertake. However, there are opportunities to enhance knowledge transfer and innovation taking place and the chapter has identified several actions that AWM may wish to pursue.
- Given that respondents tend to operate on a national and international level, the level of displacement arising from the inward investment programme is likely to be low. Further, there is an aspiration amongst companies to use local suppliers as and when the opportunity arises.

7 Companies' Experience of AWM Support

7.1 This chapter continues with the analysis of the telephone survey and the qualitative interviews undertaken with companies that received support from the inward investment programme during the period 2004/05–2008/09. It examines their motivations for engaging in international trade and the reasons they choose to establish a presence in the West Midlands. Later sections examine the type of support they received from AWM, their level of satisfaction with this, and the nature and scale of additionality generated as a result.

The Drivers of Inward Investment

7.2 Establishing a business overseas is not an easy task, requiring significant investment both in time and financial resources. Firms have to believe that the benefits they will experience are likely to outweigh the costs. This section discusses the different types of reasons why respondents were prompted to engage in international trade. Understanding firm behaviour in this area can help inform the Agency's inward investment marketing campaigns.

7.3 Over three quarters of survey respondents reported that the **main reason** why they chose to engage in overseas trade was "to achieve their growth aims". In some cases, this is because they have outgrown their home market, whilst in other cases it is because products require an overseas manufacturing base or the sales/aftercare related to the product needs to be undertaken in the country of the new market. This is in line with recent qualitative research commissioned by UKTI, which shows that (foreign owned) companies' motivations for international trade largely centres on the desire to enter new markets for their products.

7.4 Respondents were also asked to identify their **secondary motives** for establishing an overseas presence. The results are summarised in table 7.1 along three tiers to indicate primary and secondary motives and those that are of limited importance.

Tier 1	Tier 2	Tier 3
To serve Europe (60%)	To launch a new product (36%)	To be close to customers who have also invested in the UK (14%)
To serve the local market (50%)	To keep up with competitors who have invested in UK (36%)	To be close to suppliers who have also invested in the UK (14%)
To secure higher profit margins in the UK (50%)	To keep abreast of new ideas to drive our business forward (34%)	To establish a European base in an English speaking country (12%)
To utilise existing capacity (48%)	To serve or support other firms in company group (28%)	To reduce dependency on a single or small number of markets (8%)
		To be close to important centres of research (6%)
		To reduce costs (4%)
		Profits are low in home country (4%)

7.5 The results show that respondents' second top reason for establishing a business overseas is to "serve the European market" (60%) and the third is "to serve the local market". Accordingly, it is interesting to compare how many respondents have customers in the West Midlands. As noted in chapter six, of those able to answer the question, 26 respondents reported that some of their customers are based in the region, so there is congruence

between the two findings. However, it is difficult to say whether respondents moved to the region because they had a pre-existing base of local customers or they secured them after their move.

7.6 In line with the top reason for trading overseas, motives in tier 1 are oriented towards growing the business and achieving higher profit. Motives in tier two tend to revolve around innovation as well as keeping up with competitors. Finally, motives in tier 3 can be regarded as unimportant. Unsurprisingly, in this survey, reduced costs are not a key motive because as a destination to do business, this is not what the UK is renowned for. Conversely, it is surprising that only a small proportion of respondents reported that reducing dependency on a small number of markets underpinned their desire to set up an overseas operation (4%).

7.7 The survey results resonate with the qualitative findings where most companies indicated that their main motivation for trading overseas was to grow their business, although a few reported that it was to provide services to the wider corporate group. See Box 7.1 for examples different motives underpinning international trade. It is noteworthy that aside from servicing the rest of the company group, none of the qualitative respondents have been motivated by tier two and tier three reasons.

7.8 **The qualitative findings provide two key insights that do not readily emerge from the telephone survey.** First, in wishing to grow their business, a high number of respondents enter the UK without having an existing customer base and, accordingly, can be regarded as the types of dynamic, risk-taking entrepreneurial businesses that the region wishes to encourage. However, for the purposes of this study, it means that many of them have not yet started to achieve sales or profits.

7.9 Second, it appears that a significant number of companies have decided to operate directly in the UK rather than using a third party to distribute their goods. In a few cases, this is because companies have used distributors in the past and have been dissatisfied with their performance.

7.10 Overall, the results to this study align with existing research. A telephone survey commissioned by UKTI asked inward investors why they had invested in the UK. The main motivators were proactive – the desire to serve both the immediate local market and other European markets. However, there was also evidence of reactive pressures such as the need to keep up with competition. Interestingly, the desire to reduce costs or be close to important centres of research did not feature as prominent motivations.²⁶

Box 7.1: Drivers for Inward Investment

Growth and market expansion: One company has four offices in America and others in Taiwan, Canada, China and now the UK. The company has high growth aspirations, seeking to double its size every four years.

Servicing the company group: One business does not have customers in the region or elsewhere; instead it has been established to provide back-office services to the rest of the company group, including London.

Distribution: A Finish company was going to operate a franchise system and engage the services of a third party to sell its products. However, the BtG programme enticed it to establish a presence in the region and undertake this activity directly.

²⁶ UKTI (2005) Telephone Survey of UKTI's Inward Investment and Trade Development Customers and Non Users.

Selecting the West Midlands

7.11 This sub section discusses the research findings relating to why respondents chose the West Midlands to establish their business or expand their existing operation. It also reports on the extent to which alternative locations were considered.

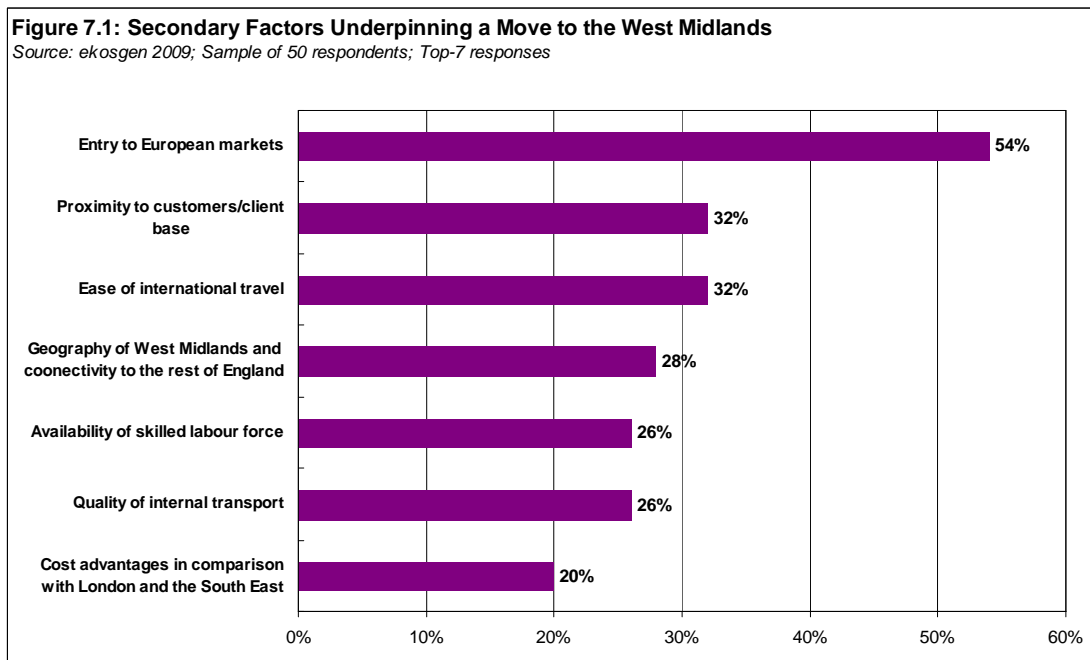
Primary Reason for Considering the West Midlands

7.12 The geographical position of the region and its connectivity to the rest of England emerges as the primary reason why inward investors have located in the West Midlands. Although this is borne out by results from the telephone survey where 44% (22) of the sample identified this to be the main reason, the qualitative interviews emphasise this factor even more. Bar a couple of exceptions, virtually all the respondents identified the region's transport links and the ease with which they can reach customers or suppliers to be the overriding reason why they moved to the West Midlands. Additional factors were also cited, but it is the region's central location within the UK that is emphasised the most. Indeed, one respondent noted that, even though being based in the West Midlands is more expensive compared to the northern regions, the convenience associated with the geographical position outweighs the cost benefits of being elsewhere.

7.13 Overall, the above findings are particularly positive from a marketing perspective as the region has a strong, unique selling point to attract inward investors

Secondary Reasons for Considering the West Midlands

7.14 Respondents were asked to identify other or the secondary factors that influenced their move to the region. The results are shown in figure 7.1.



7.15 In line with the drivers underpinning international trade, obtaining entry to European markets (54%) is the second top reason for moving to the West Midlands.

7.16 Geography and market factors continue to dominate as respondents identified other advantages of moving to the region. Hence, virtually a third reported that the West Midlands

enables easy international travel (geographic motivation) and the same proportion reported that the region facilitates proximity to customers (market reason). A quarter of respondents reported that the quality of the region's transport system influenced their decision (another geographic/transport reason) and the same proportion reported that the availability of skilled labour force was influenced their decision. For one company that was interviewed, this was the primary reason (see Box 7.2).

7.17 The other regional advantage attracting investors is the perception that the West Midlands is not as expensive as London or the South East, a factor that influenced the locational choice of 20% of respondents. Aside from this and the geographical, transport factors, other regional advantages have had limited influence. For example, no respondent mentioned that they moved to the region because of its quality of life.

7.18 Finally, it is just as interesting to observe the factors that are not considered influential (at least by respondents in this survey) in relocation decisions. Nearly all of these relate to what are considered to be the advantages of doing business in the UK, that is, the business climate, tax environment, political stability and so forth.

7.19 Box 7.2 provides examples of the different factors that have influenced investors' move to the region.

Box 7.2: Motives for Moving to the West Midlands

Geography

A successful USA owned company operating in the manufacturing and construction sector gained considerable international market share for its products. In July 2007, the company decided to establish its first manufacturing facility outside the US in order to serve the UK and European markets more efficiently. Up to then, lead times for products was taking a minimum of six weeks.

The company decided to establish its manufacturing facility in the Black Country because of the region's geographic location and its transport network. It received an SFIE grant to contribute towards the cost of its \$4.4 million investment. In June 2009, the company announced that it would invest in a second manufacturing line to cater for increased sales growth, which exceeded forecasted figures by 20%.

Skilled Workforce

A company with a base already in London considered several locations before deciding to establish an operation in Birmingham. Even then, a firm decision had not been made and it decided to test the viability of its proposition through a pilot phase. The aim of the pilot was to test the availability and skills of the labour pool. The company wanted to ensure that it could recruit "*talented young graduates to train*". It experienced no difficulties in doing so, although it has experienced challenges with regards to recruiting appropriately skilled senior managers. Nonetheless, the pilot was a success and the company has established a permanent operation, employing nearly 500 people.

Proximity to Customer Base

An Asian company initially started work in London but has steadily been expanding across the country. It selects locations based on the area's demographic profile. Basically, the company establishes a base in areas where there is a high proportion of communities or businesses from Asia as this comprises its core customer base. Its Birmingham operation is regarded as the "flagship" branch outside London and because of its success, two of the four further expansions are planned to take place in the region.

7.20 Two other observations to make are that, up to now, respondents have not moved to the region because of the reputation of its universities or the quality of education and research. This may seem disappointing given that one of the aims of the programme going forward is to secure knowledge-driven projects. On a different note, foreign owned business have not moved to the region because they believe that the labour force is cost effective.

7.21 Overall, the results from this survey indicate that, in the main, businesses select the West Midlands within which to operate because of its geographical position and the access to European markets that this facilitates. Other regional pull factors comprise the quality of the transport system, access to a skilled labour force and the lower cost of doing business here compared to London and the South East.

7.22 Given that neither the UK nor the West Midlands is going to attract business because of low operating costs, it is important that AWM continues to secure future FDI by highlighting the region's unique advantages. The results also indicate that AWM will need to work hard to secure innovation and knowledge driven FDI projects.

Expansion and Retention

7.23 Existing research suggests that international companies already operating in the UK choose to expand their operations here rather than locate elsewhere if they are satisfied with the way in which their current business is performing.²⁷ However, anecdotal evidence from the qualitative interviews suggests that foreign owned companies do not automatically expand their operations in the region in which they first entered, nor are they averse to relocation elsewhere. Indeed, in one case at least, the West Midlands has benefited from a re-location, with the French company closing down its operation in Oxford. Before expanding their West Midlands operation, some respondents reported that they had considered other locations in the UK, whilst others reported they had considered other countries. In other words, companies are engaged in ongoing strategic assessments of the location of future investments.

7.24 The above findings indicate two points. First, perhaps because of their very nature, companies engaged in inward investment are not rooted in the areas in which they establish a presence. They are likely to move to areas that can better meet their objectives at any given time (be that cost reduction, skilled workforce or market opportunities). As a result, policy makers need to work as hard to retain inward investors as to attract them in the first place.

Alternatives to the West Midlands

7.25 Successful businesses are often fairly knowledgeable about their competitors and, in the area of inward investment, it is important to be aware of the cities and regions that represent the strongest competition. On this basis, respondents were asked to identify other locations they considered before they selected the West Midlands. A fairly high proportion indicated that no other destination was considered (42% / 21). Where alternative locations were considered, it seems that the West Midlands was competing with other places in the UK (22% / 11) rather than other continents such as Europe (4%).²⁸

7.26 The survey results are validated by the qualitative findings where respondents reported that they had considered various options in the UK rather than several locations throughout the world. Indeed, several respondents reported that they had only considered the UK, partly because of access to the English language. Nonetheless, there are a couple of rare examples where respondents had explored the possibility of working in alternative countries. For example, one company mentioned it had considered expanding its operations in America and the Philippines rather than setting up a new base in Birmingham. Similarly,

²⁷ SQW (March 2009) UKTI Inward Investment Evaluation Case Studies.

²⁸ It is important to acknowledge that responses to this question elicited a large number of 'don't' knows' in the survey (30% / 15), as respondents were not cognisant of other locations that may have been considered as alternatives to their current place of operation.

another company reported that it had considered hiring a distributor in Germany rather than establish a new subsidiary in the Midlands.

7.27 In general, findings from this study resonate with existing research. Results from UKTI's telephone survey showed that the majority of inward investors had not considered an alternative location to investing in the UK.²⁹

The Role of AWM

7.28 This sub section outlines companies' views and experiences of their engagement with AWM, the type of support they received and their overall levels of satisfaction.

Initial Engagement

7.29 It is useful for all organisations to be cognisant of the way in which their customers first became aware of them, if for no other reason than to establish the types of marketing activities that are working well and those less so. Unfortunately, around half the respondents to the telephone survey were unable to specify the way in which they first made contact with AWM. Of those that could, direct contact from AWM in the West Midlands has been most common (although this could be the approach that is remembered the most). Three respondents identified overseas offices as the source through which they first became aware of AWM.

7.30 The qualitative findings provide a little more detail and illustrate the variety of ways in which initial contact is made between an inward investor and AWM. In essence, this includes the methods mentioned above, as well as introduction from a third party such as a sub regional partner, UKTI, or an overseas business support agency. Introductions via UKTI do not appear to have been common³⁰ and when UKTI is involved, it markets other regions in line with its remit. See Box 7.3 for examples of the different ways in which companies made first contact with AWM.

7.31 The key observation arising from this analysis is the importance of developing relationships with business support agencies in overseas locations and marketing the unique strengths of the region to them. This is because they are often the first port call when companies are looking for support to trade overseas. Hence, there is a need to continually remind overseas agencies of the region's locational advantages and the support available to them, particularly since others will be doing the same. The same applies to UKTI, abroad and in London.

Box 7.3: Examples of First Contact with AWM

- **Direct Contact from AWM** – a company in the midst of acquiring a failing indigenous firm was directly approached by AWM and offered support to make the process efficient and smooth for all concerned.
- **Networking** – Another company had been operating in the West Midlands for several years without having engaged with AWM at all. Senior directors attended an event, which was also attended by AWM. Coincidentally, the company was in the midst of planning its expansion and, following an initial discussion between the two parties, AWM supported the company to find new premises.

²⁹ DTI and UKTI (2006) 2004–2005 Study of the Relative Economic Benefits of UKTI support for Trade and Inward Investment: Final Synthesis Report.

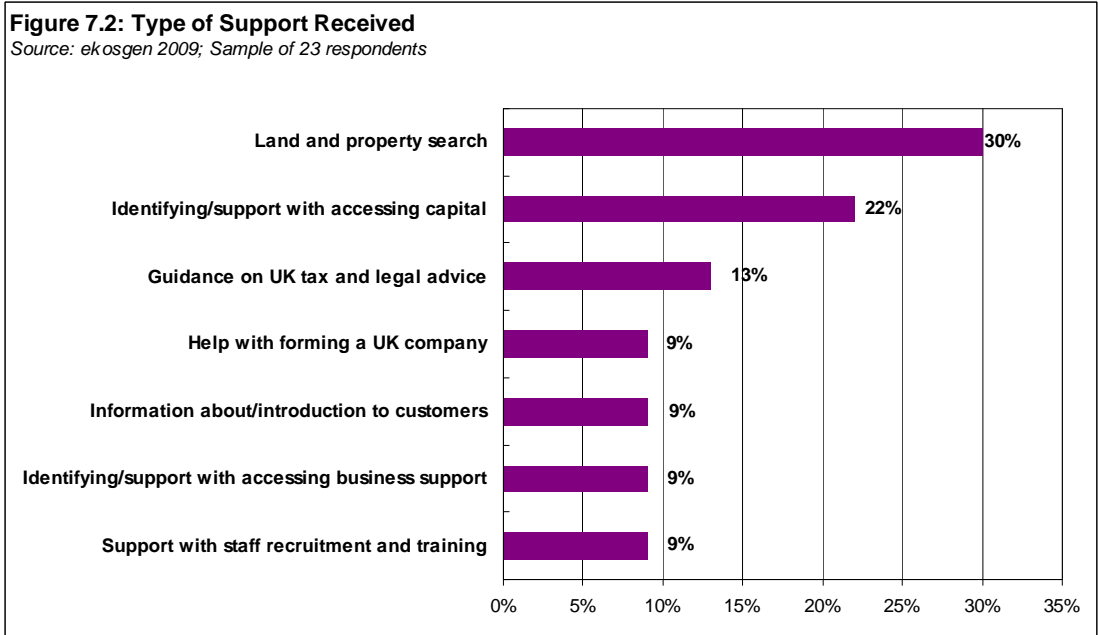
³⁰ For example, none of the survey respondents had engaged with the AWM through an introduction from the national agency.

▪ **Introductions via Overseas Business Support Agencies –**

- A company with its head quarters in Belgium wanted to start trading in the UK and had more or less decided that it wished to be based in the West Midlands. It visited the Belgium Chambers of Commerce to find out the process of starting a company in the UK at which point the company was given details of AWM.
- Similarly, an Australian company had aspirations of trading in the UK, having already expanded in New Zealand and Singapore. The company contacted AUSTRADE, the Australian inward investment agency. As the option of moving to London was rejected on the grounds of cost, AUSTRADE suggested that the company should contact the British Midlands office in Melbourne.

Type of Support

7.32 AWM offers a range of services to foreign owned companies investing in the region. As shown in figure 7.2, the most common service accessed by respondents has been help with finding suitable sites and premises. Other popular services include advice on accessing finance, and guidance on UK tax and other legal matters.



7.33 The qualitative interviews validate the survey findings and also highlight two points not readily apparent from the survey results:

- There are a myriad of different ways in which companies have been supported, with any combination of services provided, and engagement being long or short term. See Box 7.4a for examples of the different ways in which companies have received assistance.
- AWM often provides support in conjunction with other agencies, either UKTI in the case of large global institutions, or sub regional partners in the case of smaller firms. See Box 7.4b for examples of companies receiving support from both AWM and its partners.

7.34 A very small number of respondents reported that they had not received much support from AWM.

Box 7.4a: Examples of AWM support

Selling the region to employees

A company based in Oxford decided to relocate to the West Midlands, which included relocating its existing staff. The initial reaction of most staff members was fairly negative, partly because they held outdated perceptions of Birmingham. The company arranged AWM to visit the company twice give presentations on Birmingham, the wider region and the surrounding country side. *“The presentations showed that there was something for everyone...they became a powerful proposal for people to relocate. They really opened up people’s eyes to what the West Midlands is like now...”*

The company regards the presentations as very successful and playing a key role in persuading the majority of its staff to relocate from rural Oxford to the West Midlands, a region steeped in industrial history. As the respondent noted, *“the contrast between the two areas couldn’t be bigger”*.

Land and property search

An Asian company initially moved to the West Midlands in 2005 and occupied the premises of a company it was working with. As the lease of the building was coming to an end, the company decided to think about where it could move to. A chance encounter with AWM led the Agency to undertake a brownfield land and property search on the company's behalf. Approximately 15 sites were identified with AWM escorting the company to each site and setting out the advantages and disadvantages of each. These visits were regarded as very helpful.

The company was also receiving land and property reports from UKTI about the opportunities available in other regions. In the end, the company chose a site identified by AWM and built its own warehouse.

Setting a company in the UK

A North America company found the support from AWM to be very valuable. The Agency *“helped organise all the legal matters to do with setting up a company in the UK and it made the process so easy; I didn’t have to do anything except sign a few papers...”* The company was also offered six-month rent free accommodation and introduced to a marketing company, which in turn helped the inward investor access a group of potential clients.

Box 7.4b: Examples of multi-agency support

AWM and UKTI

The owner of a technical centre would regularly attended meetings with representatives from UKTI and AWM. In general, UKTI would engage in regular discussion with the parent company based overseas and AWM would engage with the management team running the West Midlands operation. The respondent reported *“AWM and UKTI wanted to make sure that they were maximising opportunities for inward investment from – [i.e. the overseas country].”*

AWM and Locate in Birmingham

An international company that expanded its UK operations by setting up in Birmingham received support from both AWM and Locate in Birmingham, and it continues to remain in contact with both agencies. AWM helped to identify a suitable property, whilst Locate in Birmingham provided localised support such as information on transport and hotels. The company was satisfied with the support given by both parties and did not feel that there had been any duplication of effort. In addition, the company accessed SFIE twice and hence engaged with two teams in AWM.

Introduction via a Local Council

A local council introduced a company, which had been operating in the area for a few years, to AWM in order that it could access funding from the RSA/SFIE programme.

Company Views and Experience on Aftercare

7.35 In 2005, a decision was made within AWM to no longer provide aftercare, at least formally. Findings from the qualitative interviews highlight two important issues related to this. First, it is evident that aftercare has been made available to some companies; generally those that are large and/or considered to be of strategic importance. For the most part, this is regarded positively; respondents have valued the somewhat informal, ongoing contact with AWM following the implementation of the project.

7.36 Second, there is a demand for aftercare from those companies that have not received it, particularly those locating in the UK for the first time. As illustrated in Box 7.5, whilst most companies felt satisfied with the support they received, they expressed their dissatisfaction at the lack of follow-up support offered by AWM. A common query that emerged during the interviews was, "What else do they do? What other services can they provide?" In many ways, the results suggest that companies just want to know what other support is available and whether they are in a position to utilise it.³¹

7.37 AWM will be developing an investor development function over the coming months, which will be targeted at the region's top 500 companies. This is sensible given the finite resources available to the programme and the need to prioritise these on companies likely to generate the most GVA. However, it does not overcome the problem of a group of companies left dissatisfied because AWM has not initiated follow up contact. Accordingly, the inward investment team may wish to send a courtesy mail shot every six months to all the companies it has supported for two years (so every company receives four letters in total).

7.38 The purpose of the mail shot would be to remind companies of the support available, but perhaps more importantly, make them feel they are not operating in isolation and/or that they are important Agency customers. Experience suggests that most companies do not access support unless they really need it, which should limit demands placed on the inward investment team for appointments. When such appointments are requested, AWM should seek to involve sub regional partners and facilitate support through them and other business support agencies as relevant.

Box 7.5: Contrasting Experiences of Aftercare

Excellent Aftercare

AWM calls us every couple of months... We get invited to events, which we like to go to because we get to find out what's going on locally.

We like to keep up the relationship because we find out about other programmes and other contacts. For example, we've found about the internship programme that we might use... There's nothing fixed about our engagement with AWM; it's on a needs basis. XXX just says "hello" every few months. That works; there's no need to schedule a set of formal meetings – the informal, needs basis works.

The Absence of Aftercare

AWM has been very good, but not excellent because they don't reach out to you. If I was an agency, I would check back with you that you're getting all you need... you can't assess the effectiveness of your services unless you have some form of feedback mechanism. I haven't seen that type of effort made by AWM and I'm disappointed. We're so focused on producing, we sometimes neglect strategy and administration. If AWM put more effort in helping, then they would be an excellent provider... maybe this is the British way of working.

³¹ The inward investment team may well have explained all the different types of support available, but it is likely that companies only focus on the information about the support they need at that particular time and then forget what else is available.

Insights from other research

7.39 It is useful to be aware of the types of barriers that that inward investors can face when wishing to locate in the UK as this can help inform the types of services that AWM. Findings from UKTI's telephone survey reveal the following:

- Head office operations were more likely to experience at least one barrier to setting up in the UK compared to other types of inward investors (e.g. a subsidiary company);
- There was a propensity for both the smallest and largest firms (in terms of the number of people employed) to experience at least one barrier regarding the implementation of their project;
- Investors were most likely to experience 'framework' or 'local linkage' barriers. Framework barriers are those where a company experiences difficulties with understanding or implementing legal requirements or with protecting intellectual property. Local linkage barriers are associated with finding suitable premises, identifying or recruiting staff; or identifying suitable local suppliers or partners.³²

7.40 In addition to the above, there are some interesting observations that can be drawn from UKTI's case study research. It shows that there were several areas where RDAs had supplemented support given by UKTI to the case study companies. These were the identification of sites, signposting to local authorities on planning issues, and providing information on the business environment. The report notes that, understanding who does what in the region can be a major challenge facing inward investors and by providing this type of information, RDA support had accelerated development and made the investments more profitable.³³

7.41 The World Bank also produced a report on the practices of inward investment agencies throughout the world. Box 7.6 identifies a series of good practice lessons.

Box 7.6: What makes an effective inward investment agency? – Lessons from the GIPB Report

- Staff should have a combination of public and private sector experience, particularly the latter as this is a crucial dimension to understand the needs of private companies.
- Focus on a few priority sectors, which is essential to develop business knowledge required to understand the needs of specific investors.
- Sub national agencies should coordinate with national agencies and offices.
- Establish networks of overseas offices as this (a) deepens knowledge of targeted markets; (b) enables the development of many more face-to-face relationships; (c) allows more frequent visits to investors; (d) improves responsiveness to inquiries.
- Continually train and develop staff, particularly in soft skills.
- Establish a minimum level of in-house research capacity.
- Ensure each customer has a designated account manager and then develop account managers into reservoirs of knowledge on particular sectors.
- Put in place mechanisms for collecting, storing and sharing information between team members.
- Implement internal systems for consistently good facilitation; make facilitation a priority within the overall strategy, partly by training and dedicating an adequate proportion of staff.

³² UKTI (2005) Telephone Survey of UKTI's Inward Investment and Trade Development Customers and Non Users.

³³ SQW (March 2009) UKTI Inward Investment Evaluation Case Studies.

- Maintain the equipment and practices to be easily reached and to quickly return calls and e-mails.
- Ensure the website is up-to date, professional and interesting; include frequent news which may be of importance to investors.
- Develop a best practice system for responding to inquires, updating information and evaluating and refining them.

Satisfaction of Support with AWM

7.42 This sub section reports on respondents' level of satisfaction with the service they received from AWM. At one level, there appears to be incongruence between results to the telephone survey and the qualitative findings, although this is probably because the former is unable to capture the context in which responses have been given. The telephone results are reported upon first and it is important to acknowledge that the sample base for these responses is fairly low.

7.43 A foreign investor thinking of moving to the region would be seeking, at minimum, information about the sector in which they operate, the labour market and, possibly, access to finance. It is important for the Agency's advisers to be fairly well informed of these issues in order to turn a potential inquiry into a project. On this basis, respondents were asked to rate their adviser's knowledge along several key indicators and the results are summarised in table 7.2 below.

Indicator	Level of knowledge			
	Very or fairly	Neither	Not very or not at all	Don't know
Land & property issues	43% (10)	13 (3)	4% (1)	26% (6)
WM Labour Market	31% (7)	13% (3)	4% (1)	30% (7)
Sector of company	26% (6)	30% (7)	4% (1)	26% (6)
Finance	22% (5)	13% (3)	8% (2)	26% (6)
Sub regions in WM	22% (5)	13% (3)	8% (2)	35% (8)
Business operation	18% (5)	26% (6)	13% (3)	26% (6)

7.44 Respondents to the telephone survey were most satisfied with advisers' knowledge about land and property, followed by the regional labour market. Conversely, there was less satisfaction with information given about sub regions, or access to finance. Respondents expressed the highest dissatisfaction with advisers' knowledge about their particular business.

7.45 Following on from the above, respondents were asked to rate their satisfaction with the overall support they had received from AWM along several key dimensions. Several of these are the same as those that UKTI asks its customers.³⁴ The results are summarised in table 7.3. They suggest a general level of satisfaction with respondents indicating that they received a competent service as opposed to an outstanding or excellent service.

³⁴ Given that some of the measures above have been taken from UKTI's satisfaction survey, it is useful to report on its results. The 2005 survey showed that the national agency scored high satisfaction on all measures, but particularly with regards to integrity and professionalism. Whilst poor ratings were relatively rare, they were slightly more prevalent for the usefulness of advice provided and the usefulness of contacts made.

Table 7.3: Satisfaction levels with overall service received				
Indicator	Level of satisfaction			
	Very or fairly good	Neither good nor poor	Very or fairly poor	Don't know
Integrity and Professionalism	56% (13)	4% (1)	9% (2)	26% (6)
Usefulness of any advice that was given	52% (12)	4% (1)	13% (3)	26% (6)
Overall satisfaction with the support you received	48% (11)	9% (2)	13% (3)	26% (6)
Quick response times	48% (11)	13% (3)	9% (2)	26% (6)
Quality and relevance of information provided	48% (11)	17% (4)	4% (1)	26% (6)
Usefulness of any contacts provided by Agency	30% (7)	26% (6)	9% (2)	30% (7)

7.46 The qualitative findings, however, suggest that the telephone survey under-estimates companies' satisfaction of the service they received. The vast majority of respondents reported a high degree of satisfaction with the services they received and reported that they had derived some benefit or value by engaging with AWM. See Box 7.7 for quotations from respondents expressing their satisfaction.

7.47 The apparent discrepancy between the telephone and qualitative results can be attributed to two key factors:

- A high number of respondents to the telephone survey did not directly engage with AWM, making it difficult for them to comment on the quality of support given.
- The telephone results probably capture some of the sentiment expressed in the qualitative research regarding dissatisfaction with the absence of an aftercare policy.

7.48 There are ways of resolving both issues, that is: (a) boosting overall satisfaction levels and (b) obtaining and recording this information from the appropriate person. With regards the former, it is not viable for AWM to offer an aftercare policy to all companies, yet it could boost satisfaction levels by communicating with them at periodic intervals and identifying the different types of support available in the region. In addition, AWM could inform companies of any events taking place in the clusters in which they operate. In other words, AWM could use some of its budget for proactive marketing rather than full-scale aftercare for all.

7.49 With regards to the latter, it is suggested that AWM could administer a satisfaction survey once the Agency's relationship with a key contact from a business comes to an end.

Box 7.7: Qualitative respondents' satisfaction with service and engagement with AWM
<i>Between the two of them [AWM and LiB], we've been very well looked after. It was exactly the help we wanted given that we were new to the city and didn't know anything. AWM stopped us from making a big mistake by locating in XXX, where there was no transport for employees.</i>
<i>AWM has been extremely helpful and supportive. It has helped guide the types of relationships we should be pursuing. We've developed good working relationship with a number of people. They've also given us a steer on how to deal with the rest of AWM and how to follow procedures.</i>
<i>For what we needed at the time, the support was excellent. It helped us retain people and minimised our recruitment costs. XXX [from AWM] was also happy for our staff to ring him and tap him for local</i>

knowledge ... but it would be helpful to find out how they could help us now, what else do they do?

7.50 A small number of respondents to the qualitative interviews expressed dissatisfaction with the service received, either because it did not meet their needs or because it was not considered comprehensive. For example, one company believes that it did not receive as much as support as it would have had it been a larger company. Another reported that there had been an apparent miscommunication and the inward investment team identified property that exceeded their budget.

Additionality

7.51 The concept of additionality is central to policy and programme evaluation as it is a way of assessing the extent to which business support (in this instance) makes a difference to firm behaviour and outcomes. Hence, additionality refers to added value – any activity, output or outcome that would not have occurred without an intervention. The concept is closely linked with that of 'deadweight', which refers to what would have happened regardless of any intervention. The sub sections below report on the different types of additionality generated by the inward investment programme.

Input Additionality

7.52 Within the present context, input additionality refers to whether companies could have received a similar level of support as that obtained from AWM from another source. The results are summarised in table 7.4.

Answer	% (number)
Definitely Not	13% (3)
Probably Not	17% (4)
Yes – Probably	30% (7)
Yes – Definitely	9% (2)
Don't know	30% (7)

7.53 Bearing in mind that the results are taken from a small sample, there is virtually a third split between additionality, deadweight and respondents who do not know. Discounting the 'don't know' category, the results indicate that 57% of respondents would have found similar support elsewhere. When the partial deadweight adjustment is made,³⁵ the results indicate an input deadweight of 52%.

7.54 It is useful to be aware that UKTI did not score highly with regards to input additionality. The 2005 study found that around 20% of subsidiaries and head offices investing in the UK reported that they could have obtained similar support to that provided by UKTI from elsewhere. Further analysis revealed that larger inward investment firms were more likely to report non-additionality.³⁶

³⁵ Partial deadweight refers to respondents reporting that they probably could have obtained similar support from elsewhere. See the Technical Note in appendix 2.

³⁶ It should also be acknowledged that a number of firms reporting non-additionality indicated that they (i) placed more trust in UKTI information; or (ii) they would not have invested in the UK without UKTI

Activity Additionality

7.55 Additionality of activity measures the extent to which supported activities would have been undertaken without any intervention. In the present context, two related activities are being measured: (a) the role that AWM has played in influencing firms to move to the region; and (b) if firms had not received support, the extent to which they would have gone ahead with their project.

Selecting West Midlands as a Location

7.56 Taking AWM's role in attracting inward investors, at first glance, the level of deadweight seems high. As shown in table 7.5, just under 40% of respondents reported that they would have moved to the region regardless of the support they received from AWM (pure deadweight).

7.57 When the partial deadweight adjustment is made, the results indicate a locational deadweight of 60% ((39% x 100%) + (17% x 75% adjustment) + (30% x 25% adjustment)). See the Technical Note in appendix 2 for greater detail on the calculations.

We would not have considered / moved to the WM without advice from AWM	13% (3)
We had already considered moving to the UK, but AWM influenced our decision to come to the WM	30% (7)
We had already made a decision to come to the WM and AWM helped to reaffirm our decision	17% (4)
We had already planned to move to the WM	39% (9)

7.58 There is evidence of pure additionality with three respondents (13%) stating that, without the advice from AWM, they would not have moved to the region. This is borne out by some of the interviews, particularly those involved with the BtG initiative. See the Box 7.8 below for an example.

Box 7.8: The additionality of the *Bridge to Growth* programme

Back in 2007, a Nordic company was considering establishing a base in Germany. However, it attended a BtG event and decided to opt for the West Midlands. "*BtG made the move very easy and that's why we choose the UK. There was minimum hassle involved and all the risks were taken away*". The company valued the rent-free office period, particularly since it moved to the region without an established customer base. The upshot is "*we wouldn't have moved here without BtG*".

7.59 The results arising from this study are not uncommon with existing research. To cite the 2005 UKTI telephone survey once more, in the majority of cases (90%), UKTI support had no impact on firms' decision to locate to the UK. The study suggests that inward investors welcomed UKTI support as a way of facilitating a move to the UK rather than it having been a critical factor in the decision to select the UK.³⁷

7.60 The 2005 results are endorsed by more recent research. The 2009 UKTI study states that no company attributed their original decision to enter the UK solely to UKTI involvement.

support; or (iii) the support they received had positively influenced their growth objectives. This indicates that, in reality, UKTI support may have at least been partially additional.

³⁷ UKTI (2005) Telephone Survey of UKTI's Inward Investment and Trade Development Customers and Non Users.

The report states that input additionality has been partial, with UKTI involvement helping investment happen faster, reducing risk, and/or influencing the quality of a project.³⁸

Project Implementation

7.61 A further indicator of activity additionality measures the extent to which companies would have implemented their project regardless of any support received from AWM. The results are summarised in table 7.6.

Answer	% (number)
Definitely Not	5% (1)
Probably Not	10% (2)
Yes – Probably	38% (8)
Yes – Definitely	48% (10)

7.62 The results show that pure additionality is low (5%) and, conversely, pure deadweight is fairly high at 48%.

7.63 When the partial deadweight adjustment is made, the results indicate a project implementation deadweight of 79%: $((48\% \times 100\%) + (38\% \times 75\%) + (10\% \times 25\%))$. Conversely, this equates to 21% reporting that they would not have implemented their project without intervention from AWM. See the Technical Note in appendix 2 for greater detail on the calculations.

Impact on Project Implementation

7.64 Another indicator of additionality is the impact that AWM support had on the timing and scale of the FDI project. The results are summarised in table 7.7 overleaf. Perhaps unsurprisingly, the greatest level of additionality occurs over timing, as without support, the project would have taken longer to complete. A separate question asked respondents about how long it took to implement their project after engaging with AWM and the majority reported that it took less than six months (70% / 16).

³⁸ SQW (March 2009) UKTI Inward Investment Evaluation Case Studies

Timing	Taken longer	30% (7)
	Taken place over the same period	13% (3)
	Been quicker	4% (1)
Scale	Been smaller in scale	9% (2)
	Been implemented to the same scale	0
	Been bigger in scale	4% (1)
No effect	Occurred over the same time frame and scale	39% (9)

Conclusions

7.65 Companies participating in the study indicated that they had been motivated by a desire to trade overseas in order to achieve their growth aspirations. They chose the West Midlands as a location for its geographic position within the UK and, as a result, the ease with which they could access their markets. Being close to research centres or universities did not feature as a prominent locational factor, an issue which is important for AWM to be aware of given the programme's future strategic direction. The evidence does not suggest that the strategic direction should change; it merely highlights the scale of the challenge ahead and the levels of awareness raising and marketing required to highlight the region's academic strengths and the way in which this can be used to support business growth and competitiveness.

7.66 The three key benefits underpinning the support provided by AWM have been: (i) reducing the risk or perception of risk of setting up in the region/UK; (ii) enabling projects to occur faster than they would have otherwise; (iii) fostering networks and introducing companies to potential clients, suppliers or collaborators.

7.67 Some companies expressed dissatisfaction at the lack of aftercare. Recently, there has been a policy change and, in future, key inward investors can expect to retain an ongoing relationship with AWM.

7.68 AWM could consider administering a satisfaction survey following the implementation of a project.

8 Commercial Outcomes, Net Impact & Wider Benefits

8.1 This chapter provides an assessment of the return on investment generated by the inward investment programme, along with the wider benefits that have occurred. It is split into four sections.

8.2 The first section calculates the programme's gross outcomes. In line with 2006 IEF guidance, the second estimates the individual adjustment factors that need to be taken into account when calculating net economic impact. Following this, the third section applies the adjustment factors to the programme's gross impacts and estimates its net impact. The economic calculations are based on monitoring information provided by AWM along with results from the telephone survey. The final section outlines the wider benefits achieved by the inward investment programme.

Gross Commercial Outcomes

8.3 Survey respondents were asked to report on the extent to which they experienced an increase in sales, profits, and/or full-time equivalent (FTE) jobs as a result of the support received from the inward investment programme. These are a useful barometer of the programme's economic impact, although there are limitations associated with each.

8.4 **Sales** comprise a significant component of GVA, but they may underestimate the programme's impact because some companies provide services to parent companies and therefore do not generate sales. **Profits** can be subject to variations in definition and there is an issue of whether they are retained in the UK. **Jobs created/safeguarded** can also underestimate the impact of the support because employment numbers do not capture the value of these jobs, although questions around salaries can compensate.

8.5 Taking into account the aforementioned limitations, this study follows the approach adopted by PWC in its review of the impact of RDAs,³⁹ which focuses "on the impact arising from jobs created and safeguarded." This is discussed in the section below.

Gross Outcomes Achieved to Date

8.6 As detailed in chapter five, the inward investment programme has created 11,039 (gross) jobs and safeguarded a further 5,204 (gross) over the five year period April 2004 to March 2009.⁴⁰ In total, the programme has created or safeguarded 16,243 gross jobs.

Cumulative Gross Outcomes

8.7 In terms of how long it has taken to achieve these impacts, survey respondents report that they have been achieving sales and profits increases on average for 2.75 years prior to March 2009 (as a result of the support). If applied to jobs outcomes, this would suggest that businesses began creating/safeguarding jobs on average 2.75 years prior to March 2009.

³⁹ BERR (2009) Impact of RDA Spending (p iv) - <http://www.berr.gov.uk/whatwedo/regional/regional-dev-agencies/Regional%20Development%20Agency%20Impact%20Evaluation/page50725.html>

⁴⁰ By comparison, survey results estimate that the programme has created approximately 3,456 gross jobs and safeguarded a further 8,007 (gross) to date. This utilises data from the 50 beneficiary businesses that responded to the survey; extrapolated and applied to the 205 businesses that have received inward investment support.

8.8 Businesses were similarly asked whether they expected to increase sales and profits in the future (as a result of the support they received) and, if so, over how long they expected these increases to last. Applicable survey respondents anticipated that attributable future increases would last for an average of 1.33 years, and this (future) persistence is applied to sustaining the jobs created / safeguarded too. Although 1.33 years appears relatively low, it should be acknowledged that respondents were surveyed during the summer of 2009 when many were experiencing the negative impact of the recession. Without the recession, their future outlook for sales and profits may have been higher.

8.9 In total, average persistence for the 16,243 jobs created / safeguarded is estimated to be 4.1 years (based on 2.75 years to date, and 1.33 years in the future).

Net Impact Adjustments

8.10 This section applies a series of adjustments to the programme's gross employment outcomes. This enables the study to quantify the economic value of the jobs created/safeguarded over and above what would have happened without the support provided by AWM. In keeping with IEF guidance, an assessment of net GVA is also provided in the summary section below.

Deadweight

8.11 Deadweight refers to the proportion of total outcomes that would have been achieved without a given intervention.

8.12 The survey results suggest that deadweight associated with jobs created/safeguarded is **82%**. This is derived from an aggregation of the following:

- 64% pure deadweight – where all of the outcomes would have occurred to the same scale and over the same time period without the support.
- 36% partial, time deadweight – whereby all of the outcomes would have occurred but taken longer to do so. Half of this is regarded as equivalent to 'pure deadweight' which produces an aggregate of 18%.
- 0% partial, scale deadweight – whereby only a proportion of the outcomes would have occurred. Scale deadweight has not occurred and therefore the aggregate figure is 0%.

8.13 The level of deadweight associated with AWM's inward investment programme is higher than other RDA inward investment programmes where it is estimated to be around 40-50%. In turn, the level of deadweight associated with inward investment programmes per se is higher than other business support interventions where the average is estimated to be about 38%.⁴¹ On the other hand, inward investment programmes tend to generate higher levels of (gross) employment outcomes than other business support interventions. Accordingly, a high deadweight adjustment is to be expected and it will not necessarily lead to a poor return on investment.

⁴¹ BERR (2009) Impact of RDA Spending (p29) - <http://www.berr.gov.uk/whatwedo/regional/regional-dev-agencies/Regional%20Development%20Agency%20Impact%20Evaluation/page50725.html> "For jobs created/safeguarded, additionality is lowest for individual enterprise support and inward investment"

8.14 Whilst the level of deadweight associated with AWM's inward investment programme compares unfavourably with others, it is important to note that the results are based on a small sample (14 respondents to this question). If a higher response rate had been achieved, this may have pulled the figures closer to national averages.

Leakage

8.15 Leakage refers to the benefits generated by a programme that accrue to businesses outside the targeted group or area. In terms of GVA, this mainly takes the form of wage leakage and, within the present context, it would occur as a result of employees not living in the West Midlands. The survey results indicate that 18% of the staff who saw their jobs created/safeguarded commute from other regions and, accordingly, the programme's leakage has been estimated to be **18%**. This is relatively high compared with other business support interventions where leakage tends to average around 10%.

Displacement

8.16 Displacement refers to the benefits experienced by businesses receiving support at the expense of those that have not. The profile of companies supported by the inward investment team suggests that they are competing on a national or international scale and, accordingly, they will not present or face much competition from regional enterprises. The results from the telephone survey indicate that displacement equates to **25%**.

Substitution

8.17 Substitution occurs when businesses switch from a planned investment or activity to take advantage of the support available. For RDA inward investment programmes, substitution tends to be low, ranging from 0 to 10%.⁴² The survey results bear this out and suggest that only **3.6%** of increased sales are substituted from businesses' existing pre-planned activity.

Multipliers

8.18 There are two forms of multipliers; income and supplier multipliers. Income multipliers refer to the expenditure made by employees recruited as a result of the intervention and the spend that is retained within the region. Supplier multipliers refer to the spend associated with an increase in orders made to suppliers located in the region as a result of the intervention.

8.19 Research into RDA interventions finds that multipliers typically range from 1.21 to 1.44⁴³ for every £1 invested. The average multiplier at the UK level is estimated to 1.4. As survey respondents reported that around 82% of their employees live in the region, a multiplier of **1.33** for GVA has been calculated for this study.⁴⁴

Other effects

8.20 The gross to net analysis also considers three other adjustments:

- **Unintended effects** – these are knock-on effects not anticipated by the programme but could be detrimental to the target or non-targeted groups. For example, a newly constructed facility may have generated new health and safety practices at a cost to

⁴² ekosgen/Yorkshire Forward (2007)

⁴³ England's RDAs (2008) CSR07 RDA Impact Report: Appendices.

⁴⁴ Based on the 0.4 (of 1.4) multiplied by 82%. See the Technical Note in appendix 2.

the business. There has been no evidence to suggest that this has taken place in any of the 205 companies supported and, therefore, it is not necessary include this factor in the adjustment calculations.

- **Crowding out/crowding in** – this is where public intervention causes an effect on private investment in the non-target group/area. If the public intervention increases private investment elsewhere, this is crowding in. If it decreases private investment, it is crowding out. This tends to be associated with much larger programmes than the £9.8m associated with the inward investment programme, or the £14.2m of RSA/SFIE support for foreign-owned companies covered by the parallel evaluation.
- **Wider effects on sustainable development** – this comprises the effects an intervention has on sustainable development, including social and environmental impacts. However, they are difficult to measure quantitatively.

Net Impact Calculations

Net Jobs Created/Safeguarded

8.21 Table 8.1 presents the relationship between gross and net impacts based on the preceding discussion. As noted, the programme has created/safeguarded 16,243 gross jobs to March 2009 and, after applying gross to net adjustments, this finds that the programme has created/safeguarded 2,072 net jobs to March 2009.

Table 8.1: Gross to Net Impact Adjustments: Jobs Created/Safeguarded		
	Per annum	To date
Gross Attributable JC/JS	5,907	16,243
Partial Deadweight = 18% (36% x 50%) - time	1,055	2,901
Partial Deadweight = 0% (0% x 50%) - scale	0	0
Pure Deadweight = 64% (64% x 100%)	3,797	10,442
Total Deadweight @ 82%	4,852	13,342
Sub Total	1,055	2,901
Leakage @ 18%	187	513
Displacement @ 25%	264	725
Substitution @ 3.6%	38	104
Adjustments Total	488	1,342
Sub Total	567	1,558
Multipliers @ 1.33 (1+(0.4 x 82%))	187	514
Total Net Impact	753	2,072

Net Gross Value Added

8.22 All people in employment contribute GVA to the economy, as reflected in the salaries they receive and the profits they may make for their organisation. In 2006, the average GVA

per worker per annum in the West Midlands was £37,903⁴⁵; and each of the 16,243 jobs created or safeguarded by the programme are assumed to be generating this level of GVA per annum on average. This provides a per annum gross GVA of £615.7m attributable to the programme. Applying the persistence of 4.1 years to the £615.7m gross GVA finds that the programme is estimated to generate a gross cumulative GVA of £2.5bn.

8.23 By applying gross to net adjustments (for jobs created/safeguarded) taken from the survey results, it is estimated that the programme has created net attributable GVA of £216.0m to date (persistence of 2.75 years). As shown in Table 8.2, if future persistence (1.33 years) is applied, the **programme generates total net GVA of £320.7m.**

Table 8.2: Gross to Net Impact Adjustments: GVA				
	Per annum	To date (NPV)	Future	Total
Gross Attributable GVA	£615,658,429	£1,693,060,680	£820,875,853	£2,513,936,533
Partial Deadweight = 18% (36% x 50%) - time	£109,939,005	£302,332,264	£146,584,974	£448,917,238
Partial Deadweight = 0% (0% x 50%) - scale	£0	£0	£0	£0
Pure Deadweight = 64% (64% x 100%)	£395,780,419	£1,088,396,151	£527,705,906	£1,616,102,057
Total Deadweight @ 82%	£505,719,424	£1,390,728,416	£674,290,879	£2,065,019,295
Sub Total	£109,939,005	£302,332,264	£146,584,974	£448,917,238
Leakage @ 18%	£19,462,175	£53,520,982	£25,949,502	£79,470,484
Displacement @ 25%	£27,484,751	£75,583,066	£36,646,243	£112,229,310
Substitution @ 3.6%	£3,926,393	£10,797,581	£5,235,178	£16,032,759
Adjustments Total	£50,873,320	£139,901,629	£67,830,923	£207,732,552
Sub Total	£59,065,686	£162,430,635	£78,754,051	£241,184,686
Multipliers @ 1.33 (1+(0.4 x 82%))	£19,469,636	£53,541,498	£25,959,449	£79,500,947
Total Net Impact	£78,535,321	£215,972,134	£104,713,500	£320,685,633

Return on Investment (ROI)

8.24 Between April 2004 and March 2009, AWM has invested £9.7m in the inward investment programme and this has generated net GVA of £216.0m to date. This represents a return on investment of 1:22.1 (to date).

8.25 If anticipated net GVA of £104.7m is included as well, this produces a total **return on investment of 1:32.9**. This represents very good value for money, particularly when compared to average returns on investment (ROI) for other business support programmes. For example, RDA business support investments average a ROI of 1:7.3 for achieved/NPV outcomes and 1:11.8 for achieved and anticipated outcomes. The average figures for inward investment programmes are substantially higher: 1:13.5 and 1:20.5 respectively, although the range is much wider; from 1:12 to 1:55 in isolated cases.⁴⁶

8.26 This analysis of gross to net uses the number of jobs created/safeguarded taken from AWM reported outputs – 16,243 (Table 5.12) - although the survey of businesses estimated a

⁴⁵BERR (2009) Impact of RDA Spending (p90) - <http://www.berr.gov.uk/whatwedo/regional/regional-dev-agencies/Regional%20Development%20Agency%20Impact%20Evaluation/page50725.html>

⁴⁶BERR (2009) Impact of RDA Spending (p33) - <http://www.berr.gov.uk/whatwedo/regional/regional-dev-agencies/Regional%20Development%20Agency%20Impact%20Evaluation/page50725.html>

lower figure of 11,463. If the latter figure was used as a lower range estimate for overall gross jobs created/safeguarded, this would have the effect of reducing programme net GVA to £226.3m; equivalent to a return on investment of 1:23.2.

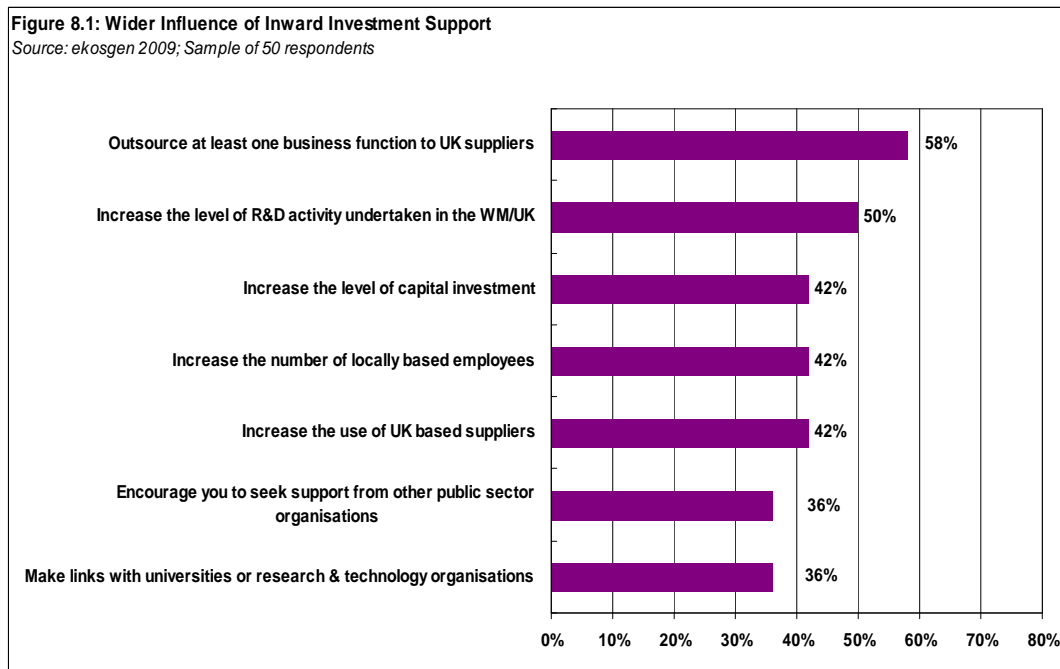
Capital Investment

8.27 GVA provides an assessment of the economic impact made by the inward investment programme and that expected in future. However, separate to this, it would be useful to assess levels of net capital investment generated by the programme. Currently, such information is unavailable for inward investment projects on a consistent to reliable basis. This is an indicator that AWM may wish to monitor more rigorously in future.

Spill-over Effects

Influence of Inward Investment Support

8.28 Figure 8.1 shows the extent to which the inward investment programme has generated spill-over effects. The main one appears to be outsourcing, that is, inward investors making use of UK suppliers to undertake their business functions. The second spill-over effect relates to R&D with inward investors choosing to undertake at least a proportion of this within the region.



Wider Impact of Foreign Investors

8.29 The majority of survey respondents believe that they have increased the skills of the local workforce. This should be viewed as major benefit as employees can transfer their skills to other firms or other parts of the economy. As well as up-skilling the existing workforce, several companies work directly with universities to attract graduates entering the labour market.

8.30 The qualitative interviews highlight another benefit that is not readily apparent from the survey results. It appears that several companies are very keen to develop links with the

region's universities. Whilst some have a clear idea as to what they would like to achieve, others are vague, but feel it is something they should pursue. Accordingly, there is an opportunity for the inward investment team to support these companies and help them to clarify the type of project / relationship they would like to develop, and then support them to find the appropriate university to work with.

8.31 Box 8.1 provides examples of the types of initiatives companies would like to develop with the region's knowledge base.

8.32 Overall, AWM should find it encouraging that companies' are aspiring to develop relationships with the region's knowledge base as this supports one of the long term priorities of the inward investment programme as set out in the IBAP (see section 3).

Box 8.1: Companies' Aspirations for Working with Universities

Skills Development and Joint Research

The parent company of a local firm *"realised that we need to move into R&D and we're currently in the process of making this happen"*. It is in discussion with all the region's universities *"to devise who to work with and how"*.

Specifically, it would like a university to provide *"advanced technology training"* for its employees. The company already makes use of existing courses but in addition to these, it would like a university to design *"new modules to bring engineering into the 21st century"*.

Alongside workforce development, the company would like to develop joint research projects with a university. *"Universities have a pool of research and skills capabilities and we are looking to establish a project where we can combine their academic skills and our engineering skills."*

The company's *"ultimate vision is to establish strong, long term collaboration with one university in the West Midlands that can meet all our needs. We're talking to lots, but we want to establish a link with one university that can cover 80–90% of all our work."*

Skills Development

An international company experienced *"no difficulty in recruiting graduates and training them"*. However, it has *"struggled"* to recruit people with the appropriate skills and experience at senior positions. Up to now, the company has imported staff from other branches. Going forward, it would like to find a more sustainable solution. It has worked with the Skills Academy and designed a course for its most talented graduates. They are given intense training and then fast-tracked throughout the organisation and promoted quickly to become Team Leaders and eventually *"tomorrow's senior managers"*.

Sponsorship

One company has only engaged with universities when it has sought to recruit graduates. However, it would like to develop its relationship with them, but it is not sure in what way or what form. It has been considering the idea of sponsoring a particular department.

Summary

8.33 Inward investment programmes tend to generate higher levels of gross employment outcomes than other business support interventions. By the same token, levels of deadweight for inward investment programmes tend to be higher. Deadweight associated with AWM's inward investment programme is higher than commensurate regional programmes, although there is some uncertainty over this high deadweight due to the low survey response rate.

8.34 The net outcomes arising from AWM's investment of £9.8m in the inward investment programme are as follows:

- 2,072 net jobs created/safeguarded to date.
- GVA achieved to date is estimated to be approximately £216m and a further £105m is expected in future. This means that programme is likely to achieve cumulative GVA of up to £321m.
- If future GVA is achieved and is added to that generated already, then AWM will have secured a return on investment of 1:32.9, which is a relatively good.

8.35 Results from the telephone survey also highlight a range of spill-over effects, particularly in relation to outsourcing business functions to UK suppliers and increasing the level of R&D activity/joint-research within the region.

9 Conclusions and Recommendations

9.1 This chapter begins by setting out the conclusions arising from the evaluation of the inward investment programme and then proceeds to present a series of recommendations to inform its future delivery.

Addressing Market Failure

9.2 It is widely acknowledged that firms considering or engaged in international trade can face a range of barriers. AWM's inward investment programme has been designed to provide tailored support to foreign owned companies wishing to operate in the region and, in this way, overcome any challenges that they may encounter.

9.3 On balance, the evidence shows that the support provided to foreign investors has accelerated the implementation of projects. In particular, small companies and/or those investing in the UK for the first time have valued information and advice about the tax and legal system, along with local knowledge on issues such as land and property. Companies also found information about, or access to, local networks to be very beneficial (e.g. suppliers or potential customers). Going forward, this particular service offering should be increased as it can help embed a new investor into the regional economy, enhance business competitiveness, as well as contribute towards the development of existing clusters. (There is a body of literature, which argues that networks can precipitate the development of clusters and sectors).

9.4 It can be concluded that AWM's inward investment programme has enabled foreign owned firms to overcome one of the biggest barrier they face in trading overseas, which is the absence of high quality, relevant and timely information. Had this not been addressed by AWM, there is a strong possibility that the economic benefits have taken longer to materialise (see below).

Meeting RES Objectives

9.5 A central objective of the region's three consecutive economic strategies has been to modernise and diversify the business base. It has been envisaged that attracting foreign investment would be one way to achieve this objective. As discussed below, the evidence suggests that foreign investors supported by the inward investment team have made a significant contribution to the regional economy, either directly through creating and safeguarding jobs and/or indirectly through multiplier and spill-over effects.

Programme Delivery

Evolution and Development

9.6 Following a number of structural changes to the inward investment team, it is concluded that the delivery of the inward investment programme has improved. A crude indicator is to examine the number of companies receiving support and this has increased year on year. Although the current structure of the UK team has been operational for a relatively short time, it overcomes the limitations of previous structures. It is linked to the international trade team, provides support on a cluster basis and, importantly, includes resources for activities that were previously neglected. In particular, the team has designated

individuals to help foster relationships between business and research institutions. This should contribute towards a key objective of supporting knowledge-intensive FDI projects.

9.7 The study has not examined the role of overseas offices in detail and is therefore unable to assess the extent to which their performance has increased. However, it is important to make two observations. First, AWM should monitor the number and quality of leads generated by each office. This should help to assess their effectiveness and value for money in a transparent manner. Second, AWM may wish to reassess the benefits of contracting out functions performed by overseas offices in relation to employing staff directly.

British Midlands Brand

9.8 Initially, it was envisaged that the evaluation would find it difficult to isolate the role, contribution and impact of AWM's services because of the British Midlands brand as companies would not be able to differentiate between the brand, AWM and/or *emda*. In practice, the study did not encounter any such difficulties and only a couple of respondents made reference to British Midlands. There may be three possible reasons for this: (a) the study did not reach companies that had engaged with the joint brand; (b) the brand was not as strong or influential as the two Agencies would have liked; (c) by the time companies received support, AWM's identity and branding overtook that of British Midlands. From the available evidence, it seems that the second and third reasons are probably the most dominant.

Targeting

9.9 One of the aspirations of the inward investment programme has been to attract (a) knowledge-intensive, high valued firms and/or (b) those operating in the region's priority clusters. To date, however, the programme has not operationalised this objective. It has not clearly defined the nature of 'knowledge-intensive' or 'high-valued added' business nor has it developed a strategy by which to target them for support.

9.10 In the absence of adopting a targeted approach, it appears that the inward investment programme has provided support to all leads, even if they do not meet the preferred criteria. This is understandable; it is not suggested that AWM should turn away companies that have asked for help just because they are not deemed to be of strategic value. It is suggested that the inward investment team should work more collaboratively with sub regional partners than it has up to now. Specifically, AWM could ask *partners* to provide support to the smaller, lower-value, non-cluster companies, whilst the internal team devotes most of its resources to supporting the implementation of high-value FDI projects. This would help make the most efficient use of the inward investment budget.

9.11 The suggestion of adopting a more selective approach to providing support, however, needs to be viewed within the current economic context. As the flow of FDI decreases because of the recession, it may not be possible to be as selective as desired. AWM, like other agencies, will be seeking to attract *any* inward investment project. Overall, the inward investment team will need to take a strategic decision as to the balance between quality (targeting high-value, knowledge intensive businesses) and volume (attracting as much inward investment regardless of sector or type of business).

Non movers

9.12 The inward investment team has provided support to companies that considered operating in the West Midlands but then decided not to do so. Although there will always be some projects that cannot be converted into successes, AWM should monitor more closely the scale of this and the reasons why firms decide not to implement their project. This should help the team enhance its targeting methods and deal efficiently with those with a high probability of not investing in the region.

Service Offering

9.13 The type of support offered by the inward investment team has remained fairly constant over the last five years, with the exception of the loss of the investor development function in 2005.⁴⁷ It is difficult to assess the extent to which this has been detrimental to the regional economy.

9.14 As shown in chapter seven, there is a level of demand for aftercare from companies, which warrants a discussion about whether it should be made available again. Clearly, it is not cost-effective for AWM to provide aftercare to all companies and, once more, this presents an opportunity to work closely with sub regional partners. AWM could concentrate on providing aftercare to foreign owned companies that feature within the region's top 500 list and transfer the others to appropriate sub regional partners. This has the added advantages of making sub regional partners feel included, contributing to service alignment and minimising duplication.

The Interaction between the Inward Investment and the SFIE Teams

9.15 A small number of companies received support from both the inward investment and the RSA/SFIE teams. It could be assumed that they would have found it difficult or inefficient to deal with two separate teams. In practice, however, companies reported no inconvenience and some even indicated that they liked the separation.

9.16 It appears that whilst the inward investment team refers companies to the RSA/SFIE team, this is not always reciprocated. Going forward, AWM should consider raising awareness within the RSA/SFIE team about other business support provided by AWM and, specifically in this context, encourage the team to refer foreign owned companies to the inward investment programme.

Working with Partners

9.17 A feature of inward investment support is that it entails agencies at all spatial levels – national in the form of UKTI; regional in the form of RDAs and sub regional in the form of local authorities.

9.18 Against the above context, there is a need for AWM to harness the support from UKTI and sub regional partners. With regards the former, there is need to continue to cement the collaborative relationship that has taken time to develop with UKTI London and with overseas offices. It is acknowledged that AWM will be competing with other RDAs, particularly in raising awareness of the region's strengths and unique selling points. However, the inward investment team has undertaken various activities (e.g. hosting events) that help raise its profile and that of the region, which it should continue to do. Indeed, with the likelihood of

⁴⁷ In practice, aftercare did not disappear entirely as it was provided on an ad hoc basis to high profile companies deemed to be of strategic value to the region.

declining FDI levels, it will be even more important for the Agency to retain a prominent relationship with UKTI London to ensure that it receives a good volume of (high value) leads. The same can be said of overseas offices as some RDAs are aggressively seeking co-location with UKTI overseas in a bid to cement relationships and win projects for their region.

9.19 Turning to sub regional partners, as discussed in chapter four, some have felt somewhat excluded in the past. The introduction of the new Business Forum should help to change this perception. Further, this evaluation has identified several ways in which AWM could use them to provide support. This should limit the pressure on the Agency and at the same time maximise the potential to reap benefits for the economy. There may be an issue around training and knowledge of sub regional partners in which case AWM may wish to organise short and specific training sessions.

Net Economic Impact

9.20 The inward investment programme has made an important contribution to the regional economy. Specifically, it has:

- Created and safeguarded 2,072 net jobs to March 2009.
- Created net attributable GVA of £216m to March 2009. If future effects are included, cumulative net GVA increases to £321m.
- By generating GVA of £216m (to date), the programme's ROI is estimated to be 1:22.1. This increases to 1:32.9 based on total cumulative (achieved and anticipated) net GVA of £321m, which is a very good return for the Agency.

Strategic Added Value

9.21 Under the general category of 'strategic added value' (SAV), both the IEF and the RDAs' Tasking Framework identify a range of non-quantifiable benefits that can arise from RDA investment. The core components of SAV are:

- Leadership;
- Strategic Influence;
- Engagement, Co-ordination, and Alignment.

9.22 Within the present context,⁴⁸ leadership has been interpreted as the extent to which the inward investment programme has communicated to partners and stakeholders the role of FDI in meeting RES objectives and the way in which such investment can be attracted to the region. In the past, information surrounding the aims of objectives of the inward investment programme were primarily confined to the economic strategies and the corporate plans. As these documents cover a wide range of themes, detailed discussion of any one issue is limited. On this basis, it seems that progress against this element of SAV has been modest until recently. In 2009, the IBAP was produced, which is the first time that AWM (and UKTI) has set out, in detail, the context in which the inward investment programme is operating, the objectives of international trade and its key priorities. The document enables AWM to move from a position of modest to high performance in meeting the leadership element of SAV.

⁴⁸ The IEF sets out an analytical framework of SAV functions and outputs, but it also notes that the scope of this is likely to vary according to particular activities and their role in the regional policy context. Therefore, the definitions of compose elements of SAV need to be tailored to individual programmes and projects.

9.23 Under strategic influence, it is necessary to assess the extent to which the inward investment programme has influenced partners in the way in which they deliver such support. Sub regional partners have a long history of supporting inward investors and many were engaged in this activity before AWM was established. The nature and scale of the support they provide is determined by internal decisions and, accordingly, the direct influence of AWM has been limited. However, the Agency's influence may increase in future as a result of the re-introduction of the Investment Forum and if it involves them in project delivery more than it has in past (e.g. aftercare provision to SMEs).

9.24 Engagement follows on from the previous category of SAV and refers to creating an awareness and interest for partners to work together. As detailed in chapter four, the level of collaborative working between AWM and sub regional partners with regards to inward investment has been modest. By contrast, the Agency has worked more closely with UKTI both overseas and in London. If the recommendations of this study are acted upon, then opportunities for working in partnership with sub regional partners will increase. This would move AWM from a position of modest to high performance in meeting the engagement element of SAV.

9.25 On balance, SAV secured from the inward investment programme has been modest to date. However, mechanisms are in place and the opportunities are available to generate higher SAV in future.

Recommendations

9.26 This study makes the following recommendations to inform and enhance the future delivery of the inward investment programme.

Value for money assessment

1. Monitor the amount of spend associated with different activities e.g. marketing, overseas offices, and project implementation.
2. Monitor the leads generated by overseas offices and any other outputs that may occur. This will enable AWM to compare its return on investment from different overseas offices and/or different methods of maintaining a presence overseas (direct staff, third party, etc).
3. Monitor the total number of companies receive support, including those that do not translate into successes.

Targeting and Increasing Net Economic Impact

4. Consider a programme of research (possibly with other parts of AWM) to identify inward investment sectors that offer the greatest ability to deliver high quality wins, maximum spillover benefits, and opportunities to build relationships with existing firms in the region.
5. Develop a strategy as to how to attract high added value companies and/or those operating in the priority sectors.
6. Consider attracting more medium sized companies under the BtG programme as opposed to those are micro or small enterprises.
7. Enhance the level of innovative activity taking place by undertaking the following, although it is acknowledged that the second and third actions will be challenging in the current economic climate.

- Facilitate greater links between companies and research institutions as already set out in the IBAP;
- Focus on securing early start-up companies with high growth potential;
- Encourage large firms to move their R&D functions to the region;
- Market the region (in relevant sectors) as a place to *source* technology.

Service Offering

8. Enhance information about local networks and help facilitate access to them in order to support the competitiveness of individual firms and the development of clusters.
9. Facilitate relationships between companies and the research and academic base.

Service Delivery

10. Undertake an appraisal of the benefits of contracting out functions performed by overseas offices in relation to directly employing staff.
11. Work with sub regional partners and encourage them to provide support to foreign owned companies that may not be high-value or operating in the priority clusters.
12. Work with sub regional partners and encourage them to provide after-care support to foreign owned companies not in the top 500 list.
13. Raise awareness of the inward investment programme within the RSA/SFIE team and encourage it to refer foreign owned companies to the inward investment team.
14. Continue to develop links with UKTI London and continue to undertake activities that raise the profile of the region and its unique selling points within UKTI.

Alignment

15. Embed knowledge of inward investment activities across other AWM teams, particularly those relating to innovation, the development of the knowledge economy, and skills and employment.

Communication and Dissemination

16. Communicate the benefits and impacts of the inward investment programme to a wider audience, both internally to other teams and the Board, as well as externally to partners and overseas offices.
17. Ensure information systems record companies and individuals directly engaging with AWM, along with the knowledge that has been built up about the company. This should ensure that the knowledge and special relationships developed by an account manager are not lost when he/she moves to another position. Further, schedule regular meetings to keep all staff informed of individual accounts, share learning and improve efficiency by identifying common issues and approaches.

10 Appendix 1: The Strategic Framework

A Summary of objectives and priority actions relating to inward investment in regional economic strategies and the corporate plans	
Delivering Advantage, West Midlands Economic Strategy, 2004–2010	
<p>Objectives: Increasing international engagement</p>	<p>Actions</p> <ul style="list-style-type: none"> ▪ Implement regional inward investment strategy to attract new businesses in 10 Business clusters; ▪ Increase overseas marketing activity to ensure inward investment contributes to cluster development ▪ Raise the region's profile in new markets and new offices (Brussels, Paris, Toronto, Washington) ▪ Review and refine operational protocols between AWM and emda as British Midlands' activity covers all of Asia Pacific and North America. ▪ Implement specific actions to attract inward investment into rural areas.
AWM Corporate Plan 2005–2008	
<p>To increase the region's foreign direct inward investment and international trade, leading to increased competitiveness of individual companies.</p>	<ul style="list-style-type: none"> ▪ AWM to integrate international trade and inward investment activity to maximise benefits of working in international markets; ▪ Complete development of new International Strategy; ▪ Identify and deliver inward investment (and trade) opportunities for specific Business clusters, high technology corridors and regeneration zones; ▪ Improve quality of service in international offices; ▪ Engage higher education institutes and regional centres of excellence in inward investment and international trade activities; ▪ Target opportunities derived through more focused investor development activity both in the UK and overseas.
Connecting to Success, West Midlands Economic Strategy, 2008–2011	
<p>Increase the value of international trade carried out by West Midlands businesses, expand the number of businesses succeeding in overseas markets and generate a stronger flow of inward investment to the region.</p>	<ul style="list-style-type: none"> ▪ Help business drive up their international competitiveness through a focused trade development programme and increase inward investment from both existing and new investors by more effective understanding and promotion of the region's distinctive knowledge assets. <ul style="list-style-type: none"> ○ Establish a new region wide International Business Forum; ○ Develop and implement an International Business Action Plan by integrating regional trade and inward investment activity; ○ Work with regional centres of excellence to promote knowledge assets as an integral element of the region's inward investment proposition.
AWM Corporate Plan 2008–2011	
	<ul style="list-style-type: none"> ▪ Development and implementation of new international business plan; ▪ Generating a stronger flow of new knowledge driven inward investment into the region by working with the region's centres of excellence and promoting knowledge assets as an integral element of the inward investment proposition; ▪ Transforming the way investors are engaged by implementing a new programme encouraging existing key strategic international companies to retain and grow existing investment and jobs in the region;

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|--|---|
| | ▪ Opportunities for growing Indian and Chinese markets. |
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11 Appendix 2: A Technical Note on Gross to Net Impacts

11.1 This technical note accompanies the findings reported in chapter eight. It provides greater detail on the way in which the programme's additionality and net impact have been calculated.

Programme Additionality

11.2 Additionality is a way of assessing the extent to which business support makes a difference to *firm behaviour and outcomes*. Put simply, it refers to any activity, output or outcome that would not have occurred without the intervention.

11.3 Additionality can be measured across several stages of a programme's logic chain and this evaluation seeks to measure it at the input, activity and impact stages. A brief description of each of these is presented below. Additionality of inputs and activities is covered in chapter seven whilst additionality of impacts is covered by chapter eight.

Input additionality

11.4 Input additionality refers to whether companies would have received the same or a similar level of support from other sources had they not engaged with AWM. This is a key question used in the business planning process for programmes such as inward investment support because RDAs are obliged to follow government regulations (both EU and UK) around state aid and an ethos that market solutions should be utilised where possible. Therefore, anticipated high additionality is integral to the programme approval process.

11.5 The inward investment survey asked businesses if they could have obtained the same or a similar level of support they received from AWM from another source. The results show that 52% believe that they could have obtained similar support elsewhere. Table A2.1 shows the way in which this figure has been calculated.

Answer	% (number)	Deadweight Adjustment	Adjusted Deadweight %
Definitely Not	19% (3)	0%	0%
Probably Not	25% (4)	25%	6%
Yes – Probably	44% (7)	75%	33%
Yes – Definitely	13% (2)	100%	13%
Total	100% (16)	-	52%

Activity additionality

11.6 Additionality of activity measures the extent to which supported activities would have been undertaken without any intervention. Within the present context, this covers: (a) the role that AWM played in influencing firms to move to the region; and (b) the extent to which firms would have gone ahead with their investment without assistance from AWM. These issues were explored in the inward investment survey and the results are presented in tables A2.2 and A2.3 respectively.

11.7 Table A2.2 shows the programme's level of additionality associated with influencing firms' locational decisions. The results show that 40% of respondents were influenced by AWM to operate in the West Midlands but 60% would have moved to the region even without the information and support they received.

Table A2.2: Activity additionality 1: Influencing Locational decisions			
Answer	% (number)	Deadweight Adjustment	Adjusted Deadweight %
We would not have considered / moved to the WM without advice from AWM	13% (3)	0%	0%
We had already considered moving to the UK, but AWM influenced our decision to come to the WM	30% (7)	25%	8%
We had already made a decision to come to the WM and AWM helped to reaffirm our decision	17% (4)	75%	13%
We had already planned to move to the WM	39% (9)	100%	39%
Total	100% (23)	-	60%

11.8 Table A2.3 shows the programme's level of additionality associated with project implementation. The results show that 79% gone ahead with their investment even if AWM support was not available. This is calculated as follows:

Table A2.3: The extent to which companies would have implemented their project without support from AWM			
Answer	% (number)	Deadweight Adjustment	Adjusted Deadweight %
Definitely Not	5% (1)	0%	0%
Probably Not	10% (2)	25%	2%
Yes – Probably	38% (8)	75%	29%
Yes – Definitely	48% (10)	100%	48%
Total	100% (21)	-	79%

Impact additionality

11.9 The process of calculating impact additionality is described chapter eight. Here, greater detail is provided on the way in which the employment multiplier has been calculated.

11.10 GVA in this report is calculated on the basis of the number of jobs created and safeguarded, which means it is necessary to use a multiplier based solely on the income adjustment. Accordingly, 0.4 (of the 1.4 UK average) is multiplied by the non-leakage rate of 82%. This produces a figure of 0.33 which is added to the 1, and this equals the multiplier of 1.33.⁴⁹

⁴⁹ If the multiplier was generated for increased sales or increased profits, then this would have been based upon the supplier multiplier. The same method as that described above would have been used but exchanging the income multiplier (82%) for the supplier multiplier which was found to be 56%. On this basis, the sales and profits multiplier would equate to 1.22.