

A new approach to capturing value through Return on Investment

Understanding the true value of programmes with a smarter ROI approach from IBM

Overview

The need

Manchester: Knowledge Capital has been working to catalyse innovation in Greater Manchester but was finding it difficult to articulate and measure the value of initiatives aimed at fostering creative, technology and entrepreneurial initiatives. Traditional ROI methodologies were felt to be too limiting, as they seldom measure the effects of growing a culture of innovation.

The solution

IBM worked on capturing the downstream effects on a wide group of stakeholders for projects, designing Return on Investment tools that showed both the metrics and the consequential benefits of interventions.

The benefit

- Created a tool and approach that allows apparently subjective measures of performance to be captured and quantified in an objective way
 - Shows clear connections between investment and a wider range of outcomes
 - Provides measurable comparisons of project performance
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Manchester, UK, has transformed its industrial heritage into a reputation for creativity, innovation and technology. Some 2,800,000 people live in Greater Manchester, which has a large commercial district and a thriving professional services sector.

The Manchester: Knowledge Capital partnership (M:KC) was created to develop and promote innovation, and to promote employment and prosperity through new ways to live and work. These objectives are based on realising Manchester's full economic potential as a world-class knowledge capital.

M:KC was formed by a regional partnership that has been dedicated to transforming the prospects of Manchester and the wider region by adopting innovative approaches to improving economic functionality and performance.

Dr Cathy Garner explains, "Improving an entire city's capacity for innovation is no small task, but that's what M:KC has been all about. Greater Manchester is proud of its history as 'city of firsts', but never rests on its laurels. By 2015, Manchester wants to be recognised as a global leader in innovation.

"The M:KC partnership exists to help keep Manchester ahead of the game by providing insight, strategic connectivity, and a testbed for new ideas and approaches."

Analysing interconnections

Many of M:KC's projects have had wider impacts than can be easily be assessed by standard tools designed for measuring return on investment (ROI). However, particularly in urban environments, funding innovation that results in a new business will generate both direct and indirect employment, and produce social effects and networks that are hard to measure.

To be able to more thoroughly measure impact it is necessary to be able to analyse 'systems of systems,' and how interconnections develop between specific projects and the wider community. In developing the Manchester Innovation Investment Fund, it was necessary to evaluate the impact of M:KC's efforts, and it was clear that existing tools were not capturing the metrics that affected this system of systems. Results measured by 'number of people on the course,' for example, did not show the total value of a project's success.



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Dr Cathy Garner PhD, Chief Executive Officer,
Manchester: Knowledge Capital

This is because when it comes to innovation, almost by definition the outcomes are uncertain. It has been known for a long time that investment in one area often delivers results in another. For example, investing in fast-response medical teams for stroke victims can improve the personal outcomes and produce significant cost-savings for medical and social care. Equally, a hospital trust contributing to the road-gritting budget in winter may reduce weather-related road traffic accidents, thereby potentially cutting the trust’s medical treatment costs by more than the gritting contribution.

Standard economic tools tend to be narrowly focused on items such as GDP, jobs created and qualifications gained. In changing behaviours – such as increasing the willingness to innovate – there is a need to also look at the less tangible factors, such as ‘innovating with confidence’ over a three- or four-year programme. For example, one project – the ‘Manchester Masters’ programme – aimed to train and retain graduates in the Manchester area through Innovation Investment Fund-sponsored internships. Typical metrics would show only the graduation figures, whereas the true impact is seen across many areas such as the new enterprises subsequently started, the trading volumes, the associated business services and more, in the systems-of-systems approach.

Multi-dimensional ROI

One of the key inhibitors to getting smarter city projects started is that traditional methods of proving ROI fail to take into account the full complexity of a ‘system of systems’. Recognising that its research could help cities like Manchester take a broader view of the potential benefits to secure funding for innovative projects, IBM proposed a new approach to M:KC. This approach draws on significant IBM intellectual property to create new ways of measuring project value across a far broader range of dimensions – including operational, brand, strategic (innovation), and societal – than would typically be used to determine ROI.

Cathy Garner explains, “The IBM team showed us the art of the possible, creating a methodology that could be used on any one of our projects, and could be applied in a generic fashion to many similar situations. Using a combination of analytical tools and data management, IBM developed a way of measuring distributed impacts that maps the workflow of the project and captures both the traditional metrics and the extended value that had previously escaped us.”

In developing the new approach, IBM consultants interviewed the M:KC team, project leaders and the wider community, selecting the ‘Innovate with Confidence’ programme as the pilot. IBM ran a process to tease out the likely benefits based on a detailed understanding of the process, and used this process-oriented map to capture the full ROI.

Solution Components

Services

- IBM Global Business Services
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The workflow map showed the points where M:KC had intervened to stimulate investment, and measured the immediate and wider impacts of intervention. In the process, M:KC itself came to understand the analytical capabilities offered by IBM in terms of methodology, data, software and technology.

Using the ROI approach and tools developed by IBM, M:KC found it was possible to recognise numerous additional benefits arising from direct work to support businesses in Manchester. Two recent workshops conducted with 50 small and mid-sized enterprises (SMEs) revealed new value generated across a range of dimensions: operational, brand, strategic (innovation), and societal. These included: an average revenue increase of 50 percent per customer for one SME; a 10 percent increase in profit for another SME; and a total increase in revenue of £90,000 for two SMEs.

The Innovate with Confidence programme helped SMEs to take a fresh look at their business models and find opportunities to develop new revenue streams and new markets. Using the IBM approach to investigate and validate the extended web of actions that resulted from the workshop, it was possible to uncover some startling benefits that would otherwise have remained hidden.

Cities are incredibly complex systems of interactions between millions of people, businesses and public bodies. To measure the true value of a project, it is necessary to look beyond the direct impact and take into account how it has the potential to make transformational changes at one or two removes from the original point of funding. This enables a validation of the benefits findings when reporting to stakeholders, so that both sides are confident that a particular project really was responsible for the claimed benefits.

Capturing value across the board

The M:KC and IBM teams have taken the first steps towards measuring the impact of actions on systems of systems. The approach is now embedded into the framework for future projects, and will be used to investigate the likely benefits at the funding stage, as well as to measure the final outcomes. By taking into account a much wider set of benefits across more dimensions, the IBM and M:KC approach will help to ensure that potentially valuable projects do not fall at the first hurdle simply because conventional ROI tools are not sophisticated enough to predict their impact.

The aim is to capture performance across the range of value dimensions, covering both outputs and impacts. In some cases, the ROI tools enable predictive analysis. For example, in the Innovate with Confidence programme, IBM determined that the number of new collaborators and partners a business has, measured consistently, is a good predictor of the number of new products and services that business will create.



The framework developed by IBM for M:KC provides a more systematic way to measure the performance of programmes designed to promote innovation, employment and prosperity. Including both standard economic ROI and the system-of-systems ROI developed by IBM enables organisations to get a more thorough measure of how they are succeeding in efforts to build a smarter city.

For more information

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