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# HOW SMALLER COMPANIES NETWORK: LINKING FINANCE WITH REGIONAL DEVELOPMENT

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SABINE DÖRRY

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## OUTLINE

1. Introduction: Finance and Innovation
2. Relational economic thinking: Global Production Networks (GPNs)
3. The global investment fund industry in Luxembourg
4. Knowledge eco-systems and the role of SMEs
5. Preliminary conclusions and discussion

# 1. INTRODUCTION

Innovation and finance have been studied widely:

- ❑ Competitiveness of IFCs (Global Financial Centre Index, Y/Zen Group);

# 1. INTRODUCTION

	GFCI 8 Rank	GFCI 8 Rating	GFCI 7 Rank	GFCI 7 Rating	Change in Rank	Change in Rating
London	1	772	=1	775	-	▼ 3
New York	2	770	=1	775	▼ 1	▼ 5
Hong Kong	3	760	3	739	-	▲ 21
Singapore	4	728	4	733	-	▼ 5
Tokyo	5	697	5	692	-	▲ 5
Shanghai	6	693	11	668	▲ 5	▲ 25
Chicago	7	678	6	678	▼ 1	-
Zurich	8	669	7	677	▼ 1	▼ 8
Geneva	9	661	8	671	▼ 1	▼ 10
Sydney	10	660	=9	670	▼ 1	▼ 10
Frankfurt	11	659	13	660	▲ 2	▼ 1
Toronto	12	656	12	667	-	▼ 11
Boston	13	655	14	652	▲ 1	▲ 3
Shenzhen	=14	654	=9	670	▼ 5	▼ 16
San Francisco	=14	654	=15	651	▲ 1	▲ 3
Beijing	16	653	=15	651	▼ 1	▲ 2
Washington D.C.	17	649	17	647	-	▲ 2
Paris	18	645	20	642	▲ 2	▲ 3
Taipei	19	639	21	638	▲ 2	▲ 1
Luxembourg	20	634	=18	643	▼ 2	▼ 9



The Global Financial Centres Index 8,  
September 2010

# 1. INTRODUCTION

Centre	GFCI 15		GFCI 14		CHANGES	
	Rank	Rating	Rank	Rating	Rank	Rating
New York	1	786	2	779	▲ 1	▲ 7
London	2	784	1	794	▼ 1	▼ 10
Hong Kong	3	761	3	759	-	▲ 2
Singapore	4	751	4	751	-	-
Zurich	5	730	6	718	▲ 1	▲ 12
Tokyo	6	722	5	720	▼ 1	▲ 2
Seoul	7	718	10	701	▲ 3	▲ 17
Boston	8	715	7	714	▼ 1	▲ 1
Geneva	9	713	8	710	▼ 1	▲ 3
San Francisco	10	711	12	697	▲ 2	▲ 14
Frankfurt	11	709	9	702	▼ 2	▲ 7
Luxembourg	12	707	13	696	▲ 1	▲ 11
Washington DC	13	706	17	689	▲ 4	▲ 17
Toronto	14	705	11	699	▼ 3	▲ 6
Chicago	15	704	14	695	▼ 1	▲ 9
Montreal	16	699	18	688	▲ 2	▲ 11
Vancouver	17	698	19	686	▲ 2	▲ 12
Shenzhen	18	697	27	660	▲ 9	▲ 37
Vienna	19	696	20	685	▲ 1	▲ 11
Shanghai	20	695	16	690	▼ 4	▲ 5



The Global Financial Centres Index 15,  
March 2014

## 1. INTRODUCTION

Innovation and finance have been studied widely:

- ❑ Competitiveness of IFCs (Global Financial Centre Index, Y/Zen Group);
- ❑ Significance of innovation in the financial sector (Community Innovation Survey, Eurostat);
- ❑ Importance of spatial firm clustering in an IFC on the example of London (Corporation of London 2003).

Studies have, however, largely failed to link innovation *with* finance.

## 1. INTRODUCTION

What is the role of SMEs in the development of Luxembourg's financial centre?

# 1. INTRODUCTION

Company category	Employees	Turnover	or	Balance sheet total
<b>Medium-sized</b>	< 250	≤ € 50 m		≤ € 43 m
<b>Small</b>	< 50	≤ € 10 m		≤ € 10 m
<b>Micro</b>	< 10	≤ € 2 m		≤ € 2 m



## 2. RELATIONAL ECONOMIC THINKING: GPN

### ❑ Cluster theory

“Competitive advantage is created and sustained through a **highly localized** process.”

(Michael E. Porter 1990: 19)

### ❑ New Economic Geography

“The goal of the new economic geography ... is to devise a **modelling** approach ... in **general equilibriums**.”

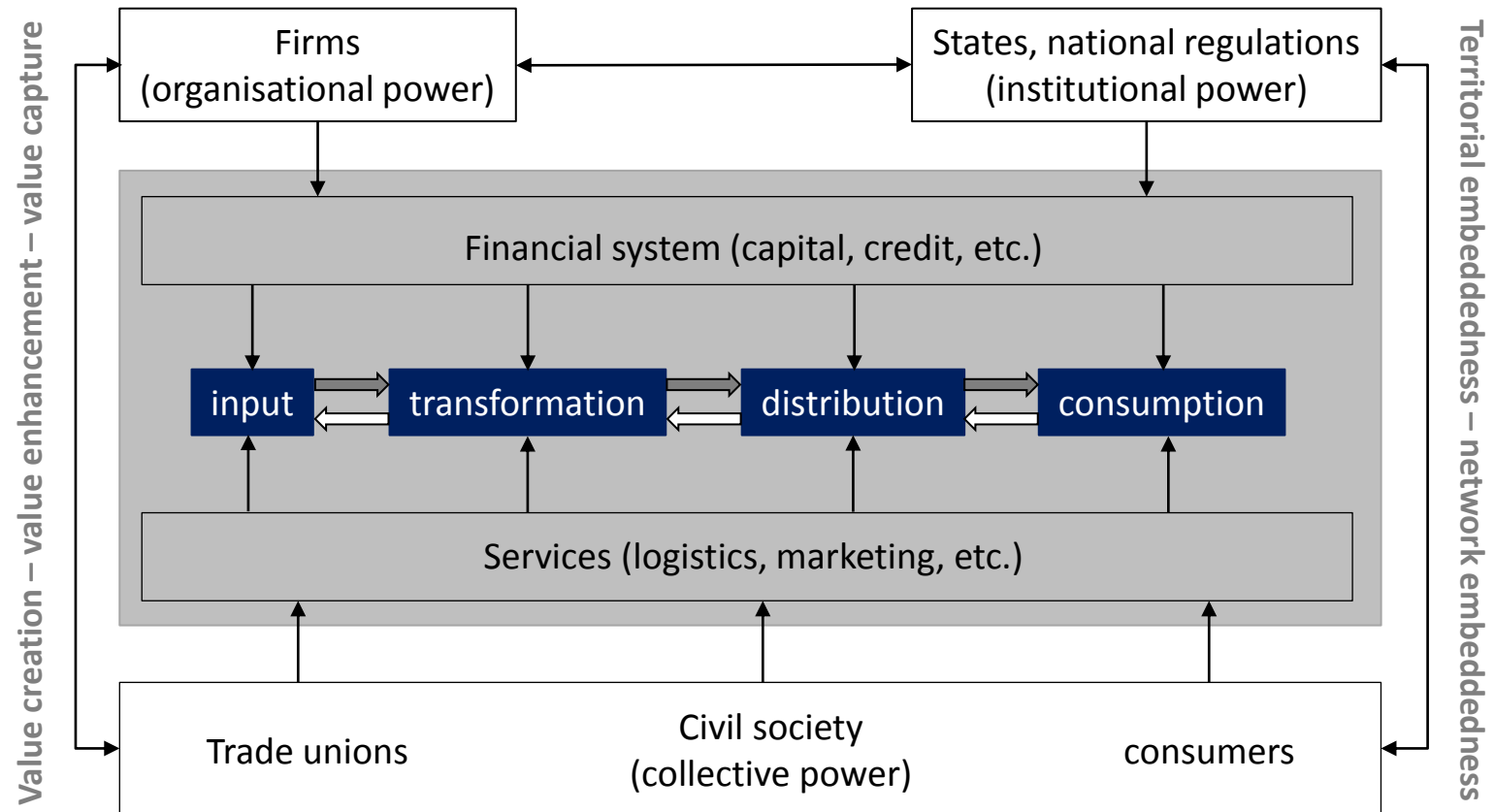
(Paul Krugman 2000: 51)



### ❑ ‘Relational logics’ approach towards globalisation in Economic Geography


“The global economy is made up of a variety of **complex overlapping and interlocking** intra- and inter-organizational networks [that] intersect with ... clusters. ... It is extraordinarily **difficult to generalise...**”

(Peter Dicken 2000: 284; cf. Ash Amin & Nigel Thrift 1992; Meric S. Gertler 1997).

## 2. RELATIONAL ECONOMIC THINKING: GPN



Flows of material  Flows of information 

 Influences of networks; Allocation of resources

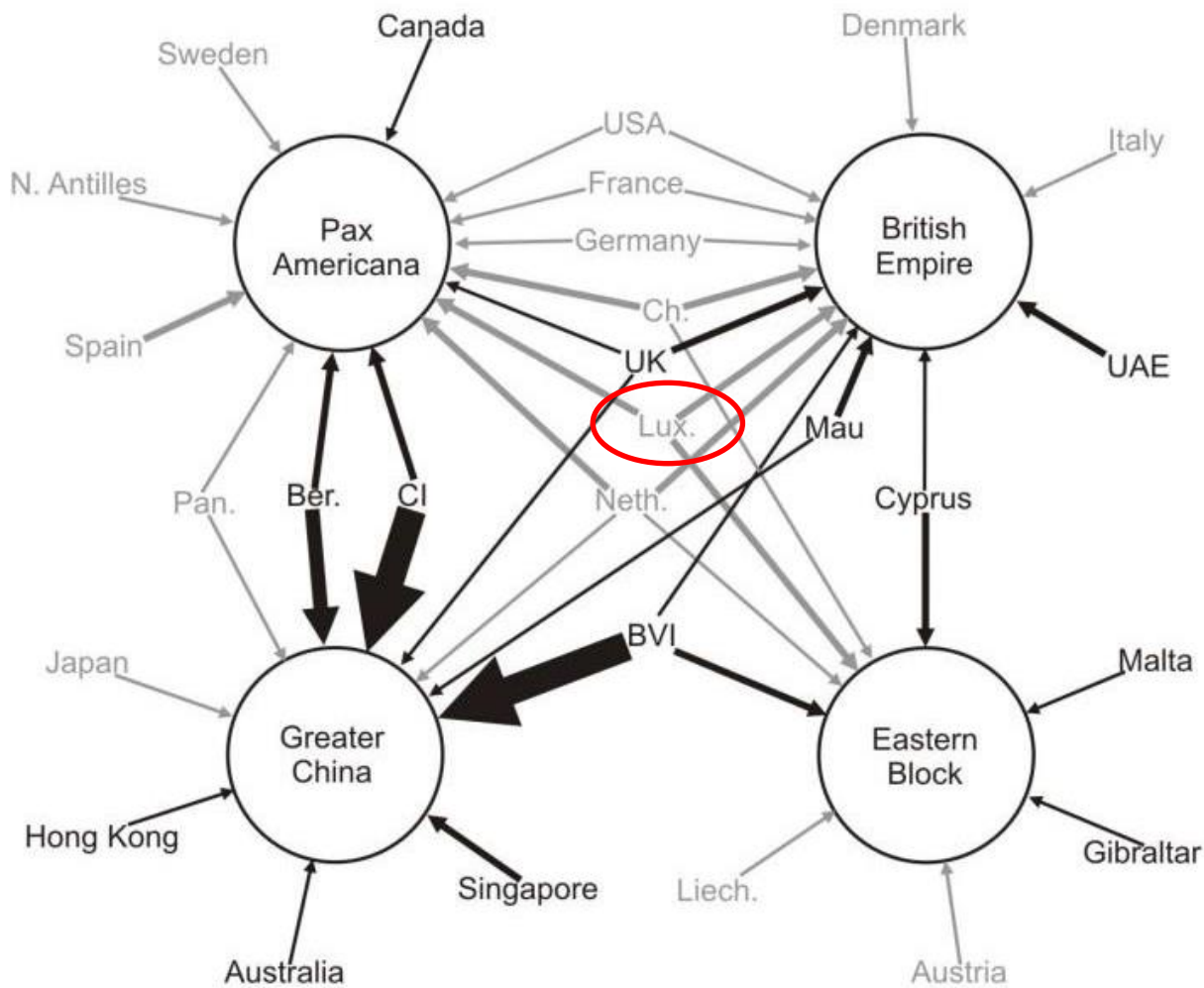
Dicken (2015), Henderson et al (2002); Braun & Schulz (2012, p. 215)

### 3. THE GLOBAL INVESTMENT FUND INDUSTRY IN LUXEMBOURG

Worldwide leading exporters of financial services

<b>Economy</b>	<b>Million US\$</b>
United States	83,861.8
United Kingdom	62,597.2
<b>Luxembourg</b>	<b>42,679.3</b>
Singapore	18,432.5
Switzerland	16,700.6
Germany	15,348.7
Hong Kong (China)	12,639.5
Ireland	9,915.6
France	6,633.4
India	5,934.6
Spain	4,966.4
Belgium	4,612.0

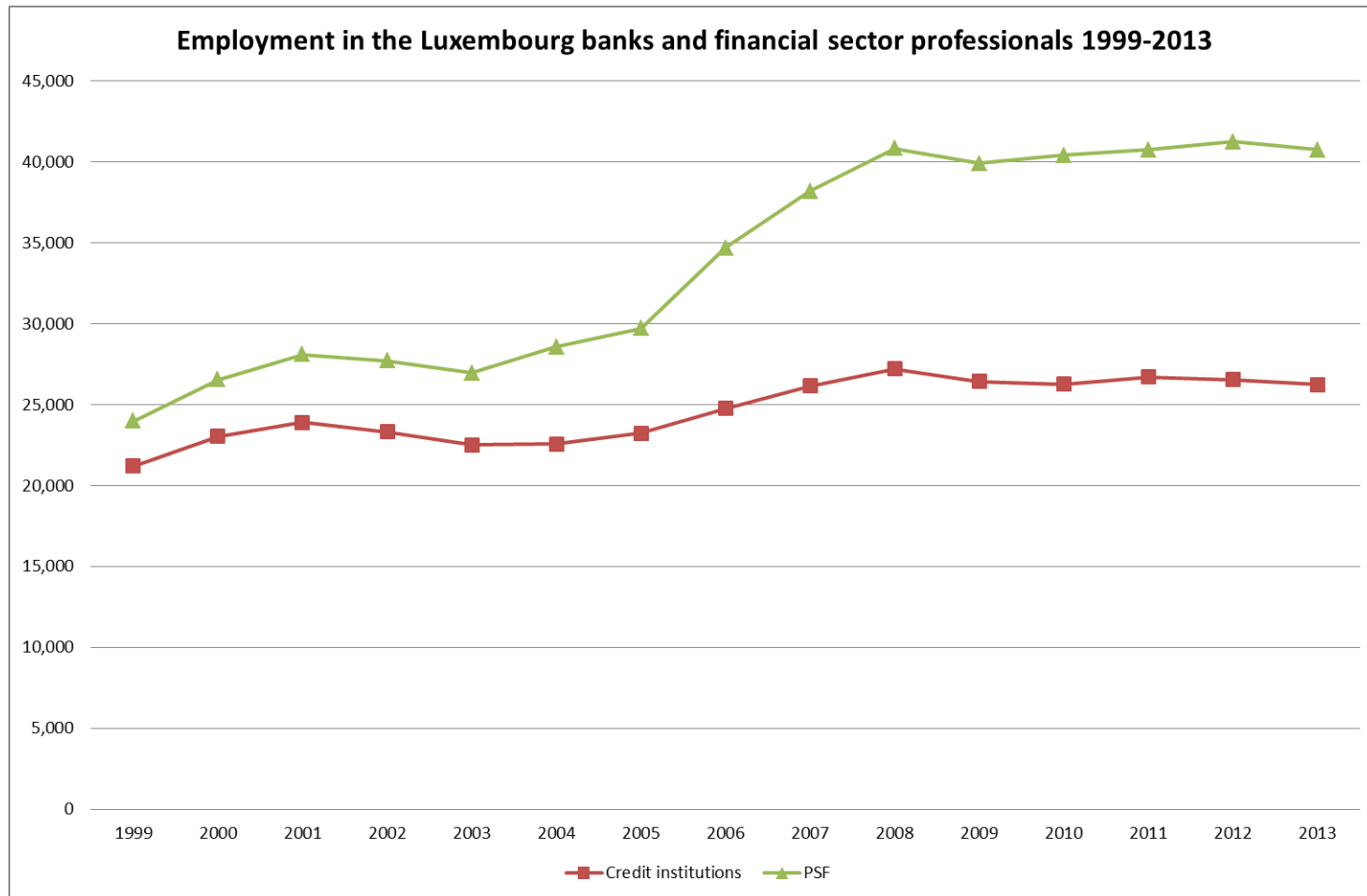
### 3. THE GLOBAL INVESTMENT FUND INDUSTRY IN LUXEMBOURG



#### competitive advantages:

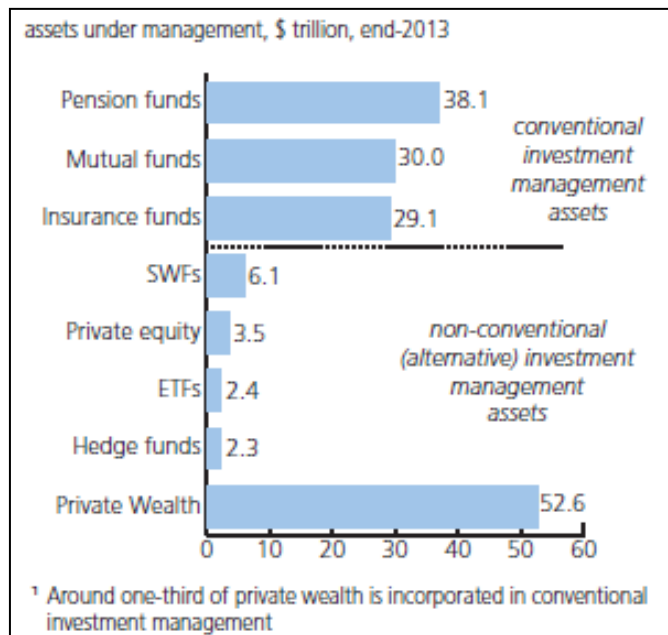
- administrative simplicity
- geographical location
- midshore jurisdiction: onshore elements (status as white-listed OECD jurisdiction) enable investors to leverage benefits of off-shore structures (zero tax, low regulatory standards, transparency)

### 3. THE GLOBAL INVESTMENT FUND INDUSTRY IN LUXEMBOURG

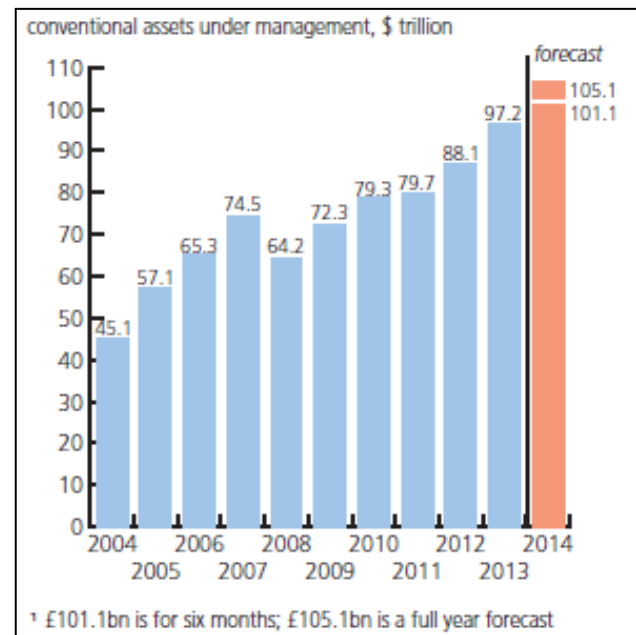


### 3. THE GLOBAL INVESTMENT FUND INDUSTRY IN LUXEMBOURG

#### Global Fund Management Industry

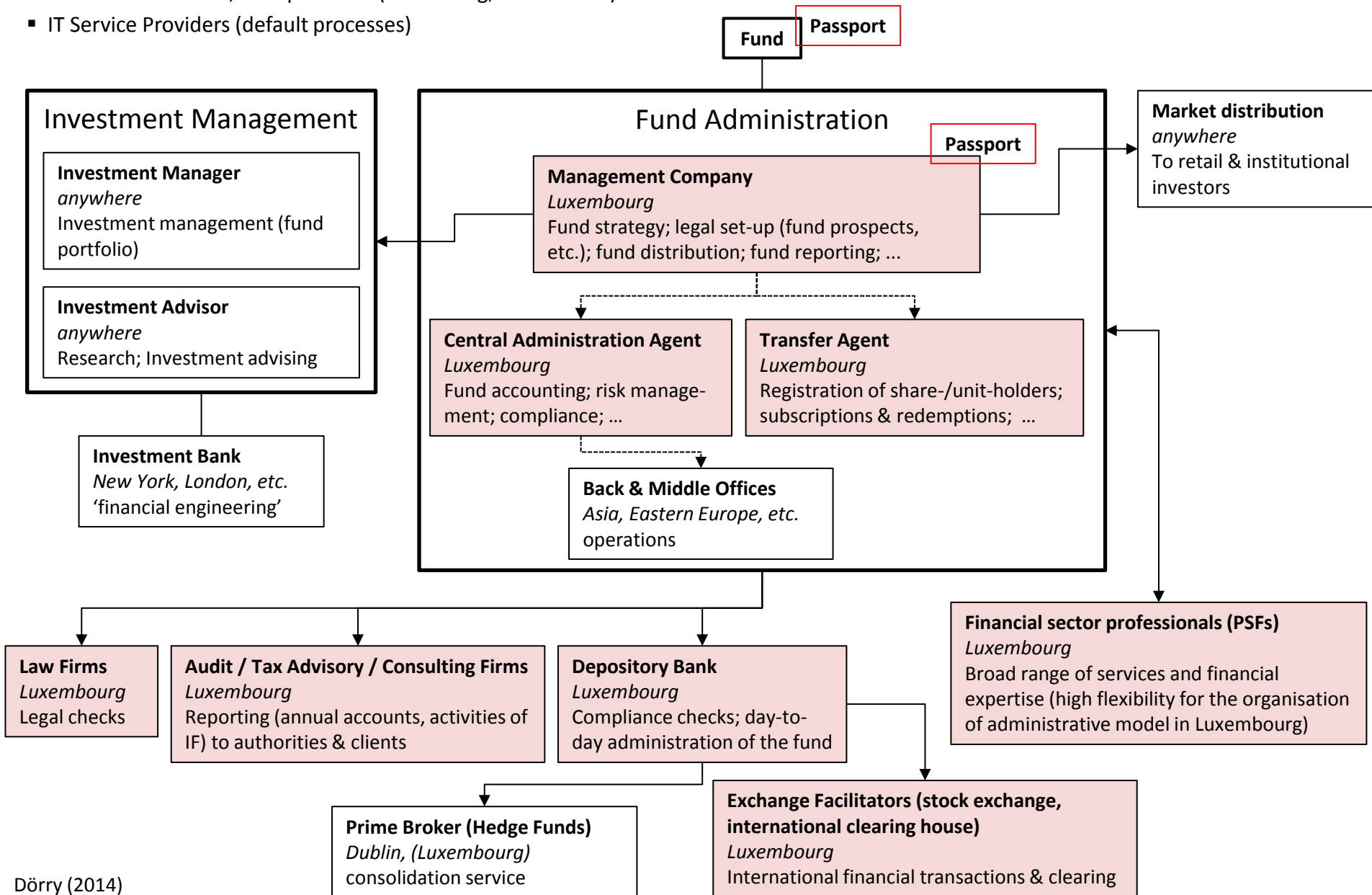


#### Global Conventional AUM

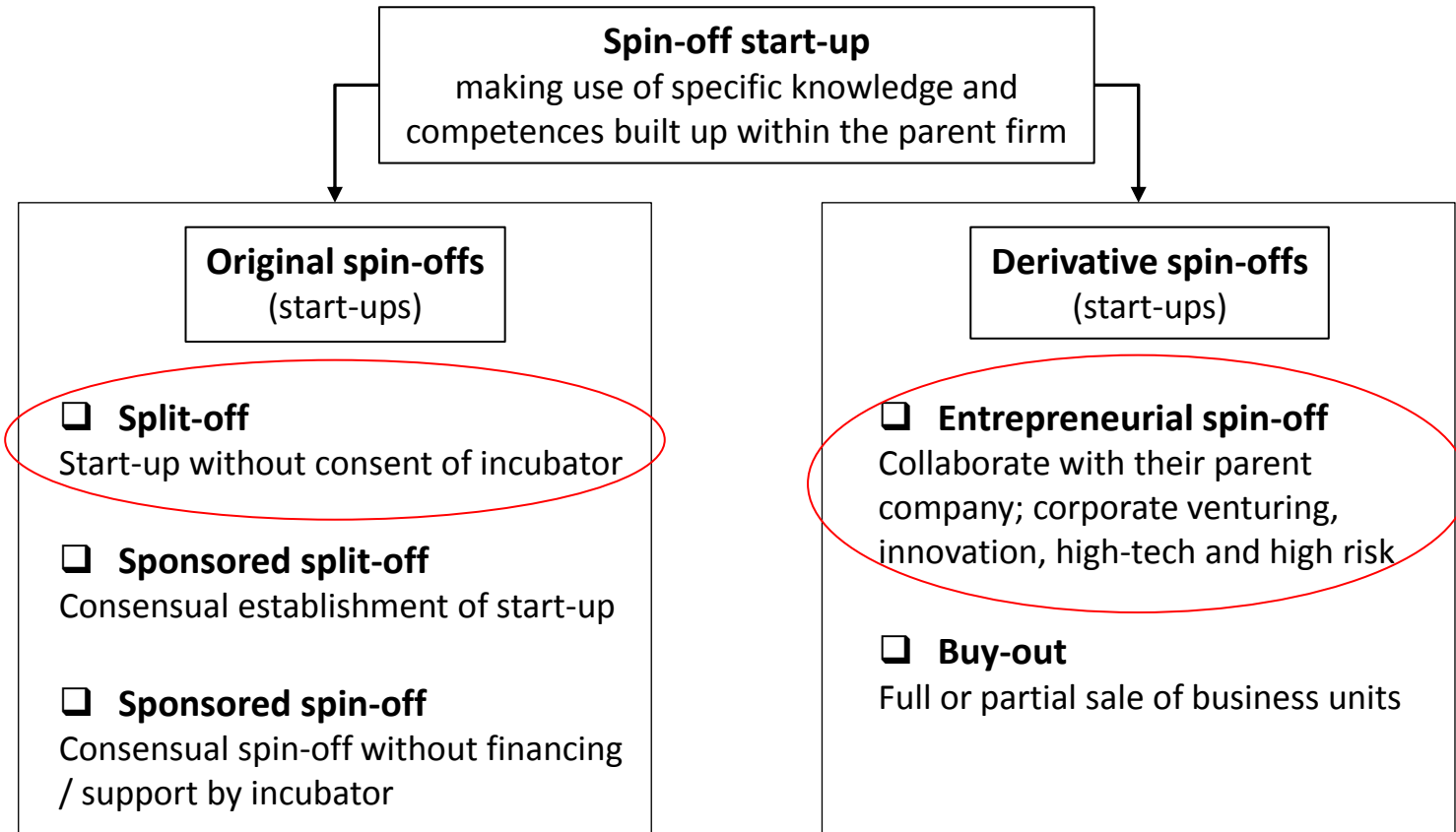


## Institutional and further support infrastructure

- (Inter-)national institutions (Ministry of Finance, etc.), (inter-)national regulation authorities (CSSF, ESMA, IOSCO etc.), associations (ALFI, ABBL etc.), regulations/directives (UCITS, AIFMD etc.)
- Information service, data provision (Bloomberg, Reuters etc.)
- IT Service Providers (default processes)



## 4. KNOWLEDGE ECO-SYSTEMS AND THE ROLE OF SMEs



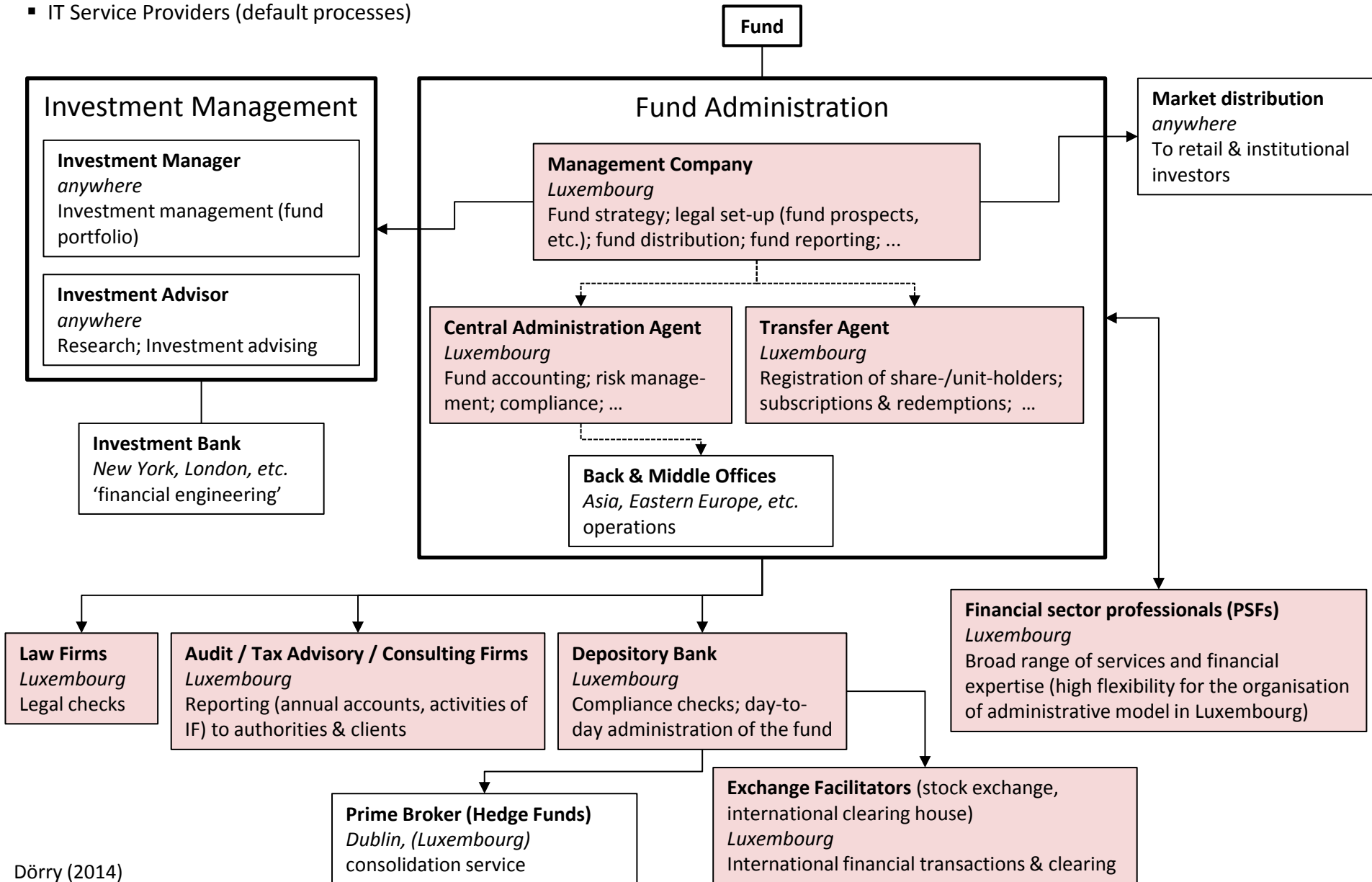


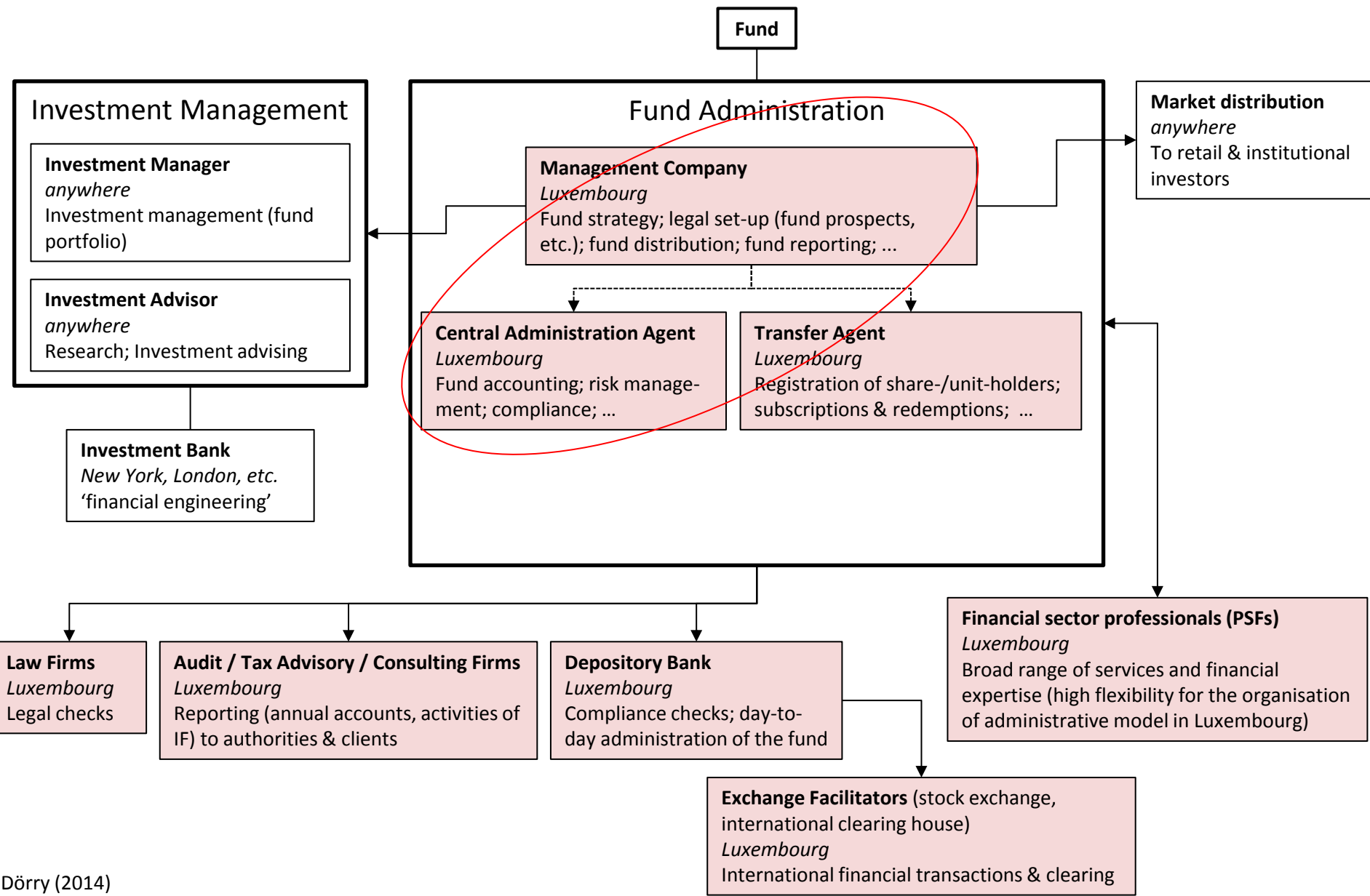
## 4. KNOWLEDGE ECO-SYSTEMS AND THE ROLE OF SMEs

**Company A : split-off (Management Company)**

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## 4. KNOWLEDGE ECO-SYSTEMS AND THE ROLE OF SMEs

### Company A : split-off (Management Company)

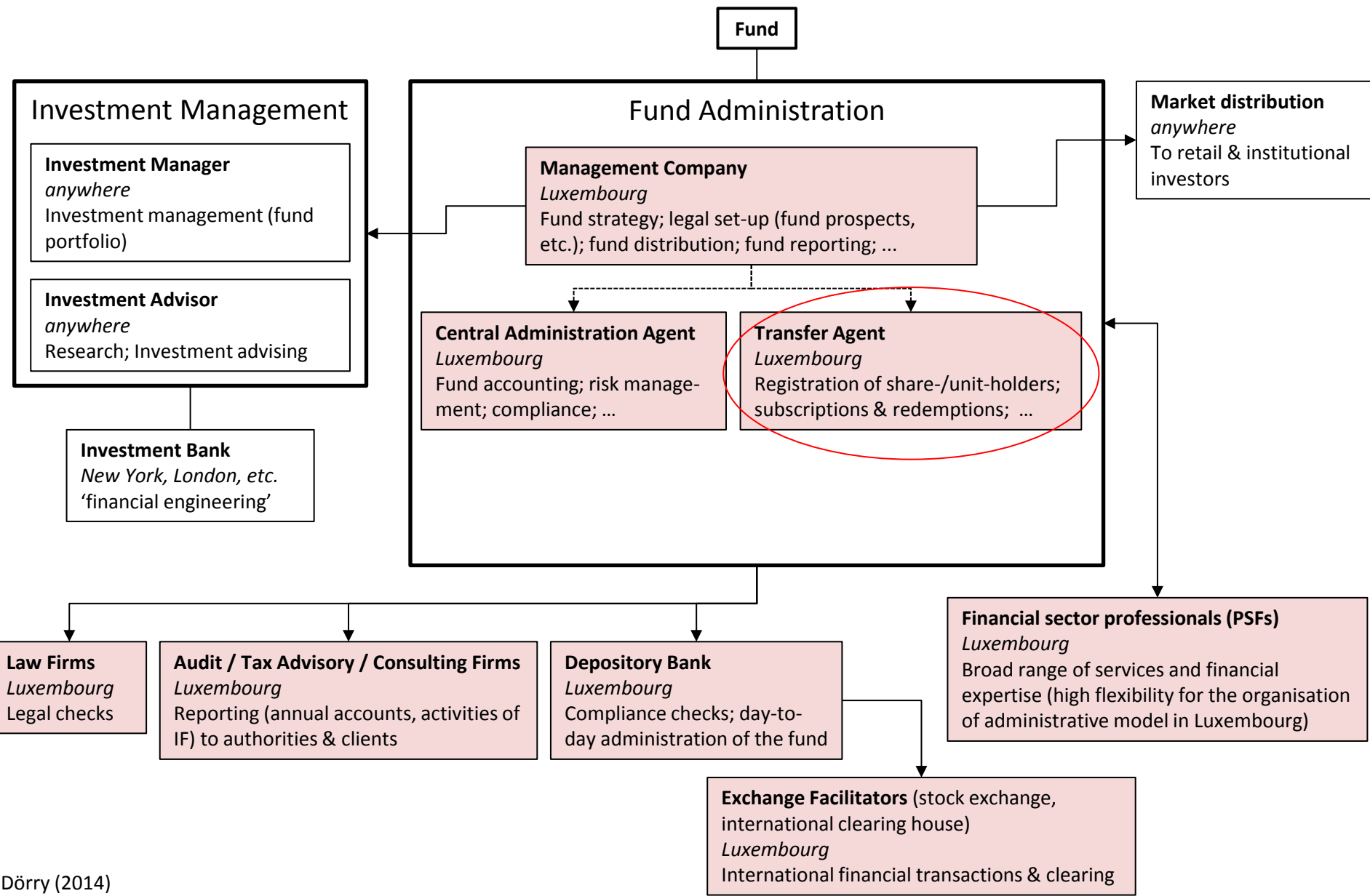
#### 'Language arbitrage' strategies

“**Multilingualism** over here is key. Usually I read, for example, a law in two or three languages. There are differences in the **interpretation**. ... There are things completely wrong translated here in Luxembourg. They make no sense. And then I look at reports on some web-sites of solicitors' offices in London, and then it makes sense again.” (interview, Luxembourg, 25 September 2015, translation SD)

#### Global clients (a mix of 'global knowledge pipelines')

## 4. KNOWLEDGE ECO-SYSTEMS AND THE ROLE OF SMEs

**Company B : entrepreneurial spin-off (technological platform for investment fund order routing and information services)**



## 4. KNOWLEDGE ECO-SYSTEMS AND THE ROLE OF SMEs

### **Company B : entrepreneurial spin-off (technological platform for investment fund order routing and information services)**

- Cost-intensive technological innovation
- Potential implication: re-organisation of the production network's prevalent organisational architecture

## 4. KNOWLEDGE ECO-SYSTEMS AND THE ROLE OF SMEs

### **Example C : 'Branching' (FinTech and PE/VC funds)**

- Luxembourg: key hub for digital businesses in Europe.
- New electronic payment solutions are of specific importance (Directive on Payment Services, 2009).
- Many entrepreneurs and start-ups rely on (foreign) venture capital.
- Venture capital and private equity funds increasingly domicile in Luxembourg. Reason: LLP from Common Law legislations (July 2013).



## 5. SUMMARY AND PRELIMINARY CONCLUSIONS

- ❑ **Branching** processes create new conditions for economic diversification in the IFC (**example C**).
- ❑ **Spin-offs** diversify the applicable knowledge base in a region; especially spin-offs are an important mechanism to pass on and develop competitive routines (**examples A and B**).
- ❑ Analytical framework of Global Production Networks (**GPN**).
- ❑ IFCs like Luxembourg with their diversified ‘expert systems’ and ‘knowledge structures’ represent **important parts of the knowledge structure of the world’s financial economy**.
- ❑ Conditions for growth and (sustainable) development in IFCs are difficult to capture through even the most innovative policy measures, **unless certain basic structures are already in place**.

## 6. FOOD FOR THOUGHT

- Can we see changes of the roles of SMEs? → faster processes of adaptation, etc.
- Too interconnected to fail? → geographical risks, etc.
- ...

Contact:

Dr Sabine Dörry  
Marie Curie Research Fellow  
University of Oxford  
School of Geography and the Environment  
South Parks Road  
Oxford OX1 3QY  
United Kingdom

[sabine.doerry@ouce.ox.ac.uk](mailto:sabine.doerry@ouce.ox.ac.uk)

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## THE GLOBAL INVESTMENT FUND INDUSTRY IN LUXEMBOURG

