



HOW SMALLER COMPANIES NETWORK: LINKING FINANCE WITH REGIONAL DEVELOPMENT

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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
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 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**.”

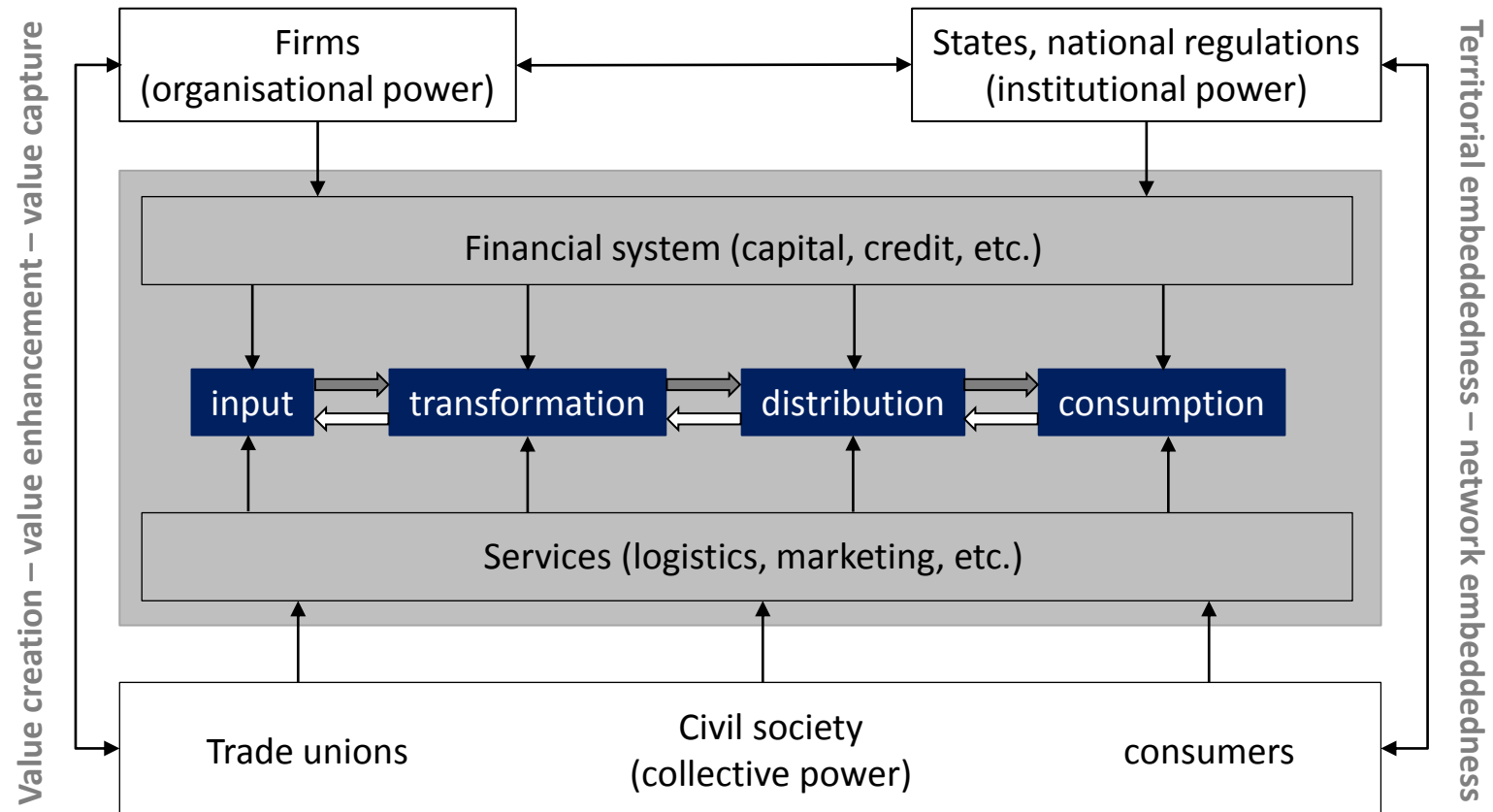
(Paul Krugman 2000: 51)



❑ ‘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

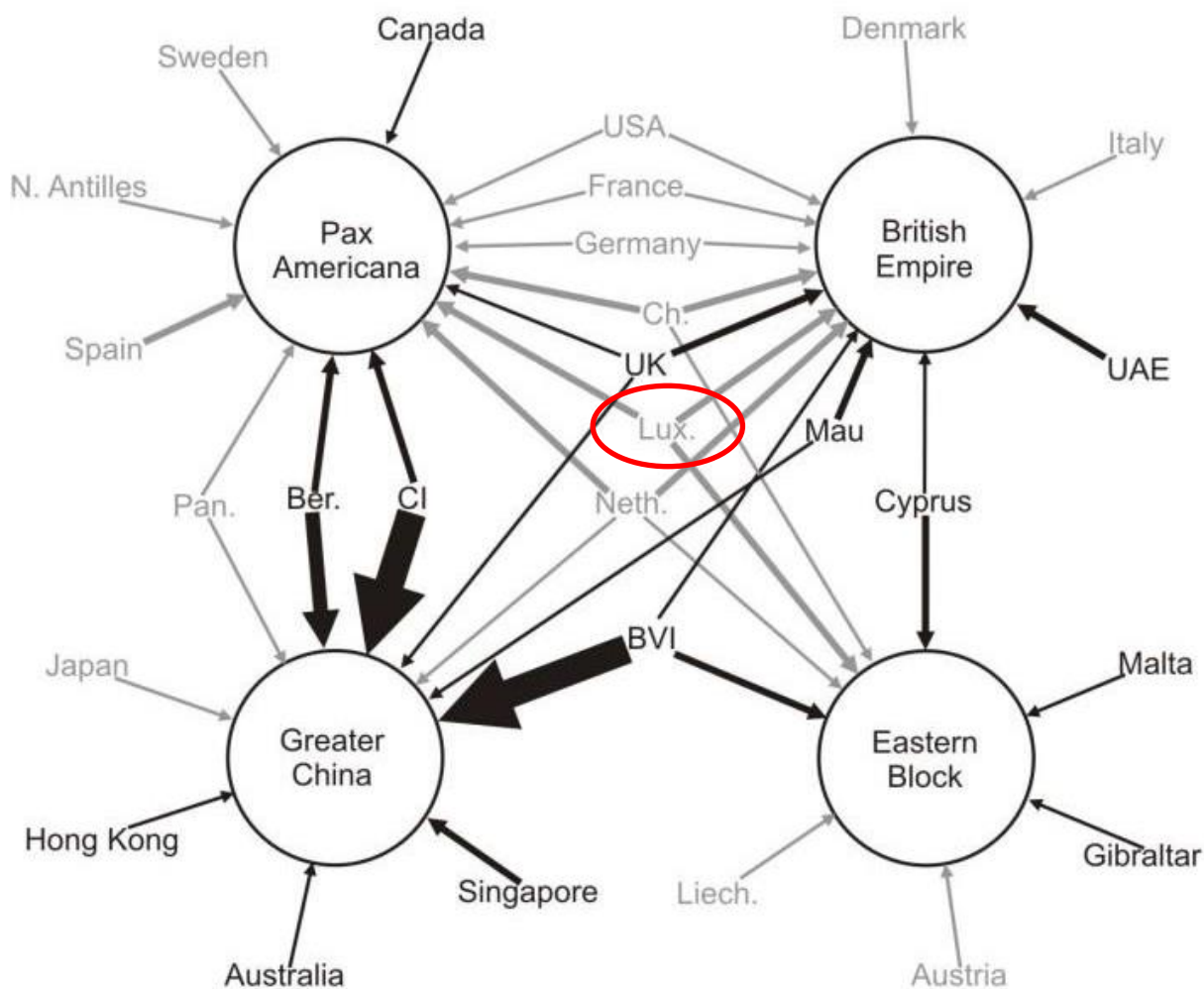
Dicken (2015), Henderson et al (2002); Braun & Schulz (2012, p. 215)

3. THE GLOBAL INVESTMENT FUND INDUSTRY IN LUXEMBOURG

Worldwide leading
exporters of
financial services

Economy	Million US\$
United States	83,861.8
United Kingdom	62,597.2
Luxembourg	42,679.3
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

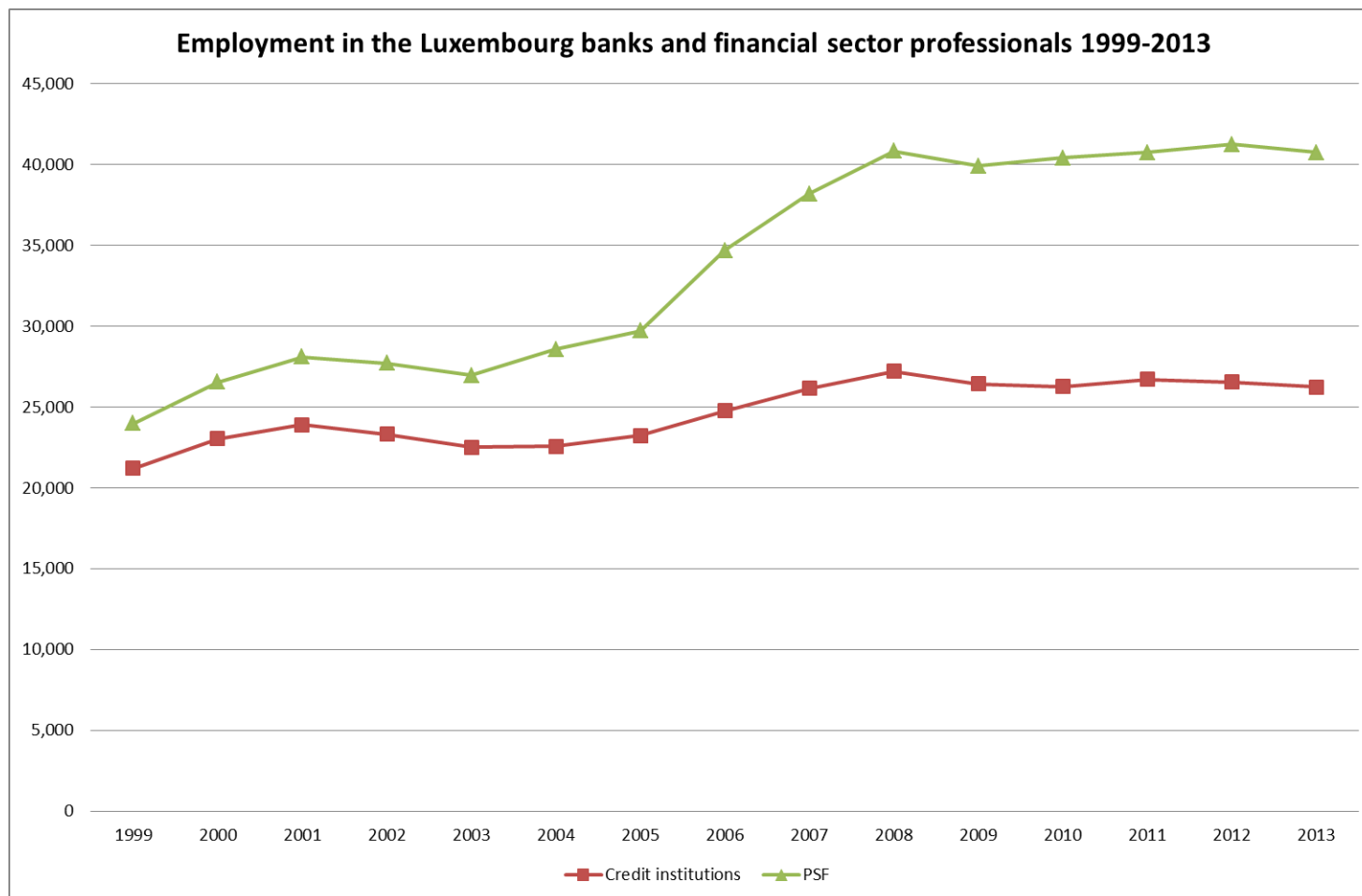
3. THE GLOBAL INVESTMENT FUND INDUSTRY IN LUXEMBOURG



competitive advantages:

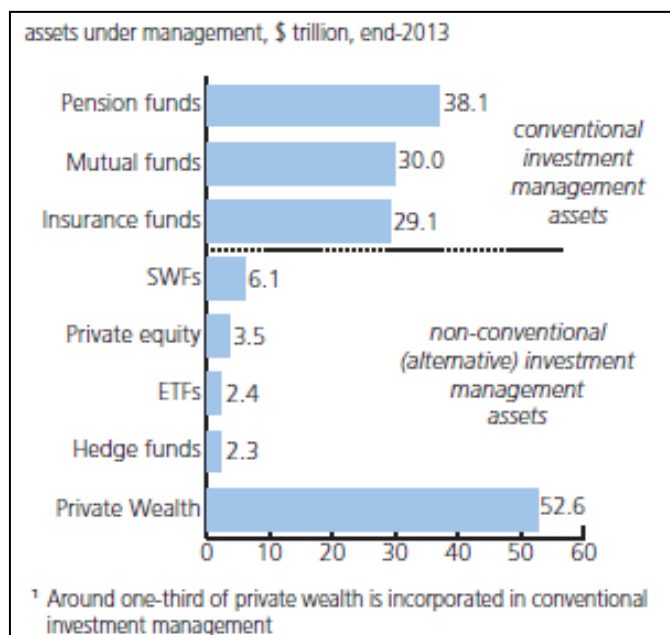
- administrative simplicity
- geographical location
- midshore jurisdiction: onshore elements (status as white-listed OECD jurisdiction) enable investors to leverage benefits of off-shore structures (zero tax, low regulatory standards, transparency)

3. THE GLOBAL INVESTMENT FUND INDUSTRY IN LUXEMBOURG

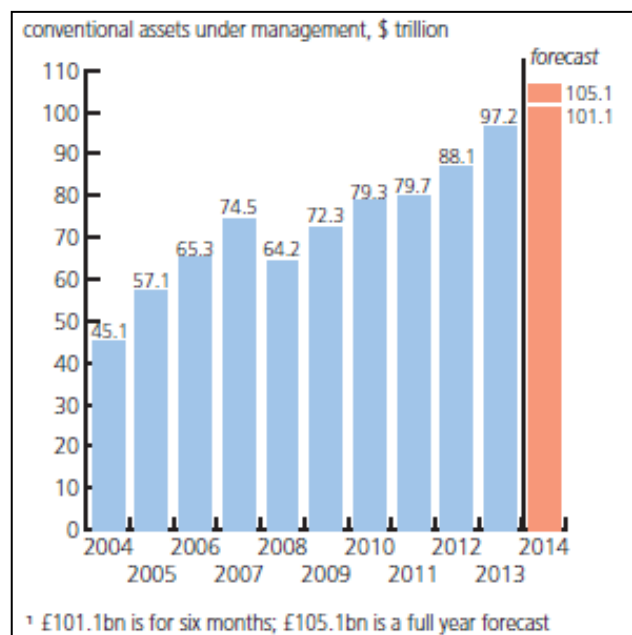


3. THE GLOBAL INVESTMENT FUND INDUSTRY IN LUXEMBOURG

Global Fund Management Industry

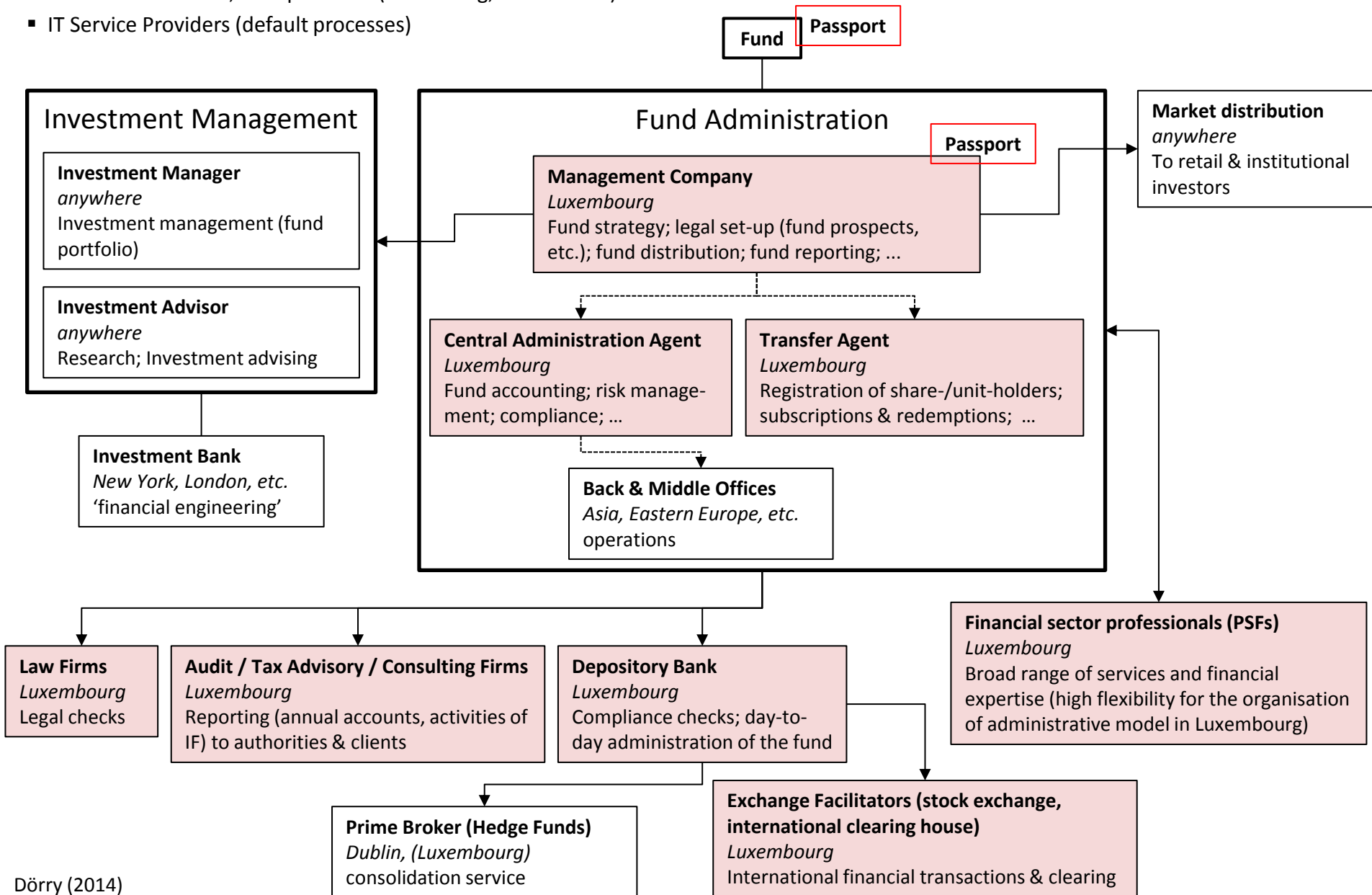


Global Conventional AUM

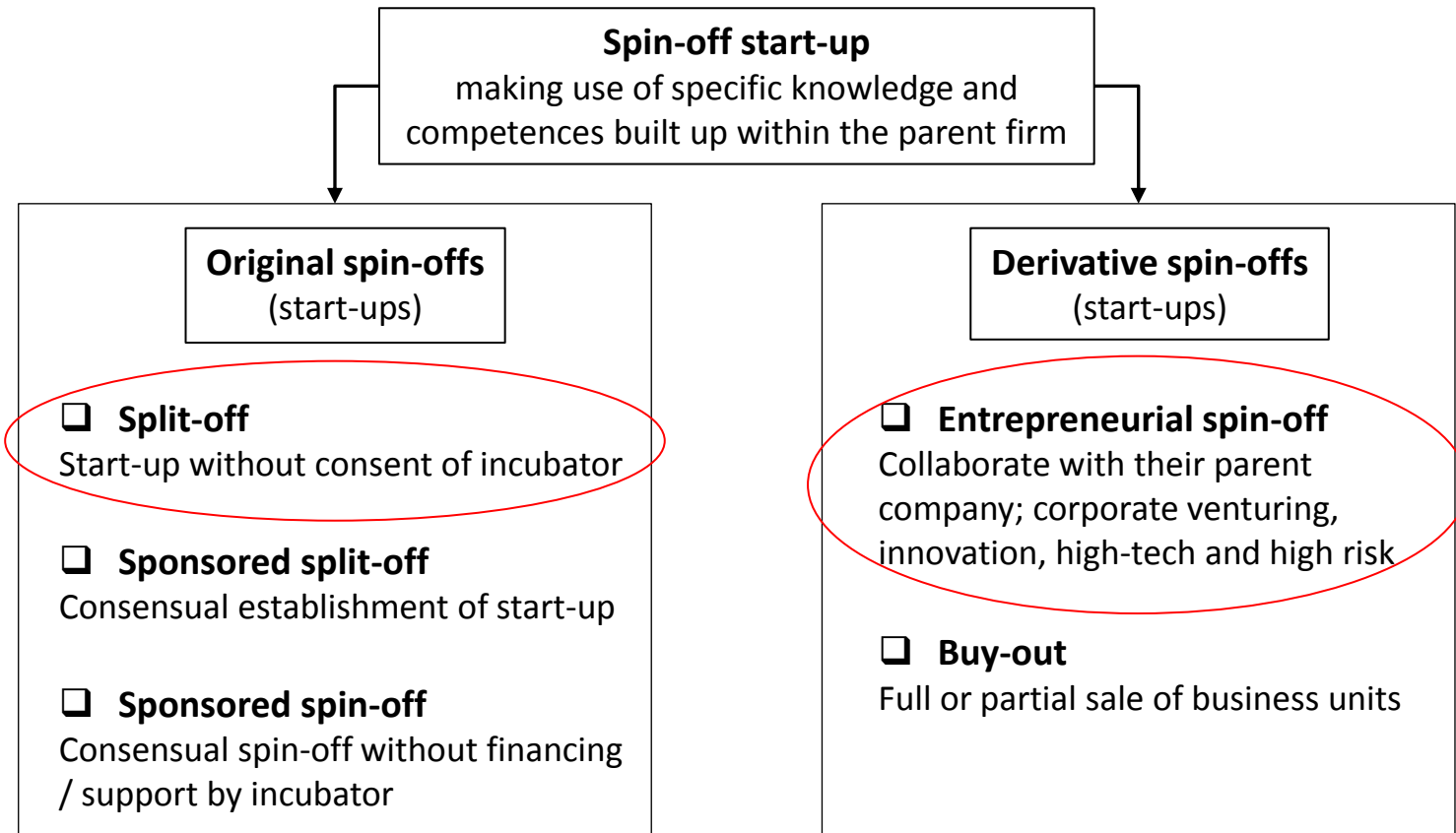


Institutional and further support infrastructure

- (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

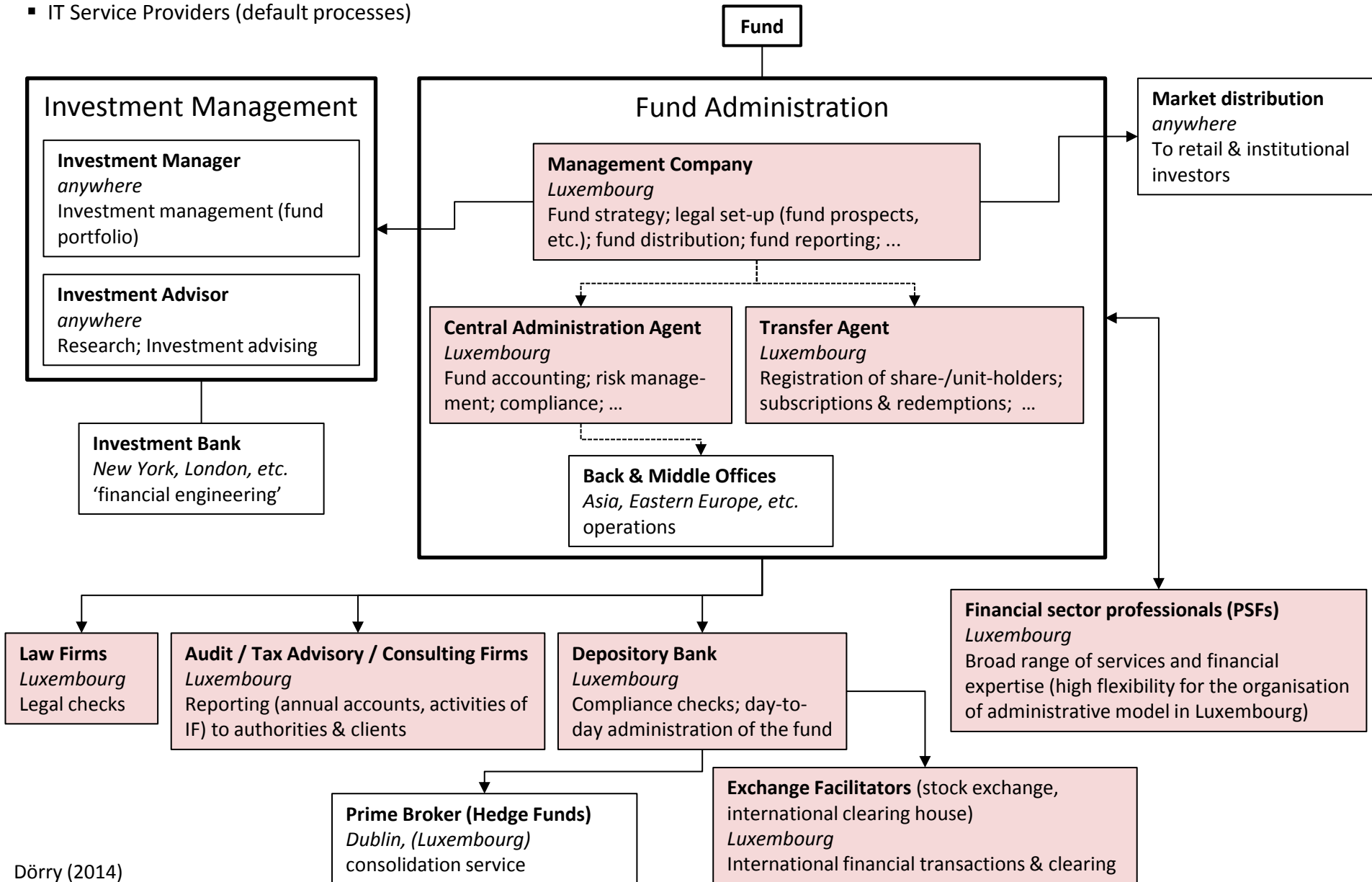


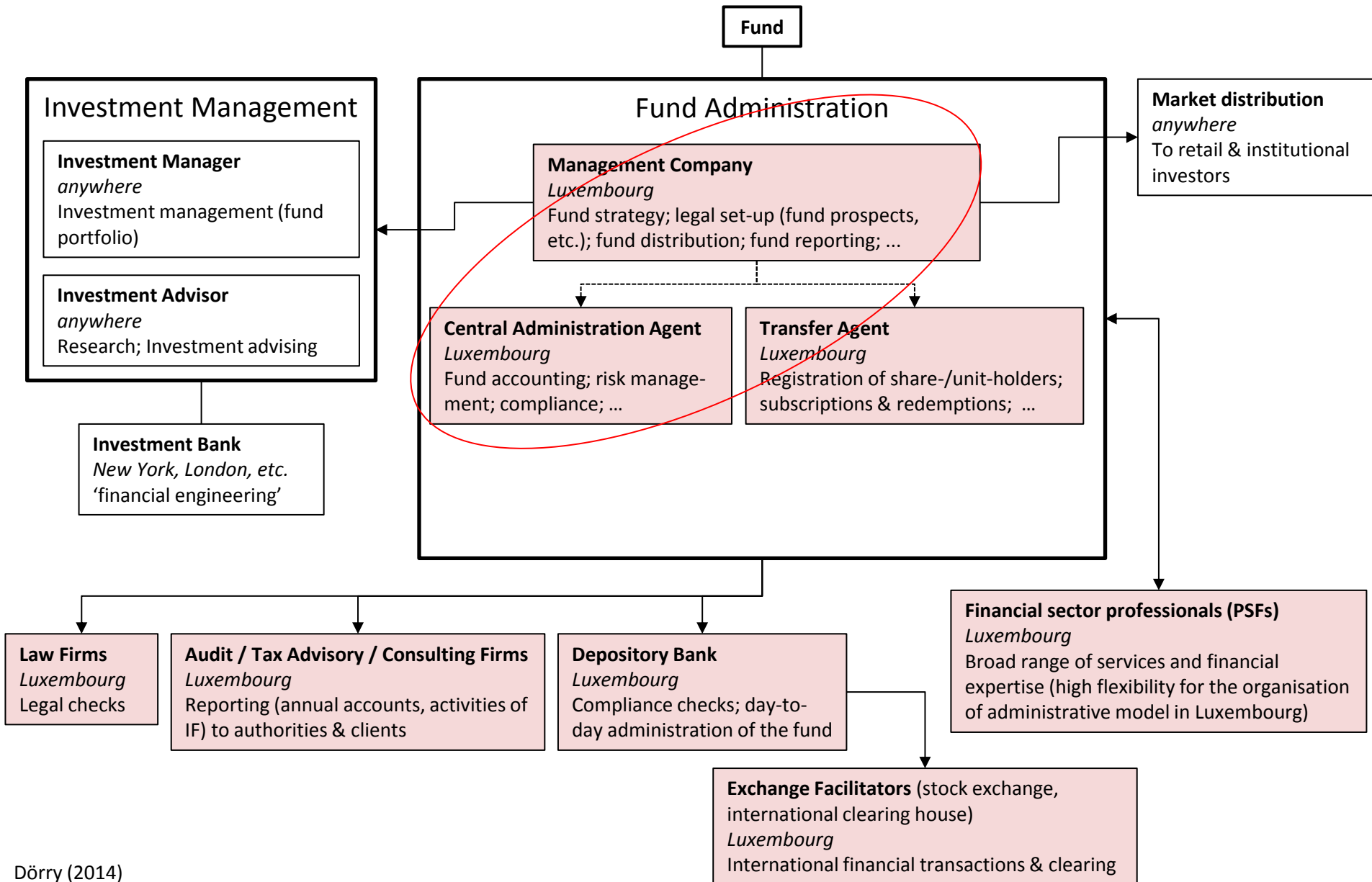
4. KNOWLEDGE ECO-SYSTEMS AND THE ROLE OF SMEs

Company A : split-off (Management Company)

Institutional and further support infrastructure

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Company A : split-off (Management Company)

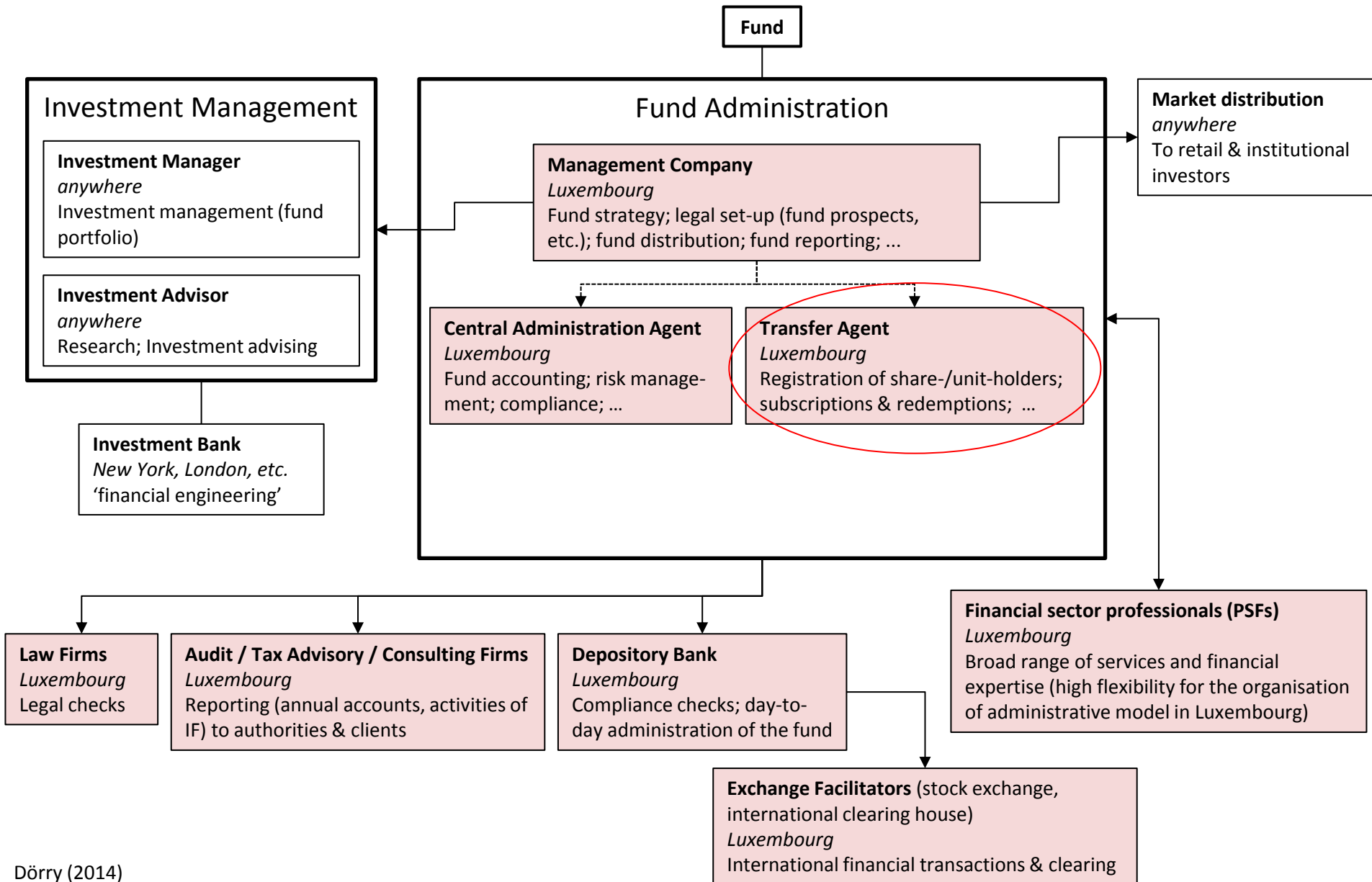
❑ 'Language arbitrage' strategies

“**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.
- ☐ ...

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