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Asset servicing at a second-tier financial centre: Framing embeddedness through mechanisms of the firm-territory nexus

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ABSTRACT

The integration of regional economies within multi-location firm networks, and the development effects stemming from such integration, is recognised as a critical but deeply complex research area (Dicken and Malmberg, 2001). In this paper, with Edinburgh's asset servicing activities providing an empirical context, a conceptual framework is developed that points to an initial suite of mechanisms that may underpin the firm-territory nexus. By doing this, a revised perspective on how territorial and network embeddedness overlap, is given. Recognising the heterogeneous nature of head office-branch and subsidiary relationships - which asset servicing functions are ultimately inscribed in - this paper shows how the local economic and institutional contexts present in Edinburgh mesh and jostle with the co-ordinating dynamics of the global financial services sector.

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1. Introduction

Geographers are increasingly attentive to the spatial logics and implications of financial activities. This takes myriad forms, from the practices (Jones, 2013) and knowledge circulation activities within financial communities (Hall, 2007), to the pervasive reach of financialisation logics (Waldron, 2016; Kear, 2014; Knox-Hayes, 2013). Others have revealed the nature and composition of financial markets (Christophers, 2015), while the role of financial networks in lubricating global production processes has also received attention (Coe et al., 2014). A further strand of research has focused on how financial activities shape and orchestrate the economic-bases of territories and places (Zhao et al., 2004; Beaverstock, 2002). Connected to this, and building on economic geographers' increasing interest in the hinge or "interfacing mechanisms" between multi-location firm production networks and regional development (Yeung, 2009: 199), this paper considers the mechanisms that underpin the firm-territory nexus as concerns asset servicing activities in Edinburgh (Scotland, United Kingdom).

An array of concepts and methodological devices have been developed to highlight aspects of multi-location firm integration in territories. Such contributions give different emphases to firm and territory dimensions, and complex analytical challenges emerge in terms of placing relational[1] and territorial factors in balance, rather than fetishizing one or the other. There is a need for further research, nevertheless, that advances our understanding of: one, how such integration plays out; and two, the particular mechanisms that may underpin such integration. Indeed, Dicken and Malmberg's (2001) "firm-territory nexus", which is conceptually developed in this paper, still resembles a black box. This paper, honing in on a particular value chain role within financial services, offers preliminary and suggestive clues with respect to what holds the nexus together, and how firm units, embedded territorially and in global firm-networks, shape the nexus.

The initial shocks brought about by the global financial crisis (GFC) posed serious questions about the ability of regional economies to sustain employment in financial services. In Edinburgh, however, the history and depth of the sector looms large and, though operating in London's shadow, would appear to support the city's relatively strong economic and labour market dynamics (vis-à-vis other second-tier UK cities (Centre for Cities, 2016)). Across the UK, and notwithstanding occasional calls for sectoral rebalancing, financial services appears to remain an area to support and nurture with politicians now scrambling to secure the sector's future in the wake of the UK's decision to leave the European Union (Peat and Kelly, 2016).

[1] Relational systems refer to processes orchestrated over distance or multiple scales that reach into, and thus shape and configure, a particular territorial context. The organisational activities of the multi-location firm can be seen as relational in the context of this paper.

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In this paper, asset servicing roles within the financial services sector are the empirical focus, with the development of the Edinburgh economy positioned as the core empirical object; studying firms to study regions, in essence (Markusen, 1994).[2] Broadly, asset servicing relates to the operations activities after a financial trade has been executed (PwC, 2015: 11). Asset servicing – though constituted by a handful of firms - supports substantial employment in the city; indeed, employee numbers for asset servicing functions in Edinburgh can range from a few hundred to around one thousand. The former chief executive of an Edinburgh-based industry body, noted: "the asset servicing industry is a 'hidden success' for Scotland. Although few people understand what it involves, firms operating in this area are now major employers" (The Scotsman, 2011a).

The paper proceeds with a discussion about second-tier financial centres and the dynamics shaping them, and positions Edinburgh within this categorisation. An outline of various literatures that consider the firm-territory nexus is given following this, before we detail the second-tier context that confronts us. The basic conceptual framework is then proposed, and this shows the role of the firm-territory nexus as an effective transmission system linking network and territorial embeddedness. Fleshing out the conceptual framework, empirical material is set out in a suggestive attempt to sketch out a series of mechanisms underpinning the firm-territory nexus. A discussion on conceptual implications follows this, before concluding remarks are made.

2. Second-tier financial centres

Second tier cities pose thorny challenges for economic geographers in that there development hinges on a varied make up of exogenous and endogenous (or relational and territorial) characteristics.[3] Second tier cities, as a class of cities, as opposed to individual case studies, have received only fleeting attention in the academic literature (Markusen, 1999; Camagni et al., 2015; Camagni and Capello, 2015), while work in the Globalization and World Cities (GaWC) tradition treats second tier cities – with more nuanced categorisations ("alpha", "beta", "gamma", etc.[4]) - in terms of their position within global firm networks (Taylor et al., 2002). Indeed, second-tier cities tend to be treated in terms of stocks or flows broadly; the former pointing to population sizes - Camagni et al. (2015: 1071) suggest 200,000 to 1 million for second-rank cities – while a focus on flows looks at the relative network roles played by cities, based on power and network centrality, for instance (Neal, 2011).

The layering or tiered nature of financial centres has also emerged as an analytical concern (Engelen and Grote, 2009; Meyer, 2016) and existing literature gives a basis to consider Edinburgh as a second-tier city within the UK (Taylor, 2011; Wójcik and MacDonald-Korth, 2016). Whilst the global financial centres of London and New York and the high-profile activities that animate them, have drawn concerted focus (for London see, for example, Clark, 2002; Taylor et al., 2003; Wójcik, 2013), authors have also shed light on the European system - elucidating the roles played by Munich, Vienna, Frankfurt, Luxembourg and Amsterdam, for example (Wójcik et al., 2007; Faulconbridge, 2004; Engelen and Grote, 2009; Engelen, 2007; Wójcik, 2013; Zademach and Musil, 2012; Derudder et al., 2011; Bindemann, 1999; Dörry, 2015; Sokol, 2007; Murphy, 1998). Only a small set of texts have focused on the geography of UK financial centres in the UK, however (Parr and Budd, 2000; French et al., 2010; Bailey and French, 2005; and Wójcik and MacDonald-Korth, 2016). The dominance of London, and the implications this carries for the nature of activities that second-tier cities may attract and anchor, is a key theme of UK-focused research.

Financial geographies can also be framed in terms of a set of push and pull factors (see, for an overview, Bindemann, 1999: 4–12). Porteous (1999) takes a high-level vantage point and introducing path dependency as a key consideration for financial centre development shows how centres develop at the intersection of centralising and decentralising processes - pointing to the roles of labour pools, time zones, place-based costs and airline connections, *inter alia*. With reference to the Canadian context, moreover, and with particular pertinence to Scotland, Porteous (1999: 108) refers to how independence politics may have a bearing on financial centre geographies (reflecting on the competing fortunes of Montreal and Toronto). Gehrig (2000), meanwhile, draws attention to information processes, market thickness, and rent seeking as factors shaping the development of financial centres. More generally, the role of deregulation in financial markets and the penetration of new technologies shaping financial centre geographies have been noted (Lee and Schmidt-Marwede, 1993; Gehrig, 2000), as has the promotion of financial centre capabilities by policymakers (Gonzalez and Oosterlynck, 2014; Engelen and Glasmacher, 2013). Such factors point to the complex meshing of, one, factors shaping the orchestration of the financial services industry and the firms within it, with, two, the conditions and attributes exhibited at certain territorial settings.

Edinburgh remains the designated head office for a small number of financial services firms formed in the city – albeit not themselves active in asset servicing – however, financial market logics and the opportunities presented in other financial centres, including access to regulators, mean deep ties with London and, to a lesser extent, New York, shape the city's sectoral scope. It is argued, in this paper, that a deeper appreciation of the national and global firm networks that effectively orchestrate financial services in the city would usefully support any thinking about Edinburgh's future as a financial centre. The firm-territory nexus, that other analyses of financial centres have made reference to (Dörry, 2015: 804), is therefore positioned as a central conceptual concern.

3. Perspectives on the firm-territory nexus

Dicken and Malmberg (2001: 347) outline the "firm-territory nexus" in terms of the meshing of a territory with all its "attributes and histories", with firms and all their "attributes and histories". Peering under the skin of such "mutually constitutive relationships" (Dicken and Malmberg, 2001: 346) - and elucidating the triggering activities, dynamic feedback loops and connecting logics for firms in or at places - remains challenging (McCann and Mudambi, 2004; Beugelsdijk et al., 2010). A key analytical dimension relating to how the firm-territory nexus stitches together, concerns the manner by which territorial-based factors interact with the spatial configuration of firms, and different literatures approach this through varying macro or micro-focused analysis.

Taking a distinct macro view of economic systems, firstly, a diffuse body of work on global city networks has been developed that ranks places across the globe according to the nature of multinational firm functions hosted; from branch offices to global headquarters, with weightings given to each (Taylor et al., 2002; Taylor, 2011; cf Jones, 2002). Such rankings typically place London and New York at the zenith, with a shifting roster of second and third

[2] In the context of this paper, the Edinburgh economy is restricted to the local authority area rather than a broader city—region scale.

[3] Consider, for example, the point at which agglomeration economies and diseconomies come in and out of effect, and to what extent a city can pull in activities from elsewhere. Agglomeration economies leading to cumulative causation is relatively clear and established for London, but more ambiguous for Edinburgh where the centre of gravity for the financial centre is smaller.

[4] Such terms categorise cities at different levels within the global cities network, according to the network connectivity they exhibit based on intra-firm connections (http://www.lboro.ac.uk/gawc/gawcworlds.html (accessed 6/1/17)).

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