RESEARCH REPORT

Ipsos MORI

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CITY OF LONDON

City of London Corporation
Economic Development Office

Understanding Global Financial Networks

Business and Staff Location Decisions

MAY 2011

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MAY 2011

Understanding Global Financial Networks: Business and Staff Location Decisions is published by the City of London. The authors of this report are Ipsos MORI.

May 2011

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London
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http://www.cityoflondon.gov.uk/economicresearch

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Foreword

Stuart Fraser
Chairman, Policy and Resources Committee
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This valuable report shows that international location decisions by financial and business services firms are the result of a complex interplay of factors. Central to the process are the two keys to success: intellectual capital, in other words human talent, and the business environment. It also shows that London is well placed to capitalise on its advantages in these areas to reinforce its position as a world leader in terms of attracting business.

It is perhaps unfortunate that the background to publication is the controversy around the location of major global banks – of threats to move domicile and incentives to stay, of threats to governments and robust political reactions. The report makes it clear firstly that banks are only a part of the discussion, though an important one, and secondly that the two main "business environment" issues for banks, regulation and taxation, are only elements in a broader spectrum. Even in those contexts, predictability in the business environment is a major influencing factor; as important as the levels of tax or the requirements of the regulators.

It is clear that globalisation is a reality for young and talented people, who are more mobile than ever before – and businesses that depend on their skills need to reflect this when taking location decisions. They also need to consider the local talent pool; global businesses flourish by drawing on both mobile expats and more static nationals of the markets concerned. So issues like the cultural offer of a city, the diversity among its population, and the level of basic and business skills are major considerations at all stages of the process.

The four centres analysed in the report – London, Hong Kong, New York and Singapore – also offer interesting comparisons in proximity; physical or cultural closeness to particular markets. It is interesting to analyse, as global players clearly are doing, whether a business location in Singapore or Hong Kong is the optimum point to access "Greater China", or whether London's undoubted links to the Middle East, South Asia and its position in the EU's Single Market still place it at the crossroads of world business.

There are serious messages in the report for governments, especially perhaps our own. In a competitive world where both capital and talent are mobile, there is still a need for centres to be regional business hubs, conduits for capital flows and sources of innovation. Previous City of London research including *London's Competitive Place in the UK and Global Economies*, and the *Total Tax Contribution of UK Financial Services* series have demonstrated the value of having such a centre embedded in your economy provides huge benefits – in terms of tax revenue, export earnings, employment and capital flows. It is unwise, by negative action or by indifference, to endanger the centre and to drive the businesses which have chosen it to other locations which will welcome them.

Stuart Fraser, London, May 2011

Executive summary

This report presents the findings of in-depth qualitative research carried out via interviews with 40 financial services professionals from across a range of sectors and financial centres. The research examines how businesses and highly-skilled internationally mobile staff take decisions about locating in particular financial centres, and considers their perceptions of the offer of the four leading financial centres globally.

- Business location decisions involve an interaction of factors with some emphasised or ignored, depending on the type of move, the functions and the financial centres involved. This research examines in depth the complex and shifting role that these factors play in decision-making. It should be noted that the research focused on location decisions made with regard to the leading established and emerging centres, with the expectation that these centres are unlikely to be sufficiently poor in any individual factor that this would deter locating there.

- Having said that, it is clear from this research that three main sets of factors are most commonly central to business decisions to locate in a given financial centre: proximity to clients, the business environment (and, at present, particularly the stability of regulation) and the availability of skilled talent locally.

- We do need to bear in mind that this research was conducted during an unusual time for the financial sector, with interviews carried out during the second half of 2010 and early 2011. While "banker-bashing", in the sense of generally hostile views, has little direct impact on location decisions, the key senior decision-makers in this research do emphasise that the unpredictability and politicisation of regulation in particular is a serious concern. This is reflected in the most recent Global Financial Centres Index (9) from March 2011, where the business environment, primarily regulation, was more widely cited as an issue than taxation. Concerns about regulation are raised most often in the context of London, and while there is confidence that the current UK government will not do anything too harmful for business, the uncertainty is damaging.

- Other sets of factors such as infrastructure and quality of life have less of a material impact on business location decisions, but do affect how mobile staff view centres, and therefore have an indirect impact (for example, because the compensation required to encourage moves to less attractive centres is greater). These factors also have a further important secondary impact on perceptions of centres; for example, investment in infrastructure is often seen as a clear signal of commitment to business by governments.

- The key role of fundamental factors such as time zone in making a centre attractive to business is clearly not a new finding, but their importance should not be underplayed. For truly global businesses, a central time zone does provide significant advantages, although this factor alone is clearly not sufficient to guarantee a centre a leading global position, and, according to some, can encourage complacency.

- Depth of local talent pool remains a key issue highlighted by professionals as shaping business decisions. On the one hand, this can be addressed by moving mobile staff from other centres, but this research has identified an increasing interest in not just training up junior and support staff from the local market, but also locally hiring more senior skilled staff, who speak the local language, understand the culture and can bring client contacts.

- Location decision-making is part of a business's long-term strategic planning - but it is also constantly monitored and reviewed to take account of changing business needs and context factors. A key point for leading financial centres to bear in mind is that, given the significant lag times for many moves, centres need to be constantly monitoring for early signs; as some point out, a "tipping point" in particular business areas or lines of operation can already have been reached before centres are aware.

- The reality for many businesses is that location decisions are often about a series of micro-moves of particular business lines between centres where they already have a presence. For these smaller-scale moves it is often easier to take calculated risks and see how things "evolve" than with flagship moves such as opening in new locations.

- For mobile staff, location decisions in early career stages are very driven by career advancement and business need. There has only been limited research in other professions on similar early career location choices, but it seems clear that the mobile staff we interviewed were much less concerned about quality of life factors and much more focused on career development.

- As implied, there is also often little agency in the decisions from the relatively junior staff themselves – they take the opportunities that senior managers advise. This requires significant trust in the organisation, particularly as there is no consensus among senior decision-makers on the best early career moves. On the one hand, some advise junior colleagues to spend time in the established centres to learn their trade, pointing out that this can also be helpful in identifying senior mentors who can assist in later career advancement. On the other hand, some senior managers recommend early stints in emerging centres as it is easier to make a mark, and in regions that are likely to become more important to their business. This has resonance with many early careers, in that the benefits of finding a niche must be traded off against the disadvantages of becoming too specialised or typecast too soon.

- Mid-career and senior decision-makers report greater control over location decisions, although these are still made primarily on the basis of business-related factors such as proximity to clients, rather than lifestyle factors. Quality of life factors *do* tend to play a slightly greater role in decision-making at more senior levels, particularly for those with children – although again for many, this is not a significant barrier to moves with regard to the centres considered here.

- There was significant discussion in the interviews about the general feeling or "buzz" around different financial centres, and how this informed individual location decisions. However, more detailed analysis of responses makes it clear that this "buzz" can mean very different things to different people: the most obvious interpretation is the sense of excitement and growth seen in emerging centres; but for many, this sense of excitement was just as applicable to the established centres with their heritage, critical mass and central role in truly global markets (sometimes also talked about as "prestige").

- It is clear that centres cannot be all things to all people, and need to play to their strengths. This is particularly the case as views are formed by direct experience and through discussions with other mobile staff who have worked in a number of centres: one of the most striking elements of our more detailed discussions was how consistent views of different centres were, particularly among those who have lived in these centres, but also those who have not. One clear communications point which does come through is that centres should communicate their "vision" for what they want to be to those making decisions about where to locate business as well as mobile staff thinking about where they will move. This is partly about showing that there is a clear plan for dealing with the issues raised in this research (and exploiting the opportunities available), but it is also seen as a sign of commitment to the importance of the finance sector to each location.

- London and New York are almost without fail characterised by their status as long-established hubs. They are discussed in terms of their reputation and size, and the prestige associated with this, which contributes to a sense that they will continue to be global leaders. This status is based upon their ability to offer an unparalleled critical mass of talent, a huge wealth of technical knowledge and access to the largest clients and support service providers. Where London has developed an international outlook, by virtue of its geographical and time zone location, New York is seen as being more internally focused, geared towards its huge domestic market. Looking to the future, participants are obviously aware of the shift in the centre of gravity in the financial sector towards emerging markets – but there is no consensus on what this means for the most established centres. A sense of "vision" for what centres want to be is seen as particularly important here, for example, whether New York is content to be increasingly domestically focused and whether London can make more of its position in Europe.

- Singapore and Hong Kong are described by practitioners in terms of their huge growth and potential for continued success. This is perceived to be constrained to some extent by factors such as size and limited access to the networks of expertise and clients that differentiates London and New York. Singapore is frequently discussed in very positive terms, specifically the ease with which business can be done, which suggests a model approach for how to attract businesses to relocate. Hong Kong is seen as a more established example of this. Looking to the future in these centres, the growth prospects are clearly significant – but already there is some doubt as to whether being "*close to China*" is close enough, with businesses and talent increasingly looking to be based in China itself.

1. Background and methodology

Introduction and background

This report presents findings from research carried out by Ipsos MORI for the City of London Corporation. The research is based on 40 in-depth qualitative interviews with a wide range of leading practitioners from the financial services and professional services sectors. Interviews were conducted across a range of financial centres around the globe. The research seeks to better understand how location decisions are made by both companies and individuals and the factors that drive different types of decisions.

A large body of research and wider evidence exists which examines the relative attractiveness of different financial centres. The Global Financial Centres Index (GFCI) rates the perceived attractiveness of financial centres as places to do business and looks at how well connected locations are. This analysis has consistently shown established financial centres as leading the overall ranking, with London and New York consistently ranked first and second. However, the gap between the top two and the third and fourth placed centres, Hong Kong and Singapore, has diminished over time, although the most recent findings suggest that Singapore's progress has slowed.[1]

Further research studies explore the relative importance and competitiveness of London. While acknowledging London's position as the headquarters of the UK's domestic financial services industry and as a key global hub for financial services, intensifying competition from "niche, regional and national centres"[2] is apparent.

Other studies examine developments in the global mobility of key staff[3]. This work suggests that global mobility will become ever more important, predicting a further 50% growth in international assignments by 2020. It also forecasts that as emerging markets become more important, there will be an accompanying shift in mobility patterns as skilled employees from emerging markets increasingly operate across their home continent and beyond, creating a more diverse global talent pool. Greater collaboration in order to remove some of the barriers to mobility will take place, both within the business world and between governments and businesses, as governments and regulators increasingly accept the economic benefits of talent mobility and the contribution this makes to economic growth.

Set against this backdrop, this study seeks a deeper understanding of what makes global financial centres attractive as locations for businesses and staff. It explores some of the previously established findings in depth while uncovering other influences on location decisions.

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[1] "Global Financial Centres Index 9": 2011: http://www.zyen.com/GFCI/GFCI%209.pdf
[2] "London: winning in a changing world": 2008: http://legacy.london.gov.uk/mayor/economy/docs/london-winning-changing-world.pdf
[3] "Talent Mobility 2020: The next generation of international assignments": 2010: http://www.pwc.com/gx/en/managing-tomorrows-people/future-of-work/pdf/talent-mobility-2020.pdf

This study looks to develop the understanding of these issues by adopting an in-depth qualitative approach. This research complements the previous quantitative approaches by allowing greater depth of understanding of the relative importance of factors and how the decision-making process functions for businesses and individuals.

Objectives

The key objectives of this research were to explore the following:

- The key factors driving business decisions to locate in one financial centre rather than another and how this varies according to type of business and type of decision being made.

- The key factors driving personal decisions to live and work in a particular financial centre – and how this changes over the course of a career.

Methodology

In order to get a fuller picture of how factors influence location decisions, the research explored the views of two different cohorts of staff within the financial services and professional services sectors:

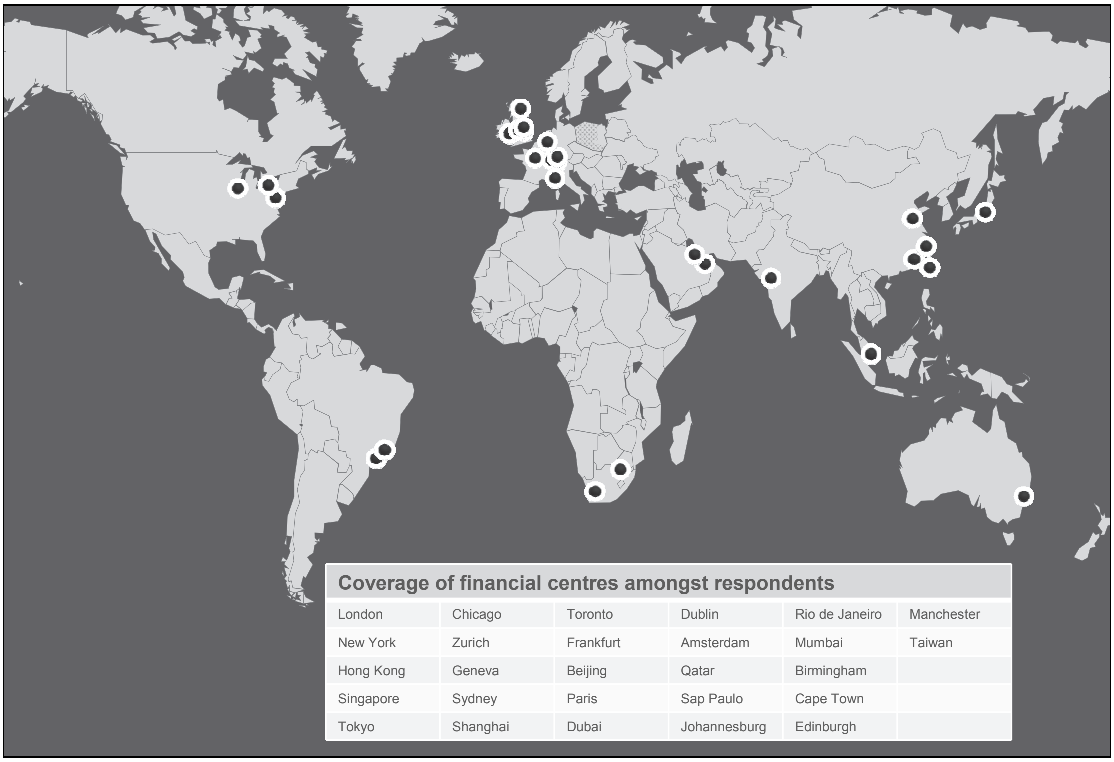
- Senior business decision-makers – Chief Executives, Managing Directors, Heads of Region, Heads of Strategy and others involved in strategic decisions about business location and staffing and who influence and lead opinion, to understand the factors that influence company decisions in some of the largest financial and professional services firms in the world.

- Less senior yet highly skilled mobile staff – traders, brokers, fund managers, accountants and lawyers among others, in order to understand the lifestyle and career factors that influence individual decisions.

The interviews were carried out with interviewees worldwide either face-to-face or via the telephone, by senior researchers from Ipsos MORI offices in London, Singapore, Hong Kong, New York and Sydney. A structured discussion guide was used, developed and tested with a practitioner group, and interviews lasted on average around 45 minutes.

Participants across the board had previously lived and worked in a range of financial centres around the world, and were therefore able to provide wide-ranging perspectives on location factors and decisions. While the minimum requirement was for interviewees to have worked in at least two global financial centres, many had moved much more than this. On average, interviewees had experience of at least four global centres, with some having worked in six or seven. The findings presented in this report focus primarily on the four leading global financial centres of London, New York, Hong Kong and Singapore and the majority of participants were currently based in one of these four centres. There is a particular focus on London, with around half of those interviewed currently based there. However, it is important to note that experience is not restricted to the main four global centres but demonstrates broad experience of emerging as well as established centres.

Figure 1



London	Chicago	Toronto	Dublin	Rio de Janeiro	Manchester
New York	Zurich	Frankfurt	Amsterdam	Mumbai	Taiwan
Hong Kong	Geneva	Beijing	Qatar	Birmingham	
Singapore	Sydney	Paris	Sap Paulo	Cape Town	
Tokyo	Shanghai	Dubai	Johannesburg	Edinburgh	

It is important to bear in mind that qualitative research is designed to be illustrative and does not look to produce statistically reliable results. Throughout the report we have made use of verbatim comments to exemplify a particular viewpoint. Our analysis synthesises the views of participants and highlights key themes that emerge from the interviews. However, the findings do not necessarily represent the views of all participants. Differing perspectives have, where possible, been used to illustrate where opinion is divided.

2. How businesses make location decisions

This chapter explores decision-making by financial and professional services businesses about which centres to locate their main business and different operations in. What factors do senior managers take into account when assessing where to be located, and how are these decisions made?

Of course, this area involves several different types of decisions. The senior managers we spoke to were involved in decisions not only about opening offices in new locations, but also about expanding or reducing the scale of their operations in different centres by moving business lines, moving global headquarters, and for some businesses, closing offices in certain locations. We consider different types of decisions later in this chapter, but turn first to the factors that business leaders say they take into account when making location decisions.

What factors do senior decision-makers take into account when making business location decisions?

When weighing up the offer of different centres where their business could be located, decision-makers inevitably need to trade off certain factors against others. The decision is about which centre or centres on balance present the 'best' option for a particular business's needs.

The Global Financial Centres Index has identified that while there are many factors that combine to make a centre competitive, these can be grouped into five overarching areas of competitiveness[4]:

- People (e.g. factors such as graduate numbers, visa restrictions, quality of life and personal safety)
- Business Environment (e.g. factors such as real interest rates, personal and corporate tax rates and operational and political risk)
- Infrastructure (e.g. factors such as office occupancy costs, e-readiness, telecommunications infrastructure and the quality of transport networks and roads)
- Market Access (e.g. factors such as capital access, the value and volume of share trading, the value of bond trading, credit ratings and the net external positions of banks)
- General Competitiveness (e.g. overarching factors such as city indices, GDP-related factors and population density).

These broad headings provided the structure for our discussion guides and this report. However, the benefit of qualitative research is it allows participants to discuss the issues in their own words. For example, the 'word cloud' graphic in Figure 2 provides an overview of how often each factor came up, where the larger the phrase appears in the cloud, the more frequently it was mentioned in interviews.

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[4] "Global Financial Centres Index 9": 2011: http://www.zyen.com/GFCI/GFCI%209.pdf

Figure 2

Relating this back to the five sets of factors identified as underpinning financial centres' competitiveness, we can see that two sets of factors – market access and the business environment – emerge as particularly top of decision-makers' minds.

However, frequency of mention is obviously only one aspect of importance, and does not always reflect the relative weight of the factors (for example, "talent pools" does not appear in this word cloud, but as we will see, is central). Therefore, in the following sections we discuss the sets of location factors[5] in order of their importance to the interviewees we spoke to, considering which were seen as most pivotal to a financial centre's offer and which less so.

Market access is central to decision-making – particularly for emerging centres

Senior decision-makers report that when taking decisions regarding where to be located, factors relating to market access – particularly proximity to clients – are central considerations. In fact, **proximity** is one of the most prominent themes running through their views: to clients, to the financial services sector and to leading or growing markets. Proximity is seen as a core part of what makes a particular centre attractive, acting as a prerequisite for locating in that centre. This echoes the findings of previous research[6] which identifies access to

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[5] Four of the five sets of competitiveness factors are discussed, since they were raised by senior decision-makers as factors which impacted on a centre's attractiveness as a financial location and place to do business. The final set of GFCI factors – general competitiveness – is composed of a number of instrumental factors, such as other studies that rank the global competitiveness of different cities, foreign direct investment inflows and confidence, GDP-related factors, intellectual property, population density and the number of international fairs and exhibitions held. These are undeniably important factors to take into account when constructing an index of financial centres, but were not top-of mind for industry professionals when discussing the offer of different centres, and we have therefore not included them in our discussions here.

[6] "The Competitive Position of London as a Global Financial Centre": 2005: http://www.zyen.com/PDF/LCGFC.pdf

international financial markets and access to customers as the third and fifth most important competitiveness factors respectively, out of a set of fourteen factors.

For some of the global leader centres, such as London and New York, market access and proximity to key industries are simply taken as a given. Decision-makers spoke of these centres having a critical mass of clients and financial services, which means that market access is not questioned and not seen as subject to significant imminent change. Indeed, for many businesses, the decision to continue to be located in the leading global centres is simply framed as being near such a critical mass.

> *"We want to be close to our clients. For us obviously it's not about whether we open our office in New York or in London or in Hong Kong or in Singapore or in Dubai or any of those other places, we will always continue to have people in all of those locations. But we need to be where our clients are"*
>
> Global Head, London

For centres which are not seen as global leaders in financial services though, the presence of major clients locally carries more weight in decision-making. For example, some decision-makers reported having recently closed their operations in certain European centres and explained that the central factor driving this decision was that clients had also moved their business away from these centres. Such moves were typically driven by centres becoming less important trade hubs for their clients and a need to consolidate business. As one particular representative of an international bank pointed out, '*trade is very important to our clients, so we want to be able to provide services to those businesses where their trade is*'.

However, as seen in other aspects of the research, the picture is not uniform across sectors, and there are some exceptions where proximity to clients is less important, even for front-office functions. Hedge funds, for example, can find it relatively straightforward to move key operations and also have a gravitational pull that can induce other ancillary businesses to follow their lead.

> *"A hedge fund really has, probably, one to four people, key staff, that really make a difference. Those would be the traders and the rest of them follow"*
>
> Head of Region, New York

Business environment considerations act as important drivers of decision-making

The second set of factors considered – business environment factors – are both central to what makes a financial centre attractive and seen as key risk areas. This is in line with the 2011 GFCI research, which showed that changes in the business environment are viewed as the key area that can affect the competitiveness of a financial centre, mentioned by industry professionals far more often than people or infrastructure considerations.

In the interviews, regulation, taxation and government support all featured prominently in our conversations. There is a real desire among business decision-makers for **stability and predictability of regulation**, since it is seen as key to ensuring that a financial centre is stable while avoiding stifling new business and growth. This is a similar finding to the most recent GFCI research, where within these business environment factors, regulation is now given more emphasis than taxation, in contrast with the previous GFCI report in 2010. This clearly reflects the changing context within which these studies have been conducted. Some of our respondents highlighted this shift in priorities themselves – for example, with one Global Head saying that regulation has emerged as *the* key driver of location decisions rather than taxation, whereas for most of the past two decades it has been the other way around.

As a reaction to the global recession, the regulatory environment in some financial centres has become stricter, but also more uncertain. Regulation was a particular focus for decision-makers when discussing London's current position, with some saying that the current lack of stability in regulation risks London becoming distinctly less attractive to businesses. Changes that apply retrospectively were often highlighted as a particular challenge, as businesses clearly find this impossible to plan for, and more generally it undermines trust in future regulatory decisions.

> *"The difficulty that we sometimes have is twofold: one is where it seems that we are going further than other global regulators and the second is where rules can sometimes change retrospectively. We don't in any way object to regulation… but what we would want from regulation is stability and certainty"*
>
> Global Head, London

There is consensus that government policy that is favourable towards business can and does make a real difference to location decisions. Many cite the example of Singapore as a success story in this regard, and extrapolate from this the suggestion that other financial centres would do well to learn from Singapore.

> *"It's pretty attractive as a place to do business. It's got a government and regulatory framework that's very pro-business so it's very straightforward, easy to deal with"*
>
> Global Head, London

There are also those who make the point that the lack of a *transparent* regulatory environment acts as a strong disincentive to being located in certain centres. This is seen as acting as a brake on the growth of some emerging centres, such as Shanghai.

> *"The regulatory environment is dominated by Government…things happen behind closed doors. There isn't the transparency that you need in a strong financial centre, and this will ultimately constrain it"*
>
> Head of Practice, London

Decision-makers were divided regarding the importance that levels of **corporate and personal taxation** actually exert in location decisions in practice. There is a clear and unsurprising consensus that high levels of personal tax act as a disincentive for mobile professionals, with unpredictability in taxation regimes and high corporate tax acting in much the same way for businesses.

Many of the decision-makers we spoke to felt that high levels of personal taxation present a real threat to the competitiveness of global financial centres. In particular, some pointed to the need to provide incentives for mobile staff as recompense for high levels of personal taxation in some centres, as the following comment from a financial services professional illustrates:

> *"From a financial perspective a move from London, for example, to any of the other financial centres in the world is [financially] advantageous to the individual. And the converse is true if you're trying to persuade people to move to London. And so, as a firm you end up effectively having to come to an arrangement with the individual which is … well, somebody pays basically"*
>
> Global Head, London

It was also clear that the importance of personal taxation to mobile staff depends on job role. Traders, for example, were seen as more likely to be driven by personal taxation factors, given their often shorter career span and high pay levels. As one interviewee from the financial sector commented:

> *"The rewards are much more substantial but the lifespan is much shorter. If you're only expecting to do 10 or 20 years on a trading desk, if you can manage to go out and do that in Singapore with 15% [tax] there's huge advantages to so doing. So it's undoubtedly the case that individuals begin to say 'Hang on, I can do this job in Singapore"*
>
> Senior Decision-maker, London

While for the leading global centres who were the focus of this study, taxation was rather less of a focus than regulation, tax regimes certainly seem more important for smaller centres that do not have significant counter-balancing advantages. Some were able to point to examples of where this has influenced their location decision-making in practice.

> *"We pick and choose countries where we have no disadvantage in terms of our competitiveness* [in terms of the tax regime]. *In Western Europe, for instance, we are not in Italy, Portugal, Spain, Belgium, or France because we would not be as competitive as we would like to be in those countries"*
>
> General Manager, London

The impact of future trends regarding the importance of personal taxation in location decisions is also important to bear in mind. Some decision-makers argue that personal taxation may play a greater role in location decision-making for younger, increasingly mobile professionals than it does for their mid-career and senior counterparts. This can be seen in the context of recent research from PwC[7], for example, which also indicates that the views and mindset of the younger generation of '*highly prized millennials*' are often intrinsically different from older generations, and that this has implications for global companies'

[7] PwC 2010, *ibid.*

talent mobility strategies. Our study shows that some industry professionals see this trend as likely to have a significant impact on global businesses, causing them to consider locating in lower tax regimes in order to attract the best talent.

> *"Why would an up and coming person, who doesn't really mind where they live, live in an environment where they get taxed 50% when they can go to Asia and do the same job and pay 10% or 12%? In many ways I think the taxation system is built on the weaknesses of the older people who don't want to move, but it will get undermined by the younger ones"*
>
> Head of Global Business, London

However, decision-makers are divided on the importance of taxation in decision-making; while most of those we spoke to saw it as important, there was a significant minority who argued that taxation is not as strong a driver of decision-making as might be expected, if only because the real difference between the ultimate tax costs of the key centres for businesses is not as wide as they might at first appear.

> *"One of the things we know is that if you compare headline tax rates you come up with some quite big differences but if you compare the actual percentage of salary handed over one way and another, it does tend to get a lot smaller than that. Amongst the major centres there is not as much difference as you might think"*
>
> Senior Partner, London

Another business environment factor that many senior decision-makers mentioned in the course of our conversations is the natural advantage for conducting international business that a **central time zone** confers on particular centres. This is raised by many decision-makers as a fixed factor that can provide a huge competitive advantage to a financial centre, supporting its reputation as having a truly global presence. Those with experience of working in London, for example, mention how advantageous the time zone is to conducting international business.

> *"I come in at 8.30 but even before that I'm able to speak with India, Singapore and Mauritius, with my offices in Bahrain and Dubai, and of course, Europe. And I'm also able to speak with anybody in the States later in the day. So I think there's nowhere else which places you in a time zone more beneficial than this place [London]"*
>
> CEO, London

While time zone acts as an inbuilt advantage for some financial centres, it is clearly only one consideration among many for businesses in deciding where to locate – and some point to how an advantageous time zone can encourage complacency:

> *"Do I think that time zone is enough to counteract regulatory and tax pressure if it gets too intense? No I certainly don't"*
>
> Managing Director, London

Another aspect of the business environment that many of the decision-makers we spoke to highlighted as important is **prevailing attitudes towards financial services.** Beyond the aspects of the business environment discussed here (for example, the politicisation of regulation), the atmosphere and general attitude towards financial services is seen as an important factor in making a financial centre attractive. While this is not mentioned as directly having an impact on businesses' location decisions in practice, it does make a difference to the attractiveness of a particular centre for mobile staff. Many highlight wider negative attitudes towards those working in financial services as a particular problem for London at present, perceiving this as a step change, which adds to the perception that London can be a hostile environment in which to work.

> *"As a financial centre, clearly by far the biggest risk is the regulation but the attitude towards financial services has deteriorated significantly over the last 18 months to a point where that's now a significant negative and used to be a positive"*
>
> Head of Strategy, Singapore

This is borne out by data from the British Social Attitudes survey, which shows that the percentage of the British public saying that banks are well run was just 19% in 2009, much lower than the corresponding figure for other institutions which are not well trusted by the public such as the press (39%), and a decline of 44 percentage points since 1983[8]. Whether this perception continues remains to be seen, but it is clear that negative public attitudes towards banks and bankers are also shaping perceptions of London as a financial centre among those who work in financial and professional services industries.

Depth of talent is a key aspect of a financial centre's offer

Previous research from 2005[9] identified the availability of skilled personnel as the single most important competitiveness factor for financial centres, although the 2011 study suggests that business environment factors are now seen as more important risks to competitiveness than people or infrastructure factors[10]. Our research suggests a more variable and nuanced position, and in particular that the importance of local skilled personnel depends greatly on the type of move being considered, the functions and the location.

Having said that, the decision-makers we spoke to were very clear that the availability of skilled staff locally is generally a key factor in location decisions. This is particularly the case for emerging centres, which are the locations where businesses are most likely to be considering opening new offices or expanding operations. The availability of local talent acts as a key constraint for businesses when deciding which staff and operations can and cannot be moved. Decision-makers point out that if a depth of local talent in the form of trainees and support staff is available in a particular location, moving key operations to that location becomes both more cost-effective and easier to do.

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[8] *British Social Attitudes 27th Report,* National Centre for Social Research, 2010, Accessed online at http://www.natcen.ac.uk/study/british-social-attitudes-27th-report/our-findings
[9] "The Competitive Position of London as a Global Financial Centre": 2005: http://www.zyen.com/PDF/LCGFC.pdf
[10] Z/Yen Group, 2005 and 2010, *ibid*.

> *"If you were moving a trading book for example, you don't move all the traders, you move the two senior ones and recruit a bunch of trainees in the new jurisdiction and train them up. It's easier, quicker and cheaper, but the single most important issue is that that pool of talent should be there in that jurisdiction in the first place"*
>
> Senior Partner, London

In light of these considerations, there is a distinct trend towards emerging centres actively seeking to enhance the depth of local talent. This is not just a function of government efforts to improve education locally, but also a consequence of businesses themselves realising the advantages of training local staff. Many decision-makers argue that it is cheaper and more effective to have employees who understand local culture and local business.

> *"We're aiming to educate the local market and develop that market then there's less of a need I suppose to send so many people overseas"*
>
> Mobile staff, London

Many respondents stress that they feel it is increasingly important to business growth and success to have local knowledge at *senior levels* as well. This provides not just linguistic and communication skills but also increased knowledge of and access to local markets, a vital factor in ensuring success in new environments.

> *"Whether we're in Europe or in China, we actually employ local people at a senior level because we need…one, language, two, experience in a local market. That's important"*
>
> Mobile staff, London

Of course, global businesses also need globally mobile staff in addition to skilled local talent. This raises factors such as the ease of moving mobile staff to a particular centre and their perceptions of the attractiveness of different financial centres.

Decision-makers do comment on **immigration restrictions** as an issue that affects the ease of doing business in certain centres, and their ability to grow their business locally. For example, participants who frequently deal with moves into and out of London were vocal about recent changes to immigration regulations, pointing out that these have presented challenges to moving staff around and have required increased workloads for their HR teams. They compare this with the less stringent requirements in some other global centres. As one manager of a global bank commented:

> *"The immigration policy affects our hiring. If we send staff to the US, they don't need an English test. If you send people to London, they need more English capability than in the US"*
>
> General Manager, London

However, immigration regulations are not typically seen as presenting a significant risk to competitiveness. Immigration restrictions tend to be mentioned as a hindrance to moving employees around, but not as actually preventing this from happening in practice.

A final people-related issue that those we spoke to saw as an important facet of the attractiveness of financial centres is the **quality of life** that those centres offer. However, while the quality of life offered by a particular centre makes a difference to that centre's attractiveness to internationally mobile staff, these considerations play little or no role in business decision-making about where to locate in practice, at least in the centres considered here. We return to quality of life issues in the next chapter, when we look at the factors shaping mobile staff's perceptions of a centre.

While infrastructure forms part of a centre's offer, it plays only a minor role in business location decisions

The fourth set of factors identified by previous GFCI studies as contributing to a financial centre's competitiveness relate to infrastructure. Investment in infrastructure was certainly important to the senior decision-makers we spoke to, who expressed strong views on the infrastructure of different financial centres. In particular, many saw investment in infrastructure as an indicator of a centre's commitment to business and financial services. Aspects of a centre's offer such as unreliable or overcrowded transport can contribute to perceptions that a centre is less modern or dynamic than another centre which has invested more heavily in their infrastructure system.

> *"London has great international links, great theatres, restaurants and access to some of the best talent in the world… but if I want to bring a client from Heathrow they have to run the gauntlet of the underground. It is just extremely embarrassing"*
>
> Deputy CEO, London

However, considerations around infrastructure play at most a minor role in decisions about which financial centres to be located in. While business leaders are keen for these to be addressed, infrastructure factors are not significant enough as drivers of the attractiveness of a particular centre, when compared with other factors outlined. This echoes the GFCI research consistent finding that infrastructure factors are much less frequently mentioned by financial professionals as risks to the future competitiveness of a financial centre than business environment factors are.

Before summing up the implications that professionals' views on the importance of different factors in business location decisions hold for financial centres, we briefly turn to a discussion of how these decisions are made.

Decision-making processes

Senior decision-makers are quick to make the point that the locations of their business processes are constantly under review, emphasising that they carry out a dynamic reassessment of where they should be located. This is both proactive, in the sense of long-term planning and preparation, as well as reactive, in the sense of needing to respond quickly to changes. While this review process often does not result in a move being made, it does allow businesses to be ready to react relatively quickly when their decision-makers believe it is the right time to open up in a particular location, or to move particular business lines.

That said, many also mention that location decisions are key parts of regular strategic reviews carried out by senior management at set milestones, such as every three or five years. A number of decision-makers we spoke to pointed to the time lag between a decision being taken and an office or new business line opening in practice, given the planning involved in such moves. For example, a new office move could take up to five years from relocation first being considered to its opening. This is felt to have particular importance for established financial centres seeking to maintain their competitive position, since it highlights the importance of constantly scanning for early signs of a shift away from locating certain business lines in that financial centre. As one decision-maker put it, the '*tipping point*' may have happened before financial centres realise it:

> *"I think it's probably already happened, I just don't think you're going to see it in numbers for another five years. People that were thinking about opening an office in London five years ago, they're not stopping… they had the office half built, they've got the plan. People that are now looking to expand are thinking, 'Why do I want to do that?'"*
>
> Geography Manager, New York

Below we look in more detail at the process for the two main types of business location decision that were raised during the interviews – opening new offices and moving particular business lines or back-office functions.

Opening offices in new locations

Opening up in new locations involves assessing where there are currently gaps in a business's offering. Some interviewees highlighted that location decision strategies very much depend on the organisation, with some banks planning more for the long term than others when making such decisions:

> *"It depends on the strategy of the business and its international ambitions… Bank X may have been there to get some money out of it and they pull out and they go. Bank Y will never go into any of these markets without it being something that they consider to be a stake in the ground for the future"*
>
> Senior HR Adviser, London

Clearly the process taken and information reviewed varies by sector. For example, some of the legal firms we interviewed highlighted that while the financial organisations talk about how location decisions are about exploiting new opportunities and are, therefore, willing to be more speculative about how markets may develop, ancillary industries will follow the key financial industry moves – thus further contributing to the shifting 'critical mass' of different financial centres.

"In the case of a law firm, their customer, nine times out of ten, is going to be in the City. Now, if all of the big brokerage firms moved to Geneva, the same thing is going to happen to your law firms and your accounting firms and all your ancillary businesses are going to do the same thing"

Head of Region, New York

For most companies, a key initial stage of the decision whether to open up in a new location is to assess the state of the market. Companies' in-house teams systematically review factors such as market access and size, business risk, political stability, and the availability of necessary staff locally, in order to inform decision-making. The following case study highlights how this decision-making works in the case of a particular insurance company.

Case study 1 – establishing whether an office is needed in a new location

When considering the desirability of opening up in new locations, Insurance Business X begins by assessing the current state of the market at a broad overview level. The organisation conducts ongoing horizon-scanning exercises, with in-house intelligence teams conducting detailed market research, in order to gather data that can inform initial discussions internally around the opportunities in new markets. This research examines the insurance market in its entirety, covering aspects such as political stability and corruption indices in potential new markets and the availability of local and in-house talent to support new operations.

Once this research has been completed, the organisation surveys its market in particular territories to explore where their appetite and interest is in particular regions. This enables the organisation to ensure the needs of its market are taken into account. Senior decision-makers at the organisation then review the offer represented by each of the potential new markets, based on the research and market survey. The result is a paper which is put to internal and external consultation, before decisions are put through an approval process. In some years, the process will involve looking at a particular region which has been identified as a key area of future potential, and deciding in which centres to be located. Market access is central to decision-making; as one senior manager at the firm commented, the decision is '*really about being around where the other key players are*'.

Moving business lines and back office functions

A second type of location decision is to move business lines from one centre to another. A point that can sometimes be lost in reviews of business location decisions is that not all such decisions are large-scale. Rather, these can often be a series of micro-level decisions, which involve moving a relatively small number of key senior mobile employees, who can then train up local talent. As one advisor to financial services companies pointed out:

"There is a great illusion that this is all about moving large numbers of people; actually it isn't. In order to move a business line in a bank you often have to move a very small number of people"

Senior Partner, London

Further, while many business decisions are made on the basis of rigorous analysis, some decision-makers we spoke to pointed out that in the financial sector in particular, some decisions to expand business lines in a certain location can be made on much more tactical grounds by key senior staff. This creates a situation where business decisions are much more evolutionary, with periodic reassessment by senior management of how the business has evolved and where it needs to be located. For example, as one senior decision-maker in the financial sector commented:

"There is an amazing propensity in businesses such as these just to evolve… Strong individuals inside the business will hire and a business will evolve… then every 20 years or so you get a period where senior management reasserts itself and works out 'Hang on, where should these businesses be?"

Senior Manager, London

Moving large-scale 'back office' functions involves many different considerations to those that influence the movement of key client-facing functions. The key focus of back office relocation is to make the business operate as efficiently and profitably as possible, without compromising on quality.

For many businesses, moving a back office function involves long-term planning. For example, one financial organisation interviewed as part of this study mentioned a "five year road map", outlining operations that could and could not be transferred to new locations. In this way, the company tries to ensure that decisions are strategic and forward-looking, rather than reactive, but that it is also able to adapt to short-term changes in the market rapidly where necessary. The case study below highlights how a major global financial firm takes decisions about moving back office functions.

Case study 2 – moving large-scale back office functions

In the case of one major global financial firm, moving a large-scale back office function involves a sophisticated multi-stage process, weighing economic efficacy against such factors as geopolitical stability and availability of local talent pools. However, sheer cost saving – for example, being able to operate in India at one seventh of the cost of operating in London – became the definitive tipping point in the decision to move large back office functions.

For this firm, four key categories of considerations typically affect the decision-making around relocating these kinds of operations: financial, strategic, operational and geo-political factors. These categories are weighted differently depending on the type of function being moved. Thus, for example, when considering relocating a software project, real weight would be applied to the skills and the IT availability or project management. On the other hand, setting up a call centre, as in this instance, involves a greater focus on culture and language, as well as the stability of communications infrastructures, and even the potential for natural disasters given the requirement for 24/7 operations.

Implications for financial centres

This chapter provides a snapshot of the factors that senior decision-makers see as currently most important to their business location decisions, and how these are becoming more or less important, as well as briefly outlining how businesses make different types of decision in practice.

As we have seen, different types of business location characteristics involve a complex and shifting balance of factors. Business location decisions involve an interplay of factors with some emphasised or ignored, depending on the type of move, the functions and financial centres involved.

Having said that, factors relating to **market access, the business environment and depth of talent** consistently emerge as the key concerns that have a significant impact on business decision-making. Some aspects of these, such as regulation, emerge as particularly key concerns currently. Other factors, such as infrastructure, quality of life concerns and the prevailing climate of opinion towards financial services play a relatively minor role in decision-making, although they form an important part of the overall offer and attractiveness of different financial centres. These areas may not be particularly surprising; perhaps more importantly, they are not easy for centres to influence in the short-term. The message from participants is clear, however, that quick-fixes are for the most part not what they are after, rather a long-term plan to deal with the issues raised.

This is not to say that priorities are static, however. Current concerns around stability and predictability of regulation for London, for example, may look very different in one or two years time: especially given that we have seen this increase in importance relatively rapidly, and during a period of changing contexts. It will therefore be important to continue to monitor how concerns and priorities shift.

It is also important to bear in mind that the relative importance of these factors may well differ for senior decision-makers based in other locations. The decision-makers we spoke to were located in the main in the four major global centres; had we examined other centres, the findings might well have been different and other concerns and priorities may have come to the fore.

3. How are decisions made about where mobile staff should be located?

Research shows that CEOs overwhelmingly believe that having access to global talent is essential to their businesses' growth and success.[11] The argument is that the winners and losers in business over the next decade '*will be defined by those who are able to attract, retain and deploy their key talent globally*'.

In this context, this chapter explores the perspectives of highly-skilled, globally mobile staff themselves on how decisions are made about where they are located, and their perceptions of different financial centres. We pay particular attention to the factors that are taken into account in decision-making and how these vary at different career stages, examining the implications for financial centres.

For both senior and mid-career mobile staff, being internationally mobile is central to their marketability and 'professional capital'. The individuals we spoke to were highly conscious of the career advantages of mobility, perceiving this as a key part of their professional identity and the value they represent for their company. In pragmatic terms, being highly mobile confers considerable career advantages and acts as an 'accelerator' to career progression.

> *"I want to remain competitive. One of my main strengths is being able to move"*
>
> CEO, Dubai

Individual location decisions are overwhelmingly driven by the prospects of career development and progression. This means that for mobile staff, their location decisions are driven primarily by business need in particular locations. Individuals' career-driven choices are heavily framed by the needs of the organisations that they work for and the opportunities they are presented with. This is especially the case at more junior levels, where individual agency in deciding which centre to work in can be relatively limited. Indeed, the mobile staff we spoke to often discussed their decision-making in relatively passive terms, as highlighted by the following comments:

> *"They tell you, there's a great opportunity here, and you go"*
>
> CEO, Dubai

> *"You have to trust your management when they say go there, do those years, we'll look after you"*
>
> Mobile staff, Dubai

Regardless of career stage, decisions are rarely driven by the desire to move to a specific city. Rather, for mobile staff the decision to relocate is a career-driven

[11] 97% of CEOs in PwC's recent annual global CEO survey report that having the right talent is the most critical factor for their business growth. Source: PwC: 2010, *ibid*

choice, based on where new and stimulating professional opportunities are seen to be.

> *"I don't know anybody that I've come across in a professional job that's said, 'I want to go live in England,' or, 'I want to go live in Hong Kong.' I just don't think that's what drives those decisions"*
>
> Geography Manager, New York

Of course, it must be borne in mind that those interviewed in this research are a particularly skilled group of people working within the highly competitive financial and professional services industries, which means that their motives for location decisions are likely to be particularly weighted towards factors related to career progression. This is summed up by a senior decision-maker in the financial sector, who pointed out that:

> *"You don't tend to come into these businesses unless you are highly motivated and ambitious… these people live in a cocoon of having their family set-up and their working set-up, and that cocoon can move with them anywhere in the world"*
>
> Senior Manager, London

There appears to have been relatively little systematic research into the motivations of early career location decisions among comparable professions, but from what does exist[12], it seems clear that the group interviewed in this study are much more likely to subjugate personal preferences for particular locations or lifestyles than other young professionals.

However, we need to avoid caricaturing mobile staff as wholly career-driven. Many we spoke to were animated when talking about the lifestyle offers of different financial centres, especially when discussing issues such as a centre's dynamism, entertainment and cultural opportunities. While career development is the prime driver, an individual's perceptions of a financial centre as a place to live may still play a role in decision-making within certain constraints – for example, in cases where an individual is presented with the opportunity to take up a similar position in two different financial centres. Moreover, while most of those we spoke to felt that career opportunity comes first, a small minority felt that how well a move fits with their personal circumstances acts as a more important factor than business need. As one interviewee put it:

> *"There's two things, obviously one is what's the corporate position and then two, rather more importantly as far as I'm concerned, what's my personal situation. I was asked to move to Hong Kong last year but I refused to go because that didn't suit my personal circumstances"*
>
> Mobile staff, London

[12] Studies particularly focused on the medical profession, such as *An analysis of the location decisions young primary care physicians*, in the Atlantic Economic Review Vol 27 Number 2

Early choices can define how a career develops

The importance of early career locations are, however, in no doubt for the vast majority of mobile staff. Locating in one particular financial centre rather than another can have a very clear impact on career progression, because of the career advantages conferred by working in certain centres.

Access to key decision-makers within the company is one key aspect that influences the relative attractiveness of different opportunities for early-career staff. Many point to the advantages of finding the right 'mentor', in the form of an influential senior manager who can help support more junior colleagues' careers at an early stage. Learning from an experienced practitioner and gaining their respect and trust can provide opportunities to establish a reputation within the organisation and accelerate a career. These key senior staff are often located in major, established hubs such as London and New York, where strategic decisions are being made.

> *"I've seen that with people in some organisations, where if you grab onto a senior person's coat tails and you do not fail them and you continue to deliver, you will get big jobs off the back of them"*
>
> *Head of Practice, London*

In order to uncover prevailing perceptions of the desirability of working in different financial centres, senior decision-makers were asked what career advice they would give to a 'rising star' within their company. This is a situation that many of the senior decision-makers we spoke were already familiar with, having advised several junior colleagues on their career progression.

Many spoke of the importance of junior staff gaining a grounding by being exposed to the depth and breadth of practice in the established financial centres of London or New York. By working in these established hubs for the first few years of their careers, staff can learn essential skills and gain expertise in a stable and developed environment that provides proximity to clients and key decision-makers.

> *"I would urge a youngster to learn the ropes here in what you might call the developed world because there are certain systems, certain practices, more importantly certain compliance and regulatory training that they will learn from a developed market"*
>
> CEO, London

However, those we spoke to were divided in their advice; while many advised starting out in London or New York, others recommended that ambitious staff should look to gain experience in emerging Asian centres with high growth and new business opportunities. They spoke of the dynamism and excitement of emerging centres such as Shanghai and Mumbai, drawing parallels with their own experiences in London two to three decades ago.

Moreover, senior decision-makers perceived gaining experience in emerging markets as very valuable to individuals' career progression. By going 'where the wealth is being created' and gaining exposure to different business environments and cultural contexts, junior staff can future-proof their careers, ensuring that they become increasingly valuable to their organisation. Given the widespread perception that much future growth will come from Asia, gaining in-depth familiarity with at least one Asian centre is seen as important to establishing a well-developed CV.

> *"Given the growing importance and expected significance of China in the future, it is seen as vital to understand how things are done in Shanghai"*
>
> Head of Strategy, New York

A further benefit of working in an emerging centre early in a career is that it is often easier to build a reputation in smaller, emerging markets. There is a sense that such environments can offer 'frontier-like' opportunities to make a name for oneself, with earlier exposure to major projects and chances to take on a higher level of responsibility more rapidly.

> *"You just get to do bigger deals quicker. You present yourself to the bankers as … I am the man who made this transaction happen"*
>
> Senior Partner, London

However, there are also those who point out the potential risks of being located in an emerging financial centre early on in a career. There is no guarantee that a particular centre will continue to grow and become successful; the individual is taking a gamble that the business climate within that centre will provide opportunities conducive to career advancement. Moreover, there is the risk of individuals becoming associated with a particular emerging centre's practices to the extent that they become less attractive to businesses in established centres. This requires junior staff to place their faith in their organisation, trusting that they will be given the opportunity to work and progress in more than one type of financial centre or market.

Later career choices involve more freedom – but can be constrained by life stage

The career advantages afforded by being globally mobile remain important to mobile staff at middle-ranking and senior levels. In some professional services companies, there can be a relatively small window of opportunity for achieving certain career aims, such as becoming a partner in a legal firm. For these individuals, this can make being located in established centres with proximity to major clients more appealing.

> *"You have to think about how easy it will be to move back to London or a main financial centre if you've been in an emerging market or regional-specific role. It's now so tough to become a partner in an elite law firm that the reason you are one, technical ability is a given, but typically you were made a partner because you have a following within the client base"*
>
> Mobile staff, Dubai

However, as with more junior staff, there is no consensus – and many senior decision-makers advise that it is increasingly important for those in mid-career stage to spend time outside established centres; '*being seen in the other parts of the world is important*' in building an impressive CV.

What also emerges from this research, however, is a belief that the opportunities for mid-career and senior positions in emerging markets for those who are not fluent in the local language are likely to become much more limited; for example, in places such as Hong Kong speaking fluent Mandarin is increasingly important in senior roles.

Senior practitioners point to more freedom of choice in deciding where to locate in career maturity. For very senior decision-makers, client proximity remains central, but the level of choice they are afforded is significantly greater.

> *"You need to be where the big clients are, where the big decisions are being made"*
>
> Senior Partner, Singapore

> *"So we broke our business up into ten parts and the board basically said I could choose where I wanted to be to run one of the parts. I chose Singapore because it is where my clients predominantly are and I like the standard of living here"*
>
> Managing Director, Singapore

Reflecting this, at mid-career and senior levels, quality of life considerations tend to play a more important role in framing choices about where to be located than they do at early career stage. Many point to the fundamental lifestyle changes brought about by mobile staff having families, which mean that a number of factors relating to quality of life become more important than at earlier stages of their career.

Of course, given that this is a cohort of driven and highly mobile professionals, the presence of families is no definite restriction on movement (as seen in a comment earlier, these families live in "cocoons" that can move to any financial centre in the world). However, it does introduce more considerations for decision-making; for example, the presence of children means that mobile employees need to explore schooling and educational facilities in potential new destinations.

> *"That's usually not a barrier for sure but it's a clear distinction. If you've got a family, particularly going to school, it's a bigger, different type of decision"*
>
> Deputy CEO, London

Singapore in particular is often mentioned by mid-career staff and senior decision-makers as offering a clean, safe environment in which to raise a family. Better infrastructure makes commuting easier and housing is cheaper than in places such as New York and London. Furthermore, the efforts the government has made to attract key mobile staff include provision for expat communities, such as well-developed international schools.

To summarise, mobile staff are very quick to comment on quality of life issues, particularly perceived negatives such as the transport infrastructure and the high cost of living associated with London or New York, or the sterile environment that some feel Singapore offers. These quality of life factors appear to have relatively little direct impact on most individuals' actual location decisions, however, although they do exert more weight in decision-making at mid-career and senior levels.

Implications for financial centres

How mobile staff perceive different financial centres matters, for at least two reasons. Firstly, existing research shows that creating a culture of mobility is both essential to the success of global businesses and one of the biggest challenges such businesses face[13]. Perceptions of financial centres matter in encouraging mobility, and many of those we spoke to emphasised the challenges that businesses encounter in attracting talent to certain locations, especially for longer periods of time.

> *"If people say they'll come then they say for two years. For an associate that works, but for a partner you have to commit for five years, and a lot of people are very circumspect about making that leap"*
>
> Mobile staff, Dubai

This means that providing incentives to go to particular locations is important to businesses seeking to make a move attractive to the key mobile staff they employ. The draw of the compensation or incentive packages offered will be central to individuals when weighing up an opportunity, and there is a clear need to offer more attractive incentives for centres perceived as less appealing by mobile staff.

Secondly, the way in which influential mobile staff perceive different financial centres plays a significant role in shaping the prevailing climate of opinion – or 'buzz' – around financial centres. However, more detailed analysis of responses makes it clear that this "buzz" can mean very different things to different people. The most obvious interpretation is the sense of excitement and growth seen in emerging centres, but for many, this sense of excitement was just as applicable to the established centres with their heritage, critical mass and central role in truly global markets (as we will see in the next chapter, this is sometimes also talked about as "prestige").

The key question again, however, is what financial centres can do to improve perceptions among these key groups. Again, the participants do not identify any simple shortcuts: it is about working towards removing practical hindrances (such as overly strict immigration rules), improving long-term local concerns (such as transport infrastructure or the depth of the cultural offer) and, perhaps most crucially, fighting to build or maintain the critical mass of market opportunities that provide the main driver of mobile staff location decisions.

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[13] PwC 2010, *ibid.*

However, there is also a fairly clear call from some, particularly in the well-established centres of London and New York, for more clarity on their "vision" for the future. What people actually seem to want from this is not just a sense of what the centres want to be and a credible plan for how they are going to get there, but also a signal of commitment that the financial sector remains a top priority for the centres and their governments.

4. Perceptions of the offer of different financial centres

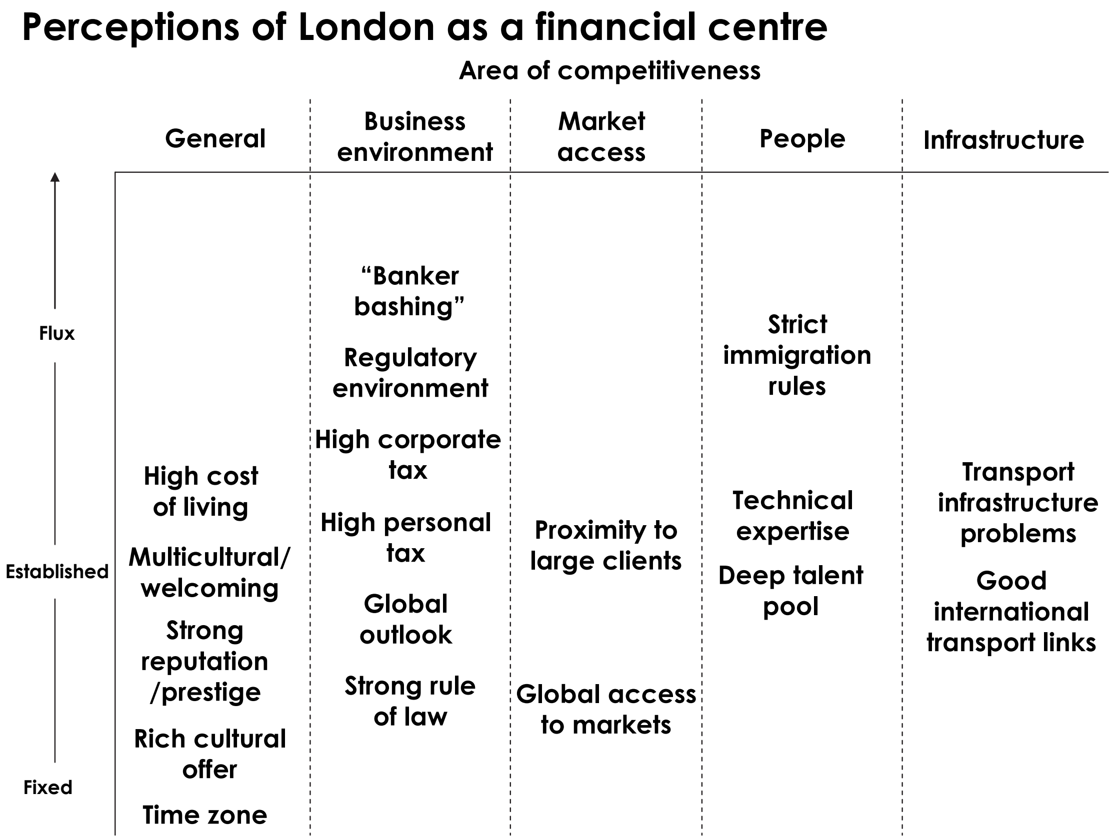
We have considered some of the key location factors that emerge as important for businesses and individuals. In this chapter, we now look in detail at the four leading financial centres (London, New York, Hong Kong and Singapore) to explore perceptions of their current offer as locations for businesses and individuals, and how this is changing over time.

There is a striking consensus in views amongst all of those interviewed, not only those with direct experience of a particular location, on what each centre offers. There is very little dissent or qualification which makes for a clear picture and few surprises. This is perhaps predictable given views are formed by direct experience and through discussions with other mobile staff who have worked in a number of centres. We have, however, also considered the extent to which these factors are seen as subject to change – that is the degree to which they are in *flux*, are more *established* but still subject to change or are *fixed* and viewed as stable or outside the direct control of a financial centre. These views are summarised diagrammatically, using the five overarching areas of competitiveness drawn from the Global Financial Centres Index, summarised in Chapter 2.

London

The diagram below outlines the key factors associated with London's competitive offering.

Figure 3



A greatly respected location

London is regularly described by participants as having an unparalleled reputation, in terms of the full range of its offering. From the depth of skills and ability of the workforce to the presence of some of the world's largest firms, the *prestige* associated with London as a financial location means it is greatly respected as a place to do business. This research confirms that prestige is an important factor for London and there is esteem for London which is not apparent in descriptions of other centres.

The historic tradition which makes London unique is well known, both in terms of the respect for long-standing technical expertise and for the breadth of types of financial services. It is acknowledged that the depth of these factors is important to London's continued success. From our interviews, this perspective is not limited to 'internal' reflections or views of those located in the UK or UK nationals abroad, but comes across from participants in various locations and from a range of different nationalities.

"The quality of the intellect and type of services that are provided in the UK are still much superior and there's still a sort of an appeal factor that the UK has and London in particular, over the majority of the other countries"

Head of Strategy, Singapore

Of course, London's history and other fundamental factors such as its advantageous time zone means that it has developed as a truly international centre, with a genuine global outlook; indeed, it has by far the greatest international capital flows of any country.[14] For many this is what sets it apart as the leading financial centre, and confers its status as the only location that is truly global in nature.

"As a financial centre London is by far the most global financial centre. The most global in outlook, in reach and in focus and that is, beyond anything else, what distinguishes it from New York and Hong Kong and other financial centres which may be as strong, or nearly as strong, but are essentially either regional or domestic"

Head of Practice, London

As well as the business aspects of London's international focus, part of this global outlook comes across to practitioners in the diversity and depth of its cultural offer (in terms of art, theatre, restaurants, music, etc). However, beyond this, there is also recognition of London's multicultural nature and the diversity of communities that live and work in London. This latter aspect is very important for many, particularly foreign nationals located in London, stating that London's multiculturalism makes it a welcoming and pleasant place to be.

But currently a hostile environment?

It is impossible to consider London as a financial location without acknowledging the huge amount of background noise at present relating to the financial sector . The global recession has clearly been felt all over the world, but has perhaps provided London with one of the most challenging positions.

"Banker bashing" and bonus backlashes were high profile issues for almost all of those we spoke to in this study. Many refer to these as having created a hostile environment for financial services in London at present.

"There is the overlay of political near persecution of financial services. If you're an international mobile individual, speaking at personal or corporate level, you wouldn't really choose for that factor to be here"

Head of Strategy, Singapore

With the increasingly mobile nature of financial services, concerns of this type can create a significant potential threat for a centre if the situation is not felt to be experienced in the same way elsewhere. However, our analysis shows that these background issues do not necessarily play a key role in location decision-making on their own. That is to say, a perceived hostile climate may cause some to consider leaving, but it is rarely a significant push factor on its own. It is

[14] Merrill Lynch: 2008

the response to this business environment and how this impacts on perceived key strengths of a centre which are important for location decisions.

Regulatory uncertainty a concern

One of the key strengths identified in relation to London's competitive offering is its strong record of regulatory consistency, stability and transparency. However, again set against the current backdrop, this is felt by many strategic decision-makers to now be a particular area of concern for London. As outlined, there is a particular focus on the impact of *retrospective* changes to regulation that make it more difficult for organisations to plan, and a recognition that regulation needs to be in line with other global centres to ensure continued competitiveness.

> *"The regulatory environment has certainly become far more strict than it used to be. Now that's not something that we have any complaint with, we understand very well the crisis that the industry had over the last few years and we understand that there must be an appropriate regulatory response to that. The difficulty that we sometimes have is twofold: One is where it seems that we are going further than other global regulators and the second is where rules can sometimes change retrospectively"*
>
> Global Head, London

Given the widespread acknowledgement of the importance of stability in regulation and particularly in helping to shape the way forward for London[15], it is perhaps unsurprising that these sentiments were echoed by many of the senior practitioners we spoke to. There is a sense that decisions being made now will be very important in determining whether London retains its competitive attraction based on its strong reputation of appropriate regulation. As one participant summed up, they have always viewed the consistency of regulation in London as being at 'green' but now it is at 'amber.'

> *"Broadly I still see that on balance the UK does regulation fairly well within a European framework and it is fairly well respected despite some of the shortcomings that were exposed during the financial crisis. But there are some significant concerns which clearly are impacting on location decisions at the moment… There's some uncertainty there as to whether the regulatory environment will be quite as conducive or strike the right balance… and be as internationally consistent as it needs to be"*
>
> Director, London

However, there is still significant confidence that, given its importance to the whole UK economy, in the end the decisions taken will be sensible. For example, some emphasised the likelihood of maintaining stability and consistency of regulation, avoiding knee-jerk short-term reactions while maintaining London's regulatory competitiveness.

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[15] "UK international financial services – the future": 2009: http://www.thehedgefundjournal.com/research/treasury/uk-internationalfinancialservices070509.pdf

> *"We're pretty confident about London. We think there are some important decisions to be taken, but we're pretty confident that people will take the right decisions."*
>
> Global Head, London

Continuing to attract the best talent?

The depth and quality of the talent pool in London is clearly a significant asset, and those we spoke to cannot see this changing significantly in the coming years: there will continue to be a very large pool of talented individuals to draw from. However, there are real concerns expressed in the interviews about the ability to retain the highest levels of talent. A potential 'brain drain' from the City has been widely documented in the media (although this is something that has been raised numerous times in the past), and as we have seen, a number of senior decision-makers do question why the best should locate in London. There is no sense of a definitive view that this is actually happening yet but it is something that many are watching closely, particularly in terms of how tax and regulation changes affect the top stars.

There are, of course, other challenges for London in retaining a strong talent pool, particularly within the context of an increasingly mobile labour market. Talented individuals from emerging centres learning their trade in established centres is a growing trend – but this clearly relies on an accommodating immigration policy. As we have seen, some practitioners point to recent changes in UK immigration laws, which could make it harder to bring in employees from other countries. For some this is a problem which London, as a leading international financial centre needs to address in order to stay competitive and enable the best staff to work there.

> *"Recent immigration changes in the UK caused our HR people great concern because we have fund managers and others from Asia particularly who would like to come here and vice versa and it hasn't helped"*
>
> Deputy CEO, London

World class transport for a world class centre?

London's global reach is clearly driven largely by its unique location in relation to other world centres and markets, and it plays to those strengths. Part of this strength is accessibility, and international air travel is widely regarded as an important factor in making London an attractive place to do business. Increasing need for mobility amongst staff means that being well connected and centrally located is a strong benefit. However, internal transport networks were frequently spontaneously raised as a key issue in desperate need of improvement. Indeed we know from other research conducted by Ipsos MORI that internal transport networks are a top priority for improvement amongst business audiences in London.[16] As we may expect, this is mostly raised by those living and working predominantly in London, but is seen as a highly visible issue in need of attention.

[16] CBI 2010 Annual Conference Survey, Ipsos MORI

"The infrastructure of London's transport system is a disgrace. Trying to move clients, colleagues, visitors around the city has deteriorated enormously in the last 10 years. No other financial centre that I know would allow their transport system to deteriorate quite as badly as it has done so I think that's a real threat to moving people around"

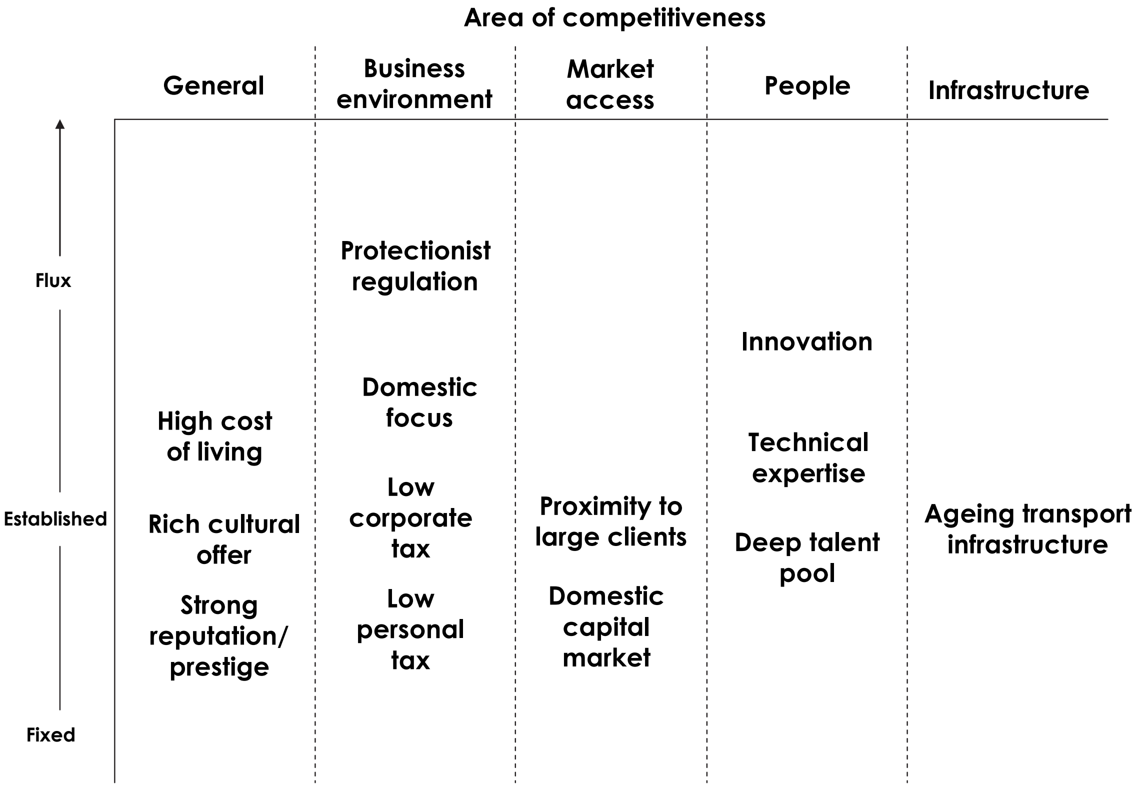
Deputy CEO, London

However, as outlined in earlier chapters, while London's transport networks are identified as a key area for investment and improvement, and cause a great deal of concern amongst all levels of participant, this is not a fundamental driver of business location decisions.

New York

Figure 4

Perceptions of New York as a financial centre



Domestically-focused powerhouse

New York shares a number of the same positive associations with London as the most established global leaders. It has a similar level of prestige as a centre in which to locate, and for most this sustains it as a place that will always be viewed as one of the top financial centres.

Again, mentions of its wealth of talent, innovative, highly skilled workforce and sheer size and scale of operations mean it is one of the major players and will continue to be so for at least the medium term.

However, where London plays to its strengths as a necessarily outward looking international hub, New York is regarded by many to be much more inwardly focused. In this sense it is maximising its own strengths as a result of its ability to sustain itself based on a huge domestic market. This internal focus is a key descriptor in how participants understand New York's unique offering.

> *"Its strengths are clearly the sheer size of the capital markets in New York, the entrepreneurship, the level of innovation and the size of the domestic markets and domestic economy"*
>
> Head of Practice, London

International leader or regional hub?

The diagram gives a sense of the established and relatively fixed perception of the large domestic US markets, with consensus that this is unlikely to change in the near future. However, for some this has led to potentially *too much* of an inward focus and more recently a protectionist stance from the US government that may mean that New York continues to act as a domestic rather than a global hub.

> *"I would have thought New York would come under some pressure particularly if the US Government continues to be inward looking and still protectionist"*
>
> Director, London

> *"New York is very American and I think for foreign companies it has changed a lot. The US regulatory and political environment's become extraordinarily antagonistic to foreign companies…over the last 10 years the US has become progressively less competitive"*
>
> Head of Strategy, Singapore

Top of the mind descriptions of New York thus tend to focus on its current status as an international leader and established powerhouse, but there is a sense that this may be changing slowly. There is recognition that while New York will always be a dominant force, it has a challenge to retain a global status if current inwardly focused policy is maintained.

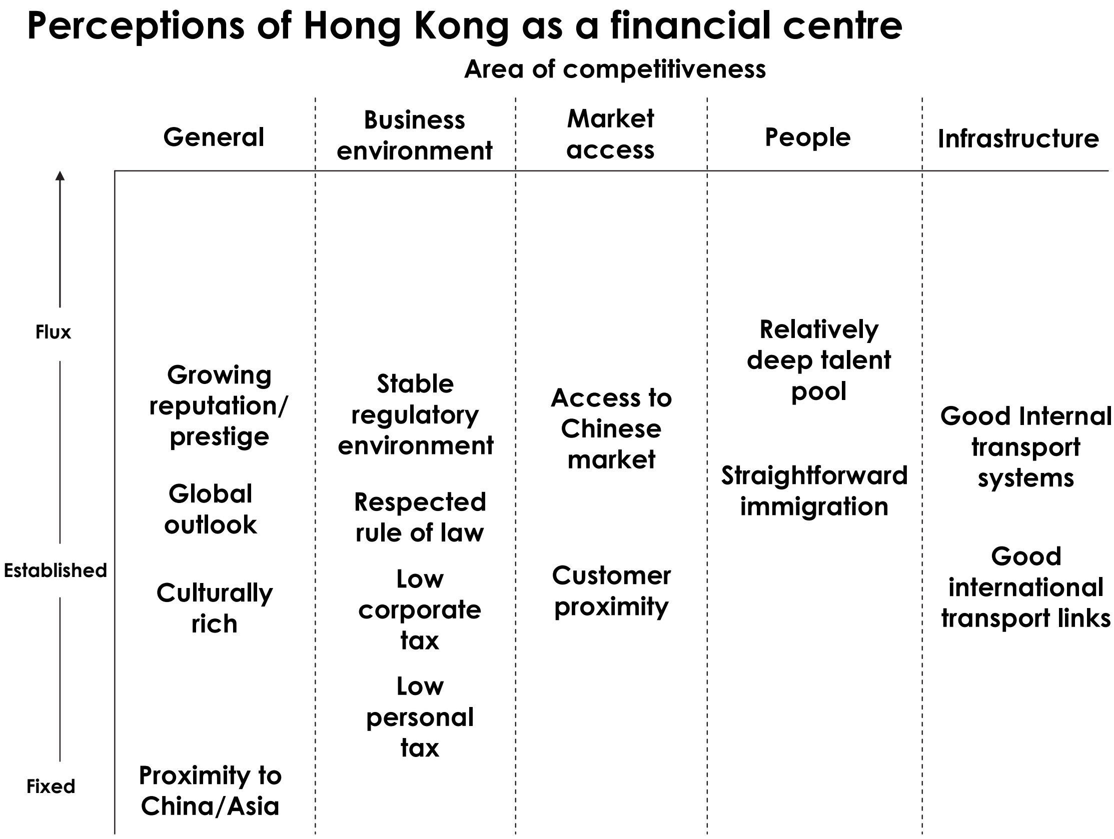
An attractive place to be?

As we have shown, quality of life issues are not strong drivers in location decisions per se but participants talk passionately about the high quality of lifestyle available in New York with the depth of cultural offering matched only by London. Combined with competitive personal taxation rates, and access to some of the biggest clients in the world, practitioners across the board highlight New York as a particularly easy and attractive place to assign staff. It is almost unanimously mentioned by strategic decision-makers as one of the top three centres for mobile staff to locate in at some point in their career.

This is tempered only slightly by perceived high accommodation costs and recognition that local transport infrastructure is ageing and inefficient, two attributes the centre also shares with London as an established centre.

Hong Kong

Figure 5



International gateway to China?

Our interviewees feel that Hong Kong has developed a global outlook, and is certainly the most international of the Asian financial centres. With this status goes an element of the respect and prestige that are associated with London and New York, which we have seen to be important in attracting the best staff. This chimes with the GFCI perception that Hong Kong *"has joined London and New York as a genuinely global financial centre."*[17]

Proximity to China is a clear competitive advantage, but Hong Kong retains a unique ability to be both close to the Chinese markets, but also maximise its international status to provide a route in for overseas and foreign investment to China. As one decision-maker summed up *"it is of China but not part of China."*

[17] Z/Yen Group: GFCI 8 2010, *ibid*

However, although proximity to China and thus the accessibility of the Chinese market would seem to be largely fixed, there is a sense that this is open to change. For some, the rise of Shanghai and other Chinese centres, has meant that Hong Kong is now not "close enough" to China.

> *"If you want to have access to mainland China, it is now considered that Shanghai is the best place to be. Hong Kong is not close enough"*
>
> Managing Director, Singapore

Established talent, but local competition for resource

In a similar way that we see with Singapore, Hong Kong's success has been built on a formula of making business practices easy, a competitive taxation regime and stable and transparent regulation. It also has the advantage of having developed a respected, familiar rule of law that Western international firms understand and can easily adapt their practices to.

In addition, to these beneficial factors for business location, Hong Kong has also had time to develop and evolve to become an established international leader. With this, comes a greater depth of talent and expertise that is not matched by the less well established, emerging Asian centres and this is recognised by our respondents. There is a suggestion, however, that the increasing competition from Chinese centres may mean that Hong Kong will lose some of its leading talent to nearby growth markets.

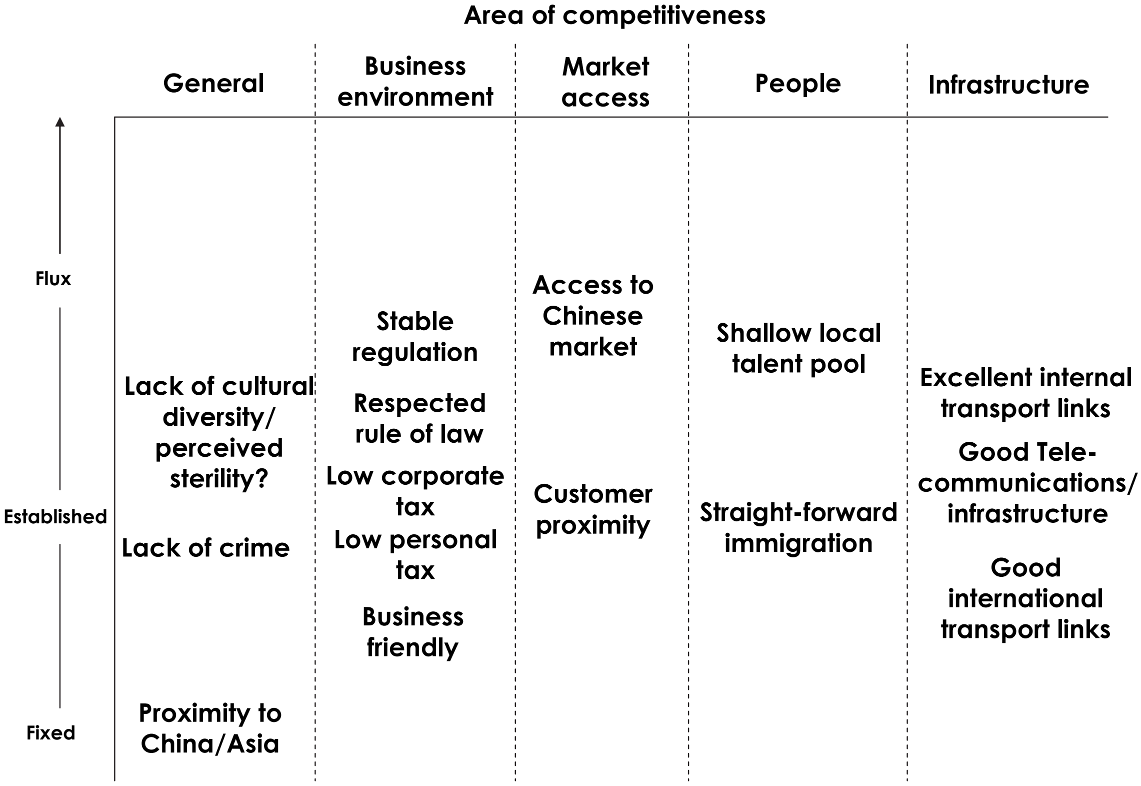
> *"Hong Kong is fairly strong regarding staff - but many of the best now go to work in Beijing or Shanghai"*
>
> Director, London

Historically international outlook

Features such as quality of life, international focus, the time Hong Kong has had to evolve as a centre, and to a degree the colonial influence – which has enabled a strong Western influence combined with Asian culture – mean that Hong Kong is an attractive proposition for a broad range of mobile staff from different backgrounds. It has a multicultural feel that is not as apparent in other Asian centres in that there are influences and ways of working that people from many different places, both East and West, recognise and feel comfortable with. The cost of living is perceived to be higher than other nearby centres and accommodation is much smaller on average than, say, in Singapore, but culturally Hong Kong is felt to offer a great deal for mobile employees.

Singapore

Perceptions of Singapore as a financial centre



A model location?

Singapore, like Hong Kong, has seen huge growth and has been catching the global leaders of New York and London according to GFCI studies from recent years, although it has fallen slightly in the most recently published findings.[18] When we ask people to describe Singapore, they portray a centre that provides a "model example of how to attract business".

Interviewees point to a compelling combination of business environment, people and infrastructure factors which ensure the ease with which business can be done. For example, within these categories, practitioners are particularly impressed with Singapore's excellent communications and transport infrastructure, stable and low regulation and taxes, low bureaucracy, and a growing access to local talent.

> *"What we see is that Singapore is an incredibly business friendly place. I hear stories about people who have come in on a Monday morning to set up a company and by the end of the week they have done it..."*
>
> Managing Director, Singapore

It is clear that these efforts have been effective and many now see Singapore as the ideal place to locate a financial services firm looking for these competitive

[18] Z/Yen Group: 2011, *ibid*

advantages. Decision-makers also suggest there is a general attitude of positivity towards, and confidence in, financial services that is seen to differentiate it from the perceived hostility that currently exists in the UK, for example.

> *"When I came out here, I found that the atmosphere was very much more positive … being close to China. I thought things were pretty gloomy in the UK … and it seemed like a no brainer to come out here where the business sentiment was much more positive"*
>
> Managing Director, Singapore

An accessible regional hub

Of course, crucially Singapore also offers ready access to the growing markets of Asia and China and the new business opportunities this provides, and this is identified as a major factor in making it an increasingly attractive place to be. However, as with Hong Kong, there is some suggestion that proximity to the Chinese market is also in flux, with the Chinese centres of Shanghai and Beijing viewed as increasingly preferable options for doing business with China. For some it is becoming more necessary to be located in these cities in order to effectively take advantage of the opportunities presented by China's growth.

Local talent a challenge and perceived cultural sterility?

Access to talent is mentioned as one of the challenges for Singapore. Of course, by definition, less established locations can lack the all important 'critical mass' of expertise, local talent and a fully developed client base as these take time to evolve and build up. However, again, while there is recognition that the local talent pool is becoming more established, practitioners also indicate how Singapore adapts, by making it very easy to bring in staff and ensuring that the centre is an attractive prospect with straightforward and easy immigration rules.

> *"Singapore is a place where you can hire people from pretty much anywhere in the world and it is relatively straightforward to get them a working visa"*
>
> Managing Director, Singapore

As we have seen with the other centres covered here, there is a clear recognition of what Singapore's strengths are and an understanding that it plays to those strengths to offer competitive and attractive conditions for businesses and individuals choosing to locate there. However, as noted, due to it having developed as an international centre more recently, there is to some extent a perceived lack of established depth (and breadth) of international cultural offering for globally mobile staff. That is, it is felt not to offer a rich cultural scene to international relocates. For some this makes it less appealing as a location. It is ultimately a business location and with this, for many, comes a sense of sterility.

"It's still a very sterile and very unattractive place to live for most people… It will take many decades rather than years for Singapore to develop any sort of character and culture"

Head of Strategy, Singapore

Implications and the future for centres

Views of the leading centres' *current* offers are clear amongst this group of key decision-makers, with relatively little variation. When it comes to their *future* situation, however, there is less consensus. To explore views on the future of centres, we tasked practitioners with a short forecasting exercise, asking them what they felt a well-respected financial journalist would be writing in five years' time about the trajectory of different financial centres.

Will there be change at the top?

Unsurprisingly, there is wide acknowledgement among those we spoke to that the centre of gravity of global business, in terms of the volume of business being conducted, is likely to shift away from the historic established centres of London and New York, largely towards high growth areas in Asia. Despite this widely predicted shift, however, there remains optimism amongst most leading financial practitioners from a range of different centres about the future for both London and New York – most notably that they will continue to occupy an important space in the network of leading global financial centres. Yet there is no consensus as to whether London and New York are likely to stay more or less the same in terms of competitiveness in relation to other centres, or experience a gradual lowering in position. There are those who feel that London's competitive advantage will lessen, linking this to taxation and regulation disadvantages in particular. Others believe that London will continue to be *the* centre for international financial business. Additionally some feel that New York will stay strong based on a huge domestic market, while others say that New York will experience a decline due to too inward a focus and increasingly dated infrastructure. There is strong agreement among the business representatives we spoke to about where London and New York currently are, but not about where they are headed.

As we have discussed, there is a real sense of goodwill towards these established global leaders with practitioners speaking very highly of them as financial centres and a sense that they want them to do well. Yet the research provides a clear signal from the financial sector representatives we spoke to that they must recognise the need to consolidate their position in the context of shifting global dynamics and new challenges from emerging centres. Some practitioners point out that a gradual shift towards emerging centres could counteract the many advantages these established centres have been able to leverage to date. Many, even the strongest advocates of these established leaders, question whether a rich depth of offering and access to the best technical and ancillary expertise can be enough to maintain the status quo.

"No other city has that (a critical mass of financial services). But does it last forever? Both London and New York better stay sharp"

CEO, Geneva

In order to remain competitive, it is imperative that financial centres, especially the historic established centres that are not located in high growth areas, articulate a clear vision or strategy for their future. For some, though, there is a need to clarify what the "vision" for the future will be. This is driven in part by a sense of confusion over governments' plans for the financial sector and in part by the desire for greater clarity and stability in regulation.

> *"Does London still want to be THE leading financial centre? Declare that we like the position we have – being number one – and that we want to keep it"*
>
> Chief Operating Officer, London

Some suggest that one way to do this is for London to engage more closely at a European level, ensuring that its voice is clearly heard and influences the regulatory framework. That is, there is a need to convince fellow Europeans that London's continued competitiveness is crucially important for the European economy. In the case of New York, practitioners point to a balancing act between retaining a necessary focus on domestic operations and the recognition that too great a focus on the domestic markets may result in New York becoming a regional centre with reduced international presence or relevance.

New competition from emerging markets

When considering the future, it is unsurprising that practitioners talk in terms both of those centres in which they see the strongest growth, and the challenges facing centres that are likely to enjoy little or no growth. Mumbai, Sao Paulo and Shanghai are frequently cited as becoming increasingly important financial destinations, with Shanghai standing out as the most important in the short to medium term. Of course, this prediction is not new, reflecting widely documented growth projections[19] and representative of the current trends displayed in the GFCI work, for example.[20] What is worth considering though, is business decision-makers' views on how the rise of these fast-growing centres impacts on the global landscape of financial centres and their relative future competitiveness.

Those we spoke to held divergent views on whether the future will entail increasing competition between centres, or greater complementarity between them. There is a clear perception that centres necessarily compete with each other in some respects and the rise of growth economies means that it is increasingly important to have presence in these centres. Some suggest that fast-growing markets will inevitably want more direct control over their own wealth, seeing this as leading to moves to further expand the financial markets in fast-growing centres, and in turn to more competition. There are those who feel that the future may bring a situation whereby more head offices are moved to fast-growing markets, due to companies from these markets taking over companies in the global leader centres and then potentially taking the decision

[19] PwC, The World in 2050, http://www.pwc.com/en_GX/gx/world-2050/pdf/world-in-2050-jan-2011.pdf
[20] Z/Yen Group: 2010, *ibid*

to move the head office closer to home. For others, though, the expansion of some centres in Asia, South America and the Middle East is not seen as having a negative impact on the position of established global leaders. As one London-based senior manager highlighted:

> *"If international trade is growing and the whole market's growing then the size of the cake will be getting bigger. So I don't think the expansion of those centres automatically means that the other centres will reduce in size - although it's a possibility"*
>
> Senior Manager, London

Others believe that rather than creating greater competition between centres, within the context of the current global recession, centres will be best served by aiming to complement each other and work together to ensure continued success for all of them. While practitioners frequently cited aspects that centres will need to focus on in order to retain or improve their status in future, there was also recognition that they must work together.

A case study of the Asian centres provides a useful illustration. Some practitioners suggested that the way in which Asian markets develop relative to each other will reduce the likelihood of any single one becoming dominant. Each can be seen to offer something that the others cannot – for example, Shanghai offers great access to a huge domestic market but is positioned as a domestically focused centre; Hong Kong has depth of expertise and a global outlook making it an international hub in the region, but it is not seen as the leading 'Chinese' centre; and Singapore is similarly international in focus, but constrained by its size and hence unlikely to become a world leader on the scale of New York or London. Thus, while the Asian centres are growing and becoming increasingly important, there is a sense among many decision-makers that they are positioned to complement each other and other global centres, rather than compete outright.

The impact of future trends in the success of different financial centres on businesses' ability to attract and retain globally mobile talent is also a concern for some. There are those who raise the question of whether, with the rapid development of centres such as Shanghai, Hong Kong and Singapore, there will be less reason for mobile talent to move from these centres to those in Europe and the US. In this context, some decision-makers point out that the incentives for moving will need to change, and forecast that what will change is the type of guarantees offered, with companies offering a greater element of long-term reward.

A multi-polar financial world?

As Asian centres continue to grow rapidly, the historic established centres need to work hard to maintain their strong position both in terms of adapting to the new challenges outlined throughout this report and also maximising their existing strengths. There is a broad sense among those who took part in this research that there will be a balancing of different centres and their relative offers and strengths – there is unlikely to be simply a decline of Western dominance, replaced by Asian dominance. Rather, a multi-polar financial world will continue to emerge. Many of those we spoke to highlighted plans to diversify or consolidate their current reach so that they have a significant presence in five or six strong financial hubs, rather than simply moving out of one location and into another.

However, practitioners also note that financial hubs in fast-growing markets are likely to expand further, and there is an expectation that we will witness more trade and investment <u>between</u> fast-growing markets, bypassing the established financial hubs like London, New York or Hong Kong entirely. The extent to which established hubs position themselves to interact with this flow of business between emerging markets in a multi-polar world will go some way to determining their continued success as global financial centres. Some place particular emphasis on factors relating to the business environment in describing the conditions for future success. As one Hong Kong-based business leader put it, "*the global financial centres that will continue to succeed are those that are more open to business, whether in terms of compliance, regulation or tax, as well as stable places to do business*".