POLYNET Action 2.1
Qualitative analysis of service business connections

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South East England

Qualitative Analysis of Service Business Connections

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1. Introduction

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1.1 Purpose of the Interview Survey

This report contains the findings of an in-depth interview survey conducted between February and September 2004, investigating advanced producer service (APS) operations in the Greater South East England 'Mega-City-Region' (MCR)[1].

A standard questionnaire, employed across eight Polynet Mega-City-Regions in North-West Europe, was used as the basis for interviews with senior practitioners in firms in eight service sectors – banking/financial services, insurance, law, accountancy, management consultancy, advertising, design and logistics.[2] These advanced business services were specifically selected for study because they are 'knowledge services' relying on innovation in the creation of knowledge products and solutions for the 'service economy'.

The interview questions were designed to address the two central Polynet research hypotheses in relation to the South East England MCR:

- *First, whether APS knowledge extends beyond global city London, creating linkages between other cities and towns, and thus creating a new phenomenon – a South East England Mega-City-Region.*
- *Second, whether knowledge intensive APS business operations and flows are associated with a polycentric pattern of urban development.*

The interview survey complements quantitative analyses conducted in other related Polynet research Actions 1.1, 1.2 and 2.2, hence the sample covers the same urban centres selected for in-depth study in Action 1.2:

Reading
Cambridge
Southampton
Crawley
Bournemouth-Poole
St Albans
Swindon
Milton Keynes
London*

**London interviews conducted with senior executives and partners in top city firms for previous research commissioned by the Corporation of London[3] were incorporated in the analysis and firms interviewed outside London, were asked to comment on their links with any London offices in their network.*

The aim of the interviews has been to find out what underlies quantitative evidence, from other research Actions, on the definition of the MCR and potential knowledge-based functional linkages between the eight MCR urban centres by studying the firms that make these linkages through their day-to-day business practices.

As in Action 1.2, the focus here is firms operating in the region belonging to office networks at one of four geographical 'scopes' or scales – regional, national, European or global. The object is to shed light on functional linkages in the MCR that result from connectivities within APS office networks.

Senior managers' views were sought on the ways in which they do business from their South East based offices and how their office communicates and interacts with other offices within the MCR and at the other three wider geographical scales. Senior institutional executives in business, professional and government organisations were also interviewed in London and in the eight secondary centre study areas to provide an expert contextual overview of relevant functional and spatial issues. The results of a related web-based business communications survey, investigating the same eight sectors, is discussed in the separate Action 2.2 summary report.

1.2 Interview Sample

The firms and institutions interviewed are listed in Appendices 2 and 3 of this report and the positions of interviewees are listed in Appendix 1. The selection of firms and institutions was designed to provide an overview of the processes operating in firms represented in the eight MCR urban centres. Larger numbers interviewed in some sectors and places, notably design / Cambridge, also reflect firms willing to participate in the survey. In all, 81 firms were interviewed in centres outside London (one of these was interviewed in two centres). London interviews, conducted for the Corporation of London, included 39 international and global firms; a further three firms of particular interest for the present study were also interviewed in London. 12 interviews were conducted with business and professional institutions, four with regional and local government bodies and a further 12 with local economic development bodies making a total of 28 institutions. [4]

1.3 Interview Procedure

An initial letter and project information leaflet was sent to more than 300 named individuals in firms on the Action 1.2 database and was followed by a phone call and/or e-mail. Interview length averaged 45 minutes though many interviews lasted for an hour or more and, in a number of cases, more than one senior manager was present. All interviews were tape recorded, transcribed and coded. The transcripts were entered into an Access database for detailed analysis.

1.4 Web Survey

The purpose and method of a related business communications web survey is described in detail in the Action 2.2 summary report. Named senior managers of all firms from the full Action 1.2 database, including those interviewed, were contacted by e-mail inviting them to take part in the web survey; however, the response rate was disappointingly low even though a repeat mailing was sent. The possible reasons for this are discussed in the 2.2 summary report but it is evident that in the case of the South East England component of the study, many e-mails did not reach their intended recipients. The two possible reasons identified are, first, that they were blocked as 'spam' due to attached files and web-links (interestingly, this issue is raised as a key problem for the advertising sector by a senior industry representative as discussed in section 5.0 of this report), second that some PA's may have blocked them.

2. Firms and Places

2.1 Concentration and clustering

The evidence on the South East England MCR in some respects emerges as two stories – a London story and a story for the region outside London. This is reflected in the way in which the results are reported here. However it is important to state at the outset that the key finding that emerges from the analysis is that the region is found to be integrally linked functionally. Neither London or the region around it can be properly understood without an appreciation of the MCR as a functional whole within the European and global service economy. The 'MCR story' begins with evidence from the interviews on the significance of London's APS concentration in a European and global markets context.

London firms

A selection of interviewee comments on the reasons they need to be in London illustrates the importance of London's concentration of global services for firms headquartered both within and outside the UK:

City of London law firm: "Being here is all tied up with London as a prime international centre – there's absolutely no doubt about that. There's no other place in the world where it would be logical for us to have the most number of people. And that is entirely down to London's international standing" [Lon/L/Y]

German bank: "It's the obvious reasons if you're doing international business, there's a difference between regional heads and product heads. For instance the general head of debt will sit in London or New York but there will be regional heads all over." [Lon/B/F]

US law firm: "The flow of transactions comes out of the US and into Europe through London so that if European law firms want access to international transactions they have to have a link into London, we're a direct link to New York." [Lon/L/G]

French bank: "We're here for two reasons – one is that we have an ambition to be an international bank and you can't be an international bank unless you have something in London. The other is that the exposure to London markets and London personnel and the ways of doing things in London is something we want to gain experience of and communicate through the rest of the French Group." [Lon/B/M]

Dutch bank: "As far as being here today, the bank realises there's a need – this is THE financial centre and they have to be in the financial centre. In all honesty, in the wholesale environment, not the retail environment, Amsterdam is not a financial centre and therefore London is very important and our strategy two years ago stated that the wholesale head office is London not Amsterdam." [Lon/B/X]

It goes without saying that within the MCR, all APS sectors are highly concentrated in London, with the sole exception of logistics which is shown in later sections of the report to be organised on a completely different geographical basis from all the other sectors.

Related quantitative research shows London to be the most highly connected city in the world in terms of the presence of offices in world-wide city networks for the six major APS sectors – banking, insurance, accountancy, law, management consultancy and advertising (see Appendix 4 and Taylor and Catalano, 2001). The 'Square Mile' in the City of London, contains a dense APS cluster, in particular, banking/finance, insurance and law with law firms stretching out to the courts at Holborn to the west. Other sectors cluster more loosely adjacent to this central cluster, mainly to the west apart from the Canary Wharf development to the east. A less cohesive management consultancy cluster is located in the 'West End', advertising in the West End and Soho area and design services immediately to the north of the Square Mile. Advertising is more spread out across central London. Central London contains some of the largest APS offices found in the UK along with some very small firms with key international significance, for example in specialized financial services (Corporation of London 2003).

The global APS linkages of London within Europe and world-wide have already been the subject of detailed study and are reported in other research publications; hence the main purpose of this report is to help explain how those wider linkages relate to the service geography of the South East England MCR.

Firms outside London

Sectoral concentration and clustering

A first point of interest, emerging from the interviews conducted outside London, is that - as in the case of London - the majority of secondary MCR urban centres show no notable sectoral specialisation. Exceptions are financial services in Bournemouth and logistics in Milton Keynes. Both Reading and Crawley are seen as emerging regional service clusters by a number of major accountancy and law firms and Cambridge has a large representation of design firms, but a wide variety of other sub-sectors is also represented in these centres. Although much of the literature on clusters suggests that specialisation is a potential benefit in terms of knowledge transfer, this research will suggest that the presence of a wide variety of clustered services in close proximity has particular advantages for knowledge production.

Office size

While the size of offices, in terms of number of employees, is usually much smaller in secondary centres than in central London, some very large offices are found outside London and are included in the interviews. Also, as discussed in the South East England Action 1.2 report, some large employers in the region outside London are located in centres that are not among those selected for interview, for example American Express at Brighton [Lon/I/C].

Table 1: Principal Sectors by Location

Location	Firms	Principal Sectors
Bournemouth	9	Banking and Finance [4]
Cambridge	19	Design [6]
		Accountancy [5]
		Advertising [4]
Crawley	7	None apparent
Milton Keynes	10	Logistics (3)
Reading	9	None apparent
Southampton	12	Accountancy (3)
		Design (3)
St Albans	5	Accountancy (3)
Swindon	10	Management Consultancy (4)
		Design (3)

Table 2: Number of Employees in Firms Interviewed

Location	Employees
Bournemouth	8000
Cambridge	545
Crawley	309
Milton Keynes	632
Reading	1083
Southampton	1670
St Albans	595
Swindon	4000
Total	16,834

Network links with London

Of the firms interviewed outside London, the number of offices having network links with London, in terms of having an office presence in both locations, is very considerable (Table 3). London offices are by no means always Head Offices. 72% of firms interviewed have such links and they are noticeably high in Cambridge, Southampton and Swindon. The only 'low-scorer', Milton Keynes, has two major logistics offices that have located management functions in the town rather than in London.

Table 3: London Presence

Location	London Offices	Firms	% With London Office
Bournemouth	6	9	67
Cambridge	18	19	95
Crawley	4	7	57
Milton Keynes	3	10	30
Reading	6	9	67
Southampton	10	12	83
St Albans	3	5	60
Swindon	8	10	80
Total	58	81	72

2.2 Network Scopes

Network scopes by centre

Whereas the firms interviewed in all sectors in London are international or global in scope, reflecting the high level of presence of such firms within the APS global city network, a broader selection of scopes is included in the interviews outside London, reflecting its different structure as identified in the Action 1.2 South East England quantitative analysis. As Table 4 shows, in six of the eight towns over two-thirds of firms interviewed are part of international (European or global) office networks.

Table 4: Network Scopes by Location

Location	Regional	National	European	Global	Total
Bournemouth	33	33	0	33	9
Cambridge	16	21	11	53	100
Crawley	14	14	14	57	100
Milton Keynes	20	30	20	30	100
Reading	22	11	0	67	100
Southampton	25	8	25	42	100
St Albans	20	0	20	60	100
Swindon	30	0	20	50	100
Total	22	16	14	48	100

[Figures are expressed as a percentage.]

Network scopes by sector

Table 5 shows that for half the sectors - accountancy; banking and finance; logistics and management consultancy - over two-thirds of firms are part of international networks. Overall 62% of firms across the eight centres are part of international (European or global) networks. 14 companies belong to formal or informal international networks consisting of similar firms in terms of their sector and size (accountancy (5 of 15), law (3 of 8) and advertising (3 of 9)).

Table 5: Network Scopes by Sector

Sector	Regional	National	European	Global	Total
Accountancy	20	13	7	60	100
Advertising	44	22	11	22	100
Banking and Finance	0	13	13	75	100
Design	20	30	10	40	100
Insurance	17	33	17	33	100
Law	38	0	13	50	100
Logistics	0	0	50	50	100
Management Consultancy	33	0	11	56	100
Total	22	16	14	48	100

[Figures are expressed as a percentage].

Key points emerging from the interviews

Some key points about the connectivities of firms located in the MCR outside London emerge from the interviews

First, all firms in the eight secondary centres are found to focus on specific sub-regional service markets where there is a significant presence of clients, particularly international corporates. For example, Reading and the 'Thames Valley Corridor' (including Slough to the east and Basingstoke to the south-west), are specifically noted as an important cluster for IT firms resulting from the high representation of US and European headquartered firms in the area [Lon/I/L]. But the effects go wider: this area has a strong representation of firms with offices in London in all sectors [Lon/I/L].

Second, accountancy is identified to be the sector with the most significant regional networks of offices across the whole MCR. 'Branch offices' of global and international scope firms are particularly focused on servicing international firms in the MCR "*with a local presence*" [Lon/I/I]. As one interviewee comments: "*The 'Big Four' will make their networks happen where there is the right business for them.*" [Lon/I/I].

An interviewee in a Big Four firm explains:

> *"if we are the auditors in, say, the US, then that company will ask us to do the work in the UK. So if they have a subsidiary near here, then that would come to us. It's basically the annual audit service and the tax compliance work. The specialist work will tend to be done wherever the US head office is" [AC79].*

However, international operations are not normally co-ordinated by local branch offices. An interviewee in another Big Four company in London notes:

> *"Two of my corporate companies for example, have subsidiaries all over the World. So the UK parent company is responsible for consolidating financial statements for all those subsidiaries. Our job is to make sure that our teams around the world audit the individual statements. For my biggest corporate clients the global HQ is here and another one that I look after is an American global HQ but they split their world into three, America, Australasia (including the Middle East and India) and Europe. So basically I am responsible for Europe" [AC 26].*

Third, the logistics sector is, unusually, not represented in London – though some big global-scope London management consultancies provide logistics advice. The sector is organised on a completely different basis:

> *"They [the firms] don't actually need to cluster in the way that say the Stock Exchange does or the banking community does … in terms of logistics service providers, a contract is brokered by face-to-face meetings but actually its strength lies in its virtual nature." [Lon/I/J]*

Most of the major international mainstream logistics firms nonetheless retain offices in central London for "*the major functions, dinners, whatever*" even though most work takes place elsewhere (Lon/I/J). Of considerable interest is the presence of the HQ functions of three major UK firms in the MCR – Exel, ACR Logistics [5] and Wincanton - near Swindon. Exel operates its EMEA HQ from Milton Keynes and its global HQ from Bracknell.

Fourth, in banking and financial services, in addition to branch networks, there are major 'back offices' of international scope firms in the MCR outside London, although no urban centres to the east of London have been included in the study due to their overall lack of significant APS connectivity, Access, for example, is a major employer at South End. An important point, however, is that activities undertaken in back office locations prove to consist largely of routine support work. A typical perspective on the role of back offices is illustrated by the case of a large facility that was:

> *"initially set up as a regional technology hub and, since then, has developed into essentially one of a number of global hubs – again it's processing and or providing technology. In layman's terms it's processing for derivatives" [BF 2]*

2.3 Regional Intra-Firm Connectivities

Significantly, the interviews revealed many intra-firm connectivities in the MCR between offices located in different secondary centres and also between these locations and offices in London. Four types of interaction between offices are identified here and will be discussed with specific reference to virtual and face-to-face communications in section 4.0.

Office connectivities within the MCR: Of the total firms interviewed in the eight secondary centres, 72% of firms also have a London office and 58% have another office within the MCR region that is not a London office.

Inter-office support: Internal support links between these offices were recorded and include IT, administration, sales, marketing, HR, finance, accounts, Head Office, Board meetings and frequent visits by senior managers and Directors to different offices. Tabulation of support functions across the study reveals that amongst the interviewees, all sectors, network scopes and locations have high levels of other inter-office support functions in the region. Just 11 of 82 firms interviewed in the eight centres do not have another office with which support - of some description - is given or received. Of the remaining 71 that do have evidence of inter-office support, 49 refer to London as the other office (or one of them). 11 of the 71 state that their office is the control/support office. All the advertising and insurance firms interviewed were found to have such links. One design firm provides an example of a typical basic managerial/support relationship:

> *"We will set our own budget. We will then talk to the managing executive based in London about that budget. They all come down once we get to a certain stage and we'll then finesse it and get it agreed. We then report in, not just financially but we report in on marketing. We report in on all the HR stuff, we have someone responsible for HR locally but all the HR stuff is run centrally. Pay roll is run centrally from London. We have an IT helpdesk which we use, they come down and see us once or twice a month and walk round the office and see if anyone's got any problems." [Design 58].*

In a just a few cases, the interviews reveal that other office locations are unstaffed. In others, there is no Head Office or Head Office functions are split between locations. The 11 companies with no support links are cases where other offices lie just outside the region or, in a few cases, in other countries; ten out of the 11 cases have national or international network scope.

Specialisms: The notion of 'specialism' is used here to refer to sector-specific skills sets (as opposed to management functions) that create the opportunity for intra-firm client referrals. 46 of the 82 firms interviewed note the existence of specialist skills within their regional network that can be drawn upon by their own office and others. Such specialisms can be sectoral – for example, maritime/defence in coastal towns, IT in the Thames Valley and bioscience in Cambridge. Specialisms can also be functional in nature and reflect the concentrations of services in the MCR; for example, insolvency law is located in towns with many accountancy firms and transfer pricing accountancy is located in areas with strong inward investment [Law 3]. The seamlessness with which specialisms spread across regional offices are presented to the client is stressed by most companies. As one law firm puts it:

> *"some of our services are only available in London, like tax, construction, pensions but central core services are available locally from lawyers based here. If we have to bring in a tax lawyer, the clients don't necessarily need to know about that. If it's say, a corporate transaction any tax advice that may be needed can often be just taken on board by the corporate partner here who's driving the deal. There are obviously situations where the client would be introduced by us to a lawyer in London and then go and meet the lawyer in London or come and have a meeting here" [Law 19].*

Examples of specialisms in London include insurance lawyers based around the Lloyds market, a public policy specialist hired by a major insurance firm whose task is to liaise between the base and central Government, HR and change management specialists who specialize in the Square Mile marketplace. For several major firms, public relations and marketing functions are located in London close to major media outlets and advertising agencies.

However by no means all specialisms are located in London. Only 50% of the global scope firms interviewed have regional specialisms while European scope networks have the highest incidence (71%). On a sectoral basis, only accountancy, design and law exceed an 80% incidence. In locational terms, of the eight centres, Milton Keynes is notably low (at 30%) in terms of the representation of offices with links to specialisms.

Intra-regional joint working: Joint working is used here to mean two or more offices in the same company combining skills by physical movement of staff between offices to work on a project or, more commonly, one office leading a project and borrowing staff from another office. Projects refer to non-managerial tasks such as technical projects and client services. An example of intra-regional joint working is the healthcare arm of a major insurance firm which meets with the general insurance arm of the firm to help the latter manage bodily injury claims. An example from the law sector is described by one interviewee:

> *"in terms of staff here visiting other offices, they probably do that on average once every two weeks, something like that and that may be because they're going to see a client that is near that office so they'll go and work at that office all day or they're visiting people in that office for a particular reason or they've got a management responsibility that takes them to that office" [Law 41].*

At least two thirds of firms in all secondary centres are involved in joint working – Bournemouth, Reading, Crawley and Southampton - all being involved 80% or more [6]: In sector terms, accountancy, advertising and design all achieve 80-90%. Insurance is low at 40%, reflecting a substantial gap between HQ and sales operations in this sector. Logistics has no recorded joint working, reflecting its unclustered operational geography.

Meetings: Another key form of intra-firm connectivity is formal meetings between partners and managers of all levels of seniority for internal training. The key trend that emerges is the effort made to rotate meetings and to involve all staff in order to build company identity. As one international design firm explains:

> *"the divisional board meetings rotate around the UK offices so we always meet in a different office and we always make a point of having a sandwich lunch with the staff in that office" [Des 63].*

London is the usual venue for international meetings within European and global scope firms. Locations close to

Heathrow are also commonly chosen. As one international logistics firm notes:

"people flying in for either finance or budget meetings or project meetings mainly fly into Heathrow so there are meetings just on the outskirts or at hotels around the Heathrow area" [Log 78].

2.4 Inter-urban linkages

Given the scale of London's apparent APS dominance at all network scopes, the number of firms showing evidence of regional inter-office connectivity suggests a surprising amount of linkage between centres in the MCR. The perspective of a German interviewee on London's dominance is representative of many senior managers in London:

"You have a hub in Europe, a hub in America and a hub in the Far East. And everything else becomes subservient to the hub." (Lon/BF/F)

But, in spite of London's size and depth of infrastructure, it seems from the interviews that, not only is APS business outside London highly competitive, but that important cross-cutting office linkages exist between secondary centres across the MCR as well as with London.

The opening of new offices - which contributes to inter-urban linkages - is driven by specific sub-regional market opportunities; hence it is no surprise that the case study towns with the most prominent APS representation are located in economically prosperous parts of the MCR. One law firm [21] notes, for example, that the Cambridge sub-region is a vital driver for national economic growth so they really needed a presence there. Other examples from the law sector illustrate this point. One firm explains that, in the mid-80's it could see:

"the economic influence of the eastern region was shifting to Cambridge and that if we wanted to maintain our presence as a major regional firm, we needed to have a presence in Cambridge. Along with Norwich it became the equivalent of a metropolitan centre" [Law 41].

Two South Coast firms [3, 14] stress that Southampton is the key commercial market between, and including, Bournemouth and Portsmouth – the 'Central South' or 'South Coast Metropole'. However, one of these firms also wants a presence in Reading as:

"We feel we should be near the place where the people who give out work and make recommendations to clients are based. Over the last ten years I think that the accountants gradually, banks and accountants used to be in Bournemouth and Southampton and Reading and then over the last ten years a number of them moved out of Bournemouth and centred on Southampton. What now tends to be happening is that they are regionalising and saying well where shall we have our HQ and Reading has been winning quite a lot of those discussions" [Law 3].

Another firm agrees Reading has:

"got stronger, because Deloitte Touche closed their Bracknell office and moved into Reading. KPMG are out at Arlington Business Park. PWC's main Thames Valley office is in Reading. And the surveyors, likewise, tend to be here. The banks tend to have their regional headquarters in Reading. So, Reading is very much a sort of professional services centre. And, if anything, that's definitely strengthened over the last 16 years" [Law 19].

Yet another firm in the 'Crawley-Gatwick Diamond' area between Brighton and South London is seeking to have Crawley, rather than Brighton, as the key locus of its operations:

"The decision to focus more heavily on Crawley, the primary reason is that it is a commercial centre in a way that Brighton isn't and also a commercial centre in a way that a lot of the other towns within the region aren't." [Law 25].

The Crawley-Gatwick area was perceived by several major firms to be a hot spot in the area around London between Reading and the Kent Coast. One Big Ten accountancy firm notes how its Brighton office was merged into its Crawley office to create a new office at Gatwick:

> *"We did some research and said where is the economic centre for Sussex, Kent and South Surrey? And there isn't a single answer. If there were it would be Crawley-Gatwick. And one of the key issues for us is where do we get our work from - where are the regional corporate banking centres, where are the lawyers? And although again there is no absolute answer to that question. Many of them are in Crawley-Gatwick. PWC have recently opened there and presumably they did a review and formed the same view" [Acc 34].*

The over-arching impression from the interviews is of a region in which London is one of the top global APS cities in the world. London's concentration appears to overshadow that of smaller MCR secondary centres, but given the findings on MCR inter-urban linkages, the question arises to what extent these result from linkages with London. A critical question emerges: How far do cross-cutting linkages at the regional scale depend on network connections with London?

This question is addressed in following sections of the report successively, in relation to evidence on functional relations and information flows / knowledge transfer within and between firms. [7] The next section examines the influence of changes in market, sectoral and corporate strategy on APS activities in the region.

3. Sectors, Markets & Corporate Strategy

Interviews with firms and institutions shed light on the ways in which changes in service markets [8] are affecting the MCR. Globalisation is seen to create broadly similar servicing tensions and responses in all sectors. In summary, firms see the need to join networks to achieve greater scale for investment in IT, acquisition of specialisations and ability to offer 'seamless' service to multi-national clients. Only the largest firms can claim to offer full service provision at an international scope, hence smaller firms seek niche markets to differentiate their services from market competitors. Medium size firms are most vulnerable to loss of profitability [Lon/I/L]. First an overview of sectoral representation in the MCR is presented.

3.1 Sectors and Markets

Accountancy

The regional accountancy market is dominated by the Big Four global firms – Ernst and Young, PriceWaterhouse Coopers, Deloitte Touche and KPMG. A second tier includes firms such as Grant Thornton, BDO, Binder Hamlyn, Tenon, Baker Tilly, Moore Stevens and Numerica. As one Big Four interviewee notes:

> *"If plc work comes out to tender it will generally be the Big Four that get asked. They might throw in another couple of mid-tier firms to sharpen us up on price" [AC 79].*

The big international firms have a very substantial presence in London and elsewhere in the region. For example, KPMG are in London, Crawley, Southampton and Reading and across the MCR [Lon/I/L]. Competition is therefore tough for smaller firms where the Big Four and second tier firms are competing fiercely [Lon/I/l]. The middle market varies from businesses with turnovers ranging from £1m to £100m. Whilst being highly competitive, the strength of regional accountancy networks is particularly notable as a potentially important contributor to intra-regional linkages.

Management Consultancy

The regional market is similarly dominated by the top ten accountancy firms most of whom have changed their names post-Enron and who have roughly three-quarters of the fee income earned. The management consultancy market is more London focused, although centres outside London include some very large firms, for example CSC in Cambridge, in addition to firms of about 25 people (Lon/I/E). Two of the top ten UK consultancies by fee income in 2003, have major global functions in Reading - Xansa plc (global HQ) and Logica. Two larger consultancies were interviewed while others are all operating in niche markets that range across a handful of sub-sectors.

Logistics

The producer service or '4PL' element of the industry [9] is dominated by a handful of key firms in the UK which have all been involved in recent acquisitions and sector consolidation. As discussed, London based management consultants are also involved in logistics advice but they are not seen as an important service provider within the mainstream sector. According to one senior respondent:

> *"companies want you to be able to prove that you can carry out the physical activity and add the intellect as well. So people want '3PL with Brains'. Consultants mostly only play a part in drawing up contract specifications, overseeing tendering and efficiency reviews of all company activities. Part of the general reviews will be consultancy on the logistics side" [Log ER].*

The location of three major firms in the region outside London contributes to intra-regional linkages in complex and largely unseen ways through a wide network of distribution centres - some of the most important being in the retail sector [LON/I/J].

Advertising

Advertising is the most London-focused sector included in the study. Since the late 1980s, a major shift in 'above-the-line' [10] advertising has resulted in a move away from a 'full service' provision model whereby firms had a creative department, a media department, finance, account planning and account handling. This has opened up opportunities for niche activity; however, firms interviewed in MCR secondary centres acknowledge that they are not in "*the same league*" as the major London firms – certainly not in terms of volume of activity. Nevertheless, there is a feeling that the sector is no longer entirely dominated by London. As one firm puts it:

> *"London has always been the centre of excellence and volume for advertising. But slowly the world is changing and so, particularly in the large cities around the country, you really have some quite sizable agencies. The ninth largest agency, by IPA income, is based out of London. It is a very long-term slow trend but it is happening" [Adv 70].*

In the opinion of a senior industry expert, there is important potential for regional development through future location of skilled back office activities such as administrative and finance functions in the region outside London. Call centres have become an increasingly critical part of branding, and the quality of customer contact is likely to be higher when located close to London for improved communication:

> *"If you are running a brand and you are the creative editor based in the West End of London, why do you care tuppence whether your call centre is in Bombay or Newcastle. You care if you suddenly realise that Bombay or Newcastle don't get the plot. They don't understand what you are trying to communicate. And the fact is sending them an e-mail or a brochure or a briefing pack is nothing like as powerful … if you want to intensify the London communications, I think you would want satellite operations to be closer not further away." [Lon/I/B]*

Law

Outside London, which is the location of top international scope City-based commercial law firms, there are four or five major regional firms employing three or four hundred people which compete with each other and with London firms for business [Lon/I/L]. In general, law firms headquartered outside London take the view that:

> *"We wouldn't even aspire to compete with the Magic Circle though we do a lot of the business that they used to do" [Law 41].*

One firm was seen to be trying to break in to this exclusive group:

> *"They're increasingly themselves getting sucked into the London whirlpool because they opened up in London. As soon as you do that the people there automatically want to follow the magic circle into global stuff. … The big corporate companies in the Thames Valley would once have sourced all their legal advice probably from that Magic Circle and a few other City law firms. These days they still may source a few very major transactions or bond issues but 95% of their needs are day to day stuff like mergers and acquisitions that we now do. We also increasingly seek to win that work from London firms" [Law 41].*

Another firm notes how it often serves London clients on aspects such as Initial Public Offerings (IPOs) and Mergers and Acquisition (M&A) work and London dominance was less evident in more specialist markets, for example, technology and intellectual property [Law 19]. Some London firms have also acquired a regional presence, for example, in the (hi-tech) Thames Valley - Olswang (who took over Garretts, Anderson's legal arm) and Nabarro Nathanson. There is also a large number of specialist patent and intellectual property firms. One such firm, with offices across Europe notes that:

> *"Clients are increasingly expecting people who are totally comfortable with the technology that they specialise in. I would say probably most now of our trainees have a PhD." [Law 21].*

This same company now also has an associated law firm specialising in litigation matters with the same London brand name and London offices.

A senior industry expert predicts that the results of a current legal services review could "*unlock an enormous amount of potential [for firms] to develop their businesses*" in a climate of predicted growth in demand for professional services in the South East, by opening the way for multi-disciplinary practice [Lon/I/F].

Insurance

The UK insurance industry is the largest in Europe, the third largest in the world, and accounts for a third of all financial services jobs. The sector is divided into three main component parts: general (such as motor, household and commercial insurance); life and pensions; and health and protection and is now fairly consolidated.

Two firms interviewed, Zurich and Norwich Union, serve as examples of the massive restructuring that has taken place in the industry showing the complexity of their network linkages within the MCR. The founders of the Zurich came from Abbey Life (now part of Lloyds TSB) based in Bournemouth. Norwich Union became a plc and then merged with CGU (itself the merger of Commercial Union and General Accident) to become the Aviva Group, the fifth largest insurance company in the world.

Other large firms represented in London and elsewhere in the region include: First Assist (Bournemouth) [11]; Standard Life (Guildford); BUPA Consumer in Staines; AXA PPP in Tunbridge Wells; Norwich Union Healthcare (Southampton); HSA cash-plans [12] (Andover). Hidden intra-regional links also emerge from the interviews. Some motor insurers with operations in Essex, Kent or Surrey are part of the Lloyds of London brand but do not trade under that name outside London but have a small City of London presence. Two major London based brokers also have administration offices in the MCR outside London [Lon/I/T].

Design

Design is significantly different from other business services sectors in the study, being largely dominated by small firms in the region (Lon/I/M and LON/I/H). The London market is very expensive as a location for firms in this sector so only the largest firms are based there. Architecture firms outside London do not see themselves as competing with the major international scope London firms:

> *"We aren't operating at that level. They can command the top graduates from the world to come and work and so it is inevitable that the product is going to be at a different level. But we did work with Lord Rogers' partnership on a local project" [Design 7].*

There are overlaps between planning, architecture, surveying, engineering and legal services with multi-disciplinary practices in the larger firms. A civil engineering firm notes that urban and transport planning and architecture constitute about 15% of their business. One interviewee notes how in the planning sector:

> *"Businesses are splitting into some very large multi-disciplinary practices RPS in particular but also Barton Wilmore, GVA Grimleys and BDP. Then there is a myriad of very, very small practices one, two, three people and that number is increasing all the time. Companies like us in the middle run too big an overhead to compete with the freelance guys but we don't have the huge resources to go playing games on PFI bids or bidding in Europe" [Design 17].*

Usually surveying services with in-house planning capabilities are major London-based companies:

"*The major surveying practices in London sometimes ring up because they could do with more planners or whatever because there is such a shortage of people and one way of overcoming that is to buy up other firms - so I think that reinforces the picture I have that more firms in the built environment field are agglomerating*" [Design 17].

As in the law sector, industry experts report 'hidden' inter-connections between small professional practices to allow them to benefit from increased size in competing for business.

Banking and Finance

As in the case of advertising, banking and finance is London-based for wholesale activity. All the High Street banks (now highly consolidated) are represented in the region outside London where they service small and medium size businesses (Lon/I/L). However, the large regional presence is the back office activities already discussed.

Once again the interviews revealed much evidence of consolidation across other financial services represented outside London. For example, Liverpool Victoria Group, previously based in London, took over Bournemouth-based Frizzell Insurance and moved their London operations to the town. One building society, involved in the first ever consolidation to take place through merger as opposed to acquisition, notes how:

> *"because of all the new regulations that the government are bringing in financial services and mortgage regulation, there will probably be more examples of smaller companies being acquired into larger ones. The regulations mean a huge change to all the systems, all the training of all your staff. There is a massive, massive cost implication for everybody in the industry and there's a deadline date of October this year that we have to be ready for" [BF 8].*

Hedge fund management has been moving out of London particularly to the London periphery, though staffs are small, ranging from about ten people working together to one person working from home (Lon/I/C and Lon/P/D). Other sources of potential regional growth in this sector may come from call centres, previously moved to India, that may move back.

3.2 Corporate Strategy

Two outcomes of market drivers for consolidation and specialisation have particular significance for the region outside London - acquisitions and new office openings:

Acquisitions

40 of the 81 offices interviewed (49%), report that their companies have been involved in acquisitions over the last ten years or so. Significantly, this almost invariably involves an increase in the network scope of both acquirer and acquiree. Acquisition is highest in logistics (83%); law (75%); insurance (67%) and banking/finance (63%). In terms of network scope breakdown, the European scale is the only one to exceed 50% (at 71%). The secondary centres that stand out are: Crawley (71%); Milton Keynes (70%) and Swindon (60%).

The aims for the acquiring company are typically to:

a) enter new geographical or sectoral markets

b) acquire staff to offer increased volume or type of services

c) declare their ambition in order to attract good staff

For companies being acquired the motives are usually not dissimilar – either they are ambitious or senior staff are retiring and new impetus is needed. A number of firms undertaking acquisitions have also opened new offices in the MCR.

New office openings

As the following Table 6 indicates, 82% of firms interviewed have opened new offices since the late 1970s. This has occurred alongside wider regional industrial restructuring to a service economy but it indicates the strong growth of APS activity in the region during the last twenty years. Amongst the companies opening to be near new markets, at least ten across a variety of sectors, have been started specifically to be near one large customer. This is to be on-hand whenever the need should arise. Proximity means saved time, money and, in some cases, rent.

Table 6 : 'New' Firms Since 1980

Urban Centre	Firms	%
Bournemouth-Poole	6 of 9	67
Cambridge	11 of 15	73
Crawley	5 of 5	100
Milton Keynes	7 of 7	100
Reading	7 of 8	88
Southampton	10 of 12	83
St Albans	4 of 4	100
Swindon	6 of 8	75
Total	56 of 68	82

[Numbers are only for firms where a date was obtained during the interview.]

Regional benefits

Sectoral consolidation and restructuring together with increasing service specialisation are identified as evolutionary trends affecting all sectors, leading to increasing concentration of global strategic functions in London (Lon/B/O):

> *"Hubs or super-hubs have become more important. The hubs are getting more powerful because, as they consolidate their critical mass, you more or less have to go to them." [Lon/I/A]*

At the same time many globalising firms see the need to have strong local representation "*on the ground*" to be increasingly close to customers.

From the interview evidence, benefits of these twin processes for the MCR seem to be:

- *Increasing strength of regional branch networks for local market proximity.*
- *Increasing regional office connectivities with London.*
- *Decentralisation to the region of back-office activity instead of off-shoring, as the skills base for client-facing support functions increases.*

3.3 Organisational Structures

Contradictory global-local market drivers are also leading to co-existing processes of locational concentration and dispersal with functional specialisation between network office locations. Hence, while strategic functions in global firms are increasingly centralised in London within the European market region, functions requiring less centralisation are geographically dispersed. The interviews show how this is affecting London and the MCR. As a London based US bank comments:

> *"With the improvements in technology links we don't need to have to pour back office people near to the business any more so that combined with the extraordinary cost of real estate here – why would we keep them here?" [Lon/B/W]*

Equally, London itself becomes a back office location for some overseas banks. An interviewee in another US bank explains that:

> *"Because of economies of scale we're trying to hub back office activities, particularly things like settlement and London is one of those hubs for our global network, so from an IT and a settlement perspective, and for some of the front office equities for example, we're hubbing a lot of the processing power and sort of back office capability in London and servicing particularly Europe but in some cases Asia and the United States." [Lon/B/W]*

Extra-regional movement of functions

Of the firms interviewed outside London, 16 of the 81 companies (20%) have recently moved functions out of the Greater South East region. 12 of the 16 (75%) are global in operational scope. They are in all centres apart from St Albans and in seven of the eight sectors (advertising being the exception). Six of the 11 are solely concerned with movement of functions to other parts of the UK – administrative and support functions in both cases (one of these is the result of rationalisation following a merger between a London and a Manchester firm).

Intra-regional movement of functions

12 of the 81 firms discussed have moved functions within the region during the last four to five years. Six of these are accountancy firms. Nine are part of globally networked firms – the other three being regional. Eight were moves out of London and one was a move to the edge of London. One national accountancy interviewee notes how:

> *"one of my partners had one of the most substantial practises in the whole firm moved here a year ago and we are clearly making a significantly increased profit on that practise as a result of our lower overheads here" [AC 21].*

Similarly, the national internal audit and non-profit sections of a Big Four firm were relocated and now:

> *"of all of our offices and our divisions in London, we are the fastest growing and the most profitable" [AC 26].*

As another Big Four firm puts it:

"If we did have expensive people sitting in expensive properties in London well why are they there?" [AC 27].

The findings across the MCR indicate that there is no de-clustering of APS core activities that are dependent on close proximity either within, or to, London for knowledge production.

3.4 Knowledge Production and Transfer

Matrix management

Increasing consolidation has led matrix management to become common in international networks, allowing functional decentralisation on industry and service as well as geographical lines (Lon/MC/1A). The regional organisation of services, associated with non-hierarchical management structures, facilitates co-operative office working practices including information sharing and knowledge transfer within office networks.

Matrix structures are widespread in firms interviewed in the secondary centres in the law, accountancy and design sectors and are also identified in two major HR-related management consultancy firms. banking/finance and insurance sectors retain a traditional corporate hierarchical structure while advertising, typically has a London presence with relatively independent satellite offices.

Regional service strategies in matrix structures strike a balance between offering a local 'full-service' office in 'natural markets' and locating skills sets in a few select offices where specialists can interact in proximity to the most frequent market users. Interaction between regional offices ensures that knowledge and skills are made available wherever they are needed, thus contributing to functional linkages between APS centres in the region.

Local networking

Another aspect of firms' activity that has a locational dimension is local networking with other businesses and with clients. As a major accountancy firm in Southampton notes:

> *"another important part of what we do is working with the other intermediaries, so it's important for us to know the lawyers and know the bankers because they are a good source of work. Often the banker will have a client that has grown too big for the small firm they started with, so it's important for us to get on the tender list and similarly, you may have companies doing transactions such as mergers and acquisitions and as a result they outgrow the current service provider, in which case we hope the lawyer would point them in our direction" [Acc 79].*

For many London firms, local proximity to other service providers and clients is important, not only for job procurement, but for knowledge transfer and innovation. Proximity to competitors is seen by many firms as more important than proximity to clients for this reason (Corporation of London 2003). *Information and knowledge products developed in London are distributed "through the network", thus offices in South East England secondary centres, benefit from knowledge produced in the central London global cluster*. The impact of developments in virtual communications on the need for close proximity in knowledge production is examined in the next section.

4. Flows and Relationships

4.1 Virtual Communications

The key question for all forms of virtual communication is the extent to which they are reducing the need for face-to-face contact or physical movement of materials, making more dispersed regional locations possible. The interviews reveal the huge rise in the use of virtual communications in the eight secondary centres as well as in London.

E-mail

E-mail in particular has transformed the way firms do business, in some ways making distance far less relevant. Taking the design and advertising sectors, for example, over a dozen firms interviewed out of a total of 16 discuss the use of e-mail for reducing physical transfer of documents such as plans, maps, drawings, CAD work and reports:

"*if we were providing documents or information to clients in the past it was by post or fax. Now probably 50% of that is transferred by email*" [BF 47].

But, while high in volume, e-mail is mainly used for internal communications within office networks and is not influencing location at all. Some important problems associated with e-mail are identified by an advertising industry expert.

First: "*In our business, sending e-mails, sending images via e-mail is very important – presentations, photographs, PowerPoint presentations, video clips – that is being killed by firewalls and the technology thinks that these attachments are viruses.*"

Second: "*This is my e-mail box. There are 481 e-mails here. You can see the ones in black are the ones I haven't read. These ones here are spam, so the whole business of spam is appalling and it is very difficult to determine which are the important e-mails.*" [Lon/I/B]

This second problem is widespread for senior managers in all sectors in the big international London firms, many of whom use a PA to manage and filter their e-mail each day before they see their inbox.

Telephone

Telephone is identified as an ongoing highly important mode providing a more personal form of communication to supplement face-to-face contact and is prioritised over e-mail for contact with clients.

Video-conferencing

Law, banking/finance and accountancy are high video-conferencing users in the secondary centres, especially for global and international communications within their office networks. In London, examples of high users are banks with key functions split between London and a geographically distant HQ, for example Edinburgh and Frankfurt. However, of the firms using video-conferencing, six (one third) see it negatively, half see it as bad, and 17% give it mixed reviews.

Table 7: Use of Video-Conferencing By Scope

Scale	Operational Scope	Network Scope
Europe	47	71
Global	62	55
National	31	23
Regional	38	20

Table 8: Use of Video-Conferencing By Sector	
Sector	**% Using**
Advertising	11
Design	20
Management Consultancy	22
Logistics	33
Insurance	50
Accountancy	56
Banking and Finance	75
Law	88

Benefits identified by offices located outside London, include time saved in travelling: "*because we're not losing chunks of the day I imagine it pays for itself many times over*" [Law 19].

Another firm notes how meetings with the patent office at Munich are actually now held by video conference [Law 21].

In accountancy there is one example of the use of video-conferencing for an external communication with a client:

> *"we were pitching for a piece of work in the US, or with a big American angle to it and we wanted to just to see the colour of everybody's eyes… Clearly we weren't going to fly them backwards and forwards just to meet them but we felt there was benefit in seeing each other on the screen and it worked fine" [Acc 79].*

Most complaints and caveats are of a technological nature but the need to discuss drawings, in particular, creates problems in video-conferencing

> *"the trouble is with our job you do often need to sit round a table and draw things. We experiment with various things, zooming in and out and redrawing. It's just not quick enough" [Des 13].*

Telephone conferencing

27 firms mention telephone conferencing and this seems to be used much more frequently than video-conferencing. One major insurance company uses it daily for communication with Europe. As in the case of e-mail and video-conferencing, telephone conferencing is mainly used for internal communications within an office network however, an interesting example is in law where:

> *"the courts have started using telephone conferencing much more. Quite a lot of more high powered litigation we do is still done out of the London Courts but for the procedural hearings the courts nowadays use telephone conferencing rather than actually having everyone going up to London for the hearings" [Law 3].*

Telecommunications infrastructure

While telecommunications infrastructure and support is an essential location factor for many central London firms, outside London at the time of interviewing (mid 2004) lack of basic infrastructure could be a problem. Three companies interviewed in rural locations discuss the problem. One, next door to an internet training company that has laid a new line, rents capacity on it. Another has bought a satellite dish to e-mail very large drawing files between offices. The third complains that because of distance from the exchange, it has to rely on a 512-kilobyte connection when it really needs 1 or 2 megabytes.

Intranet

The vast majority of firms have some intranet activity. Of particular interest are wide area networks (WANs) connecting computer systems in different locations, from the regional to the global. One design firm outside London notes:

> *"they are not running a library out in Australia because we are running it here so they have got access to all our documentation, all our resources, reference material, archives and everything else, and they don't run a duplicate system out there. Our picture libraries and that are all held here because our server is much, much more powerful than theirs" [Des 17].*

Intranet is much used in international networks where data-bases are shared and much inter-office communication takes place. Intranet is identified as a key mode for internal information flows.

Extranet

The use of extranet is less in evidence, particularly outside London. Within London there are examples of banks and accountancy firms using extranet to share information and communicate with customers. Disadvantages identified by firms outside London are: technological and large and/or changing client base. However there are interesting examples of several companies benefiting from other companies' extranets or systems - for example, in design where different service providers now commonly communicate and exchange data and drawings using shared internet platforms. In logistics one interviewee explains that:

> *"a lot of our sites are actually customer systems - so some customers have our systems in their business and vice versa" [Log 48].*

These examples show the 'invisible' nature of many important information and knowledge exchanges between firms and clients.

Virtual communications are now clearly invaluable to everyday working lives. They facilitate the creation of APS networks at all geographical scales – regional to global and allow the dispersal of some support functions. One accountancy firm notes:

> *"the increasing comfort level in having operations like that, that traditionally would have sat right beside the traders desk, a couple of hours away and increasing comfort levels around mobile workings" [BF 2].*

But the clear message is that virtual communication modes cannot replace the need for face-to-face contact with colleagues, clients and other actors.

4.2 Face-to-Face Contact

The absolute need for face-to-face contact is stressed by all London-based interviewees and given as the reason for their centrally clustered location. One description illustrates the essential importance of close proximity in the City for unscheduled as well as scheduled interactions in insurance markets:

> *"This whole area – the market place is there in the room with the boxes and screens but actually it spills out into the immediate environment of this building in particular. A good example, I went down … this morning when I had half an hour free … and I had five conversations with people and picked up something interesting about what's going on out of all five … if I was a trader I'd probably have a multiple of that." [Lon/I/T]*

Non-UK firms see the highly clustered City of London as *"a village"* where you can: *"draw people together very fast"; "there has to be an emotional content – one-to-one or physical being", "video-conferencing, tele-*

conferencing has that changed? Its improved but it cannot replace the need for face-to-face contact"; "you don't get any atmosphere or any emotional background to know what's going on" [Lon/B/F].

The importance of face-to-face contact is equally stressed as important in the secondary centres where physical material is required to facilitate a meeting and simply to 'stay in the loop' as illustrated for advertising:

"[We] still find the bulk of what we do is dependent on creative and visual and face to face briefing either with the client or our designers. Our industry is very much a people-based creative industry and that's where email, texting, any kind of non face to face communication is bad because creative is all about people's emotions. Although designers now do it electronically, a lot of their creative ideas come down to paper, because they're still producing paper based proofs. It's about how much the client likes it and very much the business is won and lost on chemistry between individuals" [Adv 11].

"It's lots of sort of chatter going on in pubs and you can often pick up who is on the move or things like that. If you just want to recruit people or generally just to know quickly what is going on in terms of clients really. I think a London presence is important in our business, it's still you get the sense that you might be perceived to be parochial without it" [Adv 76].

The view of firms is that virtual communications have not diminished the need for face-to-face meetings and that, in fact, the need for face-to-face contact and travel is growing. This point is illustrated by the comment of a London interviewee on face-to-face contact in legal services:

"It's enormous because there's more work and we're all growing … and the number of physical meetings has gone up not down and I can't see any evidence whatsoever to suggest that in the foreseeable future that's going to change." [Lon/L/S]

4.3 The Mobile Worker

In most sectors there are many examples of very high out-of-office mobility – particularly amongst more senior staff. In one major banking and finance firm, such individuals are referred to as "*gypsies*" [BF 37]. A London bank is typical in having: "*skills fly in and fly out and go to where the clients are*" [Lon/B/W]. Client facing staff based in a central London Big Four accountancy office travel so much they are: "*out of the office most of their working years*" [Lon/A/R].

A 'top ten' management consultancy notes that in the consulting side of their business "*you're on client sites a lot more*" than with the technology side of the business [MC 56]. Senior logistics staff spend much of their time visiting customer HQs but also distribution centres around the country. As one senior logistics manager notes:

"I spend a day a week in the office. Typical week, take this week as an example, then yesterday I was up in Birmingham, today I'm in the office, tomorrow I'm in Doncaster, Friday I'm in Swindon" [Log 30].

A Big Four accountancy firm estimates: "*sixty percent of our staff will be out for more than eighty percent of their time*" [Acc 27]. Accountancy staff vary in mobility, audit in particular is an out-of-office task.

Appendix 5 shows three mapped examples of travel patterns, one each for management consultancy, accountancy and banking, recorded as part of the Action 2.2 business communications web survey.

Mobility and technology have developed in tandem. As one law firm puts it:

"there is a greater use of technology because of our regional spread to enable us to function more effectively" [Law 9].

The most common technologies are laptop computers, mobile phones and mobile devices such as the Blackberry. Technological developments give increasing flexibility in the form and location of work:

"I work on the train, you know, you just move into a mind set of Virgin from Edinburgh to Liverpool is my office today" [MC 71].

A law company notes that one client:

"works in London, lives in York and picks up information about his file from his extranet on his laptop on the way between York and London" [Law 14].

Increasingly then, virtual and physical communication flows can take place at one and the same time.

4.4 Infrastructure Consequences

Transport represents a critical problem for firms in London and the eight secondary centres.

London

For central London firms, poor transport infrastructure and particularly unreliability are seen as a key threat to business. The complaints of a senior accountancy manager are typical:

"Transport is a massive all-encompassing problem... Heathrow, it's getting increasingly congested and that's causing delays in flight times – it's an unreliable airport. The roads into London are now horrendous at peak time … It's the underground and the mainline railway that's so unreliable – it just isn't there – and that's our major problem." [Lon/A/I]

The consequences are huge losses of working time, delayed meetings and stressed employees. Some firms even report that international clients could be deterred from visiting London; one non-UK firm suggests they are loath to locate more staff here [Lon/B/B/W].

Secondary centres

Similar problems are reported by firms outside London. Here, the twin themes almost everywhere are the lack of good highway connections between secondary centres, diverting journeys on to the congested M25 London orbital motorway; and the lack of good rail connections between these same centres, diverting travellers into costly deviations through the London termini.

Road: One firm tells us that:

"road and rail connectivity between Bristol and Poole or Bristol/Bournemouth is hell, you know, it is almost quicker to go to London first it can take three hours to get into the centre of Bristol" [Design 7].

In Southampton "*the M27 around Portsmouth is a crawl*" *[Design 66]* and

"Plymouth-Southampton, is just appalling - by road or by rail" [Law 9].

Two firms, one in Crawley-Gatwick and one in Milton Keynes stress the need for an 'outer M25':

"One needs a sort of outer M25. We have quite a lot financially in common with Guildford. But getting from Guildford to Gatwick is just impossible. Or Gatwick to Guildford to Reading. Anywhere between the south coast and the M25 and M20 (London-Folkestone) is just grim. The M27 (Southampton-Portsmouth) is nothing like long enough, it was never finished in terms of a proper south coast motorway" [Acc 34].

But west of London, despite local congestion, general road access is seen as good.

Rail: Rail access is everywhere seen as good radially, into or out of London, but bad otherwise. A Dorset Chamber of

Commerce member observes that "*Rail links to London are pretty good but apart from that they are useless*" [Law 3]. A Bournemouth respondent reports that "*If you want to go to rail to Exeter you end up going in an enormous loop to Reading and then back*" [Des 5]. In nearby Southampton, a law firm reports that:

> *"Plymouth to Southampton is appalling. Bristol Southampton is OK…Exeter to Plymouth is terrible because it is a lovely coastal route but once the waves come up they shut the line down" [Law 9].*

In Crawley-Gatwick, three companies with West Country representation all use cars because:

> *"although some people use the train. It is slightly too far out of London – you have to go in and then around to Paddington and back out again" [Des 67].*

The same story comes from St. Albans, where - despite proximity to the M1 (London-Birmingham-Leeds) and M25 London Orbital - any rail journey to the West Country means going into London and then out. And likewise in Milton Keynes:

> *"an east/west [rail] link is talked about but not being planned for. That would then give us the access here across to the Midland main line… east/west rail and east/west road… communications are appalling. The emerging orientation of this whole area region is east/west Oxford to Cambridge and they are still really bad single lane country roads, it is really pathetic" [Design 17].*

In Cambridge, likewise, a respondent:

> *"tried to train it from here to Birmingham and it was about three hours. There was only one train an hour so if you miss one you've got to wait an hour for the next. Also, you couldn't get to Oxford from here in reasonable time if you wanted" [BF 37].*

Reading is the major exception to all complaints, for here rail links are also good in every direction. But farther out, in Swindon, to go directly north or south is impossible, forcing people to drive. One Swindon firm says that:

> *"to get to Birmingham I would have to go to Bristol or Didcot and then to get to the site I visited yesterday by car would have taken a further 40 minutes by taxi from Birmingham's (central) New Street station" [Log 30].*

Another suggests that a Parkway station nearer his business location would help [MC 52].

Air: The major theme here is the domination of Heathrow for international travel, despite the growing importance of other London airports and secondary airports for short journeys and particularly low-cost flying. Thus local businesses use Bournemouth International Airport only for domestic flights; foreign travel is via Heathrow. Cambridge businesses are very complementary about nearby Stansted airport for access to Scotland, Brussels and Paris, particularly by low-cost airlines:

> *"we found six years ago that our travel and subsistence costs reduced to about a third of what they had once been because Ryanair built up its range of flights from Stansted and that had a major impact on our costs" [Des 49].*

Crawley companies, likewise, mention Gatwick – but again, mainly in relation to Scotland; international flights are limited, making Heathrow the only real alternative:

> *"Not long ago you could fly round the world because of a lack of capacity at Heathrow - quite major international airlines were based at Gatwick but gradually if an opportunity arises they'll be off to Heathrow" [Inst 10].*

Likewise, St. Albans and Milton Keynes companies are supportive of nearby Luton Airport: "*Luton has enormously improved its facilities*" [BF 16] and "*Luton's now got pretty big connections to most places in Europe*" [MC 46], but still use Heathrow for longer international trips, despite problems of access.

Unsurprisingly, then, Reading commentators take the view that the area's economic success is very much due to its proximity to Heathrow. The Thames Valley Economic Partnership wants to see the Crossrail project extended to Reading with a direct link to the airport [Inst 7]. Even from Swindon, international travellers to Frankfurt and Zürich use Heathrow although Bristol Airport is used for domestic and Irish Republic trips.

Lack of good accessibility is identified as a major obstacle to the most high-value form of knowledge exchange – face-to-face communication.

5. People and Places

5.1 Labour Market

Skilled labour supply is identified as critical to APS knowledge production because firms' knowledge assets/products are their employees.

Labour as a location factor

A key difference between firms located in London and in the secondary centres is that, while for more London firms, labour supply is the most important and absolutely crucial reason for location – even more important than proximity to clients for many firms interviewed – outside London, labour supply does not appear to be an important location factor. Instead most moves and new openings have been motivated by access to markets, while some large companies choose to expand *in situ*. Where firms have moved, they almost invariably make great efforts to relocate staff.

The London labour market

For firms from all countries based in London, the critical factor is being able to access to skills and these are available in London's international labour market; as a German banker puts it "*the skills are here*" [Lon/B/D] and this even applies to some increasingly specialised back office activities, for example in financial services:

> *"We're not a bog standard call centre or widget manufacturer. The staff we have downstairs, while they're back office. They predominantly become specialists because we work in a very niche industry … You need a workforce of a particular skills set and a particular educational background that if we shipped back to Leeds we'd have a problem." [Lon/FS/J]*

A US banker's assessment is typical:

> *"What we're interested in is the infrastructure of where we are but the primary driver is workforce. So its us being able to ensure that we have access to a qualified and reasonably accessible workforce … in London the fact that you've got a diverse and a very liquid, deep labour market is the primary consideration." [Lon/B/A]*

The high level of cultural diversity found among skilled labour is also seen as particularly important for knowledge production in London firms in some sectors, especially banking and financial services, where diversity is deliberately built in - as in the case of another US bank that: "*add diversity overseas*" as "*a corporate policy programme … we've focused on this in the trading rooms since 10 years ago and they finally did it corporately" A main reason is "to do business in Europe*" [Lon/1/B/BH].

Secondary centres

In the centres outside London labour supply is not generally seen as a problem, though specific skills needs and gaps in educational provision are noted in some locations. Interviews suggest that, in most cases, senior regional managers or partners will, at some stage, have had experience of working in London. Whereas recruitment for central London firms for many jobs is from the top UK universities and the international labour market, firms in secondary centres are recruiting a small number of positions at this level. Hence while, firms may recruit from universities nationally, sometimes specialisms can be found locally and international recruitment is unnecessary. For example a law interviewee sees Crawley's local labour market as a source of sub-law degree level skills:

> *"Crawley as a town attracts or produces a different type of individual to some other towns. Brighton, for example, is heavily influenced by the fact that there are two universities and it is a very attractive place to live. The consequences of that are that you have a large number of relatively young people who have been through university and therefore to recruit to say paralegal level, which is something slightly more than an administrative function, is relatively easy" [Law 25]*

Cambridge is highly advantaged in this respect and Bournemouth is identified as an important UK source of skills for advertising. An interviewee with experience in a major London agency notes:

> *"there are only two places in the country you can do an advertising-based degree. And one of them is in Bournemouth." [Adv 4].*

There is widespread feeling amongst firms interviewed outside London that more work currently undertaken by London firms could be undertaken by firms located in the secondary centres at lower cost. This is reflected in the comment of a law interviewee outside London who thinks it possible for clients to get City-trained lawyers at a lower cost outside London, although "*you won't necessarily have the same volume of lawyers or strength and depth that you would get if you went into London*" [Law 9].

Homeworking

Both in London and the secondary centres, homeworking is not much in evidence. Outside London, the overwhelming view is that home-working is not worth pursuing wholesale, because staff presence in the office has vital advantages. There is no evidence of telecommuting in the sense of working away from the office for sustained periods, nor is there any suggestion that homeworking allows workers to live more remotely. In London, while some staff work at home occasionally, the need to be present in the office on a regular basis is regarded as essential and the reason for a centralised location. This is important for working in teams and because "*you still expect people of a certain grade to be in their offices*" [Lon/I/A].

5.2 The Significance of 'Place'

A key research finding is the importance of a 'sense of place' in location of APS firms. There are special advantages of close proximity in central London locations, to be discussed in the next section. But in addition, other 'soft issues' are important location factors. These include the symbolism and status associated with a central London location, credibility of address and postcode, and the need to be situated in a 'milieu' that facilitates innovation and knowledge transfer for specific services. In advertising, for example:

> *"you are in a constantly simmering melting pot of new ideas and new things - creative people find that very stimulating and if you are out in EC1 or wherever, it isn't there. There are two poles. There is the City / East part of London, which is the money bit, and there is the West End which is the creative bit."[Lon/I/B].*

London's 'buzz', 'city atmosphere' and range of cultural, entertainment and other 'city assets' are key attractions for international workforce and a number of firms highlight the importance for very senior global decision-makers of feeling "*at home*" in London. The availability of high quality housing environments, particularly in West London, is discussed by some interviewees, as is the quality of schools. This is illustrated by the case of a French bank's employees:

"You can't expect them not to live in Kensington, because a lot of French people are there and there is a French school there but probably most put their kids into the English system because, actually that's one of the reasons the French are so keen to come over here - they want their kids to grow up bilingual."[Lon/B/M]

Favourable personal taxation for overseas senior managers is another reason discussed as one of a variety of 'soft' issues that feed into locational decisions.

The issue of schools is not mentioned specifically by firms outside London but it is discussed by some development bodies. In Bournemouth an agency notes "*at senior management level, one of the main things for employees considering a move to the area is the quality of education in the area*" [Inst 12]. This was repeated in St. Albans where a Singapore potential inward investor needed a single sex girls' school for his daughters and a Canadian investor sought a boys' single sex school offering the International Baccalaureate:

"if you are living 6000 miles away from your home, it's little things like where are my kids are going to go to school that are absolutely important to the parent" [Inst 2].

The issues of quality of life outside London reflect an appreciation of 'not being in London' and thus having reduced commuting (compared with the major complaints about commuting from London firms discussed in section 4.0), cheaper housing and plentiful open space.

In Bournemouth a few workers commute from Winchester; workers who have moved from London seem more willing to make longer commutes than others, but "the majority" have moved into the area [BF 8]. In Southampton, Winchester is the commuting base most often mentioned; one couple have moved to Farnham on the Hampshire-Surrey border to allow the other partner to work in London. In Cambridge, thirty miles appears the upper commuting limit, with very few commuting from London. In Crawley, manager-level staff tend not to live in the town: as one company notes, "*the proportion of people who work in Crawley but live outside is massive*" [Law 25]. The catchment area ranges from South London to the South Coast.

Brighton stands out as a particularly attractive location. One large accountancy firm comments:

"a lot of people live in Brighton and work in Crawley-Gatwick because Crawley-Gatwick is the financial centre and Brighton holds the life style" [Acc 34].

But the attractiveness of Brighton for APS employees is not confined to the young, as in the case of an IT employer who has recently moved his business to Brighton

"if you just look at the pattern of commuting, its all into Brighton every day. I mean it's a big centre." [Lon/I/A]

Another big net importer of labour is Milton Keynes. One economic development institution notes:

"we used to be a net exporter of labour even in the last five years and now we are an importer, about forty thousand people come in every day to the city and only about twenty-two thousand in total go out" [Inst 5].

Commuting from London is not often noted, but one St Albans accountancy firm notes that it makes sense for some employees to live in London:

"because quite a few of our clients are in London as well, it does mean that people could be working in London for six months of the year anyway" [Acc 26].

Swindon also attracts some London commuters – particularly in a major company with a UK HQ there. Here, commuters tended use the M4 corridor – so Reading, Bath and Bristol are within range. Reading seems to have the widest commuter range, including Bristol, West London, Manchester, Dorset and, even Edinburgh – in this case, infrequent visits to base by someone who visits clients around Britain.

Although they are not in London, all eight towns are nonetheless near it and this is a benefit. One Southampton respondent notes:

> *"the standard Saturday for us is probably the football down here, hop in the car, then straight to London for a night out in London. There's a certain buzz about London, there's no doubt about it" [Adv 18].*

Similarly, one Milton Keynes firm notes that the town has:

> *"got all the bars, the nightclubs but if staff want to go into London, or Birmingham, it's an hour each way" [Adv 11].*

Of the eight towns, St. Albans is nearest to London, and, as one respondent notes:

> *"a lot of other counties can doubtless boast the location factors we have, but at the end of the day we are North London" [Inst 2].*

Soft factors are particularly frequently discussed as reasons for APS concentration in London and indicate that spatial planning has an important role to play in ensuring that London remains attractive to business services and that the 'image' and 'place assets' of secondary centres are promoted.

5.3 The Role of London in Regional Knowledge Production

In addition to information flows and knowledge transfer within office networks, these also occur between networks. For example, in financial services:

> *"In the centre, there's a lot of interaction between financial groups, a lot of interaction between the institutions [firms] on a personal basis and therefore they all need to be in this vicinity." [Lon/B/X].*

The Corporation of London research on business clustering provides detailed evidence on the absolute importance of close proximity in central London for face-to-face contact, access to international high skilled labour, clients, other service providers and specialist suppliers (Corporation of London 2003). The co-presence of international service firms, labour and clients in London provides opportunities for a great volume and intensity of interactions involving knowledge transfer. For example, in banking at

> *"so-called 'all parties' meetings for a transaction in the mid-eighties, you might have had 15 people round the table, now you've probably got 35 to 40 people" [Lon/B/H].*

Relationships with other service firms are a major contributor to innovation. Examples include working in multi-disciplinary teams on large projects when, as is often the case, a number of specialists from different firms is represented:

> *"It isn't so much because there are more categories of firm involved, it's just that they have to have larger firms. Projects are larger, more complex - lawyers, accountants, investment banks, the client, P.R. firms - there are often multiple firms of lawyers as well - lawyers acting for the client, lawyers acting for underwriters - and advisors." [Lon/B/H].*

Knowledge exchange also happens informally when, for example, a small number of global experts in a specialised field exchange latest market or technical insights. Other less visible ways in which knowledge is exchanged are the formation of new working relations related to consolidation and organisational restructuring and 'labour churn'.

All the interview evidence from London and its secondary centres demonstrates the concentration of skills and specialisms in London and the value for firms of network links to London. As revealed by the interview evidence on virtual, face-to-face communications and travel, skills and knowledge acquired in London are distributed through regional networks. As discussed in sections 2.2 and 3.4, the sector with the most dense intra-firm network connections and matrix structure seems to be accountancy; however, the existence of extra-firm high-value flows and relations suggests that real functional linkages are more prolific than this. Logistics firms provide an interesting example: industry experts say that services are integral to the supply and distribution chain so that there are functional "*overlays right through the south east*" but "*you'll find a lot of this is hidden*" [Lon/L/J].

Knowledge transfer can pass in the other direction too, with innovative solutions and products arising anywhere in the network being developed centrally and then distributed to where they are needed. But one of the chief difficulties for firms in the secondary centres is acquiring and retaining young, ambitious people.

Three accountancy firms in Cambridge, Reading and St. Albans note that they compete to attract and retain staff prepared to commute into London. This is not unique to accountancy, but part of the general lure of London for those seeking bright lights and/or higher salaries. A law firm notes that the "*testosterone factor*" would lure young post-training graduates to the capital [Law 14]. An advertising firm seeks to recruit staff who have got the London experience out of their systems; another finds that the capital tends to 'suck in' the most talented; a similar tale comes from a major firm in the design sector.

The financial differential can be considerable because London jobs are more highly skilled and far more demanding. According to two law firms, for newly qualified lawyers, the differential is £20,000, rising to several hundred thousand at the highest levels [Law 3, 25]. One Bournemouth-Poole firm complains:

> *"I have trouble keeping some of the real talent here because they'll go and look somewhere else. For example, one that worked in my operational performance team until last year was a Leicester University graduate. He came down here, loved the area, got a job but I couldn't pay him enough, so he is off to London" [BF 6].*

The conclusions for the MCR are that intra-regional functional linkages are more complex and far richer than those associated merely with intra-firm connectivities. Further, London has a crucial global gateway city role for regional APS knowledge production.

5.4 Regional Issues

Key issues identified by firms in the eight centres relate to regulation, transport, labour markets/education, housing, 'image' and telecommunications infrastructure.

Regulation

In the secondary sectors, regulation is raised by one or two firms in relation to changing rules governing multi-disciplinary practice but in London other issues are raised as having the greatest potential influence on London's role as a global APS centre – even more important than transport. These are taxation, in particular, personal taxation for non-UK citizens and Stamp Duty and legislation, particularly on employment. Over-burdensome regulation in financial services is also raised by one or two interviewees as creating barriers for business. These issues have not been investigated in any depth but are clearly of vital importance for the sustainable development of the regional knowledge economy.

Transport

Two issues prioritised for London are:

First, the lack of good east-west access across London from the City and Canary Wharf to Heathrow – firms interviewed stress the urgent need for Crossrail to be brought forward.

Second, unreliability of rail and, particularly underground - poor transport management is seen as being as much to blame for poor services as under-investment.

Outside London, car is very much the preferred transport mode for intra-regional travel, except for journeys to London, where train takes over. Firms are highly dependent on cars because of a hub and spoke rail infrastructure and the need to access locations that are often outside town centres and away from stations. The need for better highway and rail access between APS centres is a priority.

A related common complaint in the eight centres is insufficient car parking space for commuting staff, especially those needing to travel from outlying villages or towns. Suggested solutions identified by firms include: buying space and/or bussing workers in; buying older premises with higher car parking provision; use of public car parks by staff and clients (including ad hoc sites in empty spaces near some town centres); and, for very large firms, a municipal bus service into the firm's campus.

The importance of accessibility to reliable international air services, particularly at Heathrow, is emphasised both in London and secondary centres.

Labour markets/ education

Although London firms find skills readily available, at the most specialised levels, supply bottlenecks result in fierce competition between firms. In general, the skills required are not taught in universities but have to be learned in the working environment - hence access to skills from an international labour market is essential.

Outside London, the issues are different and more local. In St Albans, Crawley, Milton Keynes, Swindon, and even Cambridge, educational gaps are identified.

St. Albans lacks a higher education base. In accountancy, for example, though Luton and Hertfordshire Universities are nearby, their entrance requirements "*are not high enough to meet our UCCA point requirement and 80% won't meet the criteria anyway*" [Acc 26].

In *Crawley* the same is true. A local economic development body notes how this:

> *"is very strange given the economic activity and that's an area which has attracted the interest of the University of Surrey and the University of Sussex and the University of Surrey and they're beginning to say, perhaps we ought to have an outpost campus" [Inst 10].*

Milton Keynes has a special version of the same problem. Leicester De Montfort's satellite campus has gone and the Open University is anything but local. There is a 'Universities for Milton Keynes' initiative involving the OU, University College Nene (Northampton), Luton University, Milton Keynes College and De Montfort, to develop a higher education presence. Major logistics firms here are concerned about the tight labour market for more junior positions - clerical, administrative and warehouse – which exerts upward pressure on wages.

In *Swindon* it is similar. A local economic development agency points to the

> *"need for a better provision of, or higher education, because if you look at the figures of NVQ level 3 and 4 skills in the resident workforce, they are below the national average" [Inst 9].*

In *Cambridge* there is a paradoxical problem of labour market exclusion:

"*one of the biggest issues that gets identified regionally all the time is the skills gap. If you talk about the Cambridge Phenomenon to the people in the four poorest wards in north Cambridge they won't know what you're talking about, it's another planet – unemployment there is high. And the general education amongst certain groups in the city is startlingly poor for a city that's renowned for its education, you know it's over ten thousand people within the city without GCSE's.*" [Inst 6].

Housing availability/cost

In London, housing availability and cost seem to be less of an issue for firms than in the secondary centres. In the view of one London firm, this is because more highly skilled employees are also higher paid. However one or two firms note the difficulties for less well paid support staff of long commuting journeys from the outskirts of London. However, this is seen as an issue for transport rather than housing, as many employees also move further out of London to gain additional space.

Outside London, three Bournemouth-Poole banking/finance firms note that high average house prices make it hard to attract and retain staff. [BF 50]. The same call comes from Cambridge which is seen as suffering from proximity to London, a restrictive planning system and NIMBYISM from local villages earmarked for new housing. Attracting young staff from cheaper housing areas – notably in the Midlands and North – is a major issue. In Swindon, demand for housing is far outstripping supply, despite large new estates to the north and south of the town. A major concern here is that new housing may be occupied by commuters working in the neighbouring South East region, where house prices are higher.

Image

As previously noted, London's status and international 'city image' is seen as a key asset by firms located there. Firms outside London recognise this and value accessibility to central London as illustrated by St Albans and Southampton interview comments. While 'quality of life' outside London is generally perceived as a benefit, 'city buzz' is a major attraction, especially for the young. In this respect, Bristol is seen as a magnet by Swindon and Crawley interviewees, one of which considers Crawley town centre: "*pretty dire*" [52]. A suggestion for Swindon is that the population of some 100,000 should be around 250,000 if it is to attract a "*good theatre, Snowdome, cathedral, major shopping centre*" [Des 63]. One firm notes that Crawley lacks a defining symbol, like Milton Keynes' MK Bowl and National Hockey Stadium. A significant point of interest is that Brighton is identified as an attractive residential base for APS employees not only by firms outside London but by a well-informed APS City expert [Lon/I/A].

Telecommunications

Lack of Broadband accessibility is a barrier to APS development in some parts of the eight centres studied outside London and a key regional issue for future development of knowledge based industries.

6. The Regional Knowledge Economy – An Overview

6.1 Defining the Mega-City-Region

Appropriateness of the MCR Definition: Firms very rarely organise their operations on the basis of the MCR as defined. Only the major accountancy firms and one or two financial services firms discuss their 'region' in a way that roughly corresponds to the Polynet MCR and, for the former, London represents a separate region for international functions. Many regional firms interviewed actually operate on a sub-regional basis; some have offices just outside the MCR, in Bristol, Cardiff and Midlands towns. *The evidence on cross-cutting functional linkages, suggests that MCR boundaries have 'soft' edges and need to be defined in loose and flexible ways*.

6.2 Considering Polycentricity

Processes: Intra- and extra-firm connectivities take many forms and many of the most important functional interactions are not readily apparent. While e-mail flows are high-volume, face-to-face contact remains high-value and essential to knowledge production and transfer. This is referred to as 'hi-tech/hi-touch' by firms. As new (non-local) offices open to access regional markets, functional linkages are woven in (perhaps less so in the case of banking and finance back-office operations). *Virtual communications facilitate the development of functional polycentricity, but an overriding conclusion is that they do not drive it*.

6.3 Future Questions and Challenges for Sustainable Management

Policy needs: Given the 'soft edges' implied by APS operations and the complexity of processes that create polycentric functional relations, 'joined up' policy approaches are essential for sustainable regional management. An overall conclusion from the research is that inter-urban linkages are produced by *complementary* business practices and are non-competitive in nature. Crucially, future development of the regional knowledge economy relies on strong inter-urban linkages between secondary centres and London. *Vertical and horizontal policy integration are needed to promote inter-urban approaches that reflect this essentially non-competitive relationship.*

7. Emerging Policy Issues

Transport

- East-west access is needed across London from the City and Canary Wharf to Heathrow – there is an urgent need for Crossrail to be brought forward
- Unreliability of London rail and underground services requires improved management
- Better highway and rail access directly linking regional secondary centres (avoiding the M25 and London rail termini) is needed
- Problems of insufficient car parking space in secondary centres needs to be addressed
- Accessibility to reliable international air services, particularly at Heathrow, is essential
- Development of an "Outer M25" and improved transportation links to satellite dormitory towns around MCR centres with appropriate housing development should be considered

Telecommunications

- Broadband access needs to be extended urgently

Education

- Maintaining an international labour market for London is essential
- Educational gaps at St Albans, Crawley, Milton Keynes, Swindon, and even Cambridge need to be addressed

Housing

- Preservation of high quality housing areas in London and additional housing supply in proximity to existing and new APS development is needed

Environment

- The image and cultural/social facilities of secondary centres needs to be improved

Regulation

- Regulatory and professional barriers to business need to be addressed
- The effects of UK economic policy on taxation and EU/UK employment legislation, on APS business need careful monitoring

8. Summary of Findings

- Advanced producer services (APS) have crucial importance for regional economic development because they are knowledge-based industries whose resources and 'products' are specialised skills and innovation
- London is a key 'global APS hub', not only within South East England but nationally, Europe-wide and globally, for international skills and activities that rely on concentration, agglomeration and clustering for knowledge and information transmission
- South East England secondary urban centres not only have far smaller APS concentrations but they are functionally distinct from London, being focused on local sub-regional markets
- Regional APS office networks have strong connections with London - these are essential to the strength of information flows and knowledge transfer in a globalised economy
- Connectivities within office networks across the region create functional linkages between the urban centres in which these are located
- The accountancy sector has particularly strong regional office network connectivities but key co-ordination functions remain located in London
- The logistics sector is an exception, having complex 'invisible' network connectivities across the South East, but with key co-ordination functions located in the region outside London
- 'Back offices' in banking and financial services remain major regional employers for routine support functions
- However, there is some evidence of re-skilling / in-sourcing for particular support functions that could best be located in the wider South East England region but close to London
- Opening of new offices, coupled with industry consolidation / restructuring, increases regional inter-urban functional linkages
- Increasing use of virtual communication modes in APS, complements, but does not replace, the need for face-to-face communication
- Face-to-face communication remains critical for the most high-value knowledge-based interactions within and between firms and with clients and other actors
- Regionalisation of office networks, and growing inter-urban functional linkages, increase the need for travel not only into and out of London but between regional centres
- APS activities do not operate within fixed geographical boundaries, hence policy interventions require cross-boundary approaches, even crossing the boundaries of South East England as defined for this study
- The concept of 'polycentricity' is scale-dependent but, within South East England, functional polycentricity (inter-urban relationships) is quite distinct from purely spatial or geographical polycentricity
- A paradox thus emerges: the region is increasingly polycentric with respect to functional linkages (interactions) between centres but remains quite monocentric in terms of the specialisation of functions between London and secondary centres. Its separate parts are "all on the dance floor, but dancing to London's tune"
- Key issues for sustainable management of the regional knowledge economy include improvements in:

1. Transportation infrastructure / management; skills and housing availability, appropriate to specific differing local regional needs, particularly between secondary urban centres without the need to travel through or around London
2. Monitoring of UK regulatory and legislative frameworks in the context of APS industries
3. Public sector mechanisms capable of focusing across economic and spatial policy spheres and across existing geographically delimited administrative boundaries

Footnotes

[1] The area of the mega-city-region extends beyond the South East of England administrative boundaries and is defined in the accompanying POLYNET Action 1.1 South East England report.

[2] 'Advanced producer service' firms are principally service providers to businesses rather than retail customers however, in many cases firms are engaged to some extent in both retail and wholesale activity. For further explanation refer to the POLYNET Action 1.2 summary report.

[3] http://www.cityoflondon.gov.uk/NR/rdonlyres/1C75B813-796E-45F8-83A2-7FD5D28D4F56/0/BC_RS_clustering_0302_XR.pdf

[4] Due to the volume of evidence from this large data base, it is only possible to provide an overview of the findings in this report. Associated research papers and a POLYNET book are to be prepared for later publication.

[5] Until recently this was known as Hays.

[6] In calculating the incidence of such working, firms were left out if they were different parts within a corporate hierarchy (i.e. a branch plant would not collaborate with an H.Q. on sector-related issues, as opposed to managerial ones). The other reason for leaving firms from calculations was in those rare instances where a second office was essentially a serviced one used for cosmetic purposes.

[7] There is evidence to suggest that similar intra-firm connectivities are associated with national APS networks however it is not possible to cover this within the current report which focuses specifically on the mega-city-region.

[8] See Beaverstock et al (2001) for a more detailed account of sectoral changes in advanced producer services in London and Frankfurt.

[9] As distinct from the parcel and postal elements – where foreign influence is strong DHL, UPS, Geopost and TNT all being foreign-owned. Another important element of Logistics is container shipping firms. This latter market is dominated by firms such as Maersk, P&O Nedlloyd, APL, Evergreen, Hapag-Lloyd and Overseas Containers Ltd. (OCL). Firms from both sub-sectors were interviewed to try and ensure a good overview of the contract Logistics sector.

[10] This consists of television, press, radio, outdoor, cinema and online. 'Below the line' is direct mail and, arguably, public relations.

[11] A recent MBO from Royal Sun Alliance (Horsham).

[12] A form of low cost medical insurance.

[13] For a fuller discussion of dispersal of functions from London see COL 2003.

[14] These were generally slight variations on the areas referred to as 'regional' by firms – slightly smaller or slightly larger. Larger areas would, for example, include areas such as Cardiff, Plymouth and Birmingham. Future research on the Greater South East also needs to examine the sub-regional scale of APS activity.

9. References

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Appendices

Appendix 1

Firm Interviewees

Staff Grade	Numbers Interviewed
Chairman	3
Vice-President	1
Chief Executive, Chief Economist or Chief Operating Officer	3
Senior or Managing Director or Partner	69
Manager (including General, Strategic, Business, Project etc)	7
Other	2

Institutional Interviewees

Staff Grade	Numbers Interviewed
President	
Chief Executive / Director	9
Head or Senior Officer, Senior Manager	18
Regional Director	6
Regional Manager or Officer	
Other	

Appendix 2

Firms Interviewed by Centre, Sector and Network Scope

(The names of 37 firms interviewed in central London for the Corporation of London are withheld for reasons of confidentiality)

Firm Name	Centre	Sector	Network Scope
Holly Benson Communications	Milton Keynes	Advertising	Regional
John Lewis Architects	Bournemouth	Design	Regional
JP Morgan	Bournemouth	Banking & Finance	Global
Kingston Smith	St. Albans	Accountancy	Global
KPMG	Reading	Accountancy	Global
Layton Blackham Group	Milton Keynes	Insurance	National
Lennon Planning	Reading	Design	Regional
Lester Aldridge	Bournemouth	Law	Regional
Lllewellyn Davies	London	Design	National
Lloyds TSB Commercial Finance	Cambridge	Banking & Finance	Global
Logica CMG	Reading	Management Consultancy	Global
Macmillan International	St. Albans	Management Consultancy	Global
Mahseer	Cambridge	Advertising	Global
Marks and Clark	Cambridge	Law	Global
Mills and Reeve	Cambridge	Law	Global

Nabarro Nathanson	Reading	Law	Global
Norwich Union (Healthcare)	Southampton	Insurance	Global
Numerica	Southampton	Accountancy	Global
NYK Logistics Manufacturing Retail Ltd.	Milton Keynes	Logistics	Global
P&O Nedlloyd	Southampton	Logistics	Global
Penna plc	Swindon	Management Consultancy	European
Portman Group	Bournemouth	Banking & Finance	National
Price Bailey	Cambridge	Accountancy	Regional
Price Waterhouse Coopers	General	Accountancy	Global
Propharma Consultancy	Crawley	Management Consultancy	Global
RLA Media Southern	Bournemouth	Advertising	National
RPS Planning	Swindon	Design	Global
RSM Robson Rhodes	Cambridge	Accountancy	European
Shoosmiths	Reading	Law	Global
SQW	Cambridge	Design	Global
Stonehouse Management	Swindon	Management Consultancy	Regional
The Company	Cambridge	Advertising	Regional
TNT Express UK	Crawley	Logistics	Global
UK Life Group	Swindon	Insurance	Global
Vail Williams	Southampton	Design	Regional
WAR	Cambridge	Advertising	Regional
Web Meetings Ltd.	Southampton	Management Consultancy	Regional
White Clarke Group	Milton Keynes	Banking & Finance	Global
Wilkins Kennedy	Cambridge	Accountancy	Regional
Wincanton	Swindon	Logistics	European
WSP Civils	Cambridge	Design	Global
Zenith Optimedia	London	Advertising	Global
Zurich Advice Network	Cambridge	Banking & Finance	Global

Appendix 3

Place	Organisation
London	Corporation of London Planning Department (Planning & Transportation)
South East (Guildford)	South East of England Regional Assembly (Planning and Transport)
South East (Guildford)	South East of England Development Agency (Development and Infrastructure)
South East (Guildford)	South East of England Development Agency (Business Sector Development)
Bournemouth	Poole BC Economic Development Unit
Bournemouth	Bournemouth BC Economic Development Unit
Cambridge	Cambridge City Council Economic Development Unit
Crawley	Crawley and District Industries Association (CADIA)
Crawley	West Sussex Economic Partnership
Milton Keynes	GO-MK Economy and Learning Partnership
Reading	Thames Valley Chamber of Commerce
Southampton	Southampton and Fareham Chamber of Commerce
St Albans	Hertfordshire Future
Swindon	Swindon BC Planning Department
Swindon	Swindon BC Economic Development Unit
Swindon	Swindon Initiative

Other Organisations interviewed

Institutions
Chartered Institute of Logistics and Transport (London & South)
Chartered Institute of Logistics and Transport (Northern Home Counties & East Anglia)
Chartered Institute of Logistics and Transport UK
International Financial Services London
Management Consultancies Association
Institute of Practitioners in Advertising
British Bankers Association
Confederation of British Industry South-East
Institute of Chartered Accountants in England & Wales
Royal Institute of British Architects
Royal Town Planning Institute
The Law Society

Appendix 4

GLOBAL NETWORK CONNECTIVITY			BANKING NETWORK CONNECTIVITY		
World City	Rank	Score	International Financial Centre	Rank	Score
London	**1**	**1**	**London**	**1**	**1**
New York	2	0.976	New York	2	0.984
Hong Kong	3	0.707	Tokyo	3	0.943
Paris	**4**	**0.699**	Hong Kong	4	0.854
Tokyo	5	0.691	Singapore	5	0.804
Singapore	6	0.645	**Paris**	**6**	**0.789**
Chicago	7	0.616	**Frankfurt**	**7**	**0.698**
Milan	8	0.604	Madrid	8	0.686
Los Angeles	9	0.6	Jakarta	9	0.662
Toronto	10	0.595	Chicago	10	0.65
Madrid	11	0.594	Milan	11	0.633
Amsterdam	**12**	**0.59**	Sydney	12	0.625
Sydney	13	0.578	Los Angeles	13	0.617
Frankfurt	**14**	**0.567**	Mumbai	14	0.616
Brussels	**15**	**0.557**	San Francisco	15	0.614
Sao Paulo	16	0.541	Sao Paulo	16	0.611
San Francisco	17	0.508	Taipei	17	0.6
Mexico City	18	0.486	Shanghai	18	0.592
Zurich	**19**	**0.485**	**Brussels**	**19**	**0.586**
Taipei	20	0.477	Seoul	20	0.579

Source: Taylor, P.J and Catalano, G. (2001) 'World City Network Formation in a Space of Flows' in *Stadt und Region: Dynamik von Lebenswelten, Tagungsbericht und Wissenschaftliche Abhandlungen, 53.* Deutscher Geographentag Leipzig, 29. September bis 5. Oktober 2001. Edited by A Mayr, M Meurer and J Vogt. Leipzig: Deutsche Gesellschaft für Geographie, 2002, 68-76.

Appendix 5

BUSINESS TRAVEL IN SOUTH EAST ENGLAND: Action 2.2 Results

The patterns for South East England *(Figs. A1a-c)* show a great deal of travelling between centres outside London, much of it regular commuting, but also including business trips. One, a Management Communications consultant (764), lives in Northampton and works in nearby Milton Keynes – both new towns developed from the 1960s – also making a business trip to the Swindon headquarters and to Oxford. The second, an accountant (833), shuttles between his office in Cambridge and a head office in London, with one business trip into Surrey on the other side of London. The third case (1343) is an international banker who makes trips to Paris and Brussels and also has his main telephone and e-mail contacts with these cities.

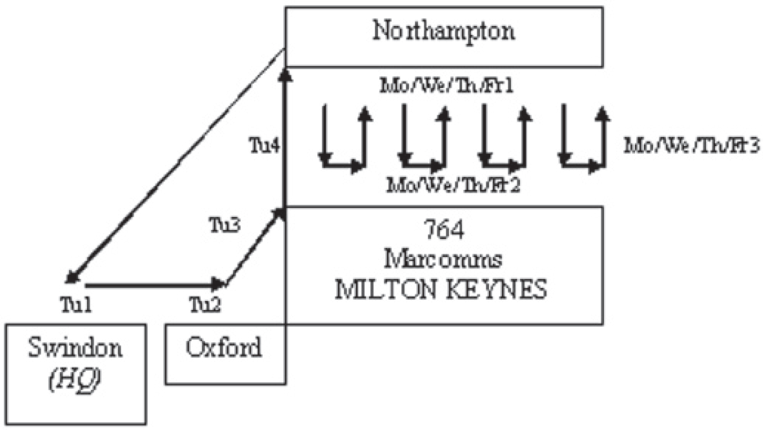

Fig. A1a Business Travel, South East England, Case 764

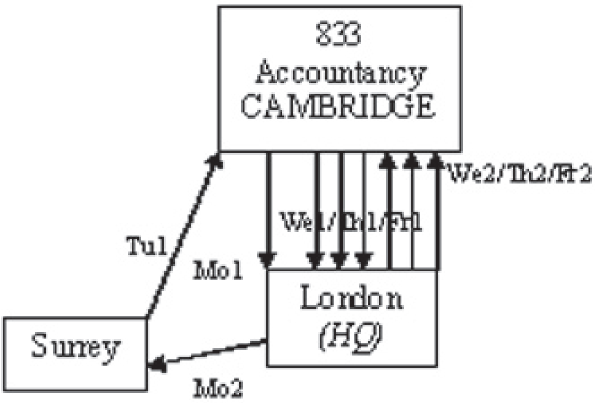

Fig. A1b Business Travel, South East England, Case 833

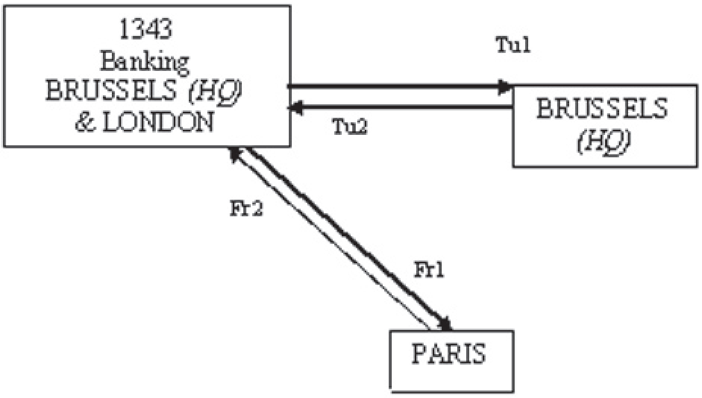

Fig. A1c Business Travel, South East England, Case 1343