

# **Geographical linkages in the financial services industry: a dialogue with organizational studies**

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## **Abstract**

This article proposes a conceptualization of the geographical linkages in the financial services sector based on boundary spanning activities. In doing so, the article seeks to open up dialogue between organizational sociology and regional development that goes beyond an analysis of financial transactions and asset prices to the informational content shared between organizations within a city, country, or region. This conceptual approach offers new insights into *why* and *how* geographical linkages emerge within and between financial services organizations. This article foreshadows the utility of this approach by way of an illustrative case of HSBC, the “world’s local bank”.

**Key words:** Financial geography, financial services, boundary spanning, strategic management, regional development, organizational studies.

**JEL codes:** R12; 016; L8; G2

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## Introduction

In June 2016 following Britain's decision to leave the European Union, Douglas Flint, Chairman of HSBC, one of the world's largest commercial banks, confirmed that senior management would not reconsider its decision to retain London as its global headquarters. After 10 months of internal deliberations, the bank had announced in February 2016 that it would end discussions about relocating to Hong Kong despite Asia representing a large and rapidly growing share of the company's profits and revenue. That same week, the company also announced that it planned to relocate 1,000 mid-office jobs from London to Paris as a result of the Brexit decision. Thus, a mixed message emerged about how changes in the environmental context shaped the geographical footprint of the bank, both showing how radical shifts in the macro-policy setting impacted some service functions (e.g. mid-office staff) but not others (e.g. headquarter location).

What drives the strategic location decisions of financial services organizations? Or, more specifically, what is the right unit of analysis for mapping the services performed with, and within, transnational commercial banks? Mainstream economics and finance has tended to view the economic activity of commercial banks predominantly through the lens of financial *transactions*, treating banks as vehicles for the efficient and effective flow of capital across boundaries (Knight & Sharma, 2016; Wilhelm & Downing, 2001). However, economic geographers and institutional scholars have increasingly sought to reframe the economic significance of financial services organizations through a multi-scalar approach, pointing to the role that transnational communities (Beaverstock, 2004), cities (Cassis, 2006; Jones, 2002), and even the internal routines within banks (as organizations) themselves (James R. Faulconbridge, 2008), can play in shaping the flow and concentration financial services activity across the global economy.

Whilst each of these spatial scales enrich our overall understanding of how transnational commercial banks, and organizations more broadly, become embedded within regions, less is

known about why organizations *move between* regions once they have become embedded. This is important, since there is growing recognition that regions do not represent static entities with inherent traits or characteristics, but are rather living socio-technical constructions or “networks of learning” in which the relational dynamics between an organization and its regional context is constantly shifting and being negotiated (Boschma, 2004). This is no more prescient than in the case of Brexit in which the relational dynamics regarding Britain’s place within the European Union arguably changed overnight. Given these contingencies, this article argues that what is needed is a richer appreciation of the mechanisms by which organizations not only cluster in particular regions, but shift the types and concentration of services within and between regions in response to environmental cues.

This article explores this issue in the specific case of transnational commercial banking.

Transnational commercial banks (hereafter transnational banks) play a vital role in the economy by inter-mediating the relationship between retail and corporate borrowers and savers, and diversifying risk globally. Since these organizations already have presence across multiple cities, countries, and regions, the strategic decision to shift resource allocation between offices and service providers offers an interesting opportunity to conceptualize why organizations shift their regional focus over time in response to particular types of environmental cues. Here, regions are understood in a socially constructed sense in terms of how organizational actors frame geographical boundaries in terms of time-zones. These enable actors to delineate each others’ activities in terms of how they frame management reporting and trading activities internally, as well as how they configure their financial reporting to external audiences.

By bringing together organizational sociology and regional development in the context of transnational banks, this article aims to limit our contribution to three areas. First, this article shows why different activities get performed at the corporate centre versus the periphery, based on their informational content. Second, by illustrating how this informational content changes

over time, this article accounts for why organizations *change* their regional presence based on the functions they perform in different regions. Finally, this article proposes a methodological contribution to geography scholars beyond an analysis of financial transactions by examining the information sharing processes of organizational actors.

### **Trustworthiness and efficiency shaping the location decisions of transnational banks**

There is now widespread recognition amongst scholars of regional development and strategic management that geographical context shapes the location decisions of organizations. In order to compete, firms do not merely draw on the cognitive and experiential knowledge resources of employees, but also rely on how this knowledge is embedded within a macro-level cultural and institutional context (Gertler, 2003; Lawson & Lorenz, 1999).

A classic reference point for linking geographical context to strategic decision-making within organizations is Sassen's (2001) theory of global city regions, which focuses on the agglomeration activities of advanced producer services organizations. This is closely related to Castells's theory of an information society, which recognizes the role of the 'metropolitan region' (Castells, 2010; Sassen, 2001). Sassen and Castells's work both theorize the role of cities in building "trusted settings" which facilitate and harmonize inter-organizational relations. This is supported, for example, through face-to-face interactions, co-location, and co-presence, which increase the opportunity for accidental meetings amongst a vetted, credible set of partners (Harald Bathelt, et al., 2004). Advanced producer service organizations, such as commercial banks, therefore co-locate in particular cities because of the ability to more quickly discern the legitimacy of strategic interactions at the very top of organizations (Sassen, 2001). Broadly, then, this approach argues that location decisions are based on the richness of relational context, in which proximity enhances the trust between actors.

Other studies, such as on transnational corporations and tacit knowledge, have extended this work by focusing on the “likeness” of shared activities and processes between organizations within a particular geographical context. Building on the organizational routines literature, these studies argue that territorial clustering arises from certain “norms of reciprocity” in which inter-firm collaboration is aided by shared approaches, common language, and mutually agreed “rules of the game” that enable firms within a particular region to work closely together ((James R Faulconbridge, 2006; Lawson & Lorenz, 1999). These studies have described these mechanisms at multiple scales, including learning regions (Maskell & Malmberg, 1999), shared “communities of practice” (Beaverstock, 2004), “global cluster regions” (Harald Bathelt & Li, 2013), as well as amongst certain types of individuals (Gertler, 2003). In each case, the focus is on the replicability of systems and processes between organizations in a shared, relational context. This approach has been expanded through concepts such as global production networks, which articulates the role of particular types of organizations (e.g. ‘lead firms’) in orchestrating the coordination of “like” or “related” actors (N. Coe, et al., 2014; N. M. Coe, et al., 2008; MacKinnon, 2012 ). Global production networks rely on a firm-territory nexus (Dicken & Malmberg, 2001), in which the power of global lead firms is recognized through their position within a supply chain, and their ability to control or determine the nature of relationships that are “downstream”. Taken together, this approach is focused on the reach of particular activities within relational context, in which the ability to scale and distribute information to extremities is enabled by characteristics of the product and services themselves.

In summary, then, the regional development literature has identified two key mechanisms for *why* organizations co-locate: (a) trustworthiness, which is aided by proximity; and (b) efficiency, which is aided by shared systems and processes. These two concepts are inter-related: trustworthiness reduces the transaction costs (i.e. efficiency) of risk-taking endeavours, and shared language (i.e. efficiency) enables evaluation of trustworthiness to occur more quickly.

Whilst these mechanisms explain why organizations may cluster within particular regions, what is less well developed in this literature is why these cluster configurations may *change*: that is, why do regions come in and out of favour with specific organizations and in relation to specific functions? This is important because organizations constantly respond to evaluations of the macro-environment, forcing them to de-couple and re-couple with different strategic partners (N. Coe, et al., 2014). Taylor and colleagues, for example, in their study of advanced producer service firms (including finance) within global cities found that these organizations continuously sought work that was “strategic” and “cutting edge” (i.e. had high status), yet gave limited account for the contingencies that explain the waxing and waning of relationships at the organization-regional interface over time.

### **How informational content shapes the region-organization interface**

To explore this issue in the context of transnational banking, this article looks at the underlying content of the information being shared between bank actors and their strategic partners across space and time, and evaluates how the quality of this information may shape location decisions. By abstracting our analysis to the informational unit of analysis, this article seeks to define it more broadly to include not just the financial transactions between banks, but the stickier, more strategic, less publicly displayed information that financial services actors (e.g. banks, their consultants, joint venture partners, financial technology start-ups, etc) share with each other both inside and across organizational boundaries in order to secure organizational competitive advantage. Furthermore, in applying this analysis to regional development, this article examines the spatial dimensions of this information more broadly, rather than delimiting our theorizing to a regional or sub-regional scale.

A key departure point is Clark and O’Connor’s (1997) key article on the global financial economy in which they linked the nature of information (or what they termed “information content”) to three types of densities: transparent, translucent, and opaque. Transparent products

were composed of information whose qualities and dimensions were well known, and therefore easy for market actors to interpret. For example, gold had functionally and spatially consistent informational content and could therefore be easily interpreted and transacted from different geographical standpoints. Equities, on the other hand, were translucent products because they contained information that involved institutional or organizational context. For example, asset managers might frame the risk/reward outcomes from a portfolio of equities differently based on proprietary methodologies. Finally, opaque products required specialist expertise to interpret “private information” (p 10), such as unlisted, venture capital-funded investments which need detailed technology and management due diligence. This information was therefore hard to access and resulted in asymmetric advantages to market actors ‘in the know’ (H Bathelt & Glucker, 2011; Jones, 2002).

The Clark & O’Connor (1997) article linked these different types of financial products to different financial centres. They argued that transparent products were more easily traded across national boundaries and would therefore be dominated by international financial centers (e.g. London, New York). This was because these geographical agglomerations could reduce the transaction cost of trades: “turnover efficiencies are only met in the larger global centers, so that the design and production of transparent products provides the apex of the world’s financial system” (p12). By contrast, translucent and opaque products were better suited to national (e.g. Sydney, Hong Kong, Frankfurt) and sub-national (e.g. San Francisco, Boston) financial centres respectively, which could accommodate the advantages of proximate information (G. Clark & O’Connor, 1997; Knight & Sharma, 2016).

Clark & O’Connor (1997) provides one way for unpacking the relational dynamics shaping the spatial geography of information. However, it is limited because it frames financial services activity in terms of financial transactions rather than in organizational terms. Indeed, many of the “turnover efficiencies” they envisaged have *not* become a source of local competitive advantage



as trading platform technologies have radically reduced the transaction costs of assets in diverse physical geographies. However, in subsequent work, there has been a growing appreciation that *organizational actors*, or at least the nature of information shared between these actors (rather than the technology to effect transactions), is the real source of competitive advantage between cities, national, and regional geographies. Clark and Thrift (2005), for example, subsequently argued that financial assets “clustered in space and time, *even if* technology allows trading from anywhere at any time” (p 238, emphasis added) (G. L. Clark & Thrift, 2005).

One literature that has focused on the nature of the informational content traded between organizational actors is the boundary spanning literature. Organizational boundaries perform a central function in delimiting the social structures and processes of an organization from its external environment (Pfeffer & Salancik, 2003; Santos & Eisenhardt, 2005). Organizations incur a governance cost in managing information flow across organizational boundaries. These costs are caused by information problems (Williamson, 1985), as other actors (whether market participants, or organizational actors in subsidiary units) incorrectly value product or service attributes in market exchange, leading to adverse selection and moral hazard (Santos & Eisenhardt, 2005). In order to minimize the cost of governing activities, boundary spanners help facilitate the exchange of information across boundaries in order to support efficient strategic coupling between organizations and/or their geographically dispersed subsidiaries.

The boundary spanning literature recognizes that the practices of boundary spanning differ depending on the characteristics of the information being processed. Here two dimensions are relevant: (a) the degree of *perceived environmental uncertainty*, and (b) the *information need* in which the information arises. In relation to the degree of environmental uncertainty, the information processing literature recognizes low and high degrees of *perceived environmental uncertainty*. Uncertainty refers to the extent to which organizational actors can discern informational cues with which to make decisions (Leifer & Delbecq, 1978; Leifer & Huber, 1977). High

informational uncertainty arises when there is significant heterogeneity, variability and complexity in the information received from the external environment. On the other hand, low informational uncertainty arises when the information is relatively consistent (low variability), homogenous, and simple. In the context of financial organizations, high environmental uncertainty may be present when, for example, unexpected or unanticipated issues appear in the environment. This might be based on radical changes to regulation, sudden shifts in technology, or catastrophic insolvencies which pose systemic and sudden risks to financial institutions. On the other hand, low perceived uncertainty will arise when the information is largely formalized, anticipated, and easy to digest. This might include, for example, central bank updates or macroeconomic information, which is consistent with forecasts and macroeconomic trends. Elsewhere inside the organization, this might include information about incremental changes in the competitor landscape, minor shifts in regulation, or adjustments to internal corporate strategies.

The second dimension in information processing identified above is the *information need* in which information arises. This depends on whether information is anticipated and regular, and has an implication for the boundary spanning activities conducted by organizational actors. Information is anticipated and regular when the provision of information is expected and formalized. This might be, for example, quarterly updates about financial results, or information provided as part of the annual strategic planning cycle. This dimension does not relate to *what* the information is, but rather *how* it is received. On the other hand, unanticipated and irregular information arises when the need for information is not known and it occurs in a one-off capacity. This might refer to, for example, surprise out-of-cycle earnings updates, market sensitive deals that need to be disclosed as market sensitive matters, or mergers and acquisition activities that unexpectedly change the competitor landscape.

## **Spatial dynamics of information processing: why organizational actors' change their regional presence**

The boundary spanning literature has been developed in organizational studies and strategic management to examine the personal traits (Mudambi & Swift, 2009; Schotter & Beamish, 2011) and competencies (Ancona & Caldwell, 1992; Mudambi & Navarra, 2004) that condition boundary spanners' ability to perform their spanning roles. However, the extension in this article is to link a boundary spanning analysis back to its relational and geography context in order to understand how these relationships characterize the changing spatio-temporal distribution of transnational bank activities.

To do this, this article proposes linking the informational contingencies identified above to their spatial context, building on the relational mechanisms of “trustworthiness” and “efficiency”. In doing so, this article extends prior literature on regional development by accounting for *how* and *why* organizations shift their position in market as their informational needs change. It also adds spatial dynamics to boundary spanning typologies, which are not envisaged in the aforementioned contributions.

These two dimensions identified above – low/high perceived environmental uncertainty; and low/high information need – are depicted in a two-by-two typology in Table 1. At the intersection of these two dimensions, boundary spanners triage information received and process it in order to make decisions. Each of the cells in Table 1 is characterized as a ‘scenario’ in which organizational actors adopt different boundary spanning practices in order to make sense of the information. These situations need not be mutually exclusive (Aldrich & Herker, 1977). Instead, boundary spanners might find themselves more heavily weighted towards one scenario at any one time, and/or changing strategies over time as contexts change (Kunisch, et al., 2015; Marrone, 2010).

[Insert Table 1 about here]

In order to illustrate the distinctiveness of this approach in the context of transnational banking, this article now link examples of practices that boundary spanners adopt within each cell, and relate these to the spatial dynamics these impose. Each of these scenarios is guided by four overarching questions: *Where* the information comes from? *Where* are the boundary spanners located? How important is *proximity* of boundary spanners to the sources of information? How *centralized* is the collection of information in different types of boundary spanning practices?

***Scenario 1 (low uncertainty; anticipated/regular):***

*Informational content:* In these situations, organizations have (a) low perceived environmental uncertainty about the information, and (b) anticipated and regular information needs. As a result, this means that the way the information arrives is regulated, and the processing of information by boundary spanners follows a routine. An example of this in a financial context might be information about central bank announcements about interest rates. The timing of a central bank announcement may be widely anticipated and therefore have *low perceived uncertainty*. The information need to an organization is also *anticipated and regular*, because it feeds into established financial models for the cost of servicing debt across the different divisions of a bank.

*Spatial dynamics:* In these instances, the boundary spanning activities can be geographically distributed and performed by non-strategic actors, such as front-line managers. This is because the low uncertainty associated with the information means that it can be easily accommodated by organizational routines and processes. These routines enable consistent responses to stimuli at dispersed geographical nodes. An example of this might be front-line managers' responses to lending rates following a change in central bank policy. Since these calculations are highly routinized, they can be enacted at the periphery and do not require proximity to the corporate centre.

***Scenario 2 (high uncertainty; anticipated/regular).***

*Informational content:* In Scenario 2, organizations have (a) high perceived environmental uncertainty about the information, and (b) anticipated and regular information needs. An example of this might be an organization where monthly reports need to be developed but where the environment changes rapidly, meaning that the sources of information can be difficult to identify. In these cases, even though boundary spanners have processes set up to search for information (anticipated, regular information need), the information itself has high perceived uncertainty.

*Spatial dynamics:* In these instances, the information is uncertain meaning that it requires judgement from more strategic actors, such as senior and middle managers in headquarter and regional offices. However, in order to create some flexibility for senior managers, responses are framed in terms of meta-routines that are condoned by the corporate centre. These meta-routines are defined as routines that formalize discretion levels. This might include centralized budget cycles that provide middle managers with (limited) budget discretion, and strategic planning workshops that formalize organizational strategy implementation at the periphery. This is likely to characterize the work of mid-office functions, such as senior managers, in which the bounded discretion is designed to cater for local contingencies and variations. An example of this might be a regional managers' discretion to open up new branch offices when the population density of a particular city reaches a particular level. This decision involves responsiveness to uncertainty (population levels in the city), but is formalized with an organizational routine (policy for branch openings).

***Scenario 3 (low uncertainty; unanticipated/irregular).***

*Informational content:* In Scenario 3, organizations have (a) low perceived environmental uncertainty, and (b) unanticipated/irregular informational needs. An example of this might be

how regional offices implement centrally agreed strategies through regional partnerships. In these cases, there is low uncertainty since the top management team has formulated the strategy of the organization. However, the implementation of this strategy is unanticipated and irregular as regional offices respond to opportunistic recruitment to address specific needs at any point in time, or pursue partnerships such as joint-venture relations, acquisitions or divestments. Since these are typically one-off events, they are irregular and the specific details are often unanticipated.

*Spatial dynamics:* In this case, the organizational strategy is likely to be established at the corporate centre but implementation will take place in regional offices. These decisions will be implemented by regional senior managers, since they relate to change implementation so they have strategic content.

***Scenario 4 (high uncertainty; non-regulated, non-routine).***

*Informational content:* In Scenario 4, organizations have (a) high perceived environmental uncertainty, and (b) unanticipated/ irregular informational needs. Thus, the main difference from the previous scenario is that the new information is perceived as introducing high uncertainty. For example, the boundary spanners may have an urgent need to appraise a technology threat or opportunity for the financial organization based on a new venture opportunity. This means there is high perceived uncertainty about the significance of the information, and the information need is unanticipated and irregular. The boundary spanning practices are *non-regulated*, since it is not anticipated or initiated within the organization's systems. Furthermore, because it is perceived as introducing high uncertainty it triggers non-routine processes such as one-off strategic acquisitions, consulting projects, or new investigations.

*Spatial dynamics:* This information involves highly strategic decisions, and therefore depends on boundary spanning at the corporate centre. These decisions are most dependent on proximity

and centrality, since top managers need rich information as well as the ability to make decisions at short-notice (e.g. following the Brexit decision). These activities most closely reflect location decisions for corporate headquarters.

### **Relating a boundary spanning view to financial geography: a case study of HSBC**

To illustrate how a geographically-enriched boundary spanning view expands our understanding of how and why organizations shift the regional presence of particular service functions, this article draws on the case of HSBC and the spanning relationships that HSBC organizational actors have formed with other organizations (e.g. business consulting, investors, and government agencies). This article adopts an illustrative case study approach, drawing on interviews conducted with HSBC middle managers in Hong Kong and London, as well as the authors' long-term engagement in studying the commercial banking sector. Our study is supplemented with secondary data, including company documents, newspaper articles covering interviews with key decision makers, and other archival materials to compose a historical account of HSBC's corporate strategy in relation to regional presence and headquarter location.

HSBC was started in 1865 when European and Chinese merchants founded an organization to finance trade between west and east. They originally considered Shanghai as the headquarter location before settling on Hong Kong. Since that time HSBC has either debated or moved its headquarters in 1941, 1946, 1981, 1986, 1990, 1993, 2008 and 2009 (Economist, 2016a). Most recently, in 2016, it decided to retain its headquarters in London after ten months of consideration. The study concentrates on HSBC's most recent history, focusing on particular episodes of change in the geographical location of HSBC's service functions, and accounting for these spatial changes.

Applying a boundary spanning perspective, the case study of HSBC allows us to illustrate four instances of the organization’s strategic coupling activities and their geographical consequences. The findings of our case study are summarized in the below table. First, it is shown how spanning practices can take different forms based on the perceived environmental uncertainty and informational needs of organizational actors. This is represented by the four scenarios depicted, which illustrate distinct strategic issues facing the organization and functions performed. This is shown in the rows titled “Service function” and “Information process scenario”. It is important to note that these do not proceed serially (i.e. one through four) because the article highlights the scenario that was at play during the time period in focus. Second and related, it is shown how these scenarios can co-exist or change over time. This is depicted in the four columns, which reflect four distinct periods in the organizational history of HSBC. Third, it is shown how strategic decisions made within each scenario can have geographical consequences. This is reflected in the second column titled “Geographical focus”. Fourth, these consequences can be examined in multiple ways based on the different participants involved, as reflected in row three below titled “Participants involved”. This varies from the equity position of assets owned by HSBC around the world (and divestments over time), to the number of employees under management, inter-organizational relationships with FABs, and relationships with regulators and investors. Taken together, this article now discusses the unfolding spanning activities taking place within HSBC over a thirty year period, and the consequences for the organization’s geographical footprint and scope.

[Insert Table 2 about here]

*1993 to 2000: Becoming European and American (Scenario 2)*

*Environmental uncertainty and informational need:* In the 1980s HSBC was headquartered in Hong Kong. In 1993, the management team and board decided to move its headquarters to London. This coincided with two important informational uncertainties that were perceived in the macro



environment. First, HSBC had just fully acquired a leading British bank, Midland Bank. At the time, it was one of the largest banking acquisitions in history, and was part of the bank's strategic move to gain a foothold in Europe. The bank was diversifying into America and Europe, with Asia only accounting for a third of profits as late as 2004. In addition, Hong Kong was due to be handed back to China in 1997, and there were concerns that Beijing would impose heavy regulation on the bank. As the chairman at the time said, "As night follows day...we would become a Chinese bank," had the bank kept its domicile in Hong Kong after 1997 (Economist, 2016a). Accelerating financial integration between the UK and EU from 1986 and through the 1990s also meant the UK focus extended to a broader focus on Europe in general. Lesser focus on Asia was also influenced by the Asian financial crisis of 1997-8.

*Spatial dynamics:* The period immediately following large acquisitions (Midland Bank) and relocation decisions (London) was characterized by significant involvement from the Bank's middle and senior managers. The post-merger integration still posed significant uncertainties in relation to how core banking and technology platforms would be integrated between Midlands Bank and HSBC. In addition, there were also strategic issues that need attention with regulators, in relation to taxation and addressing systemic risk to the economy based by UK-based banks' total balance sheet compared to GDP.

*2010-late 2014: Gulliver's arrival as CEO and focus on Asian trade flows (Scenario 3)*

*Environmental uncertainty and informational need:* Through the mid to late 2000s, however, the slowdown in Europe and the Americas following the global financial crisis instigated new questions about the Bank's future, and highlighted the growing strategic importance of Asia to HSBC's organizational strategy. HSBC's focus on Asia, and building the business around trade finance flows between Europe and emerging economies culminated in the appointment of Stuart Gulliver as CEO in 2010. Gulliver had worked in HSBC since the 1980s and had closely followed the failure of the bank to gain a foothold in America, especially after a succession of

disastrous acquisitions stretching back to the Marine Midland business (in 1987) and leading up to Householder International, a sub-prime lender (acquired in 2003).

Gulliver's focus was on targeting markets where HSBC had a competitive advantage, and exiting those markets where it did not (for example, HSBC left Poland and Georgia shortly after his appointment). This became the focus on the centrally-agreed strategy. Gulliver described the nature of the bank's geographical footprint as follows: 'We have had a sprawl, as opposed to a set of cohesive, logically integrated businesses in a set of chosen countries. And because we've always been actually profitable there's never been the requirement to be disciplined about this.' (Telegraph, 2012). This reflected the need to concentrate highly strategic information close to the corporate centre, and reformulate how the strategy was implemented in regional offices.

The shift to focusing on trade flows between Europe and Asia and China in particular tapped into clear, long-term macroeconomic trends driven by China's rising middle class (i.e. low uncertainty). Whilst year-to-year variations constituted short-term informational uncertainty, the long-term environmental outlook was perceived as having relatively low uncertainty. China and Europe represented one of the world's largest trade corridors. Furthermore, the significant savings in China underwrote this decision. As Gulliver indicated in relation to the firms' commitment to doing more business in the Cantonese-speaking Pearl River delta: 'Rising interest rates would boost lending margins mostly in Asia, which has a surplus of deposits, which need not be repriced as quickly as debt. HSBC is far more Asian than its Western rivals. *Not even a hard landing in China, a banking crisis there or a devaluation of the yuan would alter that.*' (emphasis added) (HSBC, 2015). In this respect, this phase was led by senior managers in regional offices, since it involved strategy implementation rather than strategy formulation, thereby reducing the need for strong centralized control.

*Spatial dynamics:* Building the management team and expertise to deliver on emerging-developed market business required bespoke skills in the early stages of Gulliver's tenure. As part of this,

HSBC aggressively tapped into a range of technology partnerships to access intellectual property in key regions that would spur its future business. For example, it worked with Accenture, an IT consulting firm, to operate a “Fintech lab” in regional locations (Hong Kong, New York, and London) in order to access promising start-ups and on-board their technologies within the bank. This also guided its on-the-ground strategy to grow regional office presence in the Pearl River Delta, with access to high tech, research focused and digital businesses such as Tencent and Huawei, headquartered in Shenzhen. During this period as well, non-routine restructuring took place in line with re-orienting the business towards Asia. Gulliver oversaw 78 businesses being sold across the HSBC group, almost halving the bank’s exposure to the US time zone through North America and Brazil. Vast sums were also spent on compliance systems in order to support the bank’s entry into developing countries in particular where anti-money laundering and counter-terrorism checks are especially important. In this respect, the large-scale restructuring of the firm’s headquarter location and subsequent divestment decisions coincided with the need to centralize information flow to the corporate centre of control.

*Late 2014-2015: Formalizing Asian expertise in-house (Scenario 1)*

*Environmental uncertainty and informational need:* Gulliver’s expansion into Asia was initially facilitated through close connections with the tacit network of professional service firms and advisers in London and the Pearl River Delta. However, as the strategy implementation matured, his focus became on strategy implementation at the local level through the opening up of new regional offices, and organic expansion through Asia. This shift was important as it enabled information needs to be anticipated in a *regulated* manner, and for information search activities to be processed in a routine manner. The routine manner of these spanning activities was manifested in the fact that by being brought in-house, they were able to be formalized into the everyday practices of the organization. This also enabled these services to be distributed to regional offices in new markets.

*Spatial dynamics:* One example of this was the appointment of Andy Maguire, the former partner at the Boston Consulting Group leading the prior strategy engagement, to HSBC's Global Chief Operations Officer in London in late 2014. A key aspect of Maguire's role was to reduce the multiple management layers within the organization, and formalize the activities that front-line workers within the may were doing. This led to a 10% reduction in the size of the workforce. Gulliver described the political tensions this created as follows: 'If you've had all this 'country head is king' stuff, you end up with multiple head offices and within those, multiple layers of bureaucracy, and so we haven't been the nimblest firm, as bureaucracies are incredibly self-reinforcing.' (Telegraph, 2012). The process of formalizing internal processes enabled more effective decentralized management by reducing the amount of discretion senior managers had over asset allocation. This enabled the Gulliver, as Group CEO, and his senior executive team to pursue a group strategy in relation to Asia in a more consistent and distributed manner than under the bank's previously decentralized structure. This arguably also reduced the perceived uncertainty of environmental information (i.e. low uncertainty), as the bank was able to focus on executing against broad macro-trends rather than responding to local environmental issues as and when they arose.

Furthermore, HSBC moved to expand its employment footprint in the Pearl River Delta. In early 2015, for example, a plan to add 4,000 new banking employees over three to five years was announced in addition to the existing 1,500 (Reuters, 2016). In the case of HSBC, establishing new offices in this region was part of scenario 1, in which the bank had identified clear long-term trends (low uncertainty), and was ready to scale early initiatives in order to take advantage of the company's location strategy (unanticipated/ irregular).

*Mid-2015-2016: HQ decision to still call London home (Scenario 4)*

*Environmental uncertainty and informational need:* The transition of the management side of the business around Asia re-surfaced the decision of whether to move the corporate headquarters back to Hong Kong. Although there were a number of strategic issues for discussion, the decisive factors largely related to high levels of uncertainty around regulation and government policy more broadly. On the one hand, HSBC faced issues around the risk of Britain leaving the EU. Directors reasoned that this would be an issue whether HSBC was headquartered in Hong Kong or not. These were also specific concerns around taxation. HSBC paid a \$1.4b levy cost in 2015, which was significantly more than rivals due to its larger balance sheet. This charge was 10% charge on profits from its global operations, and was in addition to other changes, such as ring-fencing its retail arm, capital surcharges, “bail-in” bonds, and liquidity buffers (Economist, 2016b).

On the other hand, the more systemic issue facing HSBC was how it would negotiate with government authorities in the event of a financial crisis, especially given the ability of regulators to provide support in a financial crisis. As of 2016, the Hong Kong Market Authority had \$360 billion of foreign reserves but lacked the crisis tool kit of a central bank. Thus, HSBC would ultimately need to build relations with mainland China in a crisis; yet China’s approach to finance was not considered transparent, and fell outside the known expertise of senior management.

*Spatial dynamics:* The decision to leave the headquarters in London was framed as follows by HSBC’s Chairman: ‘After considering all the relevant factors, the Board concluded that having our headquarters in the UK and our significant business in Asia Pacific led from Hong Kong, delivers the best of both worlds to our stakeholders’ (HSBC, 2015). Yet the decision of Britain to leave the European Union triggered new revisions to this approach, including decisions about relocating some mid-office jobs to continental Europe.

Furthermore, HSBC had a more established base for managing investor relations in London, which was important for maintaining stability during periods of significant change (i.e. *non-routine*

responses). London remained the source of price discovery for HSBC's share price, despite being listed in New York, London, and Hong Kong (Wójcik, 2011). London also traded twice as many HSBC shares as Hong Kong, and seven times as many as New York. This infrastructure enabled HSBC to respond to unanticipated events effecting investor relations around the world.

## **Conclusions and Implications**

Geographers studying transnational banking services have largely focused on the city, country, or regional units of analysis, whilst leaving the internal dynamics within organizations as a 'black box'. This article seeks to explore this issue by sensitizing future research agendas to three dimensions of spatial organization that come into focus through an organizational view: (a) the different types of service functions performed within transnational banks, (b) the spatial dynamics of the informational content comprising these functions, and (c) how these functions respond to environmental conditions, including the inter-organizational partnerships. These three dimensions are highlighted in Figure 1 below.

[Insert Figure 1 about here]

This Figure illustrates an example of the constellation of organizations relating to HSBC through boundary spanning activities. The organizations are represented by the circles in the diagram, and the spanning activities are represented by the arrows. First, the labels in the circles highlight an array of organizational types, including governments (Chinese and UK regulatory agencies), professional service providers (consulting firms e.g. BCG and Accenture), as well as technology partners (Huawei). Second, the line type of the circles around the organization indicates the different types of informational needs these organizations service to HSBC. Anticipated and regular informational needs are depicted with a full line. These organizations have a predictable routines in how information is shared, thereby enabling these functions to operate at considerable physical distance to the corporate centre. On the other hand,

organizations depicted with a dotted line have an irregular (i.e. non-routinized) relationship with HSBC, and provide information when unanticipated information needs arise. This might include, for example, strategic advice that requires bespoke consulting. This is significant because spanning under these conditions requires close-at-hand relationships and proximity. Third, the dotted boxes shows how the boundary spanning relationships can operate under perceived conditions of environmental certainty and environmental uncertainty. This show that professional service firm and government relationships are characterized by uncertainty, since there is significant variability and heterogeneity in the kinds of information shared in these relationships and the information is strategically important. On the other hand, in-house recruitment and joint-venture partnerships consolidate spanning activities under conditions of perceived environmental certainty. This reflects greater degrees of trust and competence on behalf of HSBC spanners as they formalize these relationships, and can therefore operate through middle managers in regional offices.

Taken together, these three dimensions align with three contributions to the geography of transnational banking services. First, by depicting an array of organizations linked to a transnational bank, our model shows how the informational content of relationships can vary between organizations based on the strategic functions being performed. This in turn has spatial consequences, as our scenarios depict. This may offer qualifications to prior models that have either focused on a single organization, or characterised the relationship between organizations based on industry or institutional factors. For example, Sassen argues that organizational actors in advanced producer service organizations act as ‘the micro network of the high-level decision-making process, based on face-to-face relationships, linked to a macro-network of decision-implementation, which is based on electronic communication networks’(Sassen, 2001). However, by studying the types of *information* processed across these relationships and its spatial dynamics, this article offers a contingency model that reveals how certain types of spanning (and

agglomerations) may be more important during certain periods of stress or environmental uncertainty, and for particular types of functions of services.

This leads to our second contribution, which is to highlight qualities within the informational content of boundary spanning activities. Our model seeks to ‘theorize the arrows’, looking at the kinds of information flow that gets shared between organizations, the ‘needs’ that initiates these information processes, and their spatial consequences. This may offer a more dynamic and spatially nuanced view of *when* certain types of spanning functions become more or less in focus with certain types of organizations. Whereas prior studies in knowledge management in particular have highlighted the different scalar levels at which to position inter-organizational linkages, by focusing on information this article shows how organization’s presence may differ by organizational function. Thus, certain types of information exchange related to strategic issues may be co-located with corporate headquarters. By contrast, other types of information exchange can be conducted at the organizational periphery such as developing countries (e.g. out-sourcing activities), and through automation (e.g. through technology). This is because of the highly predictable nature of the informational content involves in these spanning tasks. Our model therefore seeks to offer a theoretical basis for explaining how these nested geographical dynamics emerge, and why transnational banks might shift particular types of activities to different regions over time.

Finally, this article hopes to make a methodological contribution by suggesting new ways in which the activities of transnational banks can be measured and analysed. In the context of regional development in particular, the financial geography literature has tended to focus on transaction or stock price data (Wójcik, 2011), or the close financial relationships that emerge by “being there” (Malmberg & Maskell, 2006) and having close-to-hand access to portfolio companies (Knight, 2012, 2013). Investment decisions and financial transactions clearly remain central to financial geography, but this article opens up a wider palate, in terms of organizational



actors' specific practices. This aligns with a burgeoning agenda in management geography that has called on the need to study the social practice of decision-makers more closely (Jones, 2014; Jones & Murphy, 2010).

A number of limitations are acknowledged as part of our study. First, this article has limited the discussion to transnational commercial banks, which exhibit specific qualities as complex, multi-business organizations. Future studies in this area may consider whether these dynamics apply to other financial organizations that play a central role in finance, such as asset managers, sovereign wealth funds, and investment banks. In addition, the analysis has been limited to an illustrative case study approach of a single organization. Future studies might consider developing finer-grained approaches to studying *how* these decisions get made. For example, studies with a positivist focus might seek to consider cross-case comparisons between different types of transnational banks, which specializations in different functions. Alternatively practice-based methodological approaches with a interpretive focus may seek to analyse the “doings and sayings” of organizational actors through longitudinal case studies, highlighting their interpretive aspects (Schatzki, 2002). In these cases, studying strategy workshops and meetings through ethnographic techniques become important ways to identify and then examine micro-instantiations of larger decisions.

To conclude, the attention to industrial concentration and geographic distribution, as in the case of international economic and financial centres, has become increasingly important to geographers seeking to make sense of the changing landscape of international business and finance (Tickell & Peck, 1992). The Fordist era, in which question of economic scale could be explained through the functioning of the stable, vertically integrated corporation seeking to standardize and reduce its cost of production as given way to an age of flexible production. By examining the conceptual underpinnings of information processing and boundary spanning activities between organizations, our intention has been to enable finer grained, dynamic views of

how this flexibility is enacted in a regional scale in the case of financial organizations. This article not only seeks to encourage a research agenda that moves towards a more complex, multi-scalar new of inter-organizational relationships in finance, but also one that attends to the conditions and limitations of geographical decisions as organizations decide on issues, such as headquarter location, employee resource allocation, and investment/ divestment decisions, by paying regard to their external environment and internal strategies.

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**Table 1:** Spatial dynamics of boundary spanning practices, adapted from Leifer and Delbeq (1978, p45)

Information Need	Perceived environmental uncertainty	
	Low	High
<b>Anticipated, Regular</b>	<p><i>Scenario 1</i></p> <p>Spatial dynamics: information managed at periphery by frontline workers through standardized processes</p>	<p><i>Scenario 2</i></p> <p>Spatial dynamics: Centralized meta-routines emerge to manage bounded responses to information by senior managers in central and regional offices</p>
<b>Unanticipated, Irregular</b>	<p><i>Scenario 3</i></p> <p>Spatial dynamics: Local partnerships and alliances enable the corporate centre to enact strategies regionally</p>	<p><i>Scenario 4</i></p> <p>Spatial dynamics: Strategic information needs proximity to corporate HQ for timely response</p>

**Table 2:** Summary of illustrative case: HSBC

	1993 to 2000	2010 to 2014	Late 2014 to 2015	Mid 2015 to 2016
<b>Information process scenario</b>	Scenario 2	Scenario 3	Scenario 1	Scenario 4
<b>Service function</b>	Post-merger integration	Regional expansion and sales growth	Formalization, standardization, cost efficiencies	Strategic planning, investor relations
<b>Geographical focus</b>	America and Europe	Emerging-developed economies trade flows	Asia and Pearl River Delta	London
<b>Participants involved</b>	Acquired businesses	Divested businesses; Consulting firms	In-house management expertise	Regulators; Investor community

Figure 1: Summary of episodes identified in the HSBC illustrative case

