



**THE CIRCULATION OF WEALTH
THE POST CRISIS TRANSITION:
TOWARDS NEW INVESTMENT CIRCUITS?**

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Abstract

The recent Global financial crisis has marked an unprecedented separation between finance and real economy. This paper deals with the question of today's transition within finance geography. It focuses on the transition process of the Swiss financial system after 2008 from institutional and territorial perspective. More specifically, this study investigates new investment circuits in Switzerland and attempts to understand to which extent they are connected to entrepreneurial activities at local and regional levels. Our main findings highlight that the Swiss case shows two opposite movements: "from the top", i.e. Swiss pension fund sector and "from below", i.e. regional private entrepreneurial investors. We will finally demonstrate that, because of the specific institutional framework, the current transition process in Switzerland is more likely to be driven by small regional actors, rather than by large institutional investors.

Keywords

Transition
Investment circuits
Pension funds
Private investors
Intermediary platforms

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INTRODUCTION

The recent financial crisis with its disastrous economic and social consequences has taken root in unprecedented separation between the autonomized financial markets and the real economy (Corpataux et al., 2009). According to the Regulation Theory (Aglietta, 2010; Boyer, 2004a, 2011), this crisis is systemic and could mark the end of the financialized regime of accumulation. The end of the regime implies a period of transition based on new forms of regulation that could lead to rethink the relationship between finance and real economy on ethic (Boltanski and Chiapello, 2007) and economic principles. From the territorial point of view, the reconfiguration of the financial system should allow a re-articulation of the capital flows moving up from the "Global city" financial concentration (Sassen, 2005) to "new" local/regional accumulation systems (Crevoisier et al., 2011).

This paper deals with the question of today's transition within finance geography. In the first part of the article, we will show that regulationist scholars' reflections are made at the macro-institutional and economic level. However, if this theory is much useful to think and describe the (long) period of accumulation and the subsequent crisis which puts an end to it, it provides no explanation of a new regime emergence.

For instance, during the transition between the Fordist regime and the financialized one, other theories emerged in order to explain how, in a context of crisis of the most prevalent institutions, new innovative values, behaviours, products, techniques and economic systems developed. These theories were focusing on micro or "meso" experiences, mostly linked to regional dynamics. "Endogenous development", innovative milieus, industrial districts, and finally the "cluster" approach were all trying to catch innovative behaviours on the field and developed more or less elaborated frameworks of understanding.

This paper adopts a similar research hypothesis. A territorial and institutionalist approach is used in order to identify today's attempts to rebuild connections between savings (monetary capital) and innovative projects in the real economy at different territorial levels. Transition "*from the top*" is understood as the changes induced by the largest financial players (big banks, institutional investors, large industrial companies, regulation authorities). Transition "*from below*" is developing in a much more decentralised way, among players who can no longer rely on existing routines for investing and undertaking new economic activities.

In this context, the second part of the paper focuses on the transition process of the Swiss financial system after 2008. It appears that the today Swiss financial system is characterized by a "paralysis" among the largest players. It seems to be the result of a deep crisis of confidence in financial markets with a desire to preserve the wealth value. Indeed, investment strategies of Swiss pension funds appeared close to being quite immovable. Besides an ongoing increase in real estate investment, yet restricted by physical limits and too high prices of the Swiss market, investor's predilection for liquid assets remains dominant, to the expense of direct investments, such as Venture Capital. We will explain the present pension fund's investment model by a specific institutional-conventional architecture which determines that another way to invest is not currently possible. Furthermore, we argue that the emergence of new initiatives "*from below*", on local and regional levels, observed during empirical study, indicates a revival of interest for investing in real entrepreneurial projects with an increasing role of proximity in its geographical, but also cognitive, social and institutional meaning.

In conclusion, we will suggest that the observed profusion of “*from below*” financial circuits has not yet provoked any obvious reaction on the part of institutional investors. Indeed, embedded in a strict institutional framework, the pension funds investment model seems to be changing very slowly. This fact could explain separate territorial dynamics “*from the top*” and “*from below*” with only some occasional re-connections between them.

1. A TERRITORIAL APPROACH TO THE POST CRISIS TRANSITION

Do we have theories to understand why the market and capitalist economy periodically encounters periods of growth, of crisis, of transition, and of growth again? Of course, Marx explained quite well why capitalism is never quiet, why it needs continuous accumulation, and why, at a certain moment, the crisis becomes necessary in order to reestablish the rate of profit.

Combining the Marxian, the institutionalist and the postkeynesian heritages, the Regulation Theory emerged in the seventies. It explicitly aimed at understanding why, after a relatively long period of stable growth, a crisis occurred. Moreover, it tried to understand why those periods of stability and of crisis took specific shapes at different historical periods and in various countries. Its focal empirical field was the crisis which developed from 1974 onwards, entitled later “crisis of the Fordist regime of accumulation”.

This part describes first the theoretical tools that can be mobilized in order to understand transitions (**Erreur ! Source du renvoi introuvable.**). Second it provides a schematic view of how to deal with the current transition in geography of finance and more specifically by adopting a territorial approach. It also shows the importance of undertaking an exploratory research to identify features of the current transition (**Erreur ! Source du renvoi introuvable.**).

1.1 Transition between accumulation regimes

Schematically, the Regulation Theory argues that periods of stable growth are possible in capitalist economies because of systems of institutions, related to money, wages, competition, the role of the State and the international economic insertion which absorb the tensions created by the accumulation of capital. The crisis happens when those systems do no longer manage to contain those tensions (Boyer, 2004a).

For Marx, as well as for the postkeynesians like Minsky (1992), the crisis devaluates the value of capital, and this simple fact opens the way for a new accumulation cycle. Probably this view is too simple. Regulationists make the distinction between crises “*in the regime*” and crises “*of the regime*”. For instance, the crises of 1987, 1992 and even 2001 can be seen as those “*in the regime*”, in the sense that the main institutions, like the central role played by financial markets in the process of capital accumulation, stood up to the stock market crash (see **Erreur ! Source du renvoi introuvable.**). On the contrary, the crises of 1974 and 2008 are considered as crises “*of the regime*”, because the main institutions became no longer performing.

In such fundamental crises, there is a need not only to restart the accumulation process, but to rebuild an entire institutional system. In this paper, we shall consider such a process as a *transition*. A long period is probably needed for a transition. Moreover, to rebuild an institutional system means to find new legitimating values. For Boltansky and Chiappello (2007), the great force of capitalism was always to be able, during those transition periods, to

listen to the critiques in order to rebuild an institutional system. Finding some convergence in the society around some values and inventing the corresponding institutions also probably takes time.

Regarding transition, the Regulation Theory never provided any framework of understanding. What are the theories which could be mobilized? The concept of “transition” was mainly developed by a vast amount of literature about Central and Eastern European countries shifting from socialist to private property capitalist systems. The interesting point in those works is that transition seemed to be a too complex problem to give birth to any integrated and coherent theory, or framework of understanding. Transition had structural dimensions, with changes in monetary, property and other main institutions (Boyer, 2004a). It had flow dimensions, because migrants, investments, goods... flew massively in uncontrolled directions, causing all kinds of economic and social disequilibria and forcing political decisions. Transition had also an entrepreneurial and innovative dimension, asking for new economic forms, systems and modes of interaction. Combining structural features, flows disequilibria and innovation dynamics is a too complex problem to be handled by a single theory (Gern, 1995).

In this paper, we shall also focus on another set of works which was developed in order to deal with regions in crisis during the transition period between the “Fordist accumulation regime” from 1945 to 1975 and the “financialized accumulation regime” which can be situated between 1985 and 2008. These so called Territorial Innovation Models (TIMs) (Legendijk, 2006; Moulaert and Sekia, 2003; Simmie, 2005) have several features in common. First, and most importantly, they change the spatial scale at which the main dynamics take place. An accumulation regime, by definition, encompasses the largest players, the most structuring institutions, the biggest economic and social powers, and aims at a worldwide expansion. The TIMs focused radically on regions in crisis (regions with an old industrial tradition) and developing regions (Italian industrial districts, high tech regions) (Benko and Dunford, 1991). Regions, not nations nor companies, are the competitive entities. Second, while not ignoring large companies, TIMs were focusing on SME¹ networks and innovative milieus with strong entrepreneurial values.

More than markets or hierarchies, mixes of cooperation and competition, of monetary and of non-monetary relations are seen as the basis for interactions. This important set of works showed, at various degrees, how the process of economic change and innovation is possible in an evolutionary and institutionalist perspective (Martin, 2010), i.e. how embedded actors are able to deal with and reframe the institutional settings which could lead to economic and institutional innovation and change. Whereas originally focused on describing relations and institutional settings of actors in one region, various scholars emphasized the necessity of seeing contemporary regional development as a network of interconnected relations with other regions (Bathelt et al., 2004; Legendijk, 2006). Becoming more opened, the dynamics of regional development takes the form of multi-local connections (Jeannerat and Crevoisier, 2011) within value chains and networks increasingly organized at a global scale (Coe et al., 2008; 2004; Dicken, 2001; Henderson et al., 2002).

1.2 Transition out of the financial accumulation regime?

¹ Small and medium enterprises (SME)

Whereas geography of finance is still an underdeveloped field within economic geography, French (2011) recently reasserted the importance of considering the financialization as “*the growing influence of financial markets over the unfolding of economy, polity and society*” (p.1).

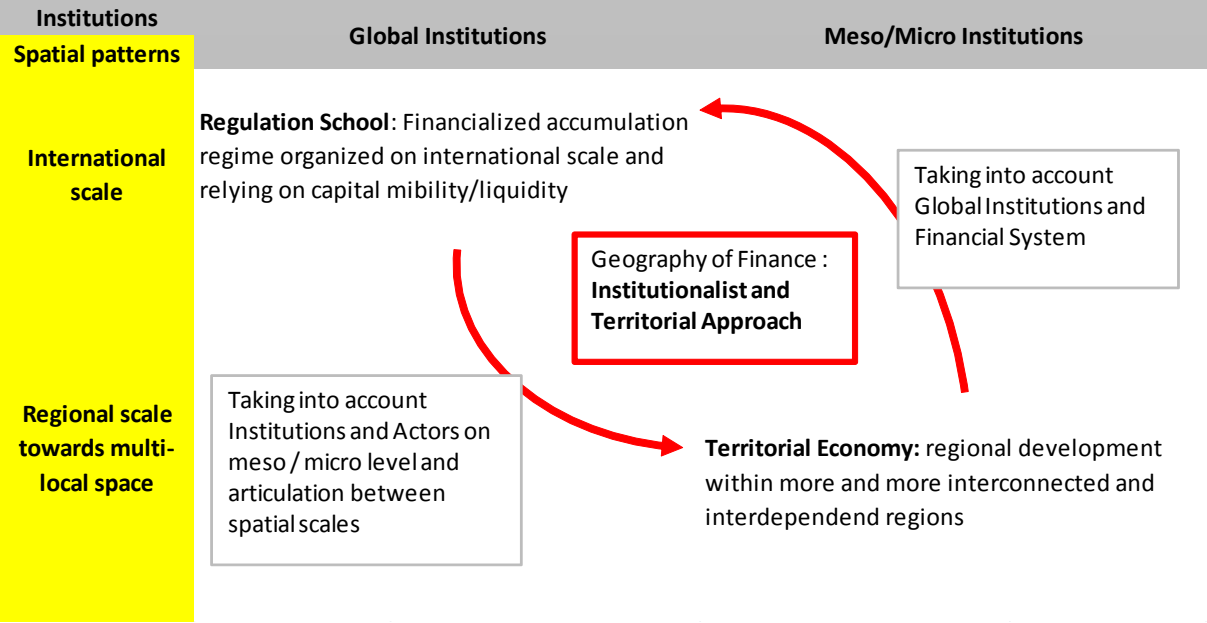
Until now finance geography (Clark and Wojcik, 2007; Dupuy and Lavigne, 2009) has dealt with the various roles of space in the functioning of financial markets. By showing the spatial embeddedness of financial markets, either in spatial selectivity of the investments (Corpataux et al., 2009; Martin et al., 2005; Pike, 2006), investors geography (Wójcik, 2007), spatial organization of financial places (Derruder et al., 2006; Sainteville, 2009) or even financialization of real estate (Theurillat et al., 2010), of infrastructures (Torrance, 2009) or of the property debt of households (Aalbers, 2009), scholars in finance geography highlighted the connections between spaces resulting from the development of a financial system organized at an international scale around the « Global City » (Sassen, 1991, 2010).

However, the geography of finance still lacks a more conceptual and comprehensive framework (Engelen, 2008; French, 2011). For some scholars, to explain the contemporary spatial features in economic geography, the concept of *financialization* needs to be built upon Regulation theorists and more specifically by using the key concept of Financial accumulation regime (Engelen et al., 2010; Zeller, 2008a; 2008b). For others, like Dixon (2011), the concept of “*variegation*” coming from institutionalist/structuralist geographers like Tickell (2007) and Peck (2007) has to be used. Compared to the methodological nationalism of regulationist approach in political economy, addressing the issue of varieties of national capitalisms (Albert, 1991; Amable, 2005; Boyer, 2004b; Hall and Soskice, 2001), economic geographers rather focus on the scale imbrications and linkages, from local to global, and on institutional varieties from one country or region/city to another.

This paper follows the reflections about having a more conceptual and institutional framework in geography of finance. In the context of a deep economic crisis affecting now most of developed countries, the suggested analytical framework raises more specifically the question of the *current transition process* from a financialized accumulation regime to another one whose features are still unknown.

This paper is firstly based on Regulationist scholars that put financial markets at the heart of the financialized accumulation regime, started since the end of 1980ies and organized at international level (Figure 1). At the same time, we adopt the analytical and methodological point of view of territorial economists (see **Erreur ! Source du renvoi introuvable.**) who have considered the role of money and finance in regional development issues (Corpataux et al., 2009; Leyshon and Thrift, 1997; Martin and Minns, 1995; Theurillat, 2011). Therefore, to deal with the ongoing changes, we state the hypothesis that two opposite and complementary movements are simultaneously at work: a transition *from the top* and a transition *from below* (**Erreur ! Source du renvoi introuvable.**). Large players, national states and international organizations will be opposed to networks of regional players.

Figure 1 : Two sets of literature to address the issue of the current transition process



Source: own elaboration

1.2.1 Crisis of the regime and hypothesis about institutional change from the top and innovation networks from below

Today, financial markets, the main institution of the financialized accumulation regime, do no longer perform or if they do, the gains are highly volatile. The recent, and still ongoing, crisis of 2008 that meanwhile extended to many sectors of real economy in diverse countries, reducing consequently consumption and, at some macro level the GDP growth, has opened various discussions in the academic community.

For regulationists, the crisis of the regime is not a surprise. Many regulationnists scholars argue that *new and better relationships between the financial and real spheres of the economy* are made at a macro institutional level (Boyer, 2011; Lordon, 2008a; Orléan, 2011). This refers to the banking and financial system either at an international or national scales, like for instance the Basle III agreements (increase of own funding for banks and other financial institutions) or the debate around taxes on financial transactions. It also refers to corporate governance resulting from growing separation between company’s shareholders and managers (Crevoisier and Corpataux, 2010; Engelen, 2002). In the same vein, Aglietta (2008) suggests that institutional investors assuming long term social engagement, such as pension funds, insurance companies or sovereign funds, take longer term participations in companies.

This implies to sacrifice the exit possibilities and to give priority to a more active role in the corporate governance (at the board of companies, for example). In other words, by bringing money, long term investors could play the same role as banks in the continental model (Albert, 1991). In the US and UK context, Clark (2007) argues also in favor of involvement and stakeholders representation in the corporate governance. For some scholars, this “new”

link between investors and firms could notify the beginning of a new era of capitalism, the “*cognitive capitalism*” (Colletis, 2008; Moulier Boutang, 2008; Paulré, 2008; Vercellone, 2008). Indeed, a new kind of relationship between finance and knowledge could stay at the heart of a new era of capital accumulation based upon a cognitive and intellectual dimension of labor and where the main issue of the valorization of capital and property would focus on the transformation of knowledge into a commodity (Vercellone, 2008). However, we can ask if the non-use of exit by investors does not simply mean the end of financial markets - as they are based upon liquidity?

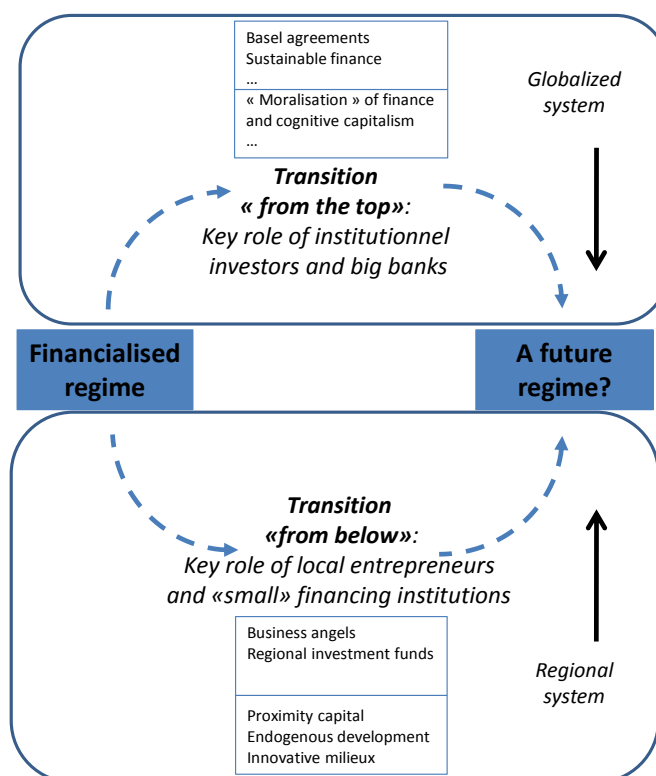
The current crisis has also revealed a contestation of the values legitimating the regime (Boyer, 2011; Lordon, 2008b; Orléan, 2011). The financial industry is aware of the current volatility of the financial markets as well as of recurrent critiques regarding the lack of long term investments (Aglietta, 2008; Dembinski, 2008) or the lack of taking into account the social and environmental criteria (Jackson, 2011; Perez, 2013). For some (Demaria, 2004), the revival and the development of new sustainability funds (together with the ESG¹ initiatives) can re-legitimate the role of the finance industry and, at a macro-level, lead to a new accumulation phase. Whether the “*green deal*”, based on the values of responsibility, has the capacity to play that role is an open question.

In our view the post-crisis and current situation means the rebuilding of new investment circuits. The crisis raises questions about alternative connections between the real and financial spheres of the economy. Besides initiatives “*from the top*”, either coming from institutional investors and big financial institutions (like sustainable finance), some new initiatives “*from below*”, i.e. from SMEs, such as regional funds, business angels or new forms of proximity capital, are being currently observed.

The main hypothesis of this research suggests that *there exist new circuits, and that the identification of those circuits will provide critical advanced signals about the investment system, about the players and the values, about the territorial shapes (temporalities and spatialities) of a possibly emerging new regime of accumulation.* On the methodological level, we consequently elaborated an exploratory case study research to identify emerging initiatives and new circuits between the financial and real spheres of the economy.

¹ Environmental, social and governance

Figure 2 : Transition to a new accumulation regime, views from the top and from below



Source: own elaboration

2. SWISS CASE AS AN EXAMPLE OF THE CURRENT TRANSITION SITUATION

Some new connections between finance capital and real economy needs will be illustrated by the Swiss context. First, to investigate the investment strategies of institutional investors, we conducted twelve qualitative interviews (Annexe 1) with various stakeholders from the Swiss pension funds sector: pension funds managers, investment advisers and financial institutions managers. This first gives a view "from the top" (2.1). Second, we performed six case studies of investment circuits "from below", that is to say, from the point of view of direct investment actors. Thus, we have interviewed different local and regional actors, both private and public, such as private and public Venture Capital fund managers, Business Angels, intermediary platform funders, start-up creators, small businessmen, etc. (2.2). The collected data were cross-checked with various documentary sources and official statistics.

2.1 Swiss pension funds' investment strategies: view from the "top"

The Swiss pension funds are good example, amongst other institutional investors such as insurances and banks, to show the massive investment strategy "from the top", through financial markets investment vehicles and products. Furthermore, these investors gained a

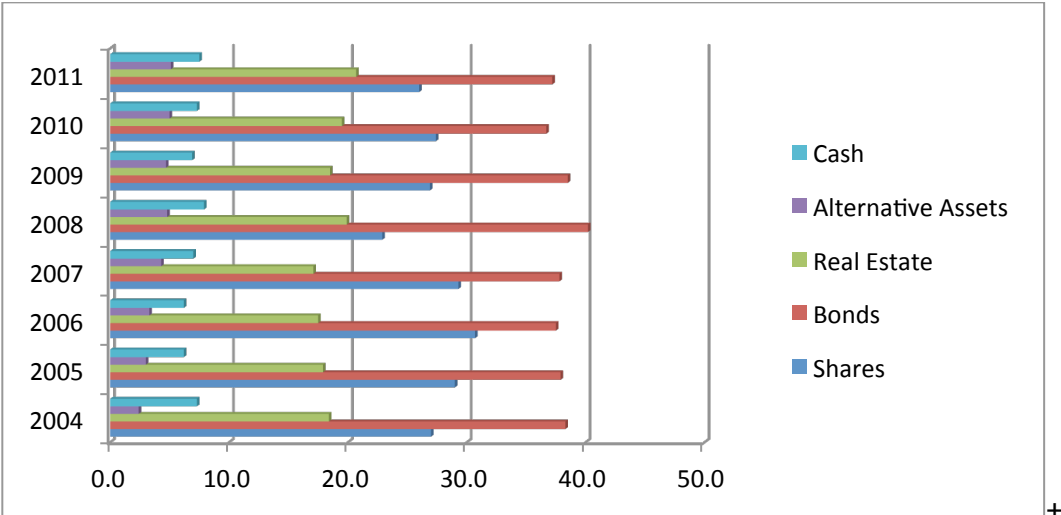
very powerful position in financial sphere and, with a total asset of 750 billion in 2012 (Swisscanto, 2012), have the real ability to affect financial and real economic activities.

Indeed, from the middle of 1980ies to the beginning of the 2000ies, the investment strategy of pension funds totally changed together with the change of the legal-institutional framework (Corpataux et al., 2009). Dominant traditional investments such as direct property holdings, loans granted to employers (who are members of the fund) and mortgages were replaced by more liquid assets such as shares and bonds. This search for liquidity together with the diversification of investment, also through alternative financial assets such as Private equity or Hedge funds, has continued during the 2010 decade.

The main problem currently faced by Pension funds is the underperformance or the extreme volatility of financial markets, together with current very low bonds rates (like Swiss state bonds rate at 0.46% on 10 years). This tricky situation means paradoxically for some, mostly public pension funds, being in under-covered situation, while still having massive capital to be invested. The main hypothesis guiding interviews was that pension funds would search for alternative investments to financial market ones. In other words, in order to preserve the asset value, pension funds would be the first to be interested in diversifying investment more directly in the economy, and more specifically at the regional/national scales, either by increasing investment in Venture Capital and Private Equity or through innovative financial products, such as new funds or direct property holdings in SMEs. This latter would mean a (more) long term investment and a new management role in SMEs (start-ups and more mature ones).

However, in spite of financial market asset fluctuation, pension funds have not changed their investment strategy yet as they are still having massive investments in liquid but currently low performing assets (Graph 1). How to explain this paradoxical situation?

Graph 1 : Asset allocation of Swiss pension funds from 2004 to 2011 (%)



Source: *Swiss pension funds 2012*, the annual study carried out by Swisscanto

We argue that the situation of “*immobilism and paralysis*” may be explained by the **institutional** and **conventional management framework**. Firstly, this refers to the current management practices, based on the portfolio theory (Markowitz, 1959), that consists in diversifying investments¹ (**Erreur ! Source du renvoi introuvable.**). Moreover, it seems that over the last few years, pension funds have entered into a capital protection phase. It means that since the 2008 crisis, the main strategy is no longer to make the largest profits but to manage risks. For pension fund managers, this refers not only to the risk of loss of capital but also to protect themselves from risks to the institution’s reputation and to the management’s own personal responsibility.

Secondly, the current situation has even driven pension funds to be more distrustful with any kind of potentially better connection with real economy. Despite some new – but rather limited in scope – financial products, we can observe that what we call traditional alternative investment such as Private Equity or Venture Capital are not considered to be credible solutions to pension funds to fulfill security and return criteria (**Erreur ! Source du renvoi introuvable.**).

Thirdly, we explain that alternative investments and potentially better connection with the needs of the “real” economy means a change of the management framework which goes together with new entrepreneurial competencies and new tools to assess the value of the unlisted firms (0).

2.1.1 Funds management practices: the risk of reputation and the dictatorship of the market index

The protection of capital and risk diminution implies also being aware of the risk of reputation and what we call the dictatorship of the market index. In fact, when investing in financial markets shares and products, pension funds mainly focus on big caps.

According to some of our interviewees in pension fund investment consultancy, the funds tend, on the Swiss Stock Exchange, to increasingly skew their portfolios in favor of large groups such as Nestlé, Novartis, Roche and UBS, whilst ensuring that they have exactly the same companies in their portfolio as other pension funds. Small caps companies are often deliberately ignored as they represent a higher risk to the pension funds’ reputations, particularly those of public pension funds. Because of transparency requirements, the small caps owner (>5%), i.e. a pension fund, is announced to the Stock Exchange. As a small company is less mature, less experienced, it may fluctuate a lot more on the Stock Market than a big company. So, every time the small caps shares may drop, the fund and its managers will be publicly criticized. That is why, the risk to their reputation, and not just that of financial loss, dictates the preference for large caps over smaller companies.

Furthermore, investment in big caps is closely related to the market index. The benchmarking practice has been fully integrated in pension funds investment strategies. This involves constantly comparing own portfolio fluctuation to a stock price index made up entirely of large caps. The index is calculated in such a way that the bigger the share value is, the more

¹Investments are evaluated upon two criteria which lead to an immediate mathematical comparison of risk and return factors of various financial assets (companies securities, debt securities, money assets, commodities, etc.)

weight it carries in the index. The funds therefore invest in large value shares to follow the index. The same index logic can also be observed in bonds indices which are based on the quantity of debt incurred by a country or a company. Unsurprisingly, we find in these indices lots of American, Japanese and European debt. Such investment behavior reveals the current politico-institutional context where the funds' managers would rather follow the index to be in line with other funds, in order to cover themselves against critics and reputational risk, even in the event of poor performance. In other words, the today Swiss pension fund investment strategy involves passively relying on Financial Markets system, accepting to lose money together with other pension funds, instead of trying some alternative investment strategy with an active management approach.

In addition, financial intermediaries and consultancies in charge of pension funds capital allocation are not willing to change the current investment strategies through financial markets. In fact, according to the recent report of Federal office of social insurances¹, the fees taken off the pension funds' capital by banks and others intermediaries represent about 0.56% of all allocations, i.e. 4.2 billion of Swiss francs². In this context, it is clear that numerous financial institutions, competing with each other for pension funds money, are not encouraged to suggest any alternative investment solutions.

Finally, we can observe that the legal and institutional investment guidelines have not changed to encourage investment in new assets. Several of our interviewees believed that both public and private pension funds are highly dependent on the system. They are, so to speak, boxed into a regulatory political framework which issues recommendations and gives directions to be followed. This framework, which includes, amongst others, the Swiss federal authorities, politicians, the media, etc. can also put the pressure on in the case of practices or initiatives which do not “comply” with established social and political ways of doing. In short, at present there are no “signals” from the political authorities regarding alternative investments.

2.1.2 Old and new alternative investments in financial products : not suitable for pension funds

Increasing pension funds investment in real estate, especially by purchasing and owning directly buildings, can be observed in the recent years. This more direct link with real estate is not new and corresponds to traditional investment strategies used by Swiss pension funds (Theurillat, 2010; Theurillat et al., 2010). The proportion of real estate in Swiss pension fund portfolios is constantly increasing: 20.7% in 2011, as compared with 17.1% in 2007 (Swisscanto, 2012). This trend is due to the fact, that real estate, mainly direct³, is viewed as a way of protection against the volatility of market financial assets, despite rising prices, particularly in cities of international significance such as Geneva, Lausanne and Zurich.

¹ Frais de gestion de la fortune dans le 2^e pilier, Rapport de recherche n° 3/11, Office fédéral des assurances sociales (<http://www.rts.ch/emissions/temps-present/4884038.html/BINARY/frais%20de%20gestion.pdf>)

² The total amount of Swiss pension funds investment capital was about 750 billion in 2012.

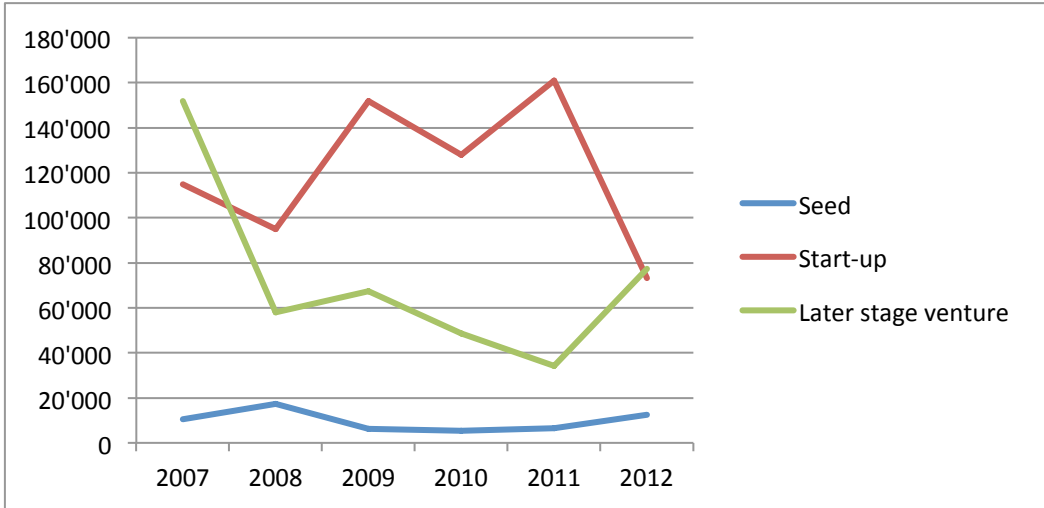
³ There are also indirect real estate investments through financial institutions, mainly real estate funds and real estate investment trusts, but this represent less than 20% of real estate investment (Theurillat, 2010).

With reference to real estate increase in mind, we would firstly expect that Swiss pension funds could apply the same strategies by investing in unlisted SMEs. They indeed could use existing Private Equity or Venture Capital funds or be involved in setting up innovative circuits to invest in SMEs mainly for the same diversifying and preserving of value reasons. However, with reference to the interview data, we can observe, that since 2008 pension funds have not increased their investment in unlisted SMEs. We can even remark the opposite trend.

Today, traditional actors of direct investment in Switzerland, such as Venture Capital and Private Equity funds, are being stalled and struggle to raise new funds within institutional investors. According to Swiss Commission for Technology and Innovation (CTI, 2011)¹, the Venture Capital in Switzerland shows a worrying decline of about 60% since last five years. While the number of transactions is being dropped, the investment periods tend to become longer (7 years instead of 4-5) and the capital gain smaller. This situation may seem paradoxical, since, in Switzerland, there is a surplus of capital compared with a small number of PE and VC financial companies (SECO, 2012). According to the State Secretariat for Economic Affairs (SECO, 2012), this trend may be explained by a double trend. First, Venture Capital companies tend to invest more in later stage firms, because the risk is than lower and the minimum capital gain expectation is higher. Second, foreign Venture Capital funds have showed a net influx with about 30% of investments, generally in case of sale trade operations.

As shown in the graph 2, Venture Capital investments in early-stage start-ups dropped by more than 50% going from €161 billion in 2011 to € 73 billion in 2012. In contrast, “later stage” participations grew by more than 50% in 2012 reaching €77 billion compared to €34 billion in 2011.

Graph 2: Venture Capital Investment Stage focus



Source: SECA Yearbook 2013

¹ CTI Activity report 2011

According to the data from our interviews with intermediaries bringing together investors and entrepreneurs, Venture Capital funds are suffering since few years because, under the pressure of investors, they continue to process their investments from the perspective of high and quick benefits, within 5 years, exit. In fact, only 10-20% of SMEs meet the conditions of high annual benefit of 15%. Such benefit expectation means that a small firm must double its size within 5 years. These rapid growth strategies often imply sacrificing internal investments and work conditions. Criticized in the media and disapproved by public opinion, such investment approach is seen as destroying economic value of enterprises, and is therefore difficult to promote within long term institutional investors like Swiss pension funds.

2.1.3 Alternative investments: the need of new management model and new tools to assess the value of firms

Thirdly, we argue that alternative investment in a closer relationship with real economy would need a new management model. For the time being, there is very little room for manoeuvre for pension fund managers in terms of investment strategy. Working within the confines of a fairly conservative political and institutional framework, fund managers do not seem keen to involve themselves in alternative or innovative products by fear of criticism and retribution. The “flagship” strategy which is supposed to reduce risk to reputation and personal responsibility turns out to do exactly what the other pension funds are doing, namely do not take any initiative and await the clear “signals” to be beamed out from the public authorities.

Thus, not willing to invest “alternatively”, the funds fall back on asset management selection strategies and cost reduction. Indeed, pension funds are currently focusing on having a more active control of management costs. In reality, long disappointed by the banks’ event-driven approach, the funds entrust mandates more and more cautiously and keep a close eye on their agents’ work. Moreover, the big funds (over CHF 1bln) are increasingly employing internal management teams in order to minimise discrepancies in information and prevent conflicts of interest. As for the banks’ commission rates, the funds feel increasingly able to negotiate lower basis points. Since the financial crisis and the implementation of the Basel II and III regulations, the banks are increasingly redirecting their income towards wealth management and are ready to sacrifice (a little of) their profits to keep hold of their customers.

However, alternative investment means to go beyond costs control of delegated asset management or increasing internal asset management. What we call a new management model goes together with having new competencies to assess the economic value of firms. It appears that those leading the pension funds are not entrepreneurs. They are often either former accountants who have gradually climbed the corporate ladder or portfolio managers coming from banks or financial institutions. Their job consists in assessing the financial value of various products which is given by the rates on financial markets. To invest in a more direct way in the economy, and more specifically in SMEs, it means to have some experience in industry management. A first solution could be the hiring of PE or VC funds managers. This would give pension funds some more entrepreneurial competencies. However, as we have seen (**Erreur ! Source du renvoi introuvable.**), investment in what we have called traditional PE and VC funds have limits even leading to destruction of value due to high return expectation on a relative short term.

In this vein, we argue that alternative investment means above all a different and specific assessment of the real economic and financial value of firms. The economic value on

financial markets has indeed its own mimetic logic (Orléan, 2011) that differs from the real one. Prices on financial markets depend on investor's beliefs and behaviour. The question of economic value and valuation of firm is at the core of a new conventional and institutional management framework (0). The implementation of new criteria and tools providing qualitative as well as quantitative information about the assessment of firms is a tricky question. It is however the only way to make more direct and long term investment in firms possible, and at a macro level, to have a better connection from the main actors of financial capital to the needs of the economy.

In brief, we can say that the absence of new investment circuits from the top is due to the overarching institutional-conventional framework that pension funds are currently following. This framework is based on the financial notions of yield, risk and liquidity (Corpataux et al., 2009) and implies a current paradoxical situation between, on the one hand, the needs of massive and diversified investments and, on the other hand, the lack of alternative investment strategies from pension funds managers.

2.2 Current initiatives from below: toward what kind of entrepreneurship?

Although pension funds are spurning "real" investment solutions, the Swiss unlisted SME market has had a new lease of life. Unlike the "top-down" channels stymied by institutional constraints, new "bottom-up" channels are currently being created (Appleyard, 2013). In accordance with the main argument of this paper, it seems that currently *private* rather than institutional investors are most actively exploiting this new niche. According to the data gathered in interviews, the number of private investors who are investing, or would like to invest directly in Swiss start-ups and SMEs has mushroomed over the last five years. The question is thus to see, if these new initiatives imply the rebuilding of the investment channels which link national savings with the real economy.

In fact, the proximity capital (Crevoisier, 1998) is being reshaping today with the arrival of new kind of private investors, disappointed by financial markets instability and willing to have more control over their savings. First of all, the new population of private investors is quite heterogeneous as for their profit expectations and investment approaches (2.2.1). Second, this direct investment market is concentrated on early-stage Swiss start-ups and traditional SMEs, given up by Venture Capital and Private Equity funds (2.2.2). Third, investment channels from below are built like professional and interpersonal networks, gathering around new actors: *intermediary platforms* where entrepreneurs and investors can meet and collaborate (**Erreur ! Source du renvoi introuvable.**). Finally, in those specific markets, the geographical proximity is essential. However, the geographical proximity between regional firms and regional investors tends to become more open. Today, we can observe clear initiatives for transforming these regional decentralized markets into a centralized one based on multi-local, national and international networks connecting firms and investors (0).

2.2.1 Private investors and their financial / non-financial objectives

Conforming to our survey data, the population of private individual investors has changed since 2008. Before, they were essentially Business Angels, that is to say former entrepreneurs who gained a lot of money with their own business and now wish to help young start-up creators with financing and access to their professional networks.

These private investors of « new » kind could be divided in four groups. The first group includes **private financial investors** who were disappointed by financial markets and are looking for an alternative source of benefit. According to a recent report of State Secretariate for Economic Affairs (SECO, 2012), 30% of private investors currently fall into this category. While being close to Venture capitalists in terms of capital gain expectation of above 10%, they can invest only their own savings and dispose therefore of smaller amounts unlike VC funds investing institutional investor's capital.

In the second group, we can find former **high level managers** from big companies looking for a **new job**. Their main objective is to provide themselves with as manager position or within the Board of directors by buying a small firm. While being important, the investment benefits are secondary, behind the social recognition which goes together with career situation.

The third group investors comprises "**early retired**" persons who are less than 60 years old. They are former managers or former entrepreneurs who wish to remain in active life by doing business. Unlike the second group, these investors are not looking for a job, but wish instead to help young entrepreneurs by sharing their experience and their address books. As specified by one of Swiss Business Angels club members, these investors accept to follow voluntarily the small firm during several years of investment period in exchange for a reasonable profit of 3-7%, after the firm is sold to some big company.

Finally, the fourth group gathers together **foreign extra-European investors** wishing to invest above \$1 mln in Swiss small businesses in exchange for residence permit in Switzerland. For instance, in the case of Club of Business Angels of Valais, the number of these investors has strongly increased during these last years.

2.2.2 Investment objects: early stage start-ups and traditional SME's deserted by PE & VC actors

Currently, most of direct investments undertaken by private individual investors in Switzerland are being focused on innovative early stage start-ups and traditional SMEs looking for handover capital.

First, the « solid » start-ups which are not « high flyers »¹ are being deserted by Venture Capital companies. While giving priority to more important investments, above \$ 1 mln, VC funds opt for later stages aiming at quicker exit with higher capital gain. Therefore, in spite of leadership in innovation and competitiveness, many Swiss technological start-ups are suffering from financing "bottleneck", especially those on early stage of development (SECA, 2013; SECO, 2012).

Second, a lot of traditional SMEs looking for handover capital are also experiencing financing difficulties, but due to different reasons. Unlike the start-up creators, "naturally" used to search for money, traditional SMEs directors would feel uncomfortable when forced to

¹ The "high flyers" start-ups show a very high obvious potential to be rapidly bought by some big companies such as Novartis or Nestlé. Therefore, they have better financing opportunities than other « solid », but less promising start-ups.

approach potential investors, thus admitting their financial problems. At present, the Swiss market of handover investment is still being a “hidden” and underexploited market. Since considering this market as strongly promising, some investment intermediaries or matchmakers (Bessy and Chauvin, 2013), interviewed under the present study, are being implemented new strategies in order to capitalize on it. For example, the founder of Geneva Single Portal intermediary platform highlighted the importance of changing general investors’ and entrepreneurs’ attitude by creating and broadcasting a more positive image of company transmission business.

2.2.3 Intermediary platforms: bringing together investors and SME’s

In this context of increasing demand from private investors, new intermediary actors have recently appeared as well. Their main role is to link up together individual investors and entrepreneurs looking for start (seed), growth or handover capital. While offering a range of services to guide the individual investors through the "hidden" market of SMEs, they contribute to reduce the risk-factor and to improve the matching likelihood between investors and entrepreneurs expectations. Six case studies have been conducted to investigate the intermediary’s special features and working methods within French- and German speaking regions of Switzerland. In fact, these various intermediary actors show, at the same time, common and heterogeneous characteristics as for their origin, working methods, investors, target SMEs, services for investors, as well as spatialities of intermediation activities (see Table 1).

Table 1: Current features of the financial circuits « from below »

Intermediary platforms	Capital proximité French-speaking Switzerland	Club of Business Angels of Valais	Swiss Business Angels (BAS) French-speaking Switzerland	Single Portal Geneva	Go Beyond Zurich	Investiere.ch Zurich
Origin	Half-public	Half-public	Private	Private	Private	Private
Investors						
Profiles	Job, business partners, financial	Job, business partners, financial, extra EU	Financiers, early retired, BA	Financial, BA, VC, job, business partners	Financial, BA	Financial, VC
Objectifs	Job, long term benefits, capital gain	CH residence permit, capital gain	Follow-up support, capital gain	Capital gain, job	Capital gain	Capital gain
Intermediaries						
Services / added value	Group value assessment and investment follow-up	Due diligence, group investment, shared investment	Group, shared and by stage investment, learning, flexibility	Anonymity and discretion	Group and shared investment, trainings, help with exit, benchmarking	Due diligence, group, shared and by stage investment (stage and sector)
Investments						
Average amount per company	50K-500K	50K-500K	50K-500K	50K-1 mln	50K-500K	100K-1mln
Types of companies	All sectors, all stages	Innovative start-ups	High-tech start-ups	All sectors, all stages	High-tech start-ups	High-tech start-ups
Geography						
Investors	French-speaking Switzerland	Valais, Switzerland and worldwide	French-speaking Switzerland	Geneva	Switzerland and Europe	Switzerland
Investments	French-speaking Switzerland	Valais	French-speaking Switzerland	Geneva	Switzerland and Europe	Switzerland and Europe

Source : own elaboration

Capital Proximité¹ is an Intermediary Platform created in 1995 by public authorities of five French-speaking cantons and State Secretariat for Economic Affairs (SECO²). Since 2008, the number of private investors registered on this platform has been multiplied by 6.5 (from 180 to 1200). The vast majority of these new investors are former managers looking for a new job (about 60%). The SMEs searching for financing are located in French-speaking Switzerland (about 250) and mainly belong to traditional sector of industry.

¹ Proximity Capital (own translation from French)

² <http://www.seco.admin.ch/index.html?lang=en>

The **Business Angels Club of Valais** was created in 2003 by the Center of Financial Competences of the Canton of Valais (CCF). Originally intended to foreign investors looking for residence permit in Switzerland, the club counts now among its members also local and from neighbor countries private investors. To be eligible for investment, the start-ups must be innovative and be located in the region of Valais.

The **Club of Swiss Business Angels (BAS)** includes two sections: French- and German-speaking. The French-speaking section, explored for this study, was created in 2007. During these last years, the club has been joined by several investors of new kind – early retired managers or former entrepreneurs. Geographically, the club activities are concentrated on regional scale. The physical proximity between private investors and small businesses is essential for successful value assessment and follow-up process.

Single Portal in Geneva is a very new initiative aiming at creating a single meeting place for private investors and SMEs from Geneva region. The special feature of this platform is the will to legitimate it by introducing representatives of Management associations and those of the Chamber of fiduciaries and tax lowers. According to the platform founder, the presence of these legitimating partners would help investors and entrepreneurs to feel more secure, since ensuring the Privacy of each participant.

Go-Beyond intermediary platform was created in 2010. Located in Zurich and Geneva, it is intended to individual private investors who wish to invest directly in early stage start-ups. Aiming at improving *matching* chances between investors and entrepreneur's expectations, this platform provides its members with a range of services, such as learning seminars, group and split investment, start-up value benchmarking, etc. Geographically, the platform looks for extending investment activities abroad for both, investors and small firms.

Investire.ch, created in 2012 and located in Zurich and Zug, is the biggest intermediary investment platform specialized in direct investment in Swiss start-ups. Its business model allows private individual investors to invest together with more professional investors like Venture capitalists or banks. This company has no geographical constraints and accepts national, but also European investors and start-ups.

While being heterogeneous as for investors and companies' characteristics, all these intermediary platforms have common **working methods**. In addition to Internet web-site, regular events are organized to bring together investors and SMEs. In these meetings, new start-ups are directly introduced to potential investors. While taking the decision to invest or not, the investors can benefit from direct interaction with entrepreneurs and from intermediate feedback from other investors (Ibert, 2007). Thus reducing the information asymmetry, the real meetings help also to establish mutual trust through the presence of various legitimating actors (Jeannerat, 2012).

When speaking about direct investment process, the task of start-ups value assessment and follow-up is a tricky question, especially for not very experienced private investors. Consequently, all these intermediaries strive to provide the investors with various services helping to reduce risks and to get a better understanding of the investment process. Apart from in deep Due diligence, they offer the possibility to co-invest with other private investors in the same small firm and to divide the whole amount into several small investments in

different start-ups. In addition, most of these platforms organize learning seminars aiming at enhancing investor's value assessment and management skills.

2.2.4 « New proximity capital» spatialities: from local to multi-local and multi-scalar networks?

Today, we can observe the multiplication of *Intermediary Platforms* either at a local/cantonal level or at a regional one (French-speaking or German-speaking region). The platforms are indeed marketplaces based on specific local geographical features. Firstly, investment is clearly based on the co-presence between investors and firms. When not working in the firm, investors must indeed know well the daily life of the firm by taking part in the weekly meetings (work meetings and board councils) or by discussing with the company manager. The original principle for these specific direct investments is the following: local-based investors – which includes in some cases Swiss nationals coming from other regions and foreigners having a residential address in the Canton (Business Angels du Valais) – invest in local-based SMEs.

However, the original geographical proximity between firms and investors tends to reach some limits. Many of these recently created decentralized marketplaces are currently confronted with a limited number of “solid start-up” and SMEs to invest in. This is particularly the case for platforms situated in non-urban Canton such as Capital Proximité and Business Angels from Valais. For those situated in core urban regions like Zurich and Lausanne-Geneva, such as BAS, Porte Unique or Go-beyond, the number of SMEs is potentially higher. Despite these regional investment differences, it was said that the future for these decentralized markets is to develop a common data base of firms to have a larger investment scope for investors. In other words, the next step is to create a centralized market – a unique platform – by putting together the multi-local networks of firms that already contain, for some platforms, firms in neighbor countries (*Investiere.ch*). The change of scale by the creation of a more centralized market also means to open the scope of investors (Go-beyond and Investiere.ch are emblematic examples). The sharing of transparent information enables potentially longer-distance as well as other private investors, such as professional or institutional investors, to invest in Swiss SMEs.

These change of scale and of business models raise two main questions. On the one hand, it means to rethink the co-presence between investors and firms. On the other hand, and more fundamentally, it means to deal with the economic value of firms and the financial return for investors. If the mainly local individual investors can have low yield expectation or even only extra-financial expectation towards SMEs investment, a change of scale goes together with a change of investors profile and expectations. The new intermediary actors may therefore play an important role in developing a new valuation frame (Bessy and Chauvin, 2013) by enabling individual and professional investors with new tools and categories to go through investment process from initial evaluation towards final valorization of a small company.

The future development of these new experimentations of allocation between capital and firms remains an open question. On the one hand, if we see a generalization or industrialization process of new forms of direct investment, this can only go together with the development of new criteria and tools to assess the specific economic value of each firm and the real expected return – which follows the specific growth of the firms – for investor based on a long-term implication in firms. On the other hand, the market centralization and

industrialization process can lead to the development of new forms of financial markets, following the example of PE and VC funds, where the question of degree of liquidity or of exit – exchange of SMEs parts/shares – is crucial.

CONCLUSION

The main theoretical as well as very practical and social issue in this article is to develop an understanding of the current period we have lived from the financial and economic crisis of 2008. Our reflections are based on Regulationist scholars for whom the crisis of 2008 is considered – questioned – as a crisis of the financialized accumulation regime that has developed from 1980ies. This theory in particular, as other theories, doesn't however tell us how to consider transition periods and especially with the issue of identifying a new regime with his macro-institutional architecture.

In this article, we are stressing to use a very practical and exploratory approach, based on a case study in the Swiss context, to deal with the relationships between the financial and real spheres of the economy. The financialized accumulation regime implied the submission of the real economy to the evaluation and control of the financial markets and a very specific geographical features: on the one hand, it means the governance of the industrial production regions by financial centers, and one the other, financialization means the continuing geographical and sectoral expansion of finance in order to enable the accumulation process within financial markets. However, and this is at the same time our starting hypothesis, we are currently living some new experiences of investing – and of new potential connections between the financial and real spheres of the economy – as the main institution of the regime, i.e. financial markets, are underperforming or very volatile. Consequently, this situation implies some new investment strategies or at least some reactions from investors.

The Swiss case shows two opposite movements. We can observe a certain institutional and conventional “immobilism” from what we call the “top”. Despite having massive funds to be invested and with the exception of real estate, Swiss pension funds are not truly involved in new investment initiatives. Due to the focus on risk prevention, it seems to be difficult to escape from liquid financial assets and from the congruent financial benchmarks. Thus, this study highlights a lack of professional investors willing to invest directly in SMEs at medium and long term. Traditional Venture Capital funds do not play this role any more.

We can however behold various initiatives of new investments from what we call “below”. This refers to private investors that have been actively searching for new, totally independent of financial markets, investment opportunities. These initiatives have in common to be based on new networks or business introduction platforms. In fact, new intermediary actors have recently emerged and contribute to create a new Swiss direct investment market by building alternative investment circuits. It appears that these intermediary platforms play a mixed role by fulfilling various functions: legitimation, evaluation, development of specific skills aiming at enabling private individual investors, experienced or not, to address the uncertainty while investing directly in start-ups and SMEs. The main issue here is to put investors and enterprises – mainly SMEs – in relation, which also means a more active investor's role in the SMEs (as a member of the board company and / or as a manager). For the time being,

these different initiatives are still in an experimental phase, developing rapidly though, and haven't provoked yet any obvious reaction on behalf of pension funds or other institutional investors.

The Swiss case shows indeed two totally separated dynamics, one from the top and the other from below. However, if the Swiss case is an opportunity to observe ongoing processes, by identifying some new connections between money and enterprises, it doesn't allow us to go beyond the hypothetical research question of a new regime of accumulation. The institutional as well as territorial features of the current transition period and the one of a new accumulation regime are still an open research question!

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