The Home-based Advantages and a Hierarchy of Location Advantages: Foreign and British-owned Firms in the London Wholesale Insurance Market

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Abstract
This study seeks to explain why, in some cases, locationally advantageous countries attract foreign firms, who develop dominant competitive positions in the market, rather than facilitate the development of internationally competitive national firms, as theory suggests.

Comparative analyses of samples of foreign and British-owned insurance firms in the London wholesale insurance market are used to establish a hierarchy of location advantages in terms of their competitive importance. It is shown that foreign affiliates compensate for their liability in accessing Britain's location advantages by accessing resources via the MNE internal networks. Their competitive strength is based primarily on such resources.

The contributions of the findings to the conceptualisation of the MNE as an internal network within an external network, and the potential substitution of internal and external resources, are discussed. The implications for the theory of the national origin of the competitive advantages of MNEs are outlined.

JEL Codes: F23, L80, M21

Keywords: insurance, London, nationality of ownership, MNE internal transfers

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The home-based advantages and a hierarchy of location advantages: Foreign and British-owned firms in the London wholesale insurance market

The recognition that the home country environment is critical in shaping the competitive advantages of firms has underlain a number of theoretical conceptualisations of the sources of the competitive advantages of MNEs. Researchers in organisation theory, adopting an institutional approach, have argued that firms develop their capabilities in relation to their particular environment, and hence possess resources that match the distinctive institutional characteristics of their home country (Zaheer and Zaheer 1997, Thomas and Waring 1999, Kogut 1993). Porter (1990) conceptualised the home environment as the critical environment that shapes the nature and type of competitive advantages of national firms. He used this conceptualisation to explain why the leading global players often emerge from one or very few home countries. FDI theory implies that firms originating from locationally advantageous countries would develop strong competitive advantages based on the resources abundant in their home countries (Dunning 1993), and will become dominant global players in the industries in which their home country is comparatively advantageous.

The literature is replete with attempts to illustrate empirically the association between the competitive advantages of firms and the institutional characteristics of their home countries and to show that firms originating from the same nationality share similar sets of competitive advantages (e.g., Doremus et al 1998, Nachum 1999, 2001, McKendrick 2001, Hitt et al 1997, Hirst and Thompson 1996). These studies show that the practices of firms are, in some sense, selected by the immediate environment in which they operate, and that the home environment is the most important one.

A fundamental assumption underlying this link between the competitive advantages of firms and their home country environment is that national firms enjoy favourable access to the resources of their home countries, which is denied from foreign firms investing there. Hymer (1960) was explicit in his conceptualisation of the favourable access that national firms have to the resources of their home country, resulting from reasonable and unreasonable preferences of local customers and suppliers and from discriminatory policies of national governments. Attempts to examine the extent to which firms can tap into location advantages of foreign countries via investing there (Thomas and Waring 1999, Solvell, Zander and Porter 1991, Nachum 2000) have generally concluded that such ability is limited. Domestic firms were found in these

studies to enjoy an advantage stemming from their familiarity with the local environment and the system in which they have been operating since their establishment. Hu (1992) convincingly argued that if an advantage can be accessed via investment in a foreign country, it would not provide an exclusive advantage because the possibility of accessing it would be equally available to all firms. Thomas and Waring 1999 maintained that it is the governance system that creates the country-specific advantages that national firms enjoy, and hence merely operating in a host country is not enough to access these advantages. Implicit here is the notion that the same set of country conditions has different value for national firms and for foreign firms investing in a country.

Casual observations, however, suggests that this may not always be the case. Under certain circumstances, locationally advantageous countries attract foreign investors rather than facilitate the development of strong national firms, and the former are the main beneficiaries from these advantages. For example, the world's leading oil firms originate from countries with no petroleum resources or declining and increasingly uneconomical ones. Since their origin, at the turn of the 20th century, the large oil firms of today developed by exploiting oil fields overseas, not in their home countries (Chandler 1990). The Indian software industry, which was established and developed to reach its current central position almost entirely by MNEs investing in India (Balasubramanyam and Balasubramanyam, 2000), suggests yet another example. Such situations, however, are not confined to developing countries. For instance, the vast inflow of FDI in the car industry to Britain during most of the 20th century suggests that it possesses certain location advantages for such activities (Whisler 1999), but at least for the most part of the second half of the 20th century, these have not facilitated the development of competitive local firms. The latter have survived due to interventionist policy of British governments, and went out of business when such policies ceased to exist (Morale 1994)[1].

Existing theory provides no explanation for such cases, nor have they received much research attention. We know very little on why it is that in some cases national firms take the lead and develop strong competitive positions while in others foreign firms are the main beneficiaries of such advantages. Hence, we are unable either to identify a consistent logic behind these different outcomes or to propose more general explanations for what circumstances are likely to lead to each of them.

In this study I seek to contribute to filling this gap by focusing on a detailed study of one industry in which such a discrepancy from what theory predicts exists – the wholesale insurance industry in London. A number of indicators

suggest that Britain (London) possesses considerable location advantages for this activity, but rather than facilitating the development of internationally competitive British-owned firms, these location advantages attract foreign firms to invest in London. Thus, while London is the world's largest international insurance and reinsurance centre, most activity there is foreign owned (IFSL 2001, Sigma 2002a) and the leading insurance companies worldwide originate from other countries (i.e. German and Swiss) (Sigma 2002b).

Gaining a better understanding of this departure from theory, and understanding its causes has important implications for firms, policy makers and researchers. For firms investing overseas it will imply that there are limits to the exclusive access of national firms to their home country assets. If firms can tap into resources of foreign countries, and build their competitive advantages based on them (that is, have a status similar to that of local firms) it strengthens the rationale for undertaking FDI, particularly of the asset seeking type, whereby firms rather than exploiting their already existing advantages, develop and strengthen new ones. It may also support the rationale for the move of higher value added activities overseas, those on which the core advantages of firms may lie, including R&D functions (Bas and Sierra 2002) and the headquarters themselves (Birkinshaw 2002). It also implies that there are limits to the extent to which firms can rely on their national environment to establish and maintain a competitive position. Rather, under certain circumstances, national firms do not enjoy privileged access to this environment when competing with foreign firms investing in their home country.

Policy makers, who have the ultimate power to shape the location advantages of the geographic areas under their jurisdiction and often exercise a direct control over who might benefit from many of them (Murtha and Lenway 1994), will also benefit from such knowledge. Implicit in traditional approaches that have underlain policy formulations is the assumption that the benefits associated with the improvement of a country's location advantages will be exclusive to national firms. If it can be established that, under certain circumstances, there are no differences between foreign and domestic firms in terms of their access to national resources, this should be explicitly incorporated in government policies.

Different policy approaches towards MNEs have been driven by the intention to discriminate against 'them' in favour of 'us' (Reich 1990), in order to promote a country competitive advantage by gaining or reserving important resources and assets for use by national firms (OECD 1993). It appears, however, that under certain circumstances such discriminatory intentions would require specific

actions to prevent foreign firms from gaining similar benefits to those that accrue to national ones. This is critical because foreign firms are well likely to appropriate the benefits provided by local policy makers elsewhere.

The findings would also make unimportant contribution to the academic debate regarding the persistent impact of nationality and the limits of the home-based advantages (e.g. McKendrick 2001). The possibility to tap into foreign advantages via foreign operation questions the exclusive access to the home country assets, on which the whole argument of nationality advantages lie. It also has important implications for the debate on the sources of MNE competitive advantages, whether solely in the home country by the HQs, or rather by the entire corporation, based on sources of knowledge drawn from the entire globe (Doz, Santos and Williamson 2001).

In the next section I describe briefly the competitive performance of Britain as a location for wholesale insurance activity and this of British-owned firms, using inward and outward FDI as proxies respectively. I show that Britain is indeed distinct in its position among all its major competitors in terms of the relationships between its competitive position as a location and the competitiveness of national firms. My search for explanation of this distinctive position is guided by the idea that location advantages differ in terms of their importance as the basis for competitive advantages and competitive performance, and hence as the basis for national lead in an industry. Given the state of theory in this area, I adopt an exploratory approach and examine the differences between foreign and British-owned firms in London in terms of their reliance on and use of local resources. Based on this examination I introduce a hypothetical hierarchy of location advantages in terms of their potential to provide the basis for a home-based advantage. I argue that it is the centrality of location advantages for competitiveness that determines whether national or foreign firms would maintain the lead in an industry, that is, some location advantages are less critical so favourable access to them does not provide a competitive edge. To verify this argument, I test the explanatory power of the various location advantages for variation in performance of foreign and British-owned firms. The paper concludes by drawing the implications of the findings for theory and practice and suggesting directions for future research.

Britain (London) Wholesale Insurance Industry

Britain (London) is the world's leading market for internationally traded insurance and reinsurance. Most of this activity is concentrated in London, clustered within a very small district of the city known as the 'London market'.

The location advantages of Britain are thus not equally distributed across the country, but rather seem to be a characteristic of London and within it of a particular district[2].

The core of activity of the London insurance market is the provision of cross border insurance and reinsurance cover for risks related to international markets. London is by far the world's largest market for these activities, accounted in the late 1990s for more than two thirds of the world's total turnover (Sigma 2002). The business traded is almost exclusively non-life (general) insurance and reinsurance, particularly of large and complex risks, mostly from the business sector[3]. There are two major players in this market, roughly of equal importance: known as Lloyds and the company market. The latter consists of major insurers and reinsurers, both British and foreign-owned. Lloyd's is a competitive market, organised and supervised by the Corporation of Lloyd's, whereby underwriters accept risks on behalf of syndicates, which are supported financially by Names and corporate members. These individual syndicates are relatively small but, through central franchise and security, they combine to make the world's second largest commercial insurer and its eight largest reinsurer (Sigma 1999, 2002, Carter and Falush 1998, Bannister 1999, 2000, IFSL 2001).

The London insurance market has evolved over 400 years, initially establishing its strength on the dominance of Britain in the world economy and benefiting from Britain's early industrialisation (Raynes 1950). During the 19th century the London market became the leading international insurance market, a position it has held ever since. Until the 1950s and 1960s this market was predominantly British-owned, controlled by British insurance companies who were the largest in the world and also dominated the then international market.

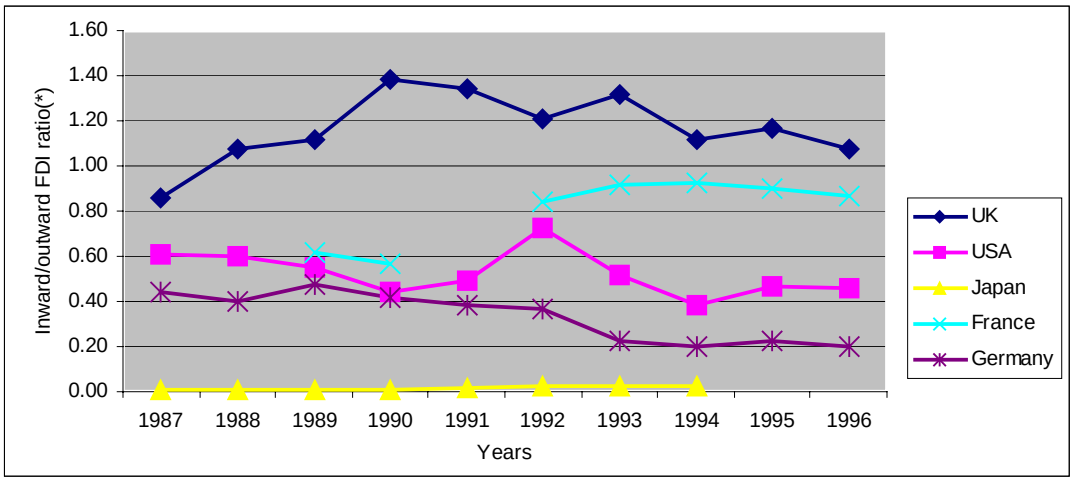
A series of developments in the following decades have gradually eliminated the position of British firms in London as well as elsewhere. For one, British insurance companies were slow to respond to the growing globalisation and the strengthening power of multinational companies in the decades following the Second World War and their global departments were not established until the 1970s or 1980s. This gave foreign companies a major advantage (Bannister 1999, 2000). Furthermore, a number of regulatory reforms (notably The Financial Services and Building Society Act of 1986) removed many of the barriers for foreign companies to enter into the London insurance market and eliminated many of the advantages of British-owned firms in this market (Webb and Pettigrew 1999, Carter and Falush 1998). The increasing volume of

insurance business reaching London led to a stream of foreign insurers establishing branches and subsidiaries in London (Bannister 1999, 2000).

The London market has thus become international, not only in the sources of its business but also in the nationality of its participants, with over three quarters of the companies foreign owned (Sigma 2002), and London's position as an international centre for insurance services relying primarily on foreign ownership (Carter and Falush 1998, IFSL 2001). The latest consolidation wave of the 1990s, whereby leading reinsurers have acquired the last British-owned reinsurers, has left the London market with no British-owned reinsurers at all, apart from Lloyd's (Sigma 2002a). Even in the British-dominated Lloyd's, where foreign ownership was not allowed until recently, foreign ownership has increased its presence very rapidly, and only a decade after removing restriction on foreign ownership, has reached about half of the Lloyd's market. British-owned firms have also lost their position in international markets. While they accounted for the overwhelming majority of the world's top multinational insurers until the decades following World War II (Raynes 1950), in the late 1990s, only 8 and 6 of the world's top 100 insurance and reinsurance MNEs respectively are British-owned (Reinsurance 2000, ReAction 2000).

Figure 1 describes the performance of Britain as a location for financial services and of British-owned financial service firms[4], proxy by outward and inward FDI respectively, relative to other countries[5]. It shows that Britain is distinct in its position from all its competitors – it is the only net inward investor, and has outstanding high amounts of inward FDI relative to outward FDI.

Figure 1



If London indeed possesses such considerable location advantages as the sheer size of inward FDI she receives suggests, why are British-owned firms not the first ones to take advantage of them? Why do the location advantages of Britain attract foreign MNEs to invest in London but only to a limited degree facilitate the development of internationally competitive British firms? Does this situation imply that the impact of national origin is eroding in this highly global industry, and hence British firms do not enjoy a favourable access to their home country resources, as theory suggests? Or rather that there is something unique about British-owned firms, and their inability to take advantage of their privileged access to the advantages of Britain as a location for insurance activity? More specifically, does this situation imply that foreign-owned firms gain equal (or better) access to London's location advantages, or rather their competitive success lies in their ability to draw on resources available elsewhere?

In what follows, I compare the ways by which foreign and British-owned wholesale insurance firms operating in London utilise its location advantages in order to gain some insights into these questions.

Location Characteristics as Bases for the Home Advantages: a Theoretical Point of Departure

In the theories linking the competitiveness of firms with the characteristics of their home environment no distinction is made between different types of such characteristics. Rather, all of them are assumed to provide similar bases for the creation of competitive advantage. Likewise, domestic firms are assumed to have favourable access to all of them vis-à-vis foreign firms investing in the country.

However, there are a number of reasons to expect that home country characteristics would differ in terms of their importance as the bases for competitive advantage and that there will also be considerable variation in terms of the liability of foreign firms in accessing them, with some displaying more similarity between foreign and domestic firms than others. For example, foreign firms often stand in a considerable disadvantage in acquiring local information and knowledge (Zaheer and Mosakoski 1997), as Zaheer put it: … 'a German bank would be more likely to anticipate changes in the value of the Deutsche Mark than a foreign bank in Germany would' (1995, p.23). In contrast, foreign firms are perhaps standing on a more equal basis with domestic firms regarding accessing general services provided on the market. Governments often create such variation across country conditions artificially,

by denying access of foreign firms to certain resources but treating them equally to domestic firms with reference to others.

Resources may also differ in terms of the ability of MNEs to compensate for their liability in accessing them by internal transfer. As part of an international network, foreign affiliates can access some resources elsewhere and can supplement some local resources by those available in other geographic areas (Nohria and Ghoshal, 1997). However, this ability is likely to apply to some resources more than to others. For example, if foreign firms have less favourable access to the local labour market, and hence are unable to attract the best available employees, they might be able to compensate for this, in part by employing expatriates. Likewise, foreign firms are often disadvantageous in their ability to raise capital locally, arising from lack of information of the market on the participant and vice versa. They may, and often do, compensate for this liability by raising capital elsewhere. However, they may not be able to apply similar compensation mechanisms to other resources, for example local customers.

Casual observations of the national patterns in industries may be interpreted as an indication of a variation across location characteristics in facilitating the creation of competitive advantages. For example, about 90% of the world's 100 leading management consulting MNEs emerge from a single country – the US. In contrast, in engineering consulting the world's 100 leading firms originate from 6 countries and the dominant one accounts for only 30% of the total (Nachum 1999). This variation might be attributed to differences across location attributes in terms of their accessibility to foreign firms and the ability of the latter to compensate for their liability by relying on the MNE internal network.

In what follows, I use the comparison between foreign and domestic firms in the London market as a tool to establish a hierarchy of location advantages in terms of their value as bases for national competitive advantage. I compare foreign and British-owned firms in the London insurance market in terms of their access to London's resources, and the ability of MNEs to transfer them internally. Based on the findings, I distinguish between various types of location attributes. I then test for the importance of these different categories in explaining the competitive position of foreign and British-owned firms in the London market.

The Appendix summarises the factors identified, based on both theory and field observations, as the major location advantages of London for insurance activities and their operation measures in the statistical analysis that follows. It presents the rationale for their choices and what can be said a-priori regarding

the expected differences between foreign and British-owned firms in terms of their use and value for them. In selecting the specific location advantages summarised in the Appendix, I draw on the theory of location advantages as a sub-set of FDI theory (Dunning 1993), as well as on institutional theory (Whitely 1992, Kogut 1993). These are combined with intensive study of the London insurance market, based on a variety of secondary sources, and a large number of consultations with industry experts and representatives of the leading institutions in this market. The discussion in the Appendix illustrates the inconclusive state of theory on this issue and highlights the difficulties of hypothesizing the nature of the differences between foreign and domestic firms. In most cases, a-priori expectations are contradictory.

The focus is on those attributes of the external environment where active action by firms is required to turn them into competitive advantage, so it is possible to observe how firms' behaviour is affecting outcome. Location attributes that cannot be manipulated by strategic actions of individual firms and turned by them into a source of competitive advantage (e.g. language, the regulatory system, certain types of infrastructure) are excluded[6]. Since firms are passive towards these types of location advantages, no comparisons can be made between firms with different characteristics (nationality in this case) in terms of their reliance and use of such location attributes.

Methodology

Data for the study were collected by means of a mailed questionnaire, which was sent in 2001 to all firms operating in the London wholesale insurance market. The survey's population was defined based on a combination of geographic and industrial criteria, to include all firms located in the EC postal code area of Central London (the area corresponding to the common, geography-based definition of the City of London), and whose main activities are in wholesale insurance[7]. 472 firms met these criteria and were approached with a request to fill in a questionnaire[8], which asked about the nature of the interaction of firms with local resources and their views of their value for their competitive position. The questionnaire also included a set of questions directed only to foreign affiliates, in which they were asked about the nature of the relationships between the London office and the headquarters and the types of resources transferred between them[9]. The questionnaires were mailed to the CEOs because he is the one having the ultimate responsibility for the aspects of strategic behaviour that are of interest here (Hertz and Imber 1995), and because the information sought is often dispersed across different people in most of the

firms approached, and the chief decision maker is thus the single person to be able to answer questions in these different areas.

131 firms returned complete, useable questionnaires (27.7% response rate). Tests of differences between respondents and non-respondents in terms of a number of characteristics for which data is available for the entire population from secondary sources and which were regarded of interest and relevance in this research context found no significant differences at the 0.05 level or more. Since I suspected that the assumptions of parametric tests may not hold, I conducted both parametric and non-parametric tests and found no significant differences by both means. These results enable me to consider the sample as representative of the entire population of firms in the London wholesale insurance market.

The sample contains 57 foreign firms and 74 British-owned[10]. When broken by major service functions, there are 34 insurance and reinsurance companies; 48 brokers; 18 managing agents; 20 others. The average size of the firms in the sample, as measured by the number of employees in the London office, is 137 (S.D. 253). The average age (years since the establishment of the London office) is 17.75 (S.D. 20.23).

I examine the differences in the set of location advantages identified above in a number of ways. I start by comparing the use made by foreign and British firms of these location advantages, taking actual use as an indication of accessibility. Based on the results of this analysis, I classify the location advantages into three categories that differ in terms of their use and the possibility for internal compensation by the MNE network. I argue that these correspond to three distinctive types of location advantages. To verify this argument, I test for differences in their explanatory power for variation in performance. I construct a model whereby these location advantages are taken as the independent variables and the dependent variable is a measure of performance. Formally:

$$logY_i = f(\beta_0 + \beta_1 x_i + \lambda_i) + \varepsilon_i$$

Where *Yi* in model 1 is a measure of performance of firm *i (i =1…m)*; Kolmogorov-Smirnov test, with a Lilliefors significance test for normality, shows that the dependent variable is not normally distributed and hence we take the natural logarithm. x_i is a vector of strategic actions undertaken by firms in reaction to the location advantages of London (summarized in the Appendix) and the β's are the regression coefficients. εi is a firm-specific random disturbance that is attributable to errors associated with inadequate actions by

firms towards particular location advantages and possibly also distortions resulting from an elimination of some important advantages. The errors are assumed to follow the standard normal distribution. λ is a vector of control variables, comprised of various firm-specific characteristics that are expected to influence performance.

The combined ratio is the commonly used indication of the overall performance of insurance firms (e.g. Fiegenbaum and Thomas 1990, Sigma 2001) and is also used here. It is defined as the ratio between [incurred losses + loss adjustment expenses + underwriting expenses + dividend] and net premium written[11]. It is measured as three years average, to level out for swings in performance. Such adjustments are particularly important in insurance where, due to the highly volatile business, performance indicators tend to vary considerably over time, making static indicators inadequate[12].

To account for measurement error associated with estimates of performance that are biased by inability to isolate the performance of the London office from this of the rest of the MNE, I follow Dess and Robinson (1984) and validate the objective performance measure with a self-reported measure. This measure is based on respondents' assessment of the performance of their firm along the same indicators used in the study relative to other firms in the London market, on a five-point interval scale from 5 (top 20%) to 1 (lowest 20%). I find significant, positive correlation (0.796, $p<0.05$) between the two, which implies that respondents' perception of how well their firm performed was consistent with how the firm actually performed.

For the foreign sample only, I estimate a slight variation on the model, whereby I add a moderating variable to capture the possibility that internal MNE transfers are used as compensation mechanisms for the liability of accessing local resources and thus affect the link between the reliance on local resources and performance. I construct an index of resources transferred from the HQs to the affiliates, combining capital, employees, various types of knowledge, services and organisational practices.

A number of control variables are added, to take account of major firm attributes that are known to affect performance. First, I control for size, as a number of studies have shown that it has important impact on the performance of insurance firms (e.g., Fiegenbaum and Thomas 1990, Kielholz 2000, Diacon, Starkey and O'Brian 2002). Size is measured by the number of employees in the London office.

Second, dummy variables are added for the different insurance types included in the sample (that is, insurance and reinsurance companies, brokers, underwriters, others). These variables would control for possible industrial variation in terms of the value of specific location advantages and the strategic options available for firms to utilise them.

Table 1 summarises the variables included in the analysis, their operation measures, descriptive statistics and correlation coefficients. The latter are usually low (for the most part well below .5), enabling one not to be concerned about correlation in the dataset.

Table 1. *Firms' actions to take advantage of London's location attributes, their operation measures, descriptive statistics and correlation coefficients*

Construct	Operation measures	Descriptive statistics	Correlation coefficients (Pearson)											
		Means (S.D.)	1	2	3	4	5	6	7	8	9	10	11	12
Firms' strategic responses to London's location advantages														
The labor market	1. Employees recruited locally (%)	96.794 (11.040)	1											
	2. Non-UK managers (%)	5.980 (11.243)	0.298* 0.001	1										
	3. Average remuneration (pounds)	47,997 (28,461)	0.111 0.303	0.264* 0.012	1									
Local suppliers	4. Local purchases (%)	95.033 (14.304)	0.508** 0.000	0.195* 0.026	0.075 0.486	1								
Clients	5. Local clients (%)	60.403 (35.132)	0.231** 0.008	0.091 0.304	0.399** 0.000	0.319** 0.000	1							
Capital	6. Trading on London's stock exchange (dummy)	0.10 (0.304)	-0.069 0.461	-0.068 0.462	0.009 0.937	-0.033 0.725	-0.004 0.962	1						
	7. Raising locally (dummy)	2.65 (1.762)	0.051 0.793	0.502** 0.004	0.120 0.635	-0.003 0.990	-0.067 0.730	0.063 0.760	1					
Knowledge	8. View of local firms as sources of knowledge (α=.827)	3.102 (0.779)	0.004 0.966	0.059 0.522	0.102 0.357	-0.065 0.478	0.067 0.467	0.056 0.560	0.226 0.248	1				

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Table 1. continued ….

	9. Local collaboration – slip sharing (%)	93.309 (18.236)	-0.153 0.110	-0.096 0.317	-0.291* 0.011	-0.284** 0.003	-0.411** 0.000	-0.017 0.859	-0.354 0.082	-0.193* 0.049	1			
Institution	10. Use of local institutions for processing of claims and premiums (%) (α=.822)	79.057 (19.323)	-0.098 0.289	-0.059 0.518	0.133 0.233	-0.126 0.171	0.157 0.086	-0.006 0.952	0.431* 0.020	0.347** 0.000	-0.349** 0.000	1		
Moderating variable														
MNE internal linkages	11. Resources transferred from HQs to affiliates (dummy) (α=.979)	2.517 (0.593)	0.233 0.165	-0.201 0.232	-0.385 0.052	0.005 0.977	0.067 0.695	0.014 0.935	0.566 0.241	-0.105 0.547	0.090 0.617	0.298 0.082	1	
Control variable														
Size	12. No. of employees	137.038 (253.068)	0.148 0.093	0.119 0.177	-0.108 0.314	0.122 0.169	0.074 0.405	0.525** 0.000	-0.132 0.480	0.087 0.342	-0.026 0.785	-0.044 0.630	0.066 0.698	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Collecting the dependent and independent variables from the same respondent raises the possibility of the common method variance problem. Following Podsakoff and Organ (1986), I use the partial correlation procedure to deal with this problem. The hypothesis to be tested is whether the relationship among the variables of interest exists after the common method factor has been statistically controlled. In the first step I run a factor analysis of all the variables in the study. The first unrotated factor (which is assumed to contain the best approximation of common method variance if it is a general factor on which all variables load) is partialled out and the relationship between the independent and criterion variables are again examined to determine whether any meaningful correlation still exists. This is considered a strong test of the potential biasing effects of common method variance (Podsakoff and Organ 1986). Given the large number of variables included in this analysis, the outcome has been satisfying, enabling me not to be concerned about this problem in the dataset[13].

Statistical Analysis and Discussion

Table 2 presents the results of a comparative analysis of foreign and British firms in terms of their use and reliance on local resources and their evaluation of their importance for their competitive position. This comparative analysis enables one splitting the various characteristics examined into two distinct groups by the significance of the differences. The non-significant attributes are those in which ownership makes no difference and are less likely to provide explanation for the differences between foreign and British firms observed in London. The group of significant variables can further be split into those attributes where foreign firms make more use of London's resources and regard them as more important and those where they make less use. As the data presented in Table 2 show, the latter include local recruitment – at both the overall level and the top managerial levels, reliance on local suppliers (local purchases) capital raised locally and local collaboration. The only significant difference where foreign firms exhibit greater use of local resources is regarding remuneration. Used here as an indication for the quality of the employees, this implies that foreign firms manage to attract the better employees in the local labour market.

Table 2. *Strategic responses of foreign and British-owned firms to London's location attributes (Mean (S.D.); Parametric and non-parametric test of significance on means)*

Construct	Operation measures	Foreign	British	t-test[a]	Wilcoxon W (Z)[b]
The labor market	1. Employees recruited locally (%)	95.982 (10.520)	97.424 (11.455)	-0.734	-0.220
	2. Non-UK managers (%)	0.117 (0.146)	0.016 (0.040)	5.589 ***	-5.098 ***
	3. Average remuneration (pounds)	53,857 (34,255)	43,828 (22,951)	1.854 *	-1.482 +
Local suppliers	4. Local purchases (%)	92.732 (17.207)	96.780 (11.417)	-1.603 +	-0.900
Clients	5. Local clients (%)	65.553 (36.088)	72.356 (34.336)	-1.091	-0.521
Capital	6. London's stock exchange (dummy)	0.06 (0.245)	0.13 (0.337)	-1.163	-1.162
	7. Raising locally (dummy)	3.45 (1.753)	2.20 (1.642)	1.988 *	-2.089*
Knowledge	8. Local firms as sources of knowledge	3.200 (0.764)	3.026 (0.788)	1.217	-1.256
	9. Local collaboration – slip sharing (%)	90.266 (21.045)	95.323 (15.959)	-1.450 +	-1.906 *
Institution	10. Local processing (%)	78.687 (18.483)	79.405 (20.259)	-0.184	-0.601
N		57	74		

[a]Equal variances assumed, based on the results of Levene's tests for equality of variances.
[b]Asymp. Sig. (2-tailed).

*** p<.001; ** p<.01; * p<.05; + p<.10

Table 3 shows the differences in the explanatory power of these attributes for variation in performance between London foreign and British insurance firms. It is possible to distinguish between various types of location attributes in terms of their significance for performance of foreign and British firms. There are those that are not significant in any of the analyses – access to the labour market and to local suppliers - questioning their overall value in providing a distinctive competitive advantage. Another group is those that are significant only for the British or the foreign sample, implying somewhat different determinants of performance in the local environment for these two groups. Overall, the model is more significant for the British sample, providing support for the greater use made by national firms of their home resources as a base for their competitive position (Porter 1990).

Table 3. *Estimation of a model connecting performance as the dependent variable with the strategic responses of foreign and British-owned firms to London's location attributes (Multiple regression analysis – standardised coefficients)*

Construct	**Operation measures**	**Whole sample**	**Foreign sample**	**British sample**
The labor market	Employees recruited locally	-0.030 (-.333)	0.039 (.285)	0.158 (.639)
	Non-UK managers	0.002 (.019)	-0.049 (-.350)	0.096 (.703)
	Average remuneration	0.093 (1.141)	0.002 (.016)	0.149 (1.253)
Suppliers	Local purchases	-0.036 (-.408)	0.017 (.122)	-0.220 (-.953)
Clients	Local clients	-0.148 (-1.787)*	-0.069 (-.487)	-0.207 (-1.818)*
Capital	London's stock exchange	-0.007 (-.076)	-0.432 (-2.753)**	0.078 (.646)
	Raising locally	0.092 (1.190)	0.090 (.691)	0.074 (.726)
Knowledge	Local knowledge	0.183 (2.104)*	0.011 (.077)	0.287 (2.844)**
	Local collaboration	-0.101 (-1.276)	-0.054 (-.412)	-0.044 (-.370)
Institution	Local processing	0.159 (2.040)**	0.164 (1.147)	0.182 (1.774)*
MNE linkages	Resource transfer	-	0.607 (3.052)***	-
Size	No. of employees	0.420 (4.690)***	0.724 (4.534)***	0.298 (2.227)**
Ownership	Dummy foreign/British	-0.217 (-2.629)**	-	-
Constant		4.048 (2.184)**	1.858 (.634)	1.492 (.516)
Regression statistics				
Adj. R^2		0.325	0.218	0.427
Std. Error		1.579	1.385	1.629
F stat		6.209	2.298	4.202
Sig. F		0.000	0.022	0.000
N		131	57	74

*** p<.001; ** p<.01; * p<.05; + p<.10

The highly significant sign of the moderating variable – MNE linkages – in the analysis of the foreign sample support the moderating effect of the ability to access resources elsewhere and to transfer them internally within the MNE as a moderating effect on the liability of foreign firms in accessing foreign resources. To gain deeper insights into this, I construct interaction variables between each of the location attributes and the index of MNE linkages. Significant signs of these variables would indicate – for each location attributes individually – whether the MNE internal network mitigate for the inferior ability to access a resource locally.

Table 4. *Estimation of a model connecting performance as the dependent variable with the strategic responses of foreign firms to London's location attributes and their substitution by internal MNE transfer (Multiple regression analysis – standardised coefficients)*

Construct	**Operation measures**	
The labor market	Employees recruited locally	-0.236 (-1.190)
	Non-UK managers	0.189 (.513)
	Average remuneration	0.263 (.877)
Suppliers	Local purchases	0.015 (.057)
Clients	Local clients	-0.051 (-.176)
Capital	London's stock exchange	-0.430 (-2.309)**
	Raising locally	0.109 (.771)
Knowledge	Local knowledge	-0.052 (-.208)
	Local collaboration	0.268 (1.032)
Institution	Local processing	0.212 (1.361)
Interaction variables (location x MNE transfer)		
The labor market	Employees recruited locally	0.622 (1.850)*
	Non-UK managers	-0.244 (-.679)
	Average remuneration	-0.283 (-1.020)
Suppliers	Local purchases	-0.057 (-2.144)*
Clients	Local clients	0.022 (.075)
Capital	London's stock exchange	0.028 (.160)
	Raising locally	-0.035 (-.249)
Knowledge	Local knowledge	-0.078 (-2.283)**
	Local collaboration	-0.490 (-1.494)
Institution	Local processing	0.309 (1.876)
Size	No. of employees	0.708 (3.942)***
Constant		3.238 (.955)
Regression statistics		
Adj. R^2		0.279
Std. Error		1.418
F stat		1.612
Sig. F		0.104
N		57

*** p<.001; ** p<.01; * p<.05; + p<.10

Having established that location advantages differ in terms of the base they provide for a nationality-based advantage, it is possible to specify the conditions under which a country firms would develop a competitive lead and those where nationality by itself may not make a difference in determining leadership in an industry. When global competitive position in an industry is based on those location attributes where foreign firms face a liability and where the possibility to compensate for these via internal MNE transfer is limited or does not exist

altogether, then national firms based in locationally advantageous country would take the lead and are likely to become the dominant global leaders in an industry. When these conditions do not hold, the leader in an industry may not necessarily emerge from the most locationally advantageous country, and leadership will be determined by the ability of firms to access resources elsewhere. It is likely that, in such cases, the dominant leaders in an industry will emerge from a number of countries and there will not be strong country patterns in international competition.

Seen in this way, the seemingly puzzle of the London insurance market is no longer puzzling. The inferior competitive position of British firms in this market, and in the international insurance market, is a result of the relative unimportance of the location attributes that provide the basis for its existence. In the hierarchy of location advantages in terms of their contribution to the development of the home-based advantage, favourable access to those at the lower level may not necessarily lead to the home-country patterns.

Robustness Tests

I conduct a number of statistical tests to verify the findings reported above[14]. First, I exclude from the British sample all purely domestic firms and conduct the comparisons between foreign and domestic firms based on a British sample that includes only British MNEs. Doms and Jensen (1998) have shown that when foreign owned firms in the US are compared with US MNEs only, many of the differences found between foreign and all US firms disappear or significantly change their direction. They then argue that comparing foreign and all domestic firms is, in some ways, not comparing like with like. Indeed, the overall results continue to hold, also based on the reduced sample, but the differences between the British and foreign samples are weaker.

Second, I repeat the analysis with different operations of performance. The profit-based performance measure used here, although justified on the ground that it is the most commonly used measure in insurance, might suffer some limitations when applied to a comparison between foreign and domestic firms, resulting from profit shifting and transfer pricing by MNEs. Multinational firms tend to 'play around' with their profits, as a way to avoid taxes, and often do not declare their profits in the place where they were actually gained (Demirguc-Kunt and Huizinga 2001). They may also use transfer pricing as a mechanism to show higher profits in low tax locations. To test whether such profit shifting practices affect the results I estimate the model with alternative dependent variables. These include the tobin's q (defined as: (equity + stock + debt)/assets) and stock

exchange performance (return per share). These measures are likely to be free of the profit-shifting problem because income shifting is supposed to be reflected in the market evaluation of firms. For the same reason, I also estimate the model without the investment performance variable. The results continue to hold.

Third, I test for another possible bias of the findings due to limitation of the dependent variable, caused by investment performance. The combined performance of insurance firms is determined, in addition to underwriting performance, which the dependent variable is meant to capture, also by investment performance, which is a function of business allocation and asset management as well as asset leverage (Sigma 2001, Fiegenbaum and Thomas 1990). The manner in which insurance business is conducted implies that there is always a time lag between the payment of premiums and the settlement of claims. In some classes of insurance substantial delays often occur between the occurrence of the loss and the final settlement of the claim. The extra funds are usually available for investment (Carter and Dickinson 1992), and the income of this investment often form an important part of firms' overall financial performance. A recent study has estimated that in the late 1990s, investment results have accounted on average for about 15-20% of net premium of insurance firms in the G7 countries (Sigma 2001). To take account of this possible distortion of the findings, I estimate the model using marginal profitability as the dependent variable. The overall conclusions are maintained.

Concluding Remarks

This study has sought a rationale for what appears to be a discrepancy from the theories that link the competitive advantages of firms with the characteristics of their external environment, whereby national firms are assumed to have favourable access to the resources of their home countries (Hymer 1976, Hu 1992, Kogut 1993). In some cases, locationally advantageous countries attract foreign firms, who develop dominant competitive position in an industry, rather than facilitate the development of nationally competitive firms, as theory suggests (Dunning 1993, Porter 1990). The study was based on an in-depth analysis of one case where such a departure from theory is observed, the London wholesale insurance market. Without doubt, Britain (London) possesses considerable location advantages for these activities, but the main beneficiaries of these advantages are foreign firms investing in London, who dominate both the London market and world insurance markets.

The starting point in the search for a rationale for this departure from theory was the assumption that location advantages may vary in terms of their importance as the bases for national advantage. This variation is related to differences in the

liability of foreign firms in accessing different location characteristics in foreign countries and in their ability to compensate for unfavourable local access by accessing resources elsewhere. Comparative analyses between foreign and British-owned firms in the London market were used to establish a hierarchy of location advantages, and to show that they differ in terms of their importance as bases for competitive advantage. Based on these analyses, I distinguished between different types of location advantages, based on their importance to competitiveness and their internal transferability and geographic mobility, and hence the possibility to compensate for the lack of them via internal transfers within the MNE.

The study makes several contributions to the theories examining the link between firms' attributes and their external environment. One major contribution is in introducing an explicit distinction among various characteristics of the external environment, which was not recognised by previous conceptualisations. By so doing, the study provides a framework for analysing the observed variation in terms of the existence and strength of national advantages, and for identifying the circumstances under which a locationally advantageous country will support the emergence of internationally competitive national firms and those under which nationality by itself may not make a difference.

A second way by which the study pushes the boundaries of existing knowledge is by explicitly acknowledging the possibility of certain substitution between the attributes of the immediate external environment via internal transfer within the MNEs. Under certain circumstances, foreign firms can overcome the liability of unfavourable access to a foreign country's resources by using internal compensating mechanisms. This adds a dimension to the conceptualisation of the MNE as an internal network operating within an external network (Ghoshal and Bartlett 1993).

Third, the approach undertaken here signifies a departure from existing literature by putting the actions of firms at the focus of the analysis and as the factor determining national advantage. Previous conceptualisations of the link between the characteristics of the external environment and the competitive advantages of firms tended to view firms as passive vis-à-vis their environment, and hence the mere availability of particular attributes in this environment is used to explain their competitive position (e.g., Porter 1990, Dunning 1993). Instead, I take here a different notion of the relationships between firms and the environment in which they operate. I introduce a notion of active firms who, by their actions, transform resources into sources of competitive advantages.

Location advantages are seen as a necessary but not sufficient condition for the emergence of internationally competitive firms within a particular country (Nachum 1999).

Another important contribution of this study is in addressing the differences between foreign and domestic firms in terms of their reliance on the external environment as a source of explanation of the differences between them. The focus of most research addressing the differences between domestic and foreign firms has been on firm characteristics (see e.g. Zaheer 1995, Miller 2001, Mezias 2002 for a representative approach). Here I emphasise the use of the attributes of the external environment as an additional dimension to this comparison.

The lessons of this study are particularly important in the context of the growing tendency for asset augmenting investment (Wasson 2001). In Hymer's discussions of the reasons for the disadvantages of foreign firms in their ability to benefit from the conditions in foreign environment, there was an explicit view that firms invest overseas in order to exploit their existing competitive advantages. In such a context, the access to foreign resources as a way to upgrade the firms' existing advantages is not an issue. The question is becoming highly important for asset augmenting investment, as it indeed undermines the entire rationale for such investment. The findings of this study suggest that under certain circumstances, firms would be able to build their competitive advantages based on resources in foreign countries similarly to domestic firms.

The findings of the study imply that a country can establish a strong competitive position that is (almost) entirely based on foreign ownership. Such a situation has critical implications for policymakers for two main reasons. First, it implies less control of national policy makers over the determinants of their country's competitive position and limits their ability to influence it. Foreign firms are likely to be less responsive to the economic policies of host country governments or be able to take greater advantage of them. For instance, foreign firms may deflect the aims of a tight monetary policy by acquiring capital from the parent company or associated financial institutions, and they may use transfer pricing to elude the local taxation of profits (OECD 1993). Furthermore, as the economic fortune of these foreign firms is often affected by developments in their home countries, a country's position is likely to be influenced to a significant extent by economic forces elsewhere, on which national policy makers have limited, if any, influence[15]. Policies have to be drawn while acknowledging these limitations and incorporating them explicitly in adequate responses.

Second, high level of dependency on foreign participation is disturbing also because of the potential mobility of foreign firms. The latter are more footloose than local ones, and although national firms would also respond to changes in the relative economic conditions of their home country, foreign firms would more easily relocate. Such dependence on foreign ownership makes a country's position weak and potentially vulnerable. There is a considerable importance for encouraging the growth of an indigenous industry in order to mitigate against shifting patterns of foreign investment[16].

Foreign ownership, however, has also positive implications, as the ability of foreign firms to draw upon resources elsewhere means that deteriorating economic conditions in a country may not impinge on the competitiveness of a sector to the same degree as it could have been, had it been dependent on national firms alone. For example, a recession in Britain is likely to drain the financial resources of British financial service firms, but will have less impact on the overall operation of the City due to the dominant position of foreign firms, who are able to rely on the strength of their parents and to access resources elsewhere.

This study opens up a large area for future research. There is a need to establish the validity of the framework advanced here I different contexts. By providing a tool to assess the relative importance of certain location attributes and distinguish those that are more critical from others, this framework can be used to examine whether there are any industrial and/or geographical patterns, that is, can it be said that certain industries are more prone than others to the erosion of the home-base advantage? Are certain countries more likely to do so? In a one-country, one-industry like the present one, these issues could not have been addressed, but future research may examine them on a scale that cuts across industries and countries.

Future research may also correct for the static nature of this study. A static analysis of firm characteristics and the external environment, as well as the relationships between them, is a snapshot of inherently dynamic phenomena, and as such might provide only limited insights. There is a need to verify the findings found here in a longitudinal study over a long time period. Such a study should acknowledge a possible impact of the 'insurance cycle' on the findings reported here. The insurance cycle is the tendency for general insurance premiums, profits and the availability of coverage to rise and fall with some regularity over time (Webb and Pettigrew 1999), in a manner which is not directly related to the general business cycle of the economy as a whole (Lamm-

Tennant and Weiss 1997). Cycle periods typically last between 5-10 years, although they vary across countries and type of insurance (Lamm-Tennant and Weiss 1997, Sigma 2001). It might be that some of the relationships found here are sensitive to the stage in the cycle, particularly as the type of firms operating in an industry during each stage tend to differ. The period in which the cycle 'bottoms out' is typically characterised by withdrawal of insurers from some markets resulting in availability crises for some lines. Periods of rising underwriting profitability are characterised by increased entry of insurers and expanded coverage for many lines of business. Also the nature of the external environment, notably its stability and vulnerability, are likely to vary in different periods of the cycle.

Notes

[1] There are a number of similar cases, whereby foreign firms take a lead in seemingly locationally advantageous countries, which are not referred to here, because such location advantages are created by direct government intervention and the regulatory system that follows rather than the possession of sustained location advantages, of the type that is assumed to facilitate the development of national firms. The emergence of Bermuda as the world's leading insurance centre is a case in point (Sigma 2002b). The high-tech industries in Ireland suggest yet another such example, where the attractive tax system has attracted a large amount of foreign investment. I leave these cases outside the discussion because the issue addressed here is less apparent in such contexts.

[2] A survey of the location considerations of foreign financial service firms in London and New York reported that the London firms studied did not consider any location outside London for their British operations (Daniels 1986). The actual number of foreign financial service firms located outside London is indeed minimal (IFSL 2002).

[3] Only a very small amount of life and health insurance is written in the London market, and this insurance activity is therefore excluded from the study.

[4] Data availability does not enable one to construct a similar picture for insurance services only, as there is no data for insurance FDI which is comparable across the major competitors in the sector. However, there are indications that the situation in insurance alone is similar to the one portrayed in Figure 1 for financial services as a whole.

[5] Using FDI flows as proxies for location and firm-specific advantages is a common procedure in the FDI literature (Dunning 1988, Nachum 1999). Inward FDI is used as a proxy for location advantages based on the argument that the selection by firms of a particular country as an investment location is an indication of its relative location advantages. Amounts of outward FDI provide indications of the ability of firms to compete successfully in global markets, and hence are used as a proxy for their competitive advantages. The theoretical arguments discussed above lead one to expect that locationally advantageous countries would source strong flows of outward FDI and would receive large amounts of inward FDI.

[6] In this, I already introduce an initial distinction between different types of location characteristics, that although will not receive additional attention in this study is interesting by itself, that is, a distinction between location attributes by the extent to which firms can manipulate them as the bases for their competitive advantages. The distinction may not always be clear cut and may differ for firms with different attributes, notably the strength of their market position. The regulatory environment probably stands out as an example of such attributes. It is widely regarded as a critical location advantage in insurance (e.g. Sigma 2002b) and as an important location advantage of London (e.g. Falush and Carter 1998, Sigma 2002a, IFSL 2001). This is particularly critical for the issues studied here because regulations are a major tool used by policy makers to discriminate the access of foreign firms to a country's location advantages (e.g. OECD 1993). Although critical, firms are, by and large, passive here. There are severe limits to the ability of firms to affect this aspect of location by strategic manipulation, beyond the actual location decision (that is, in their choice of location this is certainly an important issue, but once selected, firms are passive to the regulatory system). The emergence and rapid development of Bermuda as a centre of insurance activities illustrates the critical importance of regulation in affecting the location choices of firms.

[7] Firms providing primarily retail services were excluded from the study. In this market domestic firms have unrivalled position, resulting from their well-established networks and long relationships with clients. It is very difficult for foreign banks to penetrate this market, as for the bulk of financial services they have no advantage here (Tschoegl 1987). The retail market is thus an inadequate context for a comparison between foreign- and domestically-owned firms. Veugelers (1992) show large, significant differences between domestic and foreign owned insurance firms in Belgium in terms of their specialisation patterns, reflecting the fact that foreign affiliates have a comparative advantage in trans-border risks while they are at a disadvantage in personal insurance.

[8] Prior to sending the questionnaire to the entire population, I piloted it to a large number of industry experts (including representatives of all the major organisations in the London market) and firms. This intensive piloting process led to a number of major revisions until the final version was reached and sent to the entire population.

[9] The complete version of the questionnaire is available upon request.

[10] The breakdown of the sample by nationality does not represent the population. Establishments that are part of larger companies are known to exhibit lower response rate (Tomaskovic-Devey and Leiter 1994).

[11] The net premium written is preferred to gross premium as a measure of output, since a major portion of underwriting expenses are incurred at the time of writing new and renewal policies, and should logically be deducted from the gross premium figure (Fiegenbaum and Thomas 1990).

[12] The need to take account of the inherent volatility of the business in performance measurements is well recognised in the industry. For example, Lloyd's operates a three-year accounting system. This system is intended to allow time to collect information about known incurred liabilities and to estimate possible outstanding liabilities in order to close the syndicate's account.

[13] It ought to be acknowledged however that all the statistical procedures used do not permit one to determine the proportion of covariance between two measures that is attributable to the assessment by the same source. As such, the effectiveness of these techniques for dealing with the problem is, at best, ambiguous. However, no simple statistical procedure adequately eliminates the problem of same-source variance (Podsakoff and Organ 1986).

[14] The results of these analyses are available upon request.

[15] The impact of the economic slowdown of Japan on Japanese financial service firms in the City of London, and its consequences for the operation of the City as a whole, as well as the more recent difficulties of Asian firms as a result of the financial crises in their home countries, is just one example of this situation.

[16] A fascinating illustration of the different attitudes of foreign and British-owned insurance firms towards London resources is given by Heracleous and Barrett (2001), when reported the differences between local brokers and the large multinational brokers to the introduction of the electronic processing system in the London insurance market. The different reactions of these two groups reveal a fundamental difference between them – the multinational brokers' commitment to London was only important if it would help them secure their position in an increasingly competitive global insurance value chain. By contrast, the primary goal for the local brokers

and underwriters was the maintenance of London as a global underwriting centre for trading (as well as maintenance of their own positions within this centre). There was little common ground between these two groups. Indeed, the multinational brokers together challenged the value of appropriating the electronic placing system as a joint market initiative in London, preferring instead to develop their own mechanisms that are less locally embedded, but link them with global centres elsewhere. They have introduced as a joint collaboration the World Insurance Network, as a global electronic marketplace for commercial insurance business. These leading multinationals saw London within the global context, rather than as a location of its own, which is more typical to the small local ones (Heracleous and Barrett 2001).

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Appendix: *London's location advantages for insurance activities, their use by foreign and British-owned insurance firms, and their operation measures in the statistical analysis*

Location advantages	**Rationale**	**Expected differences: British-Foreign**	**Operation measures**
Local labour force	Huge size of London's labour market, its high level of professionalism and its relatively low costs	? Strong British 'old boy network' tradition that discriminates foreign firms, but the growing foreign presence weakens its influence	1. The share of total recruitment taking place locally. 2. Proportion of non-UK residents among the active directors and chief executives of the firm. 3. remuneration.
Local service suppliers	London's support services are regarded as world class	Foreign firms have lesser need for these services as they can acquire some of them within the MNEs	The share of external purchases taking place locally in total purchases
Profile of the clients	Location of some of the world's largest and most successful companies	? Preference of firms for local service providers, but the global nature of most activity may weaken its influence	The share of revenues generated locally
Local institutions	e.g. the London processing centre	no discrimination is made by nationality in accessing London's institutions → foreign and local firms would make similar use of them.	A combined measure of the share of claims, premium and reinsurance implemented/processed in the London market
Costs of capital	Large and significant differences between countries in the costs of capital facing insurance companies	Foreign firms are disadvantaged when attempting to raise capital overseas, arising from lack of information of the market on the participant and vice versa	1. Share of equity raised locally 2. Sources of debt – whether in the UK or elsewhere**.**
The cluster of the London Market as a source of knowledge	The large concentration of insurance and other financial services in tight geographic area, and the possibility that this concentration provides for flow of information and the acquisition of knowledge of various kinds	Local firms are likely to have an advantage in accessing local information	1. The intensity of the linkages of firms with other firms in the London market – a combined index 2. A subjective judgement regarding the value of local linkages as a source of knowledge.