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The post crisis transition: new investment circuits in Switzerland

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Abstract

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The recent financial crisis with its disastrous economic, social and ecological consequences has taken root in unprecedented separation between the autonomized financial markets and the real economy (Corpataux and al. 2009). According to the Regulation Theory (Boyer 2001; Aglietta 2010), this crisis is systemic and marks the end of financialized regime of accumulation of capital. 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 new moral and economic basis. 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 and Theurillat 2011).

In this context, this paper 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.

To address these issues, we have performed an empirical study on two levels: "from the top" and "from the bottom". First, to investigate the investment strategies of institutional investors, we have conducted several qualitative interviews with various stakeholders from the Swiss pension funds sector: pension funds managers, investment advisers and financial managers. Second, we have performed some case studies of investment circuits ?from the bottom?, that is to say, from the point of view of SMEs financing needs. Thus, we have interviewed different local and regional actors, both private and public, in relation with such initiatives: private and public Venture Capital fund managers, Business Angels, small businessmen, etc. The collected data were cross-checked with various documentary sources and official statistics.

In this article, we will show that the today Swiss financial system is characterized by the freezing of huge amounts of cash accumulated on current accounts of the Swiss National Bank. It is a result of a deep crisis of confidence in financial markets with a desire to preserve the wealth value. Indeed, we found that the investment strategies model of Swiss pension funds comes 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 industrial investments, such as Venture Capital. We will explain the present pension fund?s investment model by a specific institutional architecture which determines that another way to invest is not currently possible.

Furthermore, we argue that the emergence of new initiatives "from the bottom", 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 the bottom? 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 the bottom" with only some occasional re-connections between them.

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The post crisis transition: new investment circuits in Switzerland

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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, Crevoisier and al. 2009). According to the Regulation Theory (Boyer 2004; 2011; Aglietta 2010), 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 ethics (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 and Theurillat 2011).

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 the emergence of a new regime.

For instance, during the transition between the Fordist regime and the financialised 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 on the one hand savings (monetary capital) and on the other hand innovative projects in the real economy, observed at different territorial levels. Transitions “from the top” are the changes induced at the level of the largest players (large banks, institutional investors, large industrial companies, regulation authorities). Transitions “from below” develop 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 industrial 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 the bottom” 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 the bottom*" 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 developed. Moreover, it wanted to understand why those periods of stability and 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 (1.1). Second it provides a schematic view of today’s situation and shows the importance of having an exploratory research to identify features of the current transition (1.2).

1.1 Transition between accumulation regimes

Schematically, the Regulation Theory argues that periods of stable growth are possible in capitalist economies because there exist systems of institutions, related to money, to wages, to competition, to the role of the state and to the international insertion of an economy which absorbs the tensions created by the accumulation of capital. The crisis arises when those systems do no longer manage to contain those tensions.

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 the crises “of the regime”. For instance, the crises of 1987, 1992 and even 2001 can be seen as crises in the regime, in the sense that the main institutions, like the centrality of financial markets in accumulation, resisted. 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 en 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 the large literature about how central and eastern European countries shifted 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 and property institutions, in the insertion in the international economy and in labor markets. It had flows 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 crises during the transition period between the "fordist accumulation regime" which took place from 1945 to 1975 and the "financialised accumulation regime" which can be situated between 1985 and 2008. The so called Territorial innovation models (TIMs) (Moulaert&Sekia 2003; Simmie 2005; Lagendijk 2006) 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 an expansion at the scale of the world. The TIMs focused radically to regions in crises (for instance regions with an old industrial tradition) and regions that were developing (Italian industrial, high tech regions) (Benko and Dunford, 1991). Regions, not nations nor companies, are the competing entities. Second, TIMs while not ignoring large companies were focusing on SMEs 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. Therefore, in this paper, an opposition between transition *from the top* and *from below* will be used in order to understand current changes. Large players, national states and international organizations will be opposed to networks of regional players.

1.2 A transition out of the financial accumulation regime?

Today, the economies and societies of developed countries are facing deep economic crises induced by a huge failure of the financial market led system of regulation. To deal with the question of the transition out of the financial accumulation regime, it is first necessary to understand how this regime was organized. Therefore, this chapter presents first the characteristics of the financialised accumulation regime (**Erreur ! Source du renvoi introuvable.**). A *territorial approach of finance* will be used in order to identify not only how the system was organized, but also the territorial shape that corresponds to it, mainly the liberalization of financial flows and an integration of the finance industry at the global scale around the *global city* (Sassen 1991). Then, the main consequences of the disfunctioning of this regime will be presented (**Erreur ! Source du renvoi introuvable.**).

1.2.1 The accumulation regime of the last 25 years (institutions and territories)

This approach puts space (or geography) in the heart of financial markets dynamics (Crevoisier and Theurillat, 2011; Corpataux et al., 2009; Theurillat et al., 2008). It combines Regulationists scholars for whom growth takes place on the financial markets rather than on the real economy (Boyer 2001and 2011; Aglietta 2008 and 2010 ; Chesnais 2001 ; Lordon, 2008) and the growing works of scholars in finance geography (Leyshon and Thrift 1999 ; Clark and Wojcik 2007).

Considering financialization as “*the growing influence of financial markets over the unfolding of economy, polity and society*”, French et al. (2011) want to reassert the impact of financialization to explain the contemporary spatial features in economic geography. For some authors, the relations between finance and geography needs to be built upon Regulation theorists and more specifically by using the key concept of financial accumulation regime (Engelen et al., 2010 ; Zeller, 2008 a and b). For others, like Dixon (2011), the concept of “variegation” coming from the institutionalist/structuralist geographers Tickell and Peck (2007) has to be used. Compared with the methodological nationalism of regulationist and institutionalist approach in political economy, leading to varieties of national capitalisms (Albert, 1991 ; Hall and Soskice, 2001 ; Boyer, 2004 ; Amable, 2005), geographers rather focus on the scale imbrications and linkages, from local to international, and on institutional features varieties in the geography of finance from a country or region/city to another.

By considering financial markets as both multi-scalar institutional and spatial constructs, the territorial approach of finance points out that the financial industry development of these last two decades and the imposition of its own logic towards real economy resulted from borders opening and territorial changes permitting the mobility of capital in and between countries as well as the organization of the financial system at a global scale. The more specific and main question around financialization is to understand to what extend the financial markets impacts and transforms the real economy. In other words, how the finance capital is invested in the real economy, and through which instituted investment channels / circuits. The link between financial capital and real economy can be rather long according to the circuits, i.e. according to the relation between investors (above all institutional investors and money managers) and investment and therefore the way of calculation of the economic value (Orléan 2011).

Based upon the key concept of liquidity used by regulationist scholars to characterize the relationships and therefore the increasing gap between the financial and real spheres of economy, financialization is defined by the *creation and exploitation of liquidity/mobility* thanks to securitization (Corpataux & Crevoisier, 2005). Indeed, investors can on financial markets disengage easily and rapidly from their investment (sell) to put their money somewhere else (buy), in other financial products and therefore in other economic sectors such as industry or banks, real estate, States, etc. and in other countries and regions.

This logic of shareholder goes together, at micro level, with seeing investments as abstract entities. Indeed, by using financial techniques (mainly the portfolio theory derived of Markowitz), investments are evaluated upon two criteria which leads to a mathematical and immediate comparison of risks and yields of various financial assets (enterprises securities, debt securities, money assets, derivate assets, etc.). At a macro level, the investors/shareholders choices on financial assets also concern directly or indirectly economic, social, environmental and political context of assets. In this manner, budgetary and monetary policies, social and environmental regulations, etc. of various countries, regions or cities are evaluated by investors. For regulationist scholars, the logic of shareholders and abstraction of economy leads to focus more on what happens on the financial markets (trading rates and behaviors of others investors) and less on the fundamentals of economic activities (Orléan, 2008).

In our territorial approach, the relationships between the financial and real sphere of the economy mean the development of specific investment circuits and networks with its specific actors, organization, institutions and geographies.

First, if we look from the starting point of the circuits, it means to bring money to financial markets. The development of collective savings through institutional reforms through the creation of various forms of funds, closely related to retirement system – that means the development of capitalization retirement public system in many countries (Canada, Netherland, England, Australia, USA or Switzerland) or individual system in other countries (Germany, France, Italy, etc.) – played a major role in the construction of the financial industry. The collected money of institutional investors – pension funds or mutual funds – is indeed mainly invested, either directly (buying of companies securities for instance) or indirectly (by having shares in funds of funds for instance).

Secondly, the money management and the financial innovation process is highly centralized as they took in the main financial and market centers of countries which are closely connected at a global scale to form the *global city* (Sassen, 1991 et 2005). At this level, the main global banks and investment societies – about fifteen of them – have specialized in all the financial services and operations. One the one hand, they act as money managers – of households and above all of institutional investors – by proposing various kinds of funds (listed or not) and financial products (standard products such as securities, bonds, etc. as well as innovative ones such as infrastructure or derivates), and being listed are also major actors on the financial markets. On the other, they sell services to companies (first market quotation, issuing new securities, OPA, etc.) and give credits to companies as well as to various funds (hedge funds or private equity funds for instance).

Thirdly, the centralization of money management and services goes together with a very selective spatial orientation of investment as large companies and other enterprises (via private equity) mainly benefit from the financial circuits. Being also localized in large cities, which are often the financial centers belonging to the global city, the decision concerning the use of finance capital is consequently very centralized as well. Let’s keep in mind that for regulationists, the growth in a financialized accumulation regime means the continuing growth of companies and other institutions market value as well as the financial markets capitalization. Consequently, companies are more focusing on keeping up their market value – upon which depends bank credits – by using various tools such as purchases of other companies (OPA), purchases of own securities … rather than investing in the production and innovation processes.

Consequently, the financialized accumulation regime has a specific spatial organization permitting the mobility of capital. In this manner, the global city exert a territorial governance – which mean a control and evaluation power – to the productive regions in one hand, and to places where finance capital is collected in the other hand. Moreover and fundamentally, we argue – following Harvey (1982) – that geography is both the cause and condition of the creation and expansion of the financialized accumulation regime. The financial innovation process and the continuing growth/bubble of financial markets – which went together with different and intrinsic – if we follow regulationist and postkeynesian scholars - financial crises (1987 US dollar crisis; 1997 Asian crisis, 1998 Russian crisis; 2001 dots.com crisis) – are based on the progressive financialization of real economy. The financial globalization has been indeed realized by a gradually spatial expansion (new countries and regions have been regularly opened to finance capital) as well as sectoral expansion (many sectors were privatized like telecommunication or financialized like real estate) which also means integration of SMEs to large listed groups. So the financialization dynamic and the attraction of financial markets based on much higher (expected in the long term for some pension funds for instance) yields than real investment has been possible by seizing space, gradually and with different intensity.

1.2.2 The crisis of the regime and the hypothesis of institutional change from the top and innovation networks from below

Today, financial markets, the main institution of the financialized accumulation regime, don’t longer perform or if they do, these gains are highly volatiles. The recent crisis of 2008 that is still going on with the European debt crisis and that meanwhile extended to many sectors of real economy in various countries, reducing consequently consummation and, at some macro level GPD growth, has opened various reflections in the academic community.

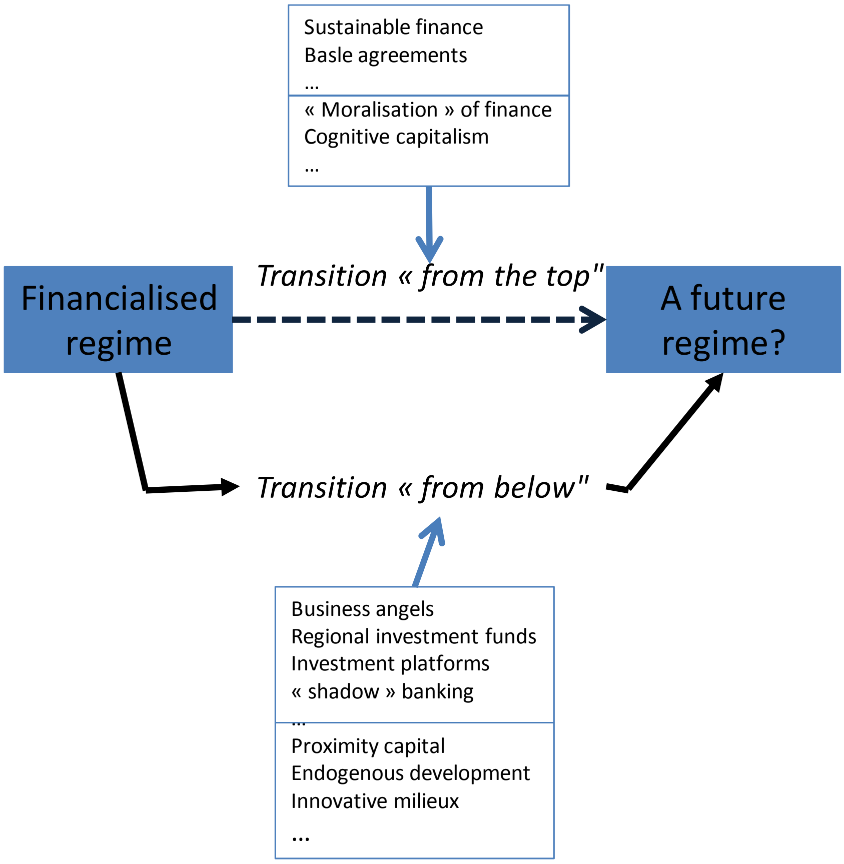
For regulationists, the crisis of the regime – which for some remains in open question (Boyer, 2009) – is not a surprise. Many regulationnists scholars reflections *concerning new and better relationships between the financial and real spheres of the economy* are made at a macro institutional level. This refers to the banking and financial system either at an international or national scales, like for instance the Basle agreements III (increase of own funding for banks and other financial institutions) or the debate around taxes on financial transactions. It also refers to corporate governance focused on the main shareholders. In this kind of ideas, Aglietta (2008) proposes the long term implication of institutional investors in companies, which have long term social engagement such as pension funds, insurances or sovereign funds. This implies a renouncement to exit and an active role in the corporate governance (being for instance at the corporate administration council). In other words, by bringing money, long term investors could have the same role played by banks in the continental model (Albert, 1991). In the US and UK context, Clark (2007) is also in favor of involvement and stakeholders representation in the corporate governance. However, we can here ask if the non-use of exit by investors doesn't simply mean the end of financial markets as they are based upon liquidity.

The current crisis also reveals a contestation of the value legitimating the regime. The financial industry is aware to propose solutions to the current volatility of the financial markets as well as permanent critiques relating to the lack of long term investments or the lack of taking into account the social and environmental features. For some (Demaria, 2004), the revival and the development of new sustainability funds (together with the ESG initiatives – Environmental, social and governance) 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 point of view, the post-crisis and current situation means the rebuilding of new investment circuits. The crisis opens questions about alternative connections between the real and financial spheres of the economy, and so extend the reflections about alternative circuits that developed since the 90ies, parallel to financial products based on liquidity. Different initiatives were indeed developed, coming rather *from the top*, i.e. from institutional investors or *from below*, i.e. from the enterprises mainly the SMEs.

The main postulate of this research is that there exist new circuits, and that the identification of those circuits will provide critical advanced signals about the investment system and basis of calculation, 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 adopt an exploratory case study research to identify some emerging initiatives and new circuits between the financial and real spheres of the economy.

Figure 1 : The transition to a new accumulation regime, views from the top and from below



Source : own elaboration

2 The Swiss case as an example of the current transition situation

The current period of transition that implies explorations to find some new connections between finance capital and real economy needs will be illustrated in the Swiss context. First, to investigate the investment strategies of institutional investors, we have conducted several qualitative interviews with various stakeholders from the Swiss pension funds sector: pension funds managers, investment advisers and financial managers. This first gives a view "*from the top*". Second, we have performed some case studies of investment circuits "*from below*", that is to say, from the point of view of SMEs financing needs. Thus, we have interviewed different local and regional actors, both private and public, in relation with such initiatives: private and public Venture Capital fund managers, Business Angels, small businessmen, etc. The collected data were cross-checked with various documentary sources and official statistics.

In the next section, we will first explain how public and private pension funds generally allocated assets after the 2008 crisis. Current investment strategies will be interpreted in the light of information on pension fund investment contained in interviews with those working in pension fund management and consultancy. Our analyses will be illustrated with current examples and interview extracts.

Then, we will present results from a case study describing some new experiments "*from bellow*" trying to set up alternative investment circuits on local level. While underlining the experimental nature of these initiatives, the specific goal will be to highlight their common features and differences, as well as to understand under what conditions the starting movement would be able to progress and prove its worth.

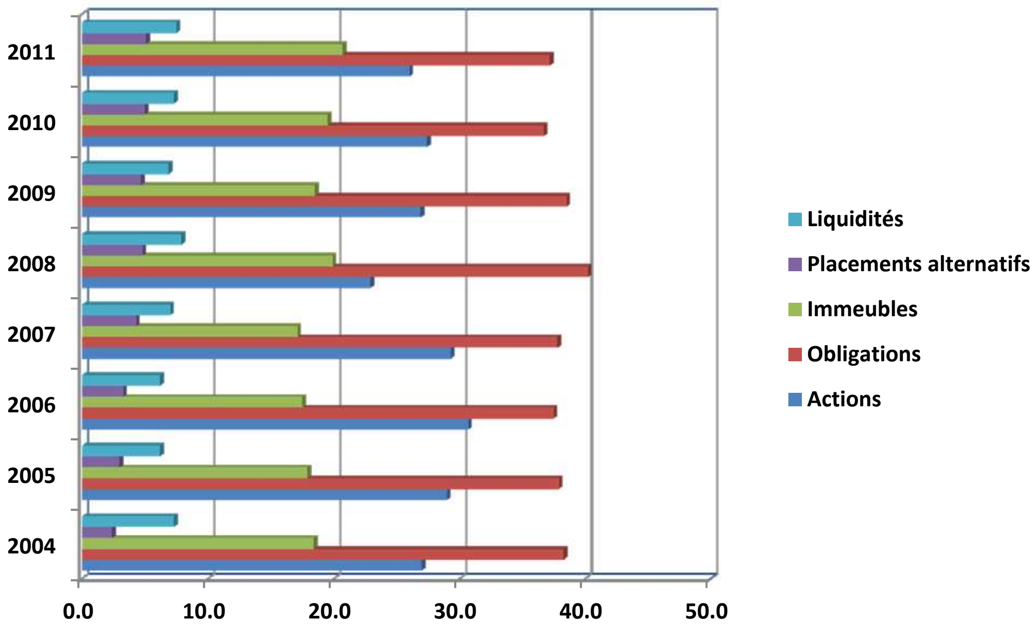
2.1 Swiss pension funds’ investment strategies

The Swiss pension funds are good example, amongst other institutional investors such as insurances and banks, to show the massive investment strategy through financial markets and products that have taken place until now *from the top*.

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 and less liquid 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 that also means alternative financial products such as for instance 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 that means for some, mostly public pension funds, being in under-covered situation goes paradoxically together with having massive capital to be invested. However, despite of financial market asset fluctuation, pension funds haven’t changed their investment strategy yet as they are still having massive investments in liquid standard but currently low performing assets. How to explain this paradoxical situation? (Graph 1).

Graph 1 : MSCI index (2008-2012) and Asset allocation of Swiss pension funds from 2004 to 2011



Reference: *Les caisses de pension suisses 2012*, the annual study carried out by Swisscanto

We argue that the situation of "immobilism and paralysis" has to be explained by the institutional and conventional framework. From our interviews it seems that over the last few years, pension funds have entered into a capital protection phase. This observation indicates that since the 2008 crisis, and even since that of 2001, the main strategy is no longer to make the largest profit but to manage risks. Our study demonstrates that the idea of risk, as pension fund managers understand it, refers not only to the risk of loss of capital but also reveals a determination to protect themselves from risks to the institution's reputation and to the management's own personal responsibility (2.1.1). The focus on the capital protection and risk diminution strategy reduce even more the opportunity for other and more direct investment in the real economy besides some real estate investment (2.1.2). Furthermore, we can observe that the legal and institutional framework of investment for pension funds have not been changed to allow alternative investment (2.1.3).

2.1.1 The risk of reputation and the dictatorship of the market index

First, the protection of capital and risk diminution goes together with the risk of reputation and what we call the dictatorship of the market index. This means that, 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 to increasingly skew their portfolios in favor of large groups such as Nestlé, Novartis and UBS, whilst ensuring that they have exactly the same companies in their portfolio as other pension funds. Despite their long-term profitability, small caps companies are often deliberately ignored as they represent a higher risk to the pension funds' reputations, particularly those of public pension funds.

> *"For example, if a major pension fund invests CHF 300m in small caps, this means that the fund immediately owns a very large proportion of these small caps' equity. With upwards of a 5% investment in company stock, you have to announce to the Stock Exchange that you are a small caps owner. It's a transparency issue. Then, it will be in all the papers and all the journalists know that this fund is a big shareholder (small caps). It's a matter of reputation. If a small company has a problem, shares drop. Even if these are not significant losses for a large fund, it*

will immediately be set upon by the media: "So, what are you going to do now, you are a major shareholder in this company?" And later, they'll be off again: "A big pension fund has done this or that…" So that's why we avoid small caps, we sideline them somewhat". (Pension fund director).

"A small caps company is more jittery. The company is less mature, less experienced, and it's going to fluctuate a lot more on the Stock Market. Therefore you need to make longer-term investments. The funds have a smaller proportion of small caps. But obviously with a large caps company, they can rest easy, no-one would blame them". (Pension fund consultant).

Here it is clearly the risk to their reputation and not just that of financial loss which dictates the preference for large caps over smaller caps companies. According to the former head of a large public pension fund, it's an entirely political strategy as, financially speaking, the funds run just as much of a risk with the larger securities as with the small ones.

"For example, in 2008, with a big Swiss bank shares, the major pension funds have lost a lot more money in Switzerland than they did with Lehman Brothers…, a lot more, and that has never been an issue!" The rescuing of this bank with public money was an issue, but the fact that the funds lost money with UBS wasn't". It's a big company in Switzerland, a big reputation, etc. With Lehman Brothers, the funds lost around a quarter of the volume that they lost with the bank. It was also political… and social. The Swiss bank was so embedded in the system that it had been protected". (Major public pension fund director).

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 oneself to a stock price index made up entirely of large caps. The index is calculated such that the bigger the share value, the more weight it carries. The funds are therefore obliged to invest in large value shares to follow the index. What we call the "**index dictatorship**" can also be observed in bonds indexes.

"Bond indices are calculated based on the quantity of debt incurred by a country or a company. And what do we find on these indices? Lots of American debt, lots of Japanese debt and lots of European debt…, from Greece, from Italy, etc. Therefore, if you invest unwisely and passively in these indices, you've got a lot of bad debts on your hands. I personally don't want to take on the debt of someone who is over-indebted. I'd rather have Chinese, Indian, Brazilian liabilities, but those don't make much of an appearance on the index. Managers cling to this benchmarking system, and if that means investing 30% in Japan, they'll invest 30% in Japan. Because it's on the index. There's really no longer any thinking behind it. And they all do the same thing, because it's the index and it's what the others are doing". (Pension fund consultant).

The term "dictatorship" is used advisedly here, because if a fund follows the index that means that it is investing "correctly", in line with the other funds and therefore their management can't be criticised, even in the event of poor performance.

Sometimes, the risk to reputation can turn out to be more important than the financial risk, i.e. the risk of failing to meet the commitments to the pension fund's intended recipients. For example, in 2011, a public fund in French-speaking Switzerland performed well below the Swiss pension fund average. A manager at this fund's consultancy company told us that it was the managing partner at the fund, one of the Cantonal Banks, who took the wrong equity investment decisions. According to our interviewee, this bank didn't really have the expertise to manage a portfolio like this and that they were selecting shares more or less at random, hoping they would get lucky. Although these mistakes were responsible for a loss to the fund of CHF 150m last year, this incident never made it into the news and the fund still continues to entrust this partner with its largest mandates.

Finally, risk to reputation also has an impact on the transparency of the relationships which funds, in their shareholding capacity, have with big businesses. For example, the management and the Board of Directors of one of Switzerland's biggest public funds decided not to automatically publish AGM voting results. The reason was quite simple: they wanted to avoid a critical response from readers, which might cause disputes between those who were "for" and those who were "against".

2.1.2 The risk aversion to alternative and more direct investment with the exception of real estate

Secondly, the pension funds investment in standard financial markets due to risk aversion prevent from investing in alternative products and more directly in the economy. However, increasing 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 et al., 2010) that is now viewed as a way of protection against the volatility of market financial assets.

No direct connection with the enterprises and through Private equity investment in Switzerland

Within the scope of this study, we are particularly interested in investment channels that combine savings, as managed by pension funds, with real investment in the regional economy. Whilst observing, with the backing of statistics, that since 2008 funds have not increased the proportion they invest in unlisted SMEs, our aim in this section is firstly to understand the pension funds' view of this type of investment, and, secondly, to examine this in the context of the institutional and political situation which, as we have previously demonstrated, influences their capital allocation strategies.

Our survey shows that there are several possible reasons why pension funds are currently so hesitant to invest in unlisted businesses. For example, both the existing conditions and the lack of skilled private equity managers within Switzerland seem to discourage pension fund managers from taking risks and increase the lack of confidence in the face of reputation and personal responsibility issues. Moreover, unlike equity investments where it is possible to simply follow the benchmark index, direct investment requires a different management style with continuous monitoring, which is not justifiable from the fund's point of view as it costs too much in terms of time and human resources. In conclusion, the final reason which might explain the lack of enthusiasm for investing in unlisted SMEs could be the lack of entrepreneurial drive at pension fund management level.

Real estate as a standard/traditional investment strategy

The proportion of real estate in Swiss pension fund portfolios is constantly increasing: 20.7% in 2011, as compared with 17.1% in 2007[1]. This refers to the Swiss average, but certain funds' portfolios contain more than 30% real estate and they would like to increase this proportion still further. This trend is driven principally by the buoyancy of the Swiss real estate market, which has very high demand despite rising prices, particularly in cities of international significance such as Geneva and Zurich.

As the director of one of the cantonal public funds disclosed to us, direct real estate investment represents their only opportunity to attain their long-term profitability targets. Unlike equity and bonds, underweighting in real estate does not indicate a lack of confidence, but rather is down to the physical limitations of the size and resources (e.g. a lack of property

[1] *Les caisses de pension suisses 2012*, the annual study carried out by Swisscanto

or architects) of the domestic market. According to a direct real estate investment foundation for over 50 Swiss pension funds, investor demand is such that the company feels it cannot actually invest all the money that the funds would like to give them. In terms of actual numbers, an internal survey showed that between 2013 and 2016, funds would like to invest a further CHF 1.2bn in real estate. The pressure of this demand is leading property investment companies to break new ground. *Innovation* within the property design and construction sector means coming up with ways to reduce the cost of the exercise without sacrificing quality. The latest scheme is known as affordable housing and involves creating low-rent homes in desirable locations which should ensure stable returns and high occupancy rates. Again, the funds have shown themselves to be very conservative in preferring to buy very expensive buildings with (potentially) very high rents. The foundation's director puts this reticence down to the fact that funds need reliable returns and have little interest in new ideas.

> *"For example, if you want to build fewer parking places it can be tricky, even if it makes sense to do so on an urban site. And if you propose on top of that a new low-impact transport concept, you'll get turned down flat". (Real estate investment foundation director).*

2.1.3 The absence of new legal and institutional guidelines

Thirdly, we can observe that the legal and institutional investment guidelines have not change 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 what is socially and politically acceptable.

Thus the head of a large cantonal fund expressed great surprise that there were no "signals" from the political authorities regarding alternative investments. In his view, the focus should now be shifted to the issues of governance and internal risk management.

It also seems that there are some cultural influences at play in institutional investors' strategies. Unlike the USA, where private equity and venture capital investments are considered "normal", in Switzerland these investment vehicles are not very well known and, moreover, are not socially acceptable as they suffer from a bad reputation. So a big equity-related loss can pass unremarked-upon in the media as it is "socially and politically accepted", whilst fluctuations in alternative investments are closely scrutinised by the media and politicians, and with great censure in the event of failure, thereby affecting the management's reputation.

> *"Experience has shown that, if you were to invest say, 10% in private equity or venture capital, then obviously where you have perhaps twenty or so investments in different projects, maybe after a year two of them will go bankrupt, and then later, another two and then another two. The others will grow, but it's not a very profitable exercise. And 10 years on, you'll see a return on some businesses which have succeeded. Maybe 2 or 3 out of 20 will succeed, the others disappear. And that's where the big profits are. However, the problem is that in the first year the fund has invested in something which has gone bankrupt. What a scandal! What are they doing with our money? After that you get the same thing the second year, and the third year… and the Board of Directors say right, enough is enough, we can't go on with this, it's untenable. It's very difficult to manage, and particularly for a public fund. It's not just about performance, liquidity and risk… reputation also has a role to play. Reputation primarily affects the fund management, but also the Board of Directors. So we risk our jobs as managers if we do things like that. We get cautious, we don't get involved in it, we avoid it". (Pension fund consultant)*

Although Switzerland tops the league tables for the number of patents filed, many internet technology start-ups, for example, look to Silicon Valley for financing because they are the high-fliers, they are going to need long-term investment before they start to turn a profit (e.g. Facebook). *"In Switzerland obviously we don't have this drive, nor the patience. It's not part of our culture". (Venture Capital fund manager).*

So we can see that 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 through fear of criticism and retribution. Finally, the "flagship" strategy which is supposed to control risk to reputation and personal responsibility turns out to be to do exactly what the other pension funds are doing, namely do not take the initiative and await the clear "signals" to be beamed out from the public authorities.

> *"It's incredible, they're just like sheep. Because that lot are never going to be the first to go into an investment, they always have to follow someone. They only think about their own personal, individual risk and no longer in terms of how it might benefit the local area or their pension fund… that way of thinking is long gone. Conversely, if they invest in Nestlé shares, no-one can criticise them in the slightest. So, pension funds are engaged in a strategy which will encourage them to continue doing more of the same. A complete standardisation of strategies. Already, funds are herding together… little by little. They are merging, ultimately, there will be fewer and fewer and they will all be going into the same thing". (Pension fund consultant)*

Finally, it seems that those leading the pension funds are not entrepreneurs. They are often former accountants who have gradually climbed the corporate ladder. To implement change, try out new solutions, you need something of an entrepreneurial spirit, which means being willing to make improvements whilst being happy to accept taking a personal risk. According to one of our interviewees, sometimes, in the same company, the owner-entrepreneur was ready to invest in a small local business, whilst the head of the pension fund for the same company, who was an accountant, refused to take the risk. He argued that he needed to wait until there were five years of records to be sure that the business was working, and if, possibly, it was proven to be profitable, he would make a decision. In the same vein, according to the results of our survey, the institutional framework within the pension fund sector is organised such that those who actually do the job of pension fund management have no entrepreneurial spirit because they are generally politically discouraged from taking any initiative whatsoever.

> *"You can sanitise and stabilise, get things running better, but you get to a stage where you need to bring in something innovative, you need take a proactive approach to the future… that's the point at which they say, stop, we can't have that. It's no longer the duty of something which is public to compete on the open market, it's very conventional. So, if there's no room for improvement any more, if you can't be innovative, if they just want an administrator, the entrepreneur leaves… If you're only doing administration, it's not enough. You have to be active. Because if you're not active, if you stagnate, it's always a retrograde step. It's always this issue of power". (Former major public pension fund manager)*

Thus, for want of the opportunity and the will to invest "alternatively", the funds fall back on asset management selection strategies and cost reduction. 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 1bn) 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.

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 the needs of massive and diversification investment that contrasts with the lack of alternative experimentations and initiatives by pension funds to underperforming standard financial assets.

2.2 The current initiatives *from below:* towards what kind of entrepreneurship ?

Although pension funds are spurning "real" investment solutions, the Swiss unlisted SME market has had a new lease of life, alongside the rebuilding of the investment channels which link national savings with the real economy. Unlike the "top-down" channels stymied by institutional constraints, new "bottom-up" channels are currently being created, i.e. those led by private investors. The unique feature of the "bottom-up" channels is that they are built like professional and interpersonal networks, gathering around new players: marketplaces where entrepreneurs and private investors can meet and connect in French-speaking Switzerland.

Now, in accordance with the main argument of our work, it seems that currently it is *private* rather than institutional investors who are most actively exploiting this new niche. Indeed, according to the data gathered in our interviews, the number of private investors who are investing, or would like to invest directly in Swiss SMEs has mushroomed over the last five years.

For instance the number of private investors registered on the Capital Proximité[2] marketplace in Lausanne has risen from 200 to 1200 since 2008. The marketplace's director essentially attributes this phenomenon to a loss of confidence in the financial markets' efficiency. Therefore, these days investors who are choosing to invest in small companies are looking above all to control what happens to their money, or at any rate to understand what they are investing in.

> *"These days, there is a certain disaffection with the financial world. People generally want to know "What can I invest in, where I can be sustainably guaranteed, at the very least, a return on my investment, and more often, have an influence on the way the business develops?" So we're really in a Lombard banking type of situation, where ultimately, I put money into something that I control, and if that doesn't work out, I can go in and shake off the dead wood and get my money back, or at the very least, understand what is going on".*

According to the data from our interviews, the expected return on investment in SMEs varies between 3% and 10%, which is far higher than bank interest rates (> 1%), but also higher than the average pension fund performance since 2008 (0.09%)[3]. Moreover, in the case of resale, the sum invested is multiplied by 3, 4 or 5.

Three main features of the currently developing new circuits in Switzerland can be stressed (2.2.1.). Then, we describe two specific examples of these recent circuits (2.2.2.).

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[2] Capital Proximité is a platform which brings together entrepreneurs and private investors in French-speaking Switzerland. It was set up in 1995 at the behest of 5 French-speaking cantons and SECO. As a business model it could be defined as semi-public, semi-private, with running costs covered by the state and income coming from actual investments and investment outflows. (http://www.capitalproximite.ch/)

[3] The average performance from 2008 to 2011, according to the annual Swisscanto study in 2012.

2.2.1 Common features of the recent new circuits

The heterogeneity of private investors

Firstly, the profile of the private investors searching to invest in SMEs in Switzerland, and more specifically in Western Switzerland, can be divided in three groups.

The first category consists of **financial** investors. According to a recent SECO[4] report, 30% of private investors currently fall into this category. These investors share the same kind of financial goals: making a big profit after reselling a firm. Among them, can be found private investors, but also Venture Capital funds and Private Equity funds. In fact, these traditional direct investment actors are currently becoming less competitive. Although they bring money and financial skills, these investors encounter increasing difficulties in unearthing worthy investment objects, i.e. established SMEs with a proved market acceptance. Therefore, they need to reinvent their business model and find new ways in gaining access to small businesses. The financial investors are getting interested in opportunities offered by new network platforms which are being developed locally (by bellow) in French-speaking Switzerland. Actually, regular participation in various “events” gathering together at the same place a lot of regional SMEs looking for financing has become a key strategy to get hold of new investment projects.

> *"The big advantage of such events relies on the following. You’ve never heard about this firm and, suddenly, it is in front of you and you realise that it is the one you were looking for. You can see directly if you have a good feeling of the firm managment, of the way the manager speaks, the way he presents his project. You will be able to decide if this person has the capacity to make it successfully ." (Venture Capital fund manager).*

We can also find other type of financial investors. It comprises *wealthy individuals* who, having been disappointed by the Stock Market, would like to make direct investments without necessarily being actively involved in the running of the company. *“These people are highly sought-after, often on a (fiscal) fixed rate and they are people more interested in enjoying life rather than just investing”*. They make a marginal investment in projects which they personally believe in. They form around 15% of Capital Proximité’s customers, although this proportion can be higher in a city such as Geneva, according to survey data.

The second, fast-growing category covers **industrial** investors. More specifically, these are investors who set up their own companies a long time ago. *“Typically, you get a company in Neuchâtel and you find out that they have a potential partner or competitor in the Valais and you would be interested in investing in that field. So, it’s a very busy sector”*. Or else they have sold their own company and are “*looking to help others expand and are lending all over the place*”.

The third category comprises a **new wave of investors**, namely former heads of large groups who are looking for a new job with a directorship role leading a small company or on a Board of Directors. According to our interviewees, these investors have a lot to offer a company, particularly in terms of their skills and professional networks. Here is a recent example, as cited by the head of Capital Proximité: “*The third-in-command at a large Swiss pharmaceutical company, who was in charge of over the counter sales, joined a start-up company. With just four phone calls he’d sent sales through the roof, because he already had a network. Can you imagine what this small company would have had to go through to get the same result? It would have been years and years of toil”*.

[4] State Secretariate for Economic Affairs SECO

Private investors in French-speaking Switzerland in fact represent a very mixed group in terms of professional background, strategies and objectives. In terms of timescales, each group has its own set of investment expectations and practices. So, financial investors work to 4-6 year timescales with the aim of making a profit after exit. Whereas industrial investors are primarily looking at returns over the long-term with the possibility of resale. The third category, who are looking to invest their money to "buy" themselves a job, generally do so on an indefinite basis.

Reducing risk by internal management or control

Secondly, private investors seek to reduce risk by taking an active role in the management or in the control of the enterprises. Despite the fact that private investors' aims do not always coincide with those of the pension funds, both parties are highly risk-averse. Nevertheless, taking into account the difference in their statuses (e.g. legally speaking) private investors prove more sensitive to financial risk and less so to risks to their reputation and personal responsibility. This is why their risk management strategy shows a tendency to spread financial risk across several investments, rather than "*doing what the others do, or just do nothing at all*".

According to our survey data, grouped investments essentially enable the risk to be reduced in three ways. Firstly, the determining factors are the business development stage and the investors' financial resources. Thus for early-stage businesses it is necessary to ensure several rounds of financing every six to twelve months and the fact of having several investors makes the process easier by reducing their individual exposure risk. Secondly, group investment gives the opportunity to go further and acquire a more expensive business, i.e. a late stage business which is well established and with a market acceptance, and therefore offering higher returns on resale. Finally, in the case of private investors without a lot of experience, by forming groups of two or three to cover different competencies (e.g. financial, industrial and commercial) they can thereby increase the perception of security and reduce that of risk. "*This way, they can analyse the business from several viewpoints and then either all three will decide to go for it, or one of them will decide, or they decide not to bother at all*" (*Capital Proximité's Manager*).

Networked channels or business introduction marketplaces

Thirdly, the development of these bottom circuits is based on networks or platforms of business introduction/relationship. As previously mentioned, what is innovative about this "bottom-up" movement is its networked structure, which, as well as investors and entrepreneurs, includes various parties who are responsible for ensuring effective introductions.

A platform or marketplace of this kind has been in existence in French-speaking Switzerland since 1995, known as Capital Proximité. It now needs to optimise its business model, as the number of private investors has gone up since 2008 and their behaviour has changed. Moreover, as part of our research, we have conducted a case study on two new such marketplaces which are currently being set up in the cantons of Neuchâtel and Geneva. The exploratory interviews we held with the originators of these networked marketplaces enabled us to demonstrate their working models whilst emphasising their similarities and differences.

Firstly, driving the inception of both marketplaces is the awareness of two major problems. On the one hand, due to bank credit drying up, more and more SMEs are struggling to get financing. This problem particularly affects certain business types: start-ups[5], businesses going through the industrialisation phase which requires heavy investments, and transferable businesses[6]. On the other hand, wealthy private investors are having problems finding SMEs to take on, the transfer market being very attractive but also very opaque.

> *"On the transfer market, you're looking at lower profitability targets, but safer investments. Your profits are perhaps a bit lower, but over the long-term what's even more attractive, because you've got working start-ups, is that you could be looking at 10% or 30%. So a well-established family business is a safe investment" (Geneva marketplace originator).*

2.2.2 Two examples of new circuits in Western Switzerland

A "Single Portal" in Geneva

There is currently such a diverse range of business finance solutions that those looking for funds are forced to ask themselves: what are all these different investor categories, what are their demands and what are the markets? There is therefore a feeling that "*the advantage of the diversity of finance solutions has become a disadvantage, in the sense that those who are looking for funds are quite at sea*". So it is with the aim of making this diversity easier to navigate for those looking for capital that the idea of creating a marketplace or "unique portal" is now coming to fruition in Geneva.

> *"The idea is perhaps to have a marketplace with private investors' funds or clubs, which remain independent, who meet via a portal and to whom different projects are submitted". (Geneva marketplace originator).*

The idea is to bring together all potential investors and all Genevan businesses looking for financing, in one place. The added value which this initiative brings is not just the availability of a unique meeting point, but above all the guarantee of the investors' and entrepreneurs' confidentiality and reliability. In practical terms, this means "*legitimising this marketplace with those who represent securities*", i.e. to get the backing of the Swiss Institute of Certified Accountants and Tax Consultants and the Chamber of Notaries who are (fiscally) aware of investors' assets. As far as SMEs are concerned, the tricky part is attracting entrepreneurs who wish to sell or transfer their business. Unlike the innovative scene within the biotech and medtech industries, for whom research into financing is a perfectly "natural" step, traditional SME owners do not spontaneously meet up with investors, due to the psychological barriers associated with, amongst other things, the negative connotations of the term "transfer".

> *"Making it known that you want to sell, that means that people think you're finished, that you no longer exist… and it's a matter of* ***dignity****. But when you say "succession"* [which in French also means "inheritance"] *people automatically think "dead", meaning, the end… The vocabulary is important". (Geneva marketplace originator).*

According to our interviewee, this is why there are currently investors for the transfer market, but very few projects. In order to attract businesses to its marketplace, its creator found it useful to first change the vocabulary by banning the terms "transmission" and "succession"

[5] According to a press release of 03.07.2012 by Switzerland's Federal Statistical Office (FSO), in 2010 the number of businesses set up in Switzerland reached a record high. Some 12,600 businesses were set up during this year, an increase of 9.8% (+1125) on 2009.

[6] A Credita survey shows that the directors of over 45,000 SMEs in Switzerland would be thinking about handing over the reins in the next five years. This analysis includes individual companies, limited liability companies (i.e. *sociétés anonymes, sociétés à responsabilité limitée* etc.) on the register of commerce and active in June 2012. Source: AGEFI, 20.07.2012

and replacing them with positive terms such as “changeover”. Then, to gain access to the “hidden” SME market, the idea is to bring business associations into the network as they represent and bring together all businesses.

This networking initiative will therefore work as follows: once or twice a year, this new portal, backed by the Swiss Institute of Certified Accountants and Tax Consultants and the Chamber of Notaries, will bring together investors and entrepreneurs with all the members of the canton’s business associations, in the same place, whilst ensuring the confidentiality of all parties.

The Neuchâtel Regional Fund Network

The current developing initiative in Neuchâtel region aims to create a regional funds for industrial regional investors to invest in regional SMEs. As in Geneva, the Neuchâtel fund will be set up like a network, supported by legitimating bodies. In order to access information about regional SMEs in search of financial backing, the fund’s founder came up with the idea of involving the cantonal and regional authorities.

> *“For example, Geneva’s ‘Economic Promotion’ service sees lots of companies who want to move into the region. These companies go to see the government. Then, they set up shop here, but they need money. Perhaps to open a branch. And that’s the point at which the government could help with providing contacts”. (Neuchâtel fund founder)*

Unlike Neuchâtel, Geneva’s marketplace decided to avoid involving public partners for the simple reason that *“it might worry someone who has something to hide”. Because, if it’s public, then maybe they work with the finance department or the inland revenue …maybe they’ll start poking their nose into my business, or try to find out what’s going on behind the scenes”*. According to its founder, private partners such as business associations and Chambers of Notaries and the Swiss Institute of Certified Accountants and Tax Consultants already lend a good degree of legitimacy and credibility to its marketplace.

What’s unusual about the Neuchâtel fund as an investment vehicle is that it has decided to finance businesses through bonds or bonds convertible into shares, rather than taking share capital as in Geneva. According to the fund’s creator, the decision to allocate loans rather than buy out companies was born of a desire to “*give regional companies a new lease of life, without the intention to buy for resale”*. This is attractive for investors too, as by lending at 4%, they ensure for themselves long-term returns which are way above the current interest rates and more stable than returns on stock market shares.

As for the territorial basis of these investor/entrepreneur networks, both show a strong desire to keep it “local”. For the founder of the Genevan platform, their reason for staying within the canton was motivated by practical considerations: “*It is better to have a small one locally than a large one on someone else’s turf*”. Whilst as far as the Neuchâtel fund’s creator is concerned, “*you have to be a local finance organisation, for local businesses and by local entrepreneurs. This is how we will ultimately succeed in improving the fabric of the region. Otherwise, it will be a case of… I’m buying at 10, I want to re-sell at 15… and I’ve sacked three people at the same time and that has boosted my profit margin”*. His view is that it is important to help local businesses to be transferred at local level and for their SMEs to continue to be independent. “*If there are no more independent companies within the canton, there’s no longer any point doing anything, there are no more business people, no more taxes, no more workforce. So, we have to help them survive”*.

To sum up, contrasting with the “from the top” immobilism, we can observe various initiatives coming “from below”. Regrouping different private investors, this kind of bottom-up movement seems currently very active as well as being in an experimental phase. The development of new kind of networks and business introduction marketplaces illustrates the main issue which is to put investors and enterprises – SMEs – in relation.

3 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 1985. This theory in particular, as other theories, doesn’t however tell us how to deal with 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: in the one hand, it means the governance of financial centers on the industrial production regions, and one the other, financialization means the continuing geographical and sectoral expansion of finance in order to enable the accumulation process on the 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 by investors.

The Swiss case shows that we have 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 indeed involved in new investment initiatives. Due to the focus on risk prevention, it seems to be difficult to escape from liquid investments and from the correspondent financial benchmarks. We can however observe various initiatives of new investments from what we call “below”. This refers to private investors that have been actively searching for new investment opportunities that are totally independent of financial markets. These initiatives have in common to be based in new networks or business introduction marketplaces. The main issue here is to put investors and enterprises – mainly SMEs – in relation, which also means a more active role of the investor in the SMEs (by being a member of the board company and / or a manager for instance). 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 the part of pension funds or other institutional investors.

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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