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Financial networks and the globalization of transnational corporations: the case of educational services

Sarah Hall*

School of Geography, University of Nottingham

*Corresponding author: Sarah Hall, School of Geography, University of Nottingham, Nottingham NG7 2RD, UK. *email* <Sarah.hall@nottingham.ac.uk>

Abstract

In this article, I advance understandings of the intersection between financial and educational services from an economic geographical perspective by examining the importance of financial networks in shaping the internationalization activities of for-profit business education service firms. By combining relational approaches to the globalization of transnational corporations (TNCs) with work on monetary networks I argue that extra-firm networks with financial services are an important element in understanding how, where and why business education service firms internationalize. Theoretically, this argument responds to calls for firm finances to be more fully incorporated into understandings of wider economic geographies and, in particular, addresses the neglect of finance in extant understandings of the internationalization of TNCs. Empirically, I position educational services as an overlooked business services sector that deserves greater attention within economic geography.

Keywords: Business services, internationalization, transnational corporations, educational services, private equity, venture capital, financial geography, relational economic geography

JEL classifications: L80, G20, I22

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1. Introduction

In April 2012, the oldest provider of specialist legal education in the UK, the College of Law, was sold to the private equity firm Montagu for an estimated £200 million. The sale of the college, one of only five private education providers with degree-awarding powers in the UK, attracted considerable media attention (BBC News, 2012; Morgan, 2012) as it was seen as an emblem of the deepening intersection between financial networks and education provision more generally. For example, in the UK the ratings agency Standard and Poor's issues credit ratings on a number of universities including Nottingham, Sheffield and Kings College London. Moreover, the increase in student tuition fees serves to reposition students as investors in their futures (Marginson, 1997). Meanwhile, in the USA the growth of for-profit providers within the higher education sector was the subject of a 2-year, highly critical, investigation by the Senate Committee on Health, Education, Labour and Pensions, published in July 2012 that voiced concerns surrounding the extent to which profit motives had eclipsed a focus on the quality of education being offered (US Senate, 2012). In this article, I advance

understandings of this intersection between finance and education from an economic geographical perspective by examining the importance of firm finance, particularly venture capital and private equity, in shaping the internationalization activities of for-profit education service firms.

My analysis focuses on global business education service firms that specialize in different forms of postgraduate education sold to other business services sectors, such as finance and law. This includes corporate graduate training schemes, accredited credentials and specialist education courses focusing on topics such as leadership and effectiveness (see [Faulconbridge and Hall, 2009](#)). I focus on this segment of the educational service sector for two reasons. First, business education service firms play a central, yet neglected, role within the ‘transnational networks of scientific and economic expertise’ ([Larner, 2011](#), 324) that are crucial to the operation of the global economy. As such, analysing their growth and internationalization can contribute to better understandings of the knowledge networks that underpin the operation of other business services sectors such as finance, law, advertising and architecture. Second, because education service firms sell education to a range of other more mature global business service firms, they have a more established history of internationalization than other types of for-profit educational services such as higher education. Therefore, they provide the ideal case through which to examine the growing penetration of finance into educational landscapes [on which see [Collini \(2013\)](#)].

In the analysis that follows, I reveal how business education service firms’ engagement with a range of different international financial networks is central to facilitating their internationalization. By combining extant research on financial networks with relational approaches to the internationalization of business service firms ([Dicken et al., 2001](#); [Wrigley et al., 2005](#); [Yeung, 2005](#)), I argue that the intersection between firm and financial networks is an important, but hitherto neglected, element in understanding how finance and the imperatives of financial agents emerge as powerful actors within educational services, shaping how, where and why business education service firms internationalize. The significance of this analysis is three-fold. First, theoretically, it advances work on the internationalization of transnational corporations (TNCs) by responding to the neglect of firm finance within economic geography more generally ([Pollard, 2003](#); [Pike and Pollard, 2010](#)) and studies of corporate globalization in particular ([Coe, 2012](#)). This is achieved by providing one of the first detailed analyses of the power of extra-firm–finance networks in shaping the organizational architectures of global business service firms. Second, by tracing firm–finance networks, spaces beyond established financial centres, notably specialist conferences and conventions aimed at securing small firm finance, are identified as important but hitherto largely overlooked temporary international financial centres (following [Maskell et al., 2006](#); [Bathelt and Schuldt, 2008](#)) that play a vital role in the early stages of business service firm internationalization. Third, my analysis positions educational services as a business services sector that has been comparatively neglected within economic geography. I suggest that this oversight needs addressing given the important role business education in particular plays in shaping and legitimizing particular forms of knowledge within other knowledge intensive services ([Hall and Appleyard, 2009](#); [Hall, 2009](#)) and the implications of the growth of for-profit education firms for the political economy of education more broadly. Moreover, in a number of advanced economies, educational services are increasingly positioned as an important source of potential economic growth (see [HEFCE, 2012](#)) and hence understanding the

operation of the sector is important for economic geographers concerned with analysing and explaining the contemporary nature of service sector globalization.

This argument is made over four further sections. Next, I develop my theoretical framework by combining relational approaches to the internationalization of business services with the growing literature on financial networks in order to understand how firm–finance networks become powerful actors in the internationalization activities of business services firms. Second, I introduce the variegated global reach of contemporary business education service firms before examining the role of financial networks in shaping this landscape. I conclude by considering the implications of this analysis for economic geographical research on the internationalization of TNCs, business service firms and the educational services sector.

2. Placing financial networks within the globalization of education service firms

The globalization of TNCs is a well-established research concern in economic geography and the wider social sciences. As [Coe et al. \(2011\)](#) argue, early work focused on the reasons why firms internationalize and the diverse strategic and geographical ways in which this international expansion occurred ([Dunning and Norman, 1983, 1987](#); [Daniels, 1995](#); [Nohria and Ghoshal, 1997](#); [Roberts, 1998](#)). More recent work on business service firms in particular has advanced these debates by focusing on the diverse organizational forms used to meet the challenges for firms associated with internationalization such as the need to develop transnational knowledge management and co-ordinate the (re)production of corporate cultures globally ([Jones, 2003, 2005](#); [Faulconbridge, 2008](#); [Hall et al., 2009](#)). Much of this literature has been developed through a select number of case study sectors, notably advertising, finance, legal services and management consultancy (see [Beaverstock et al., 1999](#); [Jones, 2003](#); [Glückler, 2006](#); [Faulconbridge et al., 2011](#), respectively) although a small amount of research has been conducted into other sectors such as architecture and labour market intermediaries (see [Coe et al., 2007](#); [Faulconbridge et al., 2008](#); [Faulconbridge, 2009](#)). This article diversifies further the sectors studied in work on the internationalization of business service firms by examining the educational services sector.

In many ways, extant work on the globalization of service firms provides a valuable starting point for studying the internationalization of educational service firms, because of the similarities between the educational services sector and those that have received greater research attention. For example, the size and country of ownership of firms operating in the sector follows the typical pattern of business services with a small number of large firms predominately headquartered in the USA being accompanied by a long tail of small, specialist boutiques ([Table 1](#)). Moreover, rather than being passive agents in education markets, and in common with other relatively ‘new’ business services, business education firms play an important role in ‘making’ education markets by educating clients in the nature and value of the services being offered in order to legitimate educational service firms and hence stimulate demand ([Hall and Appleyard, 2011](#); see also [Hall et al. 2009](#) on market making activities in executive search).

Finally, the highly variegated institutional contexts that give rise to distinctive national and regional education landscapes means that educational service firms

Table 1. Top 20 global education service companies

Rank	Firm	Country of origin	Market Capitalization (£, billion)
1	Apollo Group Inc.	USA	3.34 bn
2	Benesse Holdings Inc.	JP ^a	3.08 bn
3	New Oriental Education and Technology group Inc.	USA	2.64 bn
4	The Washington Post Co.	USA	1.89 bn
5	DeVry Inc.	USA	1.46 bn
6	Education Management Corp	USA	1.33 bn
7	Anhanguera Educacional Participacoes SA	BR ^b	1.16 bn
8	ITT Educational Services Inc.	USA	1.09 bn
9	Kroton Educacional SA	BR	1.05 bn
10	Navitas Ltd	AU ^c	820.67 m
11	Bridgepoint Education Inc.	USA	775.79 m
12	Strayer Education Inc.	USA	741.53 m
13	Estacio Participacoes SA	BR	620.62 m
14	Tal Education Group	USA	545.63
15	Higher One Holdings Inc.	USA	541.92 m
16	K12 Inc.	USA	485.37
17	Grand Canyon Education Inc.	USA	472.29 m
18	American Public Education Inc.	USA	430.96
19	MegaStudy Co. Ltd	KR ^d	411.29
20	Career Education Corp	USA	349.18

Notes: ^aJapan.

^bBrazil.

^cAustralia.

^dSouth Korea.

Source: Thompson Reuters/Financial Times markets data, accessed 6 March 2012.

demonstrate high levels of territorial embeddedness (Hess, 2004). These institutional contexts are shaped and reproduced through the combination of formal regulations with more informal expectations concerning the nature of education and styles of learning in different countries (see Hall and Appleyard, 2011). Moreover, this variegation is further complicated in the case of educational service firms because firms have grown and expanded beyond their initial form of educational speciality such that, from the early 2000s, business educational services have been provided by a growing number of firms that have historically offered very different types of educational services. For example, several leading business education firms, notably the Apollo Group, have entered the business education market having previously specialized in compulsory schooling and private universities. Others, such as Kaplan Inc., a wholly owned subsidiary of the Washington Post Company entered the business education market in 2003 from a historic specialism in post-compulsory education. As a result, in a similar way to other sectors with high regulatory barriers to entry, notably labour market intermediaries, the sector demonstrates a diverse range of organizational architectures in which the management of international offices is typically highly localized and organizationally specific (see Faulconbridge et al., 2008; Coe et al., 2011).

However, reflecting broader concerns that firm finances remain divorced from the wider economic geographies that they produce (Pollard, 2003; Christophers, 2011), the

ways in which business service firms access finance in order to support their internationalization strategies and the implications of this in terms of where and how firms expand geographically remain under-theorized in extant studies. This oversight is particularly significant in the case of educational services because it raises important questions concerning the implications of the growing role of financial institutions within the sector in terms of the nature and location of the services provided (see [Brown, 2013](#); [McGettigan, 2013](#) in relation to higher education).

2.1. Firm finance and the geographies of business services internationalization

In order to address the neglect of firm finance in processes of corporate internationalization within the business education services sector, I develop a network perspective to both firms and finance. This approach is valuable because it provides conceptual tools for specifying *how* financial agents become powerful actors shaping corporate internationalization by examining the power relationships that exist at firm boundaries. In terms of network approaches to firms, an inter-disciplinary literature has developed that conceptualizes firms as relational networks ([Nohria and Ghaoshal, 1997](#); [Dicken et al., 2001](#); [Yeung, 2005](#); [Glückler, 2006](#)). Three types of networks have been identified—intra-, inter- and extra-firm networks—that are important in developing understandings of business service firms and their internationalization processes in particular. As [Wrigley et al. \(2005\)](#) note, the extent of academic understandings of these networks is variable. Inter-firm networks associated with, for example, processes of agglomeration have been relatively well studied, as have extra-firm networks in the form of firm relations with regulators and trade bodies for instance. Although [Wrigley et al. \(2005\)](#) address the neglect of intra-firm networks through a focus on corporate knowledge networks, in this article, I focus on extra-firms networks between firms and financial providers.

In this respect, work in economic geography has begun to examine the geographical implications of the increasing power of financial agents and objectives within firms, often at a regional level ([Pike, 2006](#); [Muellerleile, 2009](#); [Zademach, 2009](#)). Here, I build on this work to consider processes of firm internationalization that have received comparatively less attention in terms of the role of finance [although see [Faulconbridge and Muzio \(2009\)](#) and [Alvehus and Spicer \(2012\)](#)] by developing work on monetary and financial networks ([Zelizer, 1994](#); [Pike and Pollard, 2010](#); [French et al., 2011](#)). This literature traces the networks through which financial technologies such as shareholder value, residential mortgage-backed securities and derivatives circulate and in so doing reveals how a range agents, spaces and discourses become bound together through financial networks. Informed by this approach, in this article I examine the relationships developed at the boundaries between business education firms and their financial providers, particularly equity finance provided by venture capital and private equity, which are used to facilitate corporate expansion. In so doing, my research develops a sector-specific account of extant work that conceives of finance provision, particularly equity finance, as a networked and relational industry that cross-cuts national and firm boundaries ([Martin et al., 2002](#); [Wray, 2012](#)).

As noted above, this relational network approach to the role of finance in internationalization is valuable because it draws attention to *how* financial agents become powerful actors shaping the internationalization activities of business education firms. In this respect, rather than conceptualizing power as being held by particular

institutions that then wield it to shape economic activities, power from a network perspective is a relational effect that emerges through interaction at firm boundaries and can cross-cut geographical, firm and institutional borders (Yeung, 2005; Jones and Search, 2009). By providing a framework for examining the role of finance within firm internationalization, this approach also makes a valuable contribution to wider work on financialization—a term that is increasingly being used as a shorthand within the social sciences to signal the growing power of financial markets, agents and (i)logics in the economy [See Epstein (2005), for reviews from an economic geographical perspective see also Pike and Pollard, 2010; French et al., 2011]. Within this literature it is typically asserted that financial agents, institutions and imperatives have become more powerful within the economy. For example, research has demonstrated the growing power of new types financial agents, particularly fund managers, above corporate managers (Roberts et al., 2006) and the increasing influence of financiers and financial knowledge within firms above managerial knowledge (Davis, 2009), echoing the wider literature on the growth of CEOs with financial backgrounds (Fligstein, 1990). However, echoing wider critiques of the lack of analytical clarity within the financialization literature (Christophers, 2013), the meaning of power within these accounts remains limited with it being assumed implicitly at least that power resides with particular (financial) agents who then deploy their power to shape the economy in particular ways.

My analysis responds to these critiques concerning the lack of clarity surrounding the nature of the power of finance within work on financialization by revealing how the power of financial emerges through firm finance relations based around both socio-cultural and geographical proximity. In particular, in what follows I use this relational approach to firm and financial networks to reveal how the providers of finance to business education firms have become increasingly powerful in shaping both the rationale behind internationalization and the organizational forms that result, often downplaying pedagogical concerns in the process.

2.2. Methodology

I develop my argument through reporting on original empirical research conducted into educational service firms selling education and training services to other business service firms. A three-stage methodology was employed. First, a desk-based review was conducted in order to identify the top 20 educational service firms globally and their involvement in business education. Given the paucity of data available in the sector, this involved obtaining financial data from Thompson Reuters on the market capitalization of educational service firms and cross-referencing this with research into the individual companies, largely through their company websites and reports in order to identify their country of ownership, the countries in which they operate and the nature of the educational services offered. This was accompanied by a wider scoping exercise using investment bank research reports to identify the composition of the business educational service sector beyond the top 20 firms. Second, 22 semi-structured interviews were conducted with senior management in firms that operated in business education services. Interviews focused on the corporate strategy of the firm in terms of their domestic and international operations. The reasons for pursuing an internationalization strategy, the nature of this internationalization (e.g. identification of target markets, tailoring services to local markets, branding, etc.) and the organizational

Table 2. UK GVA and employment share within selected knowledge-intensive service sectors

Business service sector	Output (GVA)		Employment	
	£m	Percent share	Thousands	Percent share
Digital, creative and information services	61,821	4.5	1,174	3.7
Financial services	128,830	9.4	1,116	3.6
Business Services	97,528	7.1	2,235	7.1
Education	89,676	6.5	2,722	8.7

Source: Adapted from BIS, 2012.

architectures used to achieve these strategic aims (e.g. human resources decisions, management structures and knowledge management policies) were also discussed. The third stage of the methodology overlapped with the second and involved using interviews to explore how access to finance contributed to the internationalization strategies pursued. Particular attention was paid to the spaces and intermediaries used to develop relationships with financial institutions. Interviews were recorded, transcribed and analysed in full. Themes emerging from the interviews were explored further through secondary data analysis from relevant business and industry-specific publications and websites. I quote interviews anonymously and have generalized some dates and company names in order to maintain the anonymity of interviewees in the analysis that follows.

3. Variegated international office networks of business education service firms

Educational service providers and policymakers have promoted understandings of educational services as a growing sector that makes a positive contribution to economic growth. For example, the Higher Education Funding Council for England (HEFCE) argued that, in its own terms, the ‘value of services’ provided by universities to the UK increased by 7% from £3.1 billion in 2009–2010 to £3.3 billion in 2010–2011 (HEFCE, 2012). Meanwhile, in a report commissioned for the Australian Council for Private Education and Training to demonstrate the importance of educational services to the Australian economy, education was identified as the third largest contributor to export earnings, ahead of professional and business services in seventh place that have received more attention from economic geographers (Access Economics, 2009). Beyond this discursive and political positioning of education as an economic sector, the contribution of wider educational services is born out in official statistics. For example, educational services contributed more in 2012 to the gross value added of the UK economy than digital, creative and information services that are more typically studied by economic geographers (Table 2). In the USA, educational services including high schools through to postgraduate training are relatively insignificant when compared with finance and insurance and professional, scientific and technical services (Table 3), although when these figures are disaggregated, the role of business education in particular can be identified as playing a not insignificant role in the US economy (Table 4).

Table 3. Key US industry statistics by sector, 2007

	Educational services	Finance and insurance	Professional, scientific and technical services
Receipts/revenue (\$m)	44,981	3,669,303	1,251,004
Annual payroll (\$m)	14,259	502,417	502,074
Total employment	539,951	6,607,511	7,870,414

Source: US Census Bureau (2007) Economic Census.

Table 4. Key US industry statistics within educational and professional services, 2007

	Business schools and computer and management training	Legal services	Advertising, public relations and related services
Receipts/revenue (\$m)	10,037	239,397	87,434
Annual payroll (\$m)	3343	89,090	26,129
Total employment	64,987	1,203,763	447,797

Source: US Census Bureau (2007) Economic Census.

In order to understand the role of business education services within this broader sectoral approach to educational services, firms operating within the business educational service sector in particular can be understood in terms of their functional specialization, organizational form and the global reach of their office networks, particularly since different types of firms use different strategies to access finance. Developing similar introductions to other comparatively under-research business service sectors in economic geography (Faulconbridge et al., 2008; Coe et al., 2011), Table 5 shows how the intersection between the largely territorial nature of business education and the more relational and topological nature of business education firms gives rise to a variegated typology of office networks that access different financial networks. Given that a significant number of firms are in private ownership (a point I return to below) it is not possible to present this typology for the leading business education companies by revenue. Instead, companies have been selected for inclusion based on interview and secondary data and are emblematic of similar firms in their category.

Integrated global firms have a global office network and are full-service education companies that are typically involved in more than one type of education market, including higher education. Several of these firms are also involved in broader activities related to the circulation of knowledge and expertise in what Thrift (2005) has termed the ‘cultural circuit of capital’. These firms represent the most mature segment of the business education services sector and typically expand their operations through mergers and acquisitions with finance from either public offerings or private equity. For example, Euromoney training was founded in 1987 by European Institutional Investor, a business-to-business media and publications company that specializes in financial

Table 5. Typology of business education service firms' office networks

Organizational form ^a	Geographical scope ^b	Internationalization form and dominant financial support	Firm	Origin	Business educational services provided	No. of territories serviced
Integrated	Global	Mergers and Acquisitions through public offering of shares or private equity	Apollo	USA	Professional and accredited education, degrees, in-house training schemes	4
			Euromoney training	UK	Professional education, in-house training	40
			Praesta Partners	USA	Specialist leadership training	20
Network	Global	Organic office opening supported through private equity	Fitch Learning	UK	Specialist quantitative finance education	4
			Financial Mechanics	UK	Specialist education in financial valuation	10
			Lane 4	UK	Specialist leadership training	5
			Redcliffe Training	UK	Specialist financial education	N/A
Boutique	Regional	Organic office opening through private equity and venture capital	Freshminds	UK	Early career coaching and training	2
			Graduate Solutions	UK	Early career education in range of business service sectors	3

Notes: ^aIntegrated firms are full service educational firms that operate through a transnational office network that is managed through a single board or partnership that determines the global strategy for all offices. Network firms have a single global management structure but rather than owning offices globally, service overseas locations by using client offices for their educational services. Boutique firms offer specialist educational services and use a network office structure to facilitate their international operations that are typically at an early stage of development.

^bFollowing Coe et al. (2011), global firms are defined as operating in four or more world regions (Western Europe, Eastern Europe, North America, South America, Asia, Middle East, Asia, Australia and Africa) while regional firms are those operating in one to three regions.

Source: Company websites and annual reports.

services. Alongside financial training, it also offers educational services to the legal and energy sectors. In terms of business education, integrated global firms offer a range of services that echo their organizational size and often operational diversity including, professional education aimed at meeting regulatory clearances demanded by their clients; graduate training schemes and more specialist seminars that are offered in-house within other business service firms; and seminars and short courses taught in the education firm offices and open to individuals employed by different firms such as leadership training and education in more specialist technical know-how. This group includes the largest, most well-known business education firms. BPP (Brierley Price Prior) Professional Education exemplifies this type of educational service firm. It was founded in the UK in 1976 as Brierley Price Prior to provide accountancy education. Following domestic growth and diversification into other forms of professional and business education, notably in the form of BPP Law School, it was acquired by the American education company, The Apollo Group, for £368 million in July 2009 and has subsequently gone on to be awarded degree awarding powers in July 2010 becoming BPP University College—a development that is highly significant in the UK context where higher education has previously been the preserve of state funded institutions. As part of The Apollo Group, it now offers education in five global regions: Western Europe, Eastern Europe, North America, South America and Asia.

Global network firms have a similar global reach to integrated global firms but have typically been founded more recently. Global network firms specialize in a particular sector of business education such as technical know-how or more embodied competencies such as leadership, typically focusing on one or two business services sectors, notably finance or law. The geographical breadth of their operations reflects the global business service firms that they service with operations typically concentrated in the leading world cities that have dominated the global economy during the period of financialized growth in the 2000s. Moreover, rather than owning large overseas offices, global operations are serviced by using client offices as the location for their educational services, in addition to a small number of owned international offices. This reflects the fact that their organizational architectures are less well developed than their more mature, integrated global firm counterparts. For example, 7City learning was founded in London in 1999 offering financial services education to firms in London's financial district. It has subsequently expanded internationally through a 'following the client' strategy and now has training facilities in the leading and emerging financial centres of London, New York, Singapore and Dubai and has the capability to serve clients in other office locations through in-house education such as graduate training schemes. Meanwhile, Financial Mechanics concentrates on offering its own courses and selling content to in-house programmes run by other business service firms focusing on high level modelling of price changes to corporate clients in financial services and oil and extractive industries through an office network in North and South America, Western and Eastern Europe, the Middle East, Asia and Africa. Regional network firms have the same organizational structure as their global counterparts but have a more restricted geographical scope. Both global and regional network firms expand internationally through organic office opening, typically using finance from private equity as very few of these companies are publicly listed.

Boutique firms are highly functionally specialized and operate at a regional level. This is often due to the fact that they are less mature companies than both network and integrated global firms and hence have not built up the size of the office networks found

in more longstanding firms. Expansion for boutique firms occurs through organic openings but they are more reliant on venture capital than their larger and more mature counterparts with future international growth typically identified as an important organizational aim as the following manager of a US headquartered boutique explained

‘We’re obviously a relative newcomer to professional forms of education but by building on our considerable experience in higher education, our strategy is very much about increasing the number of countries we operate in and the associated revenues this growth would bring.’

However, while this typology is instructive in identifying the different forms that international office networks take within the business education service sector, it reveals less about why such networks emerge. Here, a relational approach to understanding the internationalization of service firms is valuable (Glückler, 2006) because it reveals the centrality of social networks between business service firms and other agents such as clients, competitors, regulators and trade and professional associations to internationalization processes. Following work in other business services sectors, the use of these networks between educational service firms and their clients as they enter new markets is particularly important as they seek to exploit internationalization advantages (Dunning and Norman, 1983; 1987; Bryson et al., 2004). This is because the highly territorialized nature of business education landscapes in terms of both the regulatory basis for the sector but also the cultural expectations surrounding what business education is, who delivers it and what the purpose of it is, varies markedly geographically as the following education company manager of a boutique explained:

‘Going into China is difficult because of their different attitudes to pedagogy and how people learn, its much less about critical thinking over there. That’s why following [investment bank] as they increased their Shanghai operations was a great opportunity for us because we could roll out a tailored version of the graduate training program that we already offer in London, New York and Singapore.’

In the rest of this article, I extend the types of networks studied within this relational approach by arguing that business service firms’ relations with financial service providers are vitally important when seeking to understand how and why they internationalize and the resulting form of office networks that are produced.

4. Internationalizing business educational services firms: the importance of extra-firm financial networks

As summarized in Table 2, private equity and venture capital is heavily relied upon by business education service firms when internationalizing (Berkery Noyes, 2012). Below, I consider the role of each of these in turn. In so doing, I reveal how: first, the intersection between these financial and corporate networks play an important role in shaping the rationale behind, and nature of, international office networks within business education firms; and second, the different spatialities associated with each form of finance as private equity networks are largely mediated through established international financial centres supporting integrated and network business education service firms while more temporary and emergent financial spaces are central to venture capital networks used by boutique business education service firms. However, although

the spaces of interaction manifested through private equity and venture capital finance are different, in both cases, forms of social-cultural and geographical proximity are important factors in shaping the power relations between finance providers and business education firms.

4.1. Extra-firm–finance networks between private equity and business education service firms

In common with other business service sectors, mergers and acquisitions (M&A) represents an important way of facilitating internationalization for integrated and network business education service firms. Indeed, M&A in the education sector is particularly vibrant with estimates suggesting that the global value of educational services M&A increased by 10% between 2010 and 2011 (Berkery Noyes, 2012). Data in the public domain on global M&A deals is limited but, Table 3 provides details of the 10 largest M&A transactions in the education sector in the USA in 2011. These figures are useful when studying the nature of educational services both within and beyond the US because the US represents one of the most mature and dynamic educational services markets reflecting its large domestic market, although it is facing growing competition as international trade in educational services increases (Robertson, 2006). Moreover, the most liquid part of the M&A market in educational services is in corporate and professional educational services that form the basis of my analysis in this article (Berkery Noyes, 2012). Table 6 shows that the most active company in the acquisition of education companies was the education publishing company Pearson which also owns The Financial Times and Penguin publishing. In terms of internationalization, Pearson used the acquisition of Global Education and Technology Group to increase its office presence in China from 8 to 60 cities. As the Chief Executive of Pearson's International Education Business, John Fallon, explained, 'Through organic investment

Table 6. Top 10 mergers and acquisitions in US education services sector (2011)

Transaction date	Target name	Buyer	Deal value (\$ US billion)
August 2011	SunGard Higher Education	Hellman and Friedman LLC (Datatel Inc.)	1.78
July 2011	Blackboard Inc.	Providence Equity Partners	1.71
August 2011	Renaissance Learning, Inc.	Permira	0.48
September 2011	Connections Education LLC	Pearson plc	0.4
December 2011	Unopar	Kroton Educational SA	0.35
April 2011	Plateau Systems, Ltd	SuccessFactors INC	0.29
April 2011	SchoolNet, Inc.	Pearson Plc	0.23
August 2011	American University of the Caribbean	DeVry Inc.	0.2
June 2011	Education Development International plc	Pearson plc	0.17
April 2011	Barbri	Leeds Equity Partners	N/A

N/A, data not made public.

Source: Berkery Noyes (2012).

and complementary acquisitions, we're learning a lot about the very significant growth opportunities we see in China' ([The Guardian, 2011](#)).

Investment banks have traditionally been central to advising firms and structuring these types of M&A deals and it is widely acknowledged that close inter-personal networks between firms and finance providers was central to the success of these transactions as the following business education CEO of a global network firm outlined:

'Developing a good relationship with your advisor [in an investment bank] is central to getting the deal done. We're quite lucky here in that quite a few of my colleagues used to work in investment banking themselves, so we drew on their contacts in terms of sorting that side of the deal out.'

This supports [Glückler's \(2006\)](#) argument that personal networks are often crucial to corporate internationalization and work that reveals the importance of socio-cultural proximity between firms and providers of finance in shaping power relations at the boundary between firm and financial networks ([Jones and Search, 2009](#)). However, although M&A was the core of the investment banking business model in leading financial centres such as London and New York, in the 2000s the business model of investment banks changed as new financial products emerged, notably new forms of financing based around securitization ([Augar, 2009](#); [Wójcik, 2011](#)). This development gave rise to new forms of financial intermediaries, often involving previously employed investment bankers in the form of hedge fund partners and private equity managers ([Babcock-Lumish and Clark, 2007](#); [Folkman et al., 2007](#)). The extra-firm financial networks with business education firms reflect these changes with private equity playing an important role in recent international growth both in terms of selling and acquiring education service firms. Indeed, the most active financial firm in the education sector in the USA in 2011 was Providence Equity Partners, a global private equity fund that specializes in the media, communications, education and information sectors, with six acquisitions.

The active M&A market in educational services attracts private equity firms because they offer medium and long-term finance while buying an equity stake in companies that are seen to have significant growth potential and are largely unquoted, that is, it is in private ownership with shares not being traded. As such, a liquid M&A market offers significant potential for private equity investors to maximize their revenue given the greater likelihood of finding buyers should they need to realize their investment. The involvement of private equity with business education service firms impacts upon both the rationale behind internationalization as financial considerations are positioned more centrally and in the resulting office networks of business education service firms. For example, prior to the involvement of private equity, Apollo concentrated on high schools and the private University of Phoenix in North America. In 2007, Apollo Global Inc was formed through a joint venture between the educational services company Apollo Group Inc. and the private equity firm The Carlyle Group. Apollo Group Inc. was explicitly 'formed to make investments in the international education services sector with particular emphasis on investments and partnerships primarily in countries outside of the U.S.' ([Apollo Global, 2012](#)). As such, the introduction of private equity finance into the firm resulted in a marked change in corporate strategy in terms of internationalization through a focus on non-US markets. This has resulted in

the acquisition of a number of international educational services including the universities of UNIAcc in Santiago Chile and UL in Mexico as well as BPP professional education provider in the UK. Reflecting the growing power of financial considerations within the firm following the involvement of private equity, the rationale behind these acquisitions focuses upon their potential educational market size and hence the possibility they offer for further growth for the private equity investors, rather than wider pedagogical aims. For example, when discussing the acquisition of Universidad Latinoamericana in Mexico, [Apollo Global \(2008\)](#) emphasized Mexico's large potential education market by arguing that:

'Mexico offers an attractive market opportunity with an estimated 2.5 million post-secondary students, as well as the second largest population and the highest per capita GDP in Latin America. Participation rates in private education are growing faster than in the public sector. As of 2008, Approximately 32% of higher-education students are enrolled in private universities.'

Extra-firm financial networks between business education service firms and private equity are also important in facilitating organic growth internationally, particularly among network firms. For example, Financial Learning, a global network business education firm concentrating on quantitative financial techniques and their application in London underwent a private equity management buyout in the late 2000s. Prior to this, the firm had begun to expand beyond its London base by opening an office and training facility in New York in 2005. However, following the management buyout, the rate of internationalization intensified with a greater focus on opening offices in new geographical markets rather than servicing clients on site. This was accompanied by a diversification of the markets targeted. Through organic growth, offices were opened in Singapore in 2002 and Dubai in 2011. Moreover, the nature of the educational services offered changed from a focus purely on technical financial skills to 'softer' skills including management, leadership and personal development. The reasons behind internationalization also changed following the investment of private equity, as a more explicit concern for the financial returns available in different geographical and sectoral markets dominated the 'follow the client' strategy that the company had previously implemented as the CEO of Financial Learning explained when discussing the different rationales being internationalization prior to the involvement of private equity as:

'post-private equity I don't think it would have been client driven, I think it would have been 'where we do we see the greatest potential for growth', irrespective of where our clients are because they have a much more objective financial view whereas we were much more operation [led] about where's easiest for us to slot in.'
(CEO, Financial Learning, Global network firm)

Clearly, the risks of undertaking such a rationale for internationalization without the guarantee of business from an existing client include the fact that there may not be a market for educational services that understands the nature of the services offered. Here, reflecting the activities of a number of firms, Financial Learning used contacts gained from their private equity funder as their CEO explained:

'Since [name of private equity fund] have actually been involved in the business, I've actually worked very closely with the senior partners in [private equity fund] to identify those contacts

and those corporate organisations that have had relationships and given us leads for our business.’

As well as exemplifying the importance of personal extra-firm financial networks in processes of corporate internationalization more generally (Glückler, 2006), these networks are also indicative of the need to maintain close personal relationships based on socio-cultural proximity associated with shared career backgrounds between investor and investee in order to address the power asymmetries that may develop between the two parties following a private equity transaction. As Jones and Search (2009) note, while power initially lies with the company being invested in, this shifts towards the private equity firm during and after the transaction and maintaining close personal relationships between the two offers one way for firms to maintain a degree of autonomy following private equity investment. Business education firms often developed such networks by using both the geographical proximity of frequently being headquartered in international financial centres given their client focus on business services (notably London or New York) as well as the cultural proximity (see Sorenson and Stuart, 2001; Jones and Search, 2009) of their management who often had a background in financial services or leading accountancy firms themselves as the following global network firm chief financial officer explained:

‘We were looking at entering into a private equity deal to help increase our international operations. One of the first things I did was call up the people I used to work with at Goldmans [Sachs, investment bank] who are now in private equity. I could sound them out about who might be appropriate, what they’d be looking for and eventually we went with a fund where I knew two of the guys. That helped in the deal but also helps now because they know I know finance and trust me to get on with running the business in the most efficacious way possible.’

This analysis reveals that, particularly for globally integrated and network business education service firms, extrafirm personal networks with private equity are an important element in understanding both the reasons behind internationalization and the form that internationalization takes—elements that have typically been overlooked in the extant literature on the globalization of service firms. However, it is not only global business education service firms that are involved in financial networks. The process extends to smaller, specialist boutiques.

4.2. Extra-firm–finance networks between venture capital and business educational service firms

Access to finance for small firms has been of political concern for some time and increased in the wake of the financial crisis of 2007–2008 (Bank of England, 2004). These debates focus on the challenges and prohibitive costs that small firms experience in terms of accessing loan finance and credit from mainstream banks (see Martin et al., 2005). Although the extent and geographical variation of this ‘funding gap’ remains contentious, these debates have not been reflected by a significant and sustained engagement by economic geographers with small firm finance (Pollard, 2003). This oversight is important because the limited research that has been conducted reveals the importance of firm size in determining the nature of extra-firm—finance networks with smaller firms often being more reliant on regional and local financial networks (Martin,

1994). I use this literature as a starting point for examining the intersection between small firm–finance networks and processes of corporate internationalization.

Echoing the emphasis on local financial networks for small firms, boutique and smaller regional network business education firms rely heavily on venture capital to support their growth and internationalization, as the following boutique manager explained:

‘Like most firms our size, we have to target venture capital because we’re small and don’t have the track record that private equity would be after. We need more specialist finance [provision] that’s prepared to accept the risks of supporting a small firm with global ambitions.’

This reflects the ways in which, what [Mason and Harrison \(2002\)](#) term, classic venture capital is used by (often small and medium sized) firms to provide equity finance supporting initial start-up and early growth strategies when they are unable, or prefer not to raise longer term finance through more mainstream financial channels including capital markets and banks (see also [BVCA, 2004](#)). Social relations between venture capital investors and business education companies are central to accessing this finance with boutique managers frequently referring to what one manager termed his ‘venture capital networks’ as a key determinant of accessing finance and wider corporate growth. Recent research has developed sophisticated geographical understandings of these relationships by revealing the existence of both close physical and socio-cultural forms of proximity between investee and investor in facilitating access to venture capital ([Mason and Harrison, 2002](#); [Martin et al., 2005](#); [Wray, 2012](#)). Both forms of proximity are used by business education service firms. For example, some firms use their location in a leading financial centre, where there are dense venture capital networks as a central strategy in both accessing and reporting to venture capital investors:

‘We opened our first office in New York and that was great because just the address gave us credibility with investors but also we could keep up a very frequent and close dialogue throughout and after the process of accessing finance. It also helped that I worked in investment banking before joining this training company so we were speaking the same language and I think that helps build investor confidence.’

(Founder of boutique firm headquartered in NYC)

However, as the example above also demonstrates, socio-cultural forms of proximity in which shared backgrounds and objectives were used as the basis for extra-firm financial networks were also significant. Moreover, the spaces in which these social networks between education firms and venture capital investors were forged extended beyond established financial centres, echoing [Pike and Pollard’s \(2010, 31\)](#) argument that the growing power of financial imperatives within firms as part of wider processes of financialization are ‘broadening and deepening the array of agents, relations and sties that require consideration in economic geography’.

Most notably, specialist education service sector conferences and trade fairs are important spaces in which venture capitalist investors and investees meet to exchange knowledge and information surrounding the potential role of venture capital investment in facilitating the internationalization of business education services firms. These events are typically held in locations that have a strong reputation in education as well as relatively dense venture capital networks that are often associated with innovative and growing regional economies ([Babcock-Lumish, 2005](#); [Kluge and Martin, 2005](#);

Sunley et al., 2005). One of the most important such events is the Venture Capital Summit in Education that was launched as an annual event in Stanford in 2009 and has subsequently been held in New York. Attracting around 250 delegates, this event focuses on the role of venture capital in facilitating the ‘launch, flight and landing of successful, scalable enterprises’ within the education sector and the promotional material for the 2011 summit identifies the ‘creation of active investment and business development opportunities for participants’ as one of the event’s central objectives (Venture Capital in Education, 2011). The ability of these events to foster temporary proximity, often in association with relational proximity in terms of shared backgrounds, to facilitate corporate internationalization is particularly important for boutique business education service firms as the following example demonstrates:

‘We had set up in the US but felt there was growth potential for us, particularly in the Middle East(sic) and Asia. After attending [name of event] I kept in touch with two potential investors, one of which(sic) had worked at the same investment bank that I did as a graduate, and we secured funding that has enabled both our growth in New York but also has let us develop our Hong Kong office that we’re currently working on.’
(CEO, boutique firm, headquartered in London)

As such, these conferences and summits can be conceptualized as ‘temporary financial clusters’ [following Maskell et al. (2006); Bathelt and Schuldt (2008) in which dense and intense social networks over a short period of time are used to create extra-firm financial networks between education service firms and financial providers in order to facilitate the internationalization of firms. Moreover, in a similar way to the case of private equity, these financial networks are an important factor in understanding the power of finance provision in shaping the geographical form and function of boutique education services firms’ internationalization strategies. For example, geographic markets that are perceived as too risky either in terms of the potential size of their business education market or in terms of the reputational risk they might pose venture capitalists are often ruled ‘off limits’ as firms seek to internationalize as the following example demonstrates:

‘We knew there was significant potential for growth in Beijing and Shanghai but our investors felt more comfortable if we opened our Asian office in Singapore which would be a better market for them to be associated with and so that explains why our internationalisation started there.’
(Chief Executive, boutique, headquartered in USA)

This analysis reveals the ways in which different firm–finance networks exist for small boutique business education service firms, some of which involve different spaces of interaction, notably temporary financial clusters in specialist conferences and summits, as compared with more well-established global firms. However, for both types of firms, analysing these networks is an important factor in understanding the power of finance provision in shaping both the rationales behind internationalization and the geographic form that internationalization takes.

5. Conclusions

In this article, I have reported on research conducted into one of the fastest growing educational service sectors—business education service firms—to reveal the ways in

which provision of firm finance has become increasingly powerful in shaping the rationale for, and geographical footprint of, internationalization. In particular, I have argued that adopting a network approach to both firms and financial provision is a valuable way of understanding how the interests of finance providers, notably private equity and venture capital funds, become powerful through extra-firm–finance networks that combine elements of relational and socio-cultural proximity. Theoretically, the significance of my argument is two-fold. First, although the role of extra-firm networks have been identified in relational approaches to service firm internationalization, understandings of the relations between firms and the international financial system are very limited. I have addressed this significant oversight by revealing the ways in which finance is entangled with these corporate geographies, shaping both the rationales behind internationalization and also the office networks that are produced as a result (cf Lee, 2006). In so doing, my analysis makes an important contribution to the wider literature on financialization that often asserts the growing power of finance without examining how financial interests become powerful within a particular sector and the implications of this. In this respect, the case of business education firms suggests that adopting a network approach to both finance and firms offers a valuable way of responding to this lack of specificity concerning *how* financial interests become powerful and the implications of this by revealing the hitherto neglected role of extra-firm–finance networks within processes of financialization. Second, in so doing, I have revealed how these firm–finance networks are not limited to established financial centres but also extend to more emergent and temporary financial clusters that have not been widely studied within economic geographical research on money and finance.

Meanwhile, empirically, I have argued that educational services deserve to be positioned more centrally within economic geography. Although I have focused on corporate internationalization, there is considerable scope to examine their role in creating other economic geographies such as the production and legitimation of knowledge and expertise within the ‘knowledge economy’ and their role in other education markets that are becoming increasingly financialized, notably higher education. In so doing, such a research agenda has the potential to make important contributions to understanding the continued power and growth of business services within the global economy and the central role of the international financial system within this.

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