WHY DO SOME MULTINATIONAL CORPORATIONS RELOCATE THEIR HEADQUARTERS OVERSEAS?

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This paper examines the decision by a multinational corporation (MNC) to relocate business unit or corporate HQ overseas. We argue that business unit HQs move overseas in response to changes in the *internal* configuration of their unit's activities, whereas corporate HQs move overseas is response to the demands of *external* stakeholders, such as overseas shareholders, capital markets, and global customers. Using data on 125 business unit HQs and 35 corporate HQs, we test and find broad support for these arguments. The research highlights important differences between corporate- and business-level strategy, and it suggests ways in which the theory of the MNC needs to be reconsidered.

WHY DO SOME MULTINATIONAL CORPORATIONS RELOCATE THEIR HEADQUARTERS OVERSEAS?

A fundamental issue in strategic management is the distinction between business-level and corporate-level strategy. Business unit strategy is concerned with the competitive positioning of a business within its chosen industry domain; Corporate strategy defines the scope of businesses in which the firm participates, and the ways in which value is added across those businesses to create a whole that is greater than the sum of the parts (Bourgeois, 1980; Chandler, 1991; Hofer and Schendel, 1978). The distinction between the two forms of strategy was first articulated clearly in the academic literature in the 1970s (Hofer, 1975; Vancil and Lorange, 1975), and large bodies of literature subsequently emerged at both the business unit (Hatten et al, 1978; Murray, 1988; Porter, 1980) and corporate (Collis and Montgomery, 1997; Goold, Campbell and Alexander, 1994) levels of analysis.

At a managerial level, the separation of responsibilities between business unit and corporate executives allowed large firms to emerge (Chandler, 1962; 1977; Williamson, 1975), and helped to professionalize the processes of strategic planning (Henderson, 1968; Lorange, 1975). At an academic level, it crystallised the importance of the industry as the competitive battleground for a business unit, resulting in major advances in the theory of competitive advantage (Porter, 1980; 1985). This, in turn, led to a more sophisticated articulation of the nature of corporate strategy, and the specific roles that corporate executives could play in facilitating competitive advantage within the business units, and in defining the scope of the firm (Goold, Campbell and Alexander, 1994). Indeed, it is almost axiomatic within the field today that firms benefit from clearly distinguishing between business unit and corporate strategy.

Most strategy research focuses on questions of "what" and "how". *What* refers to strategy content issues, which at the business unit level include such things as generic strategies, market positioning, and strategic moves, and at the corporate level includes portfolio analysis, resource analysis, and types of synergies. *How* refers to strategy process issues, which at the business unit level focus on the formal and informal mechanisms by which individual actions are aligned around collective goals, and at the corporate level include resource allocation mechanisms (Bower, 1970) and styles of parenting (Goold and Campbell, 1982).

In this paper, we argue that it is also important to answer the *where* question – to understand where strategy development takes place, and the extent to which this differs between the corporate and business unit levels of analysis. More specifically, we focus on business unit headquarters and corporate *headquarters*, the entities ultimately responsible for business unit and corporate strategy (Rumelt, Schendel and Teece, 1994), and *we attempt to make sense of the choices firms make regarding their geographical location*. Clearly for a small firm this is a rather trivial question, because all activities tend to be co-located, and the location is essentially a historical accident. But for a multinational corporation (MNC) with multiple business units, multiple countries of operation, and a geographically diverse set of stakeholders, the question of where to locate headquarters operations is of considerable importance, for three reasons.

First, location will ultimately affect firm competitiveness. There are well-established theories of agglomeration in the literature, and it is now accepted that proximity to specialised labour, complementary suppliers and customers, and access to knowledge spillovers are all important benefits to the firm (Marshall, 1890; Porter, 1990). At the business unit level, Porter (1980) initially developed his theory of competitive advantage without regard to location, but in his subsequent work (Porter, 1990) the importance of geographical clustering to firm-level competitiveness became evident. And a number of related studies have also picked up on the link between location and firm performance (Malmberg, Solvell and Zander, 1996; Saxenian, 1994). At the corporate level, the issue of headquarters location has been given little attention, but many of the ideas around spatial clustering, in terms of access to specialised labour and proximity to key stakeholders, are potentially relevant, and there is research on the impact of location on access to capital for large corporations (Coffee, 2002; Saudagaran, 1988).

Second, a better understanding of headquarters location, and the extent to which location choices vary between business unit and corporate levels, should help us to sharpen our theories. As the paper will show, the drivers of business unit HQ relocation and corporate HQ relocation are dramatically different, and these differences shed important light on the actual roles HQ executives play in large multinational corporations; which in turn offers implications for the distinction between business unit and corporate strategy. There are also implications for the theory of the MNC, which is concerned with understanding the nature and existence of firms that operate in multiple countries. This body of theory traditionally assumed that "firm specific" advantages were developed in the home country and subsequently leveraged in host-country markets (Vernon, 1966; Dunning, 1981). Increasingly, it has been recognised that such advantages can emerge in multiple locations and through both parent-driven and subsidiary-driven processes (Birkinshaw and Hood, 1998; Rugman and Verbeke, 1992; 2001), though again with a presumption that the home country is stable. If MNCs are now shifting their headquarters operations overseas, the traditional distinction between the *home* and *host* country is less relevant, and theory will have to be adapted accordingly.

Finally, the phenomenon of HQ relocation is on the rise. MNCs have been relocating their *business units* overseas for many years (Bartlett and Ghoshal, 1989; Hedlund, 1986), and for MNCs from small open economies such as Sweden, Netherlands and Canada it is common to see 20%-30% of all business units located outside the home country (Forsgren et al, 1995). The relocation of *corporate HQ* overseas, in contrast is still relatively rare. Early examples were Massey Ferguson, which moved its HQ from Canada to the US and renamed itself Varity, and Tetra Pak which moved its HQ from Sweden to Lausanne, Switzerland. More recent cases include four major South African MNCs (Anglo American, Investec Bank, Old Mutual, SABMiller) who relocated some or all of their HQ activities to London; and Nokia's decision to move its corporate finance activities to New York. Analysis of the Fortune 500 list of global companies suggests that around 23 of these companies have shifted their entire HQ overseas[1]. This is a small number, but it is worth noting that many others have relocated part of their corporate HQ activities overseas (e.g. Nokia); and most of these changes have occurred in the last 5 years, so the phenomenon is becoming more common.

The purpose of this paper, then, is *to develop and test a set of arguments explaining the relocation of business unit and corporate HQs overseas*, and in particular to show how the drivers of HQ relocation are different at the business unit and corporate levels. The paper is in three main sections. First, we describe the role and activities of headquarters in the MNC, and develop hypotheses to explain the relocation of HQ overseas. Second, we set out our data collection and methods. Third, we describe the findings from the study, and discussion their implications for management theory and practice.

## BACKGROUND ON ROLE AND ACTIVITIES OF HEADQUARTERS

One of the key stages in the development of the modern corporation was the emergence of the "M-Form" organisation, in which the management of individual businesses was decentralized to free up top executives to concentrate on strategic issues. This management innovation can be traced back to the 1920s (Sloan, 1963), though the academic literature documenting and making sense of its benefits did not follow until later (Chandler, 1962; Drucker, 1954; Williamson, 1975; Fligstein, 1985). The M-form structure allowed far greater operational and geographic diversity than had been possible under a unitary structure, and it also enabled specialised roles to emerge for the executives responsible for the business unit and corporate HQ respectively. In the 1970s, the formal distinction between corporate and business level strategy was articulated (Hofer, 1975; Vancil and Lorange, 1975), and this further clarified the roles and responsibilities of executives at the two levels.

Today, the respective roles of business unit and corporate HQ are clearly established. *Business unit HQ* is responsible for the formulation and implementation of its competitive strategy – the positioning of the business within its industry, and the means by which it strives to achieve above-average returns within that industry (Porter, 1980; 1985). C*orporate HQ* has two distinct roles. One is an "administrative" role, concerned primarily with monitoring and controlling the activities of the business units (Williamson, 1975). In Chandler's words (1991: 33) this role involves "monitoring the performance of the operating divisions: to check on the use of the resources allocated; and, when necessary, redefine the product lines of the divisions so as to continue to use effectively the firm's organizational capabilities." The other is an "entrepreneurial" role and it is more concerned with the creation of additional sources of value. Again quoting Chandler (1991), its purpose is "to determine strategies to maintain and then to utilize for the long-term the firm's organizational skills, facilities, and capital and to allocate resources—capital and product-specific technical and managerial skills- to pursue these strategies". While the administrative role is mostly internally-focused and concerned with "avoiding the negative", the entrepreneurial role is more concerned with "creating the positive" (Foss, 1997). However by its nature it is also a more discretionary role, and the extent to which it is pursued varies enormously from company to company (Goold *et al.,* 2001).

In terms of the actual activities and roles undertaken by HQ, a few recent empirical studies have focused on the *corporate* HQ. Goold *et al.* (2001), for example, identify three roles. The "minimum corporate parent role" which is somewhat akin to Chandler's (1991) administrative role, performs the basic controlling and regulatory work and typically requires only 50 or so people for a 50,000-person company. The "value-added parenting role" is consistent with Chandler' entrepreneurial role, and varies enormously in size from tens to thousands of people. Finally, the "shared services role" consists of common activities such as IT, finance, and human resources that the HQ undertakes on behalf of the business units. However, it is arguable whether these shared services are part of the corporate HQ per se., and indeed in many cases they are either outsourced or managed as separate profit centres. Other findings from this research confirm that when it comes to the value-adding role of the corporate HQ there is no one best way of operating. There are different strategic styles, and there are often large differences between countries and industries (Young *et al.*, 2002; Goold *et al.*, 1994; Goold *et al.*, 2001; Markides, 2001).

With regard to *business unit* HQ, there is a wide-ranging literature concerned with such activities as decision-making, strategic planning, and strategic thinking (Lorange, Nutt, Porter, etc**) but little that is concerned with the actual make-up of the HQ function. In our experience, the business unit HQ is typically much smaller than the corporate HQ, in that it consists of a management team who collectively represent the different operations and activities performed by the business unit, and a number of support activities, such as HR, finance and strategic planning. However, the size and scope of these support functions varies enormously from case to case.

Finally, in terms of the *location* of HQ, there is also limited prior research. At the business unit level, Forsgren et al (1995) examined the decision to relocate HQ overseas from a power relations point of view, and a number of researchers have given the issue peripheral attention (Hedlund, 1986; Bartlett and Ghoshal, 1989). And at the corporate level, there is some work in finance and law concerned with the decision to list a company on a foreign stock exchange and/or change the company's legal domicile (Coffee, 2002; Foerster and Karolyi, 1999; Ghosh, Rodriguez and Sirmans, 1995; Reese and Weisbach, 2002; Saudagaran, 1988; Saudagaran and Biddle, 1995). These studies do not, however, concern themselves with the broader roles of the corporate HQ.

Definition of HQ in a Multinational Corporation

Building on both the prior literature and on the insights from our clinical research, we define the HQ as having two essential elements – a top management group that typically has an official location at which it meets, and a series of HQ functions that have the formal responsibility for fulfilling the roles discussed above (treasury, investor relations, corporate communications etc), each one of which has an identifiable physical location. There is also a third element in the case of the *corporate* HQ (but not the business unit HQ), namely the legal domicile – the registration of the MNC in a particular sovereign nation, under which all the other legal entities that make up the MNC can be grouped.

Traditionally, these elements were collocated, but increasingly we see some separation. At the corporate level, for example, it is common for the firm to create a shell holding company in an offshore location for tax reasons, or to move one or more corporate functions away from the traditional centre to save money. It is therefore possible to conceptualize the HQ's location on some sort of continuum, from entirely based in the home country through to entirely relocated overseas. This measure of the *degree* of HQ relocation overseas becomes the dependent variable in our analysis.

## THEORETICAL DEVELOPMENT AND HYPOTHESES

We are now in a position to develop a set of arguments as to why some MNCs move business unit and corporate HQs overseas (see figure 1). For business unit HQs, we build primarily on the established body of theory in international business concerned with the nature and scope of the MNC. For corporate HQs, we draw in addition from institutional theory and from the corporate strategy literature.

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Insert Figure 1 about here
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Predictors of Business Unit HQ Relocation

The question "why do business unit HQs move overseas?" can be addressed most effectively through the theory of the MNC (Buckley and Casson, Dunning, 1988; Rugman, 1981). In simple terms, the locational choices the MNC makes for each individual activity are a function of the combined need to generate firm-specific advantages (through the ways in which activities are configured and coordinated on a global basis), and also to leverage the country-specific advantages of the locations in which it operates (Rugman and Verbeke, 1992; 2001). This formulation gives rise to two distinct lines of argument, as follows.

The first is the notion that the business unit HQ follows other activities overseas. A well-established strand of the theory of the MNC is concerned with the logic of sequential overseas investments in increasingly important value-adding activities (Forsgren, Holm and Johanson, 1992; Kogut, 1982). Initial overseas investment decisions typically begin with exporting, then proceed through licensing, alliances and joint ventures to direct investment in a sales subsidiary (Johanson and Vahlne, 1977; Root, 1987). Following the decision to create a sales subsidiary, the MNC will often make subsequent overseas investments in manufacturing (Vernon, 1966) and R&D (Ronstadt, 1977), and the subsidiary company will develop important resources and capabilities of its own (Birkinshaw and Hood, 1998; Malnight, 1994). Finally, the decision may be made to relocate the business unit HQ overseas, as the culmination of a process of sequential overseas investment. In other words, the business unit HQ moves overseas *in pursuit of* the sales and manufacturing activities that have already moved.

There are three reasons why this might make sense. First, there are likely to be efficiency gains in communication by moving the management team closer to the centre of gravity of the business. This will enable more effective interaction between the different activities and thereby enhance the development of firm-specific advantages. Second, there may be strategic benefits in the form of knowledge spillovers and access to resources in shifting to a new location, particularly if that location is a leading-edge cluster for that industry (Porter, 1990). And third, there may be symbolic value in relocating the business unit HQ, as a means of demonstrating to employees of the business unit, as well as outside stakeholders, that the business is global in its outlook. All of which provides motivation for the first hypothesis:

Hypothesis 1.The greater the percentage of business activities (sales units, manufacturing units) overseas, the greater the likelihood of business unit headquarters moving overseas.

The second argument is concerned with the relative attractiveness of the traditional location vis-à-vis the potential new location for the business unit HQ. Conceptually, any activity within the MNC is potentially mobile, and while there are obvious and important reasons why many activities do not move, MNCs are increasingly looking at this issue (e.g. offshore call centres, logistics hubs, regional HQs) and national inward investment agencies are actively seeking out such mobile investments. There is, in other words, a functioning market for inward investment, and it involves explicit analysis on the part of the MNC of the relative attractiveness of different possible locations for any given activity.

In the context of the business unit HQ, the potential attractiveness of a location is multi-faceted. One set of factors is related to the agglomeration of related and supporting business activities (Porter, 1990); there are also issues of economic stability, a supportive political environment, and quality of life for the employees. For example, it is widely reported in the Swedish context that companies are moving HQs out because of high personal taxes. While this is undoubtedly important, it is just one element in a complex bundle of factors that have to be considered in aggregate. Taken as a whole, then, we argue that the overall attractiveness of the potential host country location (in relation to the home country) will be a significant predictor of the movement of business unit HQ overseas.

Hypothesis 2. The more attractive the potential host country location is perceived to be (in comparison to the home country location), the greater the likelihood of business unit headquarters moving overseas.

It is worth noting that in both cases (H1 and H2) we expect these predictor variables to have no impact on the location of the *corporate* HQ. In other words, we expect the movement of business activities and a more attractive host country to drive the business unit HQ relocation decision, but not the corporate HQ relocation decision. These expectations are formally tested in the statistical analysis.

Predictors of Corporate HQ Relocation

Because the role of the corporate HQ is substantially different from the role of the business unit HQ, our general expectation is that the drivers of HQ relocation will be very different. While we subscribe to the distinction noted earlier between the administrative and entrepreneurial roles of the corporate HQ (Chandler, 1991), we would argue that there is a second important distinction between its internally-focused and externally-focused activities. The corporate HQ has an internal agenda, in terms of monitoring, evaluating, and developing the business units, and it has an external agenda, in terms of managing its interfaces with external stakeholders such as the capital markets and major customers. Viewed in this way, the corporate HQ is essentially a "middleman" or broker between the business units on the one hand, and the external stakeholders on the other (Goold, Campbell and Alexander, 1994) and, just as with any other middleman role, it has to demonstrate to both sets of parties that it adds sufficient value that it does not become disintermediated.

What is the appropriate set of external stakeholders? It is widely recognised that corporate HQ has a potentially important value-adding role to play in managing relationships with the capital markets and shareholders . In terms of global customers and competitors, the role of corporate HQ is more debateable, because these could be viewed as the exclusive concern of business units. However our preference is to include them, because in many cases (particularly in less diversified firms) the corporate HQ has an active role to play in relating to such global customers and competitors. For example, at the time of the research, Ericsson had separate business units for mobile infrastructure and mobile handsets (now in a joint venture with Sony), and each had its own competitive strategy. But there was still a valuable role for Ericsson *corporate* to play in integrating across these business units and building relationships with top executives in customers such as Cable & Wireless and Vodafone. There was also a public relations role for Ericsson's corporate executives to play in positioning the company vis-à-vis global competitors such as Nokia, Lucent and Nortel (though arguably they did not play this role very well)[2].

In terms of location, the corporate HQ was traditionally co-located with its business units on the basis of historical convenience. However, as we have noted, the process of globalisation led to a number of changes. First business units themselves became more international in their scope, which led various activities, including business unit HQs, to move overseas. Second, external stakeholders also changed, with financial markets, competitors, and customers all becoming more global in their scope. Third, international communication became easier, through advances in phone and fax technology, teleconferencing, the Internet, and airline travel. A fourth factor, which has less to do with globalisation, was the general reduction in size of corporate HQs, with many services being spun off, moved into business units, or simply scrapped (Young *et al.*, 2000).

The net result of all these changes is that, as with business units, corporate HQs are becoming increasingly mobile. It is no longer essential for corporate HQ to be co-located with its business units. Instead, the location of corporate HQ is potentially mobile and it is determined by the relative importance of its relationships with internal and external stakeholders. Our broad proposition, then, is that that when relationships with external stakeholders are particularly salient *and* when those external stakeholders are located outside the home country, there is an incentive for the corporate HQ to relocate overseas. This proposition is now broken down into two specific hypotheses - one concerning international financial markets, the other concerning customers and competitors.

International financial markets. There has been a process of consolidation underway in the financial sector for the last two decades, such that the major investment banks are large and global, institutional investors are increasingly international in outlook, and stock exchanges themselves are beginning to ally and merge with each other (Coffee, 2002). To the extent that the MNC is affected by such changes – for example because its shares are increasingly held by foreign institutions - we would expect to see its corporate HQ becoming increasingly international in its outlook, and ultimately to consider moving all or part of its HQ functions to a major financial centre like London or New York. As with business unit headquarters, there are three interrelated sets of reasons for such a shift to occur. First, there may be efficiency gains in terms of the time spent travelling to meetings with shareholders, analysts and investment banks. Second, there are likely to be strategic benefits in terms of the proximity to specialised service providers (consultants, lawyers, accountants), and the availability of high-quality executive talent. Indeed, many of the benefits of clustering that are relevant at the business unit level also apply to global financial centres, so just as business unit HQs will sometimes relocate to a leading industrial cluster, so might corporate HQs relocate to a service-dominated cluster such as the city of London (Enright, 2000).

Third, there is strong symbolic value in relocating corporate HQ, as a means of signalling to international banks and investors that the MNC is no longer constrained by local norms and expectations, and is thus a player in the global financial markets (Zaheer, 1995). Institutional theory provides a rationale for such a shift: it suggests that organisations will often adopt the practices of other players within their "institutional field" as a means of establishing their legitimacy (Dimaggio and Powell, 1983; Meyer and Rowan, 1977). Interestingly, such behaviour is not necessarily efficient in terms of its direct effect on performance, but the social legitimacy it provides can prove beneficial to long-term survival. Thus, even if the arguments developed above about efficiency and strategic benefits do not hold, it would still be possible to see the relocation of corporate HQs overseas if executives perceived the need to position their firm as a global, rather than domestic, player. Thus:

Hypothesis 3. The greater the international influence from shareholders (in terms of the location of the primary stock listing and the percentage of foreign shareholders), the greater the likelihood of corporate headquarters moving overseas.

International customers and competitors. Both customers and competitors are becoming more international in their outlook. MNC customers have often had global operations for many decades, but the relatively recent change is that these customers are now seeking globally-coordinated sourcing from their suppliers (Kotabe, 1992; Kotabe and Omura, 1989), and vendor MNCs are responding with so-called "global account management" programs to integrate their sales and service offerings on a worldwide basis (Birkinshaw et al., 2001; Montgomery and Yip, 2002). Competitors are also becoming more concentrated, and in many industries one sees the emergence of a tier of global players that dominate (e.g. IBM, EDS and Accenture in IT services), and then a number of regional and local players in their shadow.

To the extent that the MNC is selling to globally-integrated customers, and competing in a market dominated by global competitors, we would expect to see the relocation of corporate HQ as a potentially worthwhile move. Again, there are potentially three sets of reasons why such a move might make sense. In terms of efficiency the gains are likely to be small, because even in a case like Ericsson, the majority of the interactions with customers are carried out by marketing and sales people, not corporate executives. In terms of strategic benefits, the increased proximity of HQ executives to key customers should foster stronger relationships, which should in turn have long-term value to the MNC. By way of example, Ericsson's HQ relocation to London and Boeing's relocation to Chicago were both predicated in part on superior access to major global customers. Finally, in terms of symbolic benefits, there is again an institutional theory logic, namely that by relocating the corporate HQ out of the traditional home country, the MNC is its positioning itself as a global player within its industry. In such a case, the city to which HQ moves is less important than the act of moving. Taken together, these arguments suggest the following:

Hypothesis 4. The greater the international influence from customers and competitors, the greater the likelihood of corporate headquarters moving overseas.

Relationship between corporate and business unit HQ

The final hypothesis is concerned with the relationship between corporate HQ and business unit HQ. As noted earlier, there are different approaches to corporate strategy depending on such factors as the level of relatedness of the business units, and the preferred level of planning and control influence from the centre (Goold and Campbell, 1982). At one extreme, the corporate HQ for an unrelated diversified firm is typically very small and adds little value; at the other extreme, the corporate HQ for a strongly-related set of businesses is much larger, and more intimately involved in the strategy and operations of its businesses (Collis and Montgomery, 1997).

In terms of the issues developed in this paper, we would expect the level of interdependence between the corporate and business unit levels to have a direct and *negative* impact on the likelihood of HQ activities moving overseas; in other words it will typically encourage both HQs to stay where they are. The argument can be expressed best in terms of Thompson's (1967) distinction between pooled, sequential and reciprocal interdependence. Advances in communication technology make it relatively easy for overseas business units to report their monthly figures (pooled interdependence) and to coordinate their part of a global supply chain with other distant units (sequential interdependence). However, the process of aligning the strategy of one business unit with the demands and constraints of other parts of the firm can be characterised as reciprocal interdependence, in that it requires ongoing mutual adjustment between parties. Such adjustment is best done on a face-to-face basis and preferably through co-location of activities. Thus:

Hypothesis 5. The greater the level of interdependence between business unit and corporate headquarters, the lower the likelihood of corporate *or* business unit headquarters moving overseas.

## RESEARCH METHODOLOGY AND DATA

### Sample

The research was conducted in the forty largest Swedish Multinational Corporations. Sweden represented an appropriate setting because as a small, open economy, its firms were very early to internationalise, and they were among the first to shift major value-adding activities overseas (Hedlund, 1986; Johanson and Vahlne, 1977). During the 1990s many Swedish firms relocated business unit headquarters overseas (Forsgren, Holm and Johanson, 1995), and a smaller –but significant- number began to move corporate headquarters overseas.

We identified the largest 40 Swedish MNCs by sales volume[3]. "Swedish" in this context meant companies that grew from a Swedish base, and that were still recognisably Swedish in culture. For example Tetra Pak was classified as Swedish, despite being legally domiciled in Switzerland, because it was still run and owned by the Swedish Rausing brothers. Akzo Nobel, on the other hand, was excluded because Nobel (a Swedish company) was bought by the much larger Dutch company, Akzo and subsequently integrated into its Dutch parent.

Of the forty companies we approached, 35 agreed to participate with the research. A senior executive in each company filled in a detailed corporate-level questionnaire asking questions about the location of various activities, the attractiveness of Sweden as a location, and the reasons for moving corporate HQ overseas (or not). This individual also provided us with names and contact details of all the business units reporting to the corporate HQ – between two and ten business units in each case. This gave us a sampling frame of *206 business units,* and we then sent the business unit-level questionnaire to the managing director of each. We received 125 responses (a response rate of 61%), of which 85 were located in Sweden and 40 were located overseas. Analysis of the non-respondents indicated that the percentage of respondents from overseas (31%) was almost identical to the percentage of business units located overseas in the entire sample (63 out of 206). Finally, we used a variety of secondary data sources including financial reports, Hoovers, and analysts reports, to collect information about shareholders, customers and competitors. Finally, we also conducted a round of in-person interviews with seven of these companies to ensure that we had a complete picture of the phenomenon under investigation.

### Measurement of HQ location (dependent variable)

As observed earlier, there is no definitive way to measure HQ location. We considered three relevant indicators: the legal domicile, the location of the top management team, and the location of the various HQ functions. While the legal domicile of the corporation is clearly an important issue, the country in questions is frequently chosen for highly case-specific reasons, such as tax reduction, or to guard against foreign interference. Moreover, for the business unit, legal domicile is typically a meaningless concept, in that the legal entities are defined on a country basis, and they may or may not align with the business unit boundaries within the firm. Accordingly, in this study we decided to focus on two measures of HQ location that were more concerned with the management of the firm than its tax/legal status. These were: (a) the location of the top management team, and (b) the location of the various HQ functions. Specifically, we used the following measures:

Corporate HQ. Respondents were asked whether the top management team were located in Sweden or overseas. Of the 35 responding firms, 29 were located in Sweden (scored 0) and 6 were located overseas (scored 1). They were then asked to indicate the number of the following HQ functions that were located outside Sweden: investor relations, corporate communications, treasury and group financial management, group tax and legal, group strategic planning, group HR management, group purchasing and logistics, and group R&D. From this, we calculated the percentage of corporate HQ functions located overseas[4].

Business Unit HQ. The location of each business unit's top management team was identified by the *corporate* respondent (to avoid common-method bias). Again, this resulted in a dichotomous variable, with 85 business units located in Sweden (scored 0) and 40 located overseas (scored 1). The business unit respondent then indicated the number of business unit HQ functions located outside Sweden, using the same list as above, and we again calculated the percentage of HQ functions located overseas. We thus ended up with one dichotomous and one continuous variable for each level of HQ.

Measurement of independent variables

(1) Percent business unit activities overseas. Business unit-level respondents were asked to indicate (a) the percentage of sales units outside Sweden and (b) the percentage of manufacturing units outside Sweden. These two numbers were highly correlated ($r = .51$, $p<.001$) so they were combined to form a single scale.

(2) Perceived attractiveness of business unit HQ location. Business unit-level respondents were asked to rate the characteristics of the local business environment, in terms of nine specific factors: (a) level of rivalry among business competitors within your industry, (b) demands from competent customers, (c) demands from competent suppliers, (d) access to competent suppliers, (e) existence of closely-linked firms, directly or indirectly relating to your business, (f) quality of governmental politics, (g) Quality of relationships between politicians and commercial sector, (h) Proximity to investment and banking industries, and (i) quality of laws that regulate business (1=very low, 7= very high). We developed these items from an earlier questionnaire (Birkinshaw, Hood and Jonsson, 1998) to cover the elements of Porter's (1990) diamond model as well as broader attributes of the political and economic environment. These nine items loaded onto a single factor, Alpha = 0.75.

(3) Influence of international shareholders. Using secondary sources of data (annual reports, Hoovers, analysts reports), we measured (a) location of the primary exchange on which shares are traded, 0=Stockholm, 1=other; and (b) the percentage of capital stock owned by non-Swedes.

(4) Influence of international customers and competitors. Using secondary sources of data (annual reports, Hoovers), we measured (a) the percentage of corporate sales outside Sweden, and (b) the percentage of corporate competitors located outside Sweden[5]. These two numbers were highly correlated (r=.55, p<.01) so we combined them to form a single scale.

(5) Interdependence between business unit and corporate HQs. We used different measurement approaches for this construct at the two different levels of the analysis. At the corporate level, we used the *entropy index* developed by Jacquemin & Berry (1979) which considers the breadth of three-digit SIC codes in which the MNC competes. While there are many different approaches to measuring diversification, this is probably the most common within the field of strategic management (Palepu, 1985). This measure is as follows

$$\sum \Sigma_i P_i \ln(1/P_i)$$

where $P_i$ is the amount of sales attributed to each 3-digit SIC segment i and $\ln(1/P_i)$ is the weight given to each segment, or the natural logarithm of the inverse of its sales. Thus, this measure includes both the number of 3-digit SIC code businesses in which a firm operates and the proportion of total sales of each of these SIC code segments.

At the business unit level we measured interdependence in terms of employee flows. Business unit respondents were asked to indicate the number of individuals that had moved from corporate HQ to business unit HQ, *and vice versa*, over a three year period, for the following categories: (a) top team managers, (b) technical experts, (c) business managers, (d) skilled labour. We calculated an average of all these numbers (alpha = 0.81) to create an *employee flow index*.

Control Variables

In order to test the main argument of the paper - that corporate-level and business unit-level HQ relocations are driven by different factors - it is necessary to show for hypotheses 1 and 2 that the predictor variable influences the relocation of business unit HQ and *not* corporate unit HQ (and vice versa for hypotheses 3 and 4).

For hypothesis 1, we measured the *percent corporate activities overseas*. Corporate-level respondents were asked to indicate (a) the percentage of sales units outside Sweden and (b) the percentage of manufacturing units outside Sweden for the entire corporation. These two numbers were highly correlated and summed to form a single scale. For hypothesis 2, we measured the *perceived attractiveness of corporate HQ location*. Corporate-level respondents were asked to rate the characteristics of the Swedish business environment, in terms of the nine specific factors detailed above. This is equivalent to perceived attractiveness of business unit HQ location[6]. We also controlled for *corporate sales volume* in 1999 (measured in million SEK).

For hypotheses 3 and 4, we used the relevant corporate level data in the business unit analysis. For example, we took the percentage of foreign shareholders in Sandvik, and assigned this number to each one of the four Sandvik business units in the sample. A total of five such variables were used: *corporate percent foreign shareholders, corporate percent customers/competitors outside Sweden, corporate percent sales and manufacturing units overseas, corporate entropy measure of diversification,* and *corporate sales volume*. In addition, we also measured the *business unit sales volume as a percentage of the corporate total*, as a way of factoring in the relative size of the business unit in question.

We explored two other control variables. First, we considered the possible effect of corporate HQ moving overseas on business unit HQ moving overseas (and vice versa). Because we had the dates of all HQ relocations, it was possible to add dummy variables into the analysis at corporate- and business unit- levels. However, none of these were at all significant, so we dropped them from the analysis. Second, we attempted to develop a measure of whether the MNC had been involved in an *international acquisition* or merger recently, on the basis that some cases of corporate HQ internationalisation are triggered by such an event. However, of the 35 MNCs in the sample, all but three had been involved in international acquisitions during the last five years, so we concluded that the measure would not help us to discriminate between those MNCs whose HQs moved overseas versus from those that did not.

## RESULTS

Table 1 shows the Pearson zero-order correlations for both sets of data. Table 2 presents the OLS regression and logistical regression results for the business unit-level data. Tables 3 and 4 present the t-tests and OLS regression results for the corporate-level data.

Consider the business unit-level analysis first. Model one in Table 2 is an OLS regression model where the percentage of business unit HQ functions overseas is the dependent variable. The overall model explains 28% of the variance and is highly significant ($F=5.31$, $p < .001$). Model 2 in Table 2 is a Logistic regression model where the dependent variable is the location of business unit HQ (0=Sweden, 1=overseas). Again, the overall model is highly significant.

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Insert tables 1 and 2 about here

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Proposition 1, that the percentage of the business unit's activities overseas is associated with business unit HQ moving overseas, is strongly supported ($p<.01$ in both models). Proposition 2, that the perceived attractiveness of the new location is associated with business unit HQ moving overseas, is also strongly supported ($p<.01$ in both models). Proposition 5, which argues that the level of employee flows between business unit and corporate HQ will have a negative relationship with business unit HQ moving overseas, is also supported though less strongly ($p < .05$)[7]. However, none of the control variables is significant.

The corporate-level analysis was undertaken in two ways. As an exploratory step, we performed t-tests comparing the mean scores for the six companies with corporate HQ management teams overseas, and the 29 whose corporate HQs management teams are still in Sweden (Table 3). Unfortunately, with such small numbers, there is little useful insight to be gained: only two variables - the percentage of international shareholders, and a primary stock exchange listing outside Stockholm - are significantly higher in the group of firms with overseas.

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Insert tables 3 and 4 about here

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More insight was gained from the second analysis (table 4) in which the dependent variable was the percent of Corporate HQ functions overseas. Proposition 3, that the influence of foreign shareholders is associated with corporate HQ moving overseas, was strongly supported. Both the percent of international (i.e. non-Swedish) shareholders, and a primary stock exchange listing outside Stockholm, are significant ($p<.01$, $p<.05$ respectively). Proposition 4, that the influence of international customers and competitors is associated with corporate HQ moving overseas, was *not* supported. There is indicative support for this proposition in the correlation matrix, but in the multivariate model the influence of foreign shareholders ends up dominating the influence of international customers and competitors. Finally, Proposition 5, that the level of corporate diversification (entropy measure) is associated with corporate HQ moving overseas, receives modest support ($p<.10$, two-tailed test). While this level of support is far from convincing, the small sample size makes it worthy of further consideration.

It should also be observed that none of the control variables in this analysis were significant. In other words, the key predictor variables at the *business unit* level (percent activities overseas, perceived attractiveness of new location) were not significant at the *corporate* level. This is in line with our theoretical argument, but it is worth emphasising because it reinforces the insight that business unit and corporate HQ location decisions are driven by very different factors.

Finally, we also explored a third operationalisation of corporate HQ location, namely the percentage of HQ employees working outside Sweden. This is highly correlated ($r=.93$, $p<.01$) with the percentage of HQ functions outside Sweden. It yielded broadly the same results, though Proposition 3 received less support ($p<.05$) while Proposition 5 received more support ($p<.05$).

## DISCUSSION AND CONCLUSIONS

Taken together, the results allow us to draw a number of provisional conclusions as to why some MNCs move their HQ operations overseas. First, business unit HQs relocate overseas when they already have a large percentage of their sales and manufacturing activities overseas, and they move to locations that are more attractive (in terms of industrial agglomeration and a favourable economic environment) than the host country. This is very much what one would expect using the traditional theoretical arguments from the international business literature. Second, corporate HQs move *not* because activities are overseas, and *not* to locations that are consistently more attractive than the host country, but instead as a response to the perceived demands from external stakeholders (notably, overseas shareholders and capital markets). This finding underlines the importance of the externally-facing role of the corporate HQ, as the interface between the activities of the MNC's business units and the capital markets. The third key finding, though the evidence here is slightly weaker, is that the extent to which corporate or business unit HQs move overseas is a function of the interdependence between the two levels. HQ relocation, in other words, is *driven* by the factors noted above, and it is *hindered* by the interdependence between corporate and business unit headquarters. All of these findings are in line with the theoretical arguments developed in the paper.

In terms of the broader implications of the research, the most important point is that the drivers of HQ relocation are very different in the business unit and corporate settings. It is already widely known that the activities of corporate HQ and business unit HQ are distinct, but this is the first study to shed light on how the choice of location (the "where" of strategy) varies between the two levels. And more importantly, it clearly exemplifies the extent to which some corporate HQs are actively disentangling themselves from the day-to-day monitoring of business units, and selecting a location based on their externally-focused activities.

There are two interesting theoretical points that emerge from this research. The first is the distinction between the internally- and externally-facing roles of the corporate HQ. While this is not an entirely novel observation, the literature has consistently underplayed this dimension and instead focused on Chandler's (1991) distinction between the administrative and entrepreneurial functions (see also Foss, 1997). Our research suggests the possibility of developing a richer conceptualization of the role of corporate HQ that builds on a combination of our work and Chandler's (1991). Second, in terms of the theory of the MNC, there are also some interesting angles to pursue. Rugman and Verbeke (1992; 2001) have developed a line of theory that explores the sources of firm-specific and country-specific advantages without the limiting assumption that everything emanates from the home country. Their work correctly shows how some firm-specific advantages emerge from the home country, some emerge from the foreign subsidiary, while others develop across the MNC's network. What the current study emphasizes is the almost irrelevant distinction between home- and host-country in some instances. Thus, when an MNC moves its corporate HQ, its "home" moves as well, but it will be many years before the HQ develops the level of institutional and social ties to its new location that one normally associates with a corporate HQ. In terms of the Rugman and Verbeke (2001) framework, then, as well as the broader theoretical literature on the MNC, it may be interesting to reconsider what the concept of a "home" country really means.

Finally, there are some potentially important implications for the worlds of management practice and public policy. The trend is clearly towards greater levels of HQ relocation, and such changes raise a number of questions. For MNCs, the challenge is to make sense of the *full* costs and benefits of HQ relocation (rather than focusing narrowly on efficiency gains), and here our research provides a way of thinking through the drivers and helps to frame the choice in a more structured way. For public policymakers, and inward investment agencies in particular, the issues raised here are extremely important because in countries such as Sweden corporate and business unit HQs represent a major source of high value-added jobs. Moreover, if sufficient HQs move overseas there is a serious risk that other professional service providers, such as bankers, accountants and lawyers, will follow them. Home country policymakers need to better understand the reasons why some HQs are moving overseas, and identify the difference between factors over which they have some control (e.g. tax rates, economic stability) and factors that are truly exogenous (e.g. Sweden's geographical location on the periphery of Europe). And this research provides a first step to helping them with this task.

A number of limitations should be acknowledged in this research. First, the sample size was relatively small, and for that reason we are careful to acknowledge that the results are somewhat provisional. The reasons for this were discussed earlier, but it is an issue that needs to be addressed in future research by extending this study to a wider number of countries. Such a study could focus on countries with a similar profile to Sweden, such as Finland, Denmark, Netherlands and Canada, or it could look at large emerging economies such as South Africa, Mexico, China, Brazil and India, where there are already some cases of MNCs moving their HQs to locations such as London. Second, the study was based on some simplifying assumptions about the size, nature and geographical scope of the HQ, and these could usefully be relaxed. For example, it would be interesting to examine the extent to which HQ operations are split between multiple countries, rather than concentrated in one country, and one could also look at the differences between full-scope HQ operations (with all functions represented) and "lean" HQs that limit themselves to a top management team. Some MNCs even claim that they do not have a corporate HQ *per se*, opting instead for a virtual HQ and the rotation of top management team meetings around a number of major cities. While there are good reasons to be sceptical about such models, this is certainly an area where practice is continually changing, and therefore where additional research is needed.

This paper began with a simple question: why do some MNCs relocate their headquarters overseas? The answer is that business unit HQs typically move for the well-understood reasons of following their existing activities, while corporate HQs move to get closer to important external influencers, primarily shareholders and capital markets. These different drivers shed light on the role of the corporate HQ in the MNC, and underline the very different functions of the HQ operation with regard to business-level and corporate-level strategy.

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FIGURE 1.
Conceptual Framework

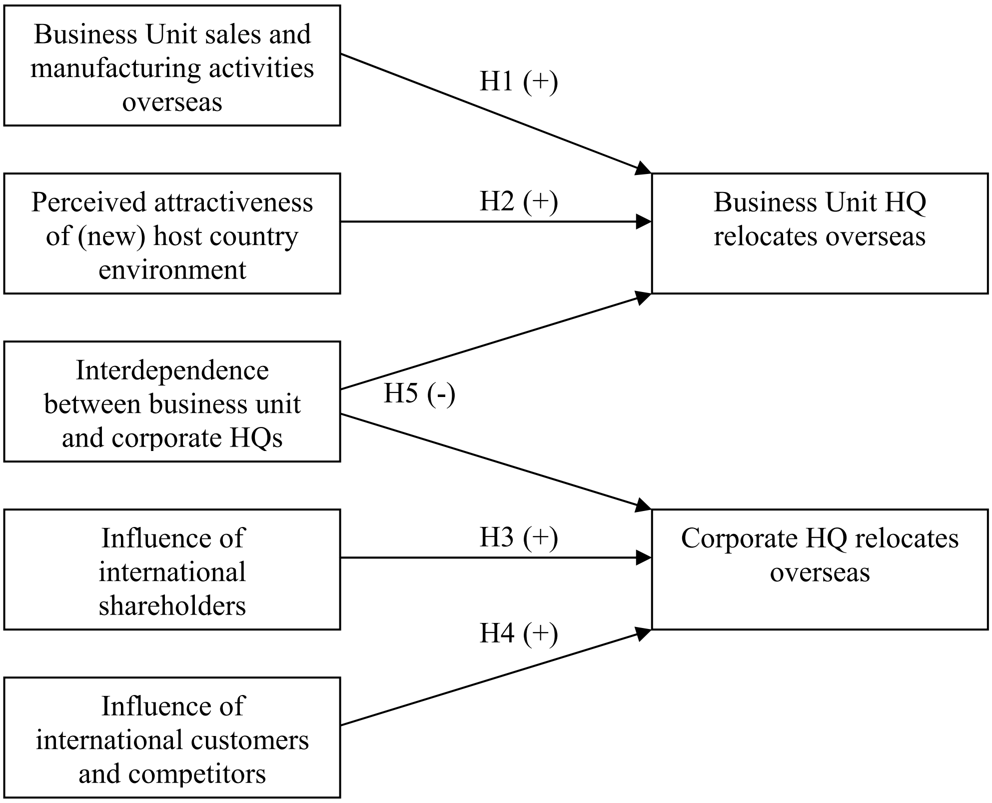

TABLE 1

Corporate HQ data: Pearson zero-order correlation coefficients (n=35)

| Variable | Mean | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Legal domicile overseas | .17 | .38 | | | | | | | | | |
| 2. Percent corporate HQ functions overseas | .10 | .21 | .90** | | | | | | | | |
| 3. Percent corporate HQ employees overseas | .15 | .27 | .93** | .93** | | | | | | | |
| 4. Percent foreign shareholders | 28.6 | 22.2 | .38* | .50** | .35* | | | | | | |
| 5. Primary exchange overseas | .18 | .39 | .46** | .50** | .49** | .29 | | | | | |
| 6. Percent customers/competitors outside Sweden | 34.2 | 15.5 | .25 | .35* | .28 | .22 | .16 | | | | |
| 7. Entropy measure of Diversification | .62 | .45 | .05 | -.02 | .09 | -.09 | -.14 | -.02 | | | |
| 8. Percent sales and mfg units overseas | 50.2 | 31.4 | .28 | .25 | .36* | -.04 | .01 | .53** | .05 | | |
| 9. Perceived attractiveness Swedish environment (rv) | 4.14 | .77 | -.03 | -.19 | -.04 | -.13 | -.23 | -.47* | .11 | -.03 | |
| 10. Sales volume MSEK | 35,652 | 34,693 | .06 | .09 | -.01 | .24 | -.04 | .32 | .12 | .09 | -.13 |

Business unit HQ data: Pearson zero-order correlation coefficients (n=125)

| Variable | Mean | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Business unit top management overseas (0=no, 1=yes) | .32 | .47 | | | | | | | | | | |
| 2. Percent business unit HQ functions overseas | .36 | .44 | .81** | | | | | | | | | |
| 3. Percent sales and mfg units of business unit overseas | .74 | .32 | .45** | .49** | | | | | | | | |
| 4. Perceived attractiveness of local environment | 4.3 | .72 | .21* | .14 | -.08 | | | | | | | |
| 5. Flow of employees between business HQ & corporate HQ | .79 | 4.2 | .09 | .09 | -.08 | .08 | | | | | | |
| 6. Corporate percent foreign shareholders | .31 | .20 | -.04 | .04 | .02 | -.01 | -.12 | | | | | |
| 7. Corporate percent customers/ competitors outside Sweden | .84 | .16 | .20* | .18 | .31** | -.15 | -.09 | .32** | | | | |
| 8. Corporate percent sales and mfg units overseas | .56 | .31 | .26* | .25** | .31** | -.09 | -.13 | .31** | .72** | | | |
| 9. Corporate entropy measure of Diversification | .70 | .42 | -.08 | .06 | .02 | -.05 | .14 | .18 | .05 | .06 | | |
| 10. Corporate sales volume | 38400 | 31400 | -.01 | -.04 | .03 | .14 | -.01 | -.05 | .07 | -.08 | .04 | |
| 11. Business unit sales volume as percent of corporate | 14.1 | 12.6 | -.00 | .10 | .13 | -.11 | .02 | .34** | .26** | -.01 | .30** | .09 |

* p <.05

** p < .01

TABLE 2

Business unit HQ data: Predictors of business unit HQ moving overseas

| | ***MODEL 1 OLS Regression*** Percent business unit HQ functions overseas | ***MODEL 2 Logit*** Business unit top management overseas (0=no, 1=yes) |
|---|---|---|
| Percent sales and mfg units of business overseas | .404*** | 11.37 (3.38)** |
| Perceived attractiveness of local environment | .250** | 1.38 (.51)** |
| Flow of employees between business & corp HQ | -.180* | -.151 (.69)* |
| Corporate % foreign shareholders | -.05 | 2.21 (1.90) |
| Corporate % customers/competitors outside Swed. | -.02 | 2.99 (3.24) |
| Corporate percent sales and mfg units overseas | .15 | 1.84 (1.69) |
| Corporate entropy measure of Diversification | .06 | -1.16 (.77) |
| Corporate sales volume | .12 | .00 (.00) |
| Business unit sales volume as percent of corporate | .03 | .00 (.029) |
| R Square / Adjusted R square | .342 / .278 | |
| F test | 5.31*** | |
| -2 log likelihood | | 65.7 |
| R squared (cox & snell, Nagelkerke) | | .442 / .625 |
| Percent classified correctly | | 83.3% |

Values are standardized Beta coefficients

† p < .10

* p <.05

** p < .01

TABLE 3

Corporate HQ data: t-tests for differences between Swedish and overseas legal HQ

| Mean: | Legal domicile Sweden (n=29) | Legal domicile overseas (n=6) | T-test (sig) |
|---|---|---|---|
| Percent foreign shareholders | 24.7 | 46.3 | -2.29* |
| Primary exchange overseas | .11 | .60 | -2.87** |
| Percent customers/competitors outside Sweden | 32.4% | 42.7% | -1.54 |
| Entropy measure diversification | .61 | .66 | -.27 |
| Percent sales & mfg units overseas | 46.3 | 69.1 | -.165 |
| Perceived attractiveness Swedish environment[1] | 4.15 | 4.09 | .163 |
| Sales volume MSEK | 34,773 | 39,901 | -.33 |

* p <.05

** p <.01

[1]For Quality Swedish location a larger number means a more attractive Swedish location, which is the opposite directionality to all other variables.

TABLE 4

Corporate HQ data: Predictors of corporate HQ moving overseas

| | ***MODEL 1*** % Corporate HQ functions overseas | ***MODEL 2*** % corporate HQ employees overseas |
|---|---|---|
| Percent foreign shareholders | .595** | .456* |
| Primary exchange overseas | .345* | .418* |
| Percent customers/competitors outside Sweden | .125 | -.093 |
| Entropy measure diversification | .250† | .316* |
| Percent sales & mfg units overseas | .107 | .170 |
| Perceived attractiveness Swedish environment[1] | -.029 | .132 |
| Sales volume MSEK | -.162 | -.234 |
| R Square / Adjusted R square | .603 / .459 | .575 / .420 |
| F | 4.19** | 3.72** |

Values are standardized Beta coefficients

† p < .10

* p <.05

** p < .01

## ENDNOTES

[1] We analysed the Fortune 500 lists for the entire period of the 1990s, and tracked cases of corporate HQs that had moved overseas. The breakdown of HQ relocations by original home country was: Sweden – 5, Netherlands – 3, UK – 4, Finland – 2, Canada – 3, South Africa – 4, Australia – 2.

[2] We could also have included other external actors in this analysis, including the labour market for executives and NGOs, but as we do not examine these factors in our empirical research, they are not given further attention here.

[3] We focused on only the top 40 because the next group of firms showed little or no variation in the dependent variable corporate HQ activities overseas.

[4] We also measured the *number of HQ employees* overseas for the corporate HQ. This was correlated 0.93 with percent of functions overseas.

[5] To ensure some consistency in these measures, we used Hoovers directory which for each corporation lists all major competitors, typically 10-30. We then identified the national home market of each of these competitors, and calculated the percentage of these that lay outside Sweden, and outside Europe. While Hoovers' list may not be comprehensive, it benefits from being relatively independent, and thus not likely to be biased either towards or against one particularly nationality of competitors.

[6] There is a subtle difference as well: for the corporate data, we asked all respondents to evaluate Sweden, rather than the location in which the HQ was located. This was possible because all six overseas HQs were staffed by Swedes with a strong (and recent) knowledge of the Swedish business environment. However, this also meant that the variable needed to be reverse-coded for analysis, because we would anticipate those executives who had moved their HQ overseas would rate Sweden more negatively than those still based in Sweden.

[7] It should be acknowledged that there is some danger of reciprocal causality in this relationship. Thus, high levels of employee flow will limit the likelihood of the business unit HQ moving overseas, but the reverse is also true: those business units that stay close to their corporate HQ will be more likely to engage in employee flows. However, when this finding is combined with the corporate-level result (using the entropy measure) we are confident that the primary causal flow is as predicted.