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The International Relocation of Corporate Centres: Are Corporate Centres Sticky?

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Empirical research reveals that relocations of corporate centres are most times confined to national borders. Until now, cross-border relocations are almost absent in the European Union, while in the United States relocations across State borders appear to be common. To contribute to a managerial understanding of these phenomena, we propose a conceptual framework of the determinants of the corporate centre location. Based on our analysis, we predict the stickiness of corporate centres of European Union-based corporations will diminish due to the European Union integration process and in particular triggered by the expected EU legislation regarding the removal of legal barriers against corporate mobility.

Keywords: Corporate centres, Multinational corporations, Corporate mobility, Multibusiness corporations

Introduction

Multinational corporations have not only expanded their international sales but have also transferred functions abroad, first low-added value activities such as assembly, but increasingly also activities with higher added value like IT and research and development. Service industries go global by migrating high-wage professional jobs to low-cost countries (*Financial Times*, 2003). The increasing geographic dispersion of sales, assets, and people, as reflected, among others, in the studies of the TransNationality Index (UNCTAD) also suggest that cross-border corporate mobility is on the rise. These developments raise the question: Are corporate centres as mobile as the before-mentioned corporate functions or are they stickier and stay 'at home'?

Understanding corporate centre mobility is important as the location of the centre holds relevance for both corporations and host states. 'The more competition becomes global, ironically, the more important the home base becomes' (Porter, 1990, p. 614). First, we should make clear how we define the corporate centre in this paper and how it distinguishes from related concepts like a corporation's home base and the corporate parent. According to Porter 'the home base is where strategy is set, core product and process development takes place, and the essential and proprietary skills reside' (Porter, 1990, p. 69). Porter focuses both on the headquarter, and essential, corporate activities. Goold *et al.* (1994) describe the corporate parent as: 'The parent organization includes only those people who work at levels above or outside the business units, whether in the corporate centre, or at divisional, group, sector, or country levels' (Goold *et al.*, 1994, p. 40). In comparison to these definitions, we restrict ourselves to the physical corporate centre as a part of the home base or corporate parent.

The purpose of this paper is twofold. First, we intend to investigate empirically whether multinational corporations actually transfer their corporate centre across boundaries of countries, States or metropoles. Second, based on the literature, we will develop a conceptual framework of the determinants of corporate centre location to contribute to the explanation of the empirical findings and, based on that, reflect on future developments.

This paper is organized into four sections. In the first, we investigate previous country studies on corporate centre mobility. In the second section, we present the results of our investigation into the corporate centre relocations of the Fortune Global 500 corporations. In the third section, we propose a conceptual framework to investigate corporate centre locations. In the final section, we draw conclusions and discuss the implications of this paper.

Previous Evidence of Cross-State Relocations of US Corporations

Most previous studies about corporate centre locations investigate the development of the spatial distribution of corporate centres across cities within a particular country. The majority of those studies deal with the United States and focus on the largest corporations (often the Fortune 500). Much of this research was motivated by a model proposed by Semple and Phipps (1982). Their four-stage model indicated that as development takes place, the spatial concentration of corporate headquarters will increase, as one metropolitan centre will emerge as nationally dominant. The second stage is characterized by a small number of dominant regional metropolitan centres. In the third stage, these cities have grown regionally mature and compete successfully with the national metropolis. In the fourth stage, all regions are equally mature and there exists no dominance. Corporate centres are spatially dispersed over all regions.

Corporate growth and decline explained about two thirds of the changes in number of corporate centres per metropole in the United States. Direct relocations of corporate centres accounted for about ten per cent (Klier and Testa, 2002; Holloway and Wheeler, 1991) while mergers and acquisitions contributed about 23 per cent (Holloway and Wheeler, 1991). Figure 1 shows for three US metropoles the percentage of corporate centres that left the metropoles due to mergers and acquisitions, and the percentage of corporate centres that left for other reasons (direct relocations) between 1990 and 2000.

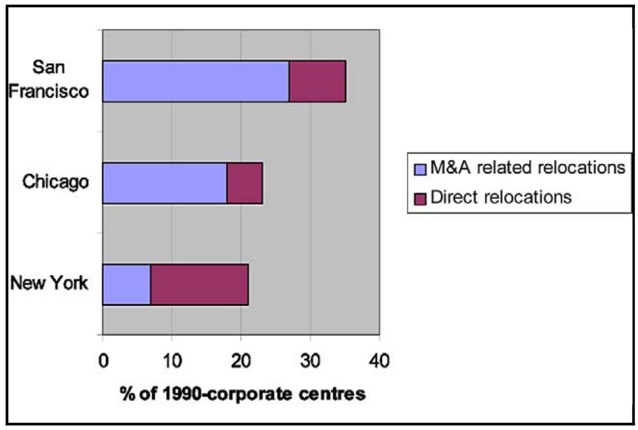

Figure 1 Percentages of Corporate Centres that left San Francisco, Chicago and New York, 1990–2000

Note: the percentages are based on the 1990-populations of corporate centres in each metropole. Source: Klier and Testa, 2002

Common finding is a high degree of concentration among corporate centres (Klier and Testa, 2002). The concentration of corporate centres is quite similar across industry sectors. Exceptions are hi-tech manufacturing and the 'FIRE' sector (Finance, Insurance, and Real Estate). High-tech manufacturing is significantly more concentrated. High-tech industries have a tendency to cluster and the corporations within these industries are not inclined to spatially separate their corporate centre activities from their R&D or production plants (Malecki, 1980). In banking, regulatory changes have led to a consolidation of the industry and the growth of corporations. Larger corporations tend to prefer corporate centres in larger metropolitan areas (Klier and Testa, 2002).

Several researchers (e.g. Semple, 1973; Wheeler, 1985; Holloway and Wheeler, 1991) observe a tendency to greater geographic dispersion of corporate centres. Research reveals a pattern of deconcentration of corporate centres from the large metropolitan areas in the North East to a more dispersed spatial pattern. The largest cities worldwide, in particular Chicago, London, and New York, have been losing corporate centres for decades (Sassen, 2001). For example, New York has witnessed a declining number of corporate centres since the 1950s. In 1955, the New York metropolitan area hosted 31 per cent of all Fortune 500 corporate centres. By 1999, New York's share had fallen to ten per cent (Horst and Koropeckyi, 2000). For the 1955 to 1977 period, the chief beneficiaries were other large metropolitan centres with infrastructures large enough to be attractive to corporations. Centres that first benefited from the decline of New York declined in the 1980s themselves: Los Angeles and Houston (Holloway and Wheeler, 1991). A shift is observed from the very large metropoles to mid-sized metropolitan areas (Klier and Testa, 2002). There is also evidence of a decrease in Fortune 500 corporate centres in non-metropolitan counties (Horst and Koropeckyi, 2000). The above-mentioned studies about relocations of corporate centres between metropoles suggest an influence of metropole-specific advantages on these relocations.

Relocations of Fortune Global 500 Corporations: 1994–2002

As stated before, previous US studies focused on the Fortune US 500. In line with these studies we chose the Fortune Global 500 corporations as our research population to understand the mobility of corporate centres worldwide. Our research consisted of an analysis of the Fortune Global 500 lists from 1994 to 2002 and of the publicly available data on these corporations (including previous academic research, company data, and other secondary data). We start with the year 1994 because this is the first year a combined list of manufacturing corporations and service corporations was compiled. We will focus on corporate centre locations by metropolitan area. Our findings are, therefore, not affected by relocations from a central city to a suburban location within the same metropolitan area, or *vice versa*. Our Fortune Global 500 research revealed 19 relocations of corporate headquarters across metropolitan areas during the 1994–2002 period. Figure 2 shows the relocations categorized into three groups: first, relocations between metropoles within the same nation and within the same State (US); second, relocations between metropoles within different States of the US; and third, relocations between nations. Furthermore, a distinction is made between direct relocations and relocations due to mergers and acquisitions.

As Figure 2 shows, only one relocation was across a national border. This relocation was the result of the 1998 merger between German-based Daimler and US-based Chrysler. Daimler's corporate centre is in Stuttgart, Germany. Before the merger, Chrysler's corporate centre was located in Highland Park, Michigan, USA. The merged corporation, Daimler-Chrysler, is headquartered in Daimler's corporate centre in Stuttgart.

Nine out of the 19 relocations, or 42 per cent, concerned mergers and acquisitions. In the case of acquisitions we found that in most cases the corporate centre of the acquirer was selected as the centre of the combined corporation.

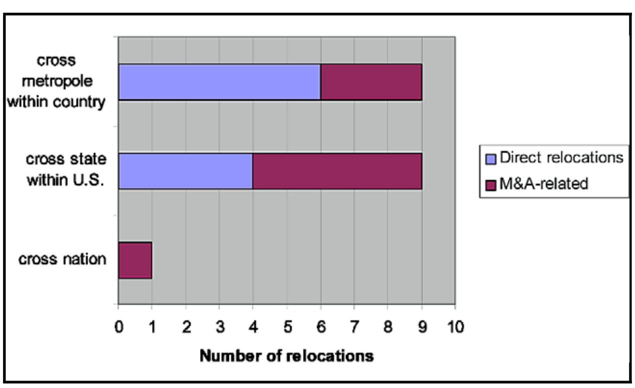

Figure 2 Fortune Global 500 Corporate Centre Relocations, 1994–2002.
Source: Based on Data in *Fortune*, 1995–2003

The Conceptual Framework

Determining the Location of the Corporate Centre

In the previous section we empirically investigated corporate centre mobility. To improve our understanding of the empirical findings, in this section we will suggest a framework of the determinants of the location of the corporate centre. In line with Forsgren *et al*. (1995) we recognize there is no simple relationship between internationalization and the location of the corporate centre. We argue there is an interplay of determinants at stake. In this paper we propose to distinguish four categories of determinants: (a) company-specific determinants, (b) industry-specific determinants, (c) metropolitan-specific determinants, and (d) nation-specific and region-specific determinants. Figure 3 displays the conceptual framework.

Company-Specific Determinants

Parenting Styles

For the multibusiness company three different parenting styles can be identified (Goold *et al*., 1994). Each style represents a different planning and control influence of the corporate parent. Planning influence refers to the role of the parent with respect to the formulation of plans, strategies and budgets in the businesses, ranging from low influence (highly decentralized) to high influence (much more closely involved and influential) (Goold *et al*., 1994). Control influence refers to the role of the parent in control processes (Goold *et al*., 1994).

Parents with a strategic planning style are closely involved with their businesses in the formulation of plans and decisions. The control process stresses the long-term health and development of the businesses while short-term monitoring is de-emphasized. In the strategic control style, the parent basically decentralized planning to the businesses, but retains a role in checking and assessing what the businesses propose. The strategic control parent emphasizes financial objectives in the control process, but also pays attention to strategic objectives. The financial control style is marked by a strong commitment to decentralization of planning. The control process concentrates on financial objectives and the parent monitors actual results closely and frequently.

In this paper we argue that these parenting styles can be associated with corporate centre location requirements (see Table 1). The strategic planning style as a 'hands-on' style implies a relatively close interaction between corporate parent and the businesses regarding the planning of the businesses. This close inter-

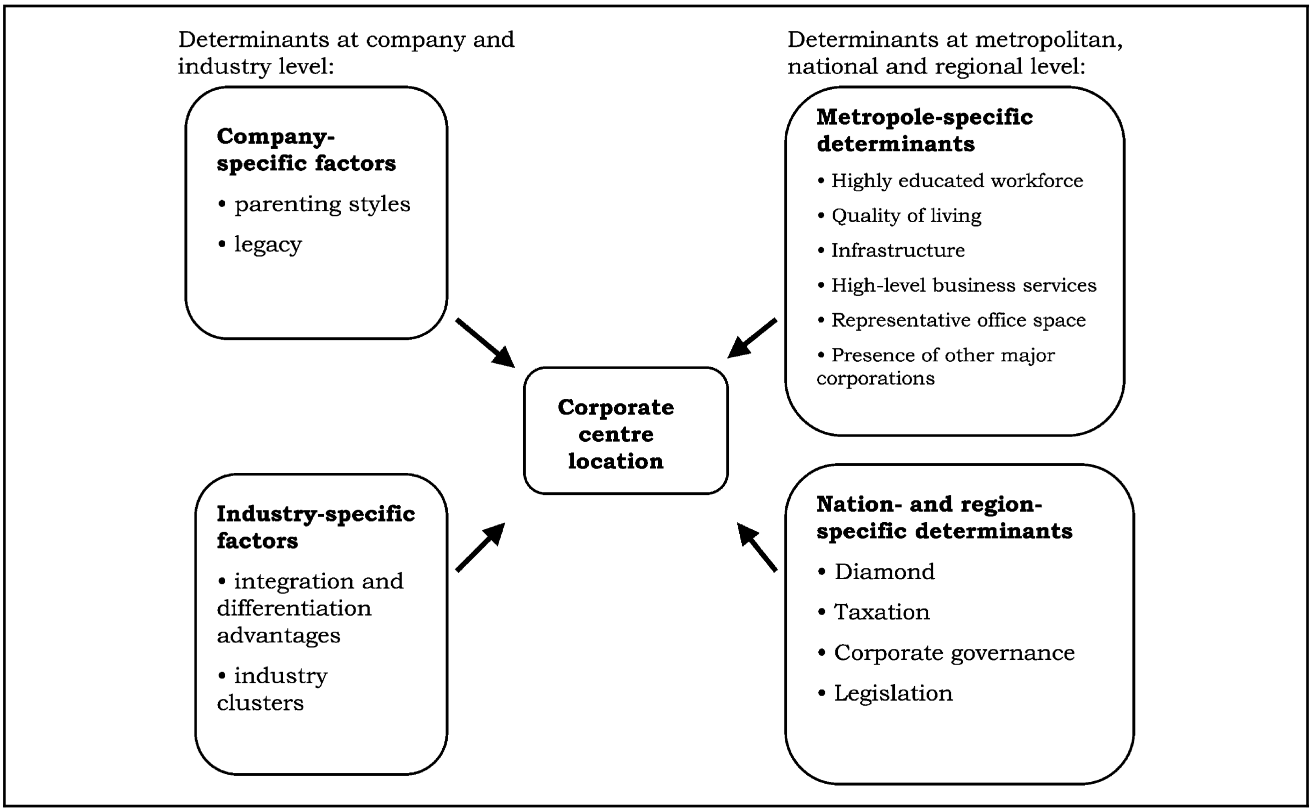

Figure 3 The Conceptual Framework: Key Determinants of Corporate Centre Location

Table 1 Parenting Styles and Proximity Requirements of the Corporate Centre

Parenting style[a]	Required proximity of corporate centre to businesses	Required proximity of corporate centre to financial centre
Strategic planning	High	Low
Strategic control	Medium	Medium
Financial control	Low	High

[a]Goold *et al*. (1994)

action with respect to the formulation of plans and decisions will benefit from proximity of the corporate centre to the businesses. Corporate centres using a strategic planning style should, therefore, preferably be located near the businesses. In contrast, the financial control style is a 'hands-off' style while the corporate parent has decentralized the planning to the businesses. Because there is no need for close involvement in the formulation of plans and decisions, there will be less need for the corporate centre to be located near the businesses. Instead, a corporate centre using the financial control style may prefer proximity to the financial community. The strategic control style parent occupies a position in-between strategic planning and financial control. The need of the strategic control style corporate centre to be located near the businesses is weaker than in the case of the strategic planning style but stronger than the financial control style.

Legacy

Besides the parenting styles, we distinguish a second company-specific determinant that influences the location of the corporate centre: legacy (see Figure 3). Established companies cannot start with a clean sheet because they have made commitments in the past that have resulted in path dependencies.

Path dependencies apply to the corporate resource and capabilities in general. It also applies to the corporate centre specifically. Corporate centres are 'people-businesses'. Relocating a centre implies moving employees, at least the core staff. In the case of a cross-national relocation employees need to emigrate permanently. This is not like the temporary transfer of the 'expat'. Relocating employees may be expensive, as the corporation needs to compensate costs and inconveniences. Relocating manufacturing abroad does not involve the relocation of people to the same degree as corporate centre relocation. Actually, the high costs of labour in the original country was the reason to relocate manufacturing to lower wage countries. Besides the employees existing social networks between the corporate centre and key stakeholders like suppliers, customers, regulatory agencies, and the government create path dependencies. These path dependencies may hinder a corporate centre relocation or at least raise the costs of such an operation.

However, legacy may also stimulate a corporate centre relocation as the following example illustrates. Multibusiness firms are usually founded as a monobusiness. Over time these firms broaden their portfolios by adding businesses. Often the corporate centre will still be located at the site of the oldest business. If the new businesses are spatially separated from the first business, the strategic planning or strategic control style corporate centre might benefit from a new location central to all businesses, instead of close to the oldest business and at a distance to the rest of the portfolio. A corporate centre using a financial control style might prefer a relocation to a financial centre. Boeing and Royal Philips Electronics are two examples of companies in our Fortune Global 500 research that relocated their corporate centres to increase the distance between the corporate centre and the original business. In 2001, after 86 years Boeing left its city of foundation, Seattle, for Chicago. In 1997, Royal Philips Electronics moved after 106 years out of Eindhoven, the Dutch city where the company was founded, to the Dutch capital Amsterdam. Corporate centre relocation may enable the company to escape from the constraints and sentimental ties of the original company town:

> Philips said it wanted to be closer to investors and to Schiphol airport. The Philips move pointed to three reasons companies move their head office: to be closer to the financial markets, to establish greater international presence, and to escape the parochial constraints of a company town (*Financial Times*, 23 March 2001, p. 23).

Industry-specific Determinants

Integration and Differentiation Advantages
Most of the literature in international management refers to the continuum of integration/coordination/globalization advantages versus differentiation/responsiveness/localization advantages (Harzing, 2000). The relative sizes of these two categories of advantages within an industry suggest the appropriate internationalization strategy for multinational companies operating in that industry. Bartlett and Ghoshal (1989) distinguish between four different internationalization strategies: international, multidomestic, global, and transnational. Different internationalization strategies hold different implications for the degree of dependence of the subsidiaries on the corporate centre (Harzing, 2000). In this paper we argue that this dependence can be associated with corporate centre location requirements (see Table 2). The multidomestic corporation is characterized by a low degree of dependence of the subsidiaries on the corporate centre. We propose that the required proximity of the corporate centre to the businesses is accordingly low. The global corporation is associated with a high degree of dependence. As a consequence, we argue that the required proximity of the corporate centre to the businesses is high. Regarding the required proximity, we position the international and transnational corporations between the multidomestic and the global corporations.

Industry Clusters
Porter (1990) argues that proximity to industry clusters of competitors, customers, factors of productions, and supporting and related industries contributes to the creation of competitive advantage. The significantly higher concentration of corporate centres in the high-tech manufacturing sector compared to other sectors in the United States (Klier and Testa, 2002) may reflect the importance of clustering.

The relocation of Pharmacia & Upjohn from London to New Jersey in 1999 illustrates the importance of industry clusters. In 1995 Pharmacia of Sweden and the US-based Upjohn merged into Pharmacia & Upjohn and established their headquarters in London, the United Kingdom. In 1999, the CEO at that time, Mr Hassan, convinced the board to move the headquarters from the United Kingdom to the United States, the most profitable prescription-drug market. The company settled in New Jersey, which is the centre of activity for the drug industry. In 2003 Pharmacia & Upjohn was acquired by Pfizer. The corporate centre was relocated to the corporate centre of Pfizer in New York. The relocation after the acquisition to the Pfizer corporate centre in New York illustrates the influence of acquisitions on corporate centre location.

Metropole-specific Determinants

As corporate centres employ high-skilled professionals and managers, the availability of a highly educated workforce is an important consideration. As corporate management boards are internationalising (Heijltjes *et al.*, 2003), the quality of living in the metropolis becomes an important factor. Cosmopolitan metropoles with major quality hotels and restaurants, quality housing, international schools and a rich cultural life and recreation do have an advantage. Safety, health factors, personal tax and cost of living are factors that influence the location decision. Infrastructure is another site selection criterion. Corporate centres need an infrastructure for travel (air, rail, road transport) and communication (IT and telecommunications). Traffic congestion plays a role. Proximity to an international airport is also a consideration.

As Mr Dunham, Chairman and CEO at that time of

Table 2 Integration and Differentiation Advantages and Proximity Requirements of Corporate Centres

Integration advantages	Differentiation Advantages	Internationalisation strategy[a]	Corporate centre-dependence of subsidiaries[b]	Required proximity between corporate centre and subsidiary
Low	High	Multidomestic	Low	Low
Low	Low	International	Medium	Medium
High	High	Transnational	Medium	Medium
High	Low	Global	High	High

[a]Typology of internationalisation strategies: Bartlett and Ghoshal (1989)
[b]Typology of corporate centre-dependences: adapted from Harzing (2000)

Conoco, pointed out in the context of the intended merger with Phillips Petroleum: 'Another reason why we chose Houston — it is a transportation hub. It has a great international airport. You can fly directly from Houston to many of the world's capitals without changing planes. That's critically important, because on any given day we have 700 Conoco employees in the air — and I'm sure it's the same for Phillips.' (*Financial Times*, 3 December 2001, p. 31).

Corporate centres demand ready access to high-level business services like, for instance, accounting, legal, advertising and management consulting (Klier and Testa, 2002). The proximity of such specialized service companies influences the location decision. It goes without saying that the availability of representative offices or availability of land for building new offices is important, as are the costs of office space. Presence of other major corporate centres is important too. Companies find it advantageous to locate near others of their ilk (Klier and Testa, 2002).

Nation- and Region-specific Determinants

As pointed out before, industry clusters influence corporate centre location. Industry clusters are part of the diamond of national advantage (Porter, 1990). The diamond framework may also apply to the state level or the supranational level (Van Den Bosch and Van Prooijen, 1992). Governments at the national, the State, or the supranational level, can influence the determinants of the diamond. For instance, governments may enhance factor conditions by investing in the knowledge infrastructure, that is, schools, universities, government-supported technical institutes and training centres (Porter, 1990). Furthermore, governments may enhance factor conditions by improving the functioning of labor markets and capital markets.

Taxation also influences corporate centre location. In 1997 two Fortune Global 500 companies, Nissho Iwai and Obayashi, relocated from Osaka to Tokyo because of the 1995 Osaka earthquake and a tax raise in the Osaka region. 'Infineon, the Germany chip maker, favours shifting its corporate headquarters to Switzerland if Gerhard Schröder and his reformist government press ahead with controversial tax reforms' (*Financial Times*, 28 April 2003).

Corporate governance system may influence corporate centre location as well. The functioning of direct monitoring, executive compensation and the market for corporate control influence the attractiveness of a country or state as a host for a corporate centre. Proposed corporate governance reforms in The Netherlands, in particular regarding executive compensation, is said to have led to discussions within Dutch boards about relocating the corporate centre abroad (*Het Financieele Dagblad*, 15 August 2003, p. 1).

The location of the corporate centre will also be influenced by legislation. For example, company legislation and labour legislation will determine in part the attractiveness of a nation or a region, like the European Union, as the host of a corporate centre. Differences in legislation between nations or regions may stimulate relocations of corporate centres. However, legislation at the national level, for instance within the European Union, may also be a barrier to relocation, as will be pointed out below.

Present EU Legislation regarding Corporate Mobility

Legislation, especially regarding company laws, plays a crucial role in cross-border corporate centre mobility. Legal barriers may inhibit the mobility of corporate centres across borders. In the United States corporate centres relocate across States. In the European Union the situation is quite different. Despite the fact that business leaders have repeatedly, most recently in the consultation organized by the High Level Group of Company Law Experts, called for companies to be able to transfer their 'seat' (their centre of activities and/of their registered office) within the European Union, there appears to be 'insurmountable legal obstacles to such cross-border transfers' (European Commission, 2003a). In the absence of EU legislation governing the cross-border transfer of seat, these relocations of corporate centres are currently impossible or at least contingent on complicated legal arrangements. At present, member State laws do not provide the necessary means and, when a transfer is possible by virtue of simultaneously applying national laws, frequently conflicts arise between those laws because of the different connecting criteria applied in the Member States. As the European Commission pointed out in a Communication: 'A legislative effort is needed in this field in order to implement the freedom of establishment in the manner intended by the Treaty' (European Commission, 2003b).

Discussion

Our research and previous country studies (e.g. Klier and Testa, 2002; Holloway and Wheeler, 1991) revealed corporate centre relocations within nation-states and between US States. However, relocations across national borders were found to be relatively scarce. Corporate centres do relocate but most times not internationally. Why do corporate centres seem to be sticky and stay at home? Our conceptual framework of the determinants of corporate centre location may contribute to answering this important question: one or several determinants may inhibit cross-border relocations. For example, the ' stickiness' of corporate centres may be the result of company-specific determinants. The legacy, that is, path dependencies may explain why corporate centres stay at home. Furthermore, industry-specific and metropole-specific determinants may provide an explanation why corporate centres do not relocate. Corporate centres that are already located in a metropole with many advantages are less inclined to relocate. Nation- and region-specific determinants may contribute to explaining the stickiness of corporate centres. In particular, company legislation may inhibit relocation across nations. In the European Union the legal barriers to cross-border relocation of corporate centres are up till now perceived as 'insurmountable.' The impact of this last determinant may change in the near future. The European Commission intends to present in the short term (2004) a proposal for a 'Fourteenth Company Law Directive on Transfer of the Registered Office' enabling relocation of corporate centres across the European Union (European Commission, 2003b). The proposal is faced with the task of solving difficulties relating to board structure and employee participation (European Commission, communication, 2003b). These difficulties refer to the nation- and region-specific determinants of corporate centre relocation, in particular to corporate governance (see Figure 3).

Based on the evidence from previous studies on the cross-state relocations between metropolitan centres in the United States, and based on our framework, we propose that in the future cross-nation corporate centre relocations will occur in the European Union if the plans of the European Commission to remove legal barriers (e.g. harmonization of company law, labour law, company tax, and other relevant legislation) against corporate centre relocations are implemented. Freed from these specific barriers at the national and regional level, top management of European companies can base corporate centre location decisions on the other determinants of the framework, that is, the firm-specific, the industry-specific, the metropole-specific and the other nation- and region-specific determinants.

Research Limitations and Future Research

Clearly, further research is needed. This study provides preliminary evidence on corporate centre relocation, but more work needs to be done. So far we have assumed the corporate centre as a whole. We found very few relocations of corporate centres as a whole. However, corporations may relocate certain *functions of their corporate centre*. For example, Ahold relocated its Treasury and Corporate Finance Department from its corporate centre in the Dutch city of Zaandam to its new financial centre, Ahold Finance Group Suisse, in Geneva, Switzerland (Ahold, 17 April 2002). The cost and benefits of relocation may differ by corporate centre function. Our framework only considers the centre as a whole. Future research may analyse the forces for relocation by corporate centre function.

Finally, corporations may relocate their *divisional or business unit centres* instead of their corporate centres. An example is the division Organon of Akzo-Nobel which was relocated in 2002 from the Dutch city of Oss, where the company was founded in 1923, to the centre of activity of the drug industry; New Jersey, United States. 'By establishing an international headquarters in the US, the company will ensure a strong focus on the US market and help to build its position there. This location will also provide better options to partner with various technology and health care oriented companies, primarily based in The United States' (Organon 25 April, 2001). Cross-border relocations of divisional or business unit centres may be an interesting topic for future research.

Conclusion

In this paper we faced the paradox of, on the one hand, the international mobility of the corporate businesses, like transferring manufacturing activities abroad, and, on the other hand, the stickiness of the corporate centre within national boundaries. Corporations may expand their international sales and relocate functions like IT and R&D abroad but relocations of corporate centres are most times confined to national borders. Empirical research reveals that in the United States corporate centre relocations between States are common, while in the European Union cross-nation relocations are almost absent. To contribute to a managerial understanding of these phenomena, we propose a conceptual framework of the determinants of corporate centre location. We have identified four categories of determinants: firm-specific determinants, industry-specific determinants, metropole-specific determinants, and nation- and region-specific determinants. These determinants may explain why corporate centres are sticky in general.

Nation- and region-specific determinants, to be more precise, company legislation, may be an insurmountable barrier to cross-nation corporate centre relocations within the European Union. We predict the stickiness of corporate centres in the European Union will diminish if the European Union integration process proceeds and, in particular, if the expected EU proposal for the 'Fourteenth Company Law Directive on the Transfer of the Registered Office' regarding the removal of legal barriers will be implemented. The time that European corporate centres were sticky and stayed at home because of these legal barriers may soon be over. Both national and EU governments and EU companies should take the determinants of corporate centre location into account to prepare for future developments.

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