

## WHY DO SOME MULTINATIONAL CORPORATIONS RELOCATE THEIR HEADQUARTERS OVERSEAS?

JULIAN BIRKINSHAW,<sup>1\*</sup> PONTUS BRAUNERHJELM,<sup>2</sup> ULF HOLM,<sup>3</sup> and SIRI TERJESEN<sup>4</sup>

<sup>1</sup> Advanced Institute of Management Research and London Business School, London, U.K.

<sup>2</sup> Department of Transport and Economics, Royal Institute of Technology, Stockholm, Sweden

<sup>3</sup> Department of Business Studies, Uppsala University, Uppsala, Sweden

<sup>4</sup> Brisbane Graduate School of Business, Queensland University of Technology, Brisbane, Australia, and Max Planck Institute of Economics, Entrepreneurship, Growth and Public Policy, Jena, Germany

*This paper examines the decision by a multinational corporation (MNC) to relocate its business unit and/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 and the demands of the product markets in which they operate, whereas corporate HQs move overseas in response to the demands of external stakeholders, in particular global financial markets and shareholders. Using data on 125 business unit HQs and 35 corporate HQs, we test and find 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. Copyright © 2006 John Wiley & Sons, Ltd.*

This paper examines the decision by a multinational corporation (MNC) to locate its corporate or business unit headquarters overseas. It is concerned with understanding the factors that lead the executives of the MNC to shift their headquarters away from the traditional home country of operation, and in particular how the drivers for *corporate HQ* relocation are different from the drivers of *business unit HQ* relocation. The study is motivated by three lines of argument.

First, the research contributes to our understanding of the role of the corporate HQ in the multi-business firm. There is a well-established distinction in the strategic management literature between

business unit strategy (concerned with the competitive positioning of a business within its chosen industry domain) and corporate strategy (which defines the scope of businesses in which the firm participates, and the ways in which value is added across those businesses; Bourgeois, 1980; Chandler, 1991; Hofer and Schendel, 1978). Research has examined the differences between these two levels of analysis, in terms of the *content* of strategy and the *process* of strategy-making. The current research continues in this tradition by focusing on the different roles of business unit and corporate HQs in a multinational corporation, and in particular on their relationships with various internal and external stakeholders. By examining the drivers of HQ relocation decisions, we are able to show that business unit HQs move overseas in response to changes in the *internal* configuration of their unit's activities and the demands of the product markets in which they operate, whereas corporate HQs move overseas in response to the

Keywords: multinational corporation; headquarters; corporate strategy; internationalization

\* Correspondence to: Julian Birkinshaw, London Business School, Regent's Park, London NW1 4SA, U.K.  
E-mail: jbirkinshaw@london.edu

demands of *external* stakeholders, in particular global financial markets and shareholders. This externally facing role is potentially an important addition to our understanding of the role of the corporate HQ in the multi-business firm (cf. Chandler, 1991; Foss 1997; Goold, Campbell, and Alexander, 1994).

Second, geographical location affects firm competitiveness, so any decision to relocate specific activities overseas is potentially very important to the future success of the MNC. There are well-established theories of agglomeration in the literature, and it is now accepted that proximity to specialized labor, complementary suppliers and customers, and access to knowledge spillovers are all important benefits to the firm (Marshall, 1890; Porter, 1990). However, the focus of prior research in this area has been primarily at the business unit level of analysis—it is concerned with the nature of the interaction between competing and complementary businesses within a region, and the affect of agglomeration on business competitiveness (Malmberg, Sölvell, and Zander, 1996; Porter, 1990; Saxenian, 1994). In contrast, there has been little if any research concerned with the geographical relocation of the *corporate* HQ, and yet this issue is potentially of great importance because of the vital role the corporate HQ plays in mediating the relationship between the business units of the MNC and its external stakeholders.

Finally, the phenomenon of HQ relocation is on the rise, and as such it merits careful academic consideration. 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 percent of all business units located outside the home country (Forsgren, Holm, and Johanson, 1995). The trend toward relocation of *corporate HQ* overseas, in contrast, is relatively recent. Early examples were Massey Ferguson, which in 1986 moved its HQ from Canada to the United States and renamed itself Varity; and Tetra Pak, which moved its HQ from Sweden to Lausanne, Switzerland, in 1981. 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; Nokia's decision to move its corporate finance activities to New York in 2004; News Corporation's 2004 relocation of its corporate HQ

from Australia to New York; and U.S. company Viatron's move of its worldwide HQ to the Netherlands (UNCTAD, 2003). In terms of the prevalence of this phenomenon, there is no definitive data. A report from UNCTAD (2003) suggested a 'world market for corporate headquarters' is emerging, and provided many recent examples of business unit and corporate HQ relocations. A study by Arthur D. Little (2003) found that more than 200 MNCs had moved HQ activities to Switzerland.<sup>1</sup> We conducted our own analysis of the *Fortune* 500 list of global companies, and found that around 23 of them had shifted their entire HQ overseas.<sup>2</sup> This number is low, but it understates the extent of the phenomenon because it misses cases of specific functional activities moving overseas (e.g., Nokia). Moreover, there is evidence that HQ relocation is becoming increasingly important: in the Arthur D. Little (2003) study, 59 percent of all relocation events had taken place in the period 1999–2001, and in our own analysis more than half of the 23 cases occurred in the last 5 years. We therefore argue it is important to make sense of the phenomenon now, to help guide businesspeople in their decisions, and to help frame the public policy debate around corporate relocations.

In sum, the purpose of this paper 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 discuss 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

<sup>1</sup> Most of these were regional or international HQs, but 30 were all or part of a global corporate HQ.

<sup>2</sup> We analyzed 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; United Kingdom, 4; Finland, 2; Canada, 3; South Africa, 4; Australia, 2.

the 'M-form' organization, 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, 1955; 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 specialized roles to emerge for the executives responsible for the business unit and corporate HQ, respectively (Hofer, 1975; Vancil and Lorange, 1975).

Today, the respective roles of business unit and corporate HQ are clearly established. *Business unit HQ* is responsible for the formulation and implementation of 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). *Corporate 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 the entrepreneurial role is also more discretionary, and the extent to which it is pursued varies enormously from company to company (Goold, Pettifer, and Young, 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' 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's entrepreneurial role, and varies enormously in size from tens to thousands of people; and 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. Of these three, it is arguable whether shared services are part of the corporate HQ *per se*, and indeed in many cases they are either outsourced or managed as separate profit centers. 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, Collis, and Goold, 2002; Goold *et al.*, 1994, 2001; Markides, 2001).

With regard to *business unit HQ*, there is a well-established literature concerned with such activities as decision making, strategic planning, and strategic thinking (e.g., Mintzberg, 1994; Porter, 1980) 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 vary 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). At the corporate level, there is an established line of work on corporate HQ relocation, but its focus is largely on the costs and benefits of agglomeration, and it is concerned primarily with relocations within a given city or region (Alli, Ramirez, and Yung, 1991; Ghosh, Rodriguez, and Sirmans, 1995; Semple and Phipps, 1982). There is also a body of literature concerned with the motivations for listing the MNC's stock overseas (Bancel and Mittoo, 2001; Coffee, 2002; Foerster and Karolyi, 1999; Pagano, Roell, and Zechner, 2002; Saudagaran and Biddle,

1995; Salva, 2003). However, none of these studies examines the reasons for locating the corporate HQ itself in another sovereign nation (Baaij, Van den Bosch, and Volberda, 2004).

### 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 co-located, but increasingly we see some separation. As we shall describe below, it is relatively common at a corporate level for the firm to create a shell holding company in an offshore location because of tax advantages, or to move one or more corporate functions away from the traditional center for a variety of reasons. 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 governance and corporate strategy literatures.

#### Predictors of business unit HQ relocation

The theory of the multinational corporation (Dunning, 1981; Rugman, 1981) suggests 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.

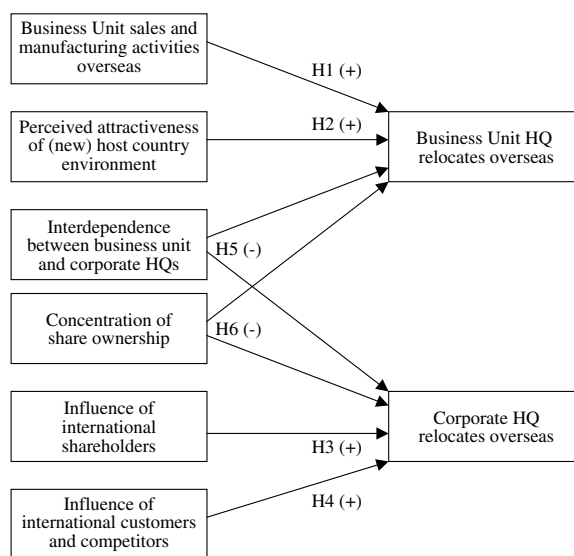


Figure 1. Conceptual framework

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, 1995). 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 center 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 this 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 centers, 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 multifaceted. 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's *business climate* (in comparison 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's business climate 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 (Hypotheses 1 and 2) 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 business climate in the 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 financial markets and shareholders. 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 *et al.*, 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 recognized that corporate HQ has an important value-adding role to play in managing relationships with the financial markets and shareholders. We also consider the MNC's global customers and competitors as a relevant set of stakeholders for the corporate HQ to concern itself with. While it could be argued that these are the exclusive concern of business units, our preference is to include them in our analysis, because there is already strong anecdotal evidence that corporate HQ plays an active role in relating to such global customers and competitors. For example, when Ericsson moved several corporate HQ activities to London in 1999, one of the stated advantages of London was the presence of major global 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).<sup>3</sup>

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 globalization 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 capital 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. 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 the corporate HQ to be co-located with its business units. Instead, the location of the corporate HQ is potentially mobile and 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 capital markets, the other concerning international customers and competitors.

Consider the international capital markets first. 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 some or all of its HQ activities overseas. As with business unit headquarters, there are three interrelated sets of reasons for such a shift to occur.

First, there may be significant efficiency gains. One obvious set of benefits for the MNC, if its new HQ is in a major financial center, is that it can have more efficient and direct communication with institutional shareholders, analysts, and investment banks. A second and perhaps more important set of benefits relate to the quality of access to capital markets. By moving the corporate HQ to a major financial center, the MNC increases its visible presence in that market, and investors become more familiar with its stock. This can result in greater liquidity for the stock and a broader shareholder base (Foerster and Karolyi, 1999; Merton, 1987; Noronha, Sarin, and Saudagaran, 1996; Pagano *et al.*, 2002).

<sup>3</sup> We could also have included other external actors in this analysis, including the labor market for executives and NGOs, but as we do not examine these factors in our empirical research, they are not given further attention here.

Second, there are likely to be strategic benefits. By moving its corporate HQ overseas, the MNC is making a visible commitment to the laws and regulations of its new host country, including its capital market regulations, its intellectual property rules, and its taxation regime. By making such a commitment, the MNC potentially benefits from the higher-quality legal and regulatory regime it is operating under (e.g., in terms of patent protection). It also sends a signal to investors that it is operating with high standards of corporate governance (Laporta *et al.*, 2000; Salva, 2003), which in turn offers certain important benefits. For example, it has been noted in the finance literature that 'companies from cultures with poor legal standards can secure a lower cost of capital by subjecting themselves to tighter standards, thus reducing the agency costs of external finance' (Pagano *et al.*, 2002: 2657).

Depending on the choice of location, additional strategic benefits to the MNC may be greater proximity to specialized 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 centers, 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 the corporate HQ, as a means of signaling 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 organizations 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 behavior does not assume the HQ will move to a major financial center; the benefits are in terms of the signal it sends about moving out of its traditional home country. It is also worth noting that such a move 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 influence of global capital markets, the greater the likelihood of corporate headquarters moving overseas. Specifically, (a) the higher the percentage of foreign shareholders, the greater the likelihood of corporate headquarters moving overseas; and (b) the existence of the MNC's primary listing overseas is associated with a greater likelihood of corporate headquarters moving overseas.*

The other set of external stakeholders consists of international customers and competitors, both of which 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, Toulan, and Arnold, 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 the 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. For example, News Corporation's relocation to New York and Boeing's relocation to Chicago were both predicated in part on higher-quality 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 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.*

### Constraints on HQ relocation overseas

The final set of hypotheses is concerned with factors that constrain the relocation of business unit and corporate HQs overseas. Building on the theoretical arguments developed above, we examine two in particular: the relationship between the corporate HQ and the business units of the MNC, and the share ownership structure of the MNC.

Consider first the relationship between corporate 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 center (Goold and Campbell, 1987). 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, 1998).

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 characterized 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.*

Finally, consider the effect of corporate ownership structure. In the development of Hypothesis 3, we noted that the shareholders of the MNC potentially value the increased liquidity, accountability, and transparency that comes from shifting the corporate HQ to certain overseas markets (e.g., from a small country like Sweden to the United States or the United Kingdom). However, there are many different corporate ownership models in existence, so it is important to explicitly consider the conditions under which this argument holds true. Pedersen and Thomsen (1997), for example, distinguish between: (a) dispersed ownership, in which no single owner owns more than 20 percent of the shares; (b) dominant ownership, in which one owner owns between 20 and 50 percent of the voting rights; and (c) family or government ownership, in which one family or the national government owns a voting majority of the firm. Our approach is to view these different types of ownership structure on a continuum that is determined by the percentage of voting rights held by the largest single investor in the company.<sup>4</sup> At one end of the continuum ownership is dispersed (i.e., the stock is 'widely held'). In this situation, all investors are minority owners with minimal monitoring rights over the actions of corporate managers (Jensen and Meckling, 1976), and agency concerns about expropriation of free cash flow are clearly valid. At the other end of the continuum, ownership is 100 percent concentrated in the hands of one family or the national government. In such cases, concerns about agency costs do not really apply: either the owners and the managers are one and the same; or the owner is viewed as being an 'insider' who is potentially working in collaboration with the firm's managers

<sup>4</sup> We also tried measuring corporate ownership using three categorical variables as suggested by Pedersen and Thomsen (1997). However, this approach is inferior because it collapses a continuous variable into three categories where the break points (20%, 50%) are somewhat arbitrary.



in expropriating some of the returns on their investment (La Porta *et al.*, 2000). Either way, the putative benefits of moving HQ overseas in terms of increased stock liquidity or regulatory disclosure are unlikely to apply. Moreover, there are likely to be emotional and/or political factors that constrain the relocation of HQ operations overseas in such cases. National governments have to be seen to protect jobs for their people, which is likely to mean the retention of all HQ operations (corporate and business unit) in the home country. Similarly, family owners will often have deep roots in their local communities and an interest in preserving job opportunities for their extended family. All of this suggests the hypothesis that the concentration of corporate ownership will constrain the movement of HQ overseas. More formally:

*Hypothesis 6: The more concentrated the ownership of the MNC (in terms of the percent shareholding of the largest shareholder), the lower the likelihood of corporate headquarters or business unit headquarters moving overseas.*

## RESEARCH METHODOLOGY AND DATA

### Sample

The research was conducted in the 40 largest Swedish MNCs. Sweden represented an appropriate setting because as a small, open economy, its firms were very early to internationalize, 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 *et al.*, 1995), and a smaller—but significant—number began to move corporate headquarters overseas.

We identified the largest 40 Swedish MNCs by sales volume.<sup>5</sup> ‘Swedish’ in this context meant companies that grew from a Swedish base, and that were still recognizably 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 40 companies we approached, 35 agreed to participate in 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.<sup>6</sup> 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 (Invest in Sweden Agency, 2001).

It is worth reviewing briefly the nature of corporate governance in Sweden. Sweden conforms to the Scandinavian civil law model in which outsider investor rights protection is weaker than common law countries such as the United States or the United Kingdom, but stronger than French civil law countries (La Porta *et al.*, 2000). Swedish companies have traditionally favored a dominant minority ownership structure, partly as a consequence of a German-style industrialization process in which banks and entrepreneurs played a major role (Pedersen and Thomsen, 1997). Up to

<sup>5</sup> 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.

<sup>6</sup> We decided *not* to ask about regional HQs, which typically fulfill certain corporate HQ roles but on a regional rather than global basis. Our reasoning was that by definition regional HQs are located in a certain region, so the choices about location are qualitatively different from those facing the global corporate HQ. In addition, some MNCs have no regional HQs, some have just one, and others have several, so to include them would have created a lot of additional complexities in design.

the beginning of the 1990s the corporate sector was dominated by a few large holding companies (most notably Investor AB, controlled by the Wallenberg family), and a significant number of family-owned and government-controlled companies, with fewer than 10 of the top 100 conforming to the dispersed ownership model (Pedersen and Thomsen, 1997). Over the last decade the situation has begun to change, with the privatization of government-owned companies, acquisitions of several well-known Swedish companies by foreign MNCs, and increasing levels of share ownership among the population. In our study, seven of the 35 companies were controlled by the national government or a single family, 16 had a dominant shareholder (20–50% of the voting shares), and 12 had dispersed ownership.

### 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 question is frequently chosen for highly case-specific reasons, such as tax reduction (as in the case of Tetra Pak moving to Switzerland), or to guard against foreign interference (SABMiller and Anglo American moving to London). 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 teams 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.<sup>7</sup>

- *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 ( $r = 0.51$ ,  $p < 0.001$ ) so they were combined to form a single scale.
2. *Perceived attractiveness of business climate for business unit HQ location.* Business unit-level respondents were asked to rate the characteristics of the local business climate, 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

<sup>7</sup> We also measured the *number of HQ employees* overseas for the corporate HQ. This was correlated 0.93 with percent of functions overseas.

- 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.<sup>8</sup> These two numbers were highly correlated ( $r = 0.55$ ,  $p < 0.01$ ), 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 and Berry (1979), which considers the breadth of 3-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:

$$\sum_i P_i \ln(1/P_i)$$

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 3-year period, for the following categories: (a) top team managers; (b) technical experts; (c) business managers; (d) skilled labor. We calculated an average of all these numbers ( $\alpha = 0.81$ ) to create an *employee flow index*.

6. *Dispersed ownership of MNC.* We used the company's share register for 1999 to identify the name and holding of the largest shareholder. From this, we created a single measure of the percentage of voting shares held by this shareholder, ranging from 6 to 100 percent.

### 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.<sup>9</sup> We also controlled for *corporate sales volume* in 1999 (measured in million SEK).

For Hypotheses 3 and 4, we used the relevant corporate level control data in the business unit analysis. For example, we took the percentage of foreign shareholders in Sandvik, and assigned this

<sup>8</sup> 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 toward or against one particularly nationality of competitors.

<sup>9</sup> 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.

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 accounting for 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 close to 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 internationalization 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 5 years, so we concluded that the measure would not help us to discriminate between those MNCs whose HQs moved overseas vs. 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, OLS regression, and logit results for the corporate-level data.

Consider the business unit-level analysis first. Model 1 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 31 percent of the variance and is highly significant ( $F = 5.47$ ,  $p < 0.001$ ). 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.

Hypothesis 1, that the percentage of the business unit's activities overseas is associated with

business unit HQ moving overseas, was strongly supported ( $p < 0.01$  in both models). Hypothesis 2, that the perceived attractiveness of the new location is associated with business unit HQ moving overseas, was also strongly supported ( $p < 0.01$  in both models).

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 was little useful insight to be gained: only two variables—the percentage of international shareholders, and a primary stock exchange listing outside Stockholm—were significantly higher in the group of firms with overseas HQs.

More insight was gained from the second analysis (Table 4), in which the dependent variable was the percent of corporate HQ functions overseas. Hypothesis 3—the influence of the global capital markets is associated with corporate HQ moving overseas—was strongly supported. Both the percent of foreign shareholders (Hypothesis 3a) and a primary stock exchange listing outside Stockholm (Hypothesis 3b), were significant ( $p < 0.01$  for both).

Hypothesis 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, we explored a third operationalization of corporate HQ location, namely the percentage of HQ employees working outside Sweden. This was highly correlated ( $r = 0.93$ ,  $p < 0.01$ ) with the percentage of HQ functions outside Sweden. It yielded similar results to above: Hypothesis 3 was strongly supported, and Hypothesis 4 was not.

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 emphasizing because it reinforces the insight that

Table 1.

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

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1. Legal domicile overseas	0.17	0.38										
2. Percent corporate HQ functions overseas	0.10	0.21	0.90**									
3. Percent corporate HQ employees overseas	0.15	0.27	0.93**	0.93**								
4. Percent foreign shareholders	28.60	22.20	0.38*	0.50**	0.35*							
5. Primary exchange overseas	0.18	0.39	0.46**	0.50**	0.49**	0.29						
6. Percent customers/competitors outside Sweden	34.20	15.50	0.25	0.35*	0.28	0.22	0.16					
7. Entropy measure of Diversification	0.62	0.45	0.05	-0.02	0.09	-0.09	-0.14	-0.02				
8. Concentration of share ownership	34.80	28.20	-0.08	-0.11	-0.07	0.37*	0.16	-0.36*	-0.29			
9. Percent sales and manufacturing units overseas	50.20	31.40	0.28	0.25	0.36*	-0.04	0.01	0.53**	0.05	0.06		
10. Perceived attractiveness Swedish environment (rv)	40.14	0.77	-0.03	-0.19	-0.04	-0.13	-0.23	-0.47*	0.11	0.216	-0.03	
11. Sales volume MSEK	35,652	34,693	0.06	0.09	-0.01	0.24	-0.04	0.32	0.12	-0.18	0.09	-0.13

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

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1. Business unit top management overseas (0 = no, 1 = yes)	0.32	0.47											
2. Percent business unit HQ functions overseas	0.36	0.44	0.81**										
3. Percent sales and manufacturing units of business unit overseas	0.74	0.32	0.45**	0.49**									
4. Perceived attractiveness of local environment	4.30	0.72	0.21*	0.14	-0.08								
5. Flow of employees between business HQ & corporate HQ	0.79	40.2	0.09	0.09	-0.08	0.08							
6. Concentration of share ownership	28.70	18.50	-0.10	-0.20*	-0.13	0.10	0.09						
7. Corporate percent foreign shareholders	0.31	0.20	-0.04	0.04	0.02	-0.01	-0.12	-0.20*					
8. Corporate percent customers/competitors outside Sweden	0.84	0.16	0.20*	0.18	0.31**	-0.15	-0.09	-0.14	0.32**				
9. Corporate percent sales and manufacturing units overseas	0.56	0.31	0.26*	0.25**	0.31**	-0.09	-0.13	0.10	0.31**	0.72**			
10. Corporate entropy measure of diversification	0.70	0.42	-0.08	0.06	0.02	-0.05	0.14	-0.16	0.18	0.05	0.06		
11. Corporate sales volume	38,400	31,400	-0.01	-0.04	0.03	0.14	-0.01	-0.32*	-0.05	0.07	-0.08	0.04	
12. Business unit sales volume as percent of corporate	14.10	120.60	-0.00	0.10	0.13	-0.11	0.02	-0.01	0.34**	0.26**	-0.01	0.30**	0.09

\*  $p < 0.05$ ; \*\*  $p < 0.01$

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 manufacturing units of business overseas (H1)	0.382***	11.29 (3.38)**
Perceived attractiveness of local environment (H2)	0.253**	1.38 (0.51)**
Flow of employees between business and corporate HQ (H5)	−0.166*	−0.148 (0.69)*
Concentration of share ownership (H6)	−0.210*	−0.005 (0.020)
Corporate % foreign shareholders	−0.067	2.21 (1.90)
Corporate % customers/competitors outside Sweden	−0.090	2.62 (3.53)
Corporate percent sales and manufacturing units overseas	0.241†	1.92 (1.72)
Corporate entropy measure of Diversification	0.035	−1.20 (0.79)
Corporate sales volume	0.080	0.00 (0.00)
Business unit sales volume as percent of corporate	0.030	0.00 (0.029)
$R^2$ /Adjusted $R^2$	0.376/0.307	
$F$ -test	5.470***	
−2 log-likelihood		65.6
Pseudo $R^2$		0.443/0.629
Percent classified correctly		84.3%

OLS regression values are standardized beta coefficients; logit values are beta coefficients with standard errors in parentheses.

†  $p < 0.10$ ; \*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\* 0.001

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 (H3a)	24.70	46.30	−2.29*
Primary exchange overseas (H3b)	0.11	0.60	−2.87**
Percent customers/competitors outside Sweden (H4)	32.4%	42.7%	−1.54
Percent ownership of largest shareholder (H6)	35.8%	30%	0.38
Entropy measure diversification (H5)	0.61	0.66	−0.27
Percent sales and manufacturing units overseas	46.30	69.10	−0.165
Perceived attractiveness Swedish environment <sup>a</sup>	4.15	4.09	0.163
Sales volume MSEK	34,773	39,901	−0.33

\*  $p < .05$ ; \*\*  $p < 0.01$

<sup>a</sup> For quality Swedish location a larger number means a more attractive Swedish location, which is the opposite directionality to all other variables.

business unit and corporate HQ location decisions are driven by very different factors.

Hypotheses 5 and 6 were tested at both business unit and corporate levels of analysis. Taking Hypothesis 5 first, the level of employee flows between business unit and corporate HQ were found, as predicted, to have a negative relationship with business unit HQ moving overseas ( $p < 0.05$ ).<sup>10</sup> However, the level of corporate

diversification (entropy measure) was not found to have a significant effect on the corporate HQ moving overseas. Thus Hypothesis 5 is only supported at the business unit level.

Hypothesis 6, in contrast, receives support at both levels of analysis. In Table 2, dispersed ownership is significantly associated with the business unit HQ moving overseas ( $p < 0.05$ ), and in Table 4 dispersed ownership is significantly associated with the corporate HQ moving overseas ( $p < 0.10$  in Model 1;  $p < 0.05$  in Model 2).

units that stay close to their corporate HQ will be more likely to engage in employee flows.

<sup>10</sup> 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

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 (H3a)	0.518**	0.358*
Primary exchange overseas (H3b)	0.438**	0.536**
Concentration of share ownership (H6)	-0.285†	-0.359*
Entropy measure diversification (H5)	0.172	0.218
Percent sales and manufacturing units overseas	0.185	0.268
Perceived attractiveness Swedish environment <sup>a</sup>	0.030	0.206
Percent customers outside Sweden	0.019	0.039
Sales volume MSEK	-0.176	-0.250†
$R^2$ /Adjusted $R^2$	0.654/0.528	0.655/0.529
$F$	5.91**	5.22**

Values are standardized beta coefficients.

†  $p < 0.10$ ; \*  $p < 0.05$ ; \*\*  $p < 0.01$

### Additional analysis

In addition to the quantitative data that informed our statistical analysis, we collected some additional information through the quantitative survey and a series of interviews in seven MNCs. In this section we report on some of this data to shed some light on the *mechanisms* through which HQs move overseas. The anecdotal nature of this data precludes definitive answers to these issues, but we can nonetheless offer some exploratory insights. Specifically, we identified three types of stimulus that ultimately led to the relocation of certain HQ activities (business unit and corporate) overseas.

1. *Stimulus: merger or acquisition.* In this process, the decision to engage in a merger or acquisition with a foreign company led to negotiations about the location of the new corporate and business unit HQs. At the business unit level, acquisitions often led to establishment of HQs abroad, such as Atlas Copco's Industrial Tools business in the United States, and Volvo's construction equipment business in Belgium. At the corporate level, the merged company HQ sometimes stayed in Sweden (e.g., Avesta merged with British Steel's stainless business to create Avesta Sheffield, headquartered in Stockholm), sometimes relocated overseas (e.g., Astra merged with Zeneca, and moved its HQ to London), and sometimes resulted in a split HQ (e.g., Sweden's Stora merged with Finland's Enso to create Stora Enso, with HQ functions split between Stockholm and Helsinki).

In all such cases, the choice of the new HQ location was typically constrained by the existing locations of the merging firms (one exception was Sweden's Pharmacia merging with U.S.'s Upjohn, and the decision to locate the corporate HQ in Windsor, U.K.). However, within these constraints, the location choices were broadly as hypothesized. Business unit HQs typically moved to the location that was closest to the center of gravity for the merged operation and/or to an industrial cluster. For example, when Asea merged with Brown Boveri in 1990, the software-based Process Automation business unit was relocated to Stamford, CT (close to many major industrial customers), while the Metallurgy business was located in central Sweden (close to Swedish steel companies Sandvik, SSAB, and Avesta). Corporate HQ locations were typically influenced by access to the capital markets or to global competitors. Thus, AstraZeneca ended up in London (a major financial center and pharmaceutical industry hub), whereas Avesta Sheffield ended up in Sweden (in the Swedish steel cluster).<sup>11</sup>

<sup>11</sup> It is worth noting that we evaluated the level of foreign share ownership before and after merger in cases where we could gain access to the information. The figures were: Stora pre-merger 23 percent/post-merger 56 percent; Nordbanken pre-merger 20 percent/post-merger 57 percent; Astra pre-merger 40 percent/post-merger 75 percent; Avesta pre-merger 30 percent/post-merger 65 percent. These numbers show the predictable increase in foreign ownership after an international merger; they also suggest that Astra, because of its higher pre-merger foreign

2. *Stimulus: internal analysis.* The trigger for this process was invisible to the outside observer, but it typically followed lengthy internal analysis about the company's positioning in the global marketplace. Two versions of this process could be identified, one more common at the business unit level, the other more common at the corporate level. The first (2a) was stimulated by a *shift in the center of gravity of the business*. This occurred in several business unit cases: for example, Sandvik moved its Process Systems business unit HQ to Germany as a response to the needs of their major customers, and because that was the location of most of its major customers. There were also occasional examples of corporate HQs moving on this basis. Esselte, the Swedish office services company, moved its corporate HQ to London in 2000 because its UK-based business unit had become the dominant part of its overall portfolio. Similarly, Rupert Murdoch's decision to transfer the corporate HQ of News Corporation to New York in 2004 (from Melbourne, Australia) was a belated recognition that the assets of the company were now based predominantly in New York and London. The relocation of HQ in pursuit of other corporate activities (Hypothesis 1) therefore occurs at both business unit and corporate level, but the earlier quantitative evidence suggests it is relatively rare at corporate level.

The internal process was also stimulated by a *shift in the global outlook of the MNC* (2b). It was observed only at the corporate level. For example, Ericsson relocated its HR and corporate communications functions to London in 1998. The reasons given by CEO Lars Ramqvist for the move were proximity to the financial markets (53–55% of the company's shares were held by foreigners before and after the event), access to global customers, ease of travel, and the increased ability to hire non-Swedish executives. Underlying factors included the desire to build a more cosmopolitan image for the company, and some dissatisfaction with the Swedish business climate. Autoliv, the automobile security company, moved some corporate functions to the United States in 1997, and then followed with

the rest of the HQ in 1999. Again, many reasons were behind this move, including better access to financial markets and to global customers. It is worth noting that Autoliv's non-Swedish share ownership dropped from 62 percent in 1997 to 58 percent in 2000, so the high level of foreign ownership was a cause, not a consequence, of the HQ relocation. Nokia's recent decision to relocate its corporate finance function to New Jersey also conformed to this model.

3. *Stimulus: external threat from host regime.* This process again primarily relates to corporate HQs moving overseas, with no evidence of it affecting business unit HQ relocation. Here, the decision to relocate certain HQ functions was driven by concerns over the regulatory regime in the host country. Tetra Pak's decision to move its HQ to Lausanne, Switzerland, for example, was spurred in part by the owners' (the Rausing brothers) tax disputes with the Swedish government. The relocations of SABMiller and Anglo American to London fell into this category, in that they were seeking to conduct their business affairs in a low-risk environment following the arrival of ANC rule in South Africa. Indian pharmaceutical company Aurobindo's decision to relocate its HQ to Boston was driven in large part by the more stringent patent regulations for drug development in the United States. In terms of the theoretical discussion earlier, these examples (and particularly SABMiller and Anglo American) are clearly consistent with the argument that MNCs move to locations with stricter laws and regulations, as a way of enhancing their global standing. Unfortunately it is not possible to estimate how common each of these processes is across the sample of Swedish companies. Some cases probably represent combinations of two of these processes (for example, Autoliv's relocation to the United States was driven by an increasing customer base in the United States, a desire to signal its presence as a global competitor, and an earlier acquisition of a U.S. company). In other cases we unfortunately do not know the detailed story behind the HQ relocation decision. This discussion should therefore be seen as exploratory, and as an attempt to shed some light on a set of processes that are not well understood. Future studies will hopefully examine these processes in more detail and in

---

share ownership, was the most likely candidate for having its HQ move overseas.



other contexts to establish whether we have covered the full set of mechanisms by which MNCs move their HQs overseas.

## 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 favorable business climate) 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 (in business climate terms) than the host country, but instead as a response to the perceived demands and opportunities offered by overseas shareholders and capital markets. This is the key finding from the research: it 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. Third, though with somewhat weaker evidence, we found that the extent to which corporate and business unit HQs move overseas is *constrained* by the concentration of share ownership of the MNC and to some extent by the interdependence between the two levels of HQ. 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 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 three interesting theoretical points that emerge from this research. The first is the distinction between the internally and externally facing

roles of the corporate HQ. Up to now, 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 the corporate HQ that explores the multiple external relationships that the HQ builds with stakeholder groups, while also continuing to recognize the importance of the administrative and entrepreneurial elements of the role. 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 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.

Third, it is interesting to speculate on the idea that MNCs can *internationalize with regard to the capital markets*, to parallel the classic line of thinking about internationalization *vis-à-vis* the product markets (Johanson and Vahlne, 1977). MNCs have a range of ways in which they can increase their visibility and relationships with major shareholders and financial institutions, from depositary receipts through a full overseas listing to a relocation of the corporate HQ to a global financial center. While different in many ways, these approaches can be viewed as a series of steps, each involving a higher investment and a greater level of commitment to the global capital markets, but offering important rewards in terms of the costs of borrowing, the liquidity of the stock, and the effectiveness of the MNC's corporate governance.

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 policy-makers, 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 policy-makers 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). 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. The appropriate countries for such a study can be readily identified. Given the regional focus of most MNCs (Rugman and Verbeke, 2004), there are likely to be relocations of HQs from smaller European countries (Finland, Denmark, Netherlands) to larger European countries; from Canada to the United States; and from smaller developed economies in other regions (Australia, South Africa, Singapore) to major financial centers. The large emerging economies such as Mexico, China, Brazil, and India also represent a fascinating context in which to study this phenomenon, and there are already a few cases of MNCs from such countries moving their HQs to major financial and commercial centers, such as the Indian pharmaceutical firm Aurigene.

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 and nothing more. 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 skeptical about such models, this is certainly an area where practice is continually changing, and therefore where additional research is needed.

The third limitation is the cross-sectional nature of the data, which prevented us from establishing causal relationships in our analysis. We were able to collect data on the timing of share ownership changes in a few cases, and this showed that the corporate HQ typically moves after foreign share ownership has increased, but it would be very useful to build a systematic body of data on such changes, and to examine them over the entire sample.

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 financial 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.

## ACKNOWLEDGEMENTS

An earlier version of this paper was presented at the 2002 annual meeting of the Academy of International Business. We would like to thank two anonymous SMJ reviewers, Associate Editor Karel Cool, Marcus Alexander, Michael Jacobides, Phanish Puranam, and AIB conference participants for their helpful comments. This research was funded by the Invest in Sweden agency.

## REFERENCES

- Alli KL, Ramirez GG, Yung K. 1991. Corporate headquarters relocation: evidence from the capital markets. *American Real Estate Urban Economics Association Journal* **19**(4): 583–599.
- Arthur D. Little. 2003. Headquarters are on the move. Research report. Available: [http://www.adl.com/insights/studies/pdf/global\\_regional\\_hq\\_benchmarking.pdf](http://www.adl.com/insights/studies/pdf/global_regional_hq_benchmarking.pdf) [22 February 2006].
- Baaij M, Van den Bosch FAJ, Volberda HW. 2004. The international relocation of corporate centres: are corporate centres sticky? *European Management Journal* **22**(2): 141–149.
- Bancel F, Mittoo UR. 2001. European managerial perceptions of the net benefits of foreign stock listings. *European Financial Management* **7**(2): 213–236.
- Bartlett C, Ghoshal S. 1989. *Managing across Borders*. Harvard Business School Press: Boston, MA.
- Birkinshaw J, Hood N. 1998. Multinational subsidiary development: capability evolution and charter change in foreign-owned subsidiary companies. *Academy of Management Review* **23**(4): 773–795.
- Birkinshaw JM, Hood N, Jonsson S. 1998. Building firm-specific advantages in multinational corporations: the role of subsidiary initiative. *Strategic Management Journal* **19**(3): 221–242.
- Birkinshaw JM, Toulan O, Arnold D. 2001. Global account management in multinational corporations: theory and evidence. *Journal of International Business Studies* **32**(2): 321–348.
- Bourgeois LJ. 1980. Strategy and environment: a conceptual integration. *Academy of Management Review* **5**(1): 25–39.
- Chandler A. 1962. *Strategy and Structure: Chapters in the History of American Industrial Enterprise*. MIT Press: Cambridge, MA.
- Chandler A. 1991. The functions of the HQ unit in the multibusiness firm. *Strategic Management Journal*, Winter Special Issue **12**: 31–50.
- Coffee JC. 2002. Racing to the top? The impact of cross-listings and stock-market competition on corporate governance. Columbia Law School Working Paper #205.
- Collis D, Montgomery C. 1998. Creating corporate advantage. *Harvard Business Review* **76**(3): 72–83.
- DiMaggio PJ, Powell WW. 1983. The iron cage revisited: institutional isomorphism and collective rationality in organizational fields. *American Sociological Review* **48**: 147–161.
- Drucker P. 1955. *The Practice of Management*. Heinemann: London.
- Dunning JH. 1981. *International Production and the Multinational Enterprise*. Allen & Unwin: London.
- Enright M. 2000. Regional clusters and multinational enterprises: independence, dependence or interdependence? *International Studies of Management and Organisation* **30**(2): 112–130.
- Fligstein N. 1985. The spread of the multidivisional form among large forms, 1919–1979. *American Sociological Review* **50**: 377–391.
- Foerster S, Karolyi A. 1999. The effects of market segmentation and investor recognition on asset prices: evidence from foreign stock listings in the United States. *Journal of Finance* **54**: 981–1013.
- Forsgren M, Holm U, Johanson J. 1992. Internationalization of the second degree: the emergence of European-based centres in Swedish firms. In *Europe and the Multinationals*, Young S, Hamill J (eds). Billing: Worcester, U.K.; 57–75.
- Forsgren M, Holm U, Johanson J. 1995. Division headquarters go abroad: a step in the internationalization of the multinational corporation. *Journal of Management Studies* **32**(4): 475–491.
- Foss NJ. 1997. On the rationale of corporate headquarters. *Industrial and Corporate Change* **6**: 313–339.
- Ghosh C, Rodriguez M, Sirmans CF. 1995. Gains from corporate headquarters relocations: evidence from the stock market. *Journal of Urban Economics* **38**: 291–311.
- Goold M and Campbell A. 1987. *Strategies and Styles: The Role of the Centre in Managing Diversified Firms*. Basil Blackwell: Oxford.
- Goold M, Campbell A, Alexander M. 1994. *Corporate-Level Strategy: Creating Value in the Multibusiness Company*. Wiley: Chichester, U.K.
- Goold M, Pettifer D, Young D. 2001. Redesigning the corporate centre. *European Management Journal* **19**(1): 83–91.
- Hedlund G. 1986. The hypermodern MNC—a heterarchy? *Human Resource Management* **25**: 9–36.
- Hofer CW. 1975. Towards a contingency theory of business strategy. *Academy of Management Journal* **18**(4): 784–810.
- Hofer CW, Schendel DE. 1978. *Strategy Formulation: Analytical Concepts*. West: St Paul, MN.
- Invest in Sweden Agency. 2001. *I huvudet på ett företag: om huvudkontorets roll och lokalisering* [Headquarters: its role and localization]. Research report, ISA, Stockholm.
- Jacquemin AP, Berry CH. 1979. Entropy measure of diversification and corporate growth. *Journal of Industrial Economics* **27**(4): 359–369.
- Jensen MC, Meckling WH. 1976. Theory of the firm: managerial behavior, agency costs and ownership structure. *Journal of Financial Economics* **3**: (October): 305–360.
- Johanson J, Vahlne J-E. 1977. The internationalization process of the firm: a model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies* **8**: 23–32.
- Kogut B. 1982. Foreign direct investment as a sequential process. In *The Multinational Corporation in the 80's*, Kindelberger CP, Audretsch DB. (eds). MIT Press: Cambridge, MA; 38–56.
- Kotabe M. 1992. *Global Sourcing Strategy: R&D, Manufacturing, and Marketing Interfaces*. Quorum: New York.
- Kotabe M, Omura GS. 1989. Sourcing strategies of European and Japanese multinationals: a comparison. *Journal of International Business Studies* **20**(1): 113–130.

- La Porta R, Lopez-de-Silanes F, Shleifer A, Vishny R. 2000. Investor protection and corporate governance. *Journal of Financial Economics* **58**: 3–27.
- Malmberg A, Sölvell Ö, Zander I. 1996. *Geografiska Annaler (Geographical Annals)* **78**(2): 85–97.
- Marshall A. 1890/1916. *Principles of Economics: An Introductory Volume* (7th edn). Macmillan: London.
- Malnight T. 1995. Globalization of an ethnocentric firm: an evolutionary perspective. *Strategic Management Journal* **16**(2): 119–141.
- Markides C. 2001. Corporate strategy: the role of the centre. In *Handbook of Strategy and Management*, Pettigrew A, Thomas H, Whittington R (eds). Blackwell: Oxford, U.K.; 98–112.
- Merton RC. 1987. A simple model of capital market equilibrium with incomplete information. *Journal of Finance* **42**: 483–510.
- Meyer JW, Rowan B. 1997. Institutionalized organizations: formal structure as myth and ceremony. *American Journal of Sociology* **83**(2): 340–363.
- Mintzberg H. 1994. *The Rise and Fall of Strategic Planning*. Free Press: New York.
- Montgomery DB, Yip G. 2000. The challenge of global customer management. *Marketing Management* **9**(4): 22–29.
- Noronha GM, Sarin A, Saudagaran SM. 1996. Testing for microstructure effects of international dual listings using intraday data. *Journal of Banking and Finance* **20**: 965–983.
- Pagano M, Roell AA, Zechner J. 2002. The geography of equity listing: why do companies list abroad? *Journal of Finance* **57**(6): 2651–2694.
- Palepu K. 1985. Diversification strategy, profit performance and the entropy measure. *Strategic Management Journal* **6**(3): 239–255.
- Pedersen T, Thomsen S. 1997. European patterns of corporate ownership: a twelve-country study. *Journal of International Business Studies* **28**(4): 759–778.
- Porter ME. 1980. *Competitive Strategy*. Free Press: New York.
- Porter ME. 1985. *Competitive Advantage*. Free Press: New York.
- Porter ME. 1990. *The Competitive Advantage of Nations*. Free Press: New York.
- Root FR. 1987. *Entry Strategies for International Markets*. Lexington Books: Lexington, MA.
- Ronstadt R. 1977. *Research and Development Abroad by U.S. Multinational*. Praeger: New York.
- Rugman A. 1981. *Inside the Multinationals: The Economics of Internal Markets*. Croom Helm: London.
- Rugman A, Verbeke A. 1992. A note on the transnational solution and the transaction cost theory of multinational strategic management. *Journal of International Business Studies* **23**(4): 761–772.
- Rugman A, Verbeke A. 2001. Subsidiary-specific advantages in multinational enterprises. *Strategic Management Journal* **22**(3): 237–250.
- Rugman A, Verbeke A. 2004. A perspective on regional and global strategies of multinational enterprises. *Journal of International Business Studies* **35**(1): 3–18.
- Salva C. 2003. Foreign listings, corporate governance, and equity valuations. *Journal of Economics and Business* **55**: 463–485.
- Saudagaran S, Biddle G. 1995. Foreign listing location: a study of MNCs and stock exchanges in eight countries. *Journal of International Business Studies* **2**: 319–341.
- Saxenian A. 1994. *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*. Harvard University Press: Cambridge, MA.
- Semple RK, Phipps AG. 1982. The spatial evolution of the corporate HQ within an urban system. *Urban Geography* **3**: 258–279.
- Sloan AP. 1963. *My Years with General Motors*. Doubleday: Garden City, NY.
- Thompson JD. 1967. *Organizations in Action*. McGraw-Hill: New York.
- UNCTAD. 2003. *World Investment Report*. UNCTAD: Geneva.
- Vancil RF, Lorange P. 1975. Strategic planning in diversified companies. *Harvard Business Review* **53**(1): 81–90.
- Vernon R. 1966. International investment and international trade in the product cycle. *Quarterly Journal of Economics* **83**(1): 190–207.
- Williamson O. 1975. *Market and Hierarchies: Analysis and Antitrust Implications*. Free Press: New York.
- Young D, Collis D, Goold M. 2002. The size, structure and performance of corporate HQ. Working paper: Ashridge Strategic Management Centre.
- Zaheer S. 1995. Overcoming the liability of foreignness. *Academy of Management Journal* **18**: 439–464.