

Where do MNEs locate their headquarters? At home!

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Abstract

We discuss the concept of corporate headquarters and outline a simple model of where MNEs locate their corporate headquarters. In line with substantial empirical evidence, this model emphasizes the inertial forces that tie MNEs to the location where they have historically first been established. We then aggregate our analysis to the national level to identify the determinants of the number of MNE headquarters in a given country. On that basis, we offer a critique of the study by Coeurderoy and Verbeke, and outline directions for future research.

Key words: Corporate headquarters, location, relocation, multinational companies

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INTRODUCTION

The question where the corporate headquarters (HQ) of the largest multinational enterprises (MNEs) are located around the world is intriguing policy makers, but has received little scholarly attention to date. However, do MNEs actually make deliberate decisions where to locate their HQ? We argue that in some specific cases, MNEs do change the location of their HQ, but inertial forces are strong making this a rare event. In consequence, most MNE HQ are where the MNE was born, even many decades later. In other words, most HQ are where the MNEs is at home!

Menz, Kunisch and Collis (2015), who recently summarized research on corporate HQ, define corporate HQ “as the multimarket firm’s central organizational unit, which is (structurally) separate from the product and geographic operating units, and hosts corporate executives as well as central staff functions that fulfill various internal and external roles” (pp. 642-643). As a unit, corporate HQ have a geographical location, namely that of where the top management team have their regular workplaces. Typically, that location coincides with where the company is registered, i.e. its legal domicile. However, these two locations are not always identical.

International HQ relocation thus can refer to either a change of the legal domicile of a corporation, i.e. in which country it is registered, or to a change of the country where the organizational unit comprising its top management is physically located. This distinction is important because company directories sometimes use the country of registration as its location information. For the theory of the MNE (Dunning 1993;

Rugman and Verbeke, 1992), and for strategic management scholarship (Birkinshaw et al., 2006), the relevant definition focuses on the locational of the operational unit called HQ because it reflects the location of resources and of decision making processes. In contrast, scholars of taxation or accounting may be interested in the legal residency, which to a larger extent is driven by tax optimization considerations (Desai and Hines, 2002; Egger, Radulescu and Stecker, 2013; Voget, 2011).

We are mainly interested in relocations of corporate HQs as an organizational unit from one country to another (thus disregarding within-country relocations, see e.g. Bel and Fageda, 2008; Strauss-Kahn and Vives, 2009). International HQ relocations change the nationality of an MNE, which challenges elements of the theory of the MNE (Birkinshaw et al., 2006; Mudambi, 2011; Vernon, 1992). MNEs typically grow from their home location to spread their operations around the world while maintaining a 'home base' where not only their HQ is located, but where they maintain critical units such as R&D and an expansive network of external business partnerships.

The number of MNEs headquartered in a given country at a given point in time is the outcome of two processes: the foundation and growth of indigenous firms (evolving from being domestic to becoming MNEs), and HQ relocations in and out of the country. Research into the location of MNE HQ thus has to clearly separate clearly two research questions. First, which local environments foster the growth of MNEs? Such research needs to investigate the dynamics of change in the environment during the growth of the MNE, and hence incorporate historical data. Second, which MNEs change the location of their HQ? Such research needs to focus on the contemporary conditions in both old and new HQ locations while controlling for the historical location of the HQ.

This commentary is organized as follows. We first discuss the concept of corporate HQ, and then reflect over why MNEs may change their location from one country to another. On that basis, we follow Coeurderoy and Verbeke (2016) and move the unit of analysis to countries, and discuss what determines the number of MNEs HQ in a country at a given time. This leads to a critique of the study by Coeurderoy and Verbeke and an agenda for future research.

WHAT AND WHERE IS HQ?

Corporate HQ is *the organizational unit that hosts the top management of a company*.

While their size and composition varies considerably across companies (Collis, Young and Goold, 2012), they typically provide three key sets of functions. First, they are responsible for carrying out functions that are required by law and stock exchange regulations, such as producing company accounts, and compiling financial and other information to owners, authorities, and other stakeholders. Second, they provide centralized services such as HR and IT to other company units. Third, they make decisions regarding current and future resource development and allocation, which is a key ‘entrepreneurial’ function for long-term value creation (Foss, 1997). Taken together, these functions place HQ as the strategic apex of a company (Chandler, 1991).

The corporate HQ as an operational unit is traditionally in the same country as the company’s place of registration (its ‘legal domicile’) and its main place of stock market listing (if it is a listed company). However, in recent years, some companies have separated these three locations. Why such a separation is taking place is an interesting research question. We would hypothesize for example that legal domicile is strongly

related to corporate tax codes, whereas stock market listing is driven by financial market liquidity and corporate governance rules. Studies such as Egger et al. (2013), Laamanen, Simula and Torstila (2012) and Voget (2011) that operationalize HQ location by legal domicile thus find tax issues to be a major driver of HQ relocations. However, they are actually capturing a different phenomenon than relocation of HQ as the operational center of the company.

Further complications arise from the disaggregation of HQ functions. In multi-business companies, corporate HQ typically delegate the running of its various businesses to 'lower level' HQ units that have profit-and-loss responsibility for their business area. Traditionally, such divisional HQ were co-located with corporate HQ. Yet, recent studies show that divisional HQ have become more footloose, including re-locations outside the home country of the corporation (Benito, Lunnan and Tomassen, 2011; Birkinshaw et al, 2006; Forsgren, Holm and Johanson, 1995; Lunnan, Benito and Tomassen, 2011).

The division of labor between corporate and divisional HQ differs across companies. Some companies keep large centralized staffs that provide the entire corporation with IT, HR, financial and auditing services, and key business functions such as R&D and marketing, whereas others leave more to 'lower level' HQ units either at home or abroad. According to Collis et al. (2012), some notable differences are due to the geographical scope of companies. MNEs tend to have relatively larger HQ staffs (i.e. have a higher ratio of employees at HQ to total number of employees) the more geographically spread they become, because they need to handle the higher information and coordination challenges created by operating in multiple locations. However, greater geographical spread also tends to shift the composition of functions done at corporate

HQs versus those done in divisional HQs or subsidiary units. As distances and exposure to geographic heterogeneity increase, business functions need to be adapted to local conditions. MNEs may hence limit their involvement in subsidiaries' business activities, but retain control over corporate-wide IT, HR, financial and auditing services.

This discussion highlights the challenges of defining HQ location theoretically, and operationalizing the concept empirically. In consequence, it is sometimes hard to pinpoint a relocation. Barner-Rasmussen, Piekkari and Björkman (2007) distinguish between full, partial, and virtual HQ relocations. In a full relocation, the complete top management team and all key HQ functions are moved. In partial relocations, only some of these are moved; for example, the place of registration remains unchanged, but HQ functions pertaining to divisions or business areas are moved elsewhere. A variant of partial relocation is the 'dual offices' option, where a top management team member relocates to another country, but keeps an office at corporate HQ in the home country (Baaij et al., 2012). Finally, virtual relocations may involve a change of legal domicile, but where frequent travel and sophisticated IT support systems substitute for co-located HQ management activities and functions (see also Baaij et al., 2012).

In conclusion, the appropriate definition of HQ depends on the purpose of the study. In strategic management, the main concern is about resource allocations and decision making processes, such that a definition focused on the operational HQ appears most appropriate. In accounting and taxation research, the legal domicile may be more appropriate. In studies of stock markets, it may be appropriate to include all companies listed on the stock market of a given country. With these caveats in mind, we proceed to discuss theoretical perspectives on the relocation of HQ as operational HQ.

A MODEL OF HQ LOCATION

How do managerial boards decide in which country to locate their firm's headquarters?

This question is likely to surprise many board members as they never actually made such a decision: the location of corporate HQ is a fact that is never explicitly decided, but given by historical antecedents. In practice, for most firms, HQ are *at home*, which is where the firm has its historical roots, and where it consequently has extensive networks in the local community.

Many of the key resources employed in corporate HQ are specialized to the location where the firm is based, which creates strong inertial forces (Ghemawat, 2011). Relocation would require for example replacing many individuals working in specialized roles such as accounting and finance units as they may not be willing to relocate. Human capital remains location bound, despite the global mobility of small cadres of ambitious professionals. Moreover, people working in HQ have specialized skills relating to the institutional and resource environment for the country. At the organizational level, co-specialized resources include business partners like auditors and advisors, and even government entities. The co-specialization of resources creates strong lock-in effects.

In addition, many business people, like people in general, have an emotional attachment to their place of origin and perceive a special social responsibility towards the community that has historically enabled their company to grow. Such sentiments naturally have a stronger influence in family and foundation owned firms than in firms controlled by outside financial investors with no ties to the HQ location (Birkinshaw et al., 2006). Thus, many private business owners like to keep their HQ "at home".

However, in four scenarios, firms deliberately make decision of the country of the HQ location: at foundation, at times of mergers, at time of severe conflicts at home, and (theoretically) during a periodical strategy review (Figure 1). Apart from the first event, these are all rare events in a corporate history.

*** *Insert Figure 1 about here* ***

First, upon establishing firms, the founders have to decide where to open their offices and where to register their business. For most entrepreneurs this is a trip to the local tax authority of the town where they happen to live, or perhaps in a neighboring town that offers special support for entrepreneurs, e.g. a university-based business incubator. Most founders are people embedded in their home environment, with personal ties that help accessing bank loans or other services, family and friend offering help when needed, and knowledge of local suppliers and customers.¹

In rare cases, entrepreneurs register their business abroad, though that trend may increase with globalization, especially for entrepreneurs who have previously lived abroad, or for founding teams with diverse origins. In a recent series of interviews with entrepreneurs in England, one of the authors encountered several such cases. The motivations related primarily to the perceived ability to access venture capital as the physical location of an enterprise serves as a strong signal to financial markets. For example, an IT start-up in the Southwest of England created a US corporation to which they sold their business. However, one of the founders confided to the researchers a few years later that the expected benefits did not materialize and the relocation probably was

¹ An important exception are spin-offs (or 'de-mergers') which result in the creation of new firms that may have from the outset operations in multiple countries, and hence have high degrees of freedom in the HQ location choice.

not worth the time and effort (Meyer and Xia, 2012).² Another British start-up incorporated in Hong Kong in view of rules of corporate taxation, availability of financial services, and the ability to liaise with China-based suppliers. In this case, the firm with only 9 employees gradually moved its HQ functions from London to Hong Kong (Guan and Meyer, 2016). Similarly, Business Layers, an IT company founded by Israeli entrepreneurs chose to register its HQ in Delaware, USA, at inception, mainly because the bulk of its potential customer base was in the USA (Khavul, 2005). However, these are exceptions from the rule as few entrepreneurs have the ability to locate far from home when they start their venture.

Second, companies may systematically assess the merits and demerits of their current location when they face substantive tensions in their home environment. Such tension can arise in particular from access to capital market, concerns about the tax and regulatory environment and political risk.

*** *Insert Table 1 about here* ***

Access to capital markets plays a major role in the relocation of corporate HQs from emerging economies to major financial hubs such as London, New York or Hong Kong (e.g. Ding, Nowak and Zhang, 2010). Technically, companies can access overseas financial markets, and even list abroad, but the costs of finance tend to be higher. A stock market listing does not require HQ to be located in the same country, but it may affect the ability of their top management to interact directly with key players in the financial markets. Therefore proximity to financial markets has been observed as motivator for HQ

² These examples are based on unpublished interview transcripts of Meyer and Xia's (2012) research.

relocation (Birkinshaw et al., 2006). The advantages of locating HQ near the stock market of their listing appear to have been important to emerging economy MNEs such as South African Breweries and Anglo American who both relocated their HQ from South Africa to London (Birkinshaw et al., 2006). Similarly, some mainland Chinese firms are not only listed in Hong Kong, but moved the HQ of the listed entity to Hong Kong, and thus are considered as Hong Kong firms in some databases. In addition to financial resources, access to other resources such as human capital may also be important, but this is less evident from available case evidence.

Other relocations are motivated by tax considerations. In studies that use legal domicile to define the location of an HQ, *high corporate tax* rates (Laamanen et al., 2012, Voget, 2011) and *personal income tax* (Egger, Radulescu and Stecker, 2013) have been associated with the departure of corporate HQ. In addition to tax rate, important are the treatment of profits earned abroad and ‘controlled foreign subsidiaries’ legislation used by many countries to counter abusive deferral or profit shifting by MNEs (Voget, 2011). For example, when Tetra Pak moved from Sweden to Switzerland, personal income tax appears to have been a key motivation (NY Times, 12 July 2012). Top management and owners are naturally concerned about the rules by which their personal income is taxed. In other cases, such as the recent relocation of HQ by Fiat-Chrysler from Italy to London, corporate income tax rates appear to have played an important role (Reuters, 8 May 2014). IKEA’s HQ relocations, first to Denmark and then to Netherlands, was due to both high corporate and personal income taxation in Sweden as well as more favorable Danish and Dutch regulations on foundations (Retail Week, 2 February 2001). Technically, it is not

always necessary to move corporate HQ to benefit from a more favorable tax regime, but there are important synergies of co-locating these functions.

Other aspects of regulation may also trigger a relocation. For example, in the recent discussion regarding the potential relocation of HSBC's HQ from London to Hong Kong, the proposed changes in British *banking regulation* played an important role. However, the media also speculated that in this eventually aborted relocation initiative, the threat of relocation was primarily a tactical move in a bargaining game with the UK government over banking regulation (Financial Times, 23 Oct 2015).

In other cases, *political risk* plays an important role, notably in HSBC's earlier relocation from Hong Kong to the UK ahead of the 1997 'handover' of the territory to China which many feared would undermine the economic freedom of the territory. Similarly, in the 1990s, there was a striking increase in foreign located HQ functions (especially divisional headquarters) among large Norwegian companies, possibly because the popular vote against EU membership in 1994 increased uncertainty about the consequences of 'EU outsidership' (Benito et al., 2002).

Proximity to key markets and clients may also be an important motivation, at least as a supplementary motive. For example, the insurance company Aon moved its corporate HQ from Chicago to London to be closer to global insurance brokers such as Lloyd's in London, in addition to tax advantages. Similarly, when Østasiatisk Kompani, for many decades one of the largest Danish companies, was hit by a severe crisis in the 1990s, it engaged in a radical restructuring that saw many of its European businesses being divested. Its remaining core businesses were in South-East Asia and in Latin America,

and consequently the company, now known as East Asiatic Company, moved its operational headquarters to Singapore while maintaining its primary listing on the Copenhagen stock exchange.³

Third, companies may periodically review all aspects of their corporate strategy, including the location of their HQ. To our knowledge, it is not normal part of strategy reviews to consider the location of HQ, but it is theoretically possible that some companies do that. The arguments that would actually trigger an HQ relocation after periodic review are likely to be similar as in the previous paragraph.

Periodic strategic reviews that include the location of HQ are more likely in countries where the relocation may be seen as natural stage in the internationalization of the company itself. A change in the geographic focus of a company, with foreign markets and customers becoming far more important than domestic ones, is more likely in small open economies such as Sweden (Birkinshaw et al., 2006; Forsgren et al., 1995), Finland (Barner-Rasmussen et al., 2007), the Netherlands (Baaij, 2015), Norway (Lunnan et al., 2011), and Israel (Khavul, 2005). With fewer growth options locally, companies from these countries are likely to be among the first to relocate.

Fourth, when two firms merge, they have to make a decision where they wish to locate their new joint HQ. In many cases, the decision is driven by the relative size or financial strength (or power) of the involved companies such that the stronger partner enjoys the continuity of HQ location, and its staff become the core staff of the new joint

³ We thank Torben Pedersen for his assistance in reconstructing this case.

HQ. In other cases, the decision is based on the advantages of a certain location for conducting a particular type of business.

When companies from smaller home countries merge or are acquired, it is more likely that the other party is foreign, which subsequently increases the probability of HQ relocation; and sometimes multiple ones. The Norwegian pharmaceutical company Nycomed is a case in point. Originally established in Oslo, Norway, in 1874, Nycomed was a predominantly domestic company until the 1960s when the invention of radiocontrast agent lead to a successful internationalization over the following three decades. In the mid-1990s, the company was de-merged into two entities; Nycomed Pharma and Nycomed Imaging. The latter was subsequently merged with the British company Amersham plc, and the merged company's corporate headquarters were relocated from Oslo to Amersham, UK (Financial Times, 2 July 1997). When it later became part of the GE group as GE Healthcare, its headquarters were kept at Amersham, but as divisional headquarters. Nycomed Pharma was sold to a Swedish private equity group, renamed Nycomed, and then grew considerably in the 2000s through various acquisitions. Its corporate HQ were moved to Zürich, Switzerland. In 2011, Nycomed was acquired by the Japanese pharmaceutical giant Takeda (Financial Times, 20 May 2011). Its headquarters remained in Zürich, but now as (regional) divisional headquarters within the Takeda Group (NR Newswire Europe, 18 January 2012).

A special case of merger-related relocation of HQ are recent tax inversion acquisitions in which US-headquartered MNEs have themselves acquired by a firm based in a country with lower rate of corporate income tax with the explicit aim to reduce tax burdens (Nebus, 2016; UNCTAD 2015; Financial Times, 29 Apr 2014). This tax

avoidance strategy is motivated by a particular constellation of international tax legislation. In the USA, companies are taxed on their worldwide income, but only when they repatriate their profits earned overseas to the USA. Hence, US MNEs tend to accumulate their profits overseas rather than invest at home because that would trigger a tax liability. For example, Medtronic accumulated profits of \$14 billion abroad; if these funds were invested in the USA, it would have had to pay 35% corporate income tax (Financial Times, 27 Jan 2015). If based in a country that does not tax worldwide income, it could have invested some of its wealth in the USA. However, since simply moving HQ would also trigger tax, companies like Medtronic and Endo Health Solutions had themselves acquired by foreign-based companies and registered their new HQ abroad. They moved their tax domicile, along with some HQ functions, to Ireland.

In conclusion, companies have to make HQ location decisions when they are founded, or when multiple firms merge. They may also relocate corporate HQ during normal periods of business triggered either by external events, or by internal review processes. However, in these situations, the advantages of a firm staying at its home location are strong because many assets employed in the corporate HQ are location bound. Moreover, HQ functions may be disaggregated, which calls for careful distinctions between operational HQ, place of registration for tax purposes, and place of stock market listing.

AGGREGATION TO COUNTRY LEVEL

How many HQ of the world's largest MNEs of the world are based in a particular country at a particular point in time? This question requires an aggregation from the firm level to

the national level. Our foregoing discussion suggests that the past location of the headquarters of a given firm is a very strong predictor of the current location of that firm's headquarters. Hence, the main contributions are MNEs growing within the economy, with adjustments for HQ relocations. The stock of headquarters of the largest MNEs in the world (MNEHQ) at time (t) at a given location (L), then can be expressed as:

$$\begin{aligned} \text{MNEHQ}_{L,t} &= \text{MNEHQ}_{L,t-1} \\ &+ \text{MNEs growing relatively fast to cross over threshold at } t \\ &- \text{MNEs growing relatively slow to drop below the threshold, or exit at } t \\ &+ \text{MNEs relocating their HQ to location } L \text{ between } t-1 \text{ and } t \\ &- \text{MNEs relocating their HQ away from location } L \text{ between } t-1 \text{ and } t. \end{aligned}$$

The first element of this equation is the stock of headquarters at the end of the previous time period ($\text{MNEHQ}_{L,t-1}$), a term that can be expressed in the same way from the preceding time period since $t-2$. Given the inertial forces described in the previous section, we expect this element to dominate in empirical tests using year-on-year analysis. Thus, empirical studies may use decades rather than years as time period of analysis; thus the $\text{MNEHQ}_{L,2015}$ could be estimated as a function of $\text{MNEHQ}_{L,2005}$ plus the other elements.

The second element is the growth of companies at location L relative to the growth of all other companies worldwide.⁴ When a company that was below the threshold at $t-1$ is growing faster than a company above the threshold, it may result in the faster growing company replacing the incumbent firm in the new ranking at time t . This part of the equation can be analyzed very meaningfully using theoretical frameworks such as Porter's Diamond of National Competitiveness (Porter, 1990). Many of the arguments put forward by Coeurderoy and Verbeke have been derived from this line of thought. The variables explaining the relative growth of firms are likely to include in particular the economic and institutional conditions during the time period between $t-1$ and t , in our example from 2005 to 2015.

Empirical studies may capture this part of the change in the stock of MNE HQs by considering for example the average economic growth and size of the economy over this time period (not at the end of the period). These should be complemented by institutional variables for the same time period. In particular, when the ranking includes only stock market listed companies (as the Forbes 2000), then the existence and efficiency of stock markets would be important institutional variables.⁵ Without a stock market, firms face additional hurdles to raise capital, which makes it less likely that they make it into an international ranking of the largest listed firms.

⁴ We assume here a database with a limited number of members, such as Fortune500 or Forbes2000. If membership is defined in absolute terms (e.g. sales above a certain threshold), then the terms refers to the absolute threshold, not relative size.

⁵ The extent of this bias is illustrated by comparing Forbes 2000 to Fortune 500. Forbes only included listed firms and aggregates 4 different indicators - but by implication drops firms for which data on these indicators are not available, or that are not listed. Fortune only uses a single indicator (sales) and is not limited to listed firms. In consequence, in the 2015 version of the Fortune 500 list, 20% of firms are Chinese (including Hong Kong), whereas in its 2015 version Forbes 2000 has only 11.6% of firms from China or Hong Kong.

The third element of the equation concerns MNEs that relocate their HQ from one location to another. Such relocations can be caused by financial markets or tax regulations, as we have argued above, but they are extremely rare. In fact, Verbeke and Coeurderoy identify only 1.46% of the firms in their database as having at any time in their history relocated their HQ, and similar evidence arises from several studies they cite (Baaij et al., 2004; Laamanen et al., 2012; Véron, 2008). Hence, in a single year analysis, this number may well be nil, and even when using a decade as unit of time, the number will be very small. Consequently, a conventional empirical analysis may not pick up any of the real drivers of corporate HQ relocations.

A study of the number of HQ in a given country could thus address the question from two different theoretical angles. The choice of theoretical angle then determines the choice of methodology. First, the study could focus on the forces that drive the relative growth or decline of firms. Such a study could be theoretically motivated by a national resources framework such as Porter's Diamond (Porter, 1990), or it could focus on the institutional environment (e.g. Dunning 1992). To clearly identify the forces that drive relative growth, such a study should probably exclude firms that changed their HQ location during the given time period.

Second, the study could focus on HQ relocations. This study would draw a sample at time $t-1$, for example the Fortune2000 ranking in the year 2005, and then investigate the location of the corporate HQ at the end of the time period, for example in 2015 – independently of whether or not the firm is still in the Fortune2000 ranking. Excluding firms that dropped below the threshold of the Fortune2000 ranking would create a survivor bias and thus unreliable estimates. The challenges of such a study however are

practical: The number of actual HQ relocations may be too small to generate meaningful empirical results.

CRITIQUE OF THE COEURDEROY AND VERBEKE STUDY

Régis Coeurderoy and Alain Verbeke are to be commended for placing an important yet insufficiently understood phenomenon on the agenda of global strategy research. Also, they have been able to construct a dataset of companies with an unusually wide international spread. However, we have a fundamental disagreement with their theoretical treatment of the phenomenon. Specifically, they are blending two very different processes, growth of MNEs and HQ relocations. While their early arguments discuss HQ relocations, their hypothesis development mainly draws on arguments related to the growth of MNEs. Yet, the empirical tests use contemporary explanatory variables as explanation of the number of HQs in a given location at a given time. The number of HQs at a given time is a stock variable, but they treat it as if it was a flow variable. In other words, by not including past location as a control, Coeurderoy and Verbeke are assuming that history does not matter, which then allows them to estimate a stock variable (the number of MNE HQs in a location at a point in time) as a function of same period flow variables.

Coeurderoy and Verbeke state their assumption explicitly in the introduction: “We assume in our paper that head offices are footloose...” (page 4 of manuscript). This implies an assumption that companies in each year make a choice where to locate their HQ, *independent of their past location*. Given the overwhelming role of ties to the existing location, and the considerable empirical evidence, such an assumption cannot be

justified. A proper econometric test has to either control for past location, or focus on change of location as the dependent variable.

In our view the assumption that head offices are footloose suits only ivory tower theorizing and can lead to misleading designs of empirical studies. In consequence, the empirical regression results of Coeurderoy and Verbeke are hard to interpret: They fail to identify the drivers of HQ relocations (because these are only a miniscule part of their dataset) and they fail to identify what enables countries to develop MNEs (because the explanatory variables post-date the processes of growth). Moreover, with the dependent variable likely having more inertia than the explanatory variables, reverse causality is clearly plausible.

A further point inhibiting the interpretation is the lack of clarity on how HQ location is defined in their database. This is a shortcoming of the creators of the database, i.e. Forbes. In fact, the Forbes (2015) website does not explain this question either (and Forbes did not respond to our e-mail inquiry). However, the fact that Forbes2000 contains companies registered in Bermuda and Cayman Island (which Coeurderoy and Verbeke explicitly exclude) signals that they de facto may be using a legal domicile definition rather than an operational HQ definition. Moreover, we observed that in 2015 some companies with separation between place of listing and operational HQ were classified by the place of listing: Beijing-based CNOOC and China Unicom were listed under Hong Kong, where as Melbourne-based Rio Tinto was listed under UK. Given the theoretical complexity of the HQ construct as discussed above, this lack of clarity propounds the challenge of interpreting the empirical findings.

FUTURE RESEARCH ON HQ RELOCATIONS

The most interesting phenomenon in this debate is the relocation of HQs by existing MNEs. This phenomenon is rare, but when it occurs it can have substantial impact on both the old and new HQ country. Moreover, media reports suggest that MNEs may use the threat of relocation in their lobbying efforts, or even in direct negotiations with their home country government (Financial Times, 2 Sep 2010; 23 Oct 2015). It may also be that MNEs might actually benefit from a HQ relocation, but they do not consider it in their decision processes because of cognitive limitations. Thus, a better understanding as to when HQ relocation is appropriate may actually open new opportunities for MNEs. Hence, both policy makers and managers would benefit from a better understanding of this phenomenon. How can scholars add rigorous insights in these debates?

First, given the small number of actual cases of relocation, a qualitative approach may investigate in-depth the decision making and implementation process. Multiple theoretical angles may be suitable, not just economic optimization but also behavioral approaches. In Table 1, we have listed the motivations reported in the media in a few high profile cases. Yet, such an analysis is clearly limited as official statements of companies (the main source for media reports), tend to have self-justification bias and hence offer only partial answers – few would admit that they are running away from high personal income tax. Hence, deeper analysis of decision making processes is called for.

Second, scholars could focus on the ‘threat of relocation’ as event, as in the 2015 HSBC case, and investigate when such threats result in an actual relocation, and when they led to other outcomes such as changes in the home country’s tax regime. The threat

of relocation may be a political influence strategy, which raises questions whether companies actually manage to change the outcomes of political processes through such threats. Due to the rare nature of such cases in the public domain, an extreme case qualitative analysis may be an appropriate methodology.

Third, a matched sample method (Dehejia and Wahba, 2002) may help address the issue that even in a large database (such as Forbes 2000) relocations are very rare. Using this methodology, researchers would first identify all firms in a database that made an HQ relocation and match them with the most similar firms in the remainder of the database. Software packages such as Stata have routines for this matching process. This ‘matched sample’ is then used to empirically test hypotheses regarding location (see Estrin et al., 2016 and Li and Tallman, 2011 for applications of this methodology).

Fourth, future studies should differentiate between types of HQ relocation: operational HQ, registration (legal domicile), and listing relocations. For example, how do factors driving and impeding vary between types of relocations? We expect that inertial forces (and associated risks) are highest for operational HQ relocations, whereas changes of registration and listing locations may involve lower mobility barriers. Verbeke and Coeurderoy (2016) emphasize general ‘institutional quality’, whereas earlier studies (Laamanen et al., 2012; Voget, 2011; Egger, et al., 2013) emphasize specific aspects of the tax legislation. Theoretical considerations suggest that Coeurderoy and Verbeke conclusion may be more relevant with respect to operational headquarters, whereas tax legislation is more important for legal domicile. However, this hypothesis merits careful econometric testing. In addition, as pointed out earlier, pinning down exactly what HQ are, what they do, and who works there, is far from straightforward. With MNEs

becoming ever more complex uncovering such issues would also be increase our knowledge about such companies.

Fifth, for the study of changes in legal domicile and tax residency, it is important to look beyond headline rates of corporate income tax, and to consider specific rules regarding for example taxation of foreign profits and controlled foreign subsidiaries legislation (Vogel, 2011) along with rules affecting the calculation of the tax base and revenues from intellectual property. While strategic management scholars like to focus on higher level constructs such as institutional development, the evidence reviewed in this paper suggests that it is very specific aspects of the regulatory environment that may trigger corporate HQ relocations.

CONCLUSION

HQ relocations are rare events with far reaching consequences. They merit attention by strategy scholars because of their potentially profound implications for both MNEs, and for their old and new HQ countries. Yet, the rarity of the events creates methodological challenges that need to be addressed carefully. In particular, scholars need to carefully distinguish two theoretically distinct processes: the relocation of HQs (typically a small number in any dataset) and the growth of MNEs at their given location.

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Table 1: Illustrative Cases of HQ Relocation

Company, date	Relocation from/to	Leading Reasons*	Main sources
South African Breweries, 1999	South Africa to the UK	Access to financial markets: Holding company and listing on London stock exchange enabled raising capital that enabled takeover of Miller (USA) in 2002	Reuters, December 4, 1998
IKEA, 1997-2001	Sweden to Denmark, to the Netherlands	Corporate and personal income taxation in Sweden, foundation regulations in the Netherlands	Retail Week, 2 Feb 2001. Financial Times 4 December 2016
Tetra Pak, 1981	Sweden to Switzerland	Corporate and personal income taxation in Sweden	NY Times, 12 July 2012
Østasiatisk Kompani, 1995	Denmark to Singapore	Proximity to markets and operations after divestment of European assets and focus on Asian and South American businesses.	Ritzau 14 Oct 1998; Torben Pedersen personal communication
Aon Insurance, 2012	USA to London	Access to insurance market in London, specially Lloyd's London, and to emerging markets	Bloomberg 14 Jan 2012
Fiat-Chrysler, 2014	Italy to London	Lower corporate tax rates in combination with access to financial and human resources	Bloomberg 10 Dec 2014; Reuters 8 May 2014
Medtronic, 2014	USA to Ireland	Corporate inversion (acquisition by Covidian from Ireland) to avoid liabilities of global taxation in US corporate tax.	Financial Times 27 Jan 2015
Endo Health Solutions, 2014	USA to Ireland	Corporate inversion (acquisition by Paladin Labs) to avoid liabilities of global taxation in US corporate tax.	Financial Times 29 Apr 2014
Burger King, 2014	USA to Canada	Corporate inversion (acquisition by Tim Hortons) to avoid liabilities of global taxation in US corporate tax.	Washington Post 4 Sep 2014
Nycomed, 1997-2012	Norway to UK, to Switzerland, to Japan	Mergers and acquisitions	Financial Times 2 July 1997, 20 May 2011; PR Newswire Europe 18 January 2012
HSBC	London (UK) to Hong Kong (China) – not implemented	Expected changes in banking regulation, specially split of high street and investment banking (2010) and bank levy (2015)	Financial Times 2 Sep 2010; 23 Oct 2015

Note: * leading reasons as reported by media or analysts.

Figure 1: Forces Driving Change and Inertia in HQ Location: Examples

