Headquarter Relocation in a Modern MNC

Empirical Study of Reasons and Consequences

Students:
Lina Krasavina
Ksenia Vedishcheva

Supervisor: Phillip Nell

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Executive Summary

This Master Thesis examines the phenomenon of headquarter relocation, performed by large multinational companies, originating from different countries, and focuses on researching the reasons and consequences of this event.

We provide the review of the relevant academic literature and set out a theoretical framework, covering the process of internationalization, headquarter definition and types, reasons and consequences of the headquarter relocation, revealing that there is a lack of research and empirical evidence on the two latter subjects.

By the means of a multiple case study analysis we test the theoretical framework empirically. The research provides the thorough information on the headquarter relocation experiences of ten large multinational corporations. The analyses of the reasons for headquarter relocation reveals that the reasons are not limited by the well-known cost-cutting motivations, but on the contrary, are very diverse in their nature. The discussion brings us to two interesting findings. One is that the headquarter relocations are usually accompanied by other significant changes in the company. The companies often perform a restructuring simultaneously with the headquarter relocation. Another valuable finding is that companies tend to relocate their corporate HQs in a pursuit of benefits that allow expanding internationally. The analysis of the consequences of headquarter relocation suggests that there are not only positive outcomes of this event, for instance, the contribution to company’s international expansion, but also rather negative ones, such as growing costs associated with an increased social and structural complexities. The relocation of the headquarter can have various effects on the company starting from layoffs of company employees and ending with the dissatisfaction provoked by the sudden changes in the regulations of the new host country, urging the company to reassess the pros and cons of being headquartered in this particular location.

The main value of this Master Thesis is its contribution to the field of headquarter relocation research due to its unique scope that embraces the analysis of both reasons and consequences of this event.
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1. INTRODUCTION

The relocation of headquarters (HQs) overseas is a significant event in the life history of any company. Unlike the relocation of individual employees, HQs relocation affects the whole business operation (Gregory, Lombard and Seifert, 2005). There is evidence that the relocation of HQs abroad is becoming increasingly important (Birkinshaw, Braunerhjelm, Holm and Terjesen, 2006). We assume that the tendency is still increasing and today there are many firms that relocate their HQs from the country where they were first established to a foreign location for a number of different reasons. Thus, it is important to understand the phenomenon in more detail, and identify the various issues escalating this tendency. Moreover, understanding the subject of HQ relocation is especially important for us, business graduates, who will need to adapt to new business realities and perhaps contribute to making management decisions in the future. We believe that the event of relocation will happen more frequently, as companies tend to pursue drastic measures in their search for larger consumer markets and optimal business conditions.

The relocation of HQs is an interesting strategic subject as it involves multiple areas - at which stage of internationalization process the companies tend to choose to relocate their HQs overseas, types of relocation, the motives for relocation, the reasons for choosing a particular country for relocation, the functions which companies decide to relocate as well as consequences of the relocation. We believe that the topic of consequences of HQ relocation requires a special attention as it represents the end point of the relocation activity, the positive or negative result that companies may face after relocating their HQs overseas. The verification of this particular aspect of the phenomenon is the only method to assess how strategically successful HQ relocations are, which problems or benefits the companies can encounter in the new surroundings, and how the HQ relocation may affect the stakeholders of the company.

In the present Master Thesis we aim to explain the phenomenon of HQ relocation by exploring the reasons and consequences of this issue. Drawing on a multiple case study of ten huge multinational corporations (MNCs) we expose the HQ relocation as an outcome of certain reasons. We also show that HQ relocation is a complex issue often implying the positive and/or negative effects on the company and its stakeholders. The companies selected for our case study are very different, varying in their nature of business, industry, country of origin and the motives
of HQ relocation. The cases are presented in a manner of short stories where we briefly describe the business of the company, explain the process of the occurred relocation, and discuss the reasons and the consequences of the phenomenon.

The paper is divided into four main sections. The following section is devoted to the literature review on the subject of HQ relocation. The third section is the empirical study where we set out our methodology and data collection procedures, present the cases, and discuss the findings of the study. Finally, the fourth section is our conclusion.

2. LITERATURE REVIEW

Chapter two is an important initial step in a more thorough analysis of the relocation of HQs in the contemporary MNC. In order to scrutinize the subject of HQ relocation from the different perspectives, first of all it is essential to get a general view on the internationalization of MNC as a whole, and more specifically, to understand the roles and the internationalization of HQ activities. Following this logic the chapter focuses on three different areas of the previous research – 1) the internationalization of MNC including the motives for internationalization and the structure of MNC, 2) the internationalization of HQ activities and the types of HQs, and 3) the antecedents of HQ internationalization including the drivers and consequences of this event.

The chapter ends with the conclusion of the literature review and a formulation of the research questions. The aim of the literature review presented in this chapter is to lay a foundation of the theory in order to understand the phenomena of HQ relocation overseas and build a background for our empirical analysis which will be presented in chapter three.

2.1. Internationalization of MNC

The MNC can be defined as an organization which “typically starts as a domestic enterprise and becomes more and more international over time, as the number of countries in which it operates, the number of sub-units which it must manage, and the range of activities in which it is engaged, expand” (Westney and Zaheer, 2001:350). This process in which firms gradually increase their international involvement refers to the concept of internationalization, developed by Johanson &
Vahlne (1977). On the contrary, the pattern when firms return to their home country after having been international for many years is known as *de-internationalization* (Benito and Welch, 1997).

### 2.1.1. Motives for Internationalization

In the following we briefly describe the theories from the international business literature that attempt to explain the push factors driving firms to engage crossing national borders. This will enable us to have a clearer view on the issue and give a foundation for understanding the rationale behind internationalization of HQ activities.

The first theory we intend to point out is a “*Monopolistic advantage theory*”. According to this theory, firms will be willing to internationalize if they can exploit their established competitive advantages in foreign countries at minimum cost (Caves, 1982). The “*Internationalization theory*” claims that firms internationalize in attempt to reduce costs by internationalizing the transfer of goods and services across national borders where it is cheaper (Buckley and Casson, 1976). The “*Product life cycle theory*”, first articulated by Professor Raymond Vernon (1966), suggests that firms internationalize in order to protect their existing markets of mature products. Another theory revealing the motives for firm internationalization is a “*Stage theory*”. The theory proposes that firm’s international operations increase because it develops business relationships crossing international boundaries and increasingly gains knowledge and experience in the international arena (Johanson and Wiedersheim-Paul, 1978). As assumed in “*Oligopolistic reaction theory*”, the internationalization is associated with reducing business risks. According to the theory of Knickerbocker (1973), firms try to reduce their business risks by imitating competing firms’ entrance into foreign markets and international operations. Similarly, the “*Strategic choice theory*” suggests that firms facing strategic complexities respond to changing market opportunities through a careful evaluation of risks and determining the features of a firm’s internationalization (o’Farrell, Wood and Zheng, 1998). The “*Eclectic paradigm of international production*”, first articulated by Dunning (1976), assumes that some firms are more profitable when exploiting their assets in foreign markets rather than domestic countries. According to the paradigm, firms involve in international production if three conditions are satisfied: ownership-specific advantages, location-specific advantages and internalization advantages. Furthermore, a “*Network theory of internationalization*” has been proposed. Many knowledge-based business-service firms attain their competitive advantage by building mutually supportive relations with
other service firms in other countries (o’Farrell, Wood and Zheng, 1998). Finally, based on the “Transaction cost theory” it is understood that firms choose the least-cost international location for each activity they perform, and bring their activities under common ownership and control up to the point where the benefits of further internationalization are outweighed by the costs (Westhead, Wright and Ucbasaran, 2001).

According to Forsgren, Holm, and Johanson (1995), with increasing internationalization the importance of foreign operations increases, and the task of coordinating these operations grows. Therefore, in order to coordinate and control the operations effectively, firms need to adopt new structural forms by establishing foreign subsidiaries and creating a network of home country and foreign subsidiary subunits (Ghoshal, Korine, and Szulanski, 1994). In the following we will look at the structure of MNC in more detail. This will enable us to get a better understanding of MNC as a network and the role of HQs in this network.

2.1.2. The Structure of MNC

The evolution of modern corporation has changed the structure of MNC from the unitary U-form (where functional units report to the general management) to the multidivisional M-form (where functional units report to the division head who, in turn, reports to general management) (Chandler, 1990). The key principle of M-form organization is a decentralization of authority and decision making across divisions. The corporate parent acting as HQs coordinates and controls divisions, which can be organized on the basis of product or geographic market (Strikwerda and Stoelhorst, 2009). A division, which can operate as a subsidiary or a business unit has a responsibility for value activities associated with a particular product or product line (O’Donnell, 2000). A subsidiary can be defined as an affiliate of a MNC located in a foreign country of which the parent company holds at least 51 percent of ownership (Bouquet and Birkinshaw, 2008).

The strategic business unit (SBU) organization exemplifies the principles of decentralization in the same way as the divisionalized form, except that the responsibility for performance and resource autonomy in SBU structure are delegated to managers of much smaller specialized business units, and it is upon the performance of these unit managers that input and output controls are focused. Hence, the principle of management of divisions and business units is very much the same, merely differing in the size of the subunit to which autonomy and responsibility
is granted (Hales, 1999). The division operating as a business unit targets a specific market. The manager of each business unit is accountable for creating economic value, which goes hand in hand with the delegation of authority. In order to create economic value, business units control all the resources they need to pursue a focused competitive strategy (Strikwerda and Stoelhorst, 2009). Additionally, the managers control the division’s operations and provide the corporate executive with an appropriate strategic information about markets and products. This requires intensive collaboration between business unit control center and the corporate parent (Forsgren, Hom and Johanson, 1995).

Decentralization within the management (divisional/business unit) in the organization is argued to have strong advantageous effects. It allows operating practises to be determined by divisional/unit managers who have specific local expertise about their products, markets, competitors and customers, which gives the organization greater flexibility and diversity (Hales, 1999). According to Birkinshaw, Braunerhjelm, Holm and Terjesen (2006), M-form structure allowed far greater operational and geographical diversity than had been possible under U-form, and it also stimulated emerge of business divisional/unit and corporate HQs.

After explaining the internationalization of firm’s operations, and the structure of MNC, the following section will elaborate on the internationalization of company management functions and the types of these functions in MNC.

**2.2. Internationalization of HQ activities**

The internationalization of HQ activities can be explained as “locating in other countries core management functions that before had typically been performed at headquarters at home or even relocating headquarters themselves abroad” (Benito, Lunnan and Tomassen, 2011:376). The relocation of HQ activities abroad is understood to be an advanced stage in the internationalization process. For instance, the first degree of internationalization is assumed to involve the transfer of functions such as sales, marketing and research and development (R&D) overseas (Forsgren, Holm and Johanson, 1995). The second degree refers to developing subsidiaries into strategic centres or centres of excellence with responsibilities beyond their local undertakings (Forsgren, Holm and Johanson, 1992). Consequentially, the phenomenon when
MNCs locate or relocate corporate or divisional HQs beyond their national borders has been termed as internationalization of the third degree (Barner-Rasmussen, Piekkari and Bjorkman, 2007). According to Benito, Lunnan and Tomassen (2011), corporate HQs relocations are rare, if to compare with divisional HQs, though there is an evidence of corporations moving their corporate HQs out of metropolitan areas such as New York and London. This tendency is revealed in the UNCTAD’s World Investment Report for 2003, which shows that there may be a general shift by companies that have cross-borders activities towards restructuring and relocating their corporate HQs (Ibid).

Once the firm reaches the advanced stage of the internationalization process, it may relocate HQ activities directly (direct relocation), or decentralize its activities to other units which are then relocated (indirect relocation). The latter type of relocation behavior may be difficult to identify thus may also be named as hidden. Further, relocation can also be full, partial or virtual. Full relocation means that the entire top management group and all HQ functions are moved. Partial HQ relocation implies that only few top managers of organization group and business activities are relocated. Finally, virtual relocation signifies that HQ management responsibilities are handled through travel and IT systems (Barner-Rasmussen, Piekkari and Bjorkman, 2007).

Moreover, while some firms may relocate all HQ functions to one location, others relocate them to multiple countries. Desai (2009) argued that corporate HQs fixed in one country is becoming outmoded as firms strive to maximize the opportunities created by global markets. In response to the discussion of Birkinshaw, Braunerhjelm, Holm and Terjesen (2006), the scholar (Ibid) stated that companies are increasingly unbundling their HQ functions such as finance, legal and managerial, and relocating them across nations.

The internationalization of HQ activities can be related to the concept of offshoring – a process by which companies carry out some business activities at offshore locations instead of their home countries of origin (Kumar, Fenema, and Glinow, 2009).
2.2.1. Types of HQ activities

Birkinshaw, Braunerhjelm, Holm and Terjesen (2006) define HQ of a modern MNC as having three essential elements: 1) a top management group that typically has an official location at which it meets, 2) a series of HQ functions that have the formal responsibility for fulfilling particular roles (such as treasury, investor relations, corporate communications and other), each one of which has an identifiable physical location, and 3) a legal domicile – the registration of the MNC in a particular sovereign nation, under which all other legal entities that make up the MNC can be grouped (in the case of corporate HQ but not the business unit HQ).

The authors (Ibid) distinguish between two types of HQs - **Corporate HQ and Business unit HQ**.

The corporate HQ has two main roles – **entrepreneurial and administrative**. The administrative role is primarily concerned with monitoring and controlling the activities of business units while the entrepreneurial role is more concerned with the creation of additional sources of value. Another important distinction of corporate HQs is **internally focused and externally focused** activities. The internally focused activities imply monitoring, evaluating, and developing the business units, and externally focused activities mean managing its interfaces with external stakeholders such as financial markets and shareholders (Ibid).

As for business unit HQs, they are responsible for the formulation and implementation of competitive strategy – the positioning of the business within the industry, and the means by which it strives to achieve above average returns within the industry. The business unit HQ is typically much smaller than the corporate HQ, and 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. Moreover it involves such activities as decision making, strategic planning, and strategic thinking (Ibid).

The types and roles of HQ activities we illustrate in the diagram below:
In terms of the actual activities and roles undertaken by HQs, Goold, Pettifer and Young (2001) classify three roles: *Minimum corporate parent role* (legal and governance activities); *Value added parenting role* (finding company-specific opportunities); and *Shared services* (activities such as IT, finance, and human resources).

Another level of management in MNC is represented by the **Regional Headquarters (RHQs)**. According to Yeung, Poon and Perry (2001), MNC establish RHQs to manage foreign activities. RHQ is a business establishment that has control and management responsibilities for the operation of one or more other subsidiaries or affiliated companies located on the same host region. The authors (Ibid) state that today in the conditions of complexity of the accelerated globalization, RHQs have a strategic role to control and coordinate value-chain activities in different regions. RHQ serves as two-way conduits of influence between various stakeholder groups in the host region and key-decision makers in parent firms at home.

### 2.3. Antecedents of HQ internationalization

The section above outlined three essential types of HQs: corporate HQs, business unit/divisional HQs and regional HQs. The following literature review will focus on explaining the internationalization of these types of HQ activities from two different perspectives: the drivers and the consequences of the phenomenon. The theoretical findings will be critical for the formulation of our research questions and building a foundation for the empirical investigation.
2.3.1. Drivers behind corporate HQ relocation

Using data on 35 corporate HQs and 125 business unit HQs of Swedish MNCs, Birkinshaw, Braunerhjelm, Holm and Terjesen (2006) identified a number of factors that drive MNCs to relocate their corporate and business HQs to foreign locations. Because the role of the corporate HQs was identified as being substantially different from the role of the business unit HQ, it has been assumed that drivers of HQ relocation are different as well. The drivers behind the relocation of corporate HQs were identified as follow (Ibid):

- The corporate HQs move to be closer to a major financial center, where it can have more efficient direct communication with institutional shareholders, analysts and investment banks.

- The corporate HQs move to be closer to a major financial center, where it can get a better access to capital markets as well as increase a visible presence in that markets. This makes investors more familiar with relocated company’s stock, which can result in a greater liquidity for the stock and broader shareholder base.

- To achieve strategic benefits. One of which could be making a visible commitment to the laws and regulations of the new host country, including its capital market regulations, its intellectual property rules, and its taxation regime. By making such a commitment, the MNC potentially can benefit from the higher-quality legal and regulatory regime, and it also sends signal to investors that it is operating with high standards of corporate governance.

- To get a greater proximity to specialized service providers (consultants, lawyers, accountants), and the availability of high quality executive talents.

- To overcome perception of a company constrained with local norms and expectations and to signalize to international banks and investors that the MNC is a player in the global financial markets.

- To build stronger relationships with international global customers, to compete effectively with global competitors and to create a “global” image.
2.3.2. Drivers behind business unit HQ relocation

According to the same research (Birkinshaw, Braunerhjelm, Holm and Terjesen, 2006), the factors that motivate MNCs to relocate their business unit HQs abroad are as follow:

- The business unit HQs move in pursuit of the sales and manufacturing activities that have already moved.
- The business unit HQs move to a location which is more attractive in comparison to the current host location (better business climate in comparison to home country).

According to Benito, Lunnan and Tomassen (2011), as the company grows, some of the foreign subsidiaries are given important roles in the MNC, what can lead to an increase in the numbers of divisional HQs abroad. The companies are motivated to relocate their divisional HQs to gain efficiency by co-locating with foreign subsidiaries. However, when the company becomes large, highly diversified and complex to manage, it is more likely that divisional HQs would be co-located with the corporate HQs.

2.3.3. Drivers behind corporate and business unit HQ relocation

Birkinshaw, Braunerhjelm, Holm and Terjesen (2006) distinguished three common reasons for relocation of both corporate and business unit HQs. They are as follow:

- Mergers and Acquisitions. In this case the company has three options – stay in the home country, relocate overseas or have a split HQ. Business unit HQs typically moves to the location closest to the center of gravity for the merged operation and/or industrial cluster while corporate HQs are typically influenced by the access to the capital markets or global competitors.
- Internal stimuli to which the authors assign shift in the center of gravity of the business or shift in the global outlook of the MNC (a reason only clear for insiders of the company and requires a lengthy analysis for the outsiders). It has been claimed that some companies move corporate or business unit HQs mainly for particular internal reasons (such as dissatisfaction with home country business climate), however may officially state other types of motives more obvious for external stakeholders.
- To avoid external threat from host regime. The companies tend to seek low-risk legally
developed environments or prefer to move HQs to another country for different reasons,
such as conflict with the home government, stringent patent regulation and other.

Moreover, the scholars (Ghosh, Rodriques and Sirmans, 1995) claimed that one of the most
frequent reasons for HQ relocation is cost savings. If the cost savings exceeds relocation
expenses, shareholder wealth enhances. The cost savings include lower taxes, reduced rents,
utilities and transportation expenses. The company also reduces costs by combining the
operations, and getting closer to its customers and suppliers.

According to Barner-Rasmussen, Piekkari and Bjorkman (2007), that conducted an in-depth case
study of four large Finnish MNCs identified that the key drivers for HQ relocation can be placed
in a system with two dimensions – symbolic and pragmatic. Pragmatic are somewhat more
practical, business-optimizing reasons such as shorter travelling time to acquired units, recruiting
global talents, improving communication between parent company and owners, easy logistical
location, good country specific conditions. Symbolic dimension on the contrary evaluates the key
drivers from a non-tangible perspective such as showing commitment to acquired units, acquiring
global mindset, enacting corporate strategy, image of a target location as an attractive place to
live, etc.

2.3.4. Drivers behind regional HQ relocation

According to Lassere (1996), two factors lead to a company setting up RHQs in the Asia Pacific
region. First, it is the complex nature of the Asian environment, which requires companies to
mobilize their forces and focus their energies through the sharing of information and knowledge,
the transfer of best practice, and the stimulation and support of local strategic initiatives in a
coordinated and targeted manner across the region. Second, it is the need Western firms feel to
increase their presence in the Asia Pacific region.

In terms of relocating RHQs to Europe, Ambos and Schlegelmilch (2010) found that MNCs from
United States (US) establish their RHQ in Europe for different reasons. The research showed
three main reasons (based on example of three MNCs) to establish an RHQ in a particular
country:
- In 1990, Ford Motors wanted to reposition itself and be identified as a leading manufacturer of top-quality automobiles. During this time, Germany had the largest sales volumes for Ford (Ford split RHQs between England and Germany).
- Favorable business country environment – tax incentives, economic reasons, access to various types of transportation and talented work force as well as to be closer to European consumers (European RHQs of Nike in the Netherlands).
- Proximity to political policy decision makers (Pfizer’s Central and Eastern Europe RHQs based in Brussels, Belgium).

2.3.5. Consequences of HQ relocation

According to Gregory, Lombard and Seifert (2005), the HQ relocation abroad increases operating costs of organization because such operation activities as human resources play more active role in the overall process of the relocation. Furthermore, as revealed by Barner-Rasmussen, Piekkari and Bjorkman (2007), it creates high travelling costs and communication gaps between the organizational units. Following the research of Desai (2009), it can be assumed that firms whose legal functions have been relocated to a country with weak investor protection have been shown to have higher financial costs because investors consider such firms riskier. Furthermore, according to the latest research of Larsen, Manning, and Pedersen (2011), firms can face unexpected or “hidden” costs of relocating business activities outside the home country. The authors argued that initial motivations and expected benefits of offshoring business activities are not always achieved, and the relocation of business activities can turn to be more costly and less beneficial than expected. They claimed that hidden costs emerge in an organization because the relocation of business activities around the world increases number of interactions and interdependences in the entire organization system. The interdependence can be defined as the extent to which the organization’s task requires its members to work with one another (Cheng, 1983). The growing number of interactions and interdependences increases the overall complexity in an organization, which in turn increases the unexpected costs such as costs of coordination, knowledge transfer, new interdependences, training and coaching, protection of intellectual capital, monitoring and controlling of performance of offshoring units, etc. Hence, the hidden costs are closely associated with the overall complexity of offshore operations, which eventually might weaken firm’s performance. According to the authors, the offshore complexity
includes structural, operational, and social complexity. Structural complexity refers to the increasing interdependences between functional units across country borders. Operational complexity refers to the break-up of the operations creating more interdependence. And social complexity means the lack of face-to-face interaction, as well as cultural and language differences between employees at geographical dispersed locations as a result of undertaking business activities in a foreign country. On the other hand, it has been argued that offshoring may improve firm’s performance through cost-advantages, quality improvement and innovation (Ibid).

2.4. Conclusion of Literature Review and Research Questions

After looking at different theories and points of view of researches and academics in the field of business internationalization, we are now in the position to summarize the theoretical arguments as to why some MNCs move HQs abroad and what are the outcomes of this corporate change.

Starting with the internationalization of MNC in general, the theories outlined in this paper provided insights into the broad range of factors that encourage firms to exploit foreign market opportunities. Building upon these investigations it becomes obvious that the internationalization is driven by various opportunities and prospects that companies can benefit from by expanding the business activities abroad. These opportunities include the better access to new markets, the opening of low-cost resources of skills, information and knowledge, as well as the possibility to boost the financial prosperity. Besides that, firms internationalize in effort to reduce their business risks, to build a competitive advantage and protect their existing target markets. However, the internationalization theories cannot be free of criticism. Can these theories explain the internationalization today? According to Axinn and Matthyssens (2002), the existing internationalization theories are inadequate to explain the behavior observed in firms today because companies are internationalizing in greater numbers than ever before and they are internationalizing faster than ever before. Moreover, the companies are internationalizing in more different ways and often using combinations of entry and exit strategies. As can be seen in the literature review of our thesis, most theories of internationalization have been developed in the 1970s and 1980s. Since then, the business world has changed drastically and therefore, the theories developed at that time barely can grasp the observed internationalization practices of firms today (Ibid).
Further, from our literature review we can conclude that the internationalization is a progressive process where firms pass through different stages of increasing international commitment. The strategic decision to relocate HQ to a foreign country is regarded as the third stage in this internationalization process stimulated by the internal and external company drivers. Although the internationalization of the firm has been widely studied by numerous researchers for several decades, the strategic decision to relocate HQ in a foreign country has attracted far less academic attention. In comparison to a number of articles on the internationalization theories, we find only several academic works on the internationalization of HQ activities, especially in terms of reasons and consequences of this phenomenon. For instance, looking at the recent literature on the drivers for HQ relocation we found the paper of Birkinshaw, Braunerhjelm, Holm and Terjesen (2006), examining MNC’s decision to relocate its business unit and/or corporate HQ overseas. The authors argued that the drivers for HQ relocation overseas strongly depend on the type of HQ whether it is business unit/division HQ or corporate HQ. The research showed that business unit HQs typically move abroad to follow their existing activities (already moved) such as sales and manufacturing, while corporate HQs move to be closer to important external stakeholders such as shareholders and financial markets. Another academic work of Barner-Rasmussen, Piekkari and Bjorkman (2007) conceptualised HQ relocation through pragmatic and symbolic dimensions. In addition, the authors identified a diversity of relocation patterns such as direct, hidden, full, partial and virtual. Furthermore, the recent research of Desai (2009) predicted that in order to maximize firm’s value, the companies are increasingly unbundling their HQ functions such as finance, legal and managerial, and relocating them to different locations in which value creation can be maximised. Finally, the latest research made by Benito, Lunnan and Tomassen (2011) proposed that the relocation of divisional HQs abroad are driven by efficiency factors. However, from the critical point of view, most of these theories were based on the studies that were focused mainly on the Nordic origin companies. For instance, Barner-Rasmussen, Piekkari and Bjorkman (2007) conducted their research based on examples of four Finnish companies. Birkinshaw, Braunerhjelm, Holm and Terjesen (2006) made a research of Swedish corporations. Benito, Lunnan and Tomassen (2011) focused on the companies originating from Norway. Therefore, as acknowledged by Birkinshaw, Braunerhjelm, Holm and Terjesen (2006), it is appropriate to extend the study of HQ relocation to a wider range of companies originating from such countries as Canada, United States, Australia, South Africa and Singapore. Moreover,
while most of the academics attempted to explain the drivers for HQ relocation in terms of corporate and business unit/divisional HQs, to our knowledge, there is relatively little research made on the drivers for relocating regional HQs.

Comparing with the academic literature on the drivers, there is even less research of the consequences of HQ relocation. According to the previous scholarly works, it is known that HQ relocation to a foreign location involves operational, financial, travelling and communication costs (Gregory, Lombard and Seifert, 2005; Desai, 2009; Barner-Rasmussen, Piekkari and Bjorkman, 2007). Moreover, in the recent academic paper of Larsen, Manning, and Pedersen (2011) it has been investigated that offshoring triggers hidden costs, which can be explained by a degree of offshoring complexity. The theoretical assumptions developed in this article are used as a key theory to understand the consequences of HQ relocation in our thesis. However, while the paper (Ibid) clearly defined the association between the costs and increased organizational complexity, to our opinion, it provided little contribution to the field of research about the positive effects of offshoring on MNC.

Based on the gap identified in the academic literature, our study suggests the possibility of developing a richer assessment of HQ relocation particularly in terms of reasons, and most importantly the consequences of this event. Moreover, by conducting the empirical study we attempt to go beyond the scope of what have already been done before and investigate the topic of HQ relocation from the perspective of MNCs that originate from a wider range of countries such as United States, Australia, South Africa and Hong Kong.

Building on the gap in prior literature we are now in the position to formulate the research questions of the study.

**The research questions are:**

1. Why do the MNCs relocate their headquarters overseas?
2. How does the headquarter relocation affect the MNC and its stakeholders?
3. EMPIRICAL STUDY

3.1. Methodology

3.1.1. Multiple Case Study Approach

Due to the fact that the objective of our study is to enhance the understanding and gain insights into the subject of HQ relocation, we have chosen to use the qualitative research method. Qualitative research refers to the research strategy that emphasizes words rather than quantification in the collection and analysis of data. Qualitative inductive research approach means moving from specific observations to broader generalizations and theory (CBS-Handelshøjskolen, Department of Organization, 2007/2008). In our research we use qualitative inductive research method however we do not aim to generalize findings but rather provide profound insights and details on the phenomenon of HQ relocations mainly in terms of the reasons and consequences. According to Blumberg, Cooper and Schindler (2005), qualitative research is of special value if the study has the exploratory nature. Our research has both descriptive and exploratory nature, where descriptive nature refers to describing the HQ relocation from the viewpoint of other researches (literature review), and exploratory refers to collecting original data and making our own investigations and analysis on the phenomenon.

The data for our empirical analysis are obtained from the multiple case studies where the emphasis is on exploring the phenomenon of HQ relocation and finding out in-depth details about what motivates MNCs to relocate their HQs to a foreign country and what consequences of this relocation might be. The multiple case study method is perceived to be the most appropriate for the research questions raised in this thesis. As stated by Yin (2003), case study approach is preferred when “how” and “why” questions are posed, which links with the nature of our research questions. Moreover, the qualitative case study research is a very useful method that allows expanding theories by combining the existing theoretical knowledge with the new empirical insights (Yin, 1994), this is especially important for the subjects that have not attracted much previous research attention, which is relevant for the area of our research. Moreover, we use a multiple case study approach because it allows us to explore differences and similarities between cases which is more advantageous in terms of being more robust and reliable (Baxter and Jack, 2008). Barner-Rasmussen, Piekkari and Bjorkman (2007) describes the case study
method as particularly relevant for researching phenomenon of HQ relocation due to its partly hidden nature.

However, we acknowledge that multiple case study method also has disadvantages. According to Vissak (2010), case descriptions maybe abundant and too long as sometimes researches get overwhelmed by the volume of information collected and can lose the sight of the most important issues. In order to overcome this disadvantage, our focus is to collect the data that is particularly relevant for our research questions and prepare as much specific case descriptions as possible. The author (Ibid) also mentions that the time and financial constraints limit the number of selected cases and may force researches to conduct the research only in one country. To overcome this disadvantage, for our research we only use information available in secondary sources such as Factiva database and company web-pages, which allows us to collect the data about the companies from different countries, industries, and assess the evolution of the HQ relocation process within a longer period of time starting from the initial steps to relocate HQs abroad, and finishing with the consequences of this event. Besides, as we are not involved in the interviewing process, but collecting pieces of information provided by the companies and media and uniting them into a bigger picture, we present the data in the most objective way.

As for the number of case studies, according to Eisenhardt (1998), a study of four to ten cases usually works well. We consider that with fewer than four cases it would be difficult to make a relevant discussion and analysis, and as stated by the author (Ibid), with more than ten, the volume of data would be difficult to cope with. In our paper we decided to research ten companies in order to provide rich and valuable findings on the phenomenon.

3.1.2. Procedure of Data Collection and Sampling

As in the scope of our research we are interested only in international companies that have previously relocated their HQs abroad, the first step was to identify them. A number of case companies for our study we found reading through academic articles, and a number of them were identified in the Factiva database. Factiva is a leading provider of global business news and information with content from more than 28,500 specialized publications and 900 newswires from 200 countries with 30 years of archives.1 From a larger sample of companies, that have

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undertaken HQ relocation, we have selected ten most illustrative and representative cases, with clearly identifiable reasons and consequences of HQ relocation. Therefore, we used a non-probability sampling method, in particular judgmental sampling technique (Malhotra, 2009). This type of sample does not imply a random choice of object for the research. Besides, the decision to include a particular company in the sample was based on our individual judgments and preferences, which were as mentioned above, clearly identifiable reasons and consequences of HQs relocation. This type of sample has one main drawback – the impossibility to extrapolate the results on the total population (Ibid) of companies that have ever relocated their HQs abroad, what clearly does not represent the aim of our research, which is explorative by nature.

The characteristics of ten companies selected for our case study are presented in the table below:

Table 1. Characteristics of ten sample companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
<th>HQ relocation</th>
<th>Date of relocation</th>
<th>Country of origin</th>
<th>New host country</th>
</tr>
</thead>
<tbody>
<tr>
<td>News Corporation</td>
<td>Media</td>
<td>Corporate HQ</td>
<td>2004</td>
<td>Australia</td>
<td>United States</td>
</tr>
<tr>
<td>Ericsson</td>
<td>Telecommunications</td>
<td>Unbundling of HQ activities</td>
<td>1998</td>
<td>Sweden</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Old Mutual</td>
<td>Insurance and financial services</td>
<td>Corporate HQ</td>
<td>1999</td>
<td>South Africa</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Ford Motor</td>
<td>Automotive</td>
<td>RHQ</td>
<td>First relocation: 2002; Second relocation: 2009</td>
<td>First relocation: United States; Second relocation: Thailand</td>
<td>First relocation: Thailand; Second relocation: China</td>
</tr>
<tr>
<td>IBM</td>
<td>Personal computers and hard disk drives</td>
<td>Procurement HQ</td>
<td>2006</td>
<td>United States</td>
<td>China</td>
</tr>
<tr>
<td>SABMiller</td>
<td>Breweries</td>
<td>Corporate HQ</td>
<td>1999</td>
<td>South Africa</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>HSBC</td>
<td>Financial services</td>
<td>Corporate HQ</td>
<td>1993</td>
<td>Hong Kong</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Otis Elevator</td>
<td>Elevators</td>
<td>RHQ</td>
<td>2003</td>
<td>Hong Kong</td>
<td>China</td>
</tr>
<tr>
<td>Anglo American</td>
<td>Mining</td>
<td>Corporate HQ</td>
<td>1999</td>
<td>South Africa</td>
<td>United Kingdom</td>
</tr>
<tr>
<td><strong>Tetra Pak</strong></td>
<td><strong>Food Processing and Packaging</strong></td>
<td><strong>First relocation:</strong> Corporate HQ; <strong>Second relocation:</strong> Unbundling of HQ activities</td>
<td><strong>First relocation:</strong> 1981; <strong>Second relocation:</strong> 1992</td>
<td><strong>First relocation:</strong> Sweden; <strong>Second relocation:</strong> United Kingdom</td>
<td><strong>First relocation:</strong> United Kingdom; <strong>Second relocation:</strong> Sweden</td>
</tr>
</tbody>
</table>

After having identified the companies for the research, we went further in exploring the fact of HQ relocation by researching the companies’ websites, annual reports published online, and Factiva database. This multiple data collection approach referring to *data triangulation* (CBS-Handelshøjskolen, Department of Organization, 2007/2008) enabled us to yield different kinds of information and different perspectives on the issue necessary to answer our research questions.

The process of our data collection is illustrated in the following diagram:

*Figure 2. The process of data collection*
3.1.3. Techniques of Data Analysis and Interpretation

The data gathered from the cases was analyzed in the light of two research questions of our study. The data analysis procedure was conducted according to the data management system proposed by Miles and Huberman (1984), which comprises of three interrelated sub-processes: data reduction, data display and conclusion and verification. In the phase of data reduction the collected data was reduced and transformed in order to make it more readily accessible, understandable and to form informative case study. While searching for the information about the case companies we came across with voluminous data in terms of different aspects of the company. From this great amount of information our focus was to find the evidence of HQ relocation. The whole process of data reduction included searching, reading, focusing, simplifying, and transforming raw data into a more manageable form in order to present logical, reflective and insightful case descriptions. Once the case descriptions were completed, the next step in the data reduction process was reading through the cases and identifying similarities and data associations. Once the key patterns of the data were identified, we were ready to discuss the findings. The discussion was made on the basis of material found in existing literature (as we spiraled back and forth to our theoretical findings) as well as based on the data from the case studies. These two lines of findings were compared and combined in order to answer our research questions and provide an interesting and comprehensive picture on HQ relocation. We performed data display using tables and figures to illustrate our findings. Yet, we did not make definitive conclusions during this preliminary phase in the research process, but rather held an open and perhaps even a tentative point of views. The conclusions drawn from the patterns apparent in the data were verified to assure that they are real, and not merely our thinking. This was accomplished by checking carefully and revising the data-reduction and data-display activities. Moreover, by using multiple data sources such as Factiva database, publications, annual reports, information memorandums, press releases, and web-pages also provided a verification of key findings of the study. Eventually, after the data has been reduced, displayed, and verified, the analytical conclusions of our study were made.
3.2. Case Descriptions

3.2.1. News Corporation

General Company Information

The News Corporation Limited (News Corporation) is a diversified global media company directed by Rupert Murdoch a chairman and Chief Executive Officer (CEO). The corporation is engaged in a number of businesses (filmed entertainment, television, cable network programming, direct broadcast satellite television, magazines and inserts, newspapers and information services, book publishing and other businesses) through its subsidiaries. The company primarily operates in North America and Europe. The company’s origin date is 1923 when News Corporation was started as a publishing business of a daily newspaper in Adelaide, Australia. The company has expanded and diversified its operations across different markets and media forms through both organic development and acquisitions.

Reincorporation and HQ Relocation

In April 2004, The News Corporation announced a proposal to restructure the company. In commercial terms, one of the keys elements of the proposal was the creation of a new company (“News Corp US”) as the ultimate holding company for the News Corporation Group. News Corp US was incorporated in Delaware, the US and had its primary listing on the New York Stock Exchange (NYSE). Shareholders of the News Corporation (Australia) effectively exchanged their shares for corresponding shares in News Corp US (Ibid). The reorganization also included the relocation of the corporate HQs from Adelaide, Australia to New York, US. After months of debate over the deal of the reincorporation and the relocation of HQs overseas, more than 90 per cent of the company’s investors voted in favor of Rupert Murdoch’s plan. News Corporation was reincorporated in New York City where it generated more than 75 per cent of its earnings in 2004.

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The Reasons for the Reincorporation and HQ Relocation

- To attract institutional investors;
Rupert Murdoch argued that shifting of News Corporation’s primary share listing to the NYSE could attract more institutional investors and boost access to US capital markets (Ibid). In the Annual Report for 2004 Murdoch stated: “We undertook this move for one reason: to create greater value for the shareholders. For more than 80 years, the company has proudly called Australia its home. It is where the company was founded, nurtured, and from where we get our entrepreneurial spirit. Australia is our spiritual home and will always remain so. But over the past two decades, as more of the company’s revenues and profits have come from our US based businesses, it has become increasingly clear to us that without a primary listing on the New York Stock Exchange and eligibility on US indices, our shareholders would never experience the full benefits of our achievements. Consequently, using a process that will allow us to move our domicile without financial cost to the company or the overwhelming majority of its shareholders, we have put forth for your approval a plan that the News Corporation Board of Directors unanimously believes will make the company a more attractive investment for current and future shareholders. The move will have no discernible impact on our operations, in Australia or elsewhere. We will remain a proud and vital part of the Australian media landscape with a listing on the Australian Stock Exchange – now and for generations to come.”

More specifically, Rupert Murdoch and the Directors of News Corporation believed that the reincorporation and the relocation to US had the following key benefits for the company:

- Enhanced US-based demand for the company’s shares, over time, resulting from an expanded active US shareholder base and the expected inclusion in major US indices;

The US capital markets are the largest and most liquid capital markets in the world. It is substantially larger than the Australian capital markets and generally provides significantly

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greater liquidity. As a result, companies primarily listed in the US have improved access to larger amounts of capital and better able to raise capital in short order and at attractive costs. The Directors also believed that the proposed transaction would create an opportunity for News Corp US’s shares to be included in the Standard and Poor’s 500 and other major stock indices in the future.

- Full consolidation and control of the Queensland Press Pty Ltd (QPL) Publishing Business, a newspaper business with strong growth and profitability characteristics;

As part of the proposed transaction, News Corp US acquired 58.34 per cent of the QPL Publishing Business. News Corp US could benefit from the access to all of the cash flow generated by this profitable business. Therefore, the directors believed that the acquisition of the QPL Publishing Business was an attractive acquisition.

- US financial standards of External Reporting;

The Company expected to benefit from changing the standards of reporting according to the manner consistent with News Corporation’s peer groups in the US. Reporting financial information in a manner consistent with its peers would help News Corp US to assist analysis and understanding of the company by equity research analysts and institutional investors.

The Consequences of the Reincorporation and HQ relocation

- Disagreements with shareholders;

In 2004 the board of directors was seeking for shareholder approval to reincorporate the company in Delaware in US and relocate its corporate HQs to New York. In return for approving the move, shareholders insisted on the short term takeover approach (known as poison pill) promise, as well other assurances of improved corporate governance that would balance the power of the Murdoch clan, which owned 30 per cent of News Corp’s outstanding common stock. Shareholders considered these assurances necessary before agreeing to reincorporation because Australian corporate law generally provided greater protections for shareholders than corporate law in US. News Corporation’s shareholders feared that given free reign under Delaware law, News Corporation could adopt anti-takeover provisions that would allow them to become permanently entrenched and impervious to shareholder and outside scrutiny. A poison pill worked as a defense.
to a hostile takeover, triggering certain provisions upon the commencement of a takeover attempt. Those provisions might have resulted in the issuance of new preferred shares that carried severe redemption provisions or other options that acted as a strong disincentive to a takeover by diluting the value of some shareholders’ stakes and dramatically increasing the costs of a takeover. As part of the negotiations prior to its reincorporation in 2004, News Corporation endorsed a policy stating that if the company adopted a shareholder rights plan without shareholder approval, that plan would expire after one year and could not be extended unless ratified by shareholders. That policy was filed with the Australian Federal Court in connection with its approval of News Corporation’s reincorporation in Delaware. Relying on that policy, shareholders voted to approve the reincorporation, which became effective on November 12, 2004. However, on August 11th in 2005, News Corp. unilaterally announced that come November 8 the company would extend its poison pill provision for two more years. The shareholders felt betrayed for voting to approve the switch from Australian incorporation to Delaware reincorporation, on condition of short-term poison-pill provisions. A group of international institutional investors brought suit against News Corporation to compel the media conglomerate to abide by a promise it made to shareholders less than a year ago that it would not extend poison pill provisions beyond 12 months without expressing shareholder approval. The suit was filed in Delaware Chancery Court seeking to enjoin the extension of the poison pill until News Corporation puts the provision to a shareholder vote as promised.7

- **Difficulties in attending annual general meetings;**

The change from an Australian incorporated entity raised a number of governance issues for shareholders, particularly for Australian shareholders, including the following: News Corp US shareholders were not able to call shareholders meetings in the same way in which they could under Australian law. Meetings were only called by the board of directors, chairman or vice chairman of News Corp US. This inhibited, for example, the ability to remove directors at the behest of shareholders. News Corporation had a long history of holding its annual general

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meeting in Adelaide, South Australia therefore it became impractical for most Australian based shareholders to attend the meetings exposed in US.\textsuperscript{8}

- Record profits and Strategic investments in new media;

One year after the reincorporation the Rupert Murdoch announced: “<…> Over the past year we completed our reincorporation to the US, as well as obtained full ownership of several key assets, including Queensland Press, the Fox Entertainment Group, SKY Italia and several regional sports networks. And we finished the year in our strongest financial position ever with over 6 billion US dollars in cash facilitating our 3 billion US dollar stock buyback program and enabling us to make strategic investments, especially in new media. So while we generated record financial results this past year, I believe we have made the right strategic and operational moves to secure our momentum heading into fiscal 2006.”\textsuperscript{9}

3.2.2. Ericsson

General Company Information

Ericsson’s core business is providing communications networks, telecom services and multimedia solutions. The company was founded in 1876 in Sweden. Today Ericsson has customers in more than 175 countries; the net sales of the company for 2009 were 206.5 billion Swedish krones (27.1 billion US dollars), and the company employed more than 82 thousand people worldwide.\textsuperscript{10}

Relocation of HQ Functions

The relocation of HQ functions started in May 1997, when the company announced the relocation of management for Transport and Cable Networks Unit from Sweden to United Kingdom.\textsuperscript{11}

However, the speculations regarding Ericsson’s HQ relocation began to appear in March 1998, when the company made a statement about the possible switch of HQs from Stockholm to

\textsuperscript{10} Ericsson, 2010. Ericsson in brief. This is Ericsson. [online] Available at: <http://www.ericsson.com/res/thecompany/docs/corpinfo/this-is-ericsson.pdf> [Accessed 5 April 2011].
London after the information that the company had been looking for office facilities in London became public.\(^{12}\) Already at this time the company was famous for its former Chief executive, Lars Ramqvist, criticizing the economic environment of Sweden, including the tax burden the company had to face and the problem of recruiting top-grade managerial staff. Ramqvist made a quite political statement that high personal income tax provoked the outflow of skilled engineers and researches from Sweden in the search of a more attractive environment.\(^{13}\)

In August 1998 it was announced that Ericsson had bought an office building in St James’s Square, London, involving an investment worth about one billion Swedish crowns. The company said, that part of the company located in United Kingdom, would move into the new office, and the possible relocation of other operations would be decided based on the review of the entire organization, that was in process and was started by a new chief executive of Ericsson.\(^{14}\)

In October 1998 the company officially announced the relocation of some corporate functions to London. It was mentioned that finance division and parts of marketing functions would be moved\(^{15}\). While R&D would remain in Sweden as 50 per cent of research and production were originating from there. Ericsson’s R&D operations employed around 12,000 engineers in Sweden; in 1997 alone the company increased the number of research engineers by 1,500, despite the complaints that not enough was spent in Sweden on university level education in science and technology.\(^{16}\) The Chief Executive of the company would have an office both in London and Stockholm, while the legal entity would still remain in Stockholm.\(^{17}\)

The company also revealed a plan of company reorganization – a matrix structure with both geographical and business lines - despite five units based on products, the company was going to have business segments based on customer lines starting from 1999. The profit responsibility was decentralized to smaller units; however strategic decisions would be taken by corporate executive


team, which in addition to Sweden, would be based in four geographical areas (Ibid). The company established four corporate offices outside London to handle markets locally, showing that the company was opting for a matrix structure in which it would run on both business and geographical lines.¹⁸

The new offices would be responsible for Europe, Africa and the Middle East, based in London; North America; Latin America; and Asia and Oceania.¹⁹

**The Reasons for the Restructure and HQ Relocation**

The reasons to move management for Transport and Cable Network Unit in May 1997 were the following²⁰.

- *To create a new improved business climate* (better conditions to achieve profitability goals of the segment, which did not meet the expectations for the last couple of years).

- *To strengthen company’s position in the segment* (being closer to customers, reduce times to market).

- *To lower the costs of the unit* in the long term and facilitate the process of recruiting new employees with required technical skills.

- *To exploit the synergy* of the unit’s business scope and the conditions that existed in the United Kingdom.

When the company officially announced about the reorganization and relocation of some corporate functions, it justified the decision accordingly - *to be more international and competitive in the fast-paced global telecoms industry, streamlining its structure and setting up a second headquarters overseas*.²¹ The spokesperson of the company gave a reason, why London

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was chosen as a second location for the HQ: “Ericsson sees an increased need to be represented in London, partly in order to be close to important customers, cooperating partners, financial centres and markets.”

In his interviews to the media Sven-Christer Nilsson, the successor of Ramqvist (who became a chairman of the company) denied, high taxation as a possible reason for the relocation, but justified the decision by a purely strategic reason of coming closer to customers and owners: “Ericsson has 50 per cent of its owners outside of Sweden, we have 50 per cent of employees outside Sweden and we have 96 per cent of our sales outside of Sweden. So it should be seen in that light - to actually come closer to our customers and our owners.”

Today the shares of Ericsson are no longer listed on London stock exchange. The Ericsson series B shares have been listed on the LSE since 1960. However, in 2008, trading in the company’s series B shares on the LSE has corresponded to less than 1 percent of the total trade in the company’s series B shares, which in Ericsson's view did not justify the costs of maintaining the listing.

The journalists have also mentioned the following hidden reasons for relocation:

- Tax benefit for senior staff, providing better possibilities to attract and recruit top international managers and researchers (as a warning to the Swedish government on the consequences of high income taxes).

- To improve company’s performance; There was an opinion that, that reorganization generally happens when the company’s business is not running smoothly, and that Ericsson was losing its’ share to the rivals. Analysts positively assessed the reorganization and set up of a second HQ, as a strategically beneficial decision, that would make it easier to hire international management

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staff by setting up regional offices and at the same time would help to avoid the criticism of moving its HQs abroad.26

- The influence of a powerful shareholder of Ericsson – Percy Barnvik, chairman of investment group Investor AB. He was involved in the changes of such Swedish companies as appliance maker AB Electrolux and roller bearings maker AB SKF to make them more competitive.27 Percy Barnvik said that a move to relocate HQ would be justified only if it promised savings of more than 20 per cent on headquarter costs.28 Meanwhile, the spokesperson of Ericsson said that: “This is not about savings but how to make the company more efficient”. 29

The Consequences of the Restructure and HQ Relocation

- Job restructuring:
In the first announcement from 1998, Ericsson said it would cut about 11,000 of its 104,000-person labor force. But later in 1999, that number was projected to leap to approximately 14,000 during the following two years.30 Of the cuts, 3,300 were made in Sweden. According to Ericsson, the rapid technological development and new work methods which were less labor-intensive meant that fewer staff was needed worldwide within the company.31 Lars Stalberg, Senior Vice President of communications for Ericsson said: “Those cuts may take place because of outsourcing of certain activities or divesting of activities. Some jobs may simply be moved from one area of the company to another. Of course, there are no certainties or guarantees in our industry. It is a very rapidly changing environment, and we all have to face the fact that continuous change and continuous adaptations to new technology [are] a fact of life”. Moreover, in addition to employee lay-offs, the company ousted its president and CEO Sven-Christer

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Nilsson after only 15 months at that post. The company cited Nilsson’s failure to expedite and speed the restructuring process as the cause for his removal.32

- Disappointed investors;

“Investors have lost a lot of confidence in the management of Ericsson,” said one stockbroker in Stockholm. Ericsson attributed its troubles, at least in part, to the global economic slowdown, but the market blamed directly the company itself. The reasons of investor disappointment were company’s disability to keep up with rivals, and failing to introduce newer, fancier mobile phones in a timely fashion. It was also slow to add attractive Internet technology to its conventional phone switches, and had failed to outline a convincing strategy for its future. Moreover, Ericsson’s profit warning came just weeks after the company stated that it aimed to have its profit and sales growth exceed average market growth in the next few years. Ericsson made it clear that underlying earnings were likely to decline in 1999 to 16.7 billion Swedish kroner from 18.2 billion Swedish kroner in 1998. Ericsson also indicated that restructuring charges might have exceeded the 3 billion Swedish kroner planned for 1999 and 2000.33 “We have spoken to international investors and they are seriously wondering what is going on. It is a bit of a problem,” said Johan Standberg, analyst with Deutsche Morgan Grenfell in Stockholm.34

3.2.3. Old Mutual

General Company Information

Today Old Mutual is an international long-term savings, protection and investment group, based in London, operating in 33 countries, and serving more than 15 million customers. The company has the following businesses – long-term savings, US asset management, Banking and short-term insurance. The operating profit of the company for 2010 reached 1,481 million British pounds.35

Demutualization and HQ Relocation to London

The company became a shareholder-owned company after the demutualization process in May 1999, which marked the beginning of a new era for the 155 year old organization.\(^{36}\) Old Mutual established the HQs of a new holding company, Old Mutual Plc, in London but retained its South African (SA) base in Cape Town on demutualization.\(^{37}\) Even though Old Mutual became incorporated in Britain and paid British taxes it created a South African holding company to cover its assets there.\(^{38}\)

**The Reasons for HQ Relocation**

The rationale of moving the corporate HQs to London and taking a listing on the London Stock Exchange (LSE) included the following:

*To achieve financial advantages;*  
Old Mutual, demutualized in 1999 and switched its HQs to London in order to be able to join the Financial Times Stock Exchange 100 stock index (FTSE 100) - the top 100 United Kingdom (UK) – listed firms by capitalization. By joining FTSE 100 the company was able to gain greater liquidity for the stock, a broader shareholder base, and a greater market capitalization (Peng, 2009). In terms of the greater liquidity for the stock, Old Mutual successfully argued it needed to list in a large and liquid market such as London so that shares sold could be easily absorbed.\(^{39}\) In terms of capitalization, Old Mutual’s Chairman Mike Levett said that the listing would give the group access to capital for future growth. Its southern African operations were not in immediate need of capital, but the listing could provide the opportunity to raise new capital to accelerate development of its international operations.\(^{40}\) Listing in London also provided an opportunity to get an access to cheaper capital that the company said it intended to use to buy businesses

specializing in asset management and savings products.\textsuperscript{41} By moving the HQs to London and taking a listing Old Mutual expected to become the UK’s fifth biggest quoted life assurer.\textsuperscript{42}

- \textit{Attractive UK laws and regulations;}
By moving to London, the firm also intended to benefit from its visible commitment to the laws and regulations of the new host country. By making such a commitment, Old Mutual was able to benefit from the higher quality legal and regulatory regime. This benefit was especially important because Old Mutual was the firm based in the emerging economy such as SA where local rules were not world-class. Besides, a lack of confidence of South Africa’s political stability drove Old Mutual to move to London (Peng, 2009).

- \textit{Corporate reinvention;}
The decision to move HQs to London, following the huge South African companies such as SABMiller and Anglo American Corp, reflected a strong desire for corporate reinvention after decades in the apartheid cold.\textsuperscript{43}

\textbf{The consequences of HQ Relocation}

- \textit{Worsening relationships with SA authorities;}
When moving to London, Old Mutual employed lawyers, brokers and corporate advisors based there. Surely that business was taken away from South African companies. The worry over job losses in a country wrestling with formal unemployment of 30 percent set Old Mutual in conflict with the influential Congress of South African Trade Unions (COSATU) (Ibid).

- \textit{Lost dominance in SA;}
Old Mutual used to be the quintessential South African institution — the dominant savings institution in South Africa since its formation in 1845. But it lost its way when Levett decided to list the group in July 1999 on the LSE. According to analysts, if Old Mutual had wanted to

remain the dominant South African player, it would not have needed to list in London in 1999.\textsuperscript{44} However, the move to London followed a series of poor decisions to acquire the wrong companies. “It is just shocking to recount how many billions of dollars of value has been destroyed at Old Mutual since the listing in July 1999,” says one of the experts to the media (Ibid).

-Failing to meet shareholder expectations;
When Old Mutual demutualised in 1999 and shifted its primary listing to London, it acquired businesses in the UK and US, which initially failed to meet shareholder expectations. The time Old Mutual took to build a compelling international business highlights the challenges and costs were faced when expanding overseas. Old Mutual was much criticized for its rapid expansion across international borders. Such incidents as September 11 attacks on America and the subsequent fears, and the global economic slowdown, impacted the financial results of the company, however the analysts were more concerned with the company’s long-term strategy. They believed there was an apparent lack of focus within Old Mutual, saying the company was “perhaps a little too ambitious to expand globally”: “The company has got a little bit of insurance, they have gone into Pakistan, they have gone into India, they have gone into the US, then they got Gerrard, plus they have got the local operation. It would have been better to have bought one big operation offshore which closely fitted to the culture of Mutual down here.”\textsuperscript{45}

-Market Expansion;
However, by listing and relocating its corporate HQs to London, Old Mutual gained a promising financial services supermarket in the UK, a European franchise and a presence in a number of other markets. Its footprint in 2006 extended to forty six countries, a far larger universe than just SA, the UK and US.\textsuperscript{46}

-Increasing South African government’s concerns;

\textsuperscript{44} Cranston, C., 10 September 2010 a. OLD MUTUAL, The long road back, Financial Mail. Available through: Factiva database [Accessed 13 April 2011].
After several South African companies including Old Mutual relocated their HQs to London, it became difficult for firms to win permission from the finance ministry to debut offshore. Government approval was needed to move a primary listing under SA’s foreign exchange control regulations. “Firms will not be allowed to delist from the Johannesburg Stock Exchange and to list offshore, and only dual listings in which the firm retains its primary listing in SA will be considered,” it was said by the ministry of SA. The government was worried that the relocations would give the impression that business leaders are fleeing the country. The government was also concerned about the loss of skills if managers emigrate, and the economic impact of this migration.47

3.2.4. Ford Motor

General Company Information

Ford Motor Company is a global automotive industry leader with HQ in Dearborn, Michigan. The company that started its’ legendary history in the beginning of XX century, now employs 164 thousand employees, has about 70 plants worldwide and distributes automobiles across six continents. Revenue of the company, that represents a combined portfolio of automotive and financial services, equaled the sum of 128,954 million US dollars for 2010.48

First Relocation of RHQ

In 2002 the company announced the plans to establish a marketing and sales RHQ for Asia Pacific in Bangkok, Thailand and move the appropriate functions, which had been previously located in Michigan, US. The company has a regional structure, where Asia Pacific and Afica represent a large region, that covers such countries as Thailand, Malaysia, Vietnam, Indonesia, the Philippines, Taiwan, China, India, Japan, Australia, New Zealand and South Africa.49

Figure 3. Ford Motor Company Structure. Regions of Operations

*Volvo was sold to China’s Zhejiang Geely Holding Group late in 2010.

(Source: Ford Motors, 2010, p.32)

**The Reasons for first RHQ Functions Relocation**

The reasons behind the decision were the following:

- *To move closer to where the growth is;*

  The newly appointed for this region executive director, John Felice, said: “Asia contributes a relatively small portion of our sales today - about 360 thousand vehicles compared to millions in the US and Europe. But if you look at where the growth is, it’s in Asia.” Felice estimated that “significant double-digit growth” in the region could bring it on par with the United States market by mid-2005 (Ibid).

- *To increase market share;*

  By this time The Ford Motor Company’s market shares varied widely across the region – the company was one of the market leaders in New Zealand but only just establishing a foothold in China. According to Felice, the total market share in the region was a “low single digit”.50 Another source quotes Felice in this regard: “We intend to get more aggressive in increasing our market shares and become a leading automotive player in the Asia Pacific.”51 As for Thailand separately, the market share fell for the first time in four years in 2001 and made up one and two per cent in the region, while the company was ranking sixth in Thailand. The company


announced the plans to launch a new product in Thailand every quarter over the next 18 months to stem a drop in the company’s market share.\footnote{Mulchand, S., 4 October, 2002. Ford brings sales headquarters to “where growth is”, Media. Available through: Factiva database [Accessed 15 May 2011].}

- \textit{Developing regional synergy in marketing efforts;}
As mentioned by Felice, the company’s strategy was to have more regional consistency in marketing terms (Ibid). The company was moving from local marketing solutions made and tailored by and for a specific country to a single marketing campaign for the whole region, developed in a partnership with one agency. This move allowed the company to create same look, feel and essence of the brand throughout the region, and help to accumulate some savings.\footnote{Media, 1 November 2002. Ford tries to climb up the table with new Asian HQ. Available through: Factiva database [Accessed 15 May 2011].}

- \textit{Moving closer to customers;}
Besides the above stated reasons, Felice also mentioned, that the move closer to the pulse of the markets, would allow the company to understand its customers and their needs better.\footnote{The Nation (Thailand), 11 September 2002. Ford moves marketing HQ to Bkk, has new chief. Available through: Factiva database [Accessed 15 May 2011].}

- \textit{Strong position of the competitors in the region;}
The fiercest competitors such as Toyota and Isuzu were well-entrenched in many Asian markets. Toyota occupied the following shares of the markets - 40 per cent of Japan, 30 per cent of the Philippines, Thailand and Indonesia, and 10 per cent of Malaysia.\footnote{Media, 1 November 2002. Ford tries to climb up the table with new Asian HQ. Available through: Factiva database [Accessed 15 May 2011].} General Motors and Volkswagen had their regional head offices in Singapore. Honda used Bangkok as its second HQs for Asia after Japan.\footnote{Changsorn, P., 2 August, 2002. Ford to move sales HQ here, The Nation (Thailand). Available through: Factiva database [Accessed 15 May 2011].}

- \textit{Favorable tariff conditions in the region;}
Due to AFTA (Free Trade Agreement) on the territory of ASEAN (Association of Southeast Asian Nations) that was introduced in 2003, the low tariff of 0-5 per cent was applied to the
goods coming from the region. Ford believed that AFTA could act to boost regional volumes, which would allow vehicle manufacturer to fully utilize local plants.\(^{57}\)

- **Thailand is an important hub for Ford;**

The company’s representative denied that the relocation was made due to the Thai government’s incentive encouraging multinational companies to establish their regional HQs in Thailand. The speaker mentioned that Thailand was one of the biggest markets and the country, where Ford had already made substantial investment. Ford returned to Thailand in 1995 with an investment of 500 million US dollars in a plant, which was exporting pickup trucks to world markets outside the US.\(^{58}\) Therefore, Thailand was an important hub of Ford’s pickup truck production. Besides in 2001, the Thai car industry grew by 34 per cent.\(^{59}\)

**The Consequences of first RHQ relocation**

- **Political Instability in Thailand;**

One of the negative consequences of moving to Bangkok was facing the unstable political situation in Thailand. Political instability was not a new phenomenon in Thailand. Widespread violence did not only derive away new investors but also discouraged existing ones from pressing ahead with their expansion plans.\(^{60}\)

**The Second RHQ Functions Relocation**

In 2009 Ford Motor Company announced its plans to move Asia-Pacific and Africa RHQ from Bangkok to China. Newly established Ford’s China HQs would oversee Asia-Pacific and Africa, while Bangkok would still operate as RHQ for ASEAN countries.\(^{61}\) The company confirmed that the leadership team, with supporting corporate functions, would move to China.\(^{62}\) However, the

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management teams and related departments for the ASEAN countries remained in Bangkok.\(^{63}\) The relocation was the part of company’s regionalization efforts aimed to form a new model, where the company was structured as a “single global operation”. This new model was created to allow the company to phase out inefficient unique processes, systems and products that existed across the region, while operating much more efficiently and competitively as a cohesive regional business.\(^{64}\)

**Reasons for the Second RHQ Relocation**

Based on the above mentioned reasons and one more named by the company, we present the following reasons for RHQ relocation:

- *To restructure operations:* One of reasons of moving to China was to streamline operations during its time of financial hardship.\(^{65}\)

- *To be closer to the centre of extreme demand:* China’s sales were supposed to exceed American. The country’s vehicle sales jumped 34 per cent in 2009, mainly boosted by government stimulus measures, including tax-cuts on small car purchases and subsidies for rural residents. Changan Ford Mazada Automobile Corp Ltd, Ford’s Chinese venture with a local producer, said that its monthly vehicle sales rose 48.7 per cent if compared to 2008.\(^{66}\)

**Consequences of the Second RHQ Relocation**

- *Decreased market share:* Several journalists agreed that strategically the relocation to China was accomplished too late. Ford moved five years after its main competitors General Motors Corp. and Volkswagen AG relocated there HQs to Shanghai from Singapore.\(^{67}\) Both companies had set up strong joint-ventures with local companies in proper time and Ford was late to choose the best partners.

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Therefore, Fords’s share of China’s passenger car market in 2010 was 2 per cent, while Hyundai had 6 per cent, General Motors had 7 per cent and Volkswagen - 11 per cent. The company was not really seeing Chinese market as the first priority in the time of financial turmoil. Previously Ford’s strategy was concentrated more on Thailand and Australia and on its local partnership in the region. In 2008-2009, during the industry downturn, company’s CEO focused on Ford’s North American operations, what helped Ford to avoid bankruptcy. On the contrary, General Motors, was in similar situation and had to fill for bankruptcy, but made a priority its big operations in China.68

3.2.5. IBM

General Company Information

The IBM’s (International Business Machines Corporation) global capabilities include services, software, hardware, fundamental research and financing. The broad mix of businesses and capabilities are combined to provide business insight and solutions for the company’s clients. The company has transformed itself into a globally integrated enterprise which has improved overall productivity and is driving investment and participation in the world’s fastest growing markets.69 IBM is headquartered in Armonk, New York and operates around the globe. In 2010 the company’s net income was 14.8 billion US dollars and it employed 426, 751 employees worldwide.70

Relocation of the Global Procurement HQ

In October 2006, IBM announced the relocation of its global procurement HQs to Shenzhen, China as the company continued its strategy to draw more efficiently on its global capabilities and capitalize on emerging market opportunities. The procurement division employed about 7,500 people worldwide and coordinated the activities of offices in 400 cities in 60 countries.71

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The HQ was moved from Somers, New York to China marking the first time the HQs of IBM corporate-wide organization had been located outside the US. The only person relocated from US office to China was Vice President and Chief Procurement Officer (CPO) of IBM John Paterson. 72

**Reasons for HQ Relocation**

The rationale behind the decision to relocate the HQ was revealed in the Announcement letter for relocation of Procurement headquarters to Shenzhen in May 22, 2006. In the letter John Paterson announced73:

“First, <…> By relocating the office of CPO to Asia, IBM Global Procurement is taking a major step toward developing a more geographically distributed executive structure, something we have been working to accomplish for the past few years. By anchoring the organization in this location, we will be better positioned to continue developing the skills and talents of our internal organization in this region. Second, this move increases our procurement presence in Asia, which is a strategic growth market for IBM that we need to be ready to support. Clearly, this places us closer to the core of the technology supply chain which is important, not only for IBM’s own internal needs, but increasingly for the needs of external clients whose supply chains we are managing via our Procurement services offering. As IBM’s business offerings continue to grow, we must develop a deeper supply chain in the region to provide services and human resource skills to clients both within Asia and around the world. Third, this move does not signify a change in our prevailing strategy of building long-term supplier relationships. We are not moving or changing any other aspects of Global Procurement - our business commitments and existing relations remain intact.”

There were also other profound reasons behind IBM’s choice of Shenzhen in setting up its global procurement HQs.

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- To become a globally integrated enterprise;

The move illustrated a shift at IBM from a multinational corporation to a new model - a globally integrated enterprise. John Paterson who was relocated to China stated: “In a multinational model, many functions of a corporation were replicated around the world - but each addressing only its local market. In a globally integrated enterprise, for the first time, a company’s worldwide capability can be located wherever in the world it makes the most sense, based on the imperatives of economics, expertise and open environments. Once this shift occurs, it requires a focused and thoughtful approach to simultaneously transfer knowledge and build the management capabilities to lead the work”. Mr. Paterson moved to Asia to do just that: to expand and strengthen IBM’s internal procurement skills in the region; develop leaders and prepare them to take on global roles.74

- To meet the demand for growing software business;

Another reason of the relocation to Asia was to reshape the company’s supply base in the region. Although IBM had been sourcing in Asia for more than 50 years, most of it was in support of its hardware businesses. However, the demand for software across Asia and worldwide was growing. To meet the demand, it required developing relationships with new partners and suppliers and working with existing ones to help them build skills, processes and management practices to compete globally in the services market75.

- Asia accounted for a huge part of IBM’s annual procurement expenditure;

The move of the procurement HQs from the US to China was also a sign that the centre of industry gravity was shifting to the East. China overtook America as the largest exporter of high-tech goods, such as mobile phones and laptop computers, in 2004, when it sold 180 billion of such products overseas, compared with the 149 billion US dollars exported from the US. Asia accounted for about one third of IBM’s annual 40 billion US dollars procurement expenditure. One of the experts said: “It’s definitely a sign of the changing times, as more and more

companies base their facilities outside the US. As more products are made in Asia, IBM clearly sees benefit in having its procurement operation closer to the source of its business.”

- **Cost reduction;**

IBM relocated its procurement HQs to tap Asia’s mushrooming software expertise and customer base as well as its cheap labor and hardware costs (Ibid).

**Consequences of HQ Relocation**

- **Recruiting local employees;**

“It is helpful to have local staff who understand the culture and business environment, which is why people want to develop and grow their own people here”, said John Paterson, chief procurement officer of IBM, based in Shenzhen, south China. “The time and language difference can make it difficult to communicate”.

- **Increasing labor costs;**

Another consequence associated with the relocation to China was raising costs of labor in the coastal cities driven by the continued expansion of the manufacturing sector in this region. The government had actively encouraged low-tech industries to move out of the zone, to cheaper locations inland. Shenzhen raised its mandatory minimum wage rates by up to a quarter earlier in a bid to accelerate the flight of labor-intensive businesses. While rising labor and other costs in Shenzhen was also a concern for high-tech investors such as IBM, these were mitigated by a dense network of component suppliers and the region’s first-rate infrastructure. The inflation of labor cost in China initiated for the company a new rush to find the next viable source of low cost sourcing. The IBM said that the company was exploring the Sahara region as the next area of opportunity.

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3.2.6. HSBC

General Company Information

The HSBC Group is one of the largest banking and financial services organisations in the world. The HSBC Group is named after its founding member, The Hong Kong and Shanghai Banking Corporation Limited that was established in 1865 in Hong Kong to finance the growing trade between China and Europe. Today the HSBC Company is represented in 86 countries and territories with 312 thousand employees working worldwide, that serve over 125 million customers. Pre-tax profit of the company for year 2011 equaled 19 billion US dollars.

HQ Relocation

As mentioned on the company’s webpage in the later years of the twentieth century HSBC moved from an important regional bank to one of the world’s leading financial services organizations. This transition was achieved by a number of steps, amongst which are the following activities - purchase of 14.9 per cent stake of Midland Bank, UK in 1987, full acquisition of Midland Bank in 1992 and HQ relocation from Hong Kong to London. The acquisition of Midland Bank in United Kingdom was in line with company’s strategy to expand the territory of bank’s operations and build up a strong representation in three main regions – Asia Pacific, the US and UK.

The relocation of group functions - including the chairman’s office - to the United Kingdom, happened in January 1993. Group Head Office in London provides only the essential central functions (to achieve fast local decision making and accountability by subsidiaries) – strategic planning, human resource management, legal and company secretarial and financial planning and control.

The Reasons for HQ Relocation

80 HSBC, 2011 a. HSBC an historic overview factsheet. [online] Available at: <http://www.hsbc.com/1/PA_1_1_S5/content/assets/about_hsbc/110223_hsbc_an_historical_overview.pdf> [Accessed 9 May 2011].
82 HSBC, 2011c. HSBC’s history. [online] Available at: <http://www.hsbc.com/1/2/about/history/history> [Accessed 9 May 2011].
83 HSBC, 2011d. HSBC a brief history. [online] Available at: <http://www.hsbc.com/1/PA_1_1_S5/content/assets/about_hsbc/110215_hsbc_brief_history.pdf> [Accessed 9 May 2011].
The company states the only reason of HQ relocation to London as a result of the acquisition of Midland bank (Ibid):

- **To meet the requirements of the UK regulatory authorities**;

In 1992 the company formed the holding company for the entire Group - HSBC Holdings, with the shares quoted in London and Hong Kong. HSBC holdings is headquartered in London and regulated by the Bank of England. As supported by the media – the relocation of HQ was a part of the deal in Midland bank purchase: “In a concession to win the approval of the Bank of England, HSBC has agreed to move its head office to the City. HSBC’s chairman and chief executive will move his office to London in September next year, and the Bank of England will become HSBC’s lead regulator. HSBC has also agreed to become registered as a British taxpayer from the beginning of next year.” 84 Since the location of most of the group’s assets after the merge with Midland was in UK and Europe, it was a supervisory requirement to move the HQ. 85

Another possible reason to relocate HQ was named by the media:

- **Unstable political situation**;

The second reason for the movement was *unstable political situation* in Hong Kong in the coming 1997, as the author states: “Hong Kong was about to be returned from British to Chinese Communist rule.” 86 On the contrary, Britain was a business-friendly country with some of the lowest personal and corporate tax rates in the developed world. London looked like a safer place to be than Hong Kong (Ibid).

**Consequences of HQ Relocation and Midland Acquisition**

- **Decreasing short-terms earnings of shareholders**;

HSBC merger with Midland Bank in UK meant a shift of nearly half of HSBC’s assets to Europe, a prospect which did not excite HSBC shareholders.” People will be a lot more cautious towards the shares because they don’t understand the UK as well and obviously growth prospects there in

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the longer-term may not be as good,” said one of the analysts. HSBC Chairman William Purves attempted to eliminate concerns by saying the enlarged bank would be well placed to increase profits from growing trade flows between Europe and Asia. HSBC proposed to pay for the acquisition with a mixture of shares and bonds. For each Midland share, shareholders were expected to get one new share of HSBC Holdings and one pounds (1.76 US dollars) worth of new bonds with an estimated yield of 11 per cent. For HSBC shareholders this meant lower earnings in the short-term, as the creation of new shares would dilute earnings per share by up to 14 per cent in the first year, depending on how many new shares were issued, analysts said.87

- HSBC’s recovery;
Analysts were, however, confident that short-term profit growth at the new bank was guaranteed by the recovery prospects at faltering HSBC subsidiaries as well as a turnaround from heavy loan provisions made at Midland in recent years. “In the short-term the engine of growth will be Hong Kong and HSBC’s own recovery in the US and Australia,” said one of banking analysts. The new global bank faced greater risks than the old, Asia-oriented Hong Kong Bank, which relied on fast-growing Asian economies for most of its profit growth. It also had a lower capital ratio (equity to risk-weighted assets), weakening its ability to sustain bad loans and financial crises (Ibid).

Possible Second HQ Relocation

In 2010 HSBC stated that it might have considered relocating its HQs from the United Kingdom, if the government panel recommended splitting its consumer banking from investment banking activities. HSBC moved its chief executive’s office to Hong Kong but the bank said that its preference was to be headquartered in the UK.88 However, the experts said it was unlikely HSBC would opt to move its HQs back to Hong Kong, because the Hong Kong Monetary Authority simply doesn’t have the capacity to regulate an organization as large and as complex as HSBC.89 In 2011, HSBC brought up the subject of possible relocation from UK again, when the chief

executive said that the investors of the bank asked to explain the costs and benefits of being headquartered in the country.\textsuperscript{90} The journalists also believed that HSBC could move HQs back to Asia. According to Moneyweek, London is no longer such an attractive place to do business for several reasons, such as high taxation rate for highly paid staff (50 per cent), payment of the banking levy imposed by the government, and higher capital requirements. Moreover, it was estimated that the company would have paid 500 million British pounds less in corporate tax (in 2010 the company paid 1.2 billion British pounds in corporate tax) if it was headquartered somewhere else than UK. Simply by switching its HQs somewhere else, HSBC could avoid all these disadvantages and threats\textsuperscript{91}. However, after the rumors regarding the relocation began to spread, HSBC cautiously admitted that London continued to be widely recognized as one of the world’s leading international financial centers, a position it had built over many decades through deliberate policy action thus it was its preference to remain headquartered in London. The company said: “Any decision we make will not be based on regulatory arbitrage, it will be based on the economics of where it’s best to do our business”.\textsuperscript{92}

3.2.7. SABMiller

General Company Information

SABMiller (South African Breweries plc) is engaged in the production and distribution of beer, malts and carbonated soft drinks. Its brands include international premium beers such as Pilsner Urquell, Peroni Nastro Azzurro, Miller Genuine Draft and Grolsch as well as local brands. The company operates through several geographic regions: North America, Latin America, Europe, SA, and Africa, and Asia. It has strong production capabilities across all these regions and derives significant amount of revenues from each and every region. Its HQs is based in London, the UK. The company employs about 68,635 people.\textsuperscript{93}

Company Restructuring and HQ Relocation


On 4\textsuperscript{th} December 1998 the Board of The South African Breweries Limited announced its intention to restructure and to transfer the core beverage, hotel and gaming businesses to SAB plc in order to obtain a primary listing of SAB plc on the LSE. The intentions also included relocating corporate HQs from SA to UK. These plans were successfully realized in March of 1999 together with the raising of new capital of 200 million British pounds (322 million US dollars) for SAB plc through an international share placement.\textsuperscript{94} Meyer Kahn was named the chairman of SAB plc when it was listed on the LSE in 1999 and remains in that position to this day.\textsuperscript{95} After the acquisition of Miller Brewing Company of US origin in 2002, the combined entity was named SABMiller plc.\textsuperscript{96} Hence, hereafter we refer to the company as SABMiller, company’s current name.

\textbf{Reasons for Company Restructuring and HQ Relocation}

- \textit{Improving access to international capital markets}:
  According to the announcement of Meyer Kahn in 1999, the main reasons for relocation to London involved improving access to international capital markets. The primary listing on the LSE and the support of a widespread international investor base were crucial prerequisites for the company to fund international growth opportunities.\textsuperscript{97} Besides greater access to the international capital, another reason was lower cost of capital.\textsuperscript{98}

- \textit{Growth}:
  SABMiller said it could grow faster when based in London (Ibid).

\textbf{Consequences of the Restructuring and HQ Relocation}

- \textit{Acquisition of Miller and Market Expansion}: 

The acquisition of Miller provided access for the company to a significant position in the US market, which enjoyed the brewing industry’s largest profit pool. Furthermore, it enhanced SABMiller’s international brand portfolio. SABMiller became the world’s second largest brewer with leading market positions in Europe, North America, Central America, China and Africa. In addition, SABMiller benefited from the combination of global scale, a strong management team, a diverse and balanced earnings base, a broad portfolio of leading brands and a supportive, long-term shareholder. SABMiller used these advantages to position itself at the forefront of the consolidating brewing industry.99

- **Facing uncertain UK Tax environment**;

In 2010, the Britain’s uncertain tax environment drove SABMiller to locate its global key division of the company in Switzerland rather than the UK. According to Graham Mackay, SABMiller’s new chief executive, Britain had become an illiberal and unpredictable place to do business. One of the things that attracted SAB to move its HQ to London and to list on the LSE in 1999 was the liberal and predictable tax regime however the situation changed and that was no longer the case. The tax system in UK became unpredictable and there had been numerous increases, particularly in the area of personal taxation. “This means that as a global company we are no longer able to attract our best global talent to the UK. Why would someone move from Hong Kong where the marginal tax rate is 15 per cent and come to the UK where it is closer to 52 per cent. Taxation was a key part of our decision to locate a new global procurement business not in the UK but in Zug in Switzerland”, said Graham Mackay.100

- **Successful Internationalisation**;

When SABMiller moved its domicile and primary listing to London in 1999, it was mainly a domestic brewer, dominating the local market, and still holding some industrial interests in glass and hotels. Chairman Meyer Kahn started the group’s global expansion in the early 1990s, with acquisitions in Central and East Africa, Poland and China, but at the time of the London move international beer sales contributed only 13 per cent of its total beer revenues and less than 10 per cent of operating profit. After acquisitions and large investments in brewing capacity and brands

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on six continents, in 2010 the company was ranked among the world’s largest brewers. However, its operating profit in SA — still a high-margin market — providing 23 per cent of the 4.38 billion US dollars earnings before interest, tax and depreciation. Since moving to London, SABMiller succeeded at internationalizing their businesses, turning them from mainly domestic operations into world leaders in their sectors, with different risk profiles, greater long-term growth potential, new market or product positioning and different currency exposure.101

3.2.8. Otis Elevator

General Company Information

Otis Elevator Company is world’s largest company in the manufacture, installation and service of elevators, escalators and moving walkways. The company was established in 1853 with HQ in New York. Today the company has corporate HQ in Farmington, Connecticut. The company employs approximately 61 thousand people, with 53 thousand outside US. Products of the company are offered in more than 200 countries worldwide. Revenue of the company for 2009 equaled the sum of 11.7 billion US dollars.102

Otis in China

Already in 1993 the company revealed the plans to expand operations in China and to make the Otis China group into the largest subsidiary within Otis global group.103

The firm’s sales in China grew by 30 per cent in 1995, equaling 300 million US dollars. The company’s representative estimated China’s elevator and escalator demand to be 32 thousand units a year, making China the largest market in the world. By 1996 the company had already invested 100 million US dollars in joint ventures in Beijing, Shanghai, Tianjin and Guangzhou and employed 5 thousand people locally.104

The company has a regional structure, the countries are united in so called six “Otis areas”. Today China is in the North Asia Pacific region, while Hong Kong is in South Asia Pacific and Gulf region. It is obvious from the media articles, that not so long time ago Hong Kong and China were representing the same region – Asia Pacific.  

Figure 4. The regional structure of Otis

![Regional Structure Diagram]

(Source: Otis, 2010 b)

**Relocation of RHQ**

In the beginning of August 2003, Otis Elevator announced the relocation of Asia Pacific HQs from Hong Kong and setting up a R&D center in Shanghai, which would become its Asia Pacific regional HQs.  

**Reasons of HQ relocation**

- Commitment of the company to Chinese market and plans for long-term development in the country;

By that time the company had already occupied the market share of 30 per cent. In his interview to Asia Today International, Otis world president, Ari Bousbib said that China was the best growth market for Otis, with the growth rate of 20 per cent a year, while representing 10 per cent of company’s total revenue. He also said that China was the only country for Otis

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investments; the company’s strategy was to start up joint ventures and establish factories only in China and no other country.108

- The boom of the elevator and escalator market;
The elevator and escalator market was booming in such big cities as Shanghai and Beijing due to increase in property market.109 Ari Bousbib emphasized the extreme demand for elevators in China - he said that China would need from five to fifteen million elevators in the next 25 years (to compare with a number of installed elevators worldwide – six million in 2004) thanks to the urbanization programme, which would move rural population to urban cities.110

- China as an important link in its global sourcing chain;
Margaret Ma, Communication Director in China, said the company would use China as an important link in its global sourcing chain to increase procurement on the mainland: “The factories in Tianjin and Guangzhou will be recognized into Otis’ global sourcing chain later this year. This will not only improve the quality of Chinese manufacturing but also help to boost exports” (Ibid).

Among other possible reasons for RHQ relocation, that were not mentioned by the company directly, but were clear from the interviews of company representatives or were formulated by the journalists, the following can be named:

- Being closer to newly acquired partners;
In the interview to Asia Today International, Ari Bousbib mentioned that three new joint ventures were established in China recently (Ibid). Overall since 1984 the company established 8 joint ventures and 4 production facilities in China.111 Restructuring of the company in China that

was completed in 2003, formed a single holding company Otis China, where the company owned 80 per cent of the business and 20 per cent were held by the partners.\textsuperscript{112}

- **Being closer to established company facilities;**
Back in 1996 Otis invested 3 million US dollars to establish a training center for employees from China and neighboring countries.\textsuperscript{113}

- **Fighting with competitors;**
Earlier in 2003, company's competitor, ThyssenKrupp Elevator AG, a Germany-based supplier of elevators and escalators, moved its Asian HQs to Shanghai. While another competitor, Schindler Group (Switzerland) launched its newest product in Shanghai and Beijing to target upscale residential and commercial buildings.\textsuperscript{114} Other major elevator manufacturers, such as Mitsubishi, Hitachi and Toshiba, all had established representative offices and/or joint ventures and production facilities in China.\textsuperscript{115}

- **Winning big contracts;**
World-Expo 2010 was mentioned as one of the reasons for relocation and/or establishment of a footprint in Shanghai by all major global players on the elevator and escalator market\textsuperscript{116}. In preparation for this event, Shanghai invested 45 billion US dollars to upgrade transportation, infrastructure and build the venue. Before World Expo 2010 Municipal government had a plan to install elevators in 200 thousand old six-story apartment buildings.\textsuperscript{117}

**Consequences of the Relocation**

- **Closing manufacturing facilities;**

In December 2003, the company announced the closure of its manufacturing facilities in Bloomington, US. The layoffs included 135 hourly workers and 30 salaried positions. “This is very disappointing,” said Linda Williamson, president of the Bloomington Economic Development Corp. “Otis’s decision to move production out of Bloomington is really a decision to move production out of the United States and is based on global considerations and not on the productivity and quality of their local work force.” The communications manager for Otis said that the decision was based on changes in global elevator market and the shift of high-rise elevator business to Asia. He also added that the company needed to position factories and suppliers closer to where most of the business is.\footnote{Werth, B., 5 December 2003. Otis Elevators to Close Operation in Bloomington, Ind.; Move to Asia Likely, Herald-Times. Available through: Factiva database [Accessed 14 April 2011].}

\textbf{- Becoming leader in the industry;}

In 2010, Otis had a 23 per cent market share in China, proving to be the leader in the industry.\footnote{Clenfield, J., 1 June 2010. Race to the top; Hyundai, Hitachi shoot for elevator speed records to service China's towers, Bloomberg News. Available through: Factiva database [Accessed 14 April 2011].}

\textbf{- Becoming main service provider in China;}


- **New Investments;**

The company continued investing in the region. In 2006 the company invested 7.5 million US dollars to set up a manufacturing base in Tianjin Economic-Technological Development Area (TEDA) that would serve both Chinese market and export worldwide and become world’s leading whole elevator and parts center. Moreover, the company planned to start the construction of the fifth Chinese factory in order to stay ahead in the region.

### 3.2.9. Anglo American

**General Company Information**

Anglo American is one of the world’s largest mining companies focusing on platinum group metals, diamonds, copper, nickel, iron ore, metallurgical and thermal coal with 70,500 permanent employees and 21,000 contractors in SA. The history of the company dates back to 1917 when Sir Ernest Oppenheimer saw the opportunity to capitalize on a region that was beginning to explode on to the global mining scene, and since then Anglo American have grown into a leading global mining company. The strong South African heritage forms the roots for the global business, now Anglo American is operating in America, Australia, southern Africa and Europe.

**HQ relocation to London**

Anglo American’s head office was moved to London in 1999 after Luxembourg-headquartered Minorco merged with Anglo American Corporation of SA to form Anglo American plc. The moving resulted in the establishment of a new UK plc with its primary listing on the LSE. The

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entity was included in the FTSE 100 and became one of the world’s largest mining and natural resource companies.130

**Reasons for Restructuring and HQ relocation**

- *To simplify organizational structure and expand internationally;*

  The objectives for moving to London included simplifying the portfolio and the organizational structure, and focusing on mining businesses that leverage company’s core skills.131 By this time the company had a large diversified product portfolio, due to the restrictions imposed by the South African government limiting the company to expand internationally in its core business.132 The new organizational structure allowed for international expansion, as mentioned in the media: “The group will carry the flag, the character, the competencies and the entrepreneurship of the new SA to the furthest corners of the globe.”133

- *Growth opportunities and increased access to capital markets;*

  Officially, the transaction was made to form a new platform for developing the ability of the group to compete more effectively around the world in its mining and natural resource activities, and allow new growth opportunities and increased access to the capital markets. London is a more natural market for mining companies and although New York lists companies in the gold and aluminium sector, it is unlikely that Anglo American could have secured a New York listing (Ibid). The company wanted to be perceived by investors as its main competitors, such as Rio Tinto.134

- *To escape from restrictions of SA;*

  Moving to London was an escape from the restrictions of South Africa: the big company could not grow even bigger unless it moved deeper into the financial mainstream from South Africa, an economy that at 200 billion US dollars plus annual output was small compared with those of

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Western Europe. High tariffs and economic sanctions were limiting companies to develop somewhere else than SA. Other restrictions of the market were concerning obsolete corporate governance, accounting methods and poor standards of customer service.

- Increased demand for company’s shares;
A London listing also meant that the company would be in the FTSE 100 index, that would provide a greater visibility among investors and, more important, force the operators of index funds to buy millions of its shares. That could have increased the share price of a company that was considered undervalued in relation to Australian and Canadian mining houses.

Consequences of Restructuring and HQ relocation

- Confirmation that the company is a global leader in its sector;
Entering the new millennium as a FTSE 100 listed company with a market capitalization of 21.6 billion US dollars confirmed Anglo American as a leading mining company in the world.

- The confrontation with National Union in SA;
After Anglo American’s relocation to London, The National Union in South Africa confronted the company by saying that it was only optimizing shareholder value instead of being a good corporate citizen in South Africa and looking out for the interests of the country. Anglo American’s directors said that they were not abandoning SA, noting that two-thirds of their operations were still in South Africa and only a few executives moved to London, and the deal was approved by the Government and the Reserve Bank in SA.

- Selling, dissolving and rationalizing subsidiaries;
Anglo American sold, dissolved or rationalized many of its numerous subsidiaries and bought out minority shareholders in its coal mining and industrial groups. It created a simple and transparent

structure of six operating divisions and three big listed companies focused on gold, diamonds and platinum.140

3.2.10 Tetra Pak

General Company Information

Tetra Pak is a company that provides processing and packaging solutions for food. It was established in 1951 in Lund, Sweden. Today company’s products are available in more than 170 countries with net sales of almost 8,995 million euro. The company employs almost 22 thousand people around the globe.141 Tetra Pak is one of three companies in the Tetra Laval Group; the other two companies are DeLaval and Sidel. Tetra Laval is headquartered in Switzerland.142

Relocation of HQ to Switzerland

In 1981 the company moved HQ (The Tetra Pak Group Management) to Lausanne, Switzerland.143 The parts of the group left in Sweden included marketing for Scandinavia and East Africa, production, product development, staff training and customer service, totally accounting for about 2,000 of the group’s 6,800 employees.144

Reasons for HQ Relocation to Switzerland

- Swedish inheritance taxes;

The decision to move the head office of Tetra-Pak to Switzerland was made because the Swedish inheritance taxes made it impossible to run a family business. Tetra Pak at that time was

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144 Textline Multiple Source Collection (1980-1994), 19 July 1984. Mr Erik Huss, the chairman of Tetra Pak International of Lund, Sweden, has confirmed that the reports of Tetra Pak's transfer of the ownership of a large part of its activities to a Dutch holding company are correct. Available through: Factiva database [Accessed 4 May 2011].
controlled by Swedish brothers Hans and Gad Rausing, the sons of the company founder – Ruben Rausing.145

Consequences of HQ Relocation to Switzerland

- More stringent Government Regulations;

After Sweden’s two most successful family-owned companies (IKEA and Tetra Pak) have relocated their corporate HQs out of the country, Sweden’s Socialist government hastily tightened regulations to prevent other companies from doing the same.146 The new law required companies contemplating such a move to seek government approval. The government also said it would examine all future proposals for acquisitions of Swedish companies by foreign interests to determine whether they were in the public interest.147

Relocation of HQ Functions Back to Sweden

In 1991 it was announced that in 1992 the company would move its’ head office from Lausanne back to Lund.148 However, not the whole HQ moved, according to the corporate report: “Tetra Pak International SA, Lausanne, Switzerland, is the Head Office for the Tetra Pak Group’s worldwide operations. Tetra Pak’s global market operations are divided into eleven clusters. Tetra Pak International, Lund, Sweden, is the office for Tetra Pak Processing Solutions, part of Tetra Pak Carton Solutions and other Group functions. Tetra Laval International, Lausanne, Switzerland has responsibility for financing the Tetra Laval Group and managing its overall legal structure, tax planning, financial and equity structures. It also executes acquisitions and disposals and plays a lead role in corporate governance.”149 As supported by the company’s website, Headquarters has the location in Lausanne; Headquarter functions are located in Lund.150

147 Textline Multiple Source Collection (1980-1994), 19 July 1984. Mr Erik Huss, the chairman of Tetra Pak International of Lund, Sweden, has confirmed that the reports of Tetra Pak’s transfer of the ownership of a large part of its activities to a Dutch holding company are correct. Available through: Factiva database [Accessed 4 May 2011].
Reasons for the Relocation of HQ Functions Back to Sweden

- **Acquisition:**
In 1991 Tetra Pak acquired Alfa Laval (Stockholm, Sweden), one of the world’s largest suppliers of equipment and plants to the food industry, processing industry and agriculture. The decision to relocate HQ back to Sweden followed the merger of Tetra Pak and Alfa Laval, which would share the new head office with Tetra Pak in order to optimize the cooperation between the two.\(^{151}\)

- **Recent improvement in Sweden’s business climate:**
Financial Times was also quoting chief executive of Tetra Pak, who said the decision reflected the recent improvement in Sweden’s business climate. He said the decision was influenced by Sweden’s application for membership of the European Community, the go-ahead for the construction of a road and rail bridge over the Oresund River between Sweden and Denmark and the changes in the country’s tax system. However, he added that inheritance and wealth taxes as well as employment fees still needed to be addressed. The chief executive of the company concluded: “But it is naturally not wrong to interpret this decision (to return) as a statement of support for Sweden.”\(^{152}\)

- **Having largest centers in Lund:**
The company mentioned that it already had its largest production facility and a R&D centre in Lund (Ibid).

- **Starting new development phase:**
In a statement dedicated to retirement of the vice chairman dated from the same year, the company said, that: “The Alfa-Laval deal and the decision to move Tetra-Pak’s head office from Lausanne to Lund and Alfa-Laval’s head office from Stockholm to Lund is the starting point for a new phase in the development of the group.”\(^{153}\)

Consequences of the HQ Relocation Back to Sweden


- New investment and development in Lund;

In 2007 Tetra Pak invested 32.6 million euro in two new buildings in Lund, which are currently premises mainly for R&D department. The press release, covering the news, contains a quote of Managing Director AB Tetra Pak: “As a result of this investment, every potential will be created for us to strengthen our position as the technological centre of the Tetra Pak Group.”154 Afterwards, the media stated multiple facts of company’s investment in developing facilities in Lund – such as investment of almost 19 million euro in construction of a new office and manufacturing premises in 2008155; in 2010 the company continued expansion by investing almost 9 million euro into the construction of a better development facility.156

3.3. Discussion and Analysis

This part of our thesis is dedicated to the thorough analysis of the data collected. We start with the data findings on the reasons for HQ relocation and afterwards logically move to the analysis of the HQ relocation consequences. Afterwards we provide a brief overview on how the HQ relocation process is structured deriving from the examples of the ten case companies.

3.3.1. The processes that accompany HQ relocation

Our empirical findings support the theoretical finding of Benito, Lunnan and Tomassen (2011) that the relocation of corporate HQ can be associated with company restructuring. Indeed, in most of the cases of our empirical study, the event of HQ relocation was accompanied with other significant changes such as reincorporation, demutualization, streamlining of operations, mergers and acquisitions, and the concentration on core-businesses. All these changes in many cases have lead to a major reformation of company’s structure. For example, in several cases such as Ericsson157, IBM158, and Ford (the second RHQ relocation)159 the companies combined the

relocation of HQs with operation streamlining. In other cases such as HSBC\textsuperscript{160}, Tetra Pak (relocation of HQ functions back to Sweden)\textsuperscript{161}, Anglo American\textsuperscript{162}, a new legal domicile was created simultaneously with merger or acquisition. News Corporation relocated its corporate HQs in association with reincorporation from Australia to US.\textsuperscript{163} Old Mutual relocated its domicile just after demutualization, changing the status from being a local South African company to an international shareholder-owned corporation.\textsuperscript{164} In the example of Ford, the first relocation of RHQ activities was connected to the implementation of the unified regional marketing strategy.\textsuperscript{165} In the case of Otis, the relocation of RHQ was happening simultaneously with the inclusion of the local production facilities into the global sourcing chain.\textsuperscript{166}

We reflect an overview of these processes in the following table.

Table 2. The companies that carried out HQ relocation simultaneously with other processes

<table>
<thead>
<tr>
<th>The company</th>
<th>The term</th>
<th>The process</th>
</tr>
</thead>
<tbody>
<tr>
<td>News Corporation</td>
<td>Reincorporation</td>
<td>Creation of a new company as the ultimate holding company with primary listings on the NYSE, simultaneously with the reorganization and full consolidation and control of the profitable publishing business</td>
</tr>
<tr>
<td>Ericsson</td>
<td>Reorganization (“Streamlining Structure”)</td>
<td>A new matrix structure of the company with both geographical and business lines. Creation of the corporate executive team, which is based in different geographical areas</td>
</tr>
<tr>
<td>Old Mutual</td>
<td>Demutualization</td>
<td>Becoming a shareholder-owned company after demutualization. HQs establishment of the newly created holding company in London</td>
</tr>
</tbody>
</table>


\textsuperscript{160} HSBC, 2011d. HSBC a brief history. [online] Available at: <http://www.hsbc.com/1/PA_1_1_S5/content/assets/about_hsbc/110215_hsbc_brief_history.pdf> [Accessed 9 May 2011].


<table>
<thead>
<tr>
<th>Company</th>
<th>Reason</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>SABMiller</td>
<td>Restructuring</td>
<td>Restructuring and transferring core business to a newly created the UK company with public limited status and LSE listings.</td>
</tr>
<tr>
<td>Tetra Pak</td>
<td>New phase in the development of the group</td>
<td>Acquisition of Alfa Laval and relocation of head office functions of both companies to a single location (Sweden). However Group’s corporate HQ still located in Switzerland</td>
</tr>
<tr>
<td>HSBC</td>
<td>Acquisition</td>
<td>Relocation is one of the steps in the expansion process together with the acquisition of the Midland Bank</td>
</tr>
<tr>
<td>Anglo American</td>
<td>Merger</td>
<td>Merge with a Luxemburg-based company and creation of a new UK company with public limited status and LSE listings. Creation of a new simplified organizational structure that facilitated international expansion</td>
</tr>
<tr>
<td>IBM</td>
<td>New executive structure</td>
<td>Creating a more geographically distributed executive structure</td>
</tr>
<tr>
<td>Ford (first RHQ relocation)</td>
<td>Developing synergy in marketing efforts</td>
<td>To implement more regionally consistent marketing strategy</td>
</tr>
<tr>
<td>Ford (second RHQ relocation)</td>
<td>To streamline operations</td>
<td>To form a new model, where the company is structured as ‘single global operation’</td>
</tr>
<tr>
<td>Otis</td>
<td>To become an important link in the global sourcing chain</td>
<td>To recognize the local production facilities into global sourcing chain</td>
</tr>
</tbody>
</table>

### 3.3.2. Analysis of drivers behind HQ relocation

We start by analyzing the data collected covering the reasons for HQ relocation from the ten case studies within the scope of the theoretical framework that was set out in the Chapter 2. When needed, we systemize the data in the tables that provide a general graphic overview, containing the brief information from the cases related to the reason analyzed. These tables are presented in the appendixes at the end of the paper.

**1. Reason: The corporate HQs move to be closer to a major financial centre;**

Our findings reveal that most of the case companies relocated their corporate HQs to one of the major financial centers. According to our Birkinshaw, Braunerhjelm, Holm and Terjesen (2006), this move does not only simplify the access to capital markets with better conditions, but also facilitates communication with investors, analysts and financial institutions. Therefore, this reason has an obvious pragmatic character, as allows achieving business optimization.
We will first analyze the international investor aspect. For Ericsson, the proximity to the international shareholder base was especially important, as the company claimed that 50 per cent of company owners were located abroad\textsuperscript{167}. For other case companies – News Corporation\textsuperscript{168}, Old Mutual (Peng, 2009), SAB Miller\textsuperscript{169} and Anglo American\textsuperscript{170}, the driver was actually to obtain a broader shareholder base. Besides, attracting international investors, the above mentioned companies were targeting for a better access to capital markets (of the UK and US), which have more attractive conditions, such as the size, liquidity and cost, in comparison to their home countries (News Corporation - Australia\textsuperscript{171}, Old Mutual\textsuperscript{172} and Anglo American\textsuperscript{173} - SA, Ericsson\textsuperscript{174} - Sweden).

As it was mentioned in our theoretical review in line with the findings of the authors (Ibid), the existence of MNC’s primary listing overseas is associated with a greater likelihood of corporate HQs to move overseas, while our findings show the same – the case companies (News Corporation\textsuperscript{175}, Old Mutual\textsuperscript{176}, SAB Miller\textsuperscript{177} and Anglo American\textsuperscript{178}) moved to a major financial centre by a reason and obtained a listing in a new host country. Besides, in cases, where the companies shifted listings to NYSE\textsuperscript{179} and LSE, their plan was also to benefit from being


included in major stock indices, such as FTSE 100 (Old Mutual\textsuperscript{180} and Anglo American\textsuperscript{181}) and the Standard and Poor’s 500 (News Corporation\textsuperscript{182}). The inclusion in FTSE 100 definitely leveraged their global reputation and importance on the financial markets. Old Mutual\textsuperscript{183} and Anglo American\textsuperscript{184} were also motivated to improve the conditions of the stock trade – to enhance liquidity for stock, raise the share price and boost the overall sales of shares. One of the reasons why Anglo American’s corporate HQ was relocated is the perception by investors as its main international competitors and not as a local South African company.\textsuperscript{185} Since Ericsson series B shares have been listed on the LSE since 1960, we assume that LSE listings were not the main goal for the company, when the decision to set up a second corporate HQ in London in 1989 was made.\textsuperscript{186} However, the company claimed other motives in the regard to financial benefits - to be closer to financial markets and international shareholders.

The table in the Appendix 1 provides a brief overview of all the benefits mentioned by the case companies in the regard of relocating HQ to an international financial centre, that are associated with the proximity to international investors and listings on the NYSE or LSE.

2. **Reason:** The corporate HQs move to achieve strategic benefits;

According to Birkinshaw, Braunerhjelm, Holm and Terjesen (2006), depending on the choice of location, the company can achieve a number of strategic benefits, which can include – operation under a better legal regime than the one of home country which helps to demonstrate better corporate governance standards to external stakeholders, and proximity to specialized services providers and executive talents.


Old Mutual named the symbolic reason of commitment to laws and regulations of the new host country. By moving the corporate HQ from the emerging SA to the stable UK, the company benefited from a higher quality of legal and regulatory standards (Peng, 2009). IBM and Ericsson mentioned the reason of attracting educated work force. In case of the Swedish Ericsson, the main concern was to attract top class international managers and researchers, what was easier to do in UK rather than in Sweden, where individual income tax rates are one of the highest. Before the establishment of the second corporate HQ, the company relocated the business unit HQ for Transport and Cable Network to London. Similarly one of the reasons supporting the decision was to get access to labor force with the required technical skills. In case of IBM, it was concerning the hiring of local individuals, in order to develop future leaders for the procurement function. It was important that new employees possessed the necessary skills to communicate with the suppliers in the native language and understand cultural peculiarities. Besides, one of the reasons mentioned by IBM was developing relationship with partners and suppliers (Ibid), while being in the technologically developed cluster of the industry, which in our opinion, can be identified as proximity to specialized service providers. Obviously, the company’s main goal was to achieve a number of strategic benefits by being a pioneer in the procurement function HQ relocation to the Asian region, which is the primary procurement cluster for the companies in the industry. The company planned to be the first to hire and develop future local leaders, effectively maintain existing relationships and establish new partnerships with the strongest suppliers, while following every change in the technologic development. Anglo American, the company that is operating in the mining industry, relocated its corporate HQ from SA to London, which represents the cluster for the companies of this industry. By relocating the corporate HQ to the cluster of the industry, the company demonstrated that it was ready to become a strong international player and ready to compete with the peers Anglo American also mentioned the financial constraints of SA economy – the company could not grow unless it moved to a larger economy. Besides, the company benefited from better regime of corporate governance and

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accounting methods of the new host country.\textsuperscript{189} We can assume that it was also relevant for other case companies of SA origin – SAB Miller and Old Mutual.

Several of our case companies highlighted the fact that they were no longer limited by the local norms and expectations after the corporate HQ relocation. This reason (or benefit) has a truly symbolic nature. News Corporation, mentioned the improved standards of financial reporting – a change from Australian standards to American.\textsuperscript{190} Since American financial reporting standards are internationally recognized, they allow for more transparency for investors and analysts, what definitely is very advantageous for the company and in the long run secures improved financial results and a ‘globalized’ image of the MNC.

We provide the concise overview of location-specific advantages named by the companies in the Appendix 2.

3. Reason: The HQs move to interact more effectively with the key customers and partners, to compete with competitors and create a global image;

As stated by Birkinshaw, Braunerhjelm, Holm and Terjesen (2006), the influence of international customers and competitors urges the companies to relocate HQs. Our findings reveal that several of the case companies motivated the corporate HQ relocation by the reason of proximity to key customers and competitors. Besides, several of our case companies mentioned the proximity to partners as one of the motives to relocate HQs. Therefore, we would like to endorse this reason by adding one more group of stakeholders for examination - partners.

Ericsson’s spokesperson, emphasized the international nature of the business, and stated that the company needed to be closer to important customers and cooperating partners. As mentioned by the company representative, 96 per cent of company sales had been located outside Sweden and that was the main driver to set up a second corporate HQ in London.\textsuperscript{191} As for the business unit HQ for Transport and Cable Network that moved before, one of the reasons supporting the


decision was to be close to customers and reduce the time to market for the unit’s products.\textsuperscript{192} IBM endorsed its existing global image by becoming a “globally integrated enterprise”, what implies that company’s worldwide capabilities can be located wherever it makes the most sense.\textsuperscript{193} By relocating Procurement HQs to China, the company signalized, that it has the global approach to functions placement and running and flexible to customer needs. Another important reason for the function relocation was the developing relationships with new partners and suppliers and working closely with existing ones, what was rather difficult to do from the US due to time and language differences.\textsuperscript{194} Anglo American stated that one of the reasons to relocate the corporate HQ to the UK was to expand internationally and compete more effective globally. By moving to the market, that represents a “natural” environment for the mining companies, the company was able to observe its global competitors closely.\textsuperscript{195} HSBC can also be mentioned in this regard, as by moving the corporate HQ from Hong Kong to London, the company demonstrated its global outlook and plans to move from the regional financial organization to one of the global leaders in the industry.\textsuperscript{196} The first RHQ relocation (from US to Thailand) by Ford was motivated by such reasons as – to be in the centre of the growth\textsuperscript{197}, to even out and increase market shares of the company in the countries of the region\textsuperscript{198}, to move closer to customers and understand their needs (Ibid), to compete more effectively with the competitors – international car producers that were well established in the region\textsuperscript{199}. The motivation for the second RHQ relocation for the Asia-Pacific and Africa region (From Thailand to China) was motivated by the reason to be in the centre of extreme demand.\textsuperscript{200} However, the company made the decision to

\textsuperscript{196} HSBC, 2011c. HSBC’s history. [online] Available at: <http://www.hsbc.com/1/2/about/history/history> [Accessed 9 May 2011].
relocate the RHQ to China quite late; the market share was already divided between its main competitors, as well as all the strongest partners in the region. 201

The overview of the reasons named by the company for the benefits mentioned above is presented in Appendix 3.

4. Reason: The HQs move to avoid external threat from the host regime and benefit from the better climate of a new host country;

Another reason that is in line with our theoretical framework and affecting, according to Birkinshaw, Braunerhjelm, Holm and Terjesen (2006), primarily corporate HQs, is the threat imposed by the regulatory regime of the home country. According to the authors (Ibid), business unit HQs also seek for a more attractive business environment in comparison to the one of the home country. We decide to combine these reasons and analyze them in this sub-part.

Old Mutual, relocated corporate HQ from SA, the emerging country with unstable political regime, to the UK, the country that was secure in this regard (Peng, 2009). HSBC avoided the possible business risks associated with an unstable political situation (the upcoming change of political rule in the country from British to Chinese), when relocating the corporate HQs from Hong Kong to the UK. 202 Tetra Pak avoided high family businesses taxation rates of the home country, Sweden, and moved corporate HQs to Switzerland, which is known for favorable taxation conditions. 203 Another reason, named by Tetra Pak, when the company relocated HQs functions back to Sweden, was improved conditions in the Swedish business climate. 204 The relocation of corporate HQ (functions) back to the country of origin, which in the case of Tetra Pak happened due to the improvement of the former host country conditions and an acquisition, is a very interesting aspect that can serve as a subject for further research in the area of HQ relocation. Swedish Ericsson was also dissatisfied with the country’s business environment –

high corporate and personal income tax rates, preventing the company from hiring top-class researches, engineers and managers.\textsuperscript{205} Ericsson relocated its business unit HQ for Transport and Cable to the UK in order to benefit from the better business environment in comparison to the one of home country, which included such elements as the synergy between unit’s business scope and conditions of the UK market and the exploitation of the new settings to achieve profitability goals of the unit.\textsuperscript{206} Ford relocated the Regional Marketing and Sales HQ from US to Thailand partially due to the introduction of AFTA on the territory of South Asia, which provided advantageous trading conditions in the region and contributed to the increase of regional sales.\textsuperscript{207}

We present the main motives for HQ relocation, provided by the case companies in this regard in Appendix 4.

5. Reason: The corporate HQs move as a result of a merger or an acquisition;

It was stated (Birkinshaw, Braunerhjelm, Holm and Terjesen, 2006) that a corporate HQ relocation, in the cases of mergers or acquisitions, is typically influenced by the access to the capital markets or to global competitors.

This is confirmed by our findings. South African Anglo American merged with Minorco, a company that had offshore corporate HQ in Luxemburg, but operated on the territory of South America, and created Anglo American plc, headquartered in London.\textsuperscript{208} Company’s goal was to simplify the portfolio and organizational structure, which in our opinion, was rather effortful, while still located in SA, as the recently acquired large business was operating on another continent (South America). Therefore, we believe, that the relocation of the Group’s corporate HQ to London, which is the cluster for the HQs of mining companies and a major financial centre, could have also supported the simplification of the group’s governance. As for HSBC, after the acquisition of Midland bank, most of the company’s operations were located on the territory of the UK; therefore, it was required by the UK authorities to move the corporate HQ as


a part of the acquisition deal. On the one hand, it was not entirely company’s strategic voluntary decision to move the corporate HQ. On the other hand, it was beneficial for the company to move the corporate HQ for a number of reasons, such as limited economic possibilities of the home country (Hong Kong) and the unclear political future, holding back the growth of the bank. Besides, London is the centre of financial operations in Europe, providing a simplified access to international capital markets and a place, where most of the largest financial groups are represented. Tetra Pak relocated its HQs functions from Switzerland to Sweden as a result of the acquisition of Alfa Laval, which was headquartered in Sweden. The optimization of the cooperation between two companies by sharing a common HQ was not the only reason why Tetra Pak decided for this move. The company already had a number of facilities and business operations in Sweden, the country of company’s origin, and had plans to benefit from the improved business conditions of the country (Ibid). However, the Group’s head office still remains in the low tax environment of Switzerland, but HQ functions are now located in the country of origin - Sweden. Therefore, we can make a conclusion, that company’s decision to relocate HQs functions back to the country of origin as a result of the acquisition was supported by other reasons such improved business climate in the country of origin, already existing company facilities and neither by access to capital markets, nor proximity to global competitors.

Thus we have outlined the reason of HQ relocation due to merger/acquisition separately, it would be logical to perceive it not as an independent stand alone reason, but rather in a complex together with other interrelated reasons, as it was also done previously by the researchers in this field (Ibid). We have presented the reasons named for HQ relocation by the companies covering the aspect of mergers and acquisitions in Appendix 5.

6. **Reason:** The HQs move in response to Internal Stimuli;

As described in Chapter 2, Internal Stimuli that motivate companies to relocate corporate HQs are usually rather hidden for external observers and require a thorough observation of the company prior to their verification. Internal stimuli can be of two types - shift in the center of gravity of the business and shift in the global outlook of the MNC (Ibid).

As for our case companies, we believe that the following companies had internal stimuli to relocate their HQs abroad – IBM, Ericsson and Otis. Some reasons for HQs relocation which we found, were not stated by the companies directly, but were identified by the experts of the industry; therefore we made a decision to identify them as internal stimuli. IBM underlined the importance of the Asian market as a strategic growth market for the company; the company representative said that the relocation would help to satisfy the needs of the external clients.\(^{215}\) As mentioned by the experts, the company reacted on the shift of the high-technological industry from US to Asia, which provoked the shift of the gravity of company’s business activities.\(^{216}\) Ericsson could also be named in this regard; the company demonstrated dissatisfaction with the Swedish business conditions and a clear shift in the global outlook by establishing a second corporate HQ abroad. The media and analysts said that the move to establish a second corporate HQ in London could have been motivated by the following underlying reasons - obtaining tax benefit for the senior staff\(^{217}\), improving company’s performance (the company was losing the market share to the rivals)\(^{218}\) or due to the influence of a powerful shareholder\(^{219}\), who had been previously involved into the process of making other MNCs of the Swedish origin more competitive. Otis represents an example of the company’s shift in the regional outlook, when the company relocated its RHQ for Asia from Hong Kong to Shanghai. The company representatives did not mention any of the following reasons directly in their statements; however they were revealed by the experts and could serve as internal stimuli. Firstly, the company was motivated to

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be closer to Chinese partners, already established joint ventures. Secondly, one of the company’s goals was to strengthen the competitive position, as all international competitors of the company had already established a stable foothold in China. The company had already made large investments in the country and had a number of established facilities, including a training centre for regional employees. Besides, the experts underline the importance of the upcoming significant local events that were promising in terms of new large-scale contracts for the company.

7. **Reason:** The HQs move in order to achieve cost reduction;

We believe that this pragmatic motive outlined by Ghosh, Rodriques and Sirmans (1995) will become even more significant in the conditions of the new upcoming wave of the financial turmoil, when the companies will be pressured to maximize shareholder value in extreme cost-cutting conditions.

IBM was named by the journalists in the regard of cost reduction. The company relocated procurement function HQ to China, the centre of inexpensive high technological goods production, in order to access cheap labor and hardware costs. What is interesting, Ericsson representative denied the reason of cost reduction and lower corporate taxation rates as the stimulus to set up a second corporate HQ in London. However, when relocating Transport and Cable Network business unit HQ from Sweden to the UK, the company stated, that cost cutting was one of the reasons. Ford established a Regional Marketing and Sales HQ in Asia as the company wanted to optimize its marketing strategy in the region by developing the regional

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synergy of marketing efforts, what allowed decreasing local marketing costs.\textsuperscript{227} The establishment of the RHQ for Asia-Pacific and Africa in China pursued the goal to streamline Ford’s operations during the financial turmoil, the company planned to create a more efficient, competitive and cohesive regional business model. We believe, that a new model, that eliminated doubling redundant processes and allowed to exploit regional similarities, also allowed cutting down costs.\textsuperscript{228} Our findings suggest that cost cutting was not the leading motive to relocate HQs stated by the case companies. We assume this reason was not prevailing, because the relocations that we analyzed had happened before the high point of the financial crisis occurred. The relocations in our examples happened mostly in the end of 1990s, beginning of 2000s, while the global financial crisis came into effect in the late 2000s.

8. **Reason:** The HQs move to facilitate MNCs expansion and growth;

Our findings reveal that many companies associated the event of corporate HQ relocation with the new development phase in the company’s evolution or with international growth.

For example, SABMiller, when relocating corporate HQ from SA to the UK, mentioned that one of the reasons was to improve abilities for “fast international growth”.\textsuperscript{229} Another South African company – Anglo American, stated that one of the motives to relocate HQs to the UK was to allow new growth opportunities\textsuperscript{230} which were restricted by high tariffs and economic sanctions, when the company was headquartered in SA.\textsuperscript{231} We can also reckon HSBC among these companies, as the company was pursuing the goal to develop internationally and had already set up main target geographical regions for its expansion – the US and the UK, which were rather

\begin{itemize}
\item \textsuperscript{227} Media, 1 November 2002. Ford tries to climb up the table with new Asian HQ. Available through: Factiva database [Accessed 15 May 2011].
\end{itemize}
difficult to embrace, when located in Hong Kong.\textsuperscript{232} Old Mutual was also oriented towards international expansion and growth, when relocating corporate HQs from SA to the UK.\textsuperscript{233}

The above mentioned case companies were pursuing substantial goal, to grow internationally, what they could have only achieved by eliminating constraints imposed by the home country limitations (Hong Kong and SA). In the new host country (and most important, city as London represents international business and financial center) settings, the newly established corporate HQs were more capable to carry out their entrepreneurial role. In the conditions of the restructured organizations and more favorable business conditions (in comparison to former host countries), corporate HQs were able to leverage companies’ resources and achieve a number of advantages that allowed the companies to expand internationally.

As for RHQs, several companies planned to expand regional activities by relocating their RHQs. In both cases of the RHQ establishment, Ford was pursuing the goal to increase regional market shares and be present in the market of the flourishing growth. Otis was also relocating RHQ from Hong Kong to China due to the boom in the Chinese market; the company had substantial plans to develop locally and by this time had already made a number of large investments in the country.

We will summarize all the reasons for HQ relocation mentioned above and present them in a figure in order to provide a clear graphical overview of their categorization. We believe that the reasons, mentioned by the ten case companies in regards to HQ relocation, can be placed in the system of four segments with horizontal axis – home country and new host country, and vertical axis – company motives and location-specific conditions. The top left segment contains the benefits, named by the companies in regards to location advantages of the new host country, such as operation under a better legal regime, benefiting from the improved business climate, presence of the specialized service providers, better possibilities to attract and recruit executive talents, access to capital markets with more attractive conditions, being presented in the country (city) that is the cluster for the companies of the industry. As the opposite, the second segment (top right) covers the disadvantages of the home country conditions, that can motivate the company to

\textsuperscript{232} HSBC, 2011c. HSBC’s history. [online] Available at: <http://www.hsbc.com/1/2/about/history/history> [Accessed 9 May 2011].

relocate HQs to the countries with more favorable conditions, – constraints, imposed by the limitations of the home country economy (relevant for countries with small economies) and a threat from the current regime that can create potential risks for the company. The bottom two segments represent internal stimuli and motivations to relocate HQs urged by the need to interact with external stakeholders in a more efficient way. To the segment representing the motives of internal character, we assign - cost reduction, orientation towards international expansion, the shift in the business gravity or in the global outlook of the company. Here we expand the notion of Internal Stimuli, proposed by Birkinshaw, Braunerhjelm, Holm and Terjesen (2006) and set out in the theoretical framework, as we believe cost reduction and orientation towards international expansion are also the reasons that perform as internal drivers for the HQ relocation, available and clear mostly for the insiders of the company, such as top management. We decide to assign them to the segment that represents the home country on the horizontal axis, as they in some way symbolize limitations of the home country - it is not possible in the current settings of the home country to accomplish cost reduction, international growth or achieve the same level of the sales as in the country to which the center of gravity of the business had shifted. On the opposite side, there are the motives describing the interaction with external stakeholders, to which we assign investors, financial institutions and analysts, key customers, competitors and newly acquired units due to merger or acquisition. We decide to perceive the latter stakeholders as external because the integration of acquired units usually happens in the final stage of the acquisition/merger process. We assign these reasons to the segment on the horizontal axis that represents the new host country, as the new host country provides proximity to these stakeholders, what facilitates company’s interaction with them.
### 3.3.4. Analysis of consequences of HQ relocation

Drawing on a multiple case study of ten huge multinational corporations we observe that HQ relocation has a number of consequences. We notice that these consequences are often unexpected and do not go hand in hand with company’s goals and ambitions pursued when making a decision to move HQs to a foreign country. Regardless of all benefits that drive companies to move overseas, the outcome of this incident can be adverse and unpredictable. This observation is supported by the theoretical argument outlined in the paper earlier (Larsen, Manning, and Pedersen, 2011), stating that the initial motivations and expected benefits of undertaking business activities abroad are not always achieved, and the relocation of business activities can turn out to be more costly and less beneficial than initially expected by a firm. The unpredictable costs emerge because the relocation of business activities beyond the national borders increases the number of interactions and interdependences in the entire organizational system, which in turn creates more complexity and management difficulties. These emerged costs can be costs of coordination and knowledge transfer between the organizational units, training...
and coaching of employees, protection of intellectual capital, monitoring and controlling of performance of offshoring units, etc. (Ibid). Correspondingly, our empirical study shows that by relocating their domiciles abroad the MNCs experience multiple problems associated with increasing interactions and interdependences in the entire organizational system. Moreover, from the theoretical point of view (Ibid), the offshoring complexity is a combination of social, structural and operational complexity each referring to different relocation, redesigning and coordination challenges. Following this theoretical framework we analyse the negative consequences of HQ relocation in the light of social and structural complexity. The operational complexity in our analysis is ignored since the HQ relocation is not considered to be an operational activity and does not lead to the disaggregation of the operations creating more interdependences as defined by the authors (Ibid).

In terms of social complexity, we find that HQ relocation can trigger unexpected problems associated with increased social interactions and interdependences between the internal and external actors of MNC. However, while the previous research (Ibid) explores the social complexity costs from the internal perspective, our empirical findings reveal that in addition to the internal consequences, the firm can also face the social complexity costs from the external point of view. For instance, in the academic paper of (Ibid) it was argued that in relation to the relocation of business activities outside the home country firms can face unexpected or “hidden” costs associated with the lack of face-to-face interaction, as well as cultural and language differences between the internal stakeholders such as employees at geographically dispersed locations. Additionally, the examination of the companies in our sample shows that firms can face unexpected consequences associated with increased complexity not only between the internal stakeholders such as employees, but also between the internal (management) and the external (shareholders, unions, government) stakeholders of MNC, as well as interacting with unstable environmental circumstances in the host country.

In terms of structural complexity, the previous research (Ibid) outlined that unexpected costs of undertaking business activities outside the country of origin can be associated with increasing interdependences between functional units across country borders, which can negatively affect company’s performance. Even though we were not able to evidence that HQ relocation to a foreign location actually increased the interdependences between functional units across country
borders, our empirical study showed that “the unbundling of HQ activities and relocating them to different locations” (Desay, 2009), as well as creating a matrix structure made it difficult for the firm to manage the organizational system, which in turn negatively affected the whole organizational performance.

On the other hand, the previous research (Ibid) stated that undertaking business activities overseas can have a positive impact on firm’s performance through the benefits such as cost-advantages, quality improvement and innovation. While we were not able to support this theoretical finding by our empirical study we found out that relocation of HQ activities can positively contribute to firm’s performance through committing to the laws and regulations and benefiting from the better business climate conditions of the new host country. Our findings show that this commitment can provide the companies with higher-quality legal and regulatory regime as well as give the possibility for international expansion, market saturation and a broader investor base.

Finally, we found out that HQ relocation often goes hand in hand with company’s restructuring which also triggers other effects mostly on company’s subsidiaries and employees. However, we acknowledge, that these consequences are not directly associated with the relocation of HQ activities but rather with a large reorganization occurring in MNC.

Based on the insights gained from our empirical study we can argue that HQ relocation is a critical event for both internal and external company’s stakeholders as it affects all organizational levels including management, employees, subsidiaries, shareholders, and relations with national institutions. Besides, we observe that HQ relocation can have both positive and negative consequences on MNC as it can contribute to the radical improvement of the organizational performance, but also provokes costs and management problems.

Given the above, this section deals with our second research question: How headquarter relocation effects MNC and its stakeholders? In order to answer this question, in the following we will discuss the effects and consequences of HQ relocation in more detail. The findings will be discussed in the light of various examples of ten multinational corporations and presented in four parts each referring to different types of consequences of HQ relocation revealed in our empirical study. The goal of the discussion is not to make practical or theoretical propositions but
rather gain insights into various issues both positive and negative and give a detailed explanation of how these issues can affect MNC which decided to relocate its HQs to a foreign country.

1. Consequence: HQ relocation overseas arouses unexpected costs associated with increasing social complexity;
This part of the analysis examines the empirical data through the theoretical prism in terms of the costs associated with increasing social interactions and interdependences in the organizational system as a result of HQ relocation.

1.1. HQ relocation causes the lack of face-to-face interaction, as well as cultural and language differences between the internal and external stakeholders

Previous research has argued that unexpected costs of undertaking business activities across borders can be associated with social complexity - the lack of face-to-face interaction, as well as cultural and language differences between the internal stakeholders such as employees at geographical dispersed locations (Larsen, Manning, and Pedersen, 2011). In addition to this theoretical assumption, the example of News Corporation shows that HQ relocation can cause the lack of face to face interaction not only between employees but also between the management and the shareholders at geographical dispersed locations. According to the case, the relocation of HQs from Australia to US raised some communication problems between News Corporation top management and the Australia based shareholders. The Corporation had a long history of holding its annual general meetings in Adelaide, South Australia, therefore it became impractical and time consuming for most Australian shareholders to attend the meetings disposed in US. By undertaking management functions across borders, the company was no longer able to arrange face to face meetings with existing shareholders.234 Based on this finding, we argue that one of the consequences of relocating HQ activities to a foreign country for News Corporation was the lack of face-to-face interaction between the internal and external stakeholders at geographically dispersed locations. We assume that the lack of proper communication between US based executives and Australia based company shareholders increased the social complexity.

accordingly raising the potential costs of time, transportation, decision making and effective knowledge transfer. Furthermore, by analysing the case of IBM, which moved its Procurement function HQ from the US to China, becomes apparent that one of the issues of undertaking HQ activities abroad was associated with cultural, time and language differences between the relocated executive and the local actors of the new host country. These differences can be understood as the increased complexity resulting from the decision to relocate the HQs to a new and unfamiliar environment. However, as the case indicates, in order to decrease the social complexity, the company recruited the local staff (Ibid), which, as we assume, decreased the costs of knowledge transfer between the relocated CPO and the external stakeholders in China.

1.2. HQ relocation increases interactions between MNC and domestic institutions in the country of origin

We found out that in addition to communication problems and cultural differences, MNCs sometimes need to deal with other negative social experiences such as conflicts with domestic institutions and the governments as a result of HQ relocation outside the country of origin. Based on this finding we therefore argue that hidden costs of undertaking business activities across borders can also be associated with social complexity that refers to the increased interactions between MNC and the external stakeholders like national authorities of the home country. For example, when relocating its HQs to London, Old Mutual employed lawyers, brokers and corporate advisors based in the new host country while this business was taken away from South African companies. This was a big concern for the Congress of South African Trade Unions worrying over job losses and the increasing unemployment in the country, which resulted in the conflict between the company and the congress. Furthermore, in the case of Anglo American, the relocation of the corporate HQs to London involved the disagreement between the company and the National Union in SA, which claimed that the company’s move was basically the optimization of shareholder value instead of looking out for the interests of the home country. In response to the conflict, Anglo American defended itself by arguing that the company was not

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abandoning its home country, and the relocation was legally approved by the government of SA.\textsuperscript{237}

Besides, we observed that HQ relocation overseas can provoke a negative reaction of the national government in the country of origin. For instance, after Sweden’s two most successful family-owned companies including IKEA and Tetra Pak had relocated their corporate HQs out of the country, Sweden’s government quickly tightened regulations to prevent other companies from doing the same\textsuperscript{238}. The new law required companies to contemplate their plans of relocation and to seek for the government’s approval. Under new law, the government carefully examined all applications for moving abroad of Swedish companies and determined whether they were in the public interest.\textsuperscript{239} Similarly, after Old Mutual had relocated its HQs to London, the government of SA increased control and made it more difficult for companies to delist from the Johannesburg Stock Exchange and to list offshore. The government was worried that the migration of business leaders would negatively affect country’s image, and push away the skilled workforce out of the country.\textsuperscript{240}

Hence, given the above examples, we intend to argue that domestic institutions often put pressure on moving companies and view them as untruthful in terms of business intentions and social responsibility. We believe that the national authorities, especially the government and MNCs are economically dependent on each other resources and mutual support, therefore for the government the relocation of HQ activities means losing the economic contribution of the moving company. The increased interactions between MNC and the national authorities while relocating HQs abroad can be understood as an increasing social complexity creating unexpected costs for the company in terms of time, reputation and resources to solve and deal with the occurred pressure. Moreover, it can also be assumed, that ignoring the negative reactions of national authorities for MNCs is not advantageous, as the company may lose the support of


\textsuperscript{239} Textline Multiple Source Collection (1980-1994), 19 July 1984. Mr Erik Huss, the chairman of Tetra Pak International of Lund, Sweden, has confirmed that the reports of Tetra Pak's transfer of the ownership of a large part of its activities to a Dutch holding company are correct. Available through: Factiva database [Accessed 4 May 2011].

\textsuperscript{240} Textline Multiple Source Collection (1980-1994), 19 July 1984. Mr Erik Huss, the chairman of Tetra Pak International of Lund, Sweden, has confirmed that the reports of Tetra Pak's transfer of the ownership of a large part of its activities to a Dutch holding company are correct. Available through: Factiva database [Accessed 4 May 2011].
important institutions making it risky and difficult to manage the remaining operations in the home country.

1.3. HQ relocation increases interactions between MNC and unstable business environment in the host country

Another interesting finding is that unexpected costs of being headquartered abroad can be associated with changeable government policies and unstable business situations in the new host country. When moving HQs to a new country, the companies are often attracted by less restricted regulations, cheap labour and flexible business conditions, however the situations can change, and such changes can have adverse implications for MNC and its stakeholders. According to our observations, the changes in business environment are often initiated by the government of the host country. By dealing with these changes the company to some degree engages in social interaction with the government, thus the social complexity increases. There are few case examples to support this argument. In the case of HSBC, one of the most critical consequences of moving its HQs from Hong Kong to London was the possible UK government’s decision to change the tax system for the banking sector. Moreover, London was no longer the attractive place to do business because of the increased taxation for highly paid staff, the high banking charges and the capital requirements. It was believed that by switching its HQs somewhere else, it could avoid all the cost disadvantages experienced in UK.241 In the same way, the unexpected changes in UK’s tax environment had a negative effect on SABMiller. It was claimed that the unforeseen changes in the tax system in UK made the country an illiberal and unpredictable place to do business. As a consequence, the company decided to locate its global key division in Switzerland rather than in UK, close to its HQs.242 Based on these insights becomes evident, that one of the factors that initially stimulated both companies (HSBC and SABMiller) to move their HQs to London was the attractive and conventional tax system, however the government’s decision to change regulations made the country too costly and unstable for doing business, which in turn aroused companies’ negative reactions and considerations to leave the country. In the theoretical overview we outlined the fact that corporations are moving their HQs out of

metropolitan areas like London (Benito, Lunnan and Tomassen, 2011). This can be explained by highlighting our finding that companies move out from the city because of changeable legal regulations and unfavorable business climate. Moreover, the case of Tetra Pak shows that the changeable business environment can even lead to the “de-internationalization” (Benito and Welch, 1997). For instance, after ten years being headquartered in Switzerland, Tetra Pak decided to return its HQ functions back to Sweden because of the positive changes in Sweden’s business climate. We assume that more favorable conditions allowed the company to run business at lower costs in Sweden than Switzerland.243

Another important insight from our empirical study is that government’s policies can have an influence on regulating and dictating costs of labour, which is critical for MNC seeking labour cost advantages when moving its business activities to a foreign country. One of the problems associated with relocating IBM’s procurement function HQs to China was raising labour costs, which was driven by the continued expansion of the manufacturing sector in this region. The increase of labour costs was based on government’s encouragement to move low-tech industries out of the zone, to cheaper locations inland.244 As a result, Shenzhen raised its mandatory minimum wage rates in order to accelerate the flight of labour-intensive businesses. Due to the increased labour costs, high-tech investor IBM decided to seek for a new low-cost sourcing location as the possible opportunity to reduce its costs.245

Finally, we observe that MNCs undertaking business activities abroad can also be negatively affected by unstable and volatile political environment in the host country. The relocation of Ford Motor’s RHQ for Asia Pacific to Thailand placed the company in front of the widespread violence and public demonstrations against the government deriving away potential investors and making a negative effect on the business.246 The political instability in Thailand was probably

one of the reasons for Ford Motor to relocate its RHQs to China instead of staying in the vulnerable host country.

The findings above lead to the argument that unexpected costs of undertaking HQ activities across borders can be associated with increasing interfaces between the MNC and the unstable environmental circumstances as well as political and tax policies of the host country. As observed, the costs of these increasing interfaces can be extremely high and lead to the consideration or an actual decision to move out from the host country and locate the HQs or subsidiaries somewhere else or even to return to the country of origin.

1.4. HQ relocation increases interactions and interdependences between MNC and the shareholders

Despite the empirical evidence, that HQ relocation abroad can trigger the conflicts between the MNC and its external stakeholders such as governments and unions, our case studies indicate that HQ relocation can also be a reason for the conflicts between the company and its shareholders. The News Corporation is a case of example. In the pursuit of a broader international shareholder base by relocating its HQs abroad, the company depreciated the interests of the existing shareholders based in the home country, what led to complications for both parties. When the company was an Australian corporation, its board of directors was seeking shareholder approval to reincorporate and relocate its corporate HQs to US. The relocation across the borders for Australian shareholders meant less protection than being under Australian corporate law, which triggered their distrust and disappointment. However, relying on the management’s promise of poison pill provision for one year, the company achieved the shareholder approval for the reincorporation and the relocation to US. Nevertheless, the real conflict came into the light when the management of News Corporation announced the extending its poison pill provision for two more years. The shareholders felt betrayed for voting to approve the switch from Australian incorporation to Delaware reincorporation on the condition of short-term poison-pill provisions.²⁴⁷ In several cases shareholders were strongly disappointed with diminished company profits and therefore shareholder value that was partially a result of the HQ relocation. The cases

supporting this finding are Ericsson, Old Mutual and HSBC. After the relocation of HQ outside the home country, in all three companies the shareholders were strongly disappointed as the relocation did not bring the profits and financial prosperity than initially expected. In the case of Ericsson, the shareholders were disappointed because of the decreasing earnings, the company’s disability to keep up with the rivals, and failing to outline a convincing future strategy. The shareholders of Old Mutual were dissatisfied because of the decreasing profits caused by too rapid international expansion of the company, which was encouraged by the less restricted regime of new host country. Furthermore, the investors of HSBC were questioning the bank to explain the costs and benefits of being headquartered in costly country with high taxes and probably changing tax regulations - UK. Based on the case examples, we acknowledge that the disappointment of the shareholders in these companies was associated not with HQ relocation itself but rather with management’s decisions and actions made after the establishment of HQ in a new host country. However, we argue that the HQ relocation played an integral role in this increased complexity as it was a starting point of all the conflicts and disagreements between the company and the shareholders.

The framework for the consequences of HQ relocation abroad associated with increased social complexity of the MNC can be explained by the following figure.

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2. Consequence: **HQ relocation overseas arouses unexpected costs associated with increased structural complexity**;

As outlined in our theoretical overview, unexpected costs of undertaking business activities offshore are associated with the structural complexity of MNC – the increasing interdependences between functional units across country borders (Larsen, Manning, and Pedersen, 2011). In the following we examine the structural complexity costs in the light of the case example of Ericsson researched in our empirical study.

**2.1. Unbundling of HQ activities to different locations and building complex structure creates managerial difficulties and deteriorates organizational performance**

Ericsson unbundled its corporate HQ functions by relocating finance, marketing and some management functions to UK while R&D and legal functions remained in Sweden, the company’s country of origin. The profit responsibility was decentralized to smaller units and the strategic decisions were taken by the corporate executive team, which in addition to Sweden,
were based in four geographical areas.\textsuperscript{251} The company established four corporate offices outside London to handle markets locally and be closer to its subsidiaries.\textsuperscript{252} In essence, the dispersion of parenting activities was a part of the overall company reorganization, where the company created a matrix structure designed to strengthen the company’s customer focus by switching the concentration from product divisions to customer areas.\textsuperscript{253} However, the case study shows that the company’s intention to build a diversified company and maximize its value by forming a new corporate structure and moving its parenting functions overseas did not justify itself. Even though we were not able to evident that the unbundling of HQ activities to different locations actually increased the interdependences between the functional units across the country borders, we can assume that dispersing of HQ activities and creating matrix structure made the company complex and difficult to manage. The increased structural complexity in the entire organization system had a negative effect on the company’s organizational performance including profit loss, company’s disability to keep up with the rivals, disappointed investors, inability to make timely decisions, and the failure to outline a convincing future strategy. At this point we can argue that the main problem of relocating HQ activities to different locations and building complex structure for Ericsson was ineffective management and the lack of proper coordination between organization units resulting in a decrease of company’s competitiveness, capacity and profits.

3. **Consequence**: HQ relocation overseas contributes to the international expansion and market saturation of MNC;

As revealed in our empirical study, most of the companies that chose to move their HQs and primary listings offshore transformed their businesses, and some grew strongly. Even though we acknowledge that most companies grew their businesses through successful mergers and acquisitions, we argue that HQ relocation abroad to some extend contributed to this growth by providing business opportunities that were not available in companies’ country of origin. It has been mentioned in academic literature that by moving its corporate HQ overseas the MNC engages in the laws and regulations of the new host country. This commitment provides the


companies with higher-quality legal and regulatory regime, especially if firms arrive from the poor legal standard countries such as SA. Hence, by relocating its HQs to the country of higher-quality legal regime, the MNC has a possibility to present itself as the company operating with high standards of corporate governance thereby attracting new investors (Birkinshaw, Braunerhjelm, Holm and Terjesen, 2006). In support, our case study shows that most of South African companies that relocated their HQs to London committed to the legal rules of UK and won places in the FTSE 100 index. This resulted in attracting foreign investors, increasing access to global capital markets supporting their international expansion, and the market saturation. Being listed and headquartered in London meant going global and competing on a world stage. This was not possible, for instance, when being headquartered in SA. Therefore, for the South African companies such as SABMiller, Old Mutual and Anglo American the relocation to London was a huge opportunity to internationalize their businesses, turning them from mainly domestic operations into world leaders in their sectors, with greater long-term growth potential, new market opportunities and different currency exposure. According to our investigations, all researched South African companies were the outstanding successes in this. When SABMiller moved its HQ and primary listing to London, it was mainly a domestic brewer dominating the local market. After the acquisition and large investments in brewing capacity and brands on the six continents, the company became one of the world’s largest brewers.254 By relocating its HQs to London, Old Mutual gained a promising financial services supermarket in the UK, European franchise and a presence in a number of other markets. The company’s market extended to forty six countries, a far larger universe than just SA, the UK and the US.255 Furthermore, the relocation to London contributed to Anglo American’s growth and transformation from being merely mining company in SA to the largest mining and natural resource company in the world.256 Similarly to South African companies, following the advantages provided by UK, HSBC relocated its HQs from Hong Kong to London, which was one of the first steps in the transformation from just being an important regional bank to one of the leading financial service

organizations in the world.\textsuperscript{257} For Otis Elevator, the relocation of the RHQ to China gave the opportunity to turn into the main service provider in China and one of the leaders in the industry.\textsuperscript{258} In the case of News Corporation, by switching to NYSE, the corporation gained stronger financial position and the possibility to make the strategic investments in new media.\textsuperscript{259} Finally, as a consequence of HQ relocation from Switzerland to Sweden, Tetra Pak made new investments in building new offices and premises for manufacturing and R&D facilities in Sweden, which strengthen the company’s position as the technological centre of the Tetra Pak Group.\textsuperscript{260}

In the light of these examples, we argue that by relocating HQ activities overseas most of the MNCs made the right strategic decision, which positively contributed to their international expansion, increased market share, and enhanced new investments and financial success.

The analysis above shows that HQ relocation beyond the national borders can trigger negative as well as positive effects on MNC, and can be interlinked with both social and structural complexity as well as associated with strategic benefits. We summarize the findings in the following framework.

\textsuperscript{257} HSBC, 2011c. HSBC’s history. [online] Available at: <http://www.hsbc.com/1/2/about/history/history> [Accessed 9 May 2011].
4. **Consequence:** HQ relocation is usually accompanied by company restructuring, which also triggers other effects;

According to our findings, HQ relocation goes hand in hand with company’s restructuring indicatives, which stimulates other effects such as shifts, divestures or consolidations of company subsidiaries and lay-offs of company staff. However, we acknowledge, that these consequences are not directly associated with the relocation of HQ activities but rather with a large reorganization of MNC. Nevertheless, we can argue that analyzing the effects of the organization restructure on MNC still contributes to answering our second research question as the phenomenon of HQ relocation is not an isolated event. Evidently, it interrelates with restructuring, mergers and acquisitions as well as other reformations occurring in the dynamic MNC.

4.1. **Effects associated with mergers and acquisitions**

Our empirical study revealed that mergers and acquisitions have a direct effect on the subsidiaries and divisions of MNC. For example, Anglo American’s corporate HQs was moved to London in
1999 when Minorco merged with Anglo American Corporation of SA and formed a new entity Anglo American plc.\textsuperscript{261} The merge had a direct effect on Anglo American’s subsidiaries. Anglo sold, dissolved and rationalized many of its numerous subsidiaries in its coal mining and industrial groups, which helped the company to create a simpler and transparent structure of six operating divisions and three big listed companies focused on gold, diamonds and platinum.\textsuperscript{262} As shown in our case study, back in 1992 HSBC merged with Midland Bank and moved its HQs from Hong Kong to UK. The acquisition was a part of HSBC’s new strategy to expand its operations worldwide and to build up a strong representation in Asia Pacific, US and UK.\textsuperscript{263} The consequence of the acquisition was shifting nearly half of HSBC’s assets including subsidiaries to Europe. Even though the shift did not excite by company’s shareholders, it provided short term profits and a recovery of other faltering HSBC subsidiaries.\textsuperscript{264} Furthermore, the association between the acquisition and the effect on company assets was also recognized in the case of SABMiller. The SAB’s acquisition of Miller resulted in a combination of complementary company assets such as shareholders, the management team, a diverse and balanced earnings base, as well as the broad portfolio.\textsuperscript{265} In 1991 Tetra Pak acquired Alfa Laval (Sweden), one of the world’s largest suppliers of equipment and plants to the food industry, processing industry and agriculture. The decision to relocate HQ back from Switzerland to Sweden was a part of both companies’ agreement, thus the companies shared the new head office in order to optimize their cooperation.\textsuperscript{266}

4.1. Effects of restructuring and HQ relocation on corporate employees

According to the insight gained from the cases, the company’s reorganization including HQ relocation overseas can also have a strong impact on employees. While undertaking restructures some of the MNCs were reducing the number of corporate staff significantly. As shown by the

\textsuperscript{263} HSBC, 2011c. HSBC’s history. [online] Available at: <http://www.hsbc.com/1/2/about/history/history> [Accessed 9 May 2011].
\textsuperscript{264} HSBC, 2011c. HSBC’s history. [online] Available at: <http://www.hsbc.com/1/2/about/history/history> [Accessed 9 May 2011].
\textsuperscript{266} Tetra Pak company, 2011c. History of Tetra Pak. [online] Available at: <http://www.tetrapak.com/about_tetra_pak/the_company/history/pages/default.aspx> [Accessed 2 April 2011].
case of Ericsson, the company was restructuring its business by massively reducing the corporate staff in divisions and subsidiaries and cutting personnel in the HQs in Stockholm. The numbers of the lay-offs during the restructure process were planned to reach 14,000 of its 104,000 person labor force. The rationale of reducing corporate staff was cost cutting in relation to new technology and less labor intensive work methods requiring fewer staff. In addition, the company eliminated its president and CEO Sven-Christer Nilsson due to president’s failure to expedite and speed the restructuring process in the company. In the case of Otis Elevator, the company decided to move production out of the US to Asia. The decision resulted in closure of its manufacturing facilities in Bloomington, US and lay-offs including 135 hourly workers and 30 salaried positions.

3.3.4. Analysis of the process of HQ relocation

We present the process of the HQ relocation in the graph below. This overview is the reflection of our understanding of the stages included in the HQ relocation process, based on the evidence gained from the multiple case study. The first stage in the process is the appearance of various drivers pushing the company to consider the option of HQ relocation. After the decision is made, the company performs HQ relocation, according to our findings, often simulataneously with other processes, such as organizational restructuring. When the HQ relocation occurred and a certain period of time passed, the company can assess the outcomes or the consequences, that represent the actual result of the HQ relocation. The consequences can be negative as well as positive. The company reasseses the alternative costs and location advantages of being headquartered in this particular location and, if the advantages of being located in another country outweigh, can make another decision to undertake a second HQ relocation or return to the country of origin.

Figure 8. HQ relocation process

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4. CONCLUSION

4.1. Conclusion on Reasons and Consequences of HQ relocation

The aim of this thesis was to provide an in-depth examination of the phenomenon of HQ relocation overseas by exploring the reasons and consequences of this event, and fulfilling the gap that exists in the academic literature. This study should be seen as a step forward in enhancing the understanding of HQ relocation and providing new knowledge on this subject.

The study’s theoretical framework was based on integrating internationalization theories, the literature on the structure of MNC, types of HQ activities, and the prior research on reasons of HQ relocation and consequences of this event. The integration of these diverse theoretical perspectives provided the fundamental knowledge on why some MNCs move business activities abroad and what may be the outcomes of this corporate transformation. However, basing on the analysis of prior literature on HQ relocation, we identified that there is a gap in the academic literature, particularly, in terms of reasons and consequences of this phenomenon. The theoretical overview showed that while the internationalization of firms has been widely studied by numerous academics, the subject of reasons and consequences of HQ relocation has attracted far less academic attention. Based on this gap two research questions for our study have been formulated. The first research question suggested the possibility of developing a richer assessment of the reasons for HQ relocation, and the second research question focused on the effects of the HQ relocation.
The empirical research of this thesis was based on qualitative, inductive research of ten MNCs varying in the nature of business, industry and the country of origin. This made our research different from previous academic studies in the field that were more concentrated on the companies from the Nordic region.

The chosen research method provided the necessary in-depth understanding of the HQ relocation process performed by the case companies, particularly in terms of the reasons and consequences as the prerequisite for answering our research questions. The inductive approach allowed constructing relations between the theory and the data gathered, whilst building new knowledge and insights on the research phenomena. Research data was gathered by using data triangulation approach with combining different sources including Factiva database, internal documentation and other relevant information accessible through the company web pages. The multiple case studies demonstrated that there is a number of reasons and consequences of HQ relocation. The study’s results showed a strong support for the previous findings relating to both reasons and consequences of the research phenomena, however as there is relatively little prior research on these issues, new findings were brought to the light.

To revisit our first research question: Why do the MNCs relocate their HQs overseas? From our analysis, we can conclude that MNCs relocate their headquarters to foreign countries for a number of reasons. The main reasons were identified as follow: 1) To achieve financial benefits by being presented in one of the major financial centres; 2) To achieve location specific benefits, such as attraction and recruitment executive talents, access to specialized service providers, operating under better laws and regulations, etc; 3) To cooperate with the key customers and partners; to compete with competitors and create a global image; 4) To avoid external threat from the host regime and benefit from the better climate of a new host country; 5) To achieve cost reduction; 6) To facilitate MNCs expansion and growth; 7) The corporate HQs move as a result of a merger or an acquisition; 8) The HQs may also move in response to internal stimuli.

Furthermore, in line with the prior research, we found evidence that HQ relocation goes hand in hand with large company restructuring. Our empirical results and the categories we were able to assign the drivers for HQ relocation to, supported the framework outlined by Birkinshaw,
Braunerhjelm, Holm and Terjesen (2006), but also allowed to extent it. One the drivers for HQ relocation that we decided to present separately, despite the interrelation of this driver with other reasons, is a motivation to facilitate international expansion and growth. Several of the case companies were relocating corporate HQs in a pursuit of new growth opportunities and new markets for expansion. These companies were originating from the countries with limited economic opportunities, holding back the companies’ growth and international expansion. Therefore, it was particularly important for them not only to get a better representation on the international financial markets, grasp attention of the international investors and build an international image, but also to mitigate the home country limitations and avoid the risks associated with instable situation (changing political conditions, poor legislation, inability to acquire foreign companies etc.) in the home country. Moreover, our findings reveal that several case companies among others named the reason of proximity to partners as the motivation to relocate HQs. Especially strong this reason was for RHQs, as both of the case companies, that relocated RHQs, have established multiple partnerships (or were in search for) on the territory of the new host country prior to RHQ relocation. As for the relocation of RHQs, our findings showed that the companies relocated their Asian RHQs to the country of the region, which provided the most attractive conditions for the industry and represented a growing market - China. We have expanded the list of the reasons for HQ relocation, provided by Birkinshaw, Braunerhjelm, Holm and Terjesen (2006) by one more reason – cost reduction. Several of the case companies, originating from Sweden, mentioned high taxation rates as the reason to relocate HQs in the countries providing a more favorable taxation regime. One more company IBM relocated Procurement HQ function to the cluster of the technologic development and low-cost software production – China. The cases of Tetra Pak (corporate functions HQ relocation), Ericsson (the establishment of the second corporate HQ) and IBM (the relocation of the Procurement function) represented the example of the companies that establish multiple locations for the traditionally co-located corporate functions in a search for optimal business conditions for different corporate functions.

Furthermore, our empirical study showed that in spite of all the benefits that impel companies to relocate their HQs overseas, it may have a number of consequences. The second question of our research asked: How does the HQ relocation affect the MNC and its stakeholders? Grounded on
the findings from the case studies we showed that HQ relocation can have both negative and positive effects on MNC. While some of the effects explored in the empirical research appeared to support the theoretical arguments developed in the paper, we also gained new insights and perspectives on the phenomenon. The key findings of our study in terms of consequences are as follow. First, by reviewing the academic literature, we identified that HQ relocation beyond the national borders generates unpredictable costs associated with the increased interactions and interdependences in the entire organization system (Larsen, Manning, and Pedersen, 2011). This theoretical finding went along with the empirical finding showing that most of our case companies experienced some problems associated with the increased interfaces between the internal and external stakeholders as a result of HQ relocation. However, whilst the theoretical findings explored the costs from the internal perspective, our empirical analysis disclosed that HQ relocation can also generate costs associated with external issues. For instance, according to the prior research (Ibid), unexpected costs of undertaking business activities across borders can be associated with social complexity - the lack of face-to-face interaction, as well as cultural and language differences between the internal stakeholders such as employees at geographical dispersed locations. In addition to this theoretical finding, we showed that HQ relocation abroad can also initiate the lack of face-to-face interaction not only between the employees but also between the management and the shareholders at geographical dispersed locations. Furthermore, the relocation of HQ activities to a foreign country may trigger the language, time and cultural differences between the relocated executives and the local actors in the host country. These increased complexities between the internal and external company stakeholders were deemed as a basis to emerge the potential costs such as costs of time, transportation, and effective knowledge transfer. Second, we found that HQ relocation can be a direct reason for the various conflicts and disagreements between the MNC and the domestic institutions in the country of origin. These conflicts in our analysis were understood as the increased interactions between MNC and its external stakeholders, which in turn might generate costs of time, reputation and resources to solve and deal with these conflicts. We noted that the initiatives to deal with the conflicts were important as ignoring the negative reactions of the national authorities could impose potential risks and problems for the remaining company operations in the home country. Third, we found that by relocating HQ abroad, the companies can experience negative consequences associated with the external environment such as unfavourably changing business conditions or unstable
political situations in the host country. Few of our case companies based their initial decisions to relocate HQs overseas on the benefits to operate in the economically and politically stable new host country, if compared to home country. However, after the HQs were moved the companies realized that they must deal with hostile incidents such as changing tax regulations, growing labour costs or unstable business climate. In the analysis we assumed that these negative consequences can be a basis for the possible second HQs relocation or even returning to the country of origin. Fourth, we revealed that in the pursuit of a broader international shareholder base, sometimes the companies can depreciate the interests of the existing shareholders, based in the home country, what leads to complications for both parties. Besides, in few cases shareholders were simply disappointed with diminished company profits associated with management decisions and actions such as too rapid international expansion, failed restructure initiatives or being headquartered in the high-tax country. In the analysis we acknowledged that the disappointment of the shareholders in the case companies was initiated not by HQ relocation decision itself but by the management actions made after the establishment of HQs in a foreign location. On the other hand, we argued that the HQ relocation played an integral role in this increased complexity as it was a starting point of all the conflicts and disagreements between the company and the shareholders. Fifth, we found out that in one MNC the unbundling of HQ functions and the creation of a matrix structure initiated some management problems having a negative effect on the organizational performance. Sixth, while the previous research shed the light on the positive impacts of business activities relocation on firm’s performance through cost-advantages, quality improvement and innovation (Ibid), we found out that the relocation of HQ activities abroad can positively contribute to firm’s performance through committing to laws and regulations and benefiting from better business climate conditions of the new host country. The outcomes of this commitment can provide the companies with higher-quality legal and regulatory regime as well as give the possibility for international expansion, market saturation and a broader investor base. Finally, we revealed that HQ relocation can be an important element of company’s restructuring which can strongly affect company’s subsidiaries and employees.

By reviewing the recent academic literature on the subject of HQ relocation overseas (Birkinshaw, Braunerhjelm, Holm and Terjesen (2006); Barner-Rasmussen, Piekkari and Bjorkman (2007); Desai (2009); Benito, Lunnan and Tomassen (2011)), we noticed that most of
the research has been made to determine the drivers for HQ relocation in terms of corporate and divisional HQs but overlooked RHQs. The empirical study of this thesis attempted to provide some insights and explanations on relocating both corporate and RHQs. However, given that our findings on RHQs are based only on two case companies, it would be interesting for future research to test and extend these findings by using a larger sample. Additionally, research of exploratory nature is recommended to develop further insights to explain how companies are reducing increased complexity and dealing with other negative consequences triggered by the HQ relocation.

4.2. Limitations of the study

Like all empirical studies, the results of our study should be inspected against certain limitations. First, the qualitative inductive research can be influenced by researcher’s own beliefs and values as noted by Silverman (2005) meaning that findings can always be manipulated by subjective notions of the researcher. Therefore, as stated by Yin (2003), some informal influences of the researcher might have occurred during the gathering or analyzing of the qualitative case-study evidence. We acknowledge that some subjective manipulations could have occurred in the gathering and analyzing of our empirical data. However, we can ensure that all the evidence has been reported fairly and the research has been conducted in a valid and trustworthy way. Second, according to Yin (2003), qualitative, case-study based research provides little basis for the scientific generalization. This thesis does not attempt to provide any general clarifications of the phenomenon of HQ relocation to foreign countries. It merely seeks to provide insights and narratives of some of the issues associated with reasons of HQ relocation and its effects on MNCs, particularly the case companies. Third limitation of our study is related to the nature of the observation. We only acted as external observers, collecting the facts on HQ relocation from the open sources. We did not interact with company representatives directly, what would have allowed getting an insider view on the relocation, collect more intrinsic reasons for the HQ relocation and discover authentic consequences of the relocation, that might be hidden for the external observers. On the other hand, this method of data collection would have limited our abilities to research companies located in different countries and probably scaled down the number of the case studies. Fourth, we were able to find a scarce academic literature on the
subject of the consequences of HQ relocation, which could have affected our data validity. The fifth possible limitation of our research is that we did not split the findings according to different types of HQs, not only due to the homogenous nature of the reasons and consequences we found, the prevalence of corporate HQs relocation in our case studies, but also due to our preferences not to make analysis excessively complex. Fifth, in relation to our second research question, our focus was to explore the effects of HQ relocation on MNC and its stakeholders including customers, employees, management, shareholders, suppliers, subsidiaries as well as public groups. However, due to the limited empirical data we were not able to highlight the effects on all stakeholders that HQ relocation might affect. For this reason, our research reveals the effects of HQ relocation mainly on such stakeholders as management, employees, subsidiaries, shareholders, and governments and unions.

4.3. Data Validity and Reliability

Despite the limitations of our research described earlier, we believe that the data collected and the findings of our study provide the sufficient level of validity and reliability.

Since we obtained the information about case companies from the multiple open sources such as Factiva database and company web-pages, we were objective in the process of data collection by gathering pure facts and not interacting with the company representatives, which would most likely give us subjective, opinion-based information about HQ relocations negatively influencing our data reliability. Moreover, as the examples of HQ relocations that we observed happened in the past, asking the questions about it in the present would have likely provided us with distorted information not reflecting the real events. We were also able to enhance data reliability as both of us, authors of this thesis, were involved in the process of collecting and double checking the facts about each case company. We have also reached the desired level of data validity. Validity can be explained as a good match between the researcher’s observations and the theoretical ideas developed in the paper (CBS-Handelshøjskolen, Department of Organization, 2007/2008). In order to ensure a high level of congruence between the theoretical concepts and the observations of our study, we have been constantly comparing the relevant academic literature and the empirical facts collected. Besides, we tried to make sure that there was a strong correlation between events and they came in the following sequential order – the reasons trigger the decision
to relocate HQ, HQ relocation, the result of HQ relocation. However, as we have already admitted in the limitations of this project, we do not eliminate the possibility of missing some facts in both cases (reasons and consequences).

**Literature**

**Academic literature**


Factiva database


Textline Multiple Source Collection, 18 July 1984. Tetra Pak, the privately owned Swedish packaging group, has transferred ownership of a large part of its activities from Sweden to a Dutch holding company called Hansra Holding. Available through: Factiva database [Accessed 4 May 2011].

Textline Multiple Source Collection (1980-1994), 19 July 1984. Mr Erik Huss, the chairman of Tetra Pak International of Lund, Sweden, has confirmed that the reports of Tetra Pak's transfer of the ownership of a large part of its activities to a Dutch holding company are correct. Available through: Factiva database [Accessed 4 May 2011].


Datamonitor database


**Appendix 1**

Primary benefits from moving HQ to a major financial centre

<table>
<thead>
<tr>
<th>The company</th>
<th>The reason</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>News Corporation</strong></td>
<td>- To attract more investors</td>
</tr>
<tr>
<td>(shift of listings to New York Stock Exchange)</td>
<td>- To boost access to US capital markets (the largest, most liquid and with attractive costs)</td>
</tr>
<tr>
<td></td>
<td>- To create a greater value for the shareholders</td>
</tr>
<tr>
<td></td>
<td>- To pursue an opportunity of the shares to be included in major stock indices</td>
</tr>
<tr>
<td><strong>Ericsson</strong> (the second corporate HQ in London)</td>
<td>- To be close to financial centers and markets</td>
</tr>
<tr>
<td></td>
<td>- To be close to company owners/shareholders</td>
</tr>
<tr>
<td><strong>Old Mutual</strong> (shift of listings to London Stock Exchange and join FTSE 100 Stock Index)</td>
<td>- To gain greater liquidity for stock</td>
</tr>
<tr>
<td></td>
<td>- To obtain a broader shareholder base</td>
</tr>
<tr>
<td></td>
<td>- To get a greater market capitalization in order to accelerate international development and growth</td>
</tr>
<tr>
<td></td>
<td>- To receive an access to cheaper capital in order to buy assets</td>
</tr>
<tr>
<td></td>
<td>- To become the fifth UK’s biggest quoted life assurer</td>
</tr>
<tr>
<td><strong>SABMiller</strong> (shift of listings to London Stock Exchange)</td>
<td>- To improve access to international capital markets and international investor base</td>
</tr>
<tr>
<td></td>
<td>- To get access to lower cost of capital</td>
</tr>
<tr>
<td><strong>Anglo American</strong> (shift of listings to London Stock Exchange and joining FTSE 100 Stock Index)</td>
<td>- To achieve greater visibility among investors and boost sales of shares</td>
</tr>
<tr>
<td></td>
<td>- To raise the share price, which is underestimated in the home country</td>
</tr>
<tr>
<td></td>
<td>- Increased access to the capital markets</td>
</tr>
<tr>
<td></td>
<td>- To be perceived by investors as an international company rather than South African</td>
</tr>
</tbody>
</table>

**Appendix 2**

Location-specific advantages
<table>
<thead>
<tr>
<th>The company</th>
<th>The company</th>
<th>The reason</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Old Mutual</strong> (corporate HQ relocation to London)</td>
<td><strong>IBM</strong> (relocation of Procurement HQ to China)</td>
<td>- To benefit from the commitment to laws and regulations of the new host country</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- To be more effective in developing skills and talents of internal organization in the region</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- To be closer to the core of the technology supply chain to satisfy the needs of the external clients</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- To maintain and develop relationships with new partners and suppliers</td>
</tr>
<tr>
<td><strong>Ericsson</strong> (establishment of the second corporate HQ in London)</td>
<td><strong>Anglo American</strong> (corporate HQ relocation from SA to London)</td>
<td>- To attract top international managers and researchers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- To be in a market that is common for mining companies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- To escape from SA financial restrictions, holding back company’s growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- To operate under better regime of corporate governance and accounting methods</td>
</tr>
<tr>
<td><strong>News Corporation</strong> (shift of listings to New York Stock Exchange)</td>
<td></td>
<td>- To issue External Reports in US financial standards, what will facilitate the understanding of the company by equity research analysts and investors</td>
</tr>
</tbody>
</table>

**Appendix 3**

Building a stronger relationship with key customers and partners, competing more effectively and creating a global image

<table>
<thead>
<tr>
<th>The company</th>
<th>The reason</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ericsson</strong> (establishment of the second corporate HQ in London)</td>
<td>- To be more international and competitive</td>
</tr>
<tr>
<td></td>
<td>- To be close to important international customers and partners</td>
</tr>
<tr>
<td><strong>IBM</strong> (relocation of the Procurement HQ to China)</td>
<td>- To move from a typical MNC approach with replicated functions that serve the local markets to <em>globally integrated enterprise</em></td>
</tr>
<tr>
<td></td>
<td>- To develop relationships with new partners and suppliers and work with existing ones to help them build skills, processes and management practices to compete globally in the services market</td>
</tr>
<tr>
<td><strong>Anglo American</strong> (corporate HQ relocation from SA to London)</td>
<td>- To develop the ability to compete more effectively internationally</td>
</tr>
<tr>
<td><strong>HSBC</strong> (corporate HQ relocation from Hong Kong to the UK)</td>
<td>- New development phase in the process to become one of the world’s leading financial organizations</td>
</tr>
<tr>
<td><strong>Ford</strong> (relocation of the Regional Marketing and Sales HQ from US to Thailand)</td>
<td>- To increase market share in the region and compete effectively with the well positioned in the region competitors</td>
</tr>
</tbody>
</table>
### Appendix 4

Avoiding external threat from the host regime or benefiting from the opportunities in the improved climate of the host regime

<table>
<thead>
<tr>
<th>The company</th>
<th>The reason</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Old Mutual</strong> (corporate HQ relocation to London)</td>
<td>To avoid risks concerned with the politically unstable environment of the home country</td>
</tr>
<tr>
<td><strong>HSBC</strong> (corporate HQ relocation from Hong Kong to London)</td>
<td>To avoid risks concerned with uncertain political situation in Hong Kong in 1997</td>
</tr>
<tr>
<td><strong>Tetra Pak</strong> (relocation of corporate HQ from Sweden to Switzerland)</td>
<td>To run the family owned business tax efficiently and avoid high inheritance taxes</td>
</tr>
<tr>
<td><strong>Tetra Pak</strong> (relocation of corporate HQ Functions from Switzerland to Sweden)</td>
<td>Improved business climate of the home country (Sweden’s application for membership of the European community, construction of the road and bridge between Sweden and Denmark, changes in the tax system)</td>
</tr>
<tr>
<td><strong>Ericsson</strong> (establishment of the second corporate HQ in London)</td>
<td>Dissatisfaction with the Swedish business environment, especially tax burden and problems in recruiting researches, engineers and managers</td>
</tr>
<tr>
<td><strong>Ericsson</strong> (relocation of the business unit HQ for Transport and Cable Network from Sweden to the UK)</td>
<td>To create an improved business conditions</td>
</tr>
<tr>
<td><strong>Ford</strong> (relocation of Marketing and Sales Regional HQ from US to Thailand)</td>
<td>To exploit the favorable conditions of AFTA agreement</td>
</tr>
</tbody>
</table>

### Appendix 5

Corporate HQs relocation as a result of a merger or an acquisition

<table>
<thead>
<tr>
<th>The company</th>
<th>The reason</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HSBC</strong> (relocation of the corporate HQ from Hong Kong to London after the acquisition of the Midland Bank)</td>
<td>To meet the requirements of the UK regulatory authorities</td>
</tr>
<tr>
<td><strong>Tetra Pak</strong> (relocation of corporate HQ Functions)</td>
<td>To share new office in Sweden in order to</td>
</tr>
</tbody>
</table>
from Switzerland to Sweden after the acquisition of Alfa Laval)

**Anglo American** (relocation of the corporate HQ from SA to London after the merger with Minorco)

<table>
<thead>
<tr>
<th></th>
<th>optimize the cooperation between two companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>To simplify the portfolio and the organizational structure, focus on the core businesses</td>
</tr>
</tbody>
</table>