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# How We Facilitate Conversations in Global Strategy - and the Location of MNE HQS

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## **Editorial note**

### **How we facilitate conversations in global strategy - and the location of MNE HQs**

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We have previously introduced Research Platforms as a complement to more traditional (double-blind peer reviewed) articles (Tallman & Pedersen 2012). We see research platform content as important to fueling relevant conversations in the field of global strategy as not all contributions and extensions of our knowledge can be captured in the traditional article format. Therefore, we see it as our duty as editors to create space for research platform content that lives up to our high quality norms and opens doors to new or underdeveloped areas of study...not at the expense of traditional articles, but as a supplement! We see this effort as treating our customers – mainly scholars in strategy and international business – seriously by proactively instigating conversations among scholars on the many open issues in the field. Previous issues of *Global Strategy Journal* include many examples of such research platform content, e.g., point-counterpoint discussions, perspective papers, and commentaries. This issue of *GSJ* features another example of research platform content with the perspective paper by Coeurderoy & Verbeke (2016) and the commentary by Meyer & Benito (2016). It also serves as an illustration of how we try to promote these conversations.

## **THE HISTORY OF A PERSPECTIVE PAPER AND A COMMENTARY**

The article by Coeurderoy & Verbeke (2016) was submitted to *GSJ* as a competitive paper and after initial screening it was, like most submissions to *GSJ*, sent out for review (around 75% of all submissions). The manuscript went back and forth between the reviewers that commented on the manuscript and the authors that revised it with the editor orchestrating this process of challenging and further improving the manuscript. Although the manuscript had many good qualities and touched on an important and underdeveloped issue, it became clear during the review process that there was considerable divergence in the underlying assumptions (for location of MNE headquarters, in this case) between the authors and the reviewers. Several rounds of revision and reviewing clarified the different views and both views offered some attraction.

As editors the safe decision would have been to reject the paper, as the reviewers were making a convincing case for this action. However, this would have meant that the fruitful discussions on the different views in the review process would be gone. So, in order to fuel the conversation, we decided to reorient the original paper into a perspective paper. We also invited two other top scholars working in this area – Klaus Meyer and Gabriel Benito - to write a commentary as a supplement to the original paper, where they could present their somewhat different view. We hope thereby to bring this interesting and relevant discussion out in the open instead of leaving it as a closed, and ultimately lost, discussion among authors, reviewers and editors.

## **THE THEME: LOCATION OF MNE HEADQUARTERS**

The question of where the largest multinational enterprises (MNEs) have located their headquarters (HQs) around the world is intriguing to business managers and policy makers and

the implications for the company as well as for society are significant, but have received little scholarly attention to date. HQ relocation merits attention by strategy scholars because of the potentially profound implications both for MNEs and for their old and new HQ countries. The two contributions in this issue by Coeurderoy & Verbeke (2016) and Meyer & Benito (2016), respectively, open up this conversation.

The opening question is to what extent do MNEs actually make deliberate decisions on where to locate their HQ? Or put differently; how footloose are HQs in reality? Coeurderoy & Verbeke argue *“that head offices are footloose for three reasons. First, the cost of a large-MNE head office is typically low as compared to the company’s overall cost structure...Second, the benefits of head office activities to the MNE would appear to be at least partly location-independent.... Third, in line with internalization theory thinking, most of the world’s largest firms now operate as ‘global factories’, wherein both the ownership status and the location of fine-sliced value chain activities are reassessed on a continuous basis.”* (2016, p. XX). Meyer & Benito’s alternative view is that although MNEs sometimes do change the location of their HQs, still *“inertial forces are strong making this a rare event. In consequence, most MNE HQ are where the MNE was born, even many decades later. In other words, most HQ are where the MNEs is at home!”* (2016, pp. XX). In fact, Coeurderoy & Verbeke themselves show that only 1.46% of the (2,367) large MNEs they followed had in 2008/2009 relocated their HQ since the inception of the company.

The point is that relocation of HQs does take place, but not very often. If this is so, then how can the location issue be studied adequately when by far the best predictor of today’s location of the HQ is yesterday’s location? The rarity of the relocation events creates methodological challenges that need to be addressed carefully. History and ties to the location

seem to matter a lot, but how can that be built into the analysis of the location? Coeurderoy & Verbeke (2016) draw on institutional theory and Porter-type arguments to formulate hypotheses about which countries might be most suitable as locations for MNE HQs, while Meyer & Benito (2016) insist that such arguments are only valid in explaining the growth of MNEs and not relocation of the HQs (as this is really not a choice considered at a regular basis). They acknowledge that the choice of location of the HQ is more prevalent in specific cases like the birth of the company or mergers and acquisitions. However, it is only in these cases that the HQ is really more footloose and a real choice of location is taking place.

Another key point discussed in the two contributions is the issue of what is the HQ as a unit of study? What kind of activities typically take place in HQs? How should we define HQs when we know they vary dramatically in size and in their responsibilities for activities? In fact, the exact conceptualization of the HQ very much depends on the purpose of the study. Taken together, the two contributions offer new insights on this underdeveloped area of study and also insights on the divergence in assumptions and perspective when studying the location of MNE HQs.

## **EDITORS' DISCUSSION AND CONCLUSION**

We offer a few additional points about the conversation on global cities and clusters. The reality is that most corporate HQs are located in major global cities, likely because the infrastructures that support their critical decision responsibilities are in these locations – investment banking and other finance, consulting, legal, audit and tax, and other professional services are concentrated in these cities. They are transportation and communication hubs. Supporting industries and other institutions such as universities are in these cities. If one

considers HQs to be in the ‘business of corporate management’, global cities offer the benefits of industrial clusters for these units that are in the same business – that of running things.

The other likely locations for company HQs would seem to be in the clusters that support their value-adding activities. For single, or limitedly differentiated, business firms, the HQ functions less as a corporate unit deciding in what industries we compete, and more like a value-chain coordinator within an industry or sector. This role is most likely to find support and skills in the center of an industry cluster. Of course, many industry clusters are within the metropolitan areas of the same global cities, so studies looking at geographical location, as opposed to the drivers of location decisions, are likely to miss the strategic perspective on HQ location.

Lastly, one point that is made in both contributions, but left unconsolidated, is the tendency for HQ activities to be fine-sliced, both in practice and scholarship, which implies that the proper level of analysis is not the HQ as such, but rather the location of the individual activities, some of which are likely to be more “footloose” than others.

We hope that the article and commentary that follow inspire at least some of our readers to think seriously about the meaning and importance of HQ location for MNCs, and about the forces and strategies that lead to initial choices of location and any subsequent relocation, whether of the HQ as a whole or some of its component activities.

## References

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