

International Relocations of Headquarters to, from, and within Scandinavia

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Document Version
Final published version

Publication date:
2014

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Citation for published version (APA):
Nell, P. C., & Nielsen, D. (2014). *International Relocations of Headquarters to, from, and within Scandinavia*. Copenhagen Business School, CBS.

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International Relocations of Headquarters to, from, and within Scandinavia

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2. Study motivation, design, and limitations
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Summary

- Anecdotal evidence suggests that the **activities of headquarters (HQ)** are becoming **increasingly mobile**. This study's **purpose** is to **describe** this **phenomenon** in **Scandinavia** for the period between **2000-2012**
- We identified **105 HQ** relocations **to, from, and within Scandinavian countries** (i.e. Denmark, Sweden and Norway) out of which **60 are divisional HQ** (such DHQ are responsible for specific product divisions or geographic areas) and **45 corporate HQ** (CHQ)
- Overall, we **do not find evidence for a clear trend towards more HQ relocations** – the average number of **relocations per year drops from 8.6 between 2000 and 2006 to 7.5 between 2007 and 2012**.
- This drop is mainly driven by a **drop in CHQ relocations** (from 4.0 to 3.5 relocations/year) and a **drop in inbound relocations into Scandinavia** (from 4.6 to 3.2)
- Still, **Scandinavia as a whole gained 11 HQ** over the whole period. This is driven by a **net gain of 21 DHQ** which **offsets a net loss of 10 CHQ**
- **Competition between the Scandinavian countries** for HQ seems **limited and quite stable**. Sweden and Denmark are slightly more successful in attracting and maintaining HQ than Norway
- The quest to improve the **value** that the HQ adds to the firm seems to be the **more important reason for relocations** – **cost reduction considerations seem less important**
- However, **cost considerations become more important for outbound relocations and CHQ**

Summary (continued)

Do HQ relocate to countries with lower corporate tax rates?

- Yes. On average, the corporate tax rate of the country where a HQ is relocating to is 5.5 percentage points lower than the rate of the country where the HQ came from (drop from 32.6% to 27.1%)
- This tax reduction effect is stable across all types of relocations (inbound vs. outbound relocations as well as CHQ vs. DHQ relocations)
- Yet, the effect of reduced corporate taxation is particularly strong for **inbound** relocations (drop by 5.5 percentage points) and relocations motivated by cost reductions (drop by 7.7 percentage points)

Do HQ relocate to countries with lower personal tax rates?

- On average, the personal tax rate increases by 1.9 percentage point when a HQ relocates to another country
- The increase in tax is particularly prevalent for DHQ (+6 percentage points) and inbound relocations (+12.6 percentage points)
- Those HQ that relocate for value creation reasons also experience an increase in personal taxation by 4.0 percentage points
- CHQ relocations, relocations for cost reduction reasons, and outbound relocations out of Scandinavia are characterized by a drop in personal taxation (- 3.6 for CHQ; -11.0 for outbound; -2.2 for cost reduction relocations)

Does the institutional quality of the country hosting the HQ matter?

- On average, the institutional quality of the country hosting the HQ does not change substantially when the HQ is relocated
- However, inbound relocations are characterized by an increase of institutional quality of approximately 10% (+ 0.5 points on a scale from 0 [very low institutional quality] to 5 [very high institutional quality])
- The institutional quality drops by approximately 10% for outbound relocations.

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HQ are important for the Scandinavian Economies

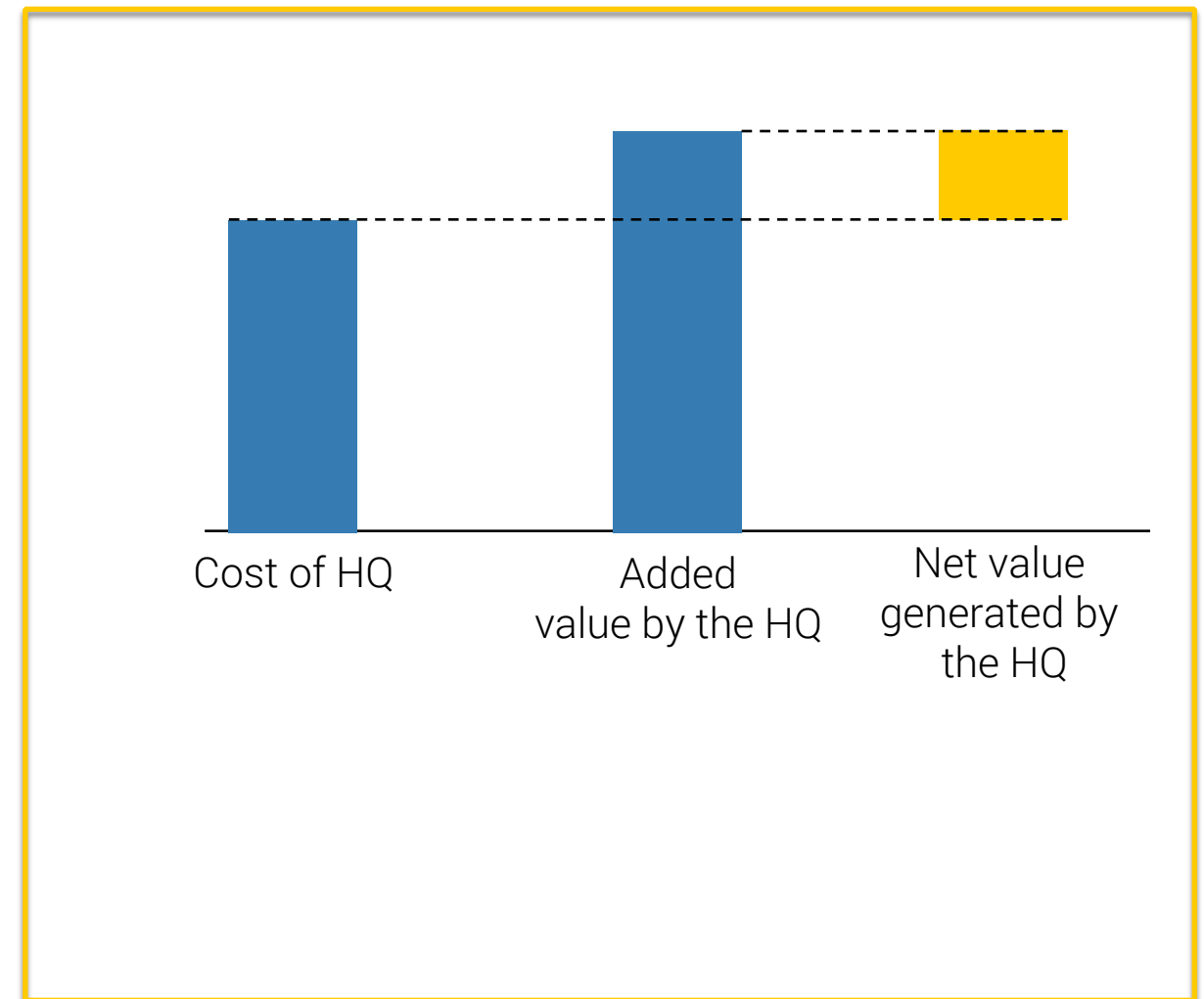
- HQ are at the apex of the firm – they steer and organize the firm and their decisions have an influence on many other parts of the whole organization
- Many developed nations including Scandinavian countries have identified the necessity to create high value employment for their populations
- The conclusion is often based on the evidence of decreasing employment for workers that are unskilled or lowly qualified, an increasing trend towards offshoring of low-value activities such as manufacturing of standard components, and the fact that the location of the HQ influences in which country taxes are paid
- Staff in HQ are generally relatively well-educated and well-paid. Thus, they often meet the requirement for high value employment
- In addition, there is scientific evidence that the location of the HQ influences the HQs' investment decisions. For example, very distant manufacturing plants are by tendency considered less favorably by HQs than very close ones¹
- Finally, the existence of HQ creates demand for related business services and thus for employment in such sectors as legal, financial services, housing, etc.

In sum, maintaining HQ within or attracting HQ to Scandinavia is considered to have important positive effects not only on high quality employment but also on employment and tax income in general within Scandinavia

1) See for example: Giroud, X. (2013). Proximity and investment: Evidence from plant-level data. The Quarterly Journal of Economics, 128(2), 861-915.

HQ are important for firms as they can add substantial value to the whole organization

- HQs' existence is justified when the HQ creates value for the whole organization, for example through ...
 - designing and implementing an efficient monitoring and control system
 - gathering and generating valuable information that is used in decision-making
 - upgrading the capabilities of their subunits
- However, HQ units also generate costs, for example costs for employment of top managers and for strategic initiatives that consume managerial resources at many levels of the firm
- Thus, net value creation by HQ occurs when the value that they create offset the costs that they incur
- Recent evidence seems to suggest that firms increasingly relocate their HQ abroad in order to improve the net value that the HQ can create for the organization. For example,...
 - relocating the HQ to the firm's most important and fastest-growing market could make the HQ better in achieving growth and profitability in that market, or
 - relocating HQ to another country where corporate taxation is substantially lower would lower the costs for the firm.



This study's purpose is to describe the phenomenon of HQ relocations to, from, and within Scandinavia for the period between 2000-2012

- Relocations were identified through extensive search in news and business press as well as company material such as annual reports and information from corporate websites.
- Scandinavia was defined as Norway, Sweden, and Denmark. We excluded Finland and Iceland.
- The search process was centered around a number of keywords such as „relocation“, „move“, „transfer“, „Headquarters“, „reorganization.
- It was conducted in Danish, Norwegian, Swedish and English
- The project identified a total of 105 relocations by 94 separate firms.

Note of caution

- Our search process was designed to identify as many relocations as possible
- However, the study is presumably unable to detect ***all*** relevant relocations, because ...
 - some HQ relocations are conducted by relatively small firms which do not have public media attention
 - some of those firms are not publicly listed which makes information gathering via annual reports etc. difficult
 - Some information on relocations is only available in another language. For example, the relocation of an Italian HQ might be covered only by the Italian press

The report shows descriptive statistics for 105 HQ relocations using three key segmentations

- To describe the data, we first present overall results for the whole data set
- In a second step, we present results that segments the data in various ways. That is, we split the data into the following categories:

1. Direction of relocation: whether the relocation is intra-Scandinavian, outbound (from Scandinavia to a country outside Scandinavia), or inbound (from a country outside Scandinavia to inside Scandinavia)

2. Analysis period: whether the relocation happened in the first half of the analysis period (2000-2006) or in the second half (2007-2012)

3. Type of HQ: whether the HQ is a CHQ or a DHQ. Compared to the CHQ, a DHQ takes only care of a product or an area division of the corporation¹.

4. Strategic Motivation: whether the official motivation for the relocation is primarily cost reduction or value-adding.

Note of caution

- Our purpose is descriptive only
- The data does not contain a control group of similar firms to the relocating firms in our dataset which have not relocated a HQ abroad during the analysis period
- The analyzed factors such as analysis period, type of HQ, direction of relocation, and strategic motivation cannot be interpreted as being the cause of relocation patterns

1) For the sake of simplicity, we do not analyze the differences between product divisional and regional HQ in this report.

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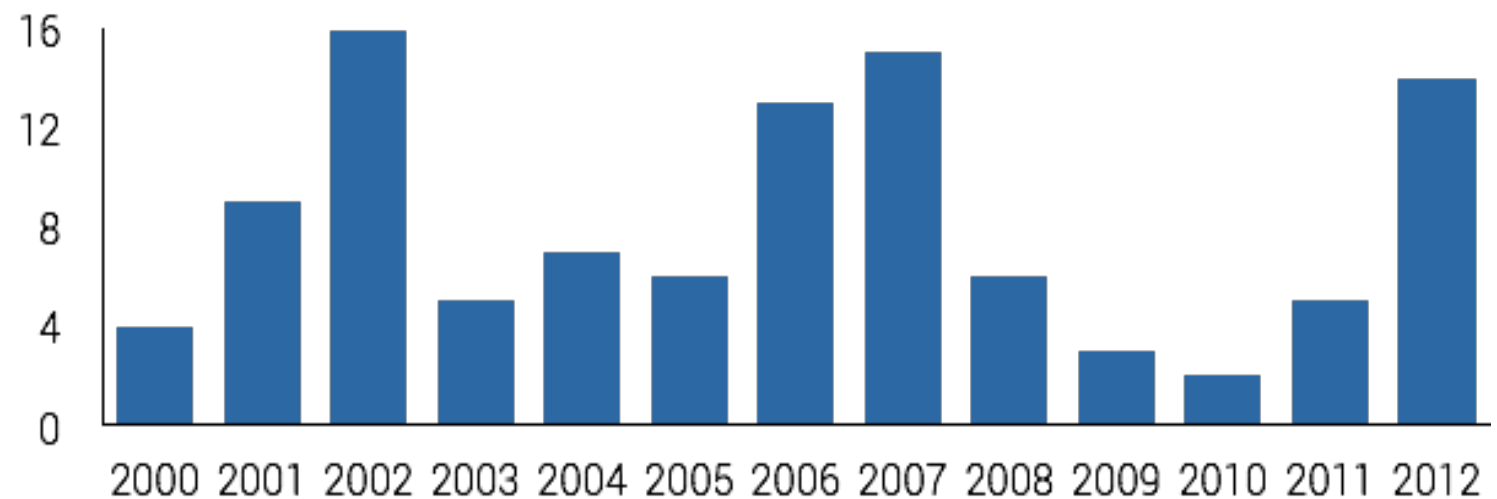
There is no clear trend towards more relocations

- Relocations take place with varying frequencies throughout the period.
- The number of relocations peak in years 2002, 2007 and 2012.
- The crisis years 2008 to 2011 are characterized by very few relocations
- Therefore, there is a drop in the total number of relocations from the first half to the second half of the analysis period

Note:

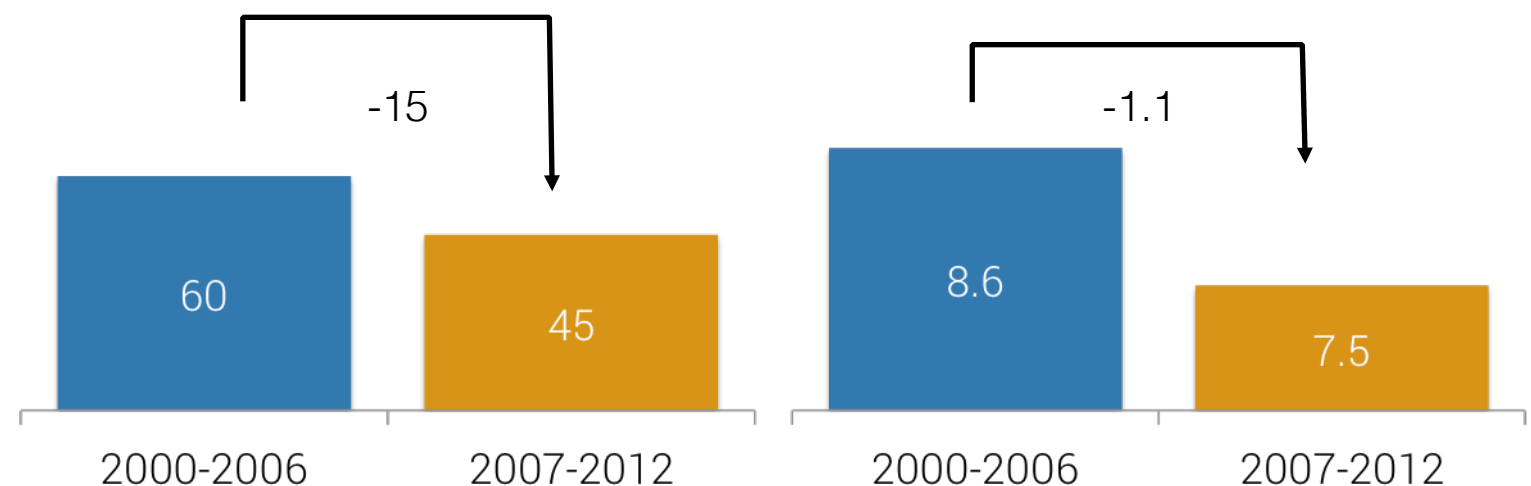
- Much of previous literature has described a general trend towards more frequent relocations as HQ seem to become more mobile
- We do not find clear evidence for this trend in the Scandinavian data

No. of HQ relocations per year



Total no. of relocations

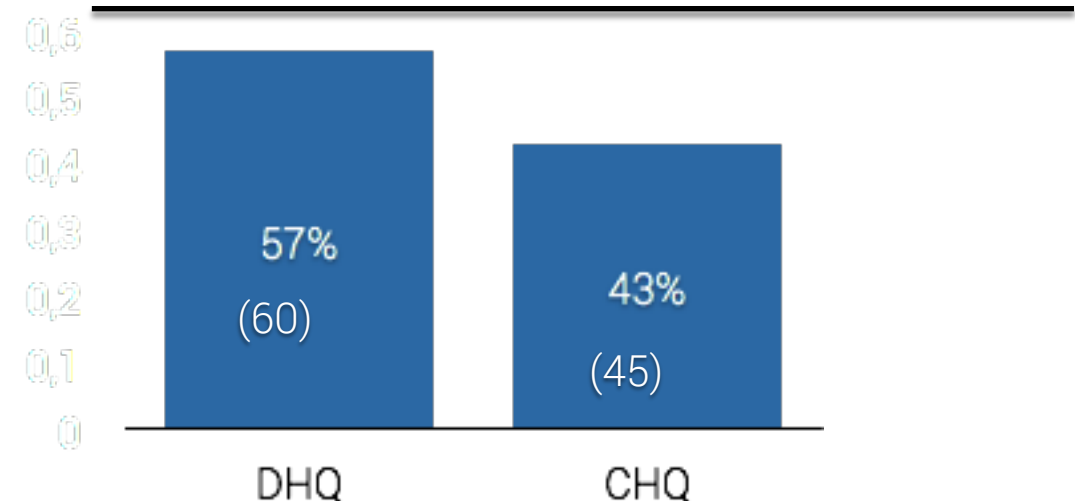
No. of relocations/year



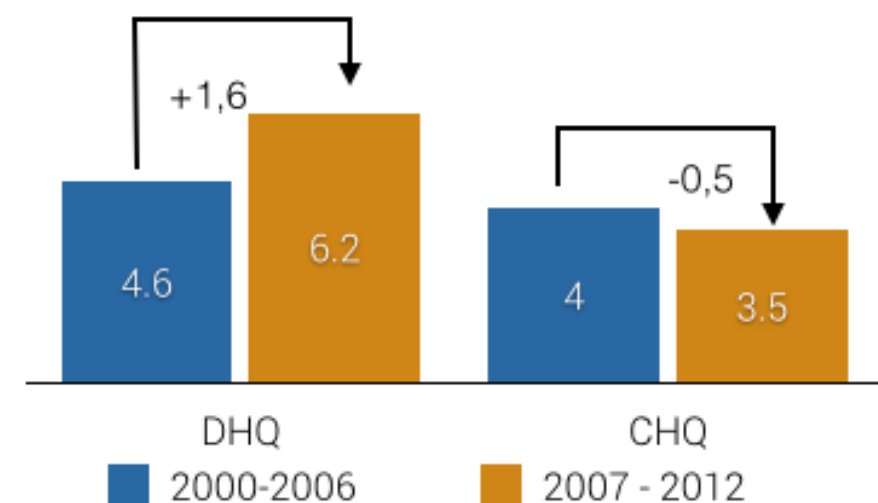
Dataset show more DHQ relocations than CHQ. Spread increases during second period

- 57% of all relocating HQ in the database are DHQ
- This does not necessarily mean that DHQ are more mobile than CHQ although previous evidence has suggested this difference
- Costs associated with relocating a DHQ might be smaller than for a CHQ
- Furthermore, CHQ are more „sticky“ for cultural and political reasons
- However, the total population of DHQ is presumably larger than the one of CHQ
- Thus, the difference in total number of relocations could reflect the different size of the underlying populations
- DHQ relocations did not become much less frequent during the crisis years
- The average number of relocations/year increased from 4.6 (between 2000-2006) to 6.2 (between 2007-2012) for DHQ
- The number of relocations/year dropped from 4 to 3.5 for CHQ

Total no. of relocations per type of HQ



No. of relocations/year per type of HQ

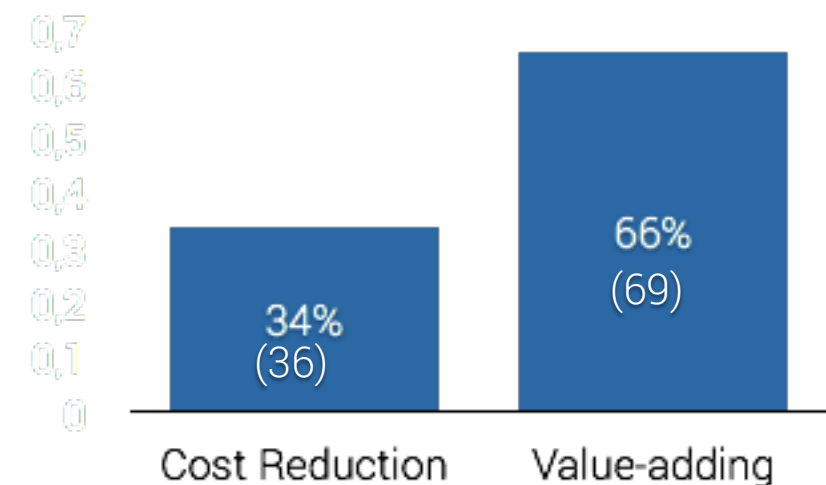


Majority of relocations are motivated by attempts to improve the value-adding function of HQ

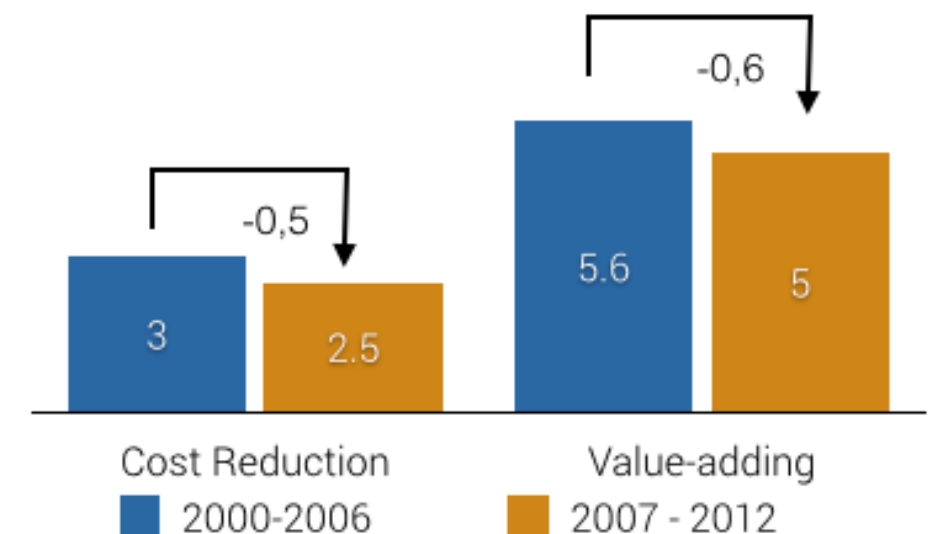
Firms attempt to increase the value adding potential of HQ by relocating them abroad

- Examples of value-adding motives are relocations to get closer to key customers or to future markets.
- For example, **Arla** relocated their Middle East office to **United Arab Emirates**. Executive Vice President Tim Ørting Jørgensen in charge of international sales said¹: „[...] moving management closer to the market and customers.“
- Examples of cost reduction motives are attempted tax reductions or lower personnel costs
- The distribution of cost vs. value-adding motives did not change substantially between 2000-2006 as opposed to 2007-2012.

No. of relocations per type of motive



Relocations/year per type of motive



1) <http://www.dr.dk/Nyheder/Penge/2008/05/23/054843.htm>

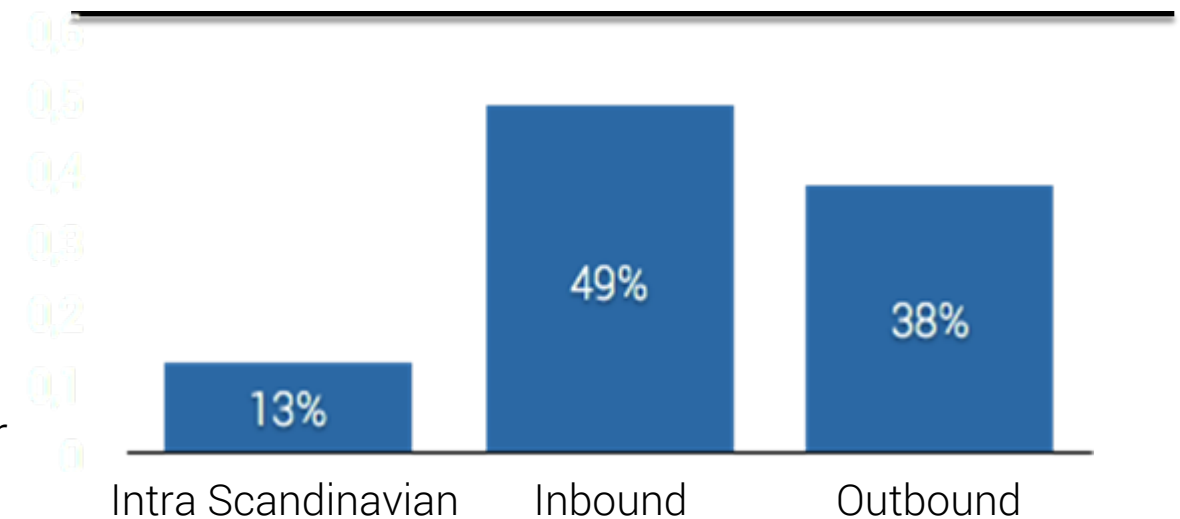
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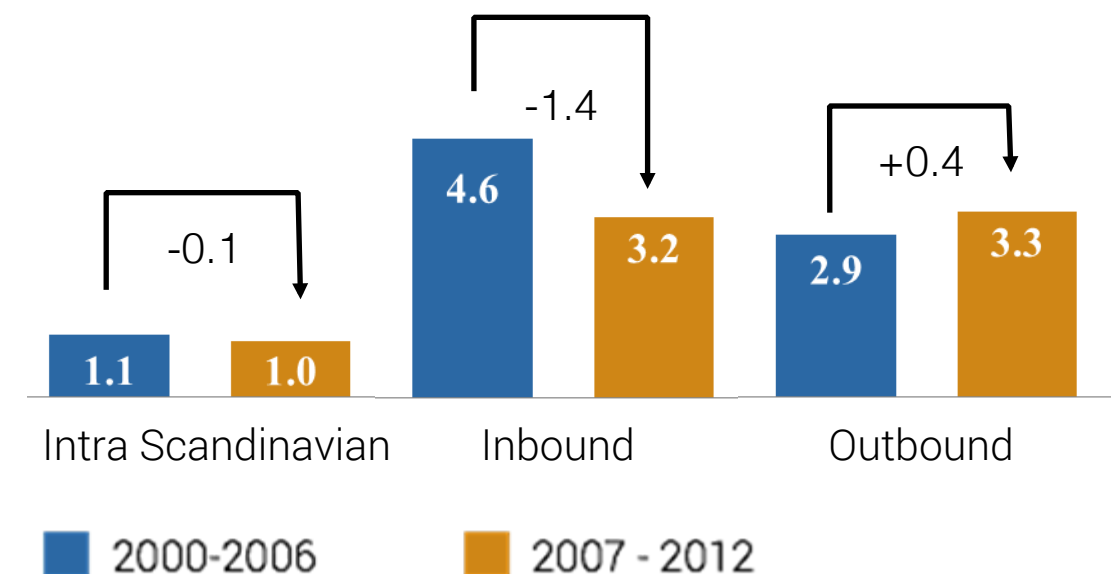
Scandinavia gained HQ during the total period – However, outbound relocations became more, inbound relocations less frequent

- Slightly more inbound relocations into Scandinavian countries (51) than outbound (40) during 2000-2012.
- Only a limited amount of relocations between Scandinavian countries – i.e. competition for HQ between Scandinavian countries seems relatively low
- The second part of our analysis period shows a drop in the number of inbound relocations from 4.6 to 3.2 relocations per year
- This is accompanied by an increase in relocations out of Scandinavia from 2.9 to 3.3 relocations per year
- This combined, reverses the trend in the second period that showed slightly more HQ leave Scandinavia on average, than relocate inbound.
- Intra-Scandinavian relocations without substantial changes

Total no. of relocations per direction of relocation



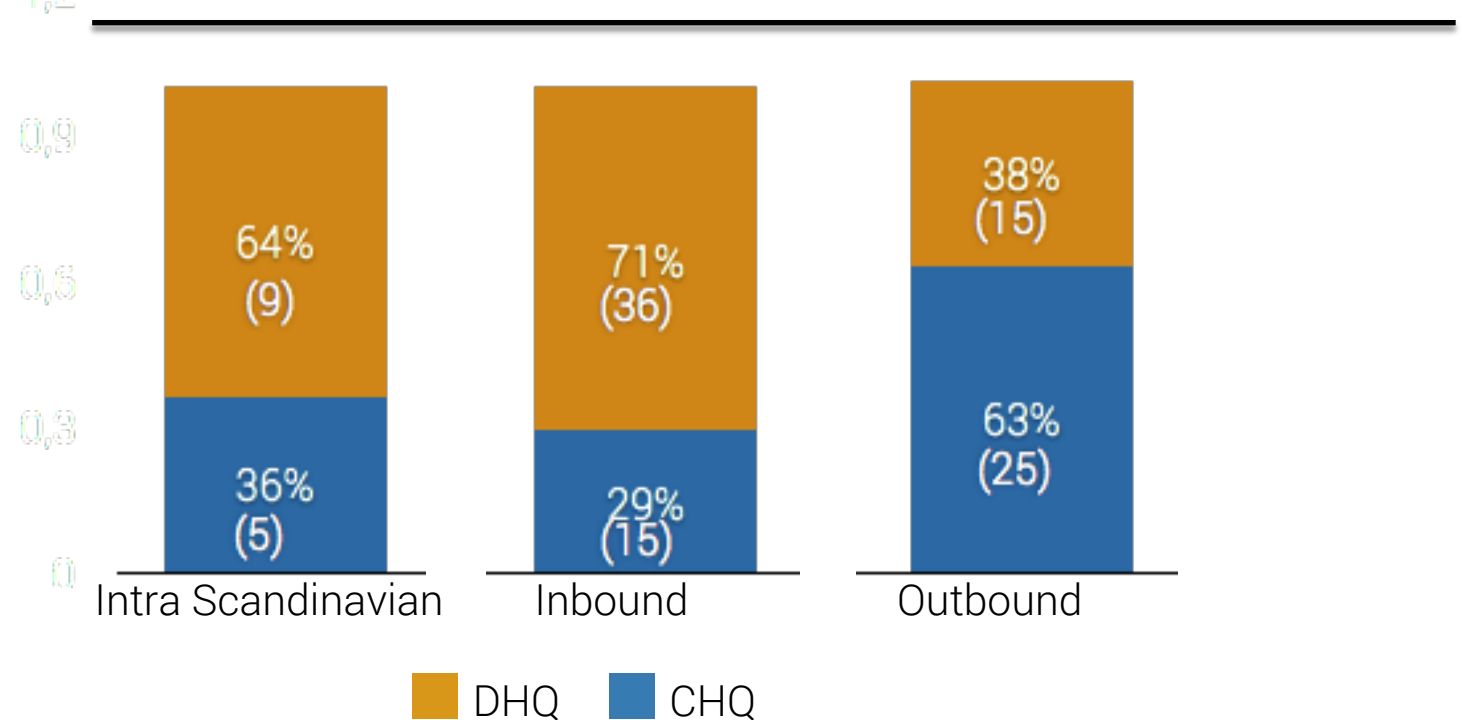
No. of relocations/year per direction of relocation



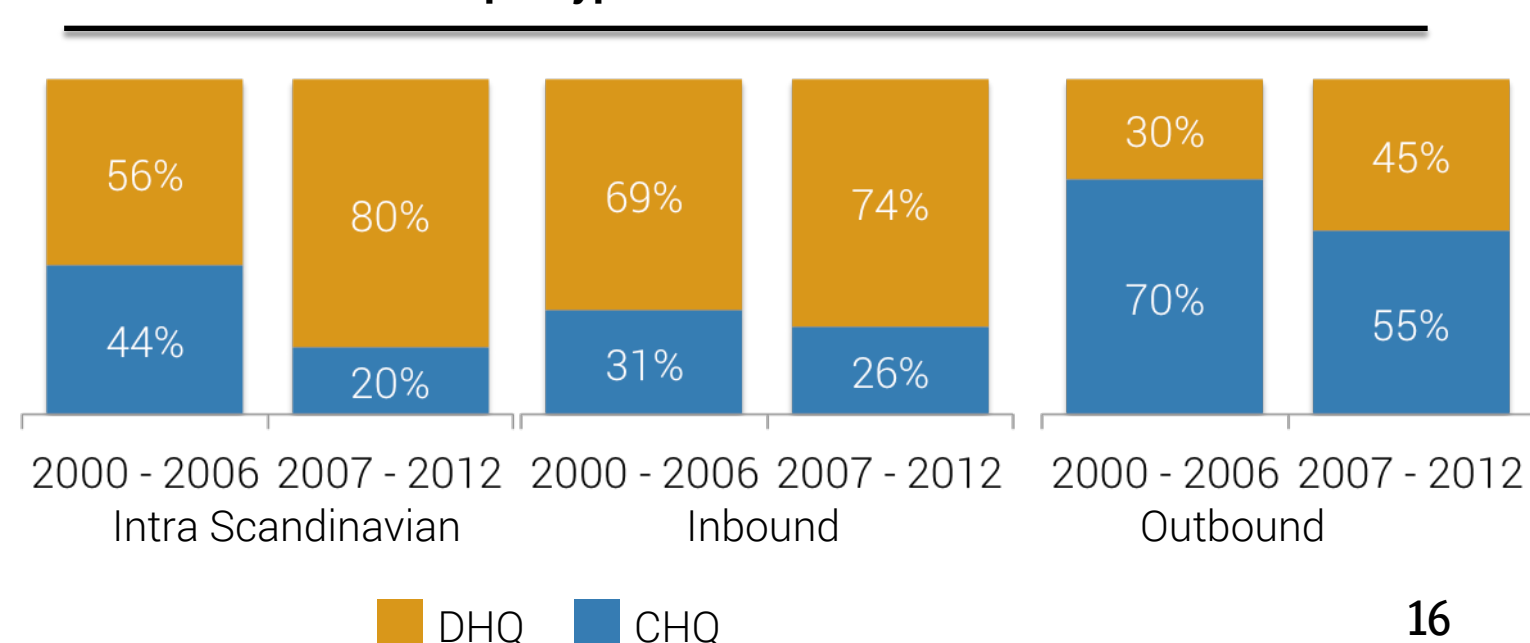
Inbound relocations are predominantly DHQs (71%) whereas outbound relocations are predominantly CHQs (63%).

- The inbound DHQ relocations were mainly by regional HQ (RHQ)
 - 28 of the 36 DHQ that located into Scandinavia were RHQ established by foreign companies as Nordic or Scandinavian HQ
- The pattern that predominantly DHQ relocate into Scandinavia has become stronger. Between 2000 and 2006, DHQ inbound relocations amounted form 69% of all inbound relocations, from 2007-2012, their share increasd to 74%
- The pattern that predominantly CHQ relocate away from Scandinavia has become weaker. Their share dropped from 70% (2000-2006) to 45% (2007-2012)

1,2 Direction of relocation per type of HQ



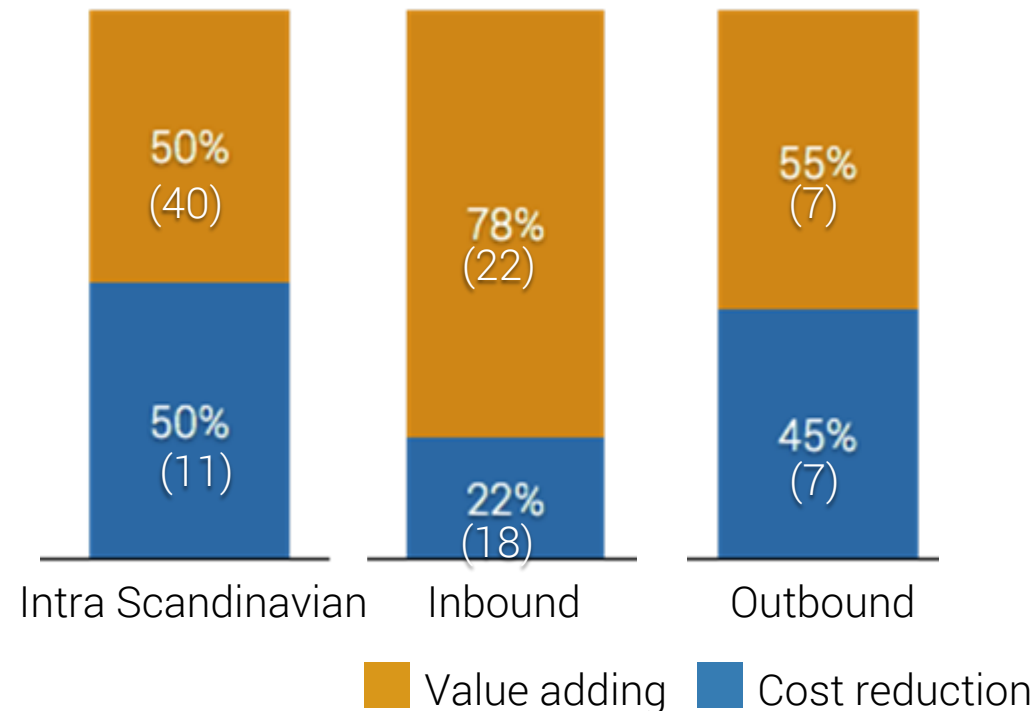
Direction of relocation per type of HQ and over time



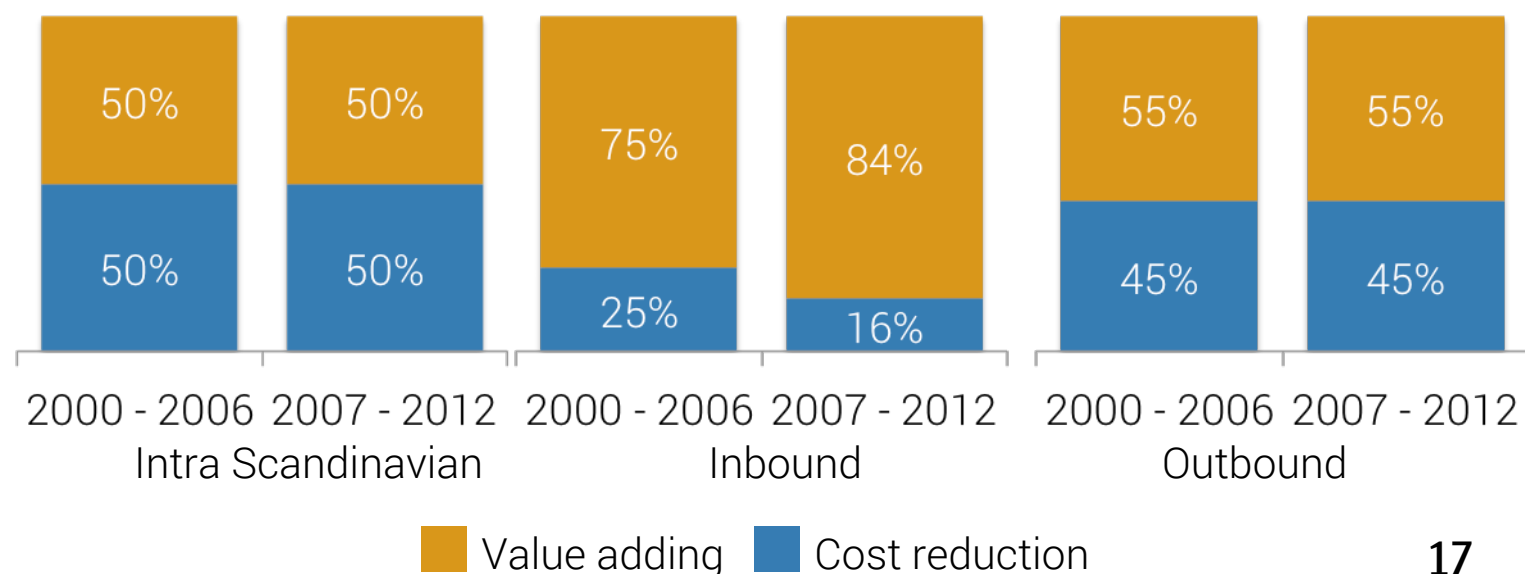
Outbound relocations have mixed motives – Inbound relocations seem to be predominantly driven by value-adding motives

- The majority of inbound relocations are motivated by value-adding reasons (78%).
- This corresponds to expectations that higher levels of taxation and cost in general throughout Scandinavian countries must be made up for by other factors such as better education system, infrastructure etc. which in turn enables high value-adding activities
- This pattern has become stronger over time – the share of value-adding reasons has increased from 75% to 84%.
- Outbound relocations are motivated by both value-adding and cost
- This goes to show that HQ are not only moving away from Scandinavian countries due to higher levels of cost. but also seeking other benefits of other locations.
- This pattern was stable across the two analysis periods (2000-2006 vs. 2007-2012)

Direction of relocation per motivation

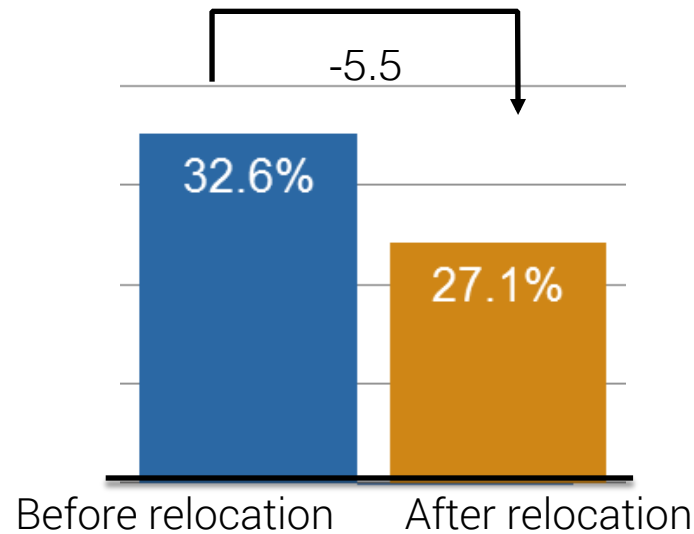


Direction of relocation per motivation and over time



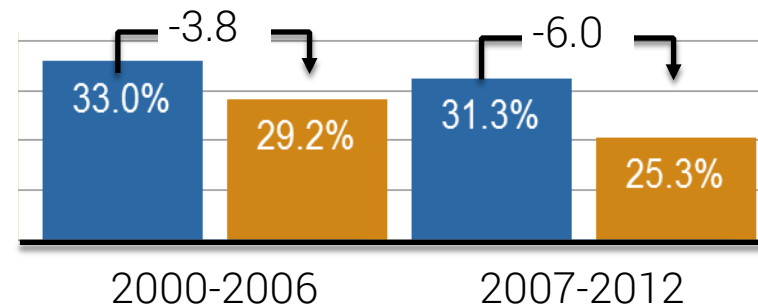
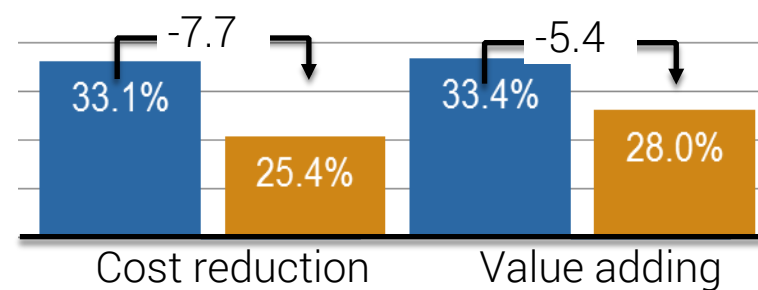
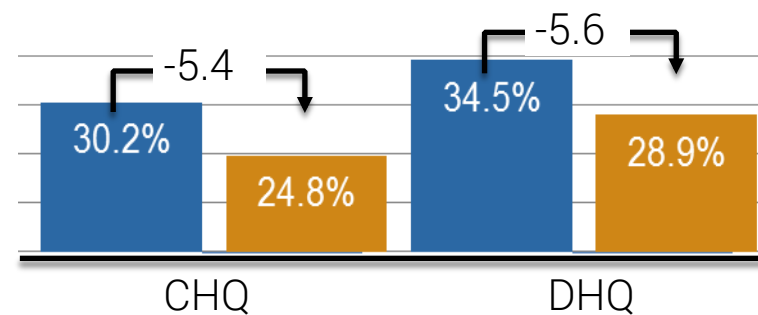
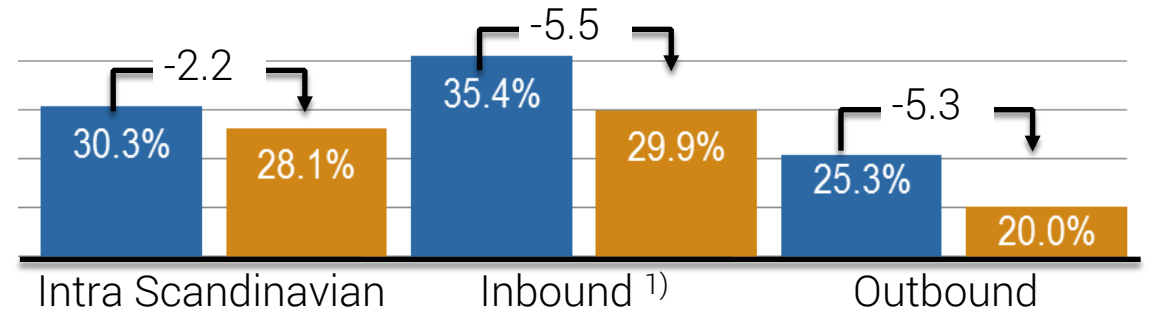
On average, HQ relocations reduce corporate tax level by 5.5 percentage points – effect is considerably higher for inbound than outbound relocations

Change in corporate tax rate



- Corporate tax feature regularly as a key reason to relocate HQ
- Our data finds support for such a reasoning
- Average corporate tax rate to which the relocating HQ is exposed to drops by 5.5 percentage points
- A drop in corporate taxation is consistent across all types of relocations
- Strongest drop with -7.7 percentage points were found for cost reduction relocations
- Weakest drop with -2.2 percentage points were found for intra-Scandinavian relocations

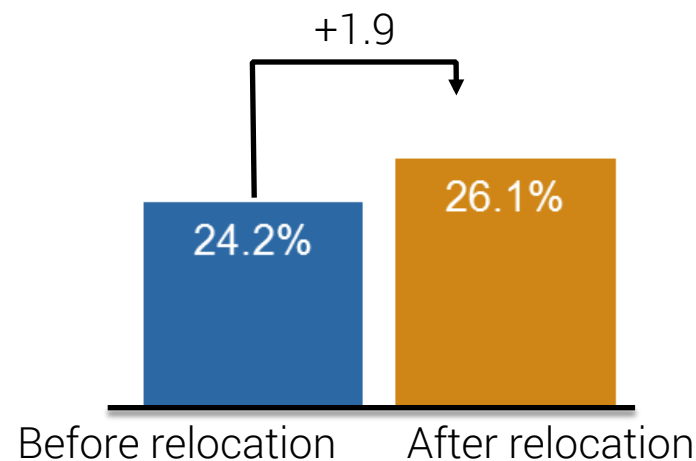
Changes in corporate tax rate per type of relocation



¹⁾ The drop in inbound relocations, is due to the relatively high number of relocations from the UK and US. Both countries have higher nominal corporate tax rates than the Scandinavian countries.

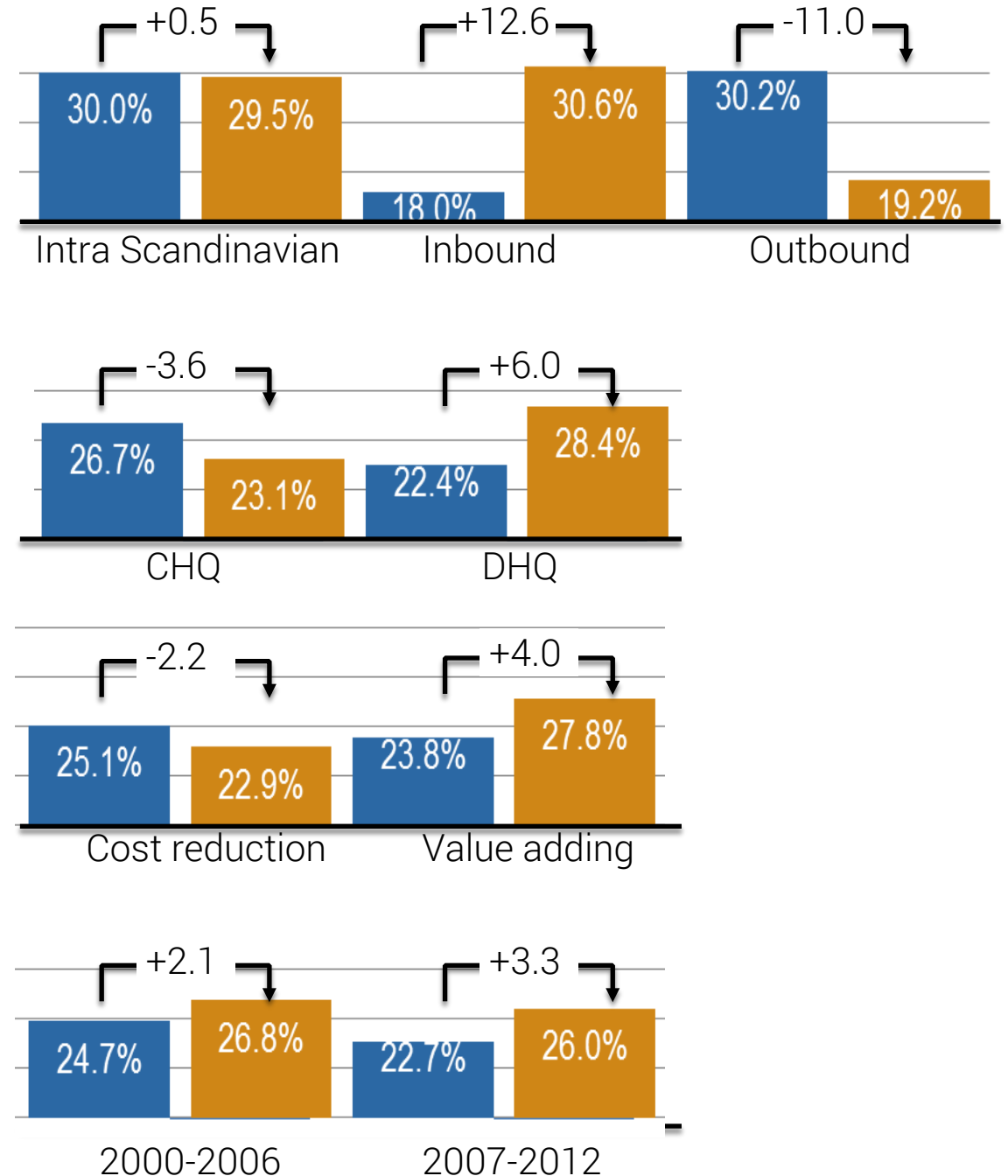
On average, HQ relocations increase personal tax level by 1.9 percentage points

Change in personal tax rate



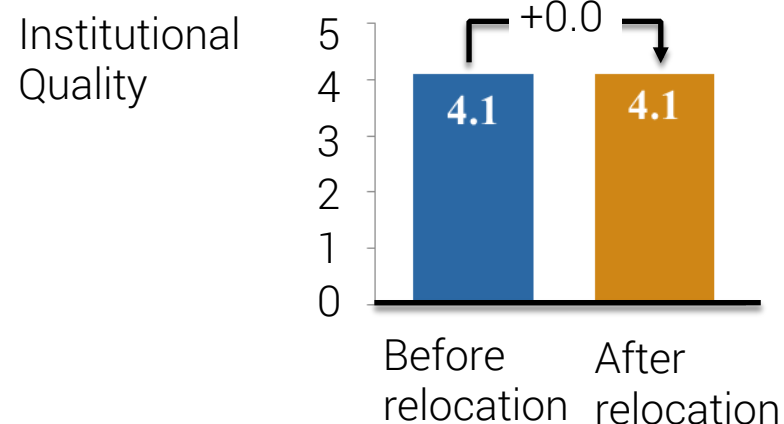
- Personal tax rate seem, on average, quite constant across all relocations (+1.9 percentage points)
- However, this masks that especially inbound relocations are characterized by a strong increase by 12.6 percentage points and outbound relocations are characterized by a -11.0 percentage points
- Firms relocating to Scandinavia may suffer from attracting and retaining talented staff
- Intra-Scandinavian differences are again negligible

Changes in personal tax rate per type of relocation

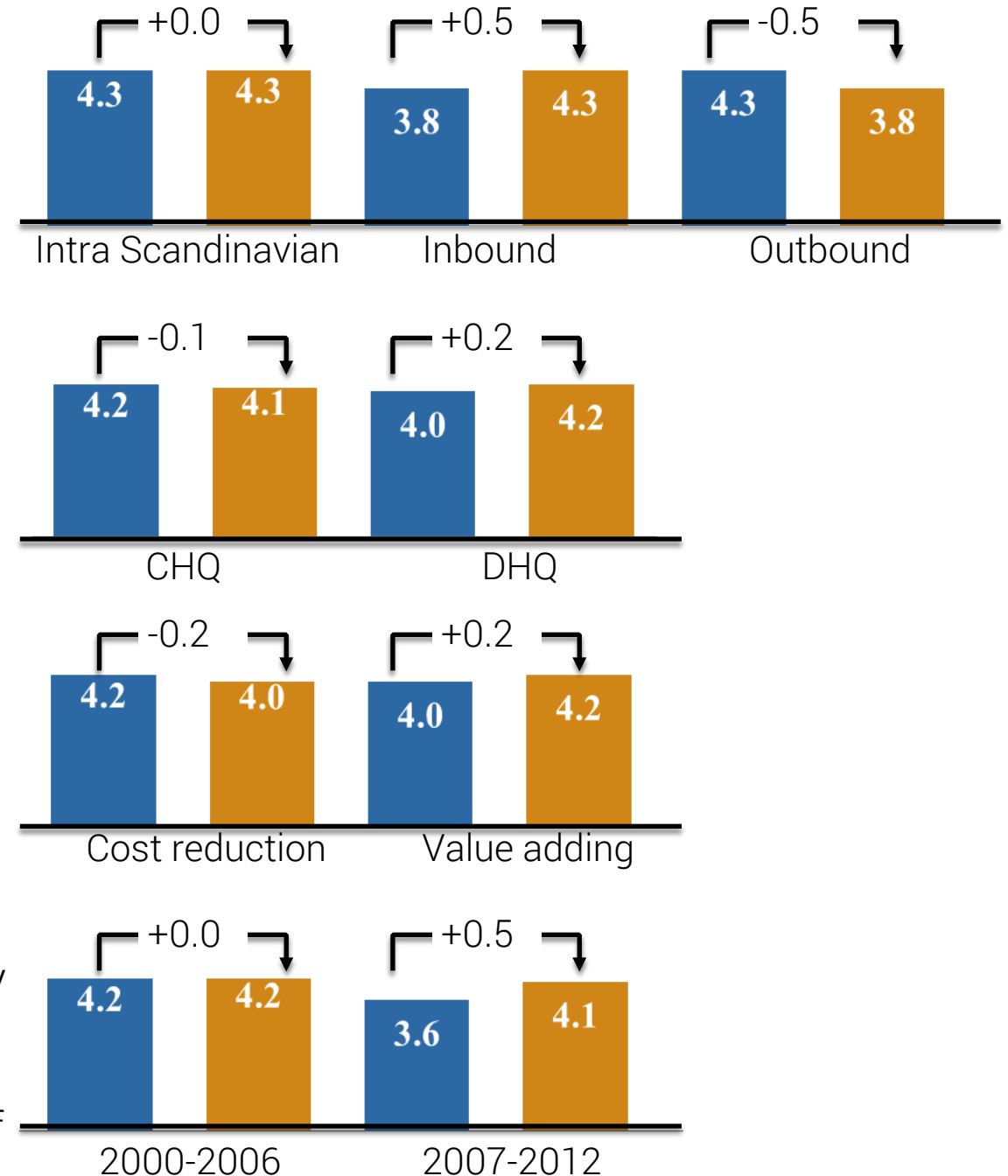


Outbound relocations are characterized by a 10% drop in institutional quality – Inbound relocations by a 10% increase

Change in institutional quality [Scale from 0 to 5]¹



Changes in institutional quality per type of relocation



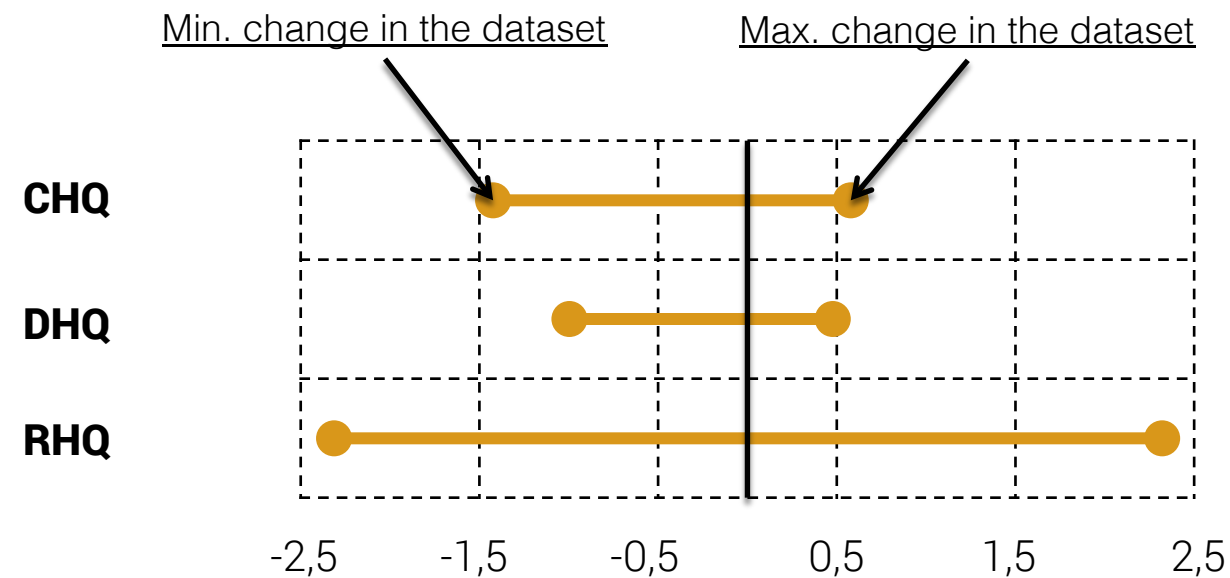
- Institutional quality describes the quality of a country's institutional context with regard to the its legal system, the level of corruption, etc.
- Scandinavia is traditionally ranked strongly with regard to these indicators
- Institutional quality is measured in the *Worldwide Governance indicators project*. (see references)
- On average, the HQ seem to move to locations that are equally well-run from an institutional quality perspective
- However, inbound relocations are characterized by increase of institutional quality of ~10% (0.5 points on the scale) – Outbound relocations a drop by ~10%

1) The original measurement ranges from -2.5 to +2.5. For visualization reasons we added a constant of 2.5 to every score.

BACKUP

Relocations of RHQ show highest variation in institutional quality change

Spread with regard to the change of institutional quality across all three types of HQ relocations



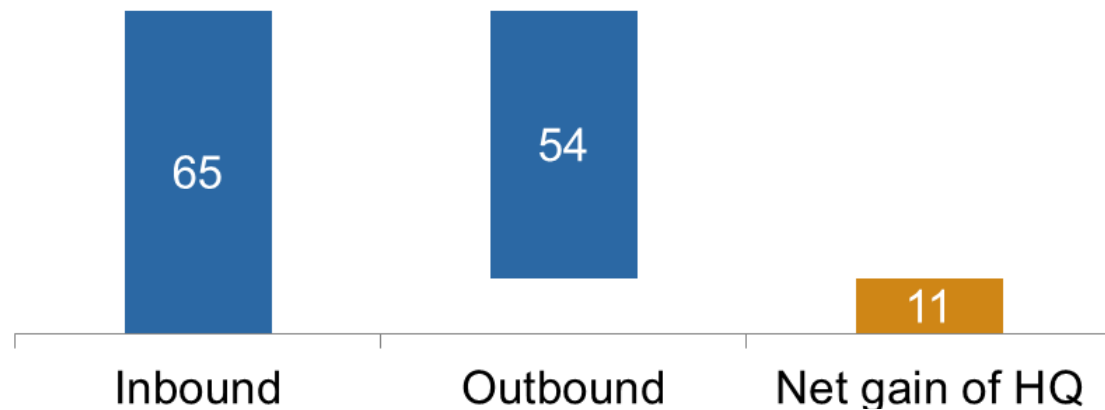
- Most of the institutional quality changes for CHQ and product divisional HQ are very small
- They center around an average value of -0.1 for CHQ and +0.2 for product divisional HQ
- Area division HQ (here called RHQ) show the greatest variation both in terms of positive and negative changes

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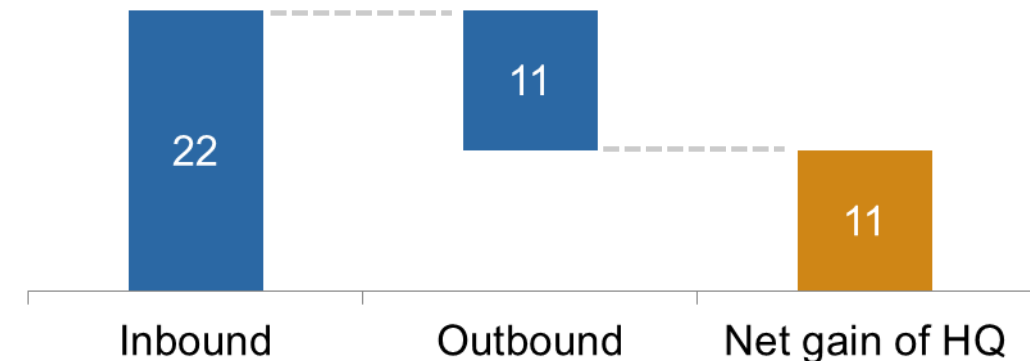
Sweden and Denmark are the most favoured locations for relocating HQ in Scandinavia

Net gain of HQ for Scandinavia

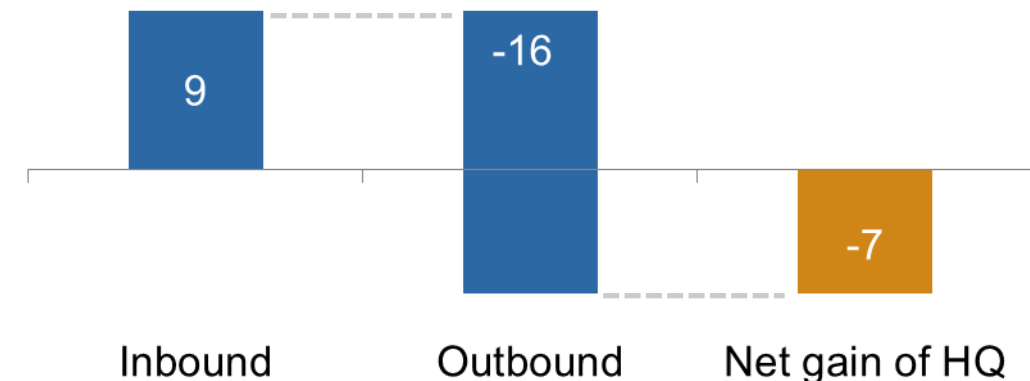


- Denmark attracts the most inbound HQ relocations (34), but also experience the most outbound relocations (27).
- Sweden experiences the least outbound relocations of the three countries (11), giving Sweden the largest net gain of HQ during the period.
- Only Norway realized a net loss in HQ during the period.

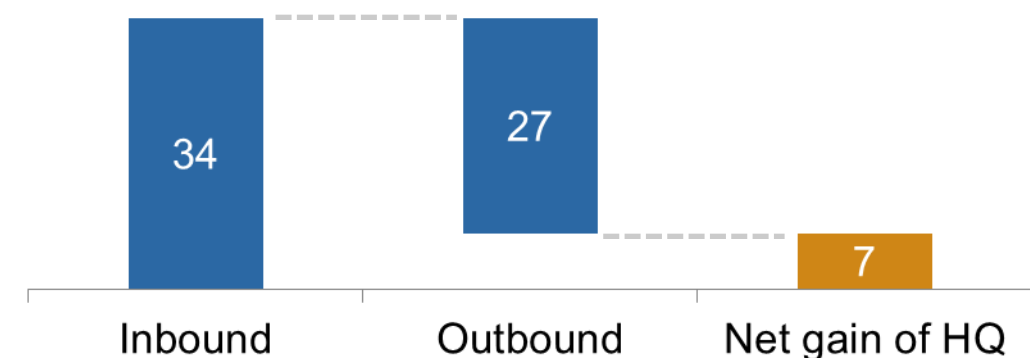
Sweden



Norway

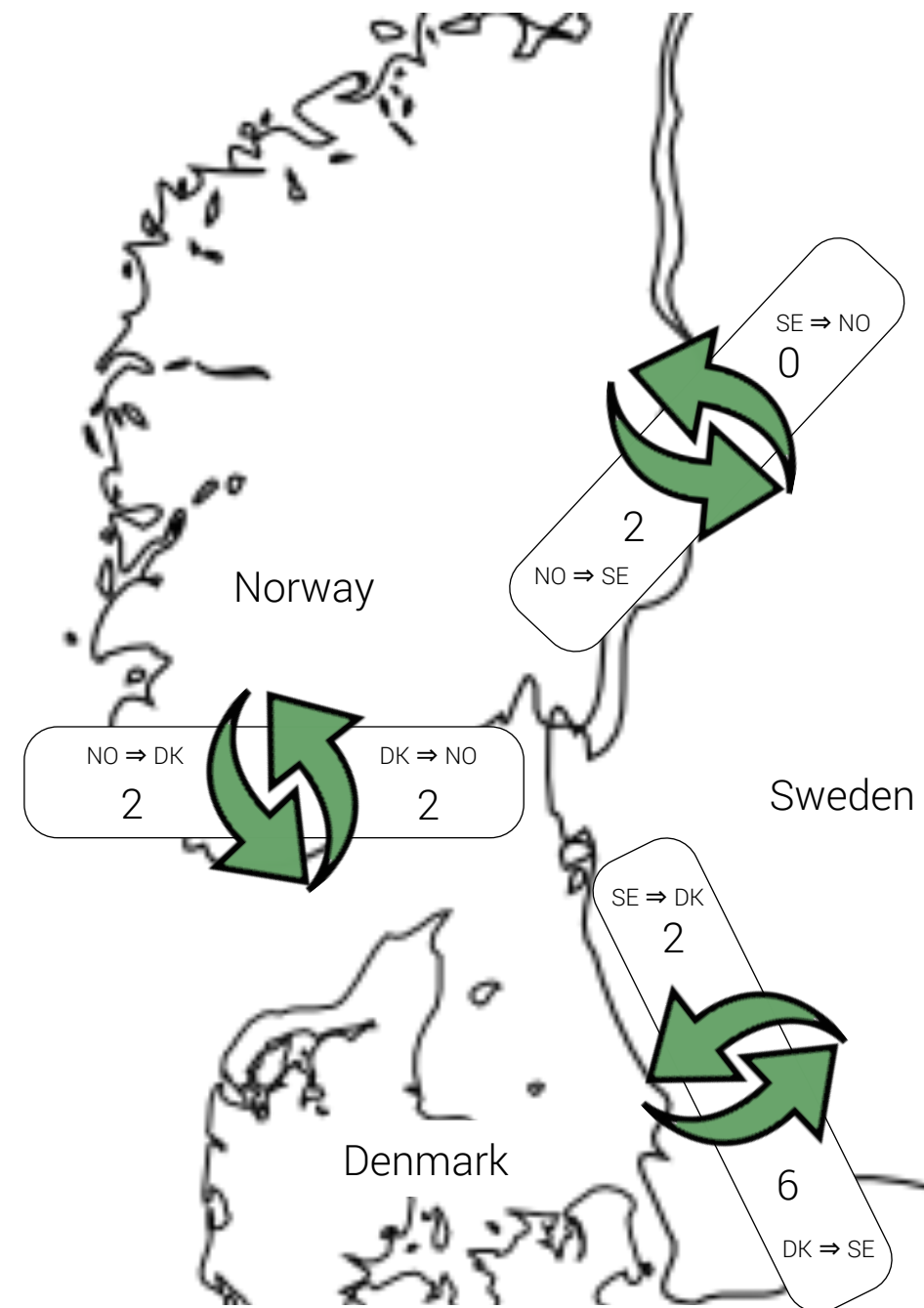


Denmark



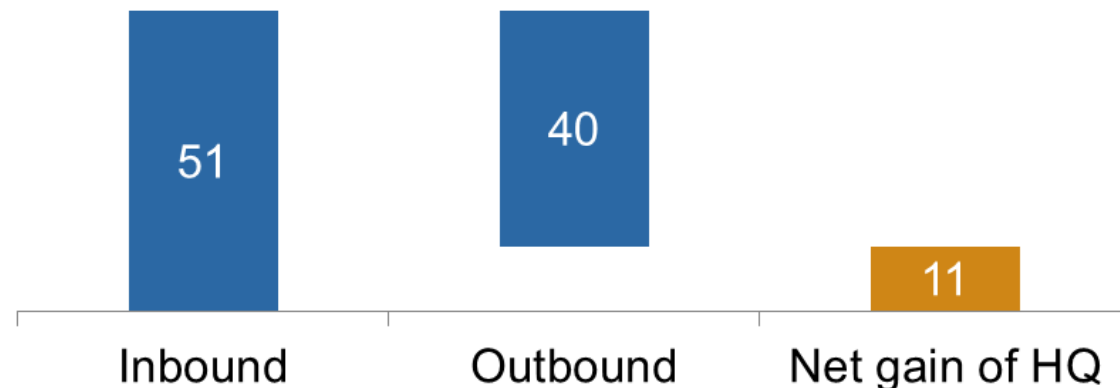
Sweden attracted a total of 8 HQ from the other Scandinavian countries, while only 2 relocated away from Sweden

- Sweden attracts the majority of intra-Scandinavian relocations with a net gain of 6 HQ.
- Norway experienced a net loss of 2 HQ.
- With a total net loss of 4 HQ, Denmark does the worst looking only at intra-Scandinavian relocations. This is especially attributed to the relatively large outbound relocation flow to Sweden (6).



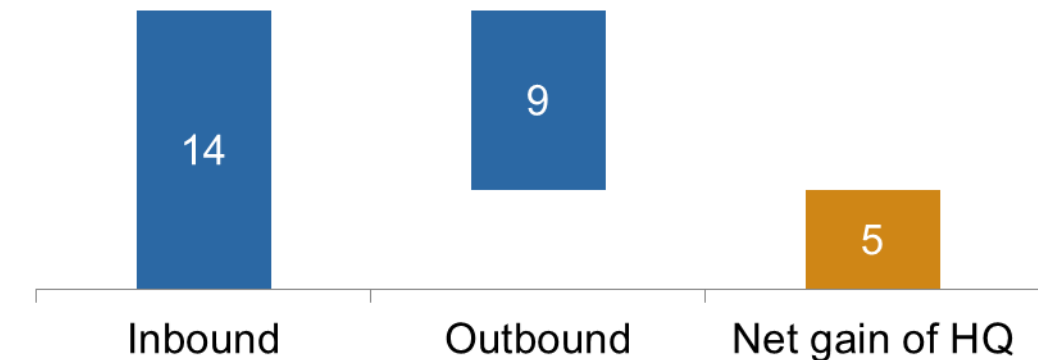
Denmark is the most favored location for HQ firms not already located in a Scandinavian country.

Net gain of HQ for Scandinavia

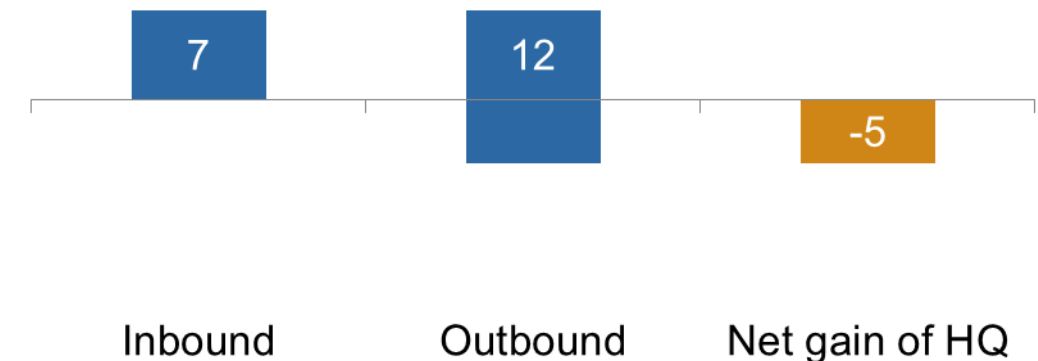


- Excluding HQ relocations to other Scandinavian countries Denmark comes out as the most favored location with a net gain of 11 HQ.
- Norway still realized a net loss of HQ as the only country.
- Sweden still has the smallest amount of outbound HQ relocations.

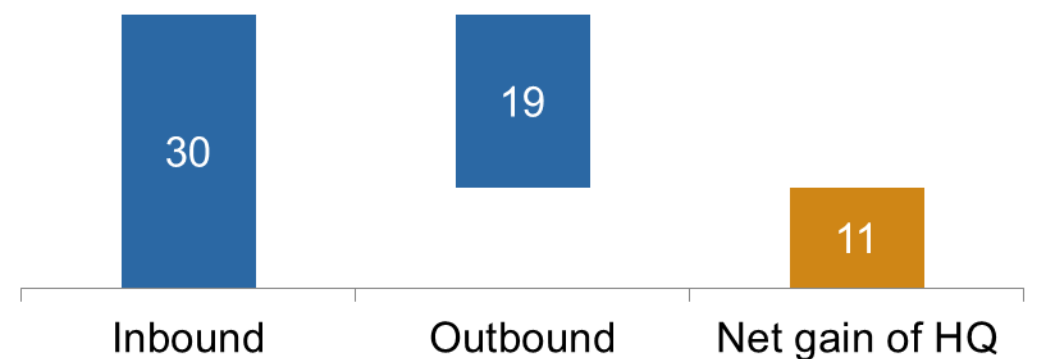
Sweden



Norway



Denmark



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BACKUP:

The aggregate measure that characterizes the motive for the relocation

Cost Reduction

- Access to capital
- Availability of business services
- Cost cutting
- Organizational restructuring
- Tax

Value-adding

- Availability of qualified employees
- Central location
- Closeness to main market and/or customers
- Closeness to main stakeholders
- Closeness to owners
- Image
- Institutional characteristics
- Future strategy (markets, growth)

- For reasons of simplicity, every relocation was categorized as either primarily cost reduction oriented or value adding oriented
- The categorization was based on the frequency of justifications as given by company representatives or indicated in official company documents
- Nearly all relocations scored relatively clearly into the two categories
- Only a very limited number of relocations could have been characterized by a simultaneous attempt for increased value creation and decreased cost
- Those relocations were categorized based on a subjective judgment of the available information as to which motive was the prime motive

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