Moving Abroad: Factors that Motivate Foreign Location of Headquarter Activities

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ABSTRACT

To what extent, why and where do multinational companies locate divisional headquarters (DHQs) abroad? This study of 30 of the largest listed companies in Norway over the 2000 to 2006 period shows that foreign located divisional headquarters have become relatively commonplace. A majority of DHQs located abroad are outcomes of foreign acquisitions, which suggests that obtaining legitimacy from local stakeholders such as customers, employees and investors is an important motivation. We also find that Norwegian companies emphasize efficiency and value creation in their location choices, as they tend to prefer other advanced and competitive countries as hosts for their DHQs. Distance form Norway is not significant. The off-shoring of strategic units such as DHQs is a phenomenon that occurs in advanced phases of companies' internationalization, beyond the point when familiarity and proximity still are key decision-making factors.

Key words: *Division Headquarters, Location, Host Country Factors, Norway*

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INTRODUCTION

A prominent feature of globalization is an increased internationalization of operational as well as strategic activities in multinational companies (MNCs). Forsgren, Holm, & Johanson (1992) describe this process as internationalization of the first and second degree. Companies typically start their internationalization by exporting and then producing outside their home countries. Then at a second stage, foreign subsidiaries take on strategic roles such as world mandates or centers of excellence (Holm & Pedersen, 2000). More recently, we have started to identify "internationalization of the third degree" (Birkinshaw, Braunerhjelm, Holm & Terjesen, 2006), which occurs as companies locate their headquarters to foreign locations.

How widespread is foreign headquarters location? Normally, corporate headquarters are located in the country of origin, and relocations are rare, even within one country. Anecdotal evidence and a handful of studies (Barner-Rasmussen, Piekkari & Björkman, 2007; Benito, Lunnan & Tomassen, 2011; Birkinshaw et. al., 2006; Forsgren, Holm & Johanson, 1995) suggest that headquarter functions recently have become increasingly internationalized. Although the growth in foreign located regional headquarter functions has been addressed in former studies (Enright, 2005; Lasserre, 1996; Piekkari, Nell & Ghauri, 2010; Ambos & Schlegelmilch, 2010), the role of MNC headquarters as well as their location and relocation have received relatively limited scholarly attention (Birkinshaw et al., 2006; Baaij, Van den Bosch, & Volberda, 2004; Collis, Young, & Goold, 2007). Our understanding of the location choices of multinational headquarter activities is therefore rather limited, and deserves more attention.

During the 20th century, most large Western companies became multi-business corporations characterized by a corporate office and more or less autonomous divisions

(Collis et al., 2007). Divisionalization is a way to handle increasing size, operational diversity and geographic dispersion (Westney & Zaheer, 2001). Divisions are based on product or geographic markets. Corporate headquarters take responsibility for overall strategy whereas divisional headquarters (DHQ) coordinate activities within a given product or geographic scope, consequently we include the term regional headquarters within our DHQ concept. The managers of DHQs play a vital linking role, cooperating closely with operational subsidiary managers parallel to providing information to corporate headquarters (Forsgren et al., 1995). Whereas corporate relocations are rare, foreign location of divisional headquarters are more frequent.

In this study we focus on divisional headquarters foreign location. We use panel data on a sample of Norwegian MNCs over a period of seven years (2000 to 2006) to investigate the location dynamics of divisional headquarters. Previously we have shown a massive movement of divisional headquarters between 2000 and 2006 (Benito et al., 2011). That study exposed in particular how company and ownership factors influence the decision of whether or not divisional headquarters are located abroad. Here we take the obvious next step and look more closely into companies' choice of location. Our analysis suggests that divisional headquarters foreign locations are driven by multiple forces, some location bound, others less so. We integrate these factors in a framework conceptualizing factors that drive locations of divisional headquarters abroad.

FIVE PREDICTIONS OF HEADQUARTERS LOCATION CHOICES

The academic literature on headquarters location and relocation is relatively scarce, and most studies are from the Nordic region (Barner-Rasmussen et al., 2007; Benito et al., 2011; Birkinshaw et al., 2006; Forsgren et al., 1995). This is not surprising as any relocation in a small economy is likely to be international, and therefore this phenomenon is first observed here. There is also a growing body of literature on regional headquarters and their location (Ambos & Schlegelmilch, 2010; Enright, 2005a, b; Lasserre, 1996; Piekkari et al., 2010; Schutte, 1997), regional HQ movements (Holloway & Wheeler, 1991; Baaij, Van Den Bosch, & Volberda 2004), as well as location factors attracting headquarters (Bel & Fageda, 2008). Furthermore, we draw on theories of internationalization to inform a study of motivations of DHQ location choices (Forsgren et al., 1992; Johanson & Vahlne, 1977). From these literatures we can develop at least five overall predictions guiding location choices of DHQs covering location characteristics, value creation, efficiency, legitimacy, and control.

The first prediction suggests that DHQs will tend to be located in mature, safe, and knowledge rich locations. Dunning's eclectic framework (2000) maintains that the MNC will locate activities where these demonstrate competitiveness and furthermore benefit from local characteristics such as low cost, access to resources and technologies. Headquarters manage other subsidiaries and need safe and reliable access to these, thus a factor such as availability of direct intercontinental flights has proved an important location indicator (Bel & Fageda, 2008). Consequently, transportation and internet connections, as well as political stability are all important factors. In addition, companies value access to a highly qualified workforce as well as interactions with the headquarters of other MNCs (Lovely, Rosenthal & Sharma, 2005). Birkinshaw et al. (2006) found that two of the important motivational factors of divisional headquarters relocation were attractiveness in terms of competitive positioning, and the quality of suppliers and customers. Headquarter activities represent high-value activities, and should therefore be drawn to mature, advanced, and knowledge intensive locations (Mudambi, 2008).

The second prediction states that DHQs will be located where they can be most effective in terms of value creation. One important role of headquarters is strategy development (Chandler, 1991). Headquarters provide corporate governance through parenting of subsidiaries, and the value of this parenting depends on headquarters' understanding of subsidiary resources as well as external challenges (Ambos & Mahnke, 2010; Campbell, Goold, & Alexander, 1995). Egelhoff (2010, p. 428) argues that the advantage of a hierarchy is its ability to gather and centralize at a single point, information from disparate parts of an organization so that it can be comprehensively evaluated and understood. We support this notion and suggest that headquarters must not only collect and understand internal information, but also information from customers, suppliers, and competitors to provide good parenting through the development of common strategies across subsidiaries. Porter (1998, p.343) argues that every business division must have a healthy “home base” that assembles the resources, skills, technologies and information that are most essential for competitive advantage. This base should preferentially be located at home, but if the home location deteriorates and upgrading is unsuccessful, divisional headquarters should be moved to more vibrant locations enjoying stronger cluster conditions. Doz, Santos & Williamson (2001) argue that to succeed, the meta-national must have units that sense, mobilize and integrate knowledge across activities, locations and subsidiaries, implying a more flexible and active role for headquarters based on closeness to critical new innovations.

There has been a stream of research arguing that regions differ (Asmussen, 2009; Ghemawat, 2001; Rugman & Verbeke, 2004). If a distant location is very different from the home market, the global headquarters will have a lower understanding of challenges facing local subsidiaries (Lasserre, 1996) and it will be more difficult for them to discover strategic opportunities that cut across individual subsidiaries and day-to-day activities (Foss, 1997). If we see a headquarters unit as an orchestrator of a network (Dhanaraj & Parkhe, 2006), the innovation in such a network is greater if hub firms (headquarters) can enhance a common network identity as well as encourage socialization (Brown & Duguid, 2001; Dyer & Nobeoka, 2000). Placing divisional headquarters in resource rich locations allows an MNC to capture the cross market differences of customers and employees (Schutte, 1998), decreasing the “liability of foreignness” (Hymer, 1976) and protecting special subsidiary competencies and initiatives from a narrow “headquarters mentality” (Lehrer & Asakawa, 1999). A DHQ location close to core customers, resources or technologies may therefore enhance the understanding and knowledge of DHQ managers which in turn improve their ability to create value for subsidiaries.

The third prediction suggests that DHQs will be located where they can operate most efficiently. The agency problem arises due to information asymmetry and goal incongruence between two entities (Hennart, 1991). Information asymmetry increases with cultural and geographic distance, thereby allowing subsidiaries to act independently (Hitt, Hoskisson, & Ireland, 1994). When involvement of headquarters is limited, it is more difficult to unveil shirking (Foss, 1997). Locating headquarter activities close to the center of gravity eases communication and facilitates more efficient headquarters-subsidiary relations (Birkinshaw et al., 2006; Forsgren et al., 1995), avoids problems of time-zone differences (Elango, 2004), and facilitates communication and information exchange due to lower “psychic distance” (Johanson & Vahlne, 1977). Location of headquarters abroad also enhances uses of socialization mechanisms that may reduce agency costs (Eisenhardt, 1989). In summary, the third prediction assumes that an MNC will locate divisional headquarters to improve efficiency through improved control and coordination of local subsidiaries.

The fourth prediction argues that MNCs will locate DHQs abroad to increase their legitimacy. Legitimacy is defined as acceptance and approval of organizational actions by external constituents (Kostova, Roth, & Dacin, 2008, p. 1000). MNCs must establish and maintain legitimacy in multiple environments (Kostova & Zaheer, 1999). Establishing an alliance, like a joint venture may give legitimacy through a local partner (Ang & Michailova, 2008), whereas full acquisitions or greenfields as an entry mode requires legitimacy to be established. This perspective is based on an institutional logic, where the MNC must develop practices that are acceptable and considered purposeful by external stakeholders (Chung & Luo, 2008). Stakeholders may be owners, potential investors, customers, suppliers, governments etc. Stakeholders influence management decisions by withholding, or threatening to withhold resources, or supplying resources with strings attached (Frooman, 1999). Barner-Rasmussen et al. (2007) report that among the key factors related to headquarter relocation are owners and other stakeholders. They argue that headquarter relocations carry substantial symbolic weight, and pressure from owners and institutions significantly influence location decisions. Benito et al. (2011) add to this line of reasoning with their finding that state ownership prevents relocation of headquarter activities. Birkinshaw et al. (2006) found that dominance of foreign owners as well as listings on foreign stock exchanges enhance corporate headquarters relocation.

The institutional argument is particularly relevant in the case of acquisitions. Acquisitions is the dominant form of foreign direct investments, representing as much as 70% of cross border investments (Peng, 2008). The relatively high failure rate of acquisitions is often attributed to cultural differences between the acquirer and the target (Brannen & Peterson, 2009; Uhlenbruck, 2004). Cultural differences manifest themselves through managers from the acquirer who are unfamiliar with local management and control systems (Barkema, Bell, & Pennings, 1996) leading to implementation inefficiencies, labor conflicts and law suits (Brannen & Peterson, 2009). An acquisition is often resented by host country stakeholders who fear foreign raiders and depletion of local resources. Keeping the acquired unit autonomous and self-sustained may lower the fear of foreign corporate raids and limit hostile reactions from local stakeholders. Sometimes a headquarters responsibility is included in a takeover deal. We propose that awarding the acquired unit a divisional headquarters status enhances symbolic value signaling importance and long term commitment to the acquired unit, and that this action, rational or not, may increase legitimacy for the foreign MNC.

The fifth prediction suggests that the location choice of foreign DHQs is determined by a need for corporate headquarters control. DHQs occupy a middle position between global headquarters and local subsidiaries. The managers of DHQs play a vital linking role, cooperating closely with operational managers as well as corporate managers at global headquarters. The dual nature of DHQs poses a management dilemma: A location close to a subsidiary facilitates local coordination whereas a location close to global headquarters eases access to central strategic insights. Forsgren et al. (1995) argue that even if subsidiaries are located abroad, divisional headquarters may be located at home to secure headquarters reliable and "unbiased" information about markets and products. Divisional headquarters may also benefit from closeness to global headquarters to influence resource allocation. Managerial attention in the MNC is a scarce resource (Bouquet & Birkinshaw, 2008), which is further impeded by distance (Mudambi & Navarra, 2004). We argue that global managers are more confident if their DHQs are located close to home to reduce geographical and psychic distance (Johanson & Vahlne, 1977) and ensure rich, quick and unbiased communication.

RESEARH DESIGN, CONTEXT AND DATA

This study is part of a longitudinal research project covering a sample of 30 companies from the largest, non-financial Norwegian companies listed on the Oslo Stock Exchange in 2006.[1] Norway is an advanced, but small and high-cost economy on the northern periphery of

[1] The selected companies are: Aker, Aker-Kværner, Aker Yards, Cermaq, DNO International, EDB Business Partner, Ekornes, Ementor, Farstad Shipping, Kongsberg Gruppen, Lerøy Seafood Group,Marine Harvest Group, Norsk Hydro, Norske Skogindustrier, Ocean Rig, Odfjell, Orkla, Petroleum Geo-Services, Prosafe, Rieber & Søn, Schibsted, Scana Industrier, Statoil, Stolt-Nielsen, Telenor, TGS-NOPEC Geophysical Company, Tomra Systems, TTS Marine, Veidekke, Yara International.

Europe. Its oil, gas, and maritime companies are among the global leaders, but the country is otherwise considered to be a relatively disadvantageous location for MNC headquarters functions. Yet, Norway has a very open economy with a substantial presence of foreign ownership, and these aspects make Norway a well-suited context for studying headquarters.

We compiled information on each company spanning a period of seven years from 2000 to 2006. From earlier studies we knew that the number of divisional headquarters located abroad were negligible in the early 1990s, but increased over the next decade (Benito, Larimo, Narula, & Pedersen, 2002). We obtained data from information resources such as Factiva and Kompass, from company annual reports, websites, and if information was still insufficient, we contacted the companies themselves. The companies in the dataset are quite large with an average of 9600 employees and 26 billion NOK (4 billion USD) in sales (2006). The average foreign sales ratio was 72%. For the purpose of this study, we collected additional data on the location of division headquarters abroad, the establishment mode of the unit (acquisition versus greenfield), and key characteristics of the chosen host country such as their size (measured by GDP), income level (GDP/cap), political conditions (PolconIII)[2], competitiveness of their economies (Global Competitiveness Index), and distance to Norway (flight distance capital to capital).

To be included, the companies needed a divisional structure at some point during the period covered by the study. Because companies structure themselves in rather different ways, deciding what is and what is not a divisionalized structure – and furthermore, figuring out the actual types of divisionalization in the various cases – can be a challenging task. For example, terminologies differ, with some companies referring to product and business areas, while other companies explicitly use the term division. To ensure consistency across cases,

[2] The PolconIII (political constraints) measure was taken from the POLCON database (see Henisz, 2002). The data base is a comprehensive register of national political conditions in basically the entire world over the last two centuries, and was set up and is regularly updated by Witold Henisz at the Wharton School, University of Pennsylvania. The database is publicly available at www.management.wharton.upenn.edu/henisz.

divisions were measured at the organizational level directly below corporate headquarters. However, the number of divisions as well as the size and scope of the units vary: some companies have numerous (ten or more), others few (two or three); and some units have world-wide responsibility for a core business, whereas other units have more limited area responsibilities such as a regional hub.

RESULTS

18 of the 30 companies had foreign located divisional headquarters in at least one of the years between 2000 and 2006. Table 1 provides company and industry information. Five companies are in the oil and natural gas sector, four are manufacturers of transport equipment or machinery, whereas the other companies belong to a variety of industries including construction, fishing, consultancy (oil and gas related), and wholesale. Corporate headquarters were in Norway, except for one company that had – and still has – its global headquarters in London. Three companies moved their corporate headquarters in our observation period, but these moves took place within Norway.

*** Insert Table 1 about here ***

Within the whole sample of 30 companies (see Table 2) a comparison of the MNCs with foreign divisional headquarters to those without, show that the number of employees is significantly lower, the share of their equity held by foreigners is higher, ownership concentration is lower, and so are also state ownership interests.

*** Insert Table 2 about here ***

Table 3 shows that around 70% of the divisional headquarters abroad were acquired, which corresponds well to previous numbers on cross border investment activities (Peng, 2008). Table 3 also gives the geographic location for the foreign divisional headquarters:

about 21% are located in the Nordic countries, 33% in Europe, 20% in North America, 6% in South America, 14% in Asia and Australia and 6% in Africa and the Middle East.

*** Insert Table 3 about here ***

As shown in Table 4, the Nordic region, Germany, France and UK, , North America, as well as the three countries Brazil, Singapore and Australia have been present through the entire observation period, whereas European countries such as Poland, Russia, Spain, Belgium and Austria, as well as locations in the middle and far East as well as Africa (Iraq, Yemen, Angola, Japan, Mozambique) enter the sample towards the end of the period. The number of locations for DHQs has over the time period increased from 13 to 23 demonstrating broader and more varied local contexts.

*** Insert Table 4 about here ***

Table 5 exhibits how the headquarter units were established in the various countries. There is no apparent association between choice of entry mode and geographical distance, i.e. there is no systematic connection between distance from headquarters and the DHQs establishment as either acquisitions or greenfields.

*** Insert Table 5 about here ***

ANALYSIS

In our earlier discussion we proposed five factors as key drivers of the decision to locate DHQs abroad:

1) *Characteristics of the location*
2) *Value creation*
3) *Efficiency*
4) *Legitimacy*

5) Control

In this section, we draw on examples from the companies and the previous tables and discuss the extent to which our data can support these predictions.

Prediction 1: Characteristics of the location influence DHQ foreign location

The pattern displayed in Tables 4 and 5 strongly suggests that country characteristics play an important role for DHQ location choice. Our case companies have selected locations such as Scandinavia, Western Europe, North America, Singapore and Australia. These locations offer politically stable environments, reliable communication and transportation and access to a highly educated workforce, which seems to be important to Norwegian MNCs particularly in their early phases of foreign headquarters location. It is interesting to note, however, that as companies gather experience, they expand headquarter locations; in our sample new locations include Eastern Europe, Latin America, Africa and the Middle East. Companies such as Tomra (Recycling) and TGS-Nopec have increased their foreign location of division headquarters in this period, typically focusing on locations in the US (Connecticut, Houston), UK (Bedford), Australia (Perth) and Europe (Vienna, Dusseldorf). These locations are all resource rich, with highly qualified labor as well as easy access to intercontinental flights.

To probe more systematically into whether location choices for DHQs reflect certain country characteristics, we run regression models were the dependent variable is the number of DHQs established in a given country. Specifically, we examine whether location choices are associated with countries' economic size and affluence, their competitiveness and political stability, and their distance from Norway. First, we run an OLS regression with the cases pooled over the entire period. The estimation (model I) indicates that Norwegian MNCs are likely to establish more headquarter functions the higher the GDP and the GDP/capita ratio, the higher competitiveness and the fewer political constraints, whereas distance from Norway is insignificant (see Table 6). However, since the Durbin-Watson statistic of 0.5 reveals that the OLS regression performs poorly due to the longitudinal nature of our data, and because of the count nature of the dependent variable (number of DHQs in a country), we chose to run a more suitable negative binomial regression panel regression (model II). The results do not change dramatically, but only the GNP per capita and Global Competitiveness Index variables turn out significant in the regression. To check the robustness of the results, we also run the model without one company (Ekornes) with a relatively large number of sales-oriented regional hubs (model III). Again, it turns out that the results do not change in any substantial way.

*** Insert Table 6 about here ***

Overall the results from our regressions suggest that the Norwegian companies in our sample tend to prefer developed locations for their divisional headquarters irrespective of distance to home.

Prediction 2: Benefits of being an insider to increase value influence foreign DHQ location

The analysis of our case firms reveals that at least three factors seem important for the choice of DHQ location:

1) Closeness to large and important markets;
2) Presence in resource rich areas;
3) Presence in locations with advanced technologies.

We argue that when these characteristics are present, the DHQ increases value creation through foreign location. By being located close to core resources, the MNC becomes an insider receiving more accurate and timely information as well as accumulating local knowledge. With this knowledge the MNC can improve its understanding and provide better parenting through creating more valuable strategies for subsidiaries within the division.

Closeness to large and important markets: Several companies in our dataset have located DHQs in markets that are large and important. TGS-Nopec Geophysical Company is a geo-science, software and service provider, offering consulting advice to clients in different oil and gas related locations. In 2006, the company had 8 out of 9 division headquarters abroad, and the main locations were USA, UK, Australia and Russia. The main idea of the company is to provide locally embedded advice to important customers and therefore the emphasis is on local management teams. Managing these companies from Norway would be less valuable as headquarters need to understand local customer’s needs. Tomra, a recycling company, has 7 of its 10 divisional headquarters abroad located in Japan, UK, USA, Sweden, Belgium, Austria and Germany. Each country has separate rules and subsidies regarding recycling, and Tomra needs strong local presence to be able to capture these nuances and make the necessary adaptations for local companies.

Presence in resource rich areas: DHQs are also located close to important resources. One such resource is oil, and the company DNO moves its activities to where this resource is available. The company has focused on developing smaller and mature oil fields, and in 2000 its main activities were in UK and Norway. Throughout the period the company started to seek oil fields in other areas and acquired licenses in Iraq, Yemen and Mozambique. In each of these locations the company has set up offices to manage local activities. These locations are undoubtedly very different from Norway, and providing good parenting to subsidiaries in the region depends on knowledge of the local resource. Another resource is fish, and Marine Harvest, a fish farming company, has divisional headquarters in locations along the Atlantic brim. Each location will differ regarding type of fish, temperatures and geography, and the company therefore has established DHQs abroad to manage these.

Presence in locations with advanced technologies. Some MNCs operate within technology rich clusters. Petroleum Geo Services (PGS) is providing geological services. One of their DHQs is located in Houston, USA. This unit consists of seismic operations on land and very shallow water. Houston is a hub for onshore activities, and accessing specific knowledge and resources is important for the development of this division of PGS. It seems reasonable to manage this activity from Houston to provide better and more informed parenting for onshore subsidiaries. The drilling company Prosafe has located its DHQs in Aberdeen and Singapore, both well known maritime clusters, and Aker yards has located its cruise and ferry division to Finland, a traditional strong maritime construction hub.

Prediction 3: Benefits of efficiency influence foreign DHQ location

Whereas value creation considerations concern access to external resources, efficiency represents internal coordination and control. This argument suggests that MNCs improve control and coordination if headquarter activities are located close to subsidiaries, consequently this argument concerns regional more than divisional headquarter units. Ekornes is a furniture manufacturer with a very high foreign sales ratio (on average 80% in the years covered by this study). They organize sales activities out of regional hubs. Important locations for Ekornes in 2006 were Singapore, Brazil, Japan, Spain, Poland, Denmark, USA, UK, Finland, France and Germany. Local sales and marketing of Ekornes’ premium priced recliners, and ensuring quality in all offers demand strong, local sales coordination and management organized through foreign headquarters. Other MNCs that have a regional structure organizing their activities include Norske Skog and Veidekke. Norske Skog, a paper producer, organized their global activities from regional centers in Hamburg, Sao Paulo, London and Singapore, whereas Veidekke, a Nordic construction company, has division headquarters in Denmark and Sweden. Locating headquarters activities close to subsidiaries increases control, communication and coordination.

Prediction 4: Benefits of legitimacy influence foreign DHQ location

From Table 3 we note that 49 out of 70 foreign located DHQs had been acquired, which means that most of the increase in foreign headquarters abroad is explained by growth rather than relocation of existing activities. Generally this has been a period of rapid foreign expansion for Norwegian companies, but they have not, however, established DHQs in all foreign locations. Aker Yards has, for example, in this period acquired shipyards in Romania, Brazil, Ukraine, Finland and Norway. They have, however, only established a foreign DHQ; in Finland. This DHQ manages the Cruise and Ferries business area in Aker Yards, a distinct product area within the company. Finland has a strong shipbuilding history and high competence, and maintaining good relations to local authorities, customers and suppliers seems to be important to Aker. Romania, Brazil and Ukraine are still emerging economies mainly providing cost efficient solutions.

Another example is Ementor (now Atea), the leading Norwegian IT company. Ementor had small units in Denmark and Sweden prior to the merger with Topnordic A/S (Denmark) and the acquisition of Atea AB (Sweden) in 2006. The Danish and the Swedish companies were both considerable market actors in their home countries, and Ementor had to get approval from competition authorities in the three countries before the company extensions were acceptable to home authorities. During early phases of the integration the company announced on its website that each company would use its original brand and focus on localizing customer offerings. An interview with the Swedish CEO Lars Bolin (www.idg.se) immediately following the acquisition announcement suggests that the three

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companies Ementor, Topnordic and Atea were considered equal partners in the new venture and that top positions were distributed in a good (we interpret this a *fair*) manner. 14 out of 16 consultants at the Helsingborg office of Atea, however, decided to leave the company as a result of the acquisition announcement, indicating some internal resistance to the acquisition (www.dn.no.30/06-06). This was a strong signal to Ementor that the existing employees in Sweden were not entirely positive to the acquisition. For an IT company consultants represent core technological and market knowledge as well as experience, and are as such important stakeholders. In 2008, Ementor changed its brand name to Atea, the name of the Swedish target signaling the market recognition of this brand, particularly in large and important markets such as Sweden and Finland. This expansion from a Norwegian company to the Nordic region takes place in an industry where Norway is not known to be particularly strong (IT) and the acquired/merged targets have substantial positions within their local markets. Awarding the acquired units a DHQ status shows that Ementor was prepared to delegate strategic control to new units to retain local expertise by pleasing local stakeholders.

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Yet another example is found in the company TTS Marine. This company develops and supplies marine equipment. Within its segments it is the second largest supplier in the world. The company has subsidiaries in Norway, Sweden, Finland, Germany, China, Korea and USA. In 2000 the company had two divisions: Marine Cranes and Material Handling, both managed from Norway. In 2001, the company acquired HamworthyKSE AB Cargo division which provided the company with a worldwide network of sales agents and service stations. The acquisition became a separate division in the company, managed from Sweden. The company made two additional acquisitions in 2005: Navcic engineering in Gothenburg and Kocks GmbH in Bremen, Germany. Both acquisitions represented new divisions managed out of Sweden and Germany. In 2006, the company therefore had 4 divisions, where two were managed from Sweden, one from Germany. The German target was considered innovative having developed a new, slim crane that had awarded it several new projects by ship owners in Hamburg. In a company statement following the acquisition announcement Thomas Krabiell, Head of Sales in Germany expressed that: *"With the merger of both companies, TTS Marine ASA has created a big step ahead as one of the world leaders in ships equipment. The crane program offered by (German target) has a solid reputation in the fields of shipyards, shipowners and consultants, including the after sales service. The German shipowning community has been the traditional market for many years. The (German target) is known for quality, service and its creativity in developing and implementing a distinctive pioneering spirit. A key element for the future business is the existing agent network, purchase resources and a high flexibility of the people."* This statement shows by the use of the term "merger" instead of acquisition and pointing out the benefits to the acquirer rather than the target that the acquired unit is firmly based within a strong competitive region, has a long history of being a trustworthy and innovative supplier to German shipbuilders, and possesses distinct competences that can result in innovations. Both Bremen and Gothenburg represent renowned maritime clusters, and the acquisition targets of TTS Marine came with competencies that were unique in the TTS system. Making sure external, local stakeholders are happy with the acquisition and stay on are therefore concerns that seem prevalent and result in new divisions managed out of their acquired locations.

Other examples include the road construction company Veidekke that has acquired large players in Denmark and Sweden, and established DHQs to manage their activities locally. Marine Harvest group, a seafood company, has acquired a series of fish farming companies along the Atlantic and Pacific Oceans. Over the period of our study the company has awarded division management to units in Faroe Islands, Scotland, Ireland, USA, Canada, and Chile. These are all fish farming centers representing high symbolic value to their local communities. The shipping company Farstad Shipping has 5 out of 6 DHQs abroad, and some of these are related to acquisitions (Melbourne, Australia, and Petroserve, Brazil). The business idea of Farstad is to cooperate with local actors to crew, operate and market Farstad Vessels. This requires close local cooperation and management, and the company has therefore chosen to locate DHQs to acquired divisions in these markets.

Prediction 5: Distance to global HQs influence foreign DHQ location

The data in Table 5 do not lend support to our control prediction as the MNCs in our sample do not generally tend to establish DHQs close to home. About a fifth of our DHQs are, however, located in the Nordic region. Some of our cases also indicate that there are certain advantages of managing foreign divisions from the home location. The media company Schibsted awarded DHQ status to its acquisition in Latvia to control and coordinate Baltic activities from Riga. Over time, however, they reorganized and decided to manage all international activities from Oslo. Latvia therefore lost their DHQ status. When Norske Skog entered into financial difficulties, they decided to move all of their foreign DHQs back to Norway, to improve control and coordination with their total global activities. These examples suggest that especially in times of financial constraints, there is a value in locating all headquarter activities close to home to improve overall global control and coordination.

DISCUSSION

Our analysis so far has examined the role of five factors as predictors of headquarter location. In this section we discuss their type and possible interrelations.

As shown in Figure 1, we propose that three of the aforementioned factors are main drivers of DHQ location; legitimacy, efficiency and value creation. As value creation, location characteristics and distance from HQs all contain aspects of a location we combine these into one variable that we call Location Characteristics. This variable describes the foreign location abroad through its resources and its distance to global HQs. We see location characteristics as both a driver as well as a moderator variable. In addition, we consider entry mode a moderator between legitimacy and DHQ location.

*** Insert Figure 1 about here ***

Legitimacy, efficiency and location characteristics are likely to be among the primary motives of DHQ foreign location. That is, companies place DHQs in locations where there are central stakeholders from whom gaining legitimacy is important, and/or they locate DHQs in locations that are abundant in resources needed in the pursuit of global sustainable competitive advantages, and/or they locate DHQs abroad to improve efficiencies in the headquarter-subsidiary relationship. In our proposed framework these three factors are separate drivers that may trigger the establishment of a DHQ in a foreign location.

Some factors may, however, moderate these relations. We suggest that when a firm enters a foreign market through acquisitions, legitimacy will be a stronger motivator for foreign located DHQs. As headquarter functions carry substantial symbolic importance (Barner-Rasmussen et al. 2007), awarding headquarter status to a new division is a way to signal importance and commitment to local stakeholders, including employees, investors and government, and ensure that the new unit will stay locally focused. Foreign acquisitions typically create insecurity with local stakeholders like employees and governments, which increase the need for legitimacy. The effect entry mode has on the relation will most likely be short term, as over time the need to please local stakeholders is reduced.

Our cases offer some support to this notion. The fish farming company Marine Harvest had eight divisions in the year 2000, six of which were located abroad: Scotland, Canada, The Faroe Islands, Ireland, USA and Chile. All were results of acquisitions. Giving

DHQ status to each of these locations could be a way to achieve legitimacy as a foreign acquirer. In 2006, the company restructured its divisions, cutting their number to six in total, of which five were abroad. Four of them were located close to important resources: Chile, Canada, the Faroe Islands and Scotland. The units in Chile and USA were combined, so were the units in Ireland and Scotland. The company also established a new division, located in Belgium, with responsibility for marketing and sales to their markets within the EU. This development shows that whereas DHQ status was originally connected to acquisitions, the company over time restructured to keep DHQs that still needed to be close to important resources, and added new DHQs to manage other resources. In their case the other resource was an important consumer market. Consequently, the “pleasing” of each individual target had given way to an overall leaner structure for the MNC.

We also suggest a possible link between legitimacy and location characteristics as the drive for legitimacy seems to be higher in advanced locations. It is more important to keep strong clients and investors in developed clusters than gain legitimacy with stakeholders in weak locations. Aker, for example, chose to establish their DHQ only in Finland, although they undertook acquisitions also in many other locations. Finland had a strong cluster within the business of Aker, whereas other targets represented weaker, emerging locations.

The motivation to increase efficiency may also be moderated by location characteristics. We have argued that improved efficiency through reduced agency costs is mainly an intra-organizational issue, and as such the divisional headquarters unit could be located several places within a region. We propose that the specific choice of location is influenced by characteristics of the location itself. Our data show that MNCs will tend to choose mature economies, characterized by rich access to financial resources, highly developed human capital, and low political risk. Several of our companies have for example chosen Singapore as a location for their DHQs. Among locations in Asia, Singapore is commonly regarded as the most stable, resource rich and advanced. Houston, London and Stockholm are other favored spots; all established and well developed cities. Efficiency may also be motivated by distance to headquarters. When there is a need for close coordination with global headquarters, as in the case of Norske Skog undergoing strong financial constraints, there is a trade-off between benefits of location in a region close to subsidiaries or advantages by being at home close to headquarters.

This study shows that factors driving location choices of divisional headquarters vary in the extent that they are tied to a specific location. Legitimacy is location specific as it aims at being "on the inside" with important stakeholders in a specific location. The entry mode could be considered as "location neutral" since greenfields and acquisitions can in principle be located any place. Conversely, location characteristics are naturally location specific as they describe close access to markets, resources or technologies within a specific location. Efficiency, on the other hand, is less so as it is regional more than local. Closeness to subsidiaries is important, but the specific choice of location may vary. As such our framework suggests that the choice of locations for foreign divisional headquarters is influenced by a set of interrelated location specific and location independent factors.

CONCLUSION

In a commentary, Devinney (2009, p.151) raises the question: "As MNCs expand, do they continue abroad with what they do well at home, or do they change to adapt to changing conditions in foreign markets?" Our study suggests that MNCs from a peripheral economy increasingly adapt to foreign markets, not only operationally, but also by offshoring headquarter functions. Destinations for foreign headquarters are motivated by a range of factors, some of which are location specific. As entry often is done by acquisitions, ensuring legitimacy from local stakeholders is a core motivator, especially in the short run. Over time gaining an insider view from resource rich locations (important markets, input resources and technologies) facilitate insights for improved parenting, whereas closeness to subsidiaries within a region reduces agency costs. Initially, MNCs are drawn to resource rich, well developed locations, but over time they become bolder and accept more emergent locations for their DHQs.

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Table 1. Norwegian companies with DHQs abroad: Company characteristics.

Company name	*Location of corporate HQ*	*Main industry (2 digit NACE codes)*
Aker	Oslo	35 – mfr. of transport equipment
Aker Yards	Oslo	35 – mfr. of transport equipment
DNO International	Oslo	11 – oil and natural gas
Ekornes	Ikornnes	36 – mfr. of furniture
Ementor	Oslo	51 – wholesale
Farstad Shipping	Ålesund	11 – oil and natural gas
Marine Harvest Group	Ålesund →Stavanger→Oslo	05 – fishing
Norske Skog	Lysaker	21 – mfr. of paper products
Ocean Rig	Oslo→Stavanger	11 – oil and natural gas
Petroleum Geo-Services	Lysaker/Houston→Lysaker	11 – oil and natural gas
Prosafe	Tananger	11 – oil and natural gas
Schibsted	Oslo	22 – publishing and media
Stolt-Nielsen	London	61 – water transport
TGS-Nopec Geophysical Company	Nærsnes	74 – consultancy
Tomra Systems	Asker	29 – mfr. of machinery/equipment
TTS Marine	Bergen	29 – mfr. of machinery/equipment
Veidekke	Oslo	45 – construction
Yara International	Oslo	24 – mfr. of chemicals

Table 2. Comparison of 30 largest listed Norwegian MNCs with and without foreign located DHQs. Pooled data (2000-2006), *n*=210.

	Mean values		
Variable	*With foreign located DHQs*	*Without foreign located DHQs*	*T-test*
Number of employees	4454	12296	5.682***
Foreign sales ratio	0.71	0.66	-1.217
Percent foreign held equity	20.0	14.2	-2.351**
Percent state ownership	5.0	27.8	7.132***
Ownership concentration	50.2	60.0	3.665***

Note: ** and *** denote significance at 0.5 and 0.01 levels, respectively.

Table 3. Characteristics of foreign located DHQs.

	Number of cases
Mode of establishment:	
Greenfield	21
Acquisition	49
Operative in year:	
2000	32
2001	33
2002	37
2003	43
2004	44
2005	52
2006	57
Location:	
Nordic countries	15
Europe	23
North-America	14
South-America	4
Asia and Australia	10
Africa and Middle-East	4

Table 4. Host countries for foreign located DHQs. Countries listed in increasing flight distance from Norway (capital-to-capital).

	Number of DHQs						
Country	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
Sweden	1	2	2	3	3	4	6
Denmark	3	3	2	3	4	4	3
Finland	2	2	2	3	3	2	3
Estonia	1	1	1	1	1	1	0
Germany	1	1	1	1	1	3	3
Faeroe Islands	1	1	1	1	1	1	1
Poland	0	0	0	0	1	1	1
Belgium	0	0	0	0	0	1	2
UK	7	7	9	9	7	7	9
France	1	1	1	1	1	1	1
Austria	0	0	0	0	0	1	1
Russia	0	0	0	0	0	0	1
Spain	0	0	0	0	1	1	1
Iraq	0	0	0	0	0	0	1
Canada	2	1	1	1	1	1	1
Yemen	0	0	0	0	1	1	1
USA	8	8	11	12	10	11	11
Angola	0	0	0	1	1	1	1
Japan	0	0	0	0	1	1	2
Mozambique	0	0	0	0	0	1	1
Brazil	2	3	3	3	3	2	2
Singapore	1	1	1	1	1	4	3
Australia	2	2	2	3	3	3	2

Table 5. Mode of establishment of foreign located DHQs. Countries listed in increasing flight distance from Norway (capital-to-capital).

	Number of cases	
Country	*Greenfield*	*Acquisition*
Sweden	1	5
Denmark	1	4
Finland	1	3
Estonia	0	1
Germany	2	1
Faeroe Islands	0	1
Poland	1	0
Belgium	0	2
UK	3	8
France	1	0
Austria	0	1
Russia	0	1
Spain	1	0
Iraq	0	1
Canada	0	2
Yemen	0	1
USA	4	8
Angola	0	1
Japan	2	0
Mozambique	0	1
Brazil	1	3
Singapore	2	3
Australia	1	2

Table 6. Regression models (dependent variable: number of DHQs located in foreign countries).

Variables	Model I OLS regression, pooled data Coefficient (Std.error)	Model II Negative binomial regression, panel random effects Coefficient (Std.error)	Model III Negative binomial regression (without Ekornes), panel random effects Coefficient (Std.error)
Intercept	0.197 (0.460)	15.810 (786.623)	13.754 (420.552)
GDP (in billion USD)	0.001 (0.000)***	0.00008 (0.00005)	0.0001 (0.00006)
GDP per capita	0.00003 (0.000)**	0.00003 (0.00001)**	0.00002 (0.00001)**
Political constraints index	-2.902 (0.970)**	-0.6023 (1.068)	0.114 (1.141)
Global competitiveness index	0.325 (0.146)**	0.3011 (0.142)**	0.264 (0.151)*
Flight distance between capitals	-0.0033 (0.000)	0.00004 (0.00004)	0.00006 0.00004
Model statistics:			
Durbin-Watson	0.501		
F	38.255***		
Adjusted R^2	0.538		
Log-likelihood χ^2		-209.685	-176.066
Likelihood test vs. pooled χ^2		76.65***	58.55***
n	161	161	140

Notes: *, **, and *** denote significance at 0.10, 0.05, and 0.01 levels, respectively.

Figure 1. A framework for choice of location for DHQs.