

# CORPORATE HEADQUARTERS RELOCATION

*Contrary to popular belief, corporations that are headquartered in large metropolitan areas are less likely to relocate than rapidly growing corporations and those that are headquartered in the Northeast and the Middle Atlantic states.*

by Joseph H. Eisenberg and Roger Friedland

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**T**he relocation of corporate headquarters has a major impact on a city's economic development and its real estate markets. Potentially foot-loose headquarters are courted by real estate brokers, office developers, consulting firms and, of course, city officials. The threat of headquarters relocations have impelled cities and states to offer ever greater tax, expenditure and regulatory subventions to induce corporations to stay put. But which corporations stay and which go? Are certain kinds of firms headquartered in certain kinds of places more likely to relocate their headquarters than others? This article aims to answer these questions by analyzing the organization and location determinants of headquarter relocations.

Most research on corporate headquarter relocations has focused on the types of places that gain or lose headquarters rather than the types of firms that relocate. Several studies have described the redistribution of corporate headquarters within the urban system.<sup>1</sup> These studies have shown that, paralleling the more general patterns of postwar urban growth, corporate headquarters have been moving outwards from core metropolitan areas to suburban rings and from older to newer industrial areas.<sup>2</sup> Notable is the exodus from New York City and other older metropolitan areas and the rise of headquarter centers in major Sunbelt metropolises.<sup>3</sup>

All of these studies have accounted for headquarter relocation on the basis of location factors. The factors most frequently cited as contributing to the redistribution of corporate headquarters include the distribution of the population, the cost of labor, the local availability of advanced business services, the amount of local business and personal taxes, the cost of land and living, the amount paid for office rents and the amenities offered by the environment.<sup>4</sup>

Real estate firms also have commissioned studies that sought to identify the location factors that are most relevant to headquarter relocation decisions.<sup>5</sup> These studies usually have been based on surveys of corporate CEOs and emphasized less tangible factors such as a metropolitan area's "business climate" and "quality of life." How closely CEOs' preferences concerning attractive corporate headquarters locations relate to the realities of relocation behavior also remains a subject of fierce debate.

Other studies have addressed the impact of information technology, particularly advances in telecommunications and decentralized computing, on headquarter mobility. By permitting quick access to specialized information and services, information

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technology may have facilitated corporations to move their headquarters. Moreover, information technology may have fostered these relocations by allowing selected activities that formerly had to be combined with others in a major central headquarters facility to be spun off and located elsewhere without sacrificing ease of communications.

The aforementioned lines of research have enriched our understanding of the types of places that are most likely to gain or lose from relocation, as well as the technologies that make relocation economically feasible. They do not tell us, however, which firms are most likely to act upon these opportunities. Consider, for example, that while a substantial number of corporate headquarters are leaving the central cities of the largest metropolitan areas, others are moving in. This phenomenon suggests, among other things, that co-location of corporate headquarters and their banks, advanced service suppliers, and other corporations is more important for some types of corporations than for others.<sup>6</sup>

It is also clear that some corporations have more options than others when considering the relocation of their headquarters. Headquarter mobility may be facilitated or constrained by a host of corporate attributes including the size of a corporation, its rate of growth, the industry in which it operates, the number and nature of its diversification activities and its involvement in foreign markets. For instance, because rapidly changing technologies make it advisable for top managers and their research and production units to be in frequent and close contact, the headquarters of high technology companies tend to be more firmly rooted in their productive milieus.<sup>7</sup>

This article makes use of a statistical model to analyze the effects of certain location and corporate organizational attributes on the probability that corporations will relocate their headquarters. The study is of interest to real estate firms for several reasons. First, commercial real estate is still primarily marketed by "cold calling" and by obtaining information on lease conditions and expiration dates. An understanding of the propensity of various types of companies to relocate their headquarters will enable real estate firms to gain a competitive advantage in the identification of potential corporate clients and to engage in more intensive rather than more extensive marketing strategies. Additionally, the methodology proposed here may be employed to ascertain patterns in the location behavior of offices within or between particular territorial areas. The methodology also may be joined with survey data to predict actual relocations, not merely to justify those that have already occurred.

### Empirical Analysis

The corporate sample in this analysis consisted of the 500 largest industrial corporations in the United States in 1975, as listed in *Fortune* magazine, which remained independent in 1985, i.e., these corporations were not acquired by another firm. The dependent variable, which was in dummy form, was coded

1 if the corporation's headquarters was located in the same city in 1975 and 1985; this variable was coded 0 if the corporate headquarters was relocated to a different city. Logistic regression was employed to determine which of the organizational and location attributes were associated with the likelihood that a corporation would relocate its headquarters. Exhibit I lists the variables which were hypothesized to be associated with corporate headquarters relocation along with the means of their measurement and their data sources. Three of the independent variables that were studied—the degree of spatial dispersion of corporate facilities, the increase in industrial diversification and the number of previous relocations—were eventually dropped from the model because of the inability to obtain all necessary data. However, none was statistically significant. The results of the statistical analysis of the reduced number of variables are presented in Table 1.

The results of this analysis reveal that, despite the well-publicized departure of corporate headquarters from selected larger and older urban centers, corporations headquartered in large metropolitan areas are significantly less likely to relocate their headquarters. Although the number of headquarters located in suburbs and in Sunbelt metropolises has grown, the number of headquarters moving down the urban hierarchy has not increased. This finding suggests that the benefits accruing from the location factors and the agglomeration economies that traditionally drew headquarters to large metropolitan areas continue to outweigh those forces that facilitate their departure from these areas. Our results also show that corporate headquarters in the East North Central and Middle Atlantic regions of the country are significantly more likely to relocate than headquarters located in other regions of the country. The effect of location in these regions is above and beyond the effects of the quality of the neighborhood in which the corporation is headquartered. It simply summarizes location disincentives that are concentrated in these areas and that we have not yet measured.

The racial and socioeconomic composition of the zip code in which the headquarters is located has no effect on the likelihood that the corporation will relocate. In addition, corporations headquartered in elite residential areas with a large supply of managerial personnel are no more likely to stay than corporations headquartered elsewhere. That the percentage of Black and Hispanic residents in a headquarter's immediate vicinity is unrelated to the likelihood that the corporation will relocate fails to support the view that corporate headquarters are deserting minority neighborhoods or neighborhoods with a small concentration of residential white-collar workers. Policymakers and media figures often assert that corporations are leaving these areas due to the fear of crime, the shortage of skilled labor and the pressure from government to comply with territory-based hiring quotas. Our findings suggest that despite the social and economic ills that afflict poor and minority neighborhoods, corporations have not

## EXHIBIT I

### Variables Hypothesized to Affect Headquarter Relocation

#### Location Attributes

Population of the headquarters' metropolitan statistical area. The total 1980 population, of the MSA in which the headquarters is located was divided by 1 million.<sup>1</sup>

Region of the country in which the headquarters is located. Dummy variables were included for the following regions: **Northeast:** Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island; **Middle-Atlantic:** New York, New Jersey, Pennsylvania, Maryland, Delaware, District of Columbia; **East North Central:** Ohio, Indiana, Illinois, Michigan, Wisconsin; **West North Central:** Minnesota, Iowa, North Dakota, South Dakota, Nebraska; **Far West:** California, Oregon, Washington. Socioeconomic composition of the zip code in which the headquarters is located. The percentage of managers and professionals residing in the same zip code in 1980 was multiplied by 1000.<sup>1</sup> Racial composition of the zip code in which the headquarters is located. The percentage of Black and Hispanic residents in the headquarters' zip code in 1980 was multiplied by 1000.<sup>1</sup>

#### Corporate Attributes

Sales revenue. Corporate sales revenue in 1985 was divided by 100,000.<sup>2</sup>

Growth in sales revenue. Corporate sales revenue in 1985 was divided by sales revenue in 1975.<sup>2</sup>

Increase in product diversification. The number of two digit SIC codes in which the corporation produced in 1975 was subtracted from the number of codes in which the corporation produced in 1985.<sup>3</sup>

Spatial dispersion of facilities. The diversification index calculates the degree of a corporation's employment dispersion across states as follows:

$$1 - [\sum x^2 / (\sum x)^2]$$

with  $x$  as the number of each company's employees in each state.<sup>4</sup>

Size of the corporate office. The number of employees in the corporate headquarters in 1985 was divided by 100.<sup>5</sup>

Previous headquarter relocations. The number of times the corporation relocated its headquarters between 1960 and 1975 and between 1975 and 1985.<sup>6</sup>

CEO ties to the locality. This dummy variable was coded 1 if the CEO in 1975 was born in the state in which the corporation was headquartered or if the CEO resided in the same municipality as the corporate headquarters. It was coded 0 otherwise.<sup>7</sup>

<sup>1</sup> U.S. Census data.

<sup>2</sup> Fortune magazine

<sup>3</sup> Trinet Directory of Top 1500 Corporations (1985), Moody's Manual of Industrial Corporations (1975).

<sup>4</sup> Trinet Establishment Database (1985).

<sup>5</sup> Dun's Business Rankings (1985).

<sup>6</sup> Fortune and Standard and Poor's Register of Corporations.

<sup>7</sup> Standard and Poor's Directory of Managers and Directors.

been more likely to move their headquarters away from such areas. Given the considerable evidence for highly localized labor markets,<sup>8</sup> this finding suggests that the demographics of a headquarters' immediate environment has little effect on the likelihood that it will relocate. Alternatively, the benefits of a central location exceed by a good margin the direct

## TABLE 1

Comparison of Variables Affecting a Corporation's Propensity to Relocate Its Headquarters

Variable	Beta Value (p)
<i>Location</i>	
MSA population	-0.160** (.0179)
Northeast Corporation	1.167 (.1069)
Middle Atlantic Corporation	1.475** (.0255)
East North Central Corporation	1.217* (.0674)
West North Central Corporation	-0.097 (.9367)
Far West Corporation	0.442 (.6068)
Socioeconomic composition of the headquarters' neighborhood	-0.009 (.9500)
Racial composition of the headquarters' neighborhood	-.0097 (.2964)
<i>Corporate</i>	
Corporate size	-0.002 (.8213)
Corporate growth	0.107** (.0186)
Headquarters' size	-0.044*** (.0068)
CEO ties to the locality	-0.501 (.1358)
Model - 2Log L	239.25

\* Statistical significance at the .10 level on a two-tailed test.

\*\* Statistical significance at the .05 level

\*\*\* Statistical significance at the .01 level

and indirect costs of proximity to older rundown residential neighborhoods.

Two corporate attributes are associated with the probability of corporate headquarter relocation. Corporations with a large number of employees in their headquarters are much less likely to relocate because large headquarters are more costly and disruptive to move. Also, in large headquarter complexes operational decision-making often is tightly interwoven with and dependent upon the activities of other departments and functional areas, thereby posing organizational obstacles to headquarter mobility. In a separate analysis we found that larger corporations with higher levels of foreign sales tend to have larger central offices.

In smaller headquarters' office complexes relocation is less daunting, and in smaller offices strategic decision-making frequently is done independently of other corporate activities, rendering these offices more footloose. Because they have fewer direct contacts with line and staff managers,

small corporate headquarters may be drawn to locations that are rich in advanced business services. Finally, the number of employees who would choose to resign rather than relocate is lower in corporations with small headquarters.

Companies that grew rapidly between 1975 and 1985 were significantly more likely to relocate than companies that remained the same in size or declined. Undoubtedly, many headquarters' relocations of growing companies resulted from shortfalls or inadequacies in physical facilities, a major cause of relocation.<sup>9</sup> It is also possible that the headquarters of rapidly growing companies required a greater amount of input from specialized labor markets, banks or other advanced service suppliers that were based outside the headquarters' locale. This situation may cause increased contracting outside the local service area or actual relocation of the headquarters itself. However, as reported earlier, corporations that diversified rapidly between 1975 and 1985 were neither more nor less likely to relocate. Apparently, these corporations were able to manage the intricacies of coordination of diversified businesses and the technological and market uncertainties associated with diversification without relocating. Hence, diversification may produce primarily an organizational response by companies rather than relocation.

Real estate folklore and the popular media long have identified CEO preferences and social ties as a determinant of office relocation. We have modest evidence that headquarter relocations are influenced by the CEO's social and familial attachment to the headquarter region. We found that headquarters located in the same city as the CEO's residence or in the state in which the CEO was born are less likely to be relocated. Although this coefficient is only marginally statistically significant in a one-tailed test, its effect may be underestimated due to CEO turnovers during the ten-year interval studied.

## Conclusions

We have shown that corporations which grew rapidly between 1975 and 1985 or were headquartered in the East North Central or Middle Atlantic regions of the country were significantly more likely to relocate their headquarters. We also found that corporations with a large number of headquarter employees or corporations headquartered in larger metropolitan areas were significantly less likely to relocate. Corporations whose CEO resided in the same city as the headquarters or was born in the same state were less likely to move their headquarters. We also found that selected residential correlates of

the zip code in which the headquarters was located, namely, the percentage of Black and Hispanic residents and percentage of workers employed in managerial and professional occupations, had no effect on the likelihood of relocation.

In sum, our findings show that, among large industrial corporations, headquarter relocations do not occur randomly. Rather, firms that relocate possess specific location and organizational attributes. This information may be of value to real estate firms that supply consulting and brokerage services on a local or national basis. Consulting firms may fruitfully combine our approach with corporate culture surveys in order to bring considerations of organizational effectiveness into the analysis of optimal office locations. At present, the greatest obstacle to the successful utilization of our approach lies in the relative scarcity of inexpensive, accessible and reliable data banks on the attributes of small or privately held firms. However, the rapid proliferation of less expensive, high quality computer-readable business databases should eliminate this obstacle. In an increasingly competitive, knowledge-driven and client-oriented marketplace, firms that succeed in developing broad-based expertise in office relocation may be amply rewarded for their efforts.

## NOTES

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