

### Globalization and the location of headquarters **prof. dr. Xavier Vives**

Globalization allows the location of headquarters of firms where it is more efficient to do so. Indeed, new information technologies and lower transportation costs permit to manage at a distance and it is no longer needed that the commandment center of a firm be close to production facilities.



In fact, when Boeing decide to move its headquarters from Seattle it was looking to place them in a central location, in relation to the operation units, customers and financial community, but separate from the existing operations. Boeing ended up in Chicago with a high level of headquarters in general, and in the transport equipment sector in particular, high level of business services, a financial centre and a very important airport hub. Those elements together with low taxes, low congestion, and a thick labor market for skilled labor force are the determinants of the location of headquarters. Another example is provided by the agribusiness firm Bunge which moved from Amsterdam to Argentina and ended up 140 years later in 1999 headquartered in White Plains, New York, to be closer to world financial markets. More recently, Yahoo announced "operation toblerone" to move its European headquarters from London to Switzerland, close to Geneva. The reasons have to do, most likely, with taxes and the high congestion in London. In politically centralized countries in Europe headquarters tend to locate in the capital, this is the case, for example, in France, the UK or Spain, in contrast with the spread of headquarters on different centers in Germany.

Headquarters do move and this represents both a challenge and an opportunity for metropolitan areas and regions that compete in today's globalized world. Indeed, the strategies of metropolitan areas have changed from sectoral to functional specialization. This means that areas are not so much attached to specific productive sectors but to specialized functions such as providing a center of direct or remote control of economic activity and specialized business services. This defines a headquarters region. Headquarters tend to cluster in a small number of metropolitan areas and are more agglomerated than economic activity in general. Furthermore, we should expect more movements and potential concentration of headquarters as the use of information technology advance and becomes more widespread (e.g. videoconferencing), the European market completes its integration, and the restructuring due to globalization proceeds. This implies merger activity, which is typically an immediate cause of moves in headquarters. Cross-border mergers are on the rise in Europe and will put on the table in a stark way the issue of headquarter location. Indeed, this was an issue in the recent takeover battle over ABN Amro between the three-bank international consortium and Barclays.

Cities and regions are worried about being attractive for headquarters. This is so because they generate positive effects in communities, a labor market of higher quality, and their very presence attracts more headquarters and business services. Furthermore, to have a decision center is always an insurance policy in times of crisis. Indeed, San Francisco worried when the headquarters of Bank of America moved to Charlotte due to merger. Amsterdam worried about the loss of direct flights to key locations when Air France and KLM merged, and it did so for good reason: to have an important airport hub with intercontinental flights is a must to be competitive to attract headquarters. In the merger talks of Air France and Alitalia, Milan is worried about losing the Malpensa hub with its intercontinental flights. Regions are willing to spend resources to keep and attract headquarters. Chicago offered the most generous incentive package to Boeing to defeat the rival potential locations Dallas or Denver. Most likely this was done to offset some drawbacks as having higher wages, congestion costs, and taxes than the rival locations. Regions must think what their strengths to lure headquarters are and what policies may prove effective, without forgetting that this is a game played by other regions also. 🎓

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