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Regional Headquarters Location  
Selection Strategies**

**John Holt  
William R. Purcell  
Sidney J. Gray  
Torben Pedersen**

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**Center for Strategic Management and Globalization**  
**Copenhagen Business School**  
**Porcelænshaven 24**  
**2000 Frederiksberg**  
**Denmark**  
**[www.cbs.dk/smg](http://www.cbs.dk/smg)**

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by:

**John Holt**

School of Organisation and Management  
University of New South Wales  
Sydney 2052 Australia  
Tel: +(61 2) 9385 7144  
Fax: +(61 2) 9662 8531  
Email: [j.holt@unsw.edu.au](mailto:j.holt@unsw.edu.au)

**William R. Purcell**

Newcastle Graduate School of Business  
University of Newcastle  
Newcastle 2308 Australia  
Tel: +(61 2) 4921 7731  
Fax: +(61 2) 4921 7016  
Email: [william.purcell@newcastle.edu.au](mailto:william.purcell@newcastle.edu.au)

**Sidney J. Gray**

School of Business  
University of Sydney  
Sydney 2006 Australia  
Tel: +(61 2) 9351 3552  
Fax: +(61 2) 9036 5378  
Email: [s.gray@econ.usyd.edu.au](mailto:s.gray@econ.usyd.edu.au)

**Torben Pedersen**

Center for Strategic Management and Globalization  
Copenhagen Business School  
Porcelænshaven 24, 2. DK-2000 F. Denmark  
Tel: +45 38 15 25 21  
Fax: +45 38 15 25 15  
Email: [tp.smg@cbs.dk](mailto:tp.smg@cbs.dk)

## **Abstract**

The purpose of this exploratory study is, first, to identify the underlying dimensional nature of the range of decision variables that MNEs generally associate with making RHQ location choices and, second, to examine the extent to which MNEs, when grouped according to contextual characteristics, use discernibly different decision criteria when making RHQ location selection decisions. Based on a sample of respondents from 57 RHQs in Europe and the Asia-Pacific (specifically Australia), principal components analysis yielded 9 interpretable factor dimensions, underlying 39 location decision variables, which were then used to compare decision schemas groups. Three contextual classifications, 'strategic purpose of RHQ establishment', 'nationality of company origin', and 'industry sector', were hypothesized and used to categorize the sample. The analysis indicated that while subgroups within these grouping categories were associated with distinctive location selection priorities, those RHQs established in order to be responsive to regional markets appeared to use significantly different selection criteria compared to those RHQs established to facilitate global coordination. Similarly, the selection criteria US-based MNEs used to make RHQ location decisions, were found to be significantly different to the selection criteria Asian-based MNEs used when making their RHQ location decisions. Finally, location decision priorities were also found to vary across industry sector.

## ***INTRODUCTION***

*“With excellent business infrastructure, a highly qualified workforce, free flow of goods, capital and information and a transparent regulatory system, Hong Kong is an ideal location for retailers to establish their operations”* (Mr. Galpin, ECCO – [www.ecco.com](http://www.ecco.com))

ECCO, a leading Danish manufacturer and retailer of footwear decided in 2004 to establish their Asia-Pacific headquarters in Hong Kong for retail, sales, sourcing, distribution and general management functions. The German company, Atotech, has established regional headquarters in Rock Hill, South Carolina, USA and Yokohama, Japan. Corning from the US has a regional headquarters and its shared center for financial transactions in Shanghai and there are a number of other examples of establishment and relocation of regional headquarters. A report from UNCTAD (2003) suggested a ‘world market for corporate headquarter operations’ is emerging and provided many recent examples of relocations of headquarter operations. In fact, UNCTAD (2003) counted 829 establishments or relocations of HQ operations worldwide between January 2002 and March 2003, which clearly indicate that the relocation of HQ operations is on the rise, and as such it merits careful academic consideration.

UNCTAD (2003) speaks of a new trend where increasing sophistication of ICT and transportation technology enables firms to slice up their HQ value chain of activities and optimize each individual value adding activity’s geographic location e.g. by relocating activities to regional headquarters (RHQs). But, while there is a well established literature on location of business activities like manufacturing, sales, R&D etc. little is concerned with location of HQ operations and regional headquarters (Birkinshaw et. al., 2006).

The issue of RHQs is a new area in international business research (Morrison and Kendall, 1992; Sullivan, 1992; Aoki and Tachiki, 1992; Lehrer and Asakawa, 1995, 1999; Lasserre, 1996; Schutte, 1998; Lasserre and Schutte, 1999). The role of regionalism in MNE strategy is, however, not a new concept. Heenan and Perlmutter (1979) recognized regio-centrism as a further option in

structuring the operations of the MNE by adding the regional category to their earlier observed ethnocentric, geocentric and polycentric typology more than 20 years ago. Throughout the 1980s, however, research remained firmly focused on the design and implementation of global strategies (Kogut 1985, Ghoshal 1986, Porter 1986) and with resolving the bipolar tensions of global integration and local responsiveness. Away from academe, however, local subsidiary managers continued to champion national responsiveness while headquarter executives remained firmly convinced of the need for integration (Doz and Prahalad, 1984). Ohmae (1989) first observed a change in US MNE practice away from markets in Asia being handled by the MNE's international divisions towards a new configuration centred on regional headquarters. He also observed the decentralization of responsibility for strategy and operations by Japanese MNEs to each of the triad markets.

Following Ohmae, researchers also began to theorise on the advantages of more regionally oriented strategies (Morrison et al 1991). Among the reasons suggested for the growing preference of regional to global organization are economic (limits to economies of scale), geopolitical (regionalisation of EU, NAFTA, APEC), strategic (regional differences in markets and employees) as well as organizational (the need to protect special subsidiary competencies and initiatives from a narrow HQ mentality) factors (Lehrer and Asakawa 1995).

At a theoretical level the RHQ fitted neatly into the Bartlett and Ghoshal I-R framework with its mission to mediate the tension between headquarters call for global efficiency and local subsidiaries push for national effectiveness. Executing this mandate, however, required the regional executive to maintain a matrix of sensitivities alert to the imperative of pooling resources, gaining synergies, promoting standardization, and managing product life cycles, while simultaneously safeguarding the benefits of subsidiaries responsiveness to local employees, competitors, markets and governments (Sullivan 1992). Lehrer and Asakawa 1995, 1999), however, point to significant national differences in the organizational responses of multinational enterprises to regional management issues. The differences have been attributed to the level of 'hands on management', attachment to the status quo, administrative heritage and structural preferences.

While the approach of most MNEs has been to formalize a triadic approach to the regionalisation of their global operations, setting up RHQs in North America, Europe and Asia (Aoki

and Tachiki 1992, Lassere, 1996), the issues surrounding specific location attractiveness within regions remain complex. Locations within regions vary in their attractiveness due to factors that include geography, population, infrastructure and government policies.

### ***Variables Associated with Location Attraction***

While there has been no systematic attempt to exhaustively identify the variables associated with location attractiveness, studies of RHQs cite a number of possible variables associated with making RHQ location decisions. Most recently, a report by the Economist Intelligence Unit (2000) referring to a research study on RHQs in the Asia Pacific region by Michael Enright and Edith Scott, pointed to the significance of industry-type density as being a significant factor in location choice: partly explaining the dominant position of Hong Kong as the major RHQ centre for service sector firms because of its dense professional network of financial and service firms; Singapore as the dominant RHQ centre for manufacturing firms because of its leading role as a regional location for manufacturing industries and Sydney as the dominant centre for IT-based RHQs because of its vibrant IT market. Among individual key decision-making criteria, Enright and Scott cite "political stability", "proximity to potential customers", "telecommunications infrastructure", "proximity to existing customers" and "stable economic policy" as being the most significant, followed by "transport infrastructure", "legal transparency", "absence of corruption", "proximity to other regional markets", "access to the national markets" and "availability of skilled managers". Lasserre and Schutte (1999) suggest that the main criteria to influence the decision of where to locate an RHQ include "regional centrality", "convenience and cost factors", and "proximity to business". Aoki and Tachiki (1992), on the other hand, identified two first-order concerns that they observed were an influence on site attractiveness and hence the decision to locate RHQs. The first of these concerns referred to the importance of locating RHQs in a country or city where the MNE already manufactures or has a substantial market share. The second focused around minimizing the 'cultural and economic distance', including the cost and time of transportation, communications and local operating expenses. Aoki and Tachiki (1992) described the second order concerns influencing location choice as superior infrastructure (seaports, container and warehouse facilities, airports and international communications

systems), business climate (deregulation), a well-trained workforce (especially at managerial and professional levels) and favorable government policies (especially taxation) as being important.

In addition to these sources, the professional literature tends to suggest that the decisions determining the location of RHQs are more inclined to be complex, multi-dimensional and sometimes idiosyncratic. Tully (1998) writing on RHQs in Europe cited the quality of life, central location, and infrastructure quality as the most important determinants of the ranking of Amsterdam and Brussels as the first and second ranked cities in Europe for RHQs. Yoost and Fisher (1996) listed excellent infrastructure and tax incentives as being the main determinants of Hong Kong and Singapore's comparative advantage in attracting RHQs within the Asian region. Forster (1996) cited Sydney's skilled multilingual workforce and its quality supply of real estate as being central to the decision of Bankers Trust and Amex to locate their Asian RHQs in Australia. In contrast, Kellogg established its regional headquarters for the Asia-Pacific in Australia because of its belief that Australia had the best raw materials, labor and R&D development in the region. Political stability, local skills and operational costs were cited by IBM as the key variables in the firm's location of its Regional Computing Services Center planned for Asia in Sydney (Jarrett 1994). However, Hoechst's decision to shift its RHQ from Hong Kong to mainland China seems principally motivated by the company's desire to signal to the Chinese authorities its long term commitment to China (Murdoch 1997).

A significant criticism that can be raised against these studies is that they have not followed a standardized approach to identifying and measuring those variables closely associated with location attractiveness. This limitation not only prevents the comparison of attractiveness variables and their use across organizations, it limits the generalizability of these studies by preventing the ability to meaningfully determine the variability in strategic importance that organizations attach to particular variables.

### **Explaining and Investigating Location Choice**

The literature suggests that there are many location selection factors that feature in different ways in individual firms' location decision processes. However, no study has yet, systematically examined the complex of location issues surrounding RHQ investments. While these studies do

articulate variables associated with making location decisions, there is no specifically articulated theory of RHQ location choice that helps us to understand the nature of the decision making process and how it is related to RHQ location choice. Anecdotal evidence suggests that there is a broad spectrum of factors that are related to and influence location choice in some way, even though the variables that make up this spectrum is not fully known. While we accept that firms attach different levels of importance to these decision variables, we do not understand the mechanism that determines which variables firms' find most attractive when making location choices. For example, no one has investigated how the contextual nature of firms, such as strategic orientation and the nationality of company origin is related to the decision criteria they use. Consequently, the extent to which such organisational characteristics explain the patterns of decision criteria that MNEs use, is not known. The issue of what factors determine the best location for an RHQ, and how these factors link with the firms' contextual characteristics, remains largely uninvestigated (Morrison and Roth 1992, Sullivan 1992, Aoki and Tachiki 1992, Lehrer and Asakawa 1995).

Understanding the nature of this linkage, across a cross-section of organisations, will not only provide the basis for better explaining location choice, but it will contribute to theory development. Furthermore, better understanding the complex pattern of location variable interaction in the RHQ location decision has important implications for firms, state policymakers and researchers. From a firm perspective, MNEs can benefit from understanding the complex fit between the operational and business context of international firms and the type of location selection strategies such firms use when making RHQ location decisions. For government policymakers, knowledge of whether or not firm nationality, strategic purpose, technological capacity and RHQ function influence the efficacy of incentive regimes may be crucial to attracting RHQ investment. The purpose of this study is to specifically investigate (i) the nature of the decision-making processes underlying MNEs RHQ location selection strategies and (ii) the interface with a firm's contextual characteristics. To achieve this objective, two discrete research tasks present themselves.

### **Identifying the Spectrum of Location Decision Variables.**

Before any investigation can be conducted into the way MNEs use location selection criteria differently, there is a need to identify and understand what is the full spectrum of decision variables that are used in association with location choice. In the absence of any previous studies that do this, our first task is to map the range of decision variables that MNEs generally associate with making RHQ location choices. Only when the broad spectrum of location selection factors are identified, can the way organisations use these factors be examined. The problem is that no instrumentation consisting of a large spectrum of variable items, related to the task of making RHQ location choice, presently exists. The first research objective of this study thus becomes one of developing a standardized procedure (instrument) that profiles the importance organizations attach to specific variables when making location selection decisions.

### **Identifying Classification Categories and Defining Hypotheses.**

Having the means to profile organisations' decision criteria, a method of classifying organisations into different contextual categories needs to be determined, before the patterns of criteria usage can be compared. The research question that interests us here is: to what extent do MNEs, when grouped according to some distinctive contextual characteristic, use discernibly different decision criteria when making location selection decisions? To investigate this question it becomes necessary to determine which classification method is to be used for the purposes of examining the potentially different decision priorities that operate in different organizations.

A review of the international business and strategy literature suggests a number of possible classification categories that represent different operational and strategic mindsets spanning from the early EPG-framework of Perlmutter (1969), over Hofstede's work on the significance of national culture to more recent contributions on transnational strategies (Bartlett and Ghoshal 1989). When it comes to making decisions about locating RHQs, three categories that come to the fore are: (i) the strategic purpose for which RHQs are to be used, (ii) the nationality of firms' origin, and (iii) the industry sector to which they belong. Below we describe each type of classification category, together with a statement about how we hypothesize the relationship between organisations' strategic context and their decision criteria profile.

***Strategic Purpose of RHQ.*** Confronted with tension between needs for global integration and needs for national responsiveness multinational enterprises can behave in several ways. Some integrate their operations across borders, others let their subsidiaries in various companies behave almost as if they are national companies (Prahalad and Doz, 1981, Doz and Ghoshal ,1994; Bartlett and Ghoshal 1989; Lehrer and Asakawa, 1995). MNE integration and local responsiveness constitute accepted generic choices, which represent polar strategic priorities, integration or responsiveness. One strategy usually remains preferred to the other and patterns of strategic decisions reflect patterns over time. Some MNEs, however, try to avoid developing a clear pattern of preference for national responsiveness or global integration, but attempt to combine elements of both. The strategies of such companies can be labeled as multifocal. Consistent with this extensive body of literature on MNE strategic choice, and based on the global integration/ local responsiveness framework (Bartlett and Ghoshal, 1989; Doz 1986; Prahalad and Doz, 1981; Lasserre and Schutte, 1999), it is hypothesized **(H1): that location decision priorities will differ in relative importance across strategic purpose categories.**

***Nationality of Company Origin.*** There is a substantial international business and cross-cultural management literature that argues the importance of country of origin effects. Numerous studies have shown that the behavior of MNEs is strongly influenced by a firm's nationality and that the decision criteria firms use are likely to differ consistently with the national priorities and preferences of the parent company's origin (e.g. Hofstede, 1994; Hodgetts and Luthans, 1999). Johanson and Vahlne, (1977) first suggested a country of origin effect between psychic distance and location strategy. Kogut and Singh (1988) further explored the implications for entry mode behaviour of the psychic distances between countries. They found strong support for the effect of national culture on entry choice. Hennart and Larimo (1998) also found national origin affected the entry strategies of European and Japanese multinational enterprises entering the U.S. In a different context researchers have pointed to the differential costs arising out of national differences associated with cross-border acquisitions and joint ventures (Morosini 1998, Morosini and Singh 1994, Barkeema and Vermeulen 1997). Given this research on the impact of national origin on entry strategy we expect to see evidence of different criteria depending on the nationality of the parent company, driving RHQ

location selection strategies. It is hypothesized (**H2**): that location decision priorities will differ in relative importance across the nationality of company origin categories.

**Industry Sector.** In this paper we also control for industry sector. Many studies have shown that the relative importance of host country factors vary according to the particular investing industry. For example, different industries will require different kinds of customised location assets, such as labour skills, technical knowledge, management expertise, public infrastructure and technological capacity. Guisinger (1985) found that the impact of incentive regimes varied significantly across industries. Infrastructural requirements have also been shown to vary in importance depending on the special requirements of different industries (Loree and Guisinger 1995). Nacham (2000) showed that location factors influence the location choices of financial services more than those of professional services.

There is also the suggestion that different location advantages favour different industry RHQs (EIU 2000). Hong Kong is regarded as the RHQ centre for service sector firms, because of its closeness to markets, quality management and its dense network of service and financial firms. Singapore's dominant position as a centre for manufacturing RHQs is often ascribed to government policies and excellent infrastructure, while Sydney's vibrant IT market, excellent telecommunications, multi-skilled workforce and lifestyle advantages make it an attractive RHQ location in industries where recent technological developments have arguably diminished the intra-regional importance of geography. The final hypothesis (**H3**) states: that location decision priorities will differ in relative importance across the three industry sector categories of services, manufacturing and technology.

## **METHOD**

### **Sample**

Our sample was drawn from a cross-section of the largest non-European MNEs with RHQs in Europe and non-Asia-Pacific MNEs with Asia-Pacific RHQs (located specifically in Australia). The sampling frame was limited to these RHQ locations on the grounds of the local knowledge of the

researchers and accessibility. As a result, the findings of this study must be viewed as exploratory and subject to further research. The chief executives of these regional offices were used as the primary informants in the study. The regional CEO was considered to be the individual most cognizant of the firm's thinking and rationale about which issues and factors are important when making RHQ location decisions for the firm. However, it is recognized that this provides only one perspective on the RHQ location decision. Clearly, senior executives at corporate Headquarters may have different perspectives and experiences.

The CEO's of major RHQs within the European region (N=342) and Australia as an important RHQ location in the Asia-Pacific region (N=225) were mailed a survey questionnaire. The majority of the questionnaires were completed by CEOs from the Asia-Pacific site of Sydney, Australia. The European sites returning questionnaires represented locations such as London (UK), Belgium (Brussels), and Frankfurt (Germany). It was particularly difficult to obtain responses from the European RHQs. Despite a number of follow-up requests, a total of only 57 completed questionnaires (39 Australian and 18 European RHQs) were returned, resulting in an overall response rate of 10%. While this is a very low response rate, perhaps owing to the sensitivity and complexity of RHQ location decisions, the sample is adequate for the purposes of conducting an exploratory statistical analysis. Table 1 shows that the 57 companies used in this study represent a broad range of industry types. These were categorized into three groups: Computer Software (35.1%), Manufacturing (21.1%) and Health/Pharmaceutical (6%) sectors.

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Table 1: Frequency Distribution of Organizational Sample Across Industry Type  
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### **Research Measures / Survey Design**

A two-part questionnaire was developed to collect the necessary data for this study. Part A of the survey gathered demographic information about participating organizations such as: nationality of parent origin; core business activity; the purpose of establishing present RHQ; the number of staff operating at RHQ; and the number of years the RHQ was established. Part B gathered information

about the importance companies placed on a range of variables considered influential in making RHQ location decisions *in general*. This section did not refer to factors relevant to the specific location of the RHQ in question.

***Identifying Location Decision Variables.*** The variables influencing RHQ location decisions are described in this study as Location Decision Variables (LDV). The LDV items were chosen for inclusion in the survey following detailed content analysis of the international business location literature dealing with matters related to making decisions about RHQ selection. The items identified from this broad range of sources were intended to be as specific as possible in order to form a comprehensive set of factors associated with influencing location selection decisions. A total of 39 individual items were identified (see Table 3) relating to: workforce characteristics; competitive business inputs; technological/educational infrastructure factors; government incentives; company characteristics factors; social, political and legal factors; economic factors; compatibility factors; financial factors; and intra-regional accessibility.

This part of the survey was designed to obtain measures of the strategic importance organizations attributed to specific location decision variables when making the decision to locate a specific RHQ. Such measures could be used to map the decision criteria underpinning specific RHQ location choices. In making the decision to locate an RHQ, respondents were required to indicate, on a 5 point Likert scale (where 1 = low importance and 5 = high importance), the level of importance their organization would place on each individual item when making such a decision. The objective here was for respondents to show how much each individual item would influence the decision process.

***Classifying Contextual Categories.*** The three contextual categories chosen in this study to examine the presence of contrasting location decision mindsets are, as we have already discussed, Strategic Purpose, Nationality of Company Origin, and Industry Sector. To obtain measures representing different *strategic purposes* underlying RHQ establishment, respondents were asked to indicate by ticking the appropriate box, whether their present RHQ was established to: (a) coordinate and facilitate global operations, or (b) to serve and be responsive to regional markets. The measure

used to indicate the national origin of respondents parent company was based on respondents' describing the national origin of their company.

Table 2 displays the sample distribution across these classification categories. In the first instance, we see that across our sample a total of 34 RHQs were established to pursue Regional Market Responsiveness strategies, with a total of 23 RHQs being established to pursue Global Coordination and Facilitation strategies. Table 2 also reveals that 35 companies were of North American, 12 of European and 10 of Asian origin.

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Table 2: Frequency Distribution of Organizational Sample Across Classification Categories  
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## **RESULTS**

### **Location Decision Variables: Relative Importance**

Each of the 39 specific variables associated with influencing location decisions are ordered according to their overall mean measure of importance. The median measure across the sample was 3.37. 19 location decision variables exceed this measure. A number of variable clusters emerge across the attributed importance ratings. Table 3 reveals that across all respondents the highest ranked group of decision variables centre around *infrastructure-related variables* such as communications, educational and transport infrastructure concerns. 'Reliable communications infrastructure' (4.42) was the most important variable associated with the RHQ location decision followed equally by the 'availability of highly skilled' (4.26) and 'English speaking staff' (4.26). Linked to the supply of available English speaking staff was an 'English-speaking environment' (4.11). The fifth most important variable and final factor measuring above four on our 5 point Likert scale was 'frequent and efficient international flights' (4.04). The importance of communications infrastructure reflects the need to manage and coordinate dispersed activities over the region; the availability of English speaking, highly skilled staff reflects the most important direct input into RHQ operations; while

access to world-class air transportation infrastructure reflects the need for regional managers to undertake frequent travel around the region.

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Table 3: Relative Importance of Location Decision Variables.  
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The second order of variables relate firmly to market-related location variables such as ‘economic stability’ (3.98), ‘accessible geographic location’ (3.88), ‘local market growth potential’ (3.86), ‘presence of key technology suppliers’ (3.79), ‘commercial compatibility with home base’ (3.72) and ‘reliable suppliers’ (3.63). Economic stability is ranked far more highly than low taxes and government incentives, which rank lowly on the scale. The third group of variables that centre around the median score of importance consists of 6 factors related to: cultural ties - ‘strong cultural links with region’ (3.61), and ‘cultural compatibility’ (3.41); finance - ‘attractive company taxation regulations’ (3.58), ‘stable exchange rates’ (3.53); and telecommunications - ‘regional telecommunications hub’ (3.49), ‘low priced telecommunication circuitry’ (3.46).

The variables below median importance were dominated by three groups of variables: input costs - ‘competitively priced telecommunications’ (3.39), ‘competitively priced rent’ (3.37), ‘low operating costs’ (3.37), ‘competitively priced labor’ (3.30), ‘moderate interest rate environment’ (3.25), ‘attractive dividend withholding taxes’ (3.21), ‘low inflation environment’ (3.18), ‘low cost workforce’ (2.74) and ‘low levels of industrial disputes’ (2.61); government incentives - ‘local government tax incentives’ (2.96), ‘attractive regulatory environment’ (2.91), ‘local government financial incentives’ (2.81), ‘central government establishment incentives’ (2.79), ‘central government financial incentives’ (2.75), and ‘local government establishment incentives’ (2.68); and cost of living factors - ‘low cost of health insurance (2.58’, ‘low cost of cars’ (2.56) and ‘low cost of schools’ (2.51). Below we use principal components analysis to further understand the role these items play in influencing RHQ location decisions.

### **Identifying the Factor Dimensions Underlying Location Decision Variables**

The data was examined to determine factorability. Initial examination of the correlation matrix reveals a good distribution of large and small coefficients, suggesting the presence of homogeneous sets of variables. Furthermore, with an overall Kaiser-Meyer-Olkin measure of sampling adequacy of .73 and with the Bartlett Test of Sphericity highly significant ( $p < .00000$ ), the correlation matrix is considered appropriate for factoring (Sharma, 1996). Assuming that all location decision variables are common variables associated with location choice decisions, principal components analysis was used to identify the common dimensions underlying the 39 location decision variables. This extraction method using varimax rotation yielded 9 factor dimensions accounting for 78.9% of the total variance. The reproduced correlation matrix and residual correlations indicate that this 9 factor structure model is a good fit with the data. The factor loadings and corresponding questionnaire items together with the percentage of variance accounted for are reported in detail in Table 4. A total of 9 interpretable location decision factors emerge from the pattern of loadings displayed in Table 4 and were labeled as: Favorable Government Incentives, Low Operating Costs, Low Living Costs, Favorable Financial Environment, Effective Regional Links, Compatibility with Home-Base, Supportive Business Environment, Economical IT Infrastructure and Favorable Employment Relations. The factor scores for all 9 dimensions were calculated using the regression method, which saved scores standardized around a mean of zero (Norusis, 1993) for further analysis.

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Table 4: Factor Loadings of the Location Decision Items  
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### **Comparing Location Decision Priorities across Contextual Categories**

To determine how the 9 location decision factor dimensions are used differently across organisational contextual categories, the mean standardized factor scores derived above were analyzed

using the Oneway ANOVA procedure. Table 5 reports the ANOVA results comparing each location decision factor score mean across each set of contextual category subgroups.

Standardized factor scores are particularly useful in this kind of comparative task. They not only permit the comparison of scores relative to a mean of zero (Norusis, 1993), they also reveal the relative weight a particular factor possesses in relation to all other factors (Mendenhall, McClave & Ramey, 1977). Applied to Table 5, it means that location decision factors with scores equal or close to zero are, compared to others, given an “*average importance weighting*” when making decisions about RHQ location. However, when decision factors are given scores above zero, that is a “positive” (+) value, it indicates in relative terms that such factors are given an “*above average importance weighting*” when making location decisions. By contrast, scores with “negative” (-) values indicate in relative terms factors’ “*below average importance weighting*” in location decisions.

Using standardized means in this way allows us to compare how individual location decision factors differ in importance between subgroups of interest. That is, when the full set of decision factors are viewed as a whole, individual decision factors are seen against a set of complex inter-relationships that characterize the nature of each subgroup's decision priority mindset. The importance weightings presented in Table 5 capture the unique way individual factor dimensions are interrelated within each contextual category subgroup. Examining the way the factor dimensions are configured or structured for each subgroup, provides insight into the mindset that each subgroup brings to the task of making RHQ location decisions.

Table 5 also presents the Mann Whitney Statistic. The Mann Whitney procedure is an assumption free test used to determine whether two independent samples come from populations that have the same distribution of importance weightings (Meddis, 1984; Howell, 1982). This procedure examines the distribution of difference between samples by examining the way groups *distribute their ranks* and by comparing the *relative magnitude of the weightings* each group attributes to the same items. As a measure of relative standing, the *z* score depicts the standard deviation between the range of values associated with each of the location decision items and the mean of those values. The importance of this procedure for this study is that it enables us to determine the extent to which

contextual category subgroups reveal significant dissimilarities in the distribution of location decision priorities, thus demonstrating the presence of distinctive and contrasting location decision mindsets.

Figure 1 compares the decision priority schema across the subgroups of each classification category. By displaying the mean importance values (standardized factor score means) relative to a centre point, Figure 1 enables differences in the distribution of location decision priorities to be examined and compared.

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Table 5: Factor Score Means and Mann Whitney Statistics Compared across Contextual Categories  
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Figure 1: Structure of Location Decision Priorities Compared across Contextual Categories  
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### **Examining Hypothesis One**

The first hypothesis is concerned with testing whether the location decision priority structures differ significantly according to the strategic purpose for which RHQs will be used. To investigate whether we see any support for this hypothesis, we must examine how the pattern of decision priority structures compare across the strategic purpose subgroups of this study – Regional Market Responsiveness and Global Coordination. In the first instance, Table 5 reveals that only one location decision factor, 'Favorable Employment Relations' ( $F=11.86, p<.01$ ), was found to differ significantly between subgroups. However, Table 5 tells us more about the decision priorities of these groups by revealing a complex set of inter-relationships that reflect the nature and character of each groups' location decision mindset. Below we describe the way groups' contrasting location decision priorities are structured.

#### ***Location decision priorities for RHQs pursuing regional responsiveness strategies.***

Examining Table 5 we find that the strategic mindset of firms whose RHQ is to pursue a regional responsiveness strategy is characterized by the following decision priority structure. In this strategic mindset, the location decision factor of 'Economical IT Infrastructure' ( $SM=0.04$ ) dominates this group's decision priority structure (i.e. given *above average importance weightings*). Factors such as

'Compatibility with Home-Base' ( $SM=0.01$ ), 'Low Operating Costs' ( $SM=0.01$ ), and 'Favorable Government Incentives' ( $SM=-0.01$ ) are given *average importance weightings* (i.e. factor scores close to zero). Factors receiving *below average importance weightings* are 'Favorable Employment Relations' ( $SM=-0.34$ ), 'Low Living Costs' ( $SM=-0.16$ ), 'Favorable Financial Environment' ( $SM=0.14$ ), 'Supportive Business Environment' ( $SM=-0.13$ ), and 'Effective Regional Links' ( $SM=-0.08$ ).

What we learn from this decision priority structure is that the primary goal of this type of RHQ is to get as close as it can to its market. That being the case, it means that for these organizations the basis of choice is in fact very limited. A decision priority structure does exist, as we can see, but given the primary goal the basis of choice is in practical terms limited. If it has a choice, then the first factor to be taken into consideration in locating an RHQ is having access to an economical IT infrastructure. This is followed by consideration being given to a location that offers some compatibility with the firm's prior experience, low operating costs and favorable government incentives. Location decisions for this group, are based around the pragmatic concerns of operational costs.

***Location decision priorities for RHQs pursuing global coordination strategies.*** In a similar way, we observe that for RHQs pursuing a global coordination strategy the factors that feature highly in the decision priority structure (i.e. factors given *above average importance ratings*) of these firms, include: 'Favorable Employment Relations' ( $SM=0.51$ ), 'Low Living Costs' ( $SM=0.24$ ), 'Favorable Financial Environment' ( $SM=0.21$ ), 'Supportive Business Environment' ( $SM=0.19$ ), and 'Effective Regional Links' ( $SM=0.12$ ). Location decision factors lower down the priority structure (i.e. given *average importance ratings*) include: 'Favorable Government Incentives' ( $SM=0.01$ ), 'Low Operating Costs' ( $SM=-0.02$ ), and 'Compatibility with Home-Base' ( $SM=-0.02$ ). At the bottom of this group's decision priority structure (i.e. given *below average importance weightings*) is the factor 'Economical IT Infrastructure' ( $SM=-0.06$ ).

We observe from this decision priority structure that RHQs pursuing a global coordination strategy, compared to those pursuing a regional responsiveness strategy, have the luxury of being able to base their location decisions on a broader range of decision criteria. A global coordination strategy does not necessarily require the RHQ to be close to its market or regional operations. The nature of a

coordination role means that such an RHQ can base its location criteria on a range of very different issues. We learn from this priority data that for these firms the primary concern in making location choices is with such things as the type of employment relations environment present, the presence of a supportive business environment, the cost of living in general, the presence of a favorable financial environment and efficient access to regional links. This type of RHQ does not need to be particularly close to its market per se. As long as it can quickly get to any part of the region, and beyond, is what is strategically important to these firms. Not only does this group have more choices, but its decision criteria centre around more intangible concerns, rather than concerns of pragmatic operational costs.

Figure 1A schematically maps the decision priority structures of the two groups just described. The Mann Whitney procedure concludes that the location decision priority structures representing each strategic purpose subgroup differs significantly ( $U=14.0$ , 2 Tailed  $p=.01$ ) due to two contributing factors. Firstly, the difference in mindset is due to a difference in the way subgroups *distribute their ranks*. For example, compared to the regional responsiveness group, results reveal that with a mean rank of 12.44 the global coordination group had the largest number of location decision factors that were given "above average" weightings. The second factor contributing to mindset differences is the way groups *vary in the magnitude of the weightings* they attribute to each of the location decision factors, as represented by the Mann Whitney computed  $z$  score. As a measure of relative standing, the  $z$  score depicts the standard deviation between the range of values associated with each of the location decision items and the mean of those values. A  $z$  score of -2.34 represents a significant level of value dispersion. An overall Mann Whitney Statistic ( $U$ ) of 14.0 also confirms that this level of dispersion is associated with more systematic than random differences in the distribution of priorities.

The evidence described here illustrates the point that the location decision priorities associated with each group represents different and contrasting location decision strategies that match groups' strategic purpose. Such evidence supports our first hypothesis that the intended role of the RHQ determines the particular decision priority structure on which the location decision is based.

## **Examining Hypothesis Two**

Our second hypothesis is concerned about testing the proposition that location decision priority structures differ according to firms' nationality of company origin. We test this proposition by examining the importance weightings that firms from North America, Europe and Asia gave to each of the location decision factors, as presented in Table 4. Given the small sample size associated with two of the nationality of country origin groups (Europe=12 and Asia=10), no significant F values were generated. However, Figure 1B reveals that when the standardized means for each factor dimension are plotted across all country of origin groups the North American, European and Asian decision priority structures are seen to be uniquely structured. Below we describe the nature of each group's location decision priority structures.

***Location Decision Priorities of North American-Based Firms.*** The location selection priorities of North American firms were found to be structured in the following way. The location selection factors at the top of the priority structure (i.e. attracting *above average importance weightings*) are: 'Compatibility with Home-Base' ( $SM=0.17$ ), 'Economical IT Infrastructure' ( $SM=0.13$ ), 'Effective Regional Links' ( $SM=0.9$ ), 'Favorable Government Incentives' ( $SM=0.9$ ) and 'Low Living Costs' ( $SM=0.05$ ). Given *average importance weighting* is the factor - 'Favorable Financial Environment' ( $SM=0.01$ ). Further down the priority structure again are the factors receiving *below average importance* ratings, such as: 'Low Living Costs' ( $SM=-0.04$ ), 'Favorable Employment Relations' ( $SM=-0.04$ ) and 'Supportive Business Environment' ( $SM=-0.04$ ). What we learn from this decision priority structure is that the RHQ location decision of North American firms is driven primarily by a mix of business efficiency and incentive concerns. That is, the choice of location appears to be predicated upon efficiencies derived from compatibilities with home-base, established infrastructure and incentives.

***Location Decision Priorities of European-Based Firms.*** The location decision priorities used by our sample of European firms reveal a priority structure that attributes *average or above importance weightings* to: 'Favorable Financial Environment' ( $SM=0.33$ ), 'Low Operating Costs' ( $SM=0.30$ ), 'Supportive Business Environment' ( $SM=0.15$ ), 'Favorable Employment Relations' ( $SM=0.15$ ) and 'Effective Regional Links' ( $SM=0.03$ ). Those items given *below average importance weightings* were: 'Favorable Government Incentives' ( $SM=-0.42$ ), 'Economical IT Infrastructure'

( $SM=-0.17$ ), 'Low Living Costs' ( $SM=-0.11$ ) and 'Compatibility with Home-Base' ( $SM=-0.06$ ). This priority structure appears to be driven by a unique mix of strategic intangibles (nature of operational environment) and bottom-line cost concerns.

***Location Decision Priorities of Asian-Based Firms.*** Our results reveal that the location decision priority schemas associated with Asian firms are structured very differently to those of North American and European firms. Asian firms' decision priority structure was found to attribute *average or above importance weightings* to 'Favorable Government Incentives' ( $SM=0.20$ ), 'Supportive Business Environment' ( $SM=-0.03$ ), 'Low Living Costs' ( $SM=-0.04$ ) and 'Favorable Employment Relations' ( $SM=-0.05$ ). The rest of the decision priority structure, arranged in descending order of importance is: 'Compatibility with Home-Base' ( $SM=-0.51$ ), 'Effective Regional Links' ( $SM=-0.43$ ), 'Favorable Financial Environment' ( $SM=-0.34$ ), 'Economic IT Infrastructure' ( $SM=-0.25$ ), and 'Low Operating Costs' ( $SM=-0.22$ ). The driving force behind this priority structure is almost solely one that is driven by government incentives, and to a lesser extent, cost concerns.

Despite the elements of difference in North American and European decision priority schemas described above, the Mann Whitney procedure reveals that the difference between these schemas was not significant ( $U=38.0$ , 2 Tailed  $p=.82$ ). Figure 1B reveals that while there is some indication of difference in the prioritization of location decision factors on all measures of relative standing, these differences are small with a relatively similar mean rank. On the other hand, while the differences between European and Asian firms' location decision priorities are not statistically significant, the lower Mann Whitney statistic ( $U=22.0$ ), suggests that the distribution of priorities are due more to the nationality of company origin than to chance. As for comparing the North American with Asian decision priority schemas, our results show that with a mean rank of 12.61 (North American) and 6.39 (Asian) and a Mann Whitney ( $U$ ) of 12.5, the differences between North American and Asian decision priority schemas are highly significant ( $p<.01$ ). Overall, the location decision priority differences observed across the nationality of company origin categories, is in support of our second hypothesis. In so doing, we witness both the influence of cultural distance (explaining closeness of American and European priorities, and the difference with Asian priorities), as well as the effects of intra-regional dynamics shaping decision schema structure.

### **Examining Hypothesis Three**

The third hypothesis sets out to explore the proposition that the relative importance of location decision priorities will vary across industry sector. Table 5 presents the mean importance weightings that service, manufacturing and technology firms placed on each of the location decision factors. An examination of these means reveal that two location decision factors, “Favourable Government Incentives” ( $F=3.19, p<.05$ ) and “Effective Regional Links” ( $F=4.48, p<.01$ ), differ significantly across the three industry sector subgroups. Comparing standardised means across subgroups, we learn that technology firms in particular place the factor of “Favourable Government Incentives” near to the top of their decision priority structure ( $SM=0.19$ ), while service firms place the same decision factor near to the bottom of their decision priority structure ( $SM=-0.66$ ). We also learn that manufacturing firms place the location factor “Effective Regional Links” at the top of their priority structure ( $SM=0.30$ ) when making RHQ location selection decisions, while the same location factor appears at the bottom of service firms decision priority structure ( $SM=-0.73$ ). Furthermore, a closer examination of the mean scores in Table 5 reveals how each group’s location decision priorities are structured very differently. Below we briefly describe the nature and character of these differences.

***Location Decision Priorities of Service Sector Firms.*** Table 5 reveals that for service sector firms their decision priority structure is dominated (i.e. given above average importance weightings) by factors such as “Favourable Financial Environment” ( $SM=0.22$ ) and “Compatibility with Home-Base” ( $SM=0.24$ ). Average importance weightings (i.e. factor scores close to zero) are given to factors such as “Low Operating Costs” ( $SM=-0.01$ ) and “Favourable Employment Relations” ( $SM=-0.06$ ). Factors placed at the bottom of the decision priority structure are found to include “Effective Regional Links” ( $SM=-0.73$ ), “Favourable Government Incentives” ( $SM=-0.66$ ) and “Low Living Costs” ( $SM=-0.26$ ). Here we see that the decision process is convenience driven, that is, driven by a favourable financial environment and a familiar operational environment.

***Location Decision Priorities of Manufacturing Sector Firms.*** The sample of manufacturing firms used in this study exhibit decision priorities that are characterised in the following way. For this

group of firms, the location decision factors that were placed at the top of their priority structure are “Effective Regional Links” ( $SM=0.30$ ), “Low Living Costs” ( $SM=0.22$ ), “Favourable Financial Environment” ( $SM=0.17$ ), “Favourable Government Incentives” ( $SM=0.12$ ), “Low Operating Costs” ( $SM=.07$ ), and “Favourable Employment Relations” ( $SM=0.06$ ). The factor given average importance when making location decisions is “Economical IT Infrastructure” ( $SM=0.02$ ). On the other hand, factors of least importance in making location decisions are “Compatibility with Home-Base” ( $SM=-0.23$ ) and “Supportive Business Environment” ( $SM=-0.15$ ). What we learn from the priorities structure of these manufacturing firms is that RHQ location decisions are driven primarily by cost effectiveness.

***Location Decision Priorities of Technology Sector Firms.*** The distribution of mean scores reveal here that for technology firms the location decision factors that carry the highest weighting when making location decisions are factors such as “Supportive Business Environment” ( $SM=0.27$ ), “Favourable Government Incentives” ( $SM=0.19$ ), “Compatibility with Home-Base” ( $SM=0.12$ ) and “Economical IT Infrastructure” ( $SM=0.05$ ). Factors receiving average importance weightings are “Effective Regional Links” ( $SM=0.04$ ), , and “Favourable Employment Relations” ( $SM=-0.03$ ). By contrast, the lowest priority factors are “Favourable Financial Environment” ( $SM=-0.28$ ), “Low Operating Costs” ( $SM=-0.07$ ) and “Low Living Costs” ( $SM=-0.07$ ). Compared to other sectors, the decision priorities of technology firms appear here to be driven by broad concerns for a supportive environment, spread across business and government and a familiar operational culture.

The Mann Whitney test was used to determine the structural similarity or difference between groups’ decision priorities. This test reveals that while there was no statistically significant difference between the mean rank of any industry subgroup’s decision priorities, the difference between the priority structure of service firms (7.28) and the mean rank of manufacturing firms (11.72) was approaching significance ( $U=20.5$ , 2 Tailed  $p=.07$ ). The evidence described here, that is, the differences in decision factor scores (Table 5), the low  $U$  of 20.5 and the schematic contrasts between the prioritization patterns illustrated in Figure 1C, when viewed together provide general support for our third hypothesis.

## ***DISCUSSION***

The lowering of trade and investment barriers in combination with the increasing sophistication of ICT and transportation technologies enable firms to slice up headquarter activities and relocate them at the regional level in RHQs. This increase in the mobility of headquarter activities takes place against the background of the current wave of offshoring and outsourcing of service related activities.

In terms of the broader implications of the research, the most important point is that the drivers of RHQ location are very different from the location drivers of other business activities like manufacturing, sales, R&D etc. The evidence that emerges from this study provides general support for our research propositions on the factors determining the location decision for RHQs. In doing so, this evidence lays a foundation for better understanding of how MNE's contextual characteristics are related to their RHQ location selection strategies. Below we discuss the contribution this exploratory research makes to understanding RHQ location decision processes.

### **Dimensionality of location decision factors.**

The principal components analysis results described here are significant because they provide for the first time an empirically derived set of dimensions that underlie MNEs RHQ location selection strategies. All 9 factors identified are generally reflective of the types of factors alluded to throughout the prescriptive and professional international business literature (Aoki & Tachiki, 1992; Tully, 1998; Yoost and Fisher, 1996; Forster, 1996). Another reason for the importance of these results is that they support a multidimensional view of the decision making process used in making RHQ location choices. The identification of such a broad range of common dimensions as described in Table 5 is important because it provides the means by which variability in location decision schemas can be observed, measured and compared across different contextual conditions. The international business literature indicates that there are numerous issues that need to be considered when deciding where to

locate RHQs. These factor results demonstrate that firms relate to a complex set of location decision factors when making location selection decisions.

### **Variability in location decision priorities.**

This study has used factor score means to examine how location decision priority structures vary under different contextual conditions. Our results have shown that location decision factors have different levels of relevance to different firms thereby revealing decision priority structures that configure differently across subgroups within the two contextual conditions examined, as Figure 1 portrays. The evidence associated with these two classification categories demonstrates an empirical link between the firms' contextual characteristics and variability in location decision priorities.

Comparing the strategic purpose data reveals the close relationship between strategic objective and decision criteria in RHQ location selection. Our data confirms the reasonable expectation that the purpose for which an RHQ is established is linked to a specific set of decision priorities. The nationality of company origin data, on the other hand, reveals how cultural distance influences RHQ location decisions. In so doing, it supports the cross-cultural literature which argues that differences in cultural perceptions arise where large cultural distances occur (Berry, 1980; Adler, 1995). The finding that the Mann Whitney procedure reveals no difference in location decision priorities between US and European firms does confirm the culture distance argument. In other words, while differences are observed between US and European decision priorities, the small cultural distance between these two cultural orientations explains the Mann Whitney conclusion of no significant differences between the priority structures. The strong statistical difference between the US and Asian firms decision priorities also supports the cultural distance argument. While statistical support for this hypothesis is not found in the Asian and European comparison, the reason for this may be due to sample size. By increasing the sample size, future research may find that the distance between the mean ranks will increase.

In addition to illustrating the impact of strategic purpose and cultural distance on influencing location selection processes, our study also draws attention to the underlying mechanism that drives location choice. The evidence presented in this study demonstrates the interface between the

contextual conditions specific to firms' and the particular set of location decision factors that shape firms' RHQ selection criteria. The association demonstrated in this study supports the argument that firms' contextual conditions operate as organizing mechanisms that determines the mindset that drives firms' location selection strategies.

### **Research and policy implications**

There are important implications that arise from this study for both researchers and policy makers. The trend is clearly towards establishment of more RHQs and greater levels of RHQ relocation and such changes raise a number of questions. Our results confirm the need for more systematic study into the decision making dynamics of multinationals' RHQ location selection process as more headquarter activities are expected to be relocated to RHQs (and shared service centers) in the future. In order to advance knowledge and theory on the RHQ location decision processes, two areas of research need to be further addressed. First, there is a basic need to confirm the dimensionality of the location decision factors identified in this study across a broader sample of MNEs who have headquartered in other global regions. Second, and more important there is a need to develop our understanding of the task of RHQs thus capturing the variation in RHQ roles. At one end of the spectrum some RHQs have small numbers of staff and only assume limited coordination activities in the region, while at the other end some RHQs manage sales, production, purchasing, finance and research and development for the whole region. There is a need to understand the differentiated roles and capabilities assigned to each level of geography (the regional level as well as the local and global level) with differing degrees of importance corresponding to different dimensions of activities.

For MNCs, the challenge is to be able to access the full costs and benefits of RHQ location rather than focusing narrowly on efficiency gains, and here our research provides a way of thinking through the drivers and helps to frame the choice in a more structured way. The implications that arise from this study for policy makers are twofold. Not only does this study inform policy makers of the complexity and contingent nature of the RHQ location decision process, it also provides insight about the choice criteria associated with specific contextual mechanisms. Such knowledge and its

refinement will assist policy makers to be more strategic in their design of RHQ location policies for attracting and maintaining MNEs RHQ location commitment.

## ***CONCLUSION***

In conclusion, we point out three ways in which our study extends the current RHQ literature, although it should be emphasized that our findings are exploratory being based on a small sample of CEO respondents from RHQs located in Europe and the Asia-Pacific (specifically Australia). Firstly, our study adds to the literature which sees the RHQ phenomenon as an important coordination mechanism used by MNEs as they respond to globalization pressures (eg. Porter, 1986; Martinez and Jarillo, 1989; Aoki and Tachiki, 1992). We show how organizational context appears to interface with the responsiveness-integration tradeoff multinationals make when deciding where to locate RHQs. Secondly, the conventional RHQ literature views the choice process associated with RHQ location predominantly from a "competing incentives" perspective (eg. David, 1994; Boddewyn and Brewer, 1994). Our study indicates that we should move beyond a preoccupation with the simple notion of incentive regimes and focus attention on the multidimensional nature of location decision processes. In so doing, this study suggests a more comprehensive view of the complex interface between firms' contextual characteristics and location selection strategies than that provided in previous studies. Finally, perhaps the foremost contribution this exploratory study makes to the literature is that it provides a way of explaining the linkage between firms' contextual conditions and firms' variability in location decision priorities. In particular, it shows how a specific set of location decision priorities that are *relevant* to one group of firms sharing similar contextual conditions, may be *irrelevant* to another group of firms having different contextual conditions. In light of the complexity of this association, we would argue, along with Doty and Glick (1994) and Ketchen, Thomas and Snow (1993), that a configurational research approach is best suited to guide future research and theory development of this important and emerging strategic issue.

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**Table 1**  
**Frequency Distribution of Organizational Sample Across Industry Type**

	Count	%
<i>Industry Type:</i>		
Computer software	20	35.1
Health/Pharmaceuticals	6	10.5
Professional services	2	3.5
Manufacturing	12	21.1
Telecommunications	3	5.3
Construction	3	5.3
Financial services	4	7.0
Education	1	1.8
Transport	1	1.8
Chemical	2	3.5
Insurance	1	1.8
Wholesale	1	1.8
Food	1	1.8
<b>Total:</b>	<b>57</b>	<b>100.0</b>

**Table 2**  
**Frequency Distribution of Organizational Sample**  
**Across Classification Categories**

Classification Categories	N	%
<i>Strategic Purpose (of RHQ establishment):</i>		
Regional Market Responsiveness	34	59.6
Global Coordination and Facilitation	23	40.4
Total:	57	100
<i>Nationality of Company Origin:</i>		
<u>North America</u> (sub-total)	35	61.4
USA	30	
Canada	5	
<u>Europe</u> (sub-total)	12	21.1
Belgium	1	
Britian	5	
Germany	2	
Ireland	2	
Holland	2	
<u>Asia</u> (sub-total)	10	17.5
Hong Kong	1	
Japan	7	
Australia	2	
Total:	57	100
<i>Industry Sector:</i>		
Services	11	19.30
Manufacturing	23	40.35
Technology	23	40.35
Total:	57	100

**Table 3**  
**Relative Importance of Location Decision Variables**

Location Decision Variables	Rank	Mean	SD
Reliable communications infrastructure	1	4.42	0.84
Availability of high skilled staff	2=	4.26	0.99
English-speaking workforce	2=	4.26	1.01
English-speaking environment	4	4.11	0.98
Frequent & efficient international flights	5	4.04	1.05
Economic stability	6	3.98	0.92
Accessible geographical location	7	3.88	0.98
Local market growth potential	8	3.86	1.14
Presence of key technology suppliers	9	3.79	1.22
Commercial compatibility with home-base	10	3.72	1.11
Availability of reliable suppliers	11	3.63	1.23
Strong cultural links with region	12=	3.61	1.05
Access to regional financial center	12=	3.61	1.10
Attractive company taxation regulations	14	3.58	1.24
Stable exchange rates	15	3.53	1.15
Regional telecommunications hub	16	3.49	1.23
Low priced telecom circuitry	17	3.46	1.12
Cultural compatibility with home-base	18	3.40	1.07
Competitively priced telecommunications	19	3.39	1.18
Competitively priced rent	20=	3.37	1.17
Low operating costs	20=	3.37	1.17
Competitively priced labor	22	3.30	1.13
Moderate interest rate environment	23	3.25	1.06
Attractive dividend withholding taxes	24	3.21	1.15
Low inflation environment	25	3.18	1.04
High quality health services	26	3.12	1.12
Flexibility of employment contracts	27	3.02	1.19
Local government tax incentives	28	2.96	1.22
Attractive government regulatory environ	29	2.91	1.27
Local government financial incentives	30	2.81	1.38
Central government establishment incentives	31	2.79	1.39
Central government financial incentives	32	2.75	1.37
Low-cost workforce	33	2.74	1.25
Local government infrastructure inputs	34	2.70	1.24
Local government establishment incentive	35	2.68	1.30
Low levels of industrial disputes	36	2.61	1.31
Low cost of health insurance	37	2.58	1.12
Low cost of cars	38	2.56	1.15
Low cost of schools	39	2.51	1.10

Notes:

1. The mean is the average on a scale of 1 (= 'low importance') to 5 (= 'high importance').
2. SD = standard deviation

**Table 4**  
**Factor Loadings of Location Decision Variables**

<i>Factor Dimension Labels</i>	<b>LSF Items</b>	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7	Factor 8	Factor 9
<b><i>Factor 1: Favorable Government Incentives</i></b>										
	Local government financial incentives	.9430								
	Central government establishment incentives	.9347								
	Local government establishment incentives	.9045								
	Central government financial incentives	.8447								
	Local government infrastructure inputs	.8246								
	Local government tax incentives	.7480								
	Attractive company tax regulations	.6433								
	Attractive government regulatory environment	.5692								
<b><i>Factor 2: Low Operating Costs</i></b>										
	Low operating costs		.8530							
	Competitively priced labor		.8348							
	Low-cost workforce		.8028							
	Competitively priced rent		.6996							
<b><i>Factor 3: Low Living Costs</i></b>										
	Low cost of health insurance			.8793						
	Low costs of schools			.8498						
	Low cost of cars			.8236						
	High quality health services			.6331						
<b><i>Factor 4: Favorable Financial Environment</i></b>										
	Moderate interest rate environment				.7303					
	Low inflation environment				.7138					
	Access to regional financial centers				.6792					
	Attractive dividend withholding taxes				.6512					
	Economic stability				.5754					
	Stable exchange rates				.5255					
<b><i>Factor 5: Effective Regional Links</i></b>										
	Frequent and efficient international flights					.7800				
	Accessible geographical location					.7703				
	Strong cultural links within Region					.6862				
	Availability of highly skilled staff					.5990				
<b><i>Factor 6: Compatibility with Home-Base</i></b>										
	English-speaking workforce						.7836			
	Commercial compatibility with home-base						.7288			
	English speaking environment						.6643			
	Cultural compatibility with home base						.6529			
<b><i>Factor 7: Supportive Business Environment</i></b>										
	Availability of reliable suppliers							.7065		
	Presence of key technology suppliers							.6202		
	Local market growth potential							.6148		
	Regional telecommunications hub							.6025		
<b><i>Factor 8: Economical IT Infrastructure</i></b>										
	Competitively priced telecommunications costs								.6904	
	Low priced telecommunications circuitry								.6784	
	Reliable communications infrastructure								.5836	
<b><i>Factor 9: Favorable Employment Relations</i></b>										
	Flexibility of employment contracts									.7660
	Low level of industrial disputes									.6722
Percentage of Variance Explained (Total=78.9%)		38.5	9.9	6.3	5.6	4.8	4.1	3.7	3.1	2.8
Eigenvalue		15.02	3.86	2.47	2.17	1.86	1.61	1.43	1.22	1.09

Notes: 1. K-M-0 Measure of Sampling Adequacy = .7309  
2. Bartlett Test of Sphericity = 2022.4533;  $p = .0000$

**Table 5**  
**Factor Score Means and Mann Whitney Statistics**  
**Compared Across Contextual Categories**

<i>Factor Dimensions</i>	<b>Strategic Purpose of RHQ Establishment</b>			<b>Nationality of Company Origin</b>				<b>Industry Sector</b>			
	<b>RMR</b>	<b>GCF</b>	<b>F value</b>	<b>North America</b>	<b>Europe</b>	<b>Asia</b>	<b>F value</b>	<b>Service</b>	<b>Manuf'ing</b>	<b>Technol'gy</b>	<b>F value</b>
	<b>N=34 M(SD)</b>	<b>N=23 SM(SD)</b>		<b>N=35 SM(SD)</b>	<b>N=12 SM(SD)</b>	<b>N=10 SM(SD)</b>		<b>N=11 SM(SD)</b>	<b>N=23 SM(SD)</b>	<b>N=23 SM(SD)</b>	
Favorable Government Incentives	-.01 (1.03)	.01 (0.96)	0.00	.09 (0.94)	-.42 (1.22)	.20 (0.85)	1.43	-.66 (0.82)	.12 (1.07)	.19 (0.89)	3.19*
Low Operating Costs	.01 (1.11)	-.02 (0.82)	0.02	-.04 (1.03)	.30 (1.06)	-.22 (0.79)	0.82	-.01 (0.64)	.07 (1.13)	-.07 (1.13)	0.11
Low Living Costs	-.16 (0.96)	.24 (1.02)	2.33	.05 (0.96)	-.11 (1.27)	-.04 (0.81)	0.12	-.31 (0.85)	.22 (1.15)	-.07 (0.88)	1.14
Favorable Financial Environment	-.14 (0.95)	.21 (1.04)	1.65	-.01 (0.90)	.33 (1.29)	-.34 (0.89)	1.25	.24 (1.22)	.17 (1.01)	-.28 (0.83)	1.60
Effective Regional Links	-.08 (1.19)	.12 (0.60)	0.55	.11 (0.97)	.03 (1.11)	-.43 (0.92)	1.19	-.73 (1.34)	.30 (0.89)	.04 (0.74)	4.48**
Compatibility with Home-Base	.01 (1.05)	-.02 (0.93)	0.02	.17 (0.94)	-.06 (1.03)	-.51 (1.06)	1.85	.22 (1.22)	-.23 (0.91)	.12 (0.96)	1.05
Supportive Business Environment	-.13 (1.13)	.19 (0.74)	1.42	-.04 (0.92)	.15 (1.10)	-.03 (1.20)	0.17	-.26 (0.59)	-.15 (1.2)	.27 (0.83)	1.49
Economical IT Infrastructure	.04 (1.10)	-.06 (0.84)	0.11	.13 (0.83)	-.17 (1.23)	-.25 (1.24)	0.78	-.16 (0.90)	.02 (0.92)	.05 (1.13)	0.17
Favorable Employment Relations	-.34 (0.86)	.51 (0.97)	11.86**	-.04 (1.00)	.15 (1.32)	-.05 (0.49)	0.18	-.06 (0.96)	.06 (0.79)	-.03 (1.20)	0.07
<b>Mann Whitney Statistic</b>	<b>Mean Rank = 6.56 cf 12.44</b>			<b>USA cf Europe</b>	<b>Mean Rank = 9.78 cf 9.22</b>		<b>Manuf cf Tech</b>	<b>Mean Rank = 10.39 cf 8.61</b>			
	<b>U = 14.0</b>				<b>U = 38.0</b>			<b>U = 32.5</b>			
	<b>Z Score = -2.34</b>				<b>Z Score = -.22</b>			<b>Z Score = -.70</b>			
	<b>2-Tailed p = .01 (cft)</b>				<b>2-Tailed p = .82 (cft)</b>			<b>2-Tailed p = .47 (cft)</b>			
				<b>Europe cf Asia</b>	<b>Mean Rank = 11.56 cf 7.44</b>		<b>Service cf Manuf</b>	<b>Mean Rank = 7.28 cf 11.72</b>			
					<b>U = 22.0</b>			<b>U = 20.5</b>			
					<b>Z Score = -1.63</b>			<b>Z Score = -1.76</b>			
					<b>2-Tailed p = .10 (cft)</b>			<b>2-Tailed p = .07 (cft)</b>			
				<b>USA cf Asia</b>	<b>Mean Rank = 12.61 cf 6.39</b>		<b>Service cf Tech</b>	<b>Mean Rank = 7.78 cf 11.22</b>			
					<b>U = 12.5</b>			<b>U = 25.0</b>			
					<b>Z Score = -2.47</b>			<b>Z Score = -1.36</b>			
					<b>2-Tailed p = .01 (cft)</b>			<b>2-Tailed p = .17 (cft)</b>			

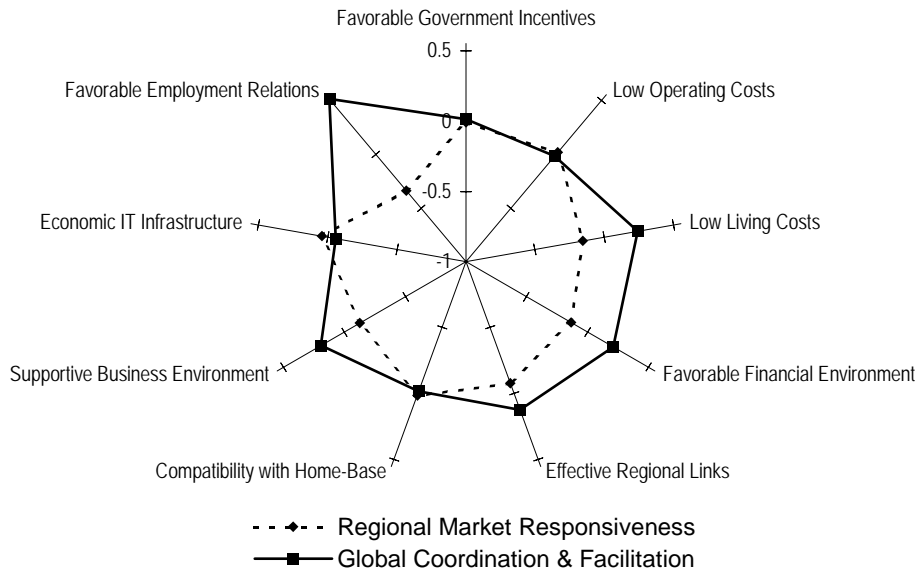
**Notes:** 1. **RMR** – Regional Market Responsiveness; **GCF** – Global Coordination & Facilitation.  
2. \* -  $p < .05$ ; \*\* -  $p < .01$ ; cft - Corrected for Ties.

# FIGURE 1

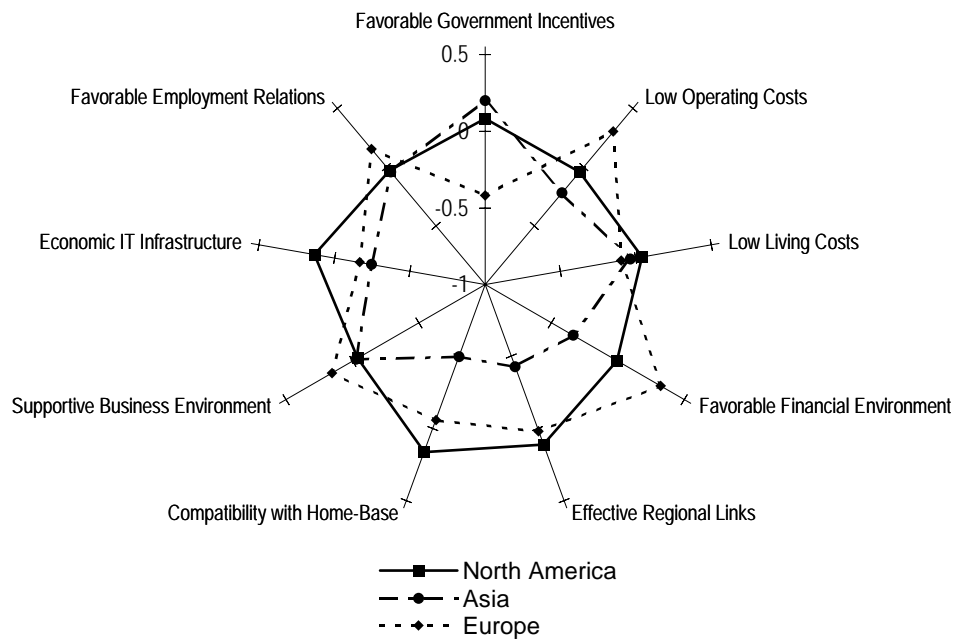
## Location Decision Priority Structures Compared Across Contextual Categories

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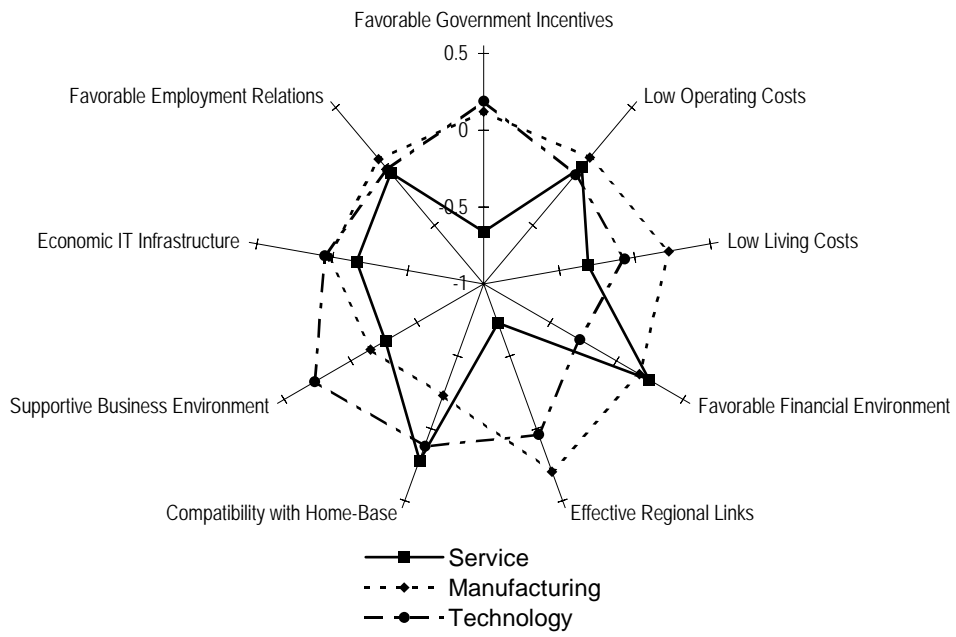
**Figure 1A: Strategic Purpose of RHQ Establishment**



**Figure 1B: Nationality of Company Origin**



**Figure 1C: Industry Sector**



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