The Headquarters Location Decision

By Mark Sweeney

As companies grow they are often faced with location decisions for various operations – customer service, manufacturing, distribution. As a company evolves, they may find themselves facing an even more challenging location decision – where should our headquarters be?

Headquarters locations are often a result of historical factors – many companies are in the location where they were founded. This may have served them well for many years, leveraging the roots of the management and workforce teams into a successful business. Typically, these locations are in close proximity to the company's production assets. In addition, they may have been a part of a historic cluster concentration, benefiting from, and adding to, the success of being in close proximity to other major entities in their industry.

As a company grows and evolves, however, it may find that its production assets have grown elsewhere or relocated to different regions or even countries. The first and second generation management team is no longer in place, and so the personal ties to the home location are not as great for the new management team. The entire industry may have evolved. A company's suppliers and customers may have experienced changes in geographic concentration, and so the original location no longer provides good access to key customers and suppliers, nor concentrations of future customers. Sometimes a company will stumble upon a headquarters location decision when faced with the expiration of a lease and or the determination that sheer growth has dictated that they need to find new space. Finally, the historic location itself has likely changed over the years, including quality of life and business climate changes. Tax burdens may be growing to an extent that the company feels compelled to consider alternative locations.

Strategically, there are frequently two critical issues that drive headquarters location considerations: the ability to recruit and retain talent, and access (air access to key markets, often international). These two major factors have strong influence on the consideration of a headquarters location project, and if such a project develops, will significantly influence the choice of alternative locations. A third common issue with headquarters locations is cost, but this is not usually the strategic driver, and so it is harder to generalize when it comes to its role in headquarters locations.

Recruiting and retaining talent is a challenge for most every organization, and it is especially critical to headquarters locations and so the ultimate survival of the company. A company must be confident it can find the key people it needs in its home location – management, finance and accounting, legal, operational, human resource, communication, engineering, etc. However, few if any locations will be the source for all the talent and skills a company will need in its headquarters, so human resource considerations go beyond just assessment of the local or regional labor force. It must include an assessment of the ability to recruit, and subsequently retain, those key people.

This issue will often be colored by an interest in being able to recruit young professionals who will carry the organization into its future. The demographic emergence of the post-Boomer generation includes a lesser number of prime working age people in countries such as the United States. As a result, the competition for the best and brightest will be more intense for native born people. This trend also means companies will be looking to recruit more internationally where population and education trends are improving. The location of the headquarters will greatly influence the ability of a company to recruit and retain highly-skilled talent from the shrinking native, as well as the growing international, pool of talent. So locations that have a vibrant urban core, access to natural recreation and healthy lifestyle options, strong education infrastructure, a diverse population that continues to welcome newcomers, and the presence of non-native populations and the associated cultural resources they support, will have a competitive advantage over locations that do not offer such assets.

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Despite the explosive growth of electronic communications, headquarters operations still have a lot of people getting on airplanes to conduct business. Sales, marketing, lobbying, professional development, client management and

many other functions require top level face-to-face communication. Over the past decade or more, growing and successful companies have established markets and footprints in international locations. So the demand for strong air service, particularly international, is always a highly-weighted decision factor for headquarters. Being able to avoid the two extra legs per trip associated with non-hub locations is a serious management and cost consideration.

A company must carefully assess its current and expected future need for international air service. International air service is found primarily at large hub airports in major metropolitan areas. This international linkage is one of the major factors defining the set of global mega-cities that are emerging as the centers of human activity and commerce. As a result, headquarters location decisions will inevitably consider the major metropolitan areas that are home to major air service hubs. While almost every headquarters will require some international service, the benefit and convenience of direct international service to key locations must be balanced with the overall higher costs generally associated with major hub airport cities. A headquarters with extensive domestic air travel demands and limited international air service demands should not limit itself to considering only hub locations. So called, "second tier cities" can offer great benefits and meet the needs of headquarters, and typically with lower costs. Ironically, however, one cost which is usually higher in such cities is air travel costs; the non-hub airports have less competition among airlines and so are victimized by higher prices, often significantly higher prices, than hub airports.

All business decisions must consider cost implications, and headquarters location decisions are no different. The cost of the project itself includes many hard costs (real estate, human resource, relocation) as well as many soft costs (disruption impact, cultural and identity issues, political concerns, market concerns and reactions). While most implemented headquarters relocations will be able to model a net cost benefit, these may be realized over the long term. In some instances, the strategic drivers compelling the relocation may in fact lead the company to select a more expensive operating location. So while costs must always be understood in great depth, the treatment of costs in the final decision will vary significantly from project to project.

Generally speaking, if a headquarters relocation decision is being motivated first and foremost by costs, then it is less likely to come to fruition. In such cases, the cost benefits, while positive, will simply not represent a great enough return to justify the expenditure of time and effort, and the risk associated with disruption, loss of key personnel, and rebuilding a large portion of the overall headquarters staff. In such cases, the project may transform itself into one of relocating certain service and administrative functions to less expensive locations, while retaining key management functions in the headquarters location.

Finally, some companies may be willing to consider headquarters relocation due to expectations of lucrative location incentives. While such projects are of great interest to states, provinces and communities, few locations have very high impact headquarters location incentives in their incentive toolbox. With the number one tangible cost of a headquarters project usually personnel relocation costs, incentives that can effectively mitigate these costs will have the most impact on the location decision. However, as with all projects of any type, incentives do not drive the project decision, the project drives the incentive negotiations. And like all other projects, a headquarters project motivated first and foremost by incentives is unlikely to come to fruition and be executed; and if it is, is unlikely to be successful in the long run.

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